

LEG. FINANCE - BILLS 1975 - 1976 551

SB 309 cont., thru SB 311

COMMITTEE REPORT

SENATE

4/2/75

Mr. President:

Date 4-11-75

The Committee on FINANCE has had SB 310 relating to leaves of absence for auxiliary members of armed forces under consideration. A Majority of the members of the Committee

- recommends it DO PASS
- recommends it DO NOT PASS
- recommends it DO PASS WITH ATTACHED AMENDMENT(S)
- recommends it BE REPLACED WITH CS FOR SB 510 AND THAT CS FOR SB 310 DO PASS
- "and" recommends it BE REFERRED TO THE _____ COMMITTEE
- reports it back WITHOUT RECOMMENDATION
- "other"

Members signing the Majority report:

<u>[Signature]</u>	<u>[Signature]</u>	_____
<u>[Signature]</u>	<u>[Signature]</u>	_____
<u>[Signature]</u>		_____
<u>[Signature]</u>		_____

Members NOT concurring in the Majority report:

_____ recommends:

_____ recommends:

_____ recommends:

_____ recommends:

_____ recommends:

[Signature] Chairman

Original Sponsor: Rules Committee by request
of the Governor

Offered: 4/14/75
Referred: Rules

1 IN THE SENATE

BY THE FINANCE COMMITTEE

2 CS FOR SENATE BILL NO. 310 am

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to leaves of absence for auxiliary
7 members of armed forces."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. AS 39.20.340 is amended to read:

10 Sec. 39.20.340. LEAVE OF ABSENCE FOR RESERVE OR AUXILIARY MEMBERS
11 OF ARMED FORCES. (a) An employee of the state, or a political sub-
12 division [,] with the approval of the city council or borough assembly,
13 who is a member of a reserve or auxiliary component of the United
14 States Armed Forces is entitled to a leave of absence without loss of
15 normal pay, time, or effeciency rating on all days during which he is
16 ordered to training duty, as distinguished from active duty, with
17 troops or at field exercises, or for instruction, or when under direct
18 military control in the performance of a search and rescue mission.
19 The leave of absence may not exceed 16 1/2 working days in any one
20 12 month period. The state or political subdivision shall supplement
21 the military pay received to the extent required to maintain the
22 employee's normal rate of pay. If the employee receives no military
23 pay, the state or political subdivision shall pay the employee at his
24 normal rate of pay.

25 (b) If an employee is called to active duty by the governor, an
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The Legislature of the State of Alaska
FISCAL NOTE

Second Session - Eighth Legislature
First Ninth

I. REQUEST

Bill Identification: Senate Bill No 310
 Title: Leaves of Absence for Auxiliary Members of Armed Forces
 Requested by: Rules Committee Date: 4/4/75
 Return Date Requested: 4/8/75
 Agency: Administration Program: Division of Finance

II. FISCAL DETAIL

Budget Request Unit(s) Affected: _____
 A. EXPENDITURES: (Thousands of dollars)

OBJECT	FY 74	FY 75	FY 76	FY 77	FY 78	FY 79
100 PERSONAL SERVICES		4.3	4.5	4.7	5.0	5.3
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL		4.3	4.5	4.7	5.0	5.3

B. FUNDING: (Thousands of dollars)

GENERAL FUND		4.3	4.5	4.7	5.0	5.3
FEDERAL FUNDS						
OTHER						

C. POSITIONS:

PERMANENT/TEMPORARY	/	/	/	/	/	/
MAN MONTHS (P./T.)	/	/	/	/	/	/

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

Based on 1974 figures for hours spent by Civil Air Patrol and Coast Guard Auxiliaries in search and rescue missions by state employees.

430 hrs at 7.69 per hour (Range 14-C)
 plus 18% benefits

Costs equals \$3900 (est. FY 74).

IV. ATTACHMENTS

V. DATE: 4/7/75 PREPARED BY: Shirley F. Pierce

Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)
 SENATE FINANCE (ATN. Jim Finnel)

STATE OF ALASKA

DEPARTMENT AND MILITARY AFFAIRS

OFFICE OF THE ADJUTANT GENERAL

JAY S. HAMMOND, Governor

ROOM 618 MICHAEL BULWYNS
333 CHASE BUILDING - ANCHORAGE 99501
PHONE: 277-7661 - AUTODIAL: 652-7219

AG

15 April 1975

The Honorable Chancy Croft
President of the Senate
Alaska State Senate
Pouch V
State Capitol Building
Juneau, Alaska 99801

Dear Senator Croft:

I respectfully wish to express my opposition to the passage of SB 310 as recently amended by the Senate Finance Committee. Originally SB 310 was meant to provide leave of absence privileges to state employees in Civil Air Patrol Search and Rescue work. I support that original intent.

But, the Finance Committee amendment withdraws military leave with full state salary benefits now enjoyed by state employees who are active members of the Alaska Guard. Instead, the amendment provides deduction of Guard pay from the normal state salary schedule. If this amendment passes, our members will no longer collect full regular pay in addition to the Guard check.

This will have a significant negative impact on the Guard program in that not only are we withdrawing an existing benefit of state service, but it is in contradiction to federal civil service policy which continues to provide this dual payment to encourage Guard and Reserve service.

With 157 personnel falling in this category, this amendment would save the state approximately \$50,000 on the average.

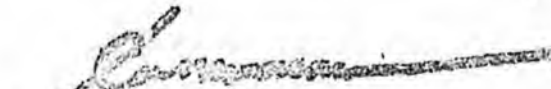
We can expect upwards of 50 of these members to question their future involvement with the Alaska Guard upon loss of this benefit. In this

voluntary service environment, I cannot afford to risk the dissatisfaction of that many members in our units. We are holding our own in the recruiting and retention field, thanks to our state supported benefits, but our job is to increase our strength from the decline we were lately experiencing. Passage of SB 310 as amended will not foster achievement of this goal.

I sincerely request your close scrutiny of this bill and eventually changing it back to its original intent prior to passage by your body.

Thank you.

Sincerely,


C.F. NECHASON
Adj Gen. AS ANG

FILE WITH BILL

STATE OF ALASKA

JAY S. HAMMOND, Governor

DEPARTMENT OF MILITARY AFFAIRS

OFFICE OF THE ADJUTANT GENERAL

ROOM 610 MACKAY BUILDING
338 DENALI STREET - ANCHORAGE 99501
PHONE: 277-7661 - AUTOVON: 862-7210

AG

1 May 1975

The Honorable Bill Ray
Alaska State Senate
Pouch "V" State Capitol Bldg.
Juneau, Alaska 99801

Dear ~~Senator~~ ^{Bill,} Ray:

I think it only fair to let you know that the Department of Military Affairs testified last week to the House State Affairs Committee, non-concurring with the Senate Finance Committee Substitute for Senate Bill #310 dealing with military leave privileges for the Alaska National Guard.

You might remember the original Senate Bill #310 was introduced by the Rules Committee at the request of the Governor and dealt with providing military leave benefits for members of the Civil Air Patrol performing search and rescue missions under direct military control. SB #310 was amended by the Senate Finance Committee to delete the existing military leave benefits to state employment, replacing them with the provisions that the state would only pay the difference between military pay and the normal state salary. CSSB #310 passed the Senate and was referred to the House.

The Department of Military Affairs expressed its non-concurrence at the first opportunity during House hearings. The main reasons we oppose the committee substitute are outlined in the attached Legislative Talking Paper which may be summarized as follows:

a. CSSB #310 will have a definite negative impact on Guard Recruiting and Retention at a time when we can least afford it.

b. CSSB #310 conflicts with specific provisions of negotiated contracts between the State of Alaska and the APEA representing state employees.

c. CSSB #310 does not address discrepancies on periods of payment between military pay which is based on a 30-day month to include weekends and state military leave which applies only to a 5-day work week, Monday through Friday. Because of this fact alone, CSSB #310 would be difficult to administer.

d. CSSB #310 would save the state only \$50,000. The cost of administering the program plus recruiting and training cost for replacement personnel would greatly exceed the savings to the State of Alaska.

I am sure that you too, can see the difficulties inherent in the passage of CSSB #310. The House State Affairs Committee did amend CSSB #310 back to its original version providing military leave benefits for the Civil Air Patrol members only. I realize that if the House version passes, the Senate leadership must then concur in the new version of the bill or else the package goes into the free conference committee.

I respectfully request your concurrence in deleting your Finance Committee's amendment to SB #310 which would then change the bill back to its original intent as requested by the Governor to fulfill a very real need on the part of our Civil Air Patrol members.

Thank you for your consideration.

Sincerely,



C.F. NECRASON
Maj Gen, AK ANG
The Adjutant General

1 Incl:
as

cc: Governor Hammond

SHORT TITLE: "MILITARY LEAVE"

LEGISLATIVE TALKING PAPER #10

BILL NUMBER: SB 310

FOR AN ACT ENTITLED: "AN ACT RELATING TO LEAVES OF ABSENCE FOR
AUXILIARY MEMBERS OF THE ARMED FORCES"

BACKGROUND INFORMATION:

A. THE ORIGINAL BILL SPONSORED IN THE SENATE BY THE RULES COMMITTEE WAS DESIGNED TO PROVIDE MILITARY LEAVE BENEFITS FOR STATE EMPLOYEES WHO ARE CAP MEMBERS PARTICIPATING IN SEARCH AND RESCUE MISSIONS UNDER DIRECT MILITARY CONTROL.

B. SB 310 PASSED THE SENATE STATE AFFAIRS COMMITTEE AND WAS REFERRED TO THE SENATE FINANCE COMMITTEE.

C. THE SENATE FINANCE COMMITTEE AMENDED THE ORIGINAL BILL ON 14 APRIL WITHDRAWING FULL MILITARY LEAVE BENEFITS BY STATE EMPLOYEES AND REPLACED IT WITH THE PROVISION THAT THE STATE PAY ONLY THE DIFFERENCE BETWEEN GUARD PAY AND NORMAL STATE PAY.

D. SB 310 AS AMENDED PASSED THE SENATE ON 4/17/75 AND WAS SENT TO THE HOUSE ON 4/18/75.

GENERAL DEPARTMENTAL POSITION

THE DEPARTMENT OF MILITARY AFFAIRS CONCURS IN THE ORIGINAL INTENT OF THE BILL TO PROVIDE MILITARY LEAVE TO STATE EMPLOYEES-CAP MEMBERS BUT NON-CONCURS IN THE AMENDMENT FURNISHED BY THE SENATE FINANCE COMMITTEE AND PASSED BY THE STATE SENATE.

DISADVANTAGES OF PROPOSED AMENDMENT

1. THIS AMENDMENT WILL HAVE A SIGNIFICANT NEGATIVE IMPACT ON THE GUARD PROGRAM BECAUSE:

A. IT WITHDRAWS AN EXISTING BENEFIT OF STATE SERVICE.

B. IT IS IN CONTRADICTION TO FEDERAL CIVIL SERVICE POLICY WHICH CONTINUES TO PROVIDE THIS BENEFIT TO ENCOURAGE GUARD AND RESERVE SERVICE.

C. IT APPEARS TO CONFLICT WITH SPECIFIC PROVISIONS OF THE NEGOTIATED CONTRACTS IN THE TRI-TRADES AND SUPERVISORY UNITS WHICH ARE WORD BY WORD EXTRACTS OF CURRENT LAW PROVIDING FULL MILITARY LEAVE BENEFITS.

D. IT APPLIES TO AT LEAST 157 MEMBERS OF THE ALASKA NATIONAL GUARD WHO ARE STATE EMPLOYEES IN VARIOUS DEPARTMENTS OF THE STATE GOVERNMENT. WE CAN EXPECT UPWARDS OF 50 OF THESE MEMBERS TO QUESTION THEIR FUTURE INVOLVEMENT WITH THE ALASKA NATIONAL GUARD UPON LOSS OF THIS BENEFIT. AT AN AVERAGE COST OF \$191 TO SIGN UP A NEW MEMBER, IT WOULD COST AN ADDITIONAL \$9,550 TO REPLACE THESE 50 PERSONNEL WHICH DOES NOT INCLUDE THE COSTS OF TRAINING THE NEW RECRUIT, ETC.

E. BUT REPLACEMENT OF PERSONNEL IN THE VOLUNTARY ENVIRONMENT OF TODAY IS NOT JUST A MATTER OF DOLLARS, BUT IS MORE DEPENDENT ON ATTITUDES AND UNIT MORALE. THIS PROPOSAL IS DESTRUCTIVE TO UNIT MORALE.

F. LOSS OF A VERY REAL, LOW COST RECRUITING AND RETENTION INCENTIVE MEASURE FOR STATE EMPLOYEES. OUR RECRUITERS USE THE CURRENT PROVISIONS OF BOTH FEDERAL AND STATE LAW IN PRESENTATIONS TO FEDERAL AND STATE EMPLOYEES. THE PROSPECT FINDS IT ATTRACTIVE AND THEY JOIN PARTLY BECAUSE THIS BENEFIT IS AVAILABLE.

2. THE PROPOSED AMENDMENT DOES NOT ADDRESS THE DISCREPENCY IN PERIODS OF PAYMENT. ACTIVE DUTY MILITARY PAY IS BASED ON A 30 DAY MONTH INCLUDING WEEKENDS. STATE PAY IS BASED ON A 5 DAY WORKWEEK. TO BE FAIR, THE STATE EMPLOYEE SHOULD BE ALLOWED TO KEEP THE MONIES EARNED ON THREE SATURDAYS AND ONE SUNDAY OF HIS OR HER 15 DAY ACTIVE DUTY PERIOD WHEN NOT CARRIED IN A MILITARY LEAVE STATUS WITH THE STATE. AFTER ALL, OTHER STATE EMPLOYEES WITH PART-TIME JOBS DO NOT HAVE TO TURN IN THEIR PART-TIME EMPLOYMENT PAY FOR A WEEKEND OF WORK.

3. IMPLEMENTATION OF THE ABOVE PROVISION, I.E., EXCLUDING 4 DAYS OF MILITARY PAY FROM EACH PERSONS MILITARY PAYCHECK, THEN SUPPLEMENTING THAT AMOUNT TO THE REGULAR STATE PAY LEVEL WILL BECOME AN ADDITIONAL ADMINISTRATIVE FUNCTION REQUIRING GREATER BUDGETARY SUPPORT TO ACCOMPLISH.

4. AT AN AVERAGE STATE PAY RANGE 14 AND AN AVERAGE MILITARY PAY GRADE E5 WITH 6 YEARS OF SERVICE, THIS AMENDMENT WILL PROVIDE A GROSS SAVINGS OF ONLY \$50,000 TO THE STATE. DEDUCTING AN APPROXIMATE ADMINISTRATIVE COST OF \$10,000 AND ANOTHER \$10,000 TO REPLACE THE DISCHARGED PERSONNEL, WE ARRIVE AT A NET SAVINGS TO THE STATE OF ONLY \$30,000.

5. WHEN ALL THE PROS AND CONS ARE CONSIDERED, THE DEPARTMENT OF MILITARY AFFAIRS SINCERELY FEELS THAT THE BENEFITS ARE NOT WORTH THE PRICE TO BE PAID BY THE STATE IN TERMS OF:

- A. REAL DOLLARS IN ADMINISTRATIVE COSTS.
- B. REAL DOLLARS IN REPLACEMENT OF DISCHARGED PERSONNEL.
- C. INCREASED DISSATISFACTION WITH ALASKA GUARD SERVICE BY BOTH OBLIGATED CURRENT MEMBERS AND DISSATISFIED DISCHARGEES WHO THEN ACT AS NEGATIVE CENTERS OF INFLUENCE IN THE COMMUNITY FROM WHICH WE MUST PROCURE ADDITIONAL PERSONNEL RESOURCES.

The Legislature of the State of Alaska

FISCAL NOTE

~~Second~~ Session - ~~Eighth~~ Legislature

First

Ninth

I. REQUEST

Bill Identification: Senate Bill No 310
 Title: Leaves of Absence for Auxiliary Members of Armed Forces
 Requested by: Rules Committee Date: 4/4/75
 Return Date Requested: 4/8/75
 Agency: Administration Program: Division of Finance

II. FISCAL DETAIL

Budget Request Unit(s) Affected: _____

A. EXPENDITURES: (Thousands of dollars)

OBJECT	FY 74	FY 75	FY 76	FY 77	FY 78	FY 79
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PERMANENT/TEMPORARY	/	/	/	/	/	/
MAN MONTHS (P./T.)	/	/	/	/	/	/

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

Based on 1974 figures for hours spent by Civil Air Patrol and Coast Guard Auxiliaries on search and rescue missions by state employees.

430 hrs at 4.69 per hour (Range 14C)
 plus 18% benefits

Costs equals: \$3900 (est. FY 74)

IV. ATTACHMENTS

V. DATE: 4/7/75 PREPARED BY: Shirley F. Poirer

Original: Legislative Finance
 Budget and Management
 cc: Prime Sponsor (First Legislator Named)
 SENATE FINANCE (ATTN: Jim Finnel)

Introduced: 3/24/75
Referred: State Affairs and
Finance

1 IN THE SENATE

BY THE RULES COMMITTEE BY
-REQUEST OF THE GOVERNOR-
FINANCE COMMITTEE

2 CS SENATE BILL NO. 310

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NINTH LEGISLATURE - FIRST SESSION

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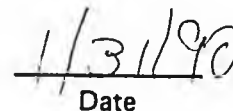


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I, the undersigned, an employee of the State of Alaska, do hereby certify that the microfilm images on this microform are accurate reproductions of the original records of the State of Alaska as accumulated during the regular course of business, and that it is the established policy and practice of this State to microfilm its records and to dispose of the original records after microfilm reproductions have been made.


Signature of Camera Operator


Date

COMMITTEE REPORT

5/1/75

HOUSE

Mr. Speaker:

Date 5/10/75

The Committee on FINANCE has had CSSB 310 amended

under consideration. A Majority of the members of the Committee

() recommends it DO PASS

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FINANCE CS FOR CSSB 310 DO PASS

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COMMITTEE

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() "other"

Members signing the Majority report:

[Signature] _____ [Signature] _____
[Signature] _____ [Signature] _____
[Signature] _____ [Signature] _____

Members NOT concurring in the Majority report:

_____ recommends:

_____ recommends:

_____ recommends:

_____ recommends:

_____ recommends:

[Signature] Chairman

Original Sponsor: Rules Committee by request
of the Governor

Offered: 4/14/75
Referred: Rules

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27 more than five days leave of absence without loss of normal pay, time,
28 or efficiency rating. The state or political subdivision shall supple-
29 ment the military pay received to the extent required to maintain the

1 employee's normal rate of pay. If the employee receives no military
2 pay, the state or political subdivision shall pay the employee at his
3 normal rate of pay.
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Original Sponsor: Rules Committee by request
of the Governor

Offered: 4/14/75
Referred: Rules

1 IN THE SENATE

BY THE FINANCE COMMITTEE

2 CS FOR SENATE BILL NO. 310

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to leaves of absence for auxiliary
7 members of armed forces."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. AS 39.20.340 is amended to read:

10 Sec. 39.20.340. LEAVE OF ABSENCE FOR RESERVE OR AUXILIARY MEMBERS
11 OF ARMED FORCES. (a) An employee of the state, or a political sub-
12 division [,] with the approval of the city council or borough assembly,
13 who is a member of a reserve or auxiliary component of the United States
14 Armed Forces is entitled to a leave of absence without loss of normal
15 pay, time or efficiency rating on all days during which he is ordered to
16 training duty, as distinguished from active duty, with troops or at
17 field exercises, or for instruction, or when under direct military
18 control in the performance of a search and rescue mission. The leave of
19 absence may not exceed 16 1/2 working days in any one calendar year.
20 The state or political subdivision shall supplement the military pay
21 received to the extent required to maintain the employee's normal rate
22 of pay. If the employee receives no military pay, the state or political
23 subdivision shall pay the employee at his normal rate of pay.

24 (b) If an employee is called to active duty by the governor, an
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26 more than five days leave of absence without loss of normal pay, time,
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29 employee's normal rate of pay. If the employee receives no military pay,

1 the state or political subdivision shall pay the employee at his normal
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Introduced: 3/24/75
Referred: State Affairs and
Finance

1 IN THE SENATE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 SENATE BILL NO. 310

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16 to training duty, as distinguished from active duty, with troops or at
17 field exercises, or for instruction, or when under direct military
18 control in the performance of a search and rescue mission. The leave
19 of absence may not exceed 16 1/2 working days in any one calendar
20 year.

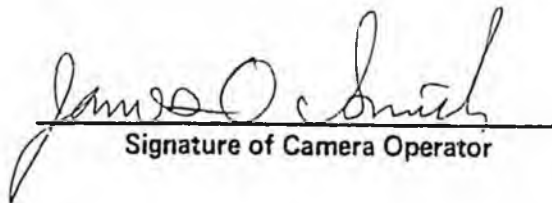
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22 employee otherwise qualified in (a) of this section is entitled to
23 five days leave of absence without loss of pay, time, or efficiency
24 rating.

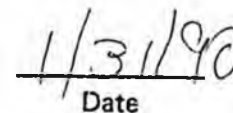


RECORDS CERTIFICATION



I, the undersigned, an employee of the State of Alaska, do hereby certify that the microfilm images on this microform are accurate reproductions of the original records of the State of Alaska as accumulated during the regular course of business, and that it is the established policy and practice of this State to microfilm its records and to dispose of the original records after microfilm reproductions have been made.


Signature of Camera Operator


Date

COMMITTEE REPORT

HOUSE

Mr. Speaker:

Date 2/30/75

The Committee on FINANCE has had SB 211

under consideration. A Majority of the members of the Committee

recommends it DO PASS

recommends it DO NOT PASS

recommends it DO PASS WITH ATTACHED AMENDMENT(S)

recommends it BE REPLACED WITH CS FOR _____ AND THAT

CS FOR _____ DO PASS

"and" recommends it BE REFERRED TO THE _____

COMMITTEE

reports it back WITHOUT RECOMMENDATION

"other"

Members signing the Majority report:

<u>[Signature]</u>	<u>[Signature]</u>	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Members NOT concurring in the Majority report:

<u>[Signature]</u>	recommends:	<u>no rec</u>
<u>[Signature]</u>	recommends:	<u>NO REC!!!</u>
<u>[Signature]</u>	recommends:	<u>no rec</u>
_____	recommends:	
_____	recommends:	

[Signature] Chairman

Introduced: 3/24/75
Referred: Finance

1 IN THE SENATE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 SENATE BILL NO. 311

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to Alaska International Airports
7 Revenue Bonds, Series E; and providing for an
8 effective date."

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 * Section 1. The commissioner of revenue may loan from the general fund
11 to the State Bond Committee, for deposit with the trustee acting under
12 Resolution No. 68-4 of the State Bond Committee relating to State of Alaska
13 International Airports Revenue Bonds, the amount not to exceed \$11,000,000
14 necessary to purchase direct obligations of the United States of America or
15 obligations the principal of and interest on which are guaranteed by the
16 United States of America in amounts and maturing at times such that, upon
17 compliance with necessary further conditions, the \$10,600,000 State of
18 Alaska International Airports Revenue Bonds, Series E, dated February 1,
19 1975, will be considered no longer outstanding. When these Series E Bonds
20 are considered no longer outstanding, the State Bond Committee shall amend
21 all provisions of Resolution No. 74-6 relating to the establishment of a
22 special account within the Construction Fund, referred to therein as the
23 "Project E Account", and provisions relating to the acquisition and con-
24 struction of Project E, and shall, notwithstanding the provisions of any
25 other law, as soon as practicable, cause the necessary amount to repay the
26 loan to be paid into the general fund first from the amount in the Project
27 E Account and, to the extent necessary, from surplus revenues as defined in
28 Resolution No. 68-4.

29 * Sec. 2. This Act takes effect immediately in accordance with AS

1 01.10.070(c).

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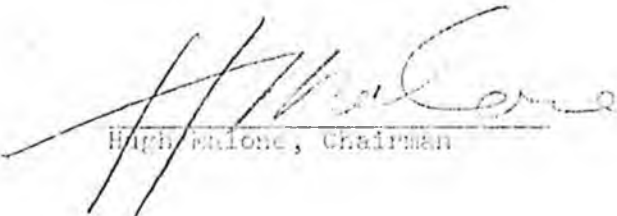
HOUSE JOURNAL

HOUSE FINANCE COMMITTEE REPORT
ON SENATE BILL 311
Alaska International Airports Revenue Bonds

SB 311, the defeasance of \$10.6 international airport revenue bonds, Series L, is a sad and costly reflection on the management of the Division of Aviation over some years. If the Anchorage terminal is never built, it will cost the state \$650,000 in architectural fees and \$66,821 in legal and related expenses for a total in excess of three-quarters of a million dollars. If the facility is constructed, say, in three years it will mean an estimated \$2,500,000 in higher costs of construction due to inflation and \$250,000 in redesign costs required by recent changes in the Borough Building Code. Further, to abandon or postpone the project after two years of planning and review, with a satisfactory construction bid in hand, and after the sale of bonds at attractive rates, does not enhance the state's position in the national bond markets. Nonetheless, the international carriers are experiencing higher fuel costs and declining traffic and the domestic liner have great cash needs to finance new or leased aircraft. It was the Committee's judgment that construction of the facility ought to be delayed in the circumstances.

The Committee was not happy to find that every carrier affected was misled as to what rates would be needed to pay for the terminal, that some rates and charges were inequitable, that revenue estimates had been manipulated and that the Division's accounting data is un sound. We have urged the Budget and Audit Committee to investigate the records of this agency.

The present Commissioner is aware of these numerous problems. Hopefully, improvements will occur during 1975.


Hugh Malone, Chairman

STATE OF ALASKA

JAY S. HAMMOND, Governor

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

POUCH K - STATE CAPITOL
JUNEAU 99801

May 25, 1975

Mr. Robert C. Riehle
President
Wainwright-Ramsey Inc.
70 Pine Street
New York, New York 10025

Dear Mr. Riehle:

Governor Hammond has requested that the Department of Law reply to your letter of May 13, 1975. I would like to point out that the decision not to build the proposed airport terminal was very carefully considered. The method chosen to defease the bonds, already sold for this purpose, was also carefully considered, both by the Department of Law and the State's Bond Counsel. In our opinions, this plan was provided by the terms of the original Bond Resolutions. It does not in any way harm the interests of the bond holders. Nor does it involve any breach of trust.

We were seriously disturbed by both the tone and the nature of your letter. I do not know if financial consultants have a code of ethics, but assuming they do I would also assume that deliberately trying to damage the interests of one to whom you have provided financial advice would violate that code. I know it would for attorneys and other professional people, so I cannot conceive of why financial consultants would be held to any less responsibility.

We appreciate the fact that you believe we would have received better advice had we received it from you. We are, to put it mildly, skeptical about your comment that you would have provided that advice free.

We are most disturbed by the fact that you communicated your self-serving and ill-considered opinions to Standard & Poor's Corporation in a letter to Mr. Hyman Grossman dated April 30, 1975. I am sure you realize that a letter of this nature can have financial implications for the State of Alaska running into substantial sums of money. You are obviously entitled to your own opinion, but when you communicate that opinion to others in a way deliberately calculated to harm the financial

Mr. Robert C. Riehle
New York, N. Y.

May 23, 1971

-2-

interests of the State of Alaska, your opinions are held to a slightly different standard than if you kept them to yourself.

We would appreciate it if you would take immediate steps to retract the letter you wrote to Mr. Grossman. The Commissioners of the Department of Revenue and Administration here, who are both most intimately concerned with the financial interests of the State, have recommended that we take far stronger action than a simple request for retraction, but I would hope, in the interest of avoiding a good deal of unpleasantness for your firm and for this office, that we can handle the matter informally.

Sincerely,

MARK A. ARTISCHOK
ASSISTANT ATTORNEY GENERAL

Mark A. Artischok
Assistant Attorney General

MAE:as

STATE OF ALASKA

DEPARTMENT OF PUBLIC WORKS

DIVISION OF AVIATION

4111 AVIATION AVENUE, POUCH 6900
ANCHORAGE 99502

JAY S. HAMMOND, GOVERNOR

SB 311

May 9, 1975

Re: \$10.6 Million Alaska International
Revenue Bonds, Series "E"

Honorable Hugh Malone, Chairman
House Finance Committee
Alaska House of Representatives
Pouch "V"
Juneau, Alaska 99811

Dear Representative Malone:

This is in response to your letter of May 2, 1975 regarding the \$10.6 million International Revenue Bonds.

1. a. Direct Costs: \$84,929 according to Department of Revenue Sources.
b. Indirect Costs: \$650,000. Of this amount approximately \$400,000 is salvagable.
c. \$2,000,000 Approximate increase in construction cash for an additional two year period. (Includes \$1 million Borough Building Code Revision.)
d. \$2,500,000 Approximate increase in construction cash for an additional one year period.
2. At the time the terminal design was finalized and the decision made to advertise for bids, the Division believed that the airlines were generally satisfied. This understanding was based on the following:
 - (a) From the initial stages, design development was closely coordinated with the airlines. Their input was actively sought.
 - (b) Features considered objectionable by some of the individual airlines were carefully evaluated. Many recommendations were incorporated. None were rejected without specific reasons.
 - (c) No objections to the final plans were raised at the last review meeting on September 17, 1974.

Recognizing that there are approximately 20 different air carriers serving the airport with diverse and competitive interests, it is improbable that a single design would ever be totally satisfactory

to all. Indications of dissatisfaction by other than one or two minor users were not registered until after the financial impact of rate increases was apparent.

3. ANCHORAGE INTERNATIONAL AIRPORT REVENUE COMPONENTS

1974

<u>Domestic Air Carriers</u>	<u>Foreign Air Carriers</u>	<u>General Aviation</u>
<u>\$4,788,000</u>	<u>\$5,500,000</u>	<u>\$112,000 (Est.)</u>
Flying Tiger Int'l. Northwest Airlines Pan American Airlift Int'l. Overseas Nat'l. Saturn Airways Trans Int'l. Pacific Western Alaska Aeronautical Alaska Airlines Reeve Aleutian Western Airlines Wien Air Alaska Alaska Int'l. Braniff Northern Air Cargo Sea AirMotive Winship Air Service Fairbanks Air Service Eastern Airlines	Air France B.O.A.C. British Airways Japan Airlines K.L.M. Korean Airlines Sabena S.A.S. Varig Canadian Pacific Trans Mediterranean Air Canada Finn Air China Airlines Peoples Republic of China	

F.Y. 1960

<u>Domestic Air Carriers</u>	<u>Foreign Air Carriers</u>	<u>General Aviation</u>
<u>\$603,900</u>	<u>\$130,400</u>	<u>\$10,700 (Est.)</u>

As for Fairbanks International Airport, all air carrier operations are domestic in nature, except for foreign air carrier landings when weather conditions do not permit landings at Anchorage International and Elmendorf.

NOTE; Comparison between domestic and international air carriers would be much more meaningful, due to the nature of international (foreign and domestic air carriers) versus purely domestic air carrier aviation needs.

4. Aircraft tie-down fees have been increased from \$12.50/per month (private) and \$17.00/per month (commercial) to \$20.00 and \$30.00 respectively. Similar private tie-downs on the airport and Merrill Field rent between \$30.00 and \$45.00 per month.
5. Revised estimated loss for Fairbanks International Airport is \$333,000 for F.Y. 1975.

<u>Fiscal Year</u>	<u>Net Income/Net Loss</u>
1960	(\$104,200)
1961	(\$184,300)
1962	(\$217,000)
1963	(\$128,000)
1964	(\$187,500)
1965	(\$67,500)
1966	(\$96,700)
1967	(\$165,300)
1968	(\$145,500)
1969	\$243,700
1970	\$916,800
1971	(\$122,800)
1972	(\$327,800)
1973	(\$887,200)
1974	(\$737,700)

Fairbanks International Airport is used as an alternate airport to Anchorage International. Losses for Fairbanks International Airport can be contributed to the following reasons: (1) Carriers fuel up at Anchorage (Anchorage/Fairbanks run) since fuel costs are lower which contributes to less fuel and oil fees at Fairbanks, however credited to Anchorage International; (2) Higher operating costs; (3) Fairbanks International does not have a heavy aircraft landing base (DC-10, B-747) which would contribute heavily towards landing and fuel and oil fees; (4) Primarily freighter operations rather than passenger operations which do not generate concession fees or heavy passenger airport spending; (5) The present airport revenue structure applies to Fairbanks and Anchorage; with exception of terminal building rental, although the cost of living/business standards are significantly higher at Fairbanks; and (6) Rate structure has not kept up with inflation.

6. No complete maintenance and operational analysis for the Anchorage and Fairbanks Terminals is presently available. A tentative analysis made by our consultant showed that Anchorage and Fairbanks terminal space should rent for \$13.81/p.s.f. and \$17.26/p.s.f., respectively. This analysis is rather informal and incomplete. A detailed analysis should be undertaken, as previously recommended, but later postponed. Present rate charges are \$8.25/p.s.f. for Anchorage International Airport and \$10.25/p.s.f. at Fairbanks International Airport.

7. Yes, it is true that the International Airports are not charging for space (21,000 sq.ft.) occupied by U. S. Customs, Immigration and Agriculture. This also holds true at other U. S. International Airports since Congress does not appropriate funds for this purpose. However, a \$17.00 international lounge fee is charged against the international air carriers per flight utilizing the facility.
8. This shows three different concession fee estimates based on different assumptions, made in different time periods. Foreign air carrier growth has increased per year but on a diminishing basis, yet aircraft have increased in size and passenger load capacity (DC-10, B-747). Some of the causes for variation in the estimates are (1) Growth in the International Air Carrier Sector, (2) Rate of inflation (3) Japanese outlook toward tourism, (4) Japanese economy, and (5) General economic outlook on Alaska.
9. Administrative overhead and equipment rentals were included in the final expenditure projections worked up with Budget and Management:
(A) Administrative overhead is included under personal services and
(B) Equipment rental is included under contractual services. These two minor expenditure items were not broken out separately from the four major expenditure components: (1) Personal Services, (2) Contractual Services, (3) Commodities, and (4) Travel.
10. This was primarily due to the lack of hard data with which to support the need for increases. A number of factors contributed to the uncertainty including:
 - (a) Required bond coverage factor (1.3 minimum vs 3.5 desirable).
 - (b) Difficulty in estimating cost of capital improvements and operations in a period of high inflation.
 - (c) Difficulty in predicting traffic and income confronted with pipeline boom and depressed world wide economic conditions.

It is relatively easy for a financial advisor to recommend rate increases to achieve 3.5 bond coverage, but not easy to implement such increases when bond covenants require only 1.3 and the people paying are confronted with operating losses.

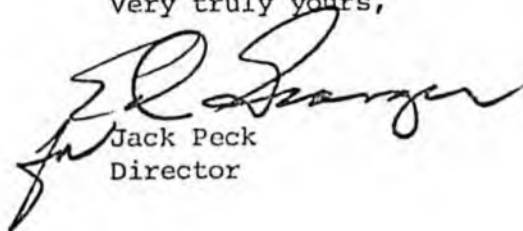
11. The size of Anchorage vs Fairbanks International Airports is not appreciably different (4,190 vs 2,900 acres). The total aircraft operations for each for 1974 was reasonably comparable. Anchorage 237,000 vs Fairbanks 142,000. Recognizing that larger facilities and operations have an inherent efficiency advantage, it is not realistic to expect a substantial difference in security force at the two facilities. The Fairbanks terminal is also less adaptable to efficiently complying with new FAA security requirements. Through a continuing effort to get better utilization of security personnel the number has been trimmed from the reported 63 to 44.

May 9, 1975

12. The Division of Aviation is supporting the requests of air carriers in getting FAA approval for the use of private security firms. So far the Air Carriers have found out that private security firms are more expensive than the present airport security system.
13. We are not aware of a letter from Mr. Granger to Japan Air Lines concerning rate increases. The Division was generally non-committal on rate increases during design development because of the uncertainties discussed under Item 10.

Should you require any additional information, please do not hesitate to contact me.

Very truly yours,



Jack Peck
Director

STATE OF ALASKA

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

WILLIAM A. EGAN, GOVERNOR

POUCH S - JUNEAU 99801

April 1, 1975

Honorable Bill Ray
Chairman
Senate Finance Committee
Alaska State Legislature
State Capitol
Juneau, Alaska

Dear Senator Ray:

re Senate Bill No. 311

Senate Bill No. 311, an Act relating to Alaska International Airports Revenue Bonds, Series E was introduced in the Senate on March 24, 1975 and was referred to the Senate Finance Committee.

Although these bonds have been sold, the Commissioner of Public Works has determined that it is not in the best interests of the State to construct the planned addition to the Anchorage airport.

The State's bond counsel has advised us that we are obligated as a part of our contract with the bondholders to construct the facility. He has suggested that as an alternative we may negate this obligation by depositing with the bond issue trustee cash for the purchase of United States government obligations sufficient to pay off the principal and interest of these bonds as they become due. This would provide the bondholders with security as good as that provided by the current pledge of the revenues to be produced by the facility.

State Bond Counsel has advised that John Nuveen & Co., Inc., at the request of the Commissioner of Revenue has formulated a financing plan involving the purchase of the United States Government securities sufficient to provide moneys to pay principal and interest on the outstanding \$10,600,000 International Airports Revenue Bonds, Series E. A copy of said plan which includes details of the existing debt service schedule on the outstanding bonds and the payment schedule on the bonds to be purchased is attached.

Based on said schedule, which is stated to be a conservative schedule given the bond market and financially feasible within the dollars indicated if effectuated by April 15, 1975, the net cost to provide for retirement of the Series E bonds is as follows:

Cash required to defease Series E Bonds	\$10,758,808.00
Less	
Balance in Construction Fund in cash	<u>518,178.98</u>
	\$10,240,629.02
Less balance in Construction invested	<u>\$10,000,000.00</u>
	240,629.02
Less interest on investment in Construction Fund available 5-19-75	155,800.00
Net cash required from Surplus Revenues	84,829.02

An additional amount of "lost" interest on the general fund loan from April 15, 1975 to May 19, 1975 should be considered.

Estimated unrecoverable costs by reason of the abandonment of the Series E Project, amount to \$81,821.01 and consist of costs of rating the bonds, printing the bonds, printing the official statement, costs of bond counsel, financial advisor, legal advertising, etc.

Mr. Bill Hueners, Chief Engineer of the Division of Aviation states that total expenditures of the Division for the Series E Project to others including principally cost of architectural design, through the Division of Buildings currently amount to \$574,569.58. He is verifying through the Division of Buildings additional costs necessary. He states that the Division of Aviation has allocated approximately \$40,000 of its budget for in-house review of plans and designs.

Assuming total costs attributable to the Division of Aviation do not exceed \$650,000, the net dollar loss to the State of abandoning the project appears at this time to be approximately \$734,000.

The Division of Aviation advises that no appropriations are necessary to pay costs incurred by it as the same are covered with excess bond proceeds from the Series D financing. In addition, there appear to be sufficient Surplus Revenues to cover the \$84,829.02 needed to accomplish the bond transaction.

When the transaction required by the provisions of Senate Bill No. 311 is completed with the bond issue trustee as security for the bondholders, State Bond Counsel will issue an opinion to such effect and the present balance in the Bond Construction Fund will be transferred to the General Fund along with interest earnings due the State on May 19, 1975 from the investment in time certificates of deposit of \$10,000,000 of the proceeds of the sale of the bonds plus net cash from Surplus Revenues to cover the balance needed to repay the General Fund.

The State's bond counsel, Eric E. Wohlforth, has further advised that it is very important that the proposed legislation be enacted into law as soon as possible in order that possible changes in the United States government bond market do not occur which could adversely effect the cost of purchasing the needed investments to satisfy the bond issue trustee.

Mr. Donald Harris, Commissioner of Public Works advised the State Bond Committee that the carriers in expressing their opposition to any increased fees to support the new international terminal in Anchorage had agreed to an up date of fees necessary to cover advance costs consisting of bond sale costs and design costs.

Very truly yours,



R. D. Stevenson
Special Assistant

RDS:gd

Attachments

cc: Langhorne A. Motley
Commissioner of Commerce
Chairman, State Bond Committee
State Office Building
Juneau, Alaska

Sterling Gallagher
Commissioner of Revenue
Secretary, State Bond Committee
State Office Building
Juneau, Alaska

Andrew S. Warwick
Commissioner of Administration
Member, State Bond Committee
State Office Building
Juneau, Alaska

Honorable Hugh Malone
Chairman
House Finance Committee
Alaska State Legislature
State Capitol
Juneau, Alaska

Donald Harris
Commissioner of Public Works
Pouch Z
Juneau, Alaska

Eric E. Wohlforth, Esq.
Wohlforth & Flint
645 G Street
Anchorage, Alaska

nuveen

John Nuvveen & Co. Incorporated

207 South LaSalle Street, Chicago, Illinois 60604

0120245 2500

March 13, 1975

TO: Eric Wohlfarth

FROM: Walter W. Filkin

Requirements to Defeasé
\$10,000,000 International Airports Revenue Bonds

<u>Principal</u>	<u>Type of Security</u>	<u>Coupon Rate</u>	<u>Price</u>	<u>Approx. Cost (as of 4-15)</u>
\$ 100,000	T-Certificates	Market	100	\$ 100,000
1,320,000	T-Notes	Market	100	1,320,000
4,645,000	T-Bonds	Market	100	4,645,000
<u>4,140,000</u>	FHA-Certificates	9 1/2	105	<u>4,338,400</u>
Total \$10,205,000				\$10,543,400
	Starting Cash			<u>215,400</u>
	Cash Required to Defeasé			<u><u>\$10,758,800</u></u>

Sources of Cash

Construction Fund	\$10,494,000
Other	<u>264,800</u>
	<u>\$10,758,800</u>

ALASKA AIRPORT
DEBT SERVICE SCHEDULE

ISSUE DATE 2 -1-1975
 SETTLEMENT DATE 5 -1-1975
 FIRST COUPON DATE 6 -1-1975

DATE	PRINCIPAL	COUPON	INTEREST	TOTAL DEBT SER
6.1975	0	0.0000	265850.00	265850.00
12.1975	0	0.0000	398775.00	398775.00
6.1976	0	0.0000	398775.00	398775.00
12.1976	0	0.0000	398775.00	398775.00
6.1977	0	0.0000	398775.00	398775.00
12.1977	0	0.0000	398775.00	398775.00
6.1978	0	0.0000	398775.00	398775.00
12.1978	0	0.0000	398775.00	398775.00
6.1979	400000	0.0000	398775.00	798775.00
12.1979	0	0.0000	398775.00	398775.00
6.1980	450000	0.0000	398775.00	848775.00
12.1980	0	0.0000	398775.00	398775.00
6.1981	500000	0.0000	398775.00	898775.00
12.1981	0	0.0000	398775.00	398775.00
6.1982	550000	0.0000	398775.00	948775.00
12.1982	0	0.0000	398775.00	398775.00
6.1983	600000	0.0000	398775.00	998775.00
12.1983	0	0.0000	398775.00	398775.00
6.1984	650000	7.0000	398775.00	1048775.00
12.1984	0	0.0000	275000.00	275000.00
6.1985	700000	5.0000	275000.00	975000.00
12.1985	0	0.0000	251250.00	251250.00
6.1986	750000	7.0000	251250.00	1001250.00
12.1986	0	0.0000	225000.00	225000.00
6.1987	800000	7.2500	225000.00	1025000.00
12.1987	0	0.0000	195000.00	195000.00
6.1988	850000	7.5000	195000.00	1045000.00
12.1988	0	0.0000	164125.00	164125.00
6.1989	900000	7.7500	164125.00	1114125.00
12.1989	0	0.0000	127312.50	127312.50
6.1990	950000	7.7500	127312.50	117312.50
12.1990	0	0.0000	85625.00	85625.00
6.1991	1000000	7.5000	85625.00	1235625.00
12.1991	0	0.0000	42500.00	42500.00
6.1992	1050000	7.2500	42500.00	1245000.00
TOTALS	1050000		20221525.00	20221525.00

ACCRUED INTEREST TO 5/1/75 IS \$ 199507.0000.

GLENN AIRPORT
 SUMMARY OF INVESTMENTS IN U.S. TREASURY
 STATE AND LOCAL GOVERNMENT SERIES DEBENTURES (31 CFR 344)
 AND FARMERS HOME ADMINISTRATION CO

PAYMENT DATE	PRIN. MATURING	COUPON RATE	TYPE OF INVESTMENT	NORMAL INT ON PRIN.	1ST PER INT ON PRIN.
6. 1975	0.00				
12. 1975	198000.00	5.810	CERTIFICATE	6955.88	0.00
6. 1976	0.00				
12. 1976	0.00				
6. 1977	0.00				
12. 1977	0.00				
6. 1978	0.00				
12. 1978	0.00				
6. 1979	215000.00	6.500	NOTE	7084.25	1929.45
12. 1979	180000.00	6.760	NOTE	6984.00	1571.14
6. 1980	265000.00	6.910	NOTE	9155.70	2354.40
12. 1980	180000.00	6.980	NOTE	6282.00	1622.27
6. 1981	310000.00	7.000	NOTE	10850.00	2881.92
12. 1981	170000.00	7.010	NOTE	5958.50	1538.70
6. 1982	368000.00	7.018	BOND	12610.00	3258.49
12. 1982	170000.00	7.020	BOND	5957.00	1540.90
6. 1983	405000.00	7.030	BOND	14235.75	3676.26
12. 1983	165000.00	7.040	BOND	5898.00	1499.97
6. 1984	460000.00	7.050	BOND	15862.50	4095.36
12. 1984	165000.00	7.060	BOND	5824.50	1534.13
6. 1985	495000.00	7.060	BOND	17520.00	4525.17
12. 1985	165000.00	7.100	BOND	5857.50	1512.60
6. 1986	543000.00	7.120	BOND	19402.00	5010.41
12. 1986	165000.00	7.140	BOND	5990.50	1521.17
6. 1987	595000.00	7.160	BOND	21300.00	5509.81
12. 1987	165000.00	7.180	BOND	5920.50	1529.69
6. 1988	645000.00	7.210	BOND	23252.25	6004.70
12. 1988	165000.00	7.240	BOND	5611.00	1448.99
6. 1989	4140000.00	7.000	CO	372500.00	0.00
TOTALS	12195000.00				54357.54

FARMERS HOME ADMINISTRATION

ALASKA AIRPORT
ESCROW CASH FLOW

PAYMENT DATE	STARTING BALANCE	PRINCIPAL RECEIVED	INTEREST RECEIVED	TOTAL AVAILABLE	PAYOUT REQUIRED	CLOSING BALANCE
5. 1975	215400.00	0.00	54387.54	259787.54	253850.00	3915.00
2. 1975	3915.00	190000.00	217447.00	411053.01	398775.00	12588.01
5. 1975	12588.01	0.00	580091.00	595670.01	398775.00	196894.01
2. 1976	196894.01	0.00	210491.00	407385.01	398775.00	6520.01
5. 1977	6520.01	0.00	580091.00	581711.01	398775.00	192936.01
2. 1977	192936.01	0.00	210491.00	400427.01	398775.00	4652.01
5. 1978	4652.01	0.00	580091.00	587743.01	398775.00	188968.01
2. 1978	188968.01	0.00	210491.00	399459.01	398775.00	684.01
5. 1979	684.01	215000.00	580091.00	798775.01	798775.00	0.01
2. 1979	0.01	180000.00	200406.75	380406.75	382775.00	601.75
5. 1980	601.75	265000.00	559922.75	825354.51	802775.00	2779.51
2. 1980	2779.51	190000.00	138157.00	378946.51	364775.00	6171.51
5. 1981	6171.51	310000.00	654485.00	970555.51	954775.00	5301.51
2. 1981	5301.51	170000.00	171385.00	345916.51	344775.00	2141.51
5. 1982	2141.51	350000.00	537675.50	898188.01	894775.00	3413.01
2. 1982	3413.01	170000.00	152436.50	327591.51	322775.00	4726.51
5. 1983	4726.51	495000.00	519091.50	928188.01	922775.00	5413.01
2. 1983	5413.01	165000.00	132255.75	306298.76	298775.00	4523.76
5. 1984	4523.76	450000.00	499947.75	958371.51	948775.00	4796.51
2. 1984	4796.51	185000.00	118535.25	290881.76	275000.00	5391.76
5. 1985	5391.76	495000.00	473550.75	977592.51	975000.00	2592.51
2. 1985	2592.51	165000.00	67237.75	254800.25	251250.00	3550.25
5. 1985	3550.25	545000.00	450986.25	1002610.51	1001250.00	1360.51
2. 1985	1360.51	165000.00	51978.25	220308.75	225000.00	3308.75
5. 1987	3308.75	595000.00	428637.75	1027925.51	1025000.00	2925.51
2. 1987	2925.51	165000.00	34786.75	201813.25	195000.00	6813.25
5. 1988	6813.25	645000.00	481466.25	1052276.51	1045000.00	6276.51
2. 1988	6276.51	155000.00	5611.00	166887.51	164125.00	2762.51
5. 1989	2762.51	414000.00	378600.00	4513362.51	4514125.00	1237.51
TOTALS	215400.00	10295000.00	9197479.12	19707887.51	19706630.00	7297.51

Includes call of \$3,400,000 bonds at par.

Decision On Airport Raises Questions

A decision by the Hammond administration to cancel construction of an \$8.17 million addition to Anchorage International Airport has left the administration with \$10.6 million from a sale of bonds in January to finance the project and with questions arising about its managerial capabilities.

Commissioner of Public Works Donald Harris announced the decision not to build the international passenger satellite building in late March, citing opposition to the project from every airline at the airport. The airlines would have paid for the addition through an additional half-cent-per-gallon fuel tax and a 75 per cent increase in space rental in the terminal building.

Plans for the new structure had been under way for more than a year before Hammond took office.

"This kind of thing has only happened twice in my 14 years' experience," said Hyman Grossman, vice president of Standard and Poor's, a bond rating firm that had given an A rating to the bonds sold to finance the project.

"Our basic question is why a state project that was deemed feasible, advisable and significant in January is in March deemed inadvisable," Grossman said.

"We'd like the answer to that question buttressed by revised estimates of revenues.

"It sounds to me that with the change in administration there have been some topsy-turvy changes in philosophy," Grossman said. It is unusual, he said, for a government to sell revenue bonds in January and "within a few weeks turn around and change its mind."

"What bothers me is that certainly the rating agency should have been told of the state's decision in March," he added.

Robert C. Riehle, president of Wainwright and Ramsey, which was the state's financial consultant on the sale of the airport bonds, sent Grossman a letter critical of the state's decision a few weeks after his firm was dismissed by the state in February.

"I think the letter has to be viewed with an eye to the fact that the fellow has lost a client," Grossman said. His views reflected those of several state officials who categorized it as a "sour grapes" missive. Riehle made a number of factual errors while criticizing the state in the letter and concluded it with laudatory remarks for Robert J. Dupere, his firm's contractual representative in Juneau.

State officials, who are considering

bringing a libel suit against Riehle, characterized Dupere, an independent financial consultant, as the probable source of the letter.

Since the dismissal of New-York based Wainwright and Ramsey, Dupere has not been able to sell his services to the state, one of his prime customers, and is on the outs with the Hammond administration.

"The possibility of instituting legal action has been broached to me," said Commissioner of Commerce Tony Motley, who serves as chairman of the state bond committee which also includes the commissioners of Administration and Revenue.

Motley said that after Wainwright and Ramsey was dismissed by the state, he received a letter from Riehle saying the state acted arbitrarily and that it owed him \$70,000. Motley said he has not responded to the letter yet.

Motley also said, Riehle's letter to Grossman gave the impression Wainwright and Ramsey chose to end the relationship with the state, "but in fact we unilaterally terminated the agreement with them and according to the terms of the contract we sent them written notice."

The state could take legal action, Motley said, "because the implications are of a grave magnitude and if left unchallenged could

conceivably cause grave doubts about the state's managerial capacity and its ability to bond in a normal manner."

Another state official said he has sent a letter to Standard and Poor's asking to be informed if it begins serious consideration of changing the state's bond rating, which determines what interest rate the state will pay on money it borrows.

Grossman said he has not considered lowering the state's bond rating as a result of Riehle's letter, but said he has questions about the project.

The state bond committee decided after Hammond was elected that the revenue the airport addition would generate could not pay back the bonds. Since the bonds had been sold, it went through a process called defeasance, where federal government bonds are purchased with the money taken in from the sale of state bonds. Interest from the federal bonds will be used to pay back the state's bonds.

"It's entirely unprecedented for a financial adviser to attempt to damage the state's credit with one of the two largest bond rating firms in the country," said Anchorage lawyer Eric Wohlforth, who was commissioner of Revenue in the Egan administration and now serves as a bond counsel to the state.

SB 311

White Hall 4-3155

WAINWRIGHT & RAMSEY
Inc.

Consultants on Municipal Finance

70 Pine Street, New York, N. Y. 10005

Robert C. Riehle
President

5 May 1975

John C.

RECEIVED
MAY - 7 1975

GOVERNOR'S OFFICE

The Honorable Jay S. Hammond
Governor of the State of Alaska
Office of the Governor
Capitol Building
Juneau, Alaska 99801

Dear Governor Hammond:

Enclosed herein is a copy of our letter to Mr. Hyman G. Grossman, Vice President, Standard & Poor's Corporation, who raised the credit rating assigned to Alaska International Airports Revenue Bonds, Series A-E in January 1975.

As financial consultants to other issuers of airport revenue bonds in the nation, Wainwright & Ramsey would have been pleased, if requested, to have provided guidance without expense relative to your Administration's deliberation on this pending legislation.

Credit is man's confidence in man.

It is our opinion that the passage of Senate Bill No. 311 could be damaging to the integrity of the incumbent Administration, and the credit stature of the State.

Very truly yours,

Robert C. Riehle
Robert C. Riehle

rec:d
encl

30 April 1975

Mr. Hyman C. Grossman, Vice President
Standard & Poor's Corporation
345 Hudson Street
New York, New York 10014

Dear Hy:

I concur with your concern arising from your reading of Senate Bill No. 311, and the Article concerning the abortion of the airports expansion program to be financed through Series F. Bonds, which appeared in the April 10, 1975 issue of Engineering News Record.

As a matter of long-standing policy, Wairwright & Ramsey Inc. only works for clients that we believe have management integrity with capital programs and projects which are both essential and feasible. When we make representations to the rating agencies, underwriters and potential investors on behalf of our clients, we make only those representations which we have verified and believe to be true, based upon our knowledge of the situation and the integrity of the people involved. The representations that were made were processed and approved by the Division of Budget and Management, Department of Administration.

The following circumstances are the facts of the case as I know them:

1. There is an imminent and pressing need for a new International Airport Terminal in Anchorage. Postponement at this time will inflate future construction costs. A new building code effective 1975 alone will add several million dollars in costs to the project.
2. The Anchorage airport is presently subsidizing the City of Fairbanks' airport which is primarily utilized by domestic carriers.
3. International carriers use the Polar Route to achieve substantial savings in fuel, time and air crew costs. They will continue to do so despite an increase in landing fees of a few cents per passenger in Alaska.
4. Landing fees at Alaska's International Airports (30¢ per 1000 lbs.) are the lowest in the nation for international airports and have been in effect since Statehood.

5. The objection to an overall increase in landing fees comes from domestic carriers which are enjoying the boom in air traffic generated by the pipeline.
6. If an increase in fees is not implemented at this time, the ability of the International Airports system to generate capital for expansion from earnings will be impaired.
7. As per information in the Series E Official Statement, JAL has 60 flights per week. Mr. Harris claims that they have recently had 80 flights which have now been reduced to 70. It does not appear that Mr. Harris is acquainted with the facts.
8. Rescinding its intention to raise rates as divulged to bondholders on page 25 of the Official Statement is a breach of good faith. Some investors may have bought Series A to D Bonds in the secondary market on the strength of this representation. Establishing an escrow account for Series E Bonds alone does not relieve the State from its published intention to effect increases in fees on July 1, 1975. The airports are still confronted with the problem of maintaining earnings protection on outstanding bonds in view of rising operating expenses.
9. In that this legislation has been sponsored by the Governor, I think it proper that you advise him of your concern. It not only reflects on the integrity of the new Administration, but also on its lack of concern for the taxpayers.

Several million dollars is about to be wasted and other millions tied up at a time when Alaska is facing a shortfall in revenues versus expenses. In that this is a planned deficit, which the new Administration inherited, it is surprising that it intends to add to it by design.
10. In view of this prospective breach of trust, I assume Standard & Poor's will likely not be prone to give credence to similar representations made in future official statements from the State of Alaska and its agencies.

Mr. Hyman C. Grossman
Vice President

Page #3
30 April 1975

Senate Bill No. 311 seeks to perpetuate an inequitable rate structure. Further, to sell bonds in mid-January, award construction contracts one month later, and then sponsor a bill which was introduced on March 24, 1975 to abort the project, represents at this point a flagrant mismanagement of financial resources and a blatant lack of sophisticated financial planning which is inexcusable, even in the nation's last frontier, when you consider they have at their doorsteps one of the best financial advisors in the country - R.J. Dupere of Dupere & Associates, Inc., Juneau, Alaska.

Sincerely,

Robert C. Riehle

rcr:d
encl -2

176. 248 2/2/75

President of the Alaska State Legislature
Secretary of the Alaska State Legislature

STATEMENT BY RICHARD S. FULLERTON
CONSULTANT TO COMMISSIONER OF PUBLIC WORKS
RELATIVE TO INTERNATIONAL AIRPORTS

A study of the Anchorage and Fairbanks International Airports was undertaken on January 7, 1975, to provide data relative to airport operations through Fiscal Year 1980. The study took into consideration capital improvement projects, revenue requirements and cost saving measures to be considered over the five and one half year period for which projections were made.

Consultations with both foreign and domestic air carriers along with the major concession operator - Duty Free - provided the background for capital improvement projects and revenue requirements projected into the future to provide adequate facilities at a competitive cost to meet public needs over the period.

Approximately seventy percent of total airport revenue is international in nature. Uncertainty over world economic conditions and energy problems has caused this sector of the industry to scale back future facility growth requirements considerably in the interests of minimizing costs during these times. They present substantial opposition to present construction of the new international satellite at Anchorage on these very grounds. It appears that new facilities, however desirable from the accommodation standpoint, are not acceptable to the international carriers at this time to the extent that they necessitate increases in charges to the carrier for the facility.

Domestic operations over the next two years project substantial growth related primarily to pipeline activity. They feel facilities are adequate for their requirements, which will peak and then either level off or decline somewhat in 1977.

It is the concensus of both domestic and international carriers that with the exception of the new North/South Runway at Anchorage, their operations can and for cost reasons should be conducted out of present facilities at both international airports for the foreseeable future.

Following several hearings between the Division of Aviation and the Anchorage Airport Affairs Committee (representing the carriers and major tenants at the airport), this premise was accepted and future plans and revenue projections were developed around the assumption.

In accordance with the above, C.I.P. in the amount of \$47,786,200.00 to be funded via revenue bonds were scaled back to \$11,987,900.00 with these remaining projects to be accomplished with in-house funds. Schedule A is attached listing these remaining projects as well as those deleted. It was agreed by the carriers and the Division of Aviation that this reduced C.I.P. would maintain the integrity of both international airports for the next two years at least and very possibly for the five and one half year period under study.

Several considerations entered into the establishment of revenue fee increases required to support the C.I.P. contemplated. Foremost, it was assumed that the mission of the international airports in serving public need was to maintain fiscal integrity while offering a competitive service at reasonable rates. A rate increase (Schedule B) covering three areas along with a cash flow analysis (Schedule C) was prepared to provide minimum but adequate revenue requirements. In doing this, debt earnings ratio is maintained throughout the period at a level which would permit further bond offerings should they be required and free funds are established at a level which can provide additional C.I.P. in the amount of \$5,000,000.00 in-house at any time without going to bonded financing. Thus, significant terminal expansion, if required in the near future, could take place without addition to debt or increased rates, and particularly if A.D.A.P. funds should become available for such projects, major expansion is possible under the same conditions.

It should be noted that C.I.P. expansion via the bonded debt route, because of the covenants relative to debt earnings ratios, can only result in the need for drastically increased rates and a corresponding weakening of the competitive position of our international airports as a result of such action.

Rate increases projected in Schedule B would provide additional revenues of approximately \$1,000,000.00 per year in total. The bulk of this (\$850,000.00) would result from a thirty point (.003c) per gallon increase in fuel concession fees. This increase involves no additional collection cost and the burden 75% falls on the international carriers, who are primarily responsible for our need for increased revenues and the C.I.P. programs they are to be expended on.

Negotiations under this study have been completed with the Department of Highways to acquire title as of January 1, 1975, to all equipment involved in the Highway Working Capital Fund and to take over payment of employees associated with this equipment. This could result in substantial savings to the Division of Aviation through savings in direct operating costs as well as replacement cost due to better and longer equipment utilization. Schedule D is attached showing funds in the amount of \$972,347.80 due from Highways in addition to the equipment as a result of replacement fund balances due less charges owed Highways. Terms of payment of this balance are to be resolved by agreement of the respective Commissioners.

Accounting procedures have been found weak particularly in the area of expenditures as they relate to funds budgeted for such purposes. Schedule E outlines a program via the C.P.A. firm of Main Lafrentz and Company to correct this weakness and provide the Division with current, complete, and continuous accounting data on a computerized accrual basis. Implementation of this program will cost approximately \$150,000.00 to \$200,000.00 and will take some fifteen months to become fully operational.

A review of I.B.M. printout data available from Juneau, but not presently utilized for accounting control purposes, indicates that accounting information required can be obtained through proper use of this data along with expenditure accrual information, which can be made available within the Division of Aviation. Such a program is preferable to the main Lafrentz approach in that it could provide comparable results with no duplication of effort or equipment.

Expansion to trunk and secondary airports should be the ultimate goal of this project, since the need is greater there than with the internationals.

Several additional conclusions not covered above have evolved as a result of the study.

1. It is of paramount importance that the Division of Aviation in all future rate, bonding or C.I.P. matters work closely with the Airport Affairs Committee to assure that such programs have current support of carriers and other tenants expected to provide increased revenues required.
2. Airport lands should be developed under an adequate, fair and just leasing policy. The policy should provide that direct aviation activities (air carriers and related support facilities) who are already supporting the airport with other fees, will be charged reasonable rates. On the other hand, only lands deemed as not desirable for aviation use should be available to industrial or non-aviation related applicants, who should be charged a higher land rental rate comparative with commercial properties within the respective community. These combined rates will provide maximum revenues and utilization from airport lands with the minimum cost burden being placed on the carriers and ultimately the rate structure passed on to the public.

3. The need to hold airport fees in the interests of maintaining a competitive position, particularly with regard to the international carriers, has been covered above, however, the Greater Anchorage Area Borough taxes personal property on the airport without regard to the impact either directly or indirectly on preservation of a competitive rate structure which is the foundation of our present broad revenue base.

The contribution of the Borough to the airport as a result of these taxes is limited at best and ever escalating Borough rates rob the airport of a revenue source that might better serve public need if reflected in the form of lower costs to the carriers at the airport. Certainly there can be little justification for G.A.A.B. having exclusive property tax authority on aircraft fleets operating to numerous remote areas of the State, many of which could claim equal justification with G.A.A.B. for tax authority.

4. Security costs represent some forty percent of personnel charges at the international airports. Cost savings measures of significance have a real potential in this area. Fairbanks for example has sixty three security people out of a total employment of ninety three. Estimates are that as many as twenty three to twenty eight of these could be eliminated with reorganization of security functions at that plant. In Anchorage security contains seventy six employees out of a total of one hundred and ninety. At this plant, the best chance for reduction seems to be in facility redesign, with security operations in mind, and by delegation of certain gate functions to private operations under pay and direction of the carriers involved.

Under F.A.A. jurisdiction security tends to be pushed beyond the point of diminishing returns. Much amounts to nothing more than going through the motions without making any serious contribution to real security, however, significant costs are involved. This is particularly true of requests being made for bush area security, but it is unfortunately not limited to such areas. Both the air carriers and the Division should take a strong stand with the F.A.A. relative to this matter.

5. A fiscal section should be established within the present Division of Aviation management framework, direct line of responsibility and accountability to the Director. This section will be primarily responsible for providing adequate up to date financial information to Anchorage and Fairbanks International Airports. Inclusive of expenditure and revenue analysis, on a monthly accrual basis.

Date: March 17, 1975

was read the first time and referred to the Committee on Community and Regional Affairs.

SENATE BILL NO. 286 by Chance, Bradley, Colletta, Croft, Rader, Rodey and Willis, entitled:

"An Act making a supplemental appropriation to the Department of Health and Social Services, Alaska Retarded Citizens Association work activities center; and providing for an effective date."

was read the first time and referred to the Finance Committee.

REPORTS OF STANDING COMMITTEES

The Commerce Committee's report on the cancellation of the Anchorage International Terminal Satellite appears as follows:

" COMMERCE COMMITTEE

TO: Mike Bradner, Speaker of the House
 FROM: Bob Bradley, Chairman, Commerce Committee
 RE: Cancellation of the Anchorage International Terminal Satellite
 DATE: April 14, 1975

On Monday, April 7, 1975, the House Commerce Committee received testimony regarding the cancellation of construction on the Anchorage International Terminal Satellite.

Using information supplied by Commissioner Harris of the Department of Public Works, all concerned parties involved in the construction or use of the new facility were invited.

The administration was represented by Commissioners Harris and Callagher, as well as Mr. H.W. Noonan of the Division of Aviation.

The air carriers were represented by spokesmen from several different airlines. Mr. John McCool of Northwest Design represented the architects and Mr. Robert Dupere, financial consultant for the Bond Committee, was also present.

After hearing testimony, the committee considered Senate Bill 311 and moved it out of committee with a "Do Pass" recommendation. The following reasons support the committee's recommendation:

- a) A change in the world economic situation made it necessary for the air carriers to evaluate the cost benefits in terms of air carrier and passenger costs. The findings of this evaluation required the air carriers to withdraw economic support for the facility due to rate increases for financing the construction.
- b) Prior to a February hearing with the air carriers, the airlines' had never been informed as to the actual increases necessary if the Terminal Satellite would be constructed.
- c) The general decline in air traffic, decreased load factors, and increases in air carriers' operating costs, have made revenue projections that will service the bonds unreliable.
- d) The proposed rate structure would undermine the competitiveness of Anchorage International with neighboring airports such as Vancouver and Edmonton.
- e) Cancellation of the construction bid has increased building costs by one million dollars as a result of changes in the borough code. However, there are no monetary advantages in forcing the construction of the building.

It is for these reasons the committee feels that the project is inadvisable at this time.

In turn, the committee would like to make the following recommendations:

- a) The administration should examine other methods of financing projects.

No one at the hearings claimed that the airport was not wanted or would not be needed in the future. However, revenue bonds are an expensive way of financing and those who pay the costs, in this case the airlines, will always have difficulty in supporting rate increases.
- b) The rate structure of the International Airports should be examined.

Rates should be adjusted to reflect airport usage as well as the other considerations that are used in determining rates.
- c) Long-range revenue and expenditory projections should be made and supported so that justifiable capital improvement programs will be made available to air carriers for their evaluation and suggestions.

The committee wishes to thank the participants for their cooperation in this matter."

STATE OF ALASKA

JAY S. HAMMOND, Governor

DEPARTMENT OF PUBLIC WORKS

OFFICE OF THE COMMISSIONER

POUCH Z-JUNEAU 99801

March 27, 1975

The Honorable Hugh Malone
Chairman, House Finance Committee
State Capital, Room 409
Pouch WF
Juneau, Alaska 99811

Dear Representative Malone:

In reply to your request of March 16, 1975, the following information is submitted relative to your questions regarding the proposed recall of the International Airport Revenue Bonds, Series "E":

1. The situation is caused by the reluctance of the air carriers to support construction of a new international satellite building at the Anchorage International Airport. The air carriers had no objection when the facility was planned, but the operational losses now being suffered by all international carriers will not allow them to pay for increases in airport fees to pay for the construction. Enclosed are copies of letters from eight air carriers requesting cancellation of the bond issue and postponement of the construction.

Expenses to date for administrative and engineering costs will be recovered by increasing the fuel concession fees to obtain an annual revenue increase of \$300,000 which will repay all costs in a two year period.

Demands for capital improvement projects in the future from the Revenue Funds can be taken care of by direct appropriations from the fund. Additional airport fees will be increased to build up the fund for this purpose.

2. Regarding a revised CIP program, the original program was cut from \$47,786,200 to \$11,987,900 and will be accomplished with in-house funds. Increased airport fees is expected to generate additional revenue to support the revised program.
3. Enclosed is a copy of the revised revenue estimates thru FY 1980 together with footnotes which reflect the changes in fees and the benefits therefrom.
4. The amount of bonds to be recalled amounts to \$10,600,000 which were issued under the Series "E" bond sale held January 14, 1975.

The Honorable Hugh Malone

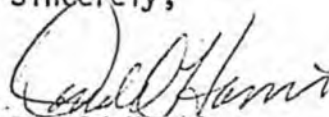
-2-

March 27, 1975

5. The legality of this recall transaction is covered by an opinion from the Attorney General and is based on advice of bond counsel (copies enclosed).
6. Necessary legislation to accomplish this action is contained in Senate Bill 311.
7. The legislation proposed in Senate Bill 311 will not be a drain on the General Fund as it is only a loan to be repaid from the bonds and the Revenue Fund.

Your consideration in passage of this bill will be appreciated.

Sincerely,



Donald Harris
Commissioner

Attachments: 3 copies correspondence

cc: Senator Bill Ray, Chairman,
Senate Finance Committee
w/3 copies of correspondence

ERIC E. WOHLFORTH
ROBERT D. FLINT
TIMOTHY G. MIDDLETON

LAW OFFICES
WOHLFORTH & FLINT
A PROFESSIONAL CORPORATION
645 G STREET
ANCHORAGE, ALASKA 99501

TELEPHONE
AREA CODE 907
274-2519
272-9489

March 21, 1975

Hon. Avrum M. Gross
Attorney General
Department of Law
Pouch K
Juneau, Alaska 99801

RECEIVED
Department of Law

MAR 24 1975

AM
3 8 9 10 11 12 1 2 3 4 5 6 PM

Re: Pending Legislation Concerning \$10,600,000
State of Alaska International Airports Revenue
Bonds, Series E

Dear Attorney General:

You have requested our opinion as to the legal effect of action which may be taken pursuant to proposed legislation drafted by me and approved by C. Richard Walker, a copy of which is attached hereto in the form submitted to your office.

Appropriate action taken pursuant to the draft legislation will, in our opinion, result in the legal conclusion that the Series E Bonds will be no longer outstanding. When said bonds are no longer outstanding the State Bond Committee may amend the provisions of Resolution No. 74-6 relating to the "Project E Account" in the Construction Fund and may cause amounts in the Project E Account to be used to repay the loan from the General Fund referred to in the legislation. The loan from the General Fund authorized by the legislation is necessary to provide funds for investment in direct United States Government obligations and guaranteed United States Government obligations in amounts and maturing at times sufficient to pay principal and interest on the Series E Bonds until the first date they can be redeemed by the State without a redemption premium. When the United States Government obligations are purchased and trusted for the benefit of the Series E Bonds, and other necessary procedural steps are taken, the Series E Bonds will in legal effect not be outstanding under the general bond resolution.

Hon. Avrum M. Gross
March 21, 1975
Page 2

This procedure will provide, in essence, for replacement of the pledge of Revenues which now secures the Series E Bonds with a trusteed deposit of government bonds in amounts necessary to pay principal and interest on the Series E Bonds.

As you know, Section 3.06 of Resolution No. 68-4 of the State Bond Committee adopted April 11, 1968, which is the General Bond Resolution governing the terms of all International Airports Revenue Bonds, provides for the procedure outlined in the draft legislation and explained above to be accomplished, however, with an issue of refunding bonds. Pursuant to Section 3.06 the State may issue bonds which will provide cash sufficient to purchase direct United States Government obligations or guaranteed United States Government obligations "...in such amounts and maturing at such times that the proceeds of said obligations received upon their respective maturities and interest payment dates will provide funds sufficient to pay the principal, premium, if any, and interest to maturity, or to the redemption date, as the case may be, with respect to all bonds to be refunded..." After certain further procedural requirements under Section 3.06 are complied with, the legal result is that the series of bonds being refunded are deemed no longer outstanding.

The draft bill provides for the same result without the issuance of refunding bonds. Existing bond market conditions would make an issue of refunding bonds extremely expensive for the State. Although we are not following the provisions of Section 3.06 in that we are not issuing refunding bonds, in our opinion, the legal result is nevertheless the same as if we did issue refunding bonds for the above purpose pursuant to Section 3.06. General principles of law reflected in Section 3.06 support the legal conclusion that when United States Government direct or guaranteed obligations in amounts and maturing at times specified by Section 3.06 are trusteed for the benefit of existing bondholders, their rights under the general bond resolution are no longer in effect, notwithstanding that the procedure is not accomplished through an issue of refunding bonds.

In conclusion, in our opinion when the government bonds described in Section 3.06 are purchased and placed in a proper trust for the benefit of existing Series E bond-

Hon. Avrum M. Gross
March 21, 1975
Page 3

holders, moneys in the Construction Fund may be transferred out for other purposes as specified in the proposed legislation, the covenant to build "Project E" (principally the proposed Anchorage Terminal Building) will no longer be in effect, and the Series E Bonds, since they are no longer outstanding, will not thereafter be counted as Bonds for the purposes of the rate covenant in Section 6.12 of Resolution No. 68-4.

Very truly yours,

WOHLFORTH & FLINT

By Eric E. Wohlforth
Eric E. Wohlforth

EEW/am

cc: C. Richard Walker, Esq.
Commissioner Sterling Gallagher

26

FY 75

CAPITAL BUDGET
PROJECT JUSTIFICATION

AGENCY	CATEGORY	08	Transportation
PUBLIC WORKS	PROGRAM	85	Air Transportation
DIVISION	SUB-PROGRAM		
AVIATION	ELEMENT		
	SUB-ELEMENT		

75-1

STATE GOAL OR PLANNING OBJECTIVE:

A statewide system of transportation responsive to the unique needs of Alaska.

RELATED OR OTHER NEED

A level of public transportation service commensurate with community needs.

Expand Below responses as required—Repeat heading when commencing response—Use Form 23 as continuing sheet—Respond in numerical order—Submit justification each project listed Form 24—Attach feasibility studies when available.

I. DOCUMENTATION OF NEED (Cite quantitative and measurable need)

III. DOCUMENTATION OF ESTIMATED CAPITAL COST (Discuss degree of reliability)

II. ANALYSIS IMPACT ON OPERATIONAL EXPENSE (Estimate and justify)

IV. IDENTIFICATION OF ALTERNATIVES CONSIDERED (State why rejected)

- I DOCUMENTATION OF NEED - An increase in annual foreign air carrier operations of 23% (from 10,044 to 12,354) and an increase in passengers of 62% (from 227,175 to 368,095) was experienced in just one year - between FY 1971 and FY 1972 data. Growth of foreign traffic has been continuous over the last decade. The figures above are indicative of the recent substantial expansion of international tourism. Income from the foreign air carriers has grown from \$344,000 in 1962 to \$2,285,776 in FY 1972. If adequate facilities are provided to meet the needs of the foreign carriers, Anchorage will permanently establish itself as the air crossroads of the world. If action is not taken to meet the needs of the foreign carriers, they may seek alternate routes.
- II ANALYSIS OF IMPACT ON OPERATIONAL EXPENSE - There will, of course, be an increase of operational expense due to maintenance and operations of the facility and debt service on the original investment. These will be offset to a large degree by revenues obtained from use of the building. Airlines offices, ticket counters, and concessions will be charged an annual rate of \$10.00 per square foot for the floor space they occupy. The airlines will be assessed gate charges which will cover the cost of the jetways and the per square foot charge of all public floor space. This charge averages out to 12¢ per 1000 pounds of aircraft gross takeoff weight or approximately 40% of the landing fee. The Duty Free Shop is expected to provide the lion's share of concession revenues. Statistics show that sales average 20.00 per international passenger. The State portion of this is \$2.50. The International Gift Shop yields \$.40 per international passenger and the cafeteria and bar gross about \$.50 per international passenger. The State's share is approximately \$.06.
- Maintenance and operations costs are assumed to be \$7.00 per square foot per year increasing at the rate of 5% per year. The building is assumed to be amortized over a 25 year period at 7%. Annual cost VS revenue for the first three years is shown as follows:

26

CAPITAL BUDGET
PROJECT JUSTIFICATION

FY 75

001

AGENCY	CATEGORY	08	Transportation
PUBLIC WORKS	PROGRAM	05	Air Transportation
DIVISION	SUB-PROGRAM		
AVIATION	ELEMENT		
	SUB-ELEMENT		

75-1

STATE GOAL OR PLANNING OBJECTIVE:

RELATED OR OTHER NEED

Expand Below responses as required—Repeat heading when commencing response—Use Form 23 as continuing sheet—Respond in numerical order—Submit justification each project listed Form 24—Attach feasibility studies when available.

- I. DOCUMENTATION OF NEED (Cite quantitative and measurable need)
II. ANALYSIS IMPACT ON OPERATIONAL EXPENSE (Estimate and justify)

- III. DOCUMENTATION OF ESTIMATED CAPITAL COST (Discuss degree of reliability)
IV. IDENTIFICATION OF ALTERNATIVES CONSIDERED (State why rejected)

	<u>FY 1976</u>	<u>FY 1980</u>	<u>FY 1985</u>
REVENUE space rental	\$ 292,000	\$ 292,000	\$ 292,000
gate charges	299,000	401,000	456,000
concessions	1,311,000	2,199,000	5,566,000
TOTAL	<u>\$1,902,000</u>	<u>\$2,892,000</u>	<u>6,314,000</u>
COST M & O	\$ 824,000	\$1,000,000	\$1,275,000
debt service	675,000	675,000	675,000
TOTAL	<u>1,502,000</u>	<u>1,675,000</u>	<u>1,950,000</u>
NET REVENUES	\$ 400,000	1,217,000	4,364,000

III DOCUMENTATION OF ESTIMATED CAPITAL COSTS - The capital cost of this project is based on the following incremental costs:

Building costs (117,680 sq. ft.)	\$6,500,000
Loading bridges	800,000
Parking lot and utilities	250,000
Design @ 5.1%	385,000
Engineering and Administration @ 3%	226,500
Contingencies (approx. 10%)	838,500
Total estimated project cost	<u>\$9,000,000</u>

The building is presently under initial design and the cost shown represents the consultants preliminary estimates. The loading bridge estimates represent known costs. \$7,000,000 of the cost will be authorized from previously authorized revenue bonds. The remaining \$2,000,000 is requested herein.

CONCESSION FEES

A. Concession fees seem to be competitive with rate structures of other major airports. The main contributor to the successive increases in concession fees is Duty Free Shoppers, Ltd.

B. In recent months there has been a softening in the International air carrier market, especially for Japan. This has directly influenced the revenues generated by the Duty Free Shop. Revenues are still on an increase but the increase has diminished - expected growth rate 10 to 15% per year, rather than the average of 40 - 50% per year.

C. Any adjustments in concession fees must be made when the given concessionaire contract expires. No immediate changes can be made - as is the case in landing fees or fuel flowage fees.

26

FY 75

CAPITAL BUDGET
PROJECT JUSTIFICATION

AGENCY	CATEGORY	08	Transportation
PUBLIC WORKS	PROGRAM	R5	Air Transportation
DIVISION	SUB-PROGRAM		
AVIATION	ELEMENT		
	SUB-ELEMENT		

75-1

STATE GOAL OR PLANNING OBJECTIVE:

RELATED OR OTHER NEED

Expand Below responses as required—Repeat heading when commencing response—Use Form 23 as continuing sheet—Respond in numerical order—Submit justification each project listed Form 24—Attach feasibility studies when available.

- I. DOCUMENTATION OF NEED (Cite quantitative and measurable need)
II. ANALYSIS IMPACT ON OPERATIONAL EXPENSE (Estimate and justify)

- III. DOCUMENTATION OF ESTIMATED CAPITAL COST (Discuss degree of reliability)
IV. IDENTIFICATION OF ALTERNATIVES CONSIDERED (State why rejected)

IV IDENTIFICATION OF ALTERNATIVE CONSIDERED -

1. One alternative is to simply not respond to the needs of the foreign air carriers. This alternative is not realistic when the direct and indirect economic benefits are considered. Nearly \$2.5 million annually is obtained directly from fuel flowage and landing fees. Nearly \$1.5 million per year is derived from concession revenues, the majority of which comes from the international carriers. The indirect benefits are realized in the number of people that are employed at the airport by the airlines and the concessions. Japan Airlines is planning a million dollar food service facility (flight kitchen) to service international flights. If the foreign air carriers are not accommodated at Anchorage International; other routes possibly through Siberia may appear more attractive.

P.P. Remarks: While the revenues from International Carriers are sufficient to amortize and pay annual expenses there would appear that a substantial income loss would occur from the space now being utilized. The alternative cited immediately above indicates the majority of the present revenue of 1.5 million of concession revenue would be lost to the existing operation. Is it contemplated that existing space will be utilized for another purpose and if so what annual revenue is expected from the replacement operation?

Answer given: No - All International Flight operations would not be transferred to new hangar if it is thought there will be no revenue loss since the increased traffic in International Operations will result in at least partial utilization of existing revenue in present facilities.

October 22, 1974

Memorandum

To: State Bond Committee
Commissioner of Public Works

From: Robert J. Dupere

Subject: Net Revenue Projections - Debt Service Coverage - Table 10

The following enclosures are submitted for your review:

1. Table 10 - Projected Operating Results FY 1975-1980.

It outlines:

- a. Declining net revenues while the normal process should be increasing net revenues.
- b. Inadequate coverage FY 1977.
- c. The estimated revenues as presented on Revenue Projections Summary 21 need substantial adjustment.

2. Revenue Projections Summary Anchorage and Fairbanks with Operating Expenditures.

These outline:

- a. Ever increasing operating losses for Fairbanks at the peak of an economic boom.
- b. Possible incorrect (low) expenditure projections.
- c. Revenue Estimates below other data available to the State.

3. Extract from the International Airport Revenue Structure Analysis.

These show:

- a. Higher revenues for both airports assuming 1974 revenue structure.

4. Table 11 from the Official Statement - \$8,500,000 Revenue Bonds, Series D, May 15, 1973.

It shows:

State Bond Committee
Commissioner of Public Works
Page 2
October 22, 1974

pg 2

- a. Gradual increase in Net Revenues from 1973 through 1979.
- b. Gradual increase in debt service coverage through 1979.
- c. The form that the revenue bond issue for 1974 should assume.

Recommendations:

1. That the official Estimated Revenues be those available within the Division of Aviation and that the same be used in place of the Airport Managers' projections.
2. That the projections of expenditures be updated and approved by Budget and Management if incorrect.
3. That a firm commitment be made between the Commissioner of Public Works and the State Bond Committee adjusting rates across the board upwards and said structure be published in the bond prospectus with duly passed resolutions, etc. to insure follow through after bonds are issued.

RJD

Enclosures: As Stated

cc: C. Richard Walker, Orrick, Herrington, Rowley & Sutcliffe
Robert C. Riehle, Wainwright & Ramsey, Inc.

MEMORANDUM

State of Alaska

TO: Jack Peck, Director
Division of Aviation
Department of Public Works

DATE: November 26, 1974

FILE NO:

TELEPHONE NO:

FROM: Richard W. Freer, Chairman
Department of Administration

SUBJECT: Rate Structure --
International Airports

This is to remind you that the Budget Review Committee needs revised Revenue Estimates for both Anchorage International Airport and Fairbanks International Airport reflecting: (1) proposed rate increases at the two airports effective on July 1, and (2) expected growth that will result in increased revenues.

It should be remembered that these Revenue Estimates should show sufficient revenues to satisfy the bond covenant for additional International Airport Revenue Bond sales, both those currently authorized and those recently requested. The Committee must have these estimates no later than December 10.

Your assistance in this matter is greatly appreciated.

MEMORANDUM

State of Alaska

TO: Richard W. Freer
Commissioner
Department of Administration

DATE: December 2, 1974

FILE NO:

TELEPHONE NO:

FROM: Jack Peck, Director *J.P.*
Division of Aviation
Department of Public Works

SUBJECT: Rate Structure
International Airports

This is in response to your memo of November 26, 1974 regarding the proposed International Airports Rate Structure.

In our opinion, it would be unwise to firm up proposed rate increases for the International Airports prior to Public Hearings. It is our intent to set up hearings at Anchorage and Fairbanks. The hearings would be divided into two sections; one covering air carrier and related activities, the other General Aviation, Air Taxi and related activities. Following these meetings, recommendations as to proposed rate increases at Anchorage International Airport and Fairbanks International Airport would be submitted to the Commissioner of Public Works for his approval.

Incorporating specific rate increases in budget documents prior to such a hearing would make a mockery of the hearing process and quite probably be counter-productive.

It should be recognized that such a meeting will involve top management which is generally not on the local scene. Therefore, a reasonable lead time will be necessary to make certain such participants have an opportunity to fit it into their schedules. The December 10 date cited in your letter is not sufficient time to accomplish this.

We will keep you advised as specific dates are firmed up.



MEMORANDUM TO
State Bond Committee:
Acting Commissioner Larry Meath, Chairman
Commissioner Sterling Gallagher, Secretary
Commissioner Andrew S. Warwick, Member

DATE: December 9, 1974

FROM: Donald Harris, Commissioner
Department of Public Works

SUBJECT: International Airport Bond
Issue

As the Commissioner of Public Works, it is my responsibility to implement rate changes to meet the current operation needs as well as planned for the future capital outlay needs of the Anchorage and Fairbanks International Airports.

Therefore, it is my intent to increase the airport rates at the Anchorage and Fairbanks International Airports sufficiently to meet the minimum bond debt coverage of 1.3 by July 1, 1975.

Thus, Table 10 entitled "Projected Operating Results, State of Alaska International Airports," will experience the estimated revenue projections and essentially the projected Net Operating Income. If said projections prove to be too optimistic due to lower receipts of revenue or higher than expected operating expenditures, the rates will be further adjusted to meet the net revenues as projected.

7 Analysis of Governor's Decisions

ITEM	AMOUNT	FUNDING SOURCE	EXPLANATION
75-14 Other Misc. Improvements Anchorage	150.0	Revenue Bonds	The justification utilized by the Agency is to provide funds for unforeseen projects. Recommend non-approval.
Recommendation	(150.0) -0-	Revenue Bonds Revenue Bonds	
76-15 Other Misc. Improvements Fairbanks	100.0	Revenue Bonds	The justification utilized by the Agency is to provide funds for unforeseen projects. Recommend non-approval.
Recommendation	(100.0) -0-	Revenue Bonds Revenue Bonds	

BRU International Airports

IRU CODE _____

REVISED _____

7 Analysis of Governor's Decisions

ITEM	AMOUNT	FUNDING SOURCE	EXPLANATION
76-2(j) Fire Training Area	2.0 23.0	Revenue Fund ADAP	The project consists of a concrete block and steel two story building, flammable liquid pit of reinforced concrete and steel mock up of an aircraft.
Recommendation	2.0 23.0	Revenue Fund ADAP	
76-2(k) Equipment Storage Building	8.0	Revenue Fund	The building would be utilized for storage of maintenance equipment and dry storage for some supplies. A unit cost of \$10 per sq. ft. was utilized to provide the estimate on the 150' x 50' building.
Recommendation	8.0	Revenue Fund	
76-2 Supplemental Appropriation Recommendation			
76-2(a) through 76-2(k) TOTAL	904.5 1,148.5	Revenue Fund ADAP	Total recommendation on 76-2.
76-3 Terminal Remodeling Fairbanks	480.0	Revenue Bond	The increase in cost is due to a more comprehensive improvement program. The Division of Aviation now believe this project is rapidly increasing in priority. An additional gate is required, more storage, relocation of existing facilities, and modernization to reduce maintenance.
Recommendation	(480.0) -0- 880.0	Revenue Bond Revenue Bond Revenue Fund	

BEU International Airports BRU CODE _____ REVISED _____



7 Analysis of Governor's Decisions

ITEM	AMOUNT	FUNDING SOURCE	EXPLANATION
76-10 Fire Rescue Vehicle Fairbanks	40.0 160.0	Revenue Bond Federal	Recommend funding change from Revenue Bond to Revenue fund on \$40.0 State Share
Recommendation	40.0 160.0	Revenue Fund Federal	
76-11 Sand Storage, drying facility - Fairbanks	75.0	Revenue Bond	The project justification remains valid. Recommend changing funding to revenue fund.
Recommendation	(75.0) -0- 75.0	Revenue Bond Revenue Bond Revenue Fund	
76-12 Maintenance Equipment Anchorage	486.0	Revenue Fund	
Recommendation	(234.0) 252.0	Revenue Fund Revenue Fund	Recommend a reduction in funding of equipment in the amount of \$234,000. (Dept. of Public Works tentative recommendation) Equipment consists of two sward brooms \$80,000, one loader \$100,000, and one paint striping truck \$72,000.
76-13 Security, fire/rescue equipment-Anchorage	317.0 240.0	Revenue Bond Federal	The security, fire rescue equipment is required and recommendation is to change funding source to revenue fund
Recommendation	(317.0) 317.0 240.0	Revenue Bond Revenue Fund Federal	

BRU _____ BRU CODE _____ REVISED _____

7 Analysis of Governor's Decisions

ITEM	AMOUNT	FUNDING SOURCE	EXPLANATION
76-6 Lake Hood Sewer Anchorage	200.0	Revenue Fund	Recommend funding for continuation of preliminary design studies but not construction due to limitations on revenue available.
Recommendation	(180.0) 20.0	Revenue Fund Revenue Fund	
76-7 East Side Cargo Area Fairbanks	53.4 771.6	Revenue Bond Federal	Recommend continued approval of project but change source of funds from Revenue Bond to Revenue Fund.
Recommendation	(53.4) 53.4 771.6	Revenue Bond Revenue Fund Federal	
76-8 Northwest Building	400.0	Revenue Bond	Purchase of this building is recommended under priority 76-2(f). The remaining \$200.0 was requested for remodeling, which the department has decided to defer.
Recommendation	(400.0) -0-	Revenue Bond Revenue Bond	
76-9 Terminal Modifications Fairbanks	140.0	Revenue Bond	The project is a duplicate to that contained in Supplemental Appropriation 76-2(h).
Recommendation	(140.0) -0-	Revenue Bond Revenue Bond	

BRU International Airports

BRU CODE _____

REVISED _____

7 Analysis of Governor's Decisions

ITEM	AMOUNT	FUNDING SOURCE	EXPLANATION
76-4 Sewer Outfall line Anchorage	1,300.0	Revenue Fund	Only a sufficient amount is recommended to continue design and cost data. Upon completion of this phase, more accurate information will be available on required funding.
Recommendation	(1,250.0) 50.0	Revenue Fund Revenue Fund	
76-5 Sewer Interceptor Fairbanks	820.0	Revenue Bond	This project is dependent on the completion of the City of Fairbanks Treatment Facility. Recommend funds for initial design on the interceptor sewer. Data concerning the project is now too vague to recommend funding as requested.
Recommendation	(820.0) -0- 50.0	Revenue Bond Revenue Bond Revenue Fund	

BPU _____ BRU CODE _____ REVISED _____

Alaska House of Representatives



HUGH MALONE

Peck

INFO COPY

POUCH V
JUNEAU
99611

P. O. BOX 9
KENAI
99611

May 2, 1975

Mr. Jack Peck, Director
Division of Aviation
Department of Public Works
Pouch 6900
Anchorage, Alaska 99502

ORIGINAL TO:	<i>Peck</i>	INFO COPIES TO:	<i>Peck</i>	<i>Alena</i>	<i>LB</i>
	<i>for action/reply</i>				

Dear Mr. Peck:

Before taking up SB 311 (recall of \$10.6 million Alaska International Airport Revenue Bonds, Series E), the Committee requires the following information:

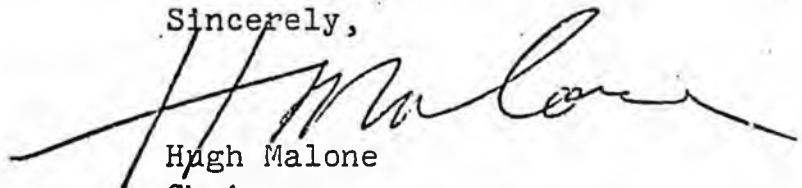
1. What is the latest estimate of the direct and indirect costs of the recall of these bonds (.e.g., how much more do you estimate it will cost if the construction is delayed two years? Three years?)
2. Why was the terminal not designed to the satisfaction of the carriers that were to pay for it?
3. Using a "pie" chart, show the revenues from foreign, domestic and general aviation at Anchorage International in 1959 and 1974.
4. Compare your tie-down fees at Lake Hood with those charged privately.
5. As Fairbanks International has been experiencing record traffic for some time, why are net losses of \$700,000 being projected for this year; for how many years has this airport shown net losses?
6. State your latest figures on the cost per square foot for the operation and maintenance of the Anchorage and Fairbanks terminals; compare this with the rents you now charge.
7. Is it true that you are not charging the U.S. Customs for the considerable space they occupy in the Anchorage International?
8. Why do Administration records show that your estimates for 1979 concession fees at Anchorage rose from \$1.6 million to \$6.6 million to \$10.3 million during a decline in the growth of foreign carrier traffic?

Mr. Jack Peck
May 2, 1975
Page 2

9. Why did you fail to list administrative overhead and equipment rentals in many of your revenue/cost projections?
10. Why did the Division wait long months to accept the warnings of its financial advisor that rates would have to be increased to permit the sale of these bonds?
11. The report of the consultant to Commissioner Harris reveals that security personnel at Fairbanks total 63 or 13 less than at Anchorage; how do you explain this large force when the field and traffic are much smaller at Fairbanks?
12. What action has been taken on the repeated requests of carriers for your support in gaining FAA approval of the use of private security firms?
13. The outcry of carriers in response to your announced rate increases raised questions as to what information they were originally given; however, Mr. Ed. Granger's letter to JAL explains that outcry, and I urge you to take this opportunity to submit your own copy of the letter. ✓

We are looking for your response by Friday, May 9th. This may be brief as you will be able to expand on your response in the near future. Thank you for your cooperation in this matter.

Sincerely,



Hugh Malone
Chairman
House Finance Committee

HM:JR:rs

CC: Governor Jay Hammond
Commissioner Don Harris
Public Works

STATE OF ALASKA

DEPARTMENT OF ADMINISTRATION

OFFICE OF THE COMMISSIONER

JAY S. HAMMOND, Governor

POUCH C-JUNEAU 99801

May 23, 1975

Honorable Hugh Malone
Chairman, House Finance Committee
Alaska State Legislature
State Capitol - Pouch V
Juneau, Alaska 99811

Dear Representative Malone:

The FY 76 Revised Governor's Capital Improvement Budget for the International Airports is transmitted herewith. The revisions are necessary to reflect the needs after the decision not to proceed with construction of the International Satellite terminal (Series E, Revenue Bonds).

At this time neither House has included International Airports capital projects in their proposed FY 76 budgets. The projects referred to in the Division of Aviation's revised budget telex submittal are those budget documents previously submitted on the regular capital budget forms. The Governor's Budget Review Committee's recommendations are those contained on the form 7's.

Sincerely,



Andrew S. Warwick, Chairman
Budget Review Committee

ASW/MDS/lw

The effect on funding sources of the above recommendations is summarized below.

SUMMARY OF CHANGES	CURRENT			REVISED		
	Revenue Fund	Revenue Bond	Federal Funds	Revenue Fund	Revenue Bond	Federal
76-1 Loading Bridges -	\$1,460.0	\$ 00.0	\$ 00.0	\$ 00.0	\$ 00.0	\$ 00.0
76-2 Supplemental Appropriation	1,007.5	00.0	1,148.5	904.5	00.0	1,148.5
76-3 Terminal Remodeling - Fairbanks	00.0	480.0	00.0	880.0	00.0	00.0
76-4 Sewer Outfall Line - Anch	1,300.0	00.0	00.0	50.0	00.0	00.0
76-5 Sewer Interceptor - Fairbanks	00.0	820.0	00.0	50.0	00.0	00.0
76-6 Lake Hood Sewer - Anchorage	200.0	00.0	00.0	20.0	00.0	00.0
76-7 East Side Cargo Area - Fairbanks	00.0	53.4	771.6	53.4	00.0	771.6
76-8 Northwest Building - Anchorage	00.0	400.0	00.0	00.0 *	00.0	00.0
76-9 Terminal Modif. Fairbanks	00.0	140.0	00.0	00.0	00.0	00.0
76-10 Fire Rescue Vehicle - Fairbanks	00.0	40.0	160.0	40.0	00.0	160.0
76-11 Sand Storage drying - Fairbanks	00.0	75.0	00.0	75.0	00.0	00.0
76-12 Maintenance Equipment	486.0	00.0	00.0	252.0	00.0	00.0
76-13 Security Fire/Rescue Equip - Anch	00.0	317.0	240.0	317.0	00.0	240.0
76-14 Other Misc. Improvements - Anch.	00.0	150.0	00.0	00.0	00.0	00.0
76-15 Other Misc. Improvements - Fairbanks	00.0	100.0	00.0	00.0	00.0	00.0
	<u>\$4,453.5</u>	<u>\$2,325.4</u>	<u>\$2,320.1</u>	<u>\$2,641.9</u>	<u>00.0</u>	<u>\$2,320.1</u>

Revised Recommendations to Appropriations

* 76-8 Funds included under 76-2 to purchase N.W. Building, \$200.0

BRU INTERNATIONAL AIRPORTS BRJ CODE REVISED

EXPLANATION