LEG. FINANCE - BILLS 1977 - 1978 921

CSSB 150 thru SB 159 921

RECORDS CERTIFICATION

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James O. Smith
Signature of Camera Operator

2/26/90
Date

02-519 (REV 8/78)

5/19

Russ Meekins
to do
Letter of Intent

Does not
have to go
down with
bill

B

"An Act making a supplemental appropriation to the Department of Education; eff. date."

6-20-77

COMMITTEE REPORT

HOUSE

[illegible] Date

Mr. Speaker:

The Committee on FINANCE has had CSSB 150 under consideration. A majority of the members of the Committee

/_7 recommends it do pass

/_7 recommends it do not pass

/_7 recommends it do pass with attached amendment(s)

/_7 recommends it be replaced with CS for [illegible] and that

CS for [illegible] do pass

/_7 (and) recommends it be referred to the ____ committee

/_7 reports it back without recommendation

/_7 AND attaches a report of its intent

/_7 (other) ____

MEMBERS SIGNING THE MAJORITY REPORT:

[illegible signatures]

MEMBERS NOT CONCURRING IN THE MAJORITY REPORT:

[illegible] recommends: [illegible]

recommends:

recommends:

[illegible signature]

Chairman

H 60

Original sponsor: Rules Committee by request of the Governor

IN THE SENATE BY THE FINANCE COMMITTEE

HOUSE CS FOR CS FOR SENATE BILL NO. 150

IN THE LEGISLATURE OF THE STATE OF ALASKA

TENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act making appropriations to the Department of Education; and providing for an effective date."

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

* Section 1. The sum of $9,109,202 is appropriated from the general fund to the Department of Education for the fiscal year ending June 30, 1977, to be allocated as follows:

Foundation Program - Regular	$1,956,733
Foundation Program - REAA's	2,638,000
Pupil Transportation - Regular	2,163,100
Local Formula - REAA's	1,217,470
AVEC and other	615,000
Safe Water	103,000
Audit Exception - Vocational Education	15,889
Bering Strait REAA	400,000

* Sec. 2. The sum of $2,565,000 is appropriated from the general fund to the Department of Education for the fiscal year ending June 30, 1978 to be allocated as follows:

Major maintenance projects having a cost in excess of $10,000 such as, but not limited to, roof repair, water and sewer improvement, fire and life safety, boilers, power generators and correction of building code deficiencies - REAA's	$2,350,000
Survey of existing REAA facilities for	

cost of correcting life safety and other deficiences of the facilities $ 215,000

* Sec. 3. Section 1 of this Act takes effect immediately in accordance with AS 01.10.070(c); sec. 2 of this Act takes effect July 1, 1977.

Original sponsor: Rules Committee by request of the Governor

Oferred: 4/12/77
Referred: Rules

IN THE SENATE BY THE FINANCE COMMITTEE

CS FOR SENATE BILL NO. 150

IN THE LEGISLATURE OF THE STATE OF ALASKA

TENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act making a supplemental appropriation to the Department of Education; and providing for an effective date."

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

* Section 1. The sum of $8,709,192 is appropriated from the general fund to the Department of Education for the fiscal year ending June 30, 1977, to be allocated as follows:

Foundation Program - Regular	$1,956,733
Foundation Program - REAA's	2,638,000
Pupil Transportation - Regular	2,163,100
Local Formula - REAA's	1,217,470
AVEC and other	615,000
Safe Water	103,000
Audit Exception - Vocational Education	15,889

* Sec. 2. This Act takes effect immediately in accordance with AS 01.10.-070(c).

150

February 11, 1977

The Honorable John L. Rader
President of the Senate
Alaska State Legislature
Juneau, Alaska 99811

Dear Mr. President:

Under the authority of art. III, sec. 18 of the Alaska Constitution, and in accordance with AS 24.30.060(b) and the Uniform Rules of the Alaska State Legislature, I am transmitting a bill for a supplemental appropriation of $13,768,325 to the Department of Education.

Sincerely,

Jay S. Hammond
Governor

F. Z. Note S. B. 150

SENATE BILL NO. 150

SB 150

TO: Ron Lind, Director
Budget and Management
Office of the Governor

DATE: February 2, 1977

FILE NO:

TELEPHONE NO:

FROM: Nat Cole, Deputy Commissioner
Department of Education

SUBJECT: FY-77 Supplemental

I. Foundation Program - Regular

FY-77	Appropriation	$123,657.1
	1st Quarter Revised	125,657.1
		(2,000.0)

Based on revised estimates received from the school districts. Appropriation figures include the increase from 93% to 95% floor for foundation support.

II. Foundation Program - REAA's

(a)	FY-77	Appropriation	40,422.5
		1st Quarter Revised Est.	43,060.5
			(2,638.0)

Increase due to increased number of local secondary programs and assumption of formerly BIA-operated schools.

(b)	P.L. 874 Shortfall	(5,000.0)
		(7,638,000)

Due to a federal ruling, the P.L. 874 funds which were projected in the FY-77 budget will now go directly to REAA's. First payments of P.L. 874 funds are made about March of the current fiscal year and in October of the next fiscal year. Such delays would cause severe cash flow problems for REAA's. In order to relieve this problem, the Department is proposing that foundation payments be continued to REAA's. This would require an estimated $5,000,000 increase in state funding for FY-77 since our current projected 874 receipts are $21,300.0 and we have budgeted $26,300.0.

Total foundation program - REAA's (7,638,000)

III. Pupil Transportation - Regular

FY-77	Appropriation	11,205.6
	Revised Estimate	13,368.7
	Supplemental Needed	(2,163.1)

The estimated transportation cost for FY-77 will be $13,368.7. The FY-77 appropriation was $11,205.6 which produced a $ 2,163.1 shortfall.

IV. Local Formula - REAA's

Based on city and borough school district audit reports for FY 1976, the In-Lieu-of Rate per ADM for REAA funding for FY 1977 is as follows:

City and Borough appropriations	$31,597,862
City and Borough In-kind Support	715,187
Mini 874 Revenue	3,353,813
PL 874 Revenue	5,591,219
Tuition	2,313,124
Total	$43,571,205

City and Borough ADM (excluding Base Schools) with half-day kindergarten students, counted as one-half - 71,268

43,571,205 ÷ 71,268 = $611.37 or $611.00

To fund a rate of $611.00, using the first quarter ADM figure of 10,770, a supplemental of $1,217,470 is required (10,770 x $611 = $6,580,470 - $5,363,000 appr. - $1,217,470).

V. AVEC. $615,000

The Department of Education respectfully requests a supplemental request of $615,000 to fund the subsidy for community service in the REAA school districts where the Alaska Village Electrical Cooperative supplies power to the school. As you are aware, the state contract with AVEC provides for a fixed fee regardless of the amount of power used plus a cost of fuel escalation clause. Regardless of how much power the school uses, the amount of payment to AVEC remains constant. There has been an inter-governmental group (see memorandum of Aug. 20, 1976) seeking solutions to how the subsidy schools have been paying for village electrification and the benefit of other consumers could better be handled. The group believes the proposed formula provides the REAA's incentive and keeps AVEC from assuming carte blanche in supplying power to schools and villages.

SB 150

Based on projected actual usage, the schools would pay an estimated $573,619, whereas the state subsidy of community service would be $614,804. The proposed formula endorsed by the intergovernmental task group has been the method used in determining the amount of subsidy. The formula would require the REAA to pay 17¢ per KWH (the average statewide rate AVEC charges) plus the area differential in the state funding program.

VI. Safe Water $103,000

Safe water facilities are being subsidized by ADEC. However, the subsidy varies from site to site. Three sites, Selawick, Alakanuk, Nulato, with identical plants and similar costs, receive different ADEC subsidy, while the school districts are charged unlike rates. Whereas Selawick district pays an annual fee of $20,500, Alakanuk and Nulato districts pay $72,000. To be treated equitably, Alakanuk and Nulato should pay the same rate as the Selawick district; $72,000 - $20,500 = $51,500 subsidy needed per site.

Total supplemental needed is $103,000

VII. ASOSS FY 76 Negative Balance

When SOS (Dept. 19) was abolished on 6/30/75, there were state purchase orders for military base schools in process in the amount of $303,900. Rather than cancel the orders for needed equipment and supplies, funds appropriated to the Department of Education for base schools were transferred to a FY 76 account for AUBSD's use in encumbering and paying for the state purchase orders for base schools.

When Department 19 was terminated on 6/30/75, no provisions were made to fund FY 75 termination pay, penalty pay and retro-salary increases so the Department of Administration charged these FY 75 payroll costs against the FY 76 account for base school supplies and equipment.

APPLIED TO CLASSIFIED EMP. 800 701200 IN NUMBER DONE BY OUT-GOING SOS. AND CHARGED TO DEPT. OF ED.

The Department of Education made every effort to cover these costs and was able to cover all but $15,866.22 of the $456,573.39 in deficit FY 1975 SOS payroll costs charged to the Department of Education account.

DID NOT FOLLOW FED GUIDE LINES

VIII. Audit Exception - Vocational Education

On September 24, 1977, the Alaska Department of Administration, Internal Audit, completed a review on Vocational Education Memorandum of Agreements with Alaska Methodist University (Nos. 3810-76 and 3805-76) in which ineligible reimbursement project costs under federal guidelines were found amounting to $15,888.70. The review further indicated that the ineligible costs resulted from questionable judgment by program administrators.

Alaska Methodist University states that it had acted "in good faith" under the direction of the DOE grant supervisor, and therefore, the ineligible federal funds withheld by the DOE from final payment to AMU was not justified.

Supplemental state funds requested in the amount of $15,888,70 for reimbursement of AMU for services under the above memorandums does not represent a corresponding loss of federal vocational education funds. During FY 1977, Alaska received approximately $340,000 more in federal funding than originally anticipated without a needed increase in state or local matching monies. Therefore, supplemental funding requested does not reflect a decrease in the state's treasury, but rather a means of reimbursing AMU for expenditures disallowed by federal rules and regulations.

SB 150

TO: William D. Thomson, Director
Management, Law & Finance

DATE: February 2, 1977

FROM: Richard J. Penrod
School Finance Specialist

SUBJECT: 1976 REAA In-Lieu-of Local Support Rate

This memorandum supersedes my memorandum of January 20, 1977, which was in error.

Based on city and borough school district audit reports for FY 1976, the In-Lieu-of Rate per ADM for REAA funding for FY 1977 is as follows:

City and Borough appropriations	$31,597,862
City and Borough In-kind Support	715,187
Mini 874 Revenue	3,353,813
PL 874 Revenue	5,591,219
Tuition	2,313,124
Total	$43,571,205

City and Borough ADM, (excluding Base Schools) with half-day kindergarten students, counted as one-half = 71,268

43,571,205 ÷ 71,268 = $611,37 or $611.00

Presently, the supplemental requested of $829,800 will only fund the estimated rate of $575.00. To fund a rate of $611.00, using the first quarter ADM figure of 10,770, a supplemental of $1,217,470 is required (10,770 x $611 = $6,580,470 - $5,363,000 appr. = $1,217,470).

For FY 78, it appears from budget figures that the rate will be an estimated $794.00 computed as follows:

Est. City and Borough Appropriation	$48,643,800
Est. City and Borough In-kind Support	800,000
Est. PL 874 Revenue	5,600,000
Est. Tuition	2,400,000
Mini 874	-0-
Total	$57,443,800

First Quarter FY 77 ADM = 72,364
$57,443,800 ÷ 72,364 = 793.82

It would appear that the minimum appropriation for FY 1978 should be 11,619 x $794, or $9,225,500. The present request is for $7,552,400. Any Mini 874 funding would, of course, increase the rate above $794.00.

EXHIBIT 5

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPARTMENT OF EDUCATION

DIVISION OF MANAGEMENT AND FINANCE

POUCH F - STATE OFFICE BUILDING
JUNEAU 99811

August 20, 1976

MEMORANDUM

TO: Sue Greene, Special Assistant
Office of the Governor
Jim Edenso, Deputy Commissioner
Dept of Commerce & Economic Development
Mike Harper, Deputy Commissioner
Dept. of Community & Regional Affairs
Richard Holden, Deputy Commissioner
Dept. of Public Works
Ronald Lorensen, Assistant Attorney General
Dept. of Law
Dan Dawson, Budget Analyst, Budget & Management
Office of the Governor
Nathaniel Cole, Deputy Commissioner
Dept. of Education

FROM: William D. Thomson, Director
Management, Law and Finance
Dept. of Education

SUBJ: Proposed formula for treating REAA's schools the same as other consumers -- Alaska Village Electric Cooperative (AVEC) power.

Per our meeting of August 2, 1976, and a subsequent meeting Friday, August 13, the following is a proposed solution by which the REAA school districts using AVEC power would be charged equitably as compared with rates charged to AVEC customers.

For your information, the current contract for AVEC power at the village schools is between AVEC and the State of Alaska. Such contract does not expire until FY 79. The State will continue for FY 77 the existing AVEC contract with the State as prime contractor while assigning its rights under that contract to the REAAs. (See letter from Sue Greene to Loyd M. Hodson, July 19, 1976, attached.)

The contract also provides that the State must pay a one time disconnect charge of $90,000 per site whether such disconnect is during or at the end of the contract period (contract is renewable at the option of AVEC).

At the current time, the schools are charged a unit established by APUC as a reasonable charge for AVEC for the school. The current value of that unit is a flat rate of $2,835 per month regardless of the amount of power used, plus a cost of fuel escalation clause. The unit value for FY 77 is estimated at $40,980. In certain locations, because of higher power requirements, those with new separate secondary schools are charged two units under the AVEC contract. School officials have objected to the flat rate charge for they feel it does not provide them with an incentive to conserve. They also feel they are treated inequitably or pay a higher rate than other consumers. (See Column 4, Exhibit I, which shows the actual cost per KWH). In effect, they are paying a subsidy to AVEC for the benefit of other consumers; this is a community service rather than an educational expense.

To remove the expense of this community service from the educational dollar, attached find a proposed formula, Exhibit I, which would insure an equitable charge for power to the schools, with the difference between the school cost and the State contract with AVEC being treated as a subsidy for community service. The basic assumptions for the formula are as follows:

Charge the schools at the same rate as other consumers. Based on Exhibit II, attached, provided by AVEC for calendar year '75, the cost to other consumers is 17¢ per kilowatt, however, the AVEC is filing a proposed rate change for other consumers with the APUC. Therefore, as a matter of comparison, we have treated reasonable cost to the school, as compared to other consumers, at 17¢, 19¢, and 27¢ per kilowatt hour. In addition, we have used the total kilowatt hours used by the state schools, as provided by AVEC for calendar '75, adjusted some of those to reflect full year costs for new high schools or new additions, and included a reasonable kilowatt hour increase. That amount has been multiplied by the different rate per kilowatt hour (17¢, 19¢ or 27¢), adjusted by the instructional unit allotment (or area differential -- running from Ø to 33.75% -- that the regions receive for geographical isolations throughout the State), plus an additional isolation factor of 5% for those locations not connected by ferry, railroad or highway to Anchorage, Fairbanks or Ketchikan. The difference in the amount of subsidy has been computed at the different rate. From that information, we can determine that the amount the State would have to subsidize for the REAA districts for the community service based on different rates would vary between $596,824 (at a 17¢ per kilowatt rate) to $299,613 (at a 27c per kilowatt rate).

The formula as proposed would:

a) provide the REAAs with an incentive to conserve,
b) treat the REAAs in a manner equitable with other consumers of AVEC power, and,
c) keep AVEC from assuming they have carte blanche on supplying power to schools and villages.

If the REAA does not wish to enter into an agreement with AVEC after the termination of the current State contract, consideration should be given to budgeting for the disconnect charge. Also, new school construction should include adequate generating capacity which could be operated by the school system or leased to AVEC in return for reasonable power rates.

Any questions or comments concerning the proposed formula should be sent to my attention.

July 19, 1976

Mr. Loyd M. Hodson
General Manager
Alaska Village Electric
Cooperative, Inc.
999 Tudor Road
Anchorage, Alaska 99503

Dear Mr. Hodson:

This letter is to reiterate points of our discussion in Anchorage on Thursday, July 15th.

As I indicated in our discussion, there are several misunderstandings reflected in the June 28th letter. For clarification, I wish to enumerate the basic points:

1. The State will continue for Fisal Year '77 the existing AVEC contract with the State as prime contractor while assigning its rights, under that contract, to the REAA's. Billing may continue through the State of Alaska for electric service, with the State billing out charges to the REAA under the current contract. Any supplemental appropriations deemed necessary by the REAA's would then be applied for through the Department of Education under the guidelines of the Legislature's amendment to the budget and department requirements. Those requests would be submitted to the Legislature following the usual procedures and executive approval.

2. While all State officials who have worked with AVEC in the past as well as the present well understand the pressures under which you are forced to plan and order equipment, there are some severe limitations on the activity by the State. For example, under no circumstances can the State administration unilaterally provide assurances that the REAA's will enter into long-term power purchase contracts with AVEC. The legislation creating the REAA's prevents State involvement in contract negotiations of any

kind with the REAA's. Beyond that, to attempt any sort of coercion or pressure would violate the very heart of the "local control" concept which the REAA legislation embodies.

3. In regard to legislation, there are several points that need to be clarified:

a. The questioned problem to be addressed by an inter-departmental working committee of the Administration is not simply "high utility cost", but rather a combination of how to pay for the electricity after having undertaken the commitment to supply the created demand for electricity, and the broader question of what the State policy toward the subsidizing of power in schools and/or villages should be. A review of these basic questions, as well as related fiscal issues, will hopefully be completed in early fall. However, there was no commitment to complete drafting of legislation by fall, and certainly the provisions in Senate Bill 610 and Senate Bill 678 are not likely to be the heart of the resolution arrived at since they were less than acceptable to many during the past Legislature.

b. In this whole process, of course, the APUC and the Legislature cannot be overlooked and, therefore, the mere act of the Administration drawing up a piece of legislation cannot serve in any way as a State commitment for reassurance to REA. However, clearly the State Administration is eager to exercise all of the power it has to resolve the problems, establish sound policy and provide necessary legislation to prevent future crises.

c. In order to have the evidence you require - which apparently must be in the form of long-term power purchase contracts - to support the loan feasibility for continued investment in the communities, it will be necessary for AVEC to deal directly with the REAA's.

4. In regard to the rate revision, I am pleased that AVEC will be filing for a change in their tariff and realize there are several issues in question as related to such a plan that are appropriately addressed to the APUC.

Thank you again for taking the time to meet with me in Anchorage. I shall keep you posted, as I agreed to, regarding the progress of the inter-departmental working committee and emerging policy recommendations. I most certainly hope that the resolution to the rurual electrification issue can be developed within the next year so that the future does not find either the contractual or service delivery crises that we have experienced recently.

Please do not hesitate to contact me if you have further questions regarding these related issues.

Sincerely,

Sue S. Greene
Special Assistant
to the Governor

SG:rm
cc: James Edenso, Deputy Director,
Department of Commerce and Economic Development
Ron Lorensen, Department of Law
Dr. Marshall L. Lind, Commissioner of Education
Lee McAnerney, Commissioner of Community and Regional Affairs
Donald Harris, Commissioner of Public Works
Lowell Jensen, Executive Director, Alaska Public Utilities Commission
Charles W. Fitch, Director, Western Area Electric, R.E.A.
Malcolm Check, Alaska Field Operations Representative, R.E.A.
Lester Wilde, President, AVEC Board of Directors
John Shaw, Esq., AVEC attorney
bcc: Randall Weddle, Esq., Faulkner, Banfield, Doogan & Holmes
Randy: These are the pieces of correspondence I referred to in our conversation week before last. If you have any further questions regarding the situation, please call me or Ron Lorensen.

Sue

Alaska Village Electric Co-operative, inc

999 TUDOR RD., ANCHORAGE, ALASKA 9950[illegible]
TELEPHONE 279-35[illegible]

CERTIFIED MAIL RETURN RECEIPT REQUESTED

June 28, 1976

Ms. Sue S. Greene
Special Assistant to Governor Hammond
Pouch A - State Capitol
Juneau, Alaska 99811

Dear Ms. Greene:

This letter will serve to document certain understandings at recent meetings between State and BIA Officials and Loyd M. Hodson, General Manager, Alaska Village Electric Cooperative, Inc., (AVEC), and John Shaw, A.V.E.C. Attorney on June 21st and June 22nd, 1976, in Juneau, Alaska. The purpose of these meetings was to discuss the severe problems that AVEC would immediately face if there is not a resolution of difficulties associated with the transfer of Power Purchase Contracts from the State to R.E.A.A. areas and the resulting impact on the ability to finance immediate and future construction of facilities using Rural Electrification Administration (R.E.A.) loan money. The problems were well outlined in a letter of May 18, 1976 to Lester Wilde, President of the AVEC Board from the Rural Electrification Administration previously submitted. After a considerable discussion and review on AVEC requirements, we were advised for the coming fiscal year, starting July 1, 1976, AVEC would continue to bill the State of Alaska for electric service under the Contract, as it currently exists. The State of Alaska, in turn, then would make suitable arrangements with the R.E.A.A.'s in regard to fiscal transfers or supplemental appropriations or Grants as may be appropriate. This will allow A.V.E.C. to remain feasible during this time and AVEC accordingly will continue with the 1976 construction program, unless otherwise advised by R.E.A., including such important projects as initial service to the village of Ambler and rebuilding the St. Michaels and Noorvik power plants previously destroyed by fire, among scores of other required construction projects underway in a number of villages.

The A.V.E.C. billings starting July, 1976, following the Unorganized Borough School District phaseout, will accordingly be forwarded to the Department of Education.

Alaska Village Electric Co-operative, inc.

999 TUDOR RD., ANCHORAGE, ALASKA 99503
TELEPHONE 279-3548

A.V.E.C. must apply shortly for a substantial new loan from the Rural Electrification Administration in order to meet construction requirements which have been committed to for the balance of 1976 and throughout 1977 and 1978. The latest time to order diesel electric sets to meet 1977 shipping schedule requirements is no later than September 20, 1976. A.V.E.C. cannot commit for any additional new major equipment items until such time as we are sure that the necessary support is available for obtaining a new R.E.A. Loan. This would include some assurances that the R.E.A.A.'s will enter into long term power purchase Contracts with A.V.E.C. In order to achieve this objective, considering current timing of the Legislature, the need for adequate procurement lead time, and loan processing time, the following steps were indicated:

I. Legislation For REAA Funding For Utilities

A Proposed Legislative Bill, to be supported by the Administration, will be drawn up as soon as possible which will address the problem of high utility costs in the remote areas and smaller villages of Alaska and provide provisions for adequate funding to meet these requirements and yet have certain restraints in regard to total costs based upon historical data, or other suitable criteria. This Legislation development would review the concepts as previously presented in Senate Bill 610 and Senate Bill 678 and yet overcome these problems. The basic problem with 610 being overall cost and perhaps some complexity in administration, whereas the problem with 678 would be to include a suitable and fair upper limit for service costs as examples of the elements which need to be addressed. There needs to be continuing recognition by the State in funding small school districts that cost of utility services is far higher than provided for with general adjustment factors currently formulated for remote areas. While they may adequately compensate for increased direct salary costs, or certain other budget items in these areas, they certainly do not account for the teriffic increased costs of utility services in small communities. Costs of utility service, particularly electric service, may run at least six (6) times Anchorage area costs in small Alaska communities. See Attachment "A" for some of the reasons electric rates are high in small isolated Alaska communities.

How will the proposed bill address high utility costs?

[illegible] problem not high [illegible] utility costs [illegible] is how [illegible] pay for electricity [illegible] having [illegible] commitment [illegible] supply [illegible] demand [illegible] electricity

999 TUDOR RD., ANCHORAGE, ALASKA 995[illegible]
TELEPHONE 279-35[illegible]

How are (is) the legislation (proposal) and the ordering of AVEC equipment tied together?

If the proposed legislation will be establishing new state [illegible] for communities implied (in para.) what about [illegible] legislation later?

Time is important in drawing up suitable proposed legislation and obtaining complete administration support, of all involved departments. This is due to the need to order 1977 long lead time AVEC equipment within the next three (3) months. This proposed legislation could then be submitted to the R.E.A.A.'s, providing them some assurance they will have more equitable treatment in regard to the substantial increased percentage of their budgets required for utility services as compared to large metropolitan areas. Important things that should be taken into account in this are not only the Regional adjustment, but also adjusted for Community size. The cost of electric service will begin to move up rapidly in certain areas more related to shipping distance from certain trans-shipping points, such as Bethel, Nome and Kotzebue, with the smaller the Community, the higher the cost per consumer (or student). Other wide variables result from differences in square footage of school facilities per student, sophistication of design (with generally the newer facilities using more power due to size and increased functional loads), and size of teachers' quarters.

II. REAA Power Purchase Contracts

No

In order to have the necessary evidence to present to the Rural Electrification Administration, AVEC will require some agreement from the R.E.A.A.'s in areas served to enter into long term power purchase contracts in order to support loan feasibility for continued investment in the Communities. A.V.E.C. in the same time frame will review the concept of the uniform minimum for all types of schools with the thought of developing a schedule which will more nearly reflect such factors as the Cooperative investment in the Communities, prior energy consumption history of the school facility, or similar facilities, peak demand loading the school has placed on the A.V.E.C. system, and projected additional capital expenditures in the community over the forth-coming ten (10) year forecast period. While the overall total guarantee dollars will not be lower, but would be more rationale in distribution, with some of the smaller schools having a lower minimum whereas the larger new high schools would have a higher minimum. This was not a particular problem when the entire Contracts were under State and B.I.A. since effectively things averaged out across the system. With the individual R.E.A.A.'s, some areas have more modern high schools than others, and some having small schools, it will be necessary to come up with something that more nearly reflects the true situation as far as investment security and school use in the particular community. Will the State Administration be in the awkward position of "forcing" unacceptable conditions on the REAA's, both large & small?

for AVEC

No

Alaska Village Electric Co-operative, inc

999 TUDOR RD., ANCHORAGE, ALASKA 99503
TELEPHONE 279-3548

What is [illegible] ruling? For how long will it [illegible] ?

A.V.E.C. proposes to have the aforementioned set of proposed revised minimums and facility charges for each one of the schools involved in the establishment of the Rural Education Attendance areas schools available by September 1, 1976, with proposed revised Contracts. These proposed revised Contracts will be submitted to the R.E.A.A.'s for obtaining approval. They could make their approval for the longer term subject to passage of the proposed legislation to support the funding. We are hopeful that the Administration can draw up a Bill, in the next two months, which will provide adequate funding so that the R.E.A.A.'s will make the commitment to enter into these long term power purchase Contracts with A.V.E.C. required for the R.E.A. Loan. How well do non-AVEC communities fare cost/service wise?

III. Rate Revision

About time! [illegible] weighted [illegible] benefit smaller communities

In addition, A.V.E.C. will be filing for a basic change in their tariff with the Alaska Public Utilities Commission (A.P.U.C.), which will eliminate the energy blocks which are now below the cost of power production. A combination of adjusting the minimums to somewhat lower levels for smaller schools, and higher for larger schools, plus filing a revised Tariff, will have the effect of bringing future average energy charges much closer together for the various consumer classes. When we take into account the peak demands the schools generally impose on the system, which of course is an element in generation investment, I think we will have a much more acceptable rate structure from the standpoint of the schools. If so, How will the larger communities react?

This will address the concerns of the R.E.A.A.'s in this regard. We would still probably end up with a small differential, however, it will be much narrower than at present. The aforementioned demand element in costs, plus factors mentioned in regard to investment in overall development of the outlying areas at this very early stage in the history of economic progress in these areas can very well justify small differentials.

The rate adjustment steps that A.V.E.C. needs to take in order to more nearly equate electric rates in order to obtain the school Contracts to continue the feasibility of the program, will not work in the direction

Alaska Village Electric Co-operative, Inc
999 TUDOR RD., ANCHORAGE, ALASKA 9950[illegible]
TELEPHONE 279-35[illegible]

Ms. Sue S. Greene
June 28, 1976
Page Five

of stimulating economic development but it is certainly something that should not be overlooked in overall State planning.

IV. R.E.A. Loan

EA,

A.V.E.C. will then attempt to get R.E.A. to process the loan based upon the Contracts, subject as required to passage of the Legislation in the 1977 session of the Legislature. With strong support of the Administration, the R.E.A.A.'s, A.V.E.C. and other interested utilities, this can be achieved. We hope that R.E.A. will proceed with the loan and indicate approval on a conditional basis subject to removal of any long term purchase restrictions in the school Contracts following Legislative action. Of course, this concept would be based upon all of the R.E.A.A.'s that currently receive A.V.E.C. power entering into long term purchase Contracts. If any of them would not, then of course; we loose feasibility for that particular group of villages and of course, this would move us back into the question of facility charges and other non-progressive directions.

We would like to thank you for your beautiful coordination job in assembling such a wide representation of the various State and other interested agencies available for the meeting so that they could hear of some of the problems that A.V.E.C. faces in attempting to keep this pioneering program going. While it is an independent, member owned, non profit Cooperative, it is still dependent upon a number of Federal programs and indirect State support for continuation. Removal of any one of the key elements; R.E.A. Loan funds, or power purchased by major consumers, immediately eliminates feasibility. Electric rates, without these schools, would be prohibitively expensive for the remaining consumers.

By copy of this letter, we similarly wish to thank Commissioner Lind and his staff for their generous consideration of our problems, attempting

Alaska Village Electric Co-operative, inc

999 TUDOR RD., ANCHORAGE, ALASKA 9950
TELEPHONE 279-354

to work for a solution, and for providing the opportunity to talk to the great majority of the R.E.A.A. Superintendents and Board Presidents and Members that would be involved in some of the important decisions related to electric service in their area.

Very truly yours,

ALASKA VILLAGE ELECTRIC
COOPERATIVE, INC.

Loyd M. Hodson
General Manager

LMH/jay

Enclosure: Attachment "A"

cc: Dr. Marshall L. Lind, Commissioner of Education

cc: Lee McAnerney, Commissioner, Community & Regional Affairs

cc: Donald Harris, Commissioner, Public Works

cc: Lowell Jensen, Executive Director, Alaska Public Utilities Commission

cc: Charels W. Fitch, Director, Western Area Electric, R.E.A.

cc: Malcolm Cheek, Alaska Field Operations Representative, R.E.A.

cc: Lester Wilde, President, A.V.E.C. Board of Directors

cc: John Shaw, Esq., A.V.E.C. Attorney

All cc's sent with Attachment "A"
All cc's sent Certified Mail - Return Receipt Requested

RATES

Why are electric rates high in small Alaska communities? The principal reasons are:

1. High cost of diesel fuel delivered to remote locations. 1976 estimates 64 to 65 cents per gallon delivered.

2. Thermal efficiencies averaging only one-half as high as larger scale facilities carrying a high average year around load. This means facilities on a yearly average use twice as much of the high cost fuel for generating a given amount of power.

3. High cost of installed tankage and inventory of fuel for a full year. This includes tank painting and plumbing maintenance, depreciation, environmental protection, and interest on average inventory balance. AVEC has over 475 tanks at present.

4. More catastrophic failures of equipment or shortened time between major overhauls due to improper maintenance or servicing by village operators, such as instances of failing to change lubrication oil or filters at recommended intervals, low oil or water levels, overloading, etc.

5. High cost repairs involving air transport of men, parts, tools and materials over substantial distances, to many locations.

6. A higher percentage of collection costs.

7. Loss in efficiency due to extreme weather, limited transportation, and inadequate communications systems.

8. Absence of local supporting facilities typical in larger communities. This reduces both construction and maintenance efficiency.

9. Everything multiplied by 45 to perform small scale operations, such as 45 operators, 45 sets of service manuals, 45 sets of tools, 45 first aid kits, 45 battery chargers, etc.

10. This carries over to 45 overhauls at 45 locations every few thousand hours of operation, whereas a large system has overhauls on a unit which has the capacity in a single unit larger than the entire A.V.E.C. rated capacity in 45 generation locations.

11. Depreciation rates are higher on the smaller relatively lighter duty generation equipment. Distribution systems similarly suffer higher early degradation due to the severe environment.

12. High costs of insurance due to the multitude of risks, absence of fire departments, hazardous shipping conditions, high workmen's compensation exposure, etc.

13. Severe competition and resultant high labor costs, for well trained diesel electric mechanics willing to fly thousands of miles a year in small planes under many marginal weather situations and not have average standards of room and board available on frequent occasions.

COST UNDER PROPOSED FORMULA

EXHIBIT I

Region	Site	# Units	Col. 1 Area Diff. Factor	Col. 2 [illegible] Per Unit	Col. 3 Kilowatt Hours Used	Col. 4 Actual Cost Per KWH	Col. 5 17¢ PCRT x Area Diff.	Col. 6 19¢ PCRT x Area Diff.	Col. 7 27¢ PCRT x Area Diff.	Col. 8 Difference Col. 1-3 = Subsidy	Col. 9 Difference Col. 1-4 = Subsidy	Col. 10 Difference Col. 1-5 = Subsidy	
1	[illegible]		133.75 + 5%										
	[illegible] H.S.	2		$ 81,900	$ 160,000	$ .51	$ 33,600	$ 41,600	$ 60,800	$ 43,500	$ 40,360	$ 21,160	
	[illegible] H.S.	2		81,900	160,000	.51	35,400	41,600	60,800	43,500	40,360	21,160	
	[illegible] H.S.			40,000	95,000	.42	23,155	25,085	38,862	17,825	15,095	4,313	
	[illegible]			40,000	57,770	.72	13,067	15,023	21,056	27,113	25,957	19,028	
	[illegible]	2		81,600	270,375	.22	67,092	77,893	105,003	14,958	9,375	(24,126)	negative figure as -0-
		Total		$ 327,000	$ 753,335	$ .41	$ 124,227	$ 195,033	$ 285,201	$ 147,016	$ 131,947	$ 65,662	
2	[illegible] Straits		126.25 + 5%										
	[illegible] H.S.			$ -0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	
	[illegible] H.S.	2		81,900	160,000	.51	35,200	40,022	57,500	46,700	41,560	24,280	
	[illegible] H.S.			-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	
	[illegible]			35,000	67,333	.51	14,349	16,331	24,125	26,231	24,319	16,231	
	[illegible]			33,000	47,333	.64	10,402	11,923	17,169	30,542	29,262	23,011	
		Total		$ 152,920	$ 274,726	$ .60	$ 60,411	$ 68,034	$ 98,904	$ 103,479	$ 95,236	$ 65,016	
3	[illegible]		130.0 + 5%										
	[illegible] H.S.			$ 40,900	100,000	.41	23,000	26,000	37,000	17,900	14,900	3,900	
	[illegible] H.S.			40,900	100,000	.41	23,000	26,000	37,000	17,900	14,900	3,900	
	[illegible]			41,300	73,333	.52	19,161	20,957	29,215	22,419	20,460	11,765	
	[illegible] H.S.			40,900	100,000	.41	23,000	26,000	37,000	17,900	14,900	3,900	
	[illegible] Point			42,000	43,033	.95	9,910	11,273	15,843	31,000	29,727	25,037	
		Total		$ 201,900	$ 422,043	$ .49	$ 97,071	$ 105,733	$ 155,150	$ 107,829	$ 95,167	$ 43,742	
4	[illegible]		130.0 + 5%										
	[illegible] H.S.			40,900	100,000	.41	23,000	26,000	37,000	17,900	14,900	3,900	
		Total		$ 40,900	$ 100,000	$ .41	$ 23,000	$ 26,000	$ 37,000	$ 17,900	$ 14,900	$ 3,900	
5	[illegible]		126.75 + 5%										
	[illegible] H.S.	2		$ 81,900	150,000	.55	33,000	37,500	54,000	48,900	44,400	27,900	
	[illegible]			41,000	130,332	.31	28,673	32,583	46,920	12,307	8,327	(5,542)	negative figure as -0-
		Total		$ 122,900	$ 280,332	.44	$ 61,673	$ 70,083	$ 100,920	$ 61,207	$ 52,557	$ 27,900	
11	[illegible]		133.75 + 5%										
	[illegible]			$ 42,900	$ 68,225	.61	$ 16,374	$ 17,933	$ 25,925	$ 26,600	$ 23,942	$ 15,955	
	Holy Cross			48,900	58,876	.70	14,128	15,275	22,759	24,751	25,675	12,071	
		Total		$ 91,800	$ 127,091	$ .64	$ 30,502	$ 33,643	$ 48,294	$ 51,459	$ 49,012	$ 33,656	
12	[illegible]		131.75 + 5%										
	[illegible]			$ 44,900	83,333	.49	20,013	21,631	31,000	20,332	19,779	9,292	
	[illegible]			40,930	112,513	.36	27,028	29,251	42,255	13,552	11,032	(1,015)	negative figure as -0-
	[illegible]			40,900	85,000	.40	20,467	22,133	32,406	20,513	18,097	2,533	
	[illegible]	2		81,900	143,134	.57	33,132	37,031	55,322	47,003	44,276	27,031	
		Total		$ [illegible]	$ 421,442	$ .48	$ 101,[illegible]	$ 110,[illegible]	$ 161,[illegible]	$ 103,035	$ 94,[illegible]	$ 35,927	
[illegible]	[illegible]		[illegible] + 5%										
	[illegible]			$ [illegible]	95,000	.41	19,020	[illegible]	[illegible]	22,700	[illegible]	[illegible]	
		Total		$ [illegible]	$ 95,000	$ .41	$ 19,030	$ [illegible]	$ 27,[illegible]	$ 22,7[illegible]	$ 20,[illegible]	$ 13,[illegible]	
	GRAND TOTAL			$1,[illegible]	$2,[illegible]	$ 3.33	$ 573,619	$ 623,[illegible]	$ [illegible]	$ 611,[illegible]	$ 555,[illegible]	$273,[illegible]	

Exhibit II

KWH Consumption and Billing - State Schools Served in AVEC Villages for Calendar Year 1975

State School		Total KWH used by State School	Total KWH used by Pumphouses, water & inc. billed with state school	KWH By (Mons)	Total KWH used by entire community including school	Percentage of total KWH sold used by state school	U.S. Census of Population 1970	Total Revenue from state school without fuel surcharge	Total Revenue from state school from fuel surcharge	Total Revenue from state school	¢ per KWH	Total Revenue from entire community including school without fuel surcharge	Total Revenue from entire community including school from fuel surcharge	Total Revenue from entire community including school total
Angoon		96,090			403,005	23.8	400	$ 34,020.00	844.35	34,864.35	.36	83,427.57	3,494.17	86,921.74
[illegible]vik	[illegible]	68,225			98,211	69.5	831	33,264.00	683.78	33,947.78	.50	38,954.42	962.96	39,917.38
Emmonak High School	[illegible]	5,860			432,213	1.4	439	2,835.00	114.66	2,949.66	.50	87,129.66	3,397.67	90,527.33
Fortuna Ledge	[illegible]	78,960			140,929	56.0	175	34,020.00	678.21	34,698.21	.44	45,690.59	1,218.41	46,909.00
Holy Cross	[illegible]	58,866			201,661	29.2	199	33,458.00	390.51	33,848.51	.57	55,393.83	1,570.54	56,964.37
Huslia		112,618			216,401	52.0	159	34,020.00	1,019.43	35,039.43	.31	51,343.05	2,097.20	53,440.25
Kaltag		83,357	27,076		160,028	52.1	206	34,020.00	834.59	34,854.59	.42	47,562.12	1,578.00	49,140.12
Kiana High School	[illegible]	96,489			454,315	21.2	278	24,570.00	1,538.16	26,108.16	.27	91,274.77	4,350.66	95,625.43
Kivalina	[illegible]	54,050			164,494	32.9	188	34,020.00	487.12	34,507.12	.64	51,820.42	1,687.57	53,507.99
Koyuk	[illegible]	67,043			130,249	51.5	122	34,020.00	517.40	34,537.40	.52	45,618.76	1,192.31	46,811.07
Minto	[illegible]	85,280			158,733	53.7	380	34,020.00	705.12	34,725.12	.40	47,444.03	1,287.41	48,531.44
Mtn. Village High School	[illegible]	On late Dec. 1975			540,737	[illegible]	439	892.50	—	892.50		90,528.77	4,789.55	95,318.34
New Stuyahok	[illegible]	130,332			223,895	58.2	216	34,020.00	1,156.00	35,176.00	.27	49,970.15	1,978.12	51,948.27
Noatak	[illegible]	57,780			167,300	34.5	293	34,020.00	583.64	34,603.64	.60	53,082.05	1,704.12	54,786.17
Noorvik (2)	[illegible]	279,175			495,403	56.4	462	61,519.50	2,796.39	64,315.89	.23	96,047.99	5,056.55	101,104.54
Nulato (2)	[illegible]	141,356	21,383	(19)	202,513	50.7	308	59,535.00	1,037.32	60,572.32	.42	81,127.41	2,667.81	83,795.22
Pitkas Point	[illegible]	43,083		(21)	62,205	69.3	70	31,185.00	397.18	31,582.18	.73	35,079.83	642.30	35,722.13
Shishmaref	[illegible]	55,242			219,762	26.5	267	34,020.00	608.06	34,628.06	.62	59,963.31	2,263.45	62,226.76
Shungnak	[illegible]	82,234			149,332	55.1	165	34,020.00	737.57	34,757.57	[illegible]	46,373.25	1,413.53	47,786.78
Togiak	[illegible]	112,207			292,504	38.4	383	34,020.00	889.39	34,909.39	.31	64,550.55	2,712.38	67,262.93
Wales	[illegible]	47,693			92,647	51.5	131	34,020.00	337.22	34,357.22	.72	42,566.12	740.44	43,306.56
TOTAL for current 23 schools		1,760,700	48,459	(7)	5,086,515	34.6		639,454.00	16,356.00	705,810.00	.40	1,265,120.00	47,135.	1,312,273.00

New Schools Under Construction to be receiving AVEC Service starting in 1976

1) Alakanuk High School
2) Gambell High School
3) [illegible] High School
4) Kivalina High School
5) Savoonga High School
6) Shishmaref High School
7) Shungnak High School
8) Togiak High School
9) Toksook Bay High School

Schools with additional electric service to new additions under 1976 AVEC Minimum rate

1) Angoon
2) Holy Cross
3) Minto
4) New Stuyahok
5) Noatak

New AVEC Service Contract Starting 1976

1) Ambler

Schools or School additions to AVEC Villages planned under CS-SB564/SB564

1) Ambler *
2) Angoon *
3) Anvik
4) [illegible] *
5) [illegible] *
7) Goodnews Bay *
8) Grayling
9) Huslia
10) Kalskag *
13) Mekoryuk *
14) Minto *
15) Mountain Village
16) New Stuyahok *
17) Noatak *
19) Nunapitchuk *
20) Old Harbor *
21) Pilot Station *
22) Quinhagak *
23) St. Michael
25) Shageluk
26) Shaktoolik
27) Stebbins *
28) Tununak *
29) Wales

MEMORANDUM State of Alaska

TO:
Mr. Bill Thompson
Department of Education

DATE:

FILE NO:

TELEPHONE NO:

SUBJECT: School VSW Fees

FROM:
J. W. Sargent
Sanitary Engineer

Here is a quickly gathered summary of the financial relationship among schools, this Department and the villages where we have VSW facilities serving schools. Some of the figures are only rough estimates, and we have no operating experience yet at Koyukuk, Kongiganak and Beaver.

(1) Location	(2) Annual O&M Budget	(3) Tech. & Admin. Assist from ADEC	(4) School Fee (Ann.)	(5) ADEC Subsidy
Selawik	$115,000	$15,000	$20,500	$86 500
Alakanuk	$100,500	$15,000	$72,000	$ 8,500
Nulato	$113,000	$15,000	$72,000	$35,000
Pitkas Point	$54,000	$ 8,000	$10,000	$29,000
Kongiganak	$65,000	$ 8,000	$18,000	$35,000
Beaver	$55,000	$ 5,000	$20,000 (In kind-BIA will operate the water supply and waste disposal systems)	$25,000

Column (3) is in addition to column (2). ADEC is currently providing columns (3) and (5).

TO: Memorandum to File

DATE: November 17, 1976

FROM: William D. Thomson, Director
Mgm., Law & Finance
Department of Education

SUBJECT: 76 ASOSS Appropriation

The Department of Education has a negative balance of $15,866.22 in the FY 76 ASOSS Appropriation. This negative balance is due to the SOS employee termination pay, penalty pay and retro-salary increases for FY 75. Although the Department did use all unencumbered balances in the SOS appropriation to erase that deficit, funds appropriated were insufficient in the amount of $15,866.22.

cc: Bill Gillespie - Finance
Gary Peska - Leg. Budget & Audit
Ron Lind - Of. of Budget & Mgm.

150

February 11, 1977

The Honorable John L. Rader
President of the Senate
Alaska State Legislature
Juneau, Alaska 99811

Dear Mr. President:

Under the authority of art. III, sec. 18 of the Alaska Constitution, and in accordance with AS 24.30.060(b) and the Uniform Rules of the Alaska State Legislature, I am transmitting a bill for a supplemental appropriation of $13,768,325 to the Department of Education.

Sincerely,

Jay S. Hammond
Governor

Introduced: 2/11/77
Referred: Health, Education, Social Services and Finance

THE SENATE

BY THE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

SENATE BILL NO. 150

IN THE LEGISLATURE OF THE STATE OF ALASKA

TENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act making a supplemental appropriation to the Department of Education; and providing for an effective date."

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

* Section 1. The sum of $13,768,325 is appropriated from the general fund to the Department of Education for Fiscal Year 1977, allocated as follows:

Foundation Program - Regular	$2,000,000
Foundation Program - REAA's	7,638,000
Pupil Transportation - Regular	2,163,100
Local Formula - REAA's	1,217,470
AVEC and other	615,000
Safe Water	103,000
ASOSS FY 76 Negative Balance	15,866
Audit Exception - Vocational Education	15,889

* Sec. 2. This Act takes effect immediately in accordance with AS 01.-10.070(c).

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.

James O. Smith
Signature of Camera Operator

2/26/90
Date

02-519 (REV 8/78)

Introduced: 2/14/77
Referred: Community & Regional Affairs and Finance

IN THE SENATE BY CROFT

SENATE BILL NO. 152

IN THE LEGISLATURE OF THE STATE OF ALASKA

TENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act making a special appropriation to the municipality of Anchorage for acquisition of property for Chugach Park Road; and providing for an effective date."

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

* Section 1. The sum of $40,000 is appropriated from the general fund to the municipality of Anchorage to provide matching funds for the acquisition by condemnation of property for the Chugach Park Road to provide access to Glen Alps.

* Sec. 2. This Act takes effect immediately in accordance with AS 01.10.-070(c).

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.

James O. Smith
Signature of Camera Operator

2/26/90
Date

02-519 (REV 8/78)

1. Ted Smith - NR
279-5577

2. George Silides

3. Jamie Love - Terry Gardner

4. Anchorage Leaseholders

Ken Davis

[illegible] McNutt
274-8531

Joe Wilhauer

Robert Ford

5. Phil Holdsworth

3-8-77

Joel Wilhauer (?)
called from Baranof

6-2660 #933

Regarding
SB 159

Land leases

Wanting to know when it will be scheduled for hearing before committee. (It just got out of Resources last night). He's going back to Wasilla so I told him to call back about next Monday.

Judy

Alaska Loadcholders
Assoc.
3210 Rampart Drive - Anch.
Lowell McNutt zip 99504
work - 274 - 8531
Home - 243 - 2550

Joe Wilhour -
Box. 740 Wasilla, Alas
Ph 376 - 5601

Please notify Senate
Finance consideration Det
SB 159 Thanks

COMMITTEE REPORT

SENATE

3/8/77

April [illegible] 1977 Date

Mr. President:

The Committee on FINANCE has had SB 159
leasing of state land other than for the extraction of natural resources
under consideration. A majority of the members of the Committee

/_7 recommends it do pass

/_7 recommends it do not pass

/_7 recommends it do pass with attached amendment(s)

/_7 recommends it be replaced with CS for SB 159 (Finance) and that
CS for 159 (Finance) do pass [illegible]

/_7 (and) recommends it be referred to the ______________ committee

/_7 reports it back without recommendation

/_7 AND attaches a report of its intent

/_7 (other) ______________

MEMBERS SIGNING THE MAJORITY REPORT:

[illegible signatures] Do Pass [illegible]

MEMBERS NOT CONCURRING IN THE MAJORITY REPORT:

______________ recommends: ______________

______________ recommends: ______________

______________ recommends: ______________

[signature]
Chairman

S 60

Original sponsors: Poland, Croft, and Huber

IN THE SENATE BY THE FINANCE COMMITTEE

CS FOR SENATE BILL NO. 159 (Finance)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the leasing of state land other than for the extraction of natural resources; and providing for an effective date."

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

* Section 1. AS 38.05.085 is repealed and re-enacted to read:

Sec. 38.05.085. TERM OF LEASE. (a) The lease shall provide that

(1) for the initial 25-year period of the lease, the lessee shall pay the state a fixed base annual rent to be agreed upon by the parties in compliance with the provisions of this chapter; however, this annual rent may not exceed 10 per cent of the fair market value of the property as determined in (b) of this section;

(2) the fixed base annual rent to be paid by the lessee shall be readjusted when the initial 25-year period of the lease has expired and, thereafter, every 10 years; and

(3) the readjusted annual rent may not exceed 10 per cent of the value of the property as determined in (b) of this section or 50 per cent more than the amount paid each year during the initial period or the preceding 10-year period, whichever is lower.

(b) When it becomes necessary to determine the fair market value of property as required by (a) of this section, the lessee shall appoint an M.A.I. appraiser and the state shall appoint an M.A.I. appraiser. The two appraisers so appointed shall, within a specified period of time agreed upon by the parties, make their appraisals of the property in question. If the two appraisers agree upon the fair market value, the determination is absolutely binding on the parties. In the event the two appraisers are unable to agree, they shall together appoint a third M.A.I. appraiser who shall then make his appraisal of the property in question. When the third appraisal is completed, the two of the three appraisals which are nearest each other in their determination of the fair market value shall be averaged and the resultant sum shall be the fair market value of the matter in question and absolutely binding on the parties. All costs incurred in making the appraisals provided for in this subsection shall be borne by the state and the lessee equally.

(c) The lessee shall make advance payments of the annual rent or portion of it as the director, with the approval of the commissioner, may require.

(d) A preference right lessee of grazing or forest land may follow the payment schedule established in his cancelled federal lease or grazing permit if he so desires.

(e) Notice of all actions by the department affecting the rights of a lease or lessee shall be given to the lessee.

(f) A violation of a provision of this chapter or of a term or provision of a lease subjects the lessee to appropriate legal action, including, but not limited to, a forfeiture of the lease.

(g) In this section,

(1) "annual rent" means the amount of rent paid annually determined by multiplying the fair market value by the rental rate computed at the time of the initial 25-year period of the lease or of each subsequent 10-year period of the lease;

(2) "rental rate" means the rate, expressed as a percentage of fair market value, which a comparable class of privately owned property would bring in the open market with the same conditions of lease as offered by the state.

* Sec. 2. AS 38.05 is amended by adding a new section to read:

Sec. 38.05.103. RIGHTS OF HOLDER OF SECURITY INTEREST. (a) If there is a breach or default of a term of a lease or of the provisions of this chapter relating to a lease, the division shall provide written notice of the breach or default by personal service or by registered or certified mail to the lessee and to any holder of record having a security interest in the leased property. The notice shall also make demand upon the lessee to cure or remedy the breach or default within 60 days from the date of receipt of the notice and demand. If a lessee fails to cure or remedy the breach or default within 60 days, or within the additional time which the division may allow for good cause, the state may, subject to (b) of this section, exercise any right which it may have at law or as set out in the lease.

(b) If a lessee fails to cure or remedy a breach or default within the time allowed in (a) of this section, a holder of a security interest who has received notice under (a) of this section may cure or remedy the breach or default if the breach or default can be cured by the payment of money or, if this cannot be done, by performing or undertaking in writing to perform the terms, convenants, restrictions and conditions of the lease capable of performance by the holder. The holder shall act within 60 days from the date of receipt of notice under (a) of this section, or within an additional period as the director may allow for good cause.

* Sec. 3. AS 38.05.105 is repealed and re-enacted to read:

Sec. 38.05.105. PERIODIC RENT ADJUSTMENTS. (a) Each lease shall stipulate that at the conclusion of the initial 25-year period of the lease and at intervals of 10 years thereafter the annual rent payment is subject to adjustment. Charges or adjustments shall be based primarily on an adjusted fair market value. However, if the director of

the division of lands determines that single-family residential development is the best use of the land, the reappraisal period may be lengthened or the readjustment waived in accordance with regulations adopted by the department. Before a waiver of rent adjustment is issued, the land shall have a current reappraisal. A waiver is valid only if single-family residential development actually occurs. The regulations adopted under this section shall ensure that the state receives a fair return from the land.

(b) The provisions of sec. 85(b) of this chapter are applicable to reappraisals of leases required by this section, except that, in determining an adjusted market value

(1) changes in property value due to governmental actions, including zoning reclassifications, shall be included; and

(2) changes in property value due to private improvements made to the property or other privately owned or leased property since originally entering into the lease shall be excluded.

* Sec. 4. The provisions of this Act are applicable to state leases which are in existence on or before the effective date of this Act if a lessee under a lease elects, in writing, to be bound by this Act. When a lessee elects to be bound by the provisions of this Act, the state shall enter into a new lease with the lessee for a term equal to the remaining period of the original lease which is being terminated that is consistent with the provisions of this Act. However, for purposes of determining the annual rent by the state, the fair market value of the property which is used to establish the fixed base annual rent for the initial period of the lease may not exceed the fair market value as it was last appraised on or before January 1 1975, brought forward to January 1, 1976, at the rate of 10 per cent per year, or, if the lease was entered into after January 1, 1975, on the basis of the fair market value at the time the lease was entered into.

CORRECTION

THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY

the division of lands determines that single-family residential development is the best use of the land, the reappraisal period may be lengthened or the readjustment waived in accordance with regulations adopted by the department. Before a waiver of rent adjustment is issued, the land shall have a current reappraisal. A waiver is valid only if single-family residential development actually occurs. The regulations adopted under this section shall ensure that the state receives a fair return from the land.

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* Sec. 5. The provisions of sec. 4 of this Act expire on January 1, 1979

* Sec. 6. This Act takes effect immediately in accordance with AS 01.10.070(c).

Original sponsors: Poland, Croft, and Huber

IN THE SENATE BY THE FINANCE COMMITTEE

CS FOR SENATE BILL NO. 159 (Finance)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the leasing of state land other than for the extraction of natural resources; and providing for an effective date."

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

* Section 1. AS 38.05.085 is repealed and re-enacted to read:

Sec. 38.05.085. TERM OF LEASE. (a) The lease shall provide that

(1) for the initial 25-year period of the lease, the lessee shall pay the state a fixed base annual rent to be agreed upon by the parties in compliance with the provisions of this chapter; however, this annual rent may not exceed 10 per cent of the fair market value of the property as determined in (b) of this section;

(2) the fixed base annual rent to be paid by the lessee shall be readjusted when the initial 25-year period of the lease has expired and, thereafter, every 10 years; and

(3) the readjusted annual rent may not exceed 10 per cent of the value of the property as determined in (b) of this section or 50 per cent more than the amount paid each year during the initial period or the preceding 10-year period, whichever is lower.

(b) When it becomes necessary to determine the fair market value of property as required by (a) of this section, the lessee shall appoint an M.A.I. appraiser and the state shall appoint an M.A.I. appraiser. The two appraisers so appointed shall, within a specified period of time agreed upon by the parties, make their appraisals of the property in question. If the two appraisers agree upon the fair market value, the determination is absolutely binding on the parties. In the event the two appraisers are unable to agree, they shall together appoint a third M.A.I. appraiser who shall then make his appraisal of the property in question. When the third appraisal is completed, the two of the three appraisals which are nearest each other in their determination of the fair market value shall be averaged and the resultant sum shall be the fair market value of the matter in question and absolutely binding on the parties. All costs incurred in making the appraisals provided for in this subsection shall be borne by the state and the lessee equally.

(c) The lessee shall make advance payments of the annual rent or portion of it as the director, with the approval of the commissioner, may require.

(d) A preference right lessee of grazing or forest land may follow the payment schedule established in his cancelled federal lease or grazing permit if he so desires.

(e) Notice of all actions by the department affecting the rights of a lease or lessee shall be given to the lessee.

(f) A violation of a provision of this chapter or of a term or provision of a lease subjects the lessee to appropriate legal action, including, but not limited to, a forfeiture of the lease.

(g) In this section,

(1) "annual rent" means the amount of rent paid annually determined by multiplying the fair market value by the rental rate computed at the time of the initial 25-year period of the lease or of each subsequent 10-year period of the lease;

(2) "rental rate" means the rate, expressed as a percentage of fair market value, which a comparable class of privately owned property would bring in the open market with the same conditions of lease as offered by the state.

* Sec. 2. AS 38.05 is amended by adding a new section to read:

Sec. 38.05.103. RIGHTS OF HOLDER OF SECURITY INTEREST. (a) If there is a breach or default of a term of a lease or of the provisions of this chapter relating to a lease, the division shall provide written notice of the breach or default by personal service or by registered or certified mail to the lessee and to any holder of record having a security interest in the leased property. The notice shall also make demand upon the lessee to cure or remedy the breach or default within 60 days from the date of receipt of the notice and demand. If a lessee fails to cure or remedy the breach or default within 60 days, or within the additional time which the division may allow for good cause, the state may, subject to (b) of this section, exercise any right which it may have at law or as set out in the lease.

(b) If a lessee fails to cure or remedy a breach or default within the time allowed in (a) of this section, a holder of a security interest who has received notice under (a) of this section may cure or remedy the breach or default if the breach or default can be cured by the payment of money or, if this cannot be done, by performing or undertaking in writing to perform the terms, convenants, restrictions and conditions of the lease capable of performance by the holder. The holder shall act within 60 days from the date of receipt of notice under (a) of this section, or within an additional period as the director may allow for good cause.

* Sec. 3. AS 38.05.105 is repealed and re-enacted to read:

Sec. 38.05.105. PERIODIC RENT ADJUSTMENTS. (a) Each lease shall stipulate that at the conclusion of the initial 25-year period of the lease and at intervals of 10 years thereafter the annual rent payment is subject to adjustment. Charges or adjustments shall be based primarily on an adjusted fair market value. However, if the director of

the division of lands determines that single-family residential development is the best use of the land, the reappraisal period may be lengthened or the readjustment waived in accordance with regulations adopted by the department. Before a waiver of rent adjustment is issued, the land shall have a current reappraisal. A waiver is valid only if single-family residential development actually occurs. The regulations adopted under this section shall ensure that the state receives a fair return from the land.

(b) The provisions of sec. 85(b) of this chapter are applicable to reappraisals of leases required by this section, except that, in determining an adjusted market value

(1) changes in property value due to governmental actions, including zoning reclassifications, shall be included; and

(2) changes in property value due to private improvements made to the property or other privately owned or leased property since originally entering into the lease shall be excluded.

* Sec. 4. The provisions of this Act are applicable to state leases which are in existence on or before the effective date of this Act if a lessee under a lease elects, in writing, to be bound by this Act. When a lessee elects to be bound by the provisions of this Act, the state shall enter into a new lease with the lessee for a term equal to the remaining period of the original lease which is being terminated that is consistent with the provisions of this Act. However, for purposes of determining the annual rent by the state, the fair market value of the property which is used to establish the fixed base annual rent for the initial period of the lease may not exceed the fair market value as it was last appraised on or before January 1, 1975, brought forward to January 1, 1976, at the rate of 10 per cent per year, or, if the lease was entered into after January 1, 1975, on the basis of the fair market value at the time the lease was entered into.

* Sec. 5. The provisions of sec. 4 of this Act expire on January 1, 1979.

* Sec. 6. This Act takes effect immediately in accordance with AS 01.10.-070(c).

#

Original sponsors: Poland, Croft, and Huber

Offered: 3/8/77
Referred: Finance

BY THE FINANCE COMMITTEE

IN THE SENATE

CS FOR SENATE BILL NO. 159

IN THE LEGISLATURE OF THE STATE OF ALASKA

TENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the leasing of state land other than for the extraction of natural resources; and providing for an effective date."

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

* Section 1. AS 38.05.085 is repealed and re-enacted to read:

Sec. 38.05.085. TERM OF LEASE. (a) The lease shall provide that

(1) for the initial 10-year period of the lease, the lessee shall pay the state a fixed base annual rental as determined under (b) of this section; however, this annual rental may not exceed ten per cent of the fair market value of the property as determined in (c) of this section;

(2) for each of two additional ten year periods the fixed base annual rental to be paid by the lessee shall be readjusted when the previous ten year period of the lease has expired;

(3) the readjusted annual rental shall be as determined under (e) of this section, but may not exceed ten per cent of the fair market value of the property as determined in (c) of this section or 170 per cent more than the amount paid each year during the preceding ten year period, whichever is lower; and

Puts ceiling on 3-10 yr. periods

(4) for each subsequent five year period the fixed base annual rental shall be as determined under (e) of this section.

(b) The annual rental shall be the annual rental rate times the current fair market value.

980 leases out
64 Ind. sub-divis.

(c)For the purposes of leasing under this section, "market value" or "fair market value" means the price, estimated in terms of money, which the property, in its original condition at the time of first entering into the lease, would bring if exposed for a sale for a reasonable time in the open market, with a seller, willing but not forced to sell, and a buyer, willing but not forced to buy, both being fully informed of all the purposes for which the property is best adapted or could be used.

Fairer annual rate

(d)For the purposes of this section, "annual rental rate" means that rate, expressed as a percentage of fair market value, which a comparable class of privately owned property would bring on the open market with the same lease conditions as offered by the state.

(e)~~The annual rental shall be the annual rental rate times the current fair market value of the property.~~ Changes in property value due to off property improvements, including zoning reclassifications, shall be included in determining the current fair market value for leasing purposes. Changes in valuation due to improvements made to the property since originally entering into the lease shall not be considered in determining the current fair market value for leasing purposes.

(f) The lessee shall make advance payments of the annual rent or portion of it as the director, with the approval of the commissioner, may require.

(g) A preference right lessee of grazing or forest land may follow the payment schedule established in his cancelled federal lease or grazing permit if he so desires.

(h) Notice of all actions by the department affecting the rights of a lease or lessee shall be given to the lessee.

(i) A violation of a provision of this chapter or of a term or provision of a lease subjects the lessee to appropriate legal action, including, but not limited to, a forfeiture of the lease.

(j) In the event of a dispute over the annual rental rate or the fair market value of property as required by (a) of this section, the lessee shall appoint an M.A.I. appraiser and the state shall appoint an M.A.I. appraiser. The two appraisers so appointed shall, within a specified period of time agreed upon by the parties, their determination of annual rental rate or their appraisals of the property in question. If the two appraisers agree upon the annual rental rate or the fair market value, the determiniation is absolutely binding on the parties. In the event the two appraisers are unable to agree, they shall together appoint a third M.A.I. appraiser who shall then make his determination of annual rental rate or his appraisal of the property in question. When the third determination or appraisal is completed, the two of the three determinations or appraisals which are nearest each other in their determination of annual rental rate or appraisal of the fair market value shall be averaged and the resultant sum shall be the annual rental rate or fair market value of the matter in questions and absolutely binding on the parties. All costs incurred in making the determinations or appraisals provided for in this subsection shall be borne by the state and the lessee equally.

* Sec. 2. AS 38.05 is amended by adding a new section to read:

Sec. 38.05.103. RIGHTS OF HOLDER OF SECURITY INTEREST. (a) If there is a breach or default of a term of a lease or of the provisions of this chapter relating to a lease, the division shall provide written notice of the breach or default by personal service or by registered or certified mail to the lessee and to any holder of record having a security interest in the leased property. The notice shall also make demand upon the lessee to cure or remedy the breach or default within 60 days from the date of receipt of the notice and demand. If a lessee fails to cure or remedy the breach or default within 60 days, or within the additional time which the division may allow for good cause, the state may, subject to (b) of this section, exercise any right which it may have at law or as set out in the lease.

(b) If a lessee fails to cure or remedy a breach or default within the time allowed in (a) of this section, a holder of a security interest who has received notice under (a) of this section may cure or remedy the breach or default if the breach or default can be cured by the payment of money or, if this cannot be done, by performing or undertaking in writing to perform the terms, convenants, restrictions and conditions of the lease capable of performance by the holder. The holder shall act within 60 days from the date of receipt of notice under (a) of this section, or within an additional period as the director may allow for good cause.

#2

* Sec.3. AS 38.05.105 is repealed and re-enacted to read:

Sec. 38.05.105. PERIODIC RENTAL ADJUSTMENTS. (a) Each lease shall stipulate that at the conclusion of each of the ~~10~~ 25-year periods of the lease and at intervals of ~~five~~ 10 years thereafter the annual rental payment is subject to adjustment. Charges or adjustments shall be based on a reappraised annual rental value. However, if the director of the division of lands determines that a single family residential development is the best use of the land, the reappraisal period may be lengthened or the readjustment waived in accordance with regulations adopted by the department. Before a waiver of rental adjustment is issued, the land shall have a current reappraisal. A waiver is valid only if a single family residential development actually occurs, and only if necessary for obtaining primary long-term financing. The regulations adopted under this section shall ensure that the state receives a fair return from the land.

Tulin objects;

(b) The provisions of sec.85(a) of this chapter are applicable to reappraisals of leases required by this section.

#3

* Sec. 4. The provisions of this Act are applicable to state leases which are in existence on or before the effective date of this Act if a lessee

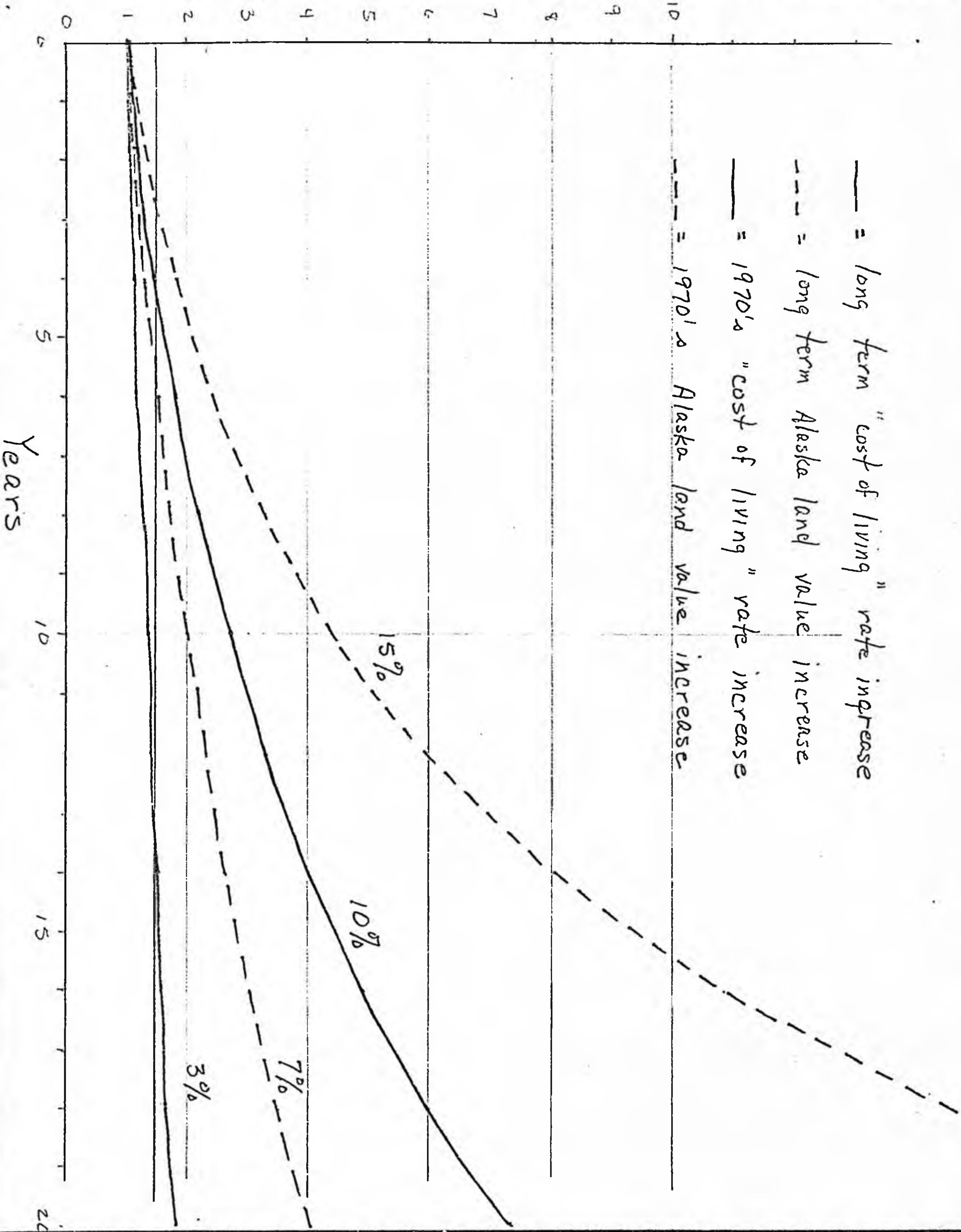
almost identical — except "period remaining on lease" to existing lease 1976 at 10% a yr.

under a lease elects, in writing, to be bound by this Act. When a lessee elects to be bound by the provisions of this Act, the state shall enter into a new lease with the lessee for a term equal to the remaining period of the original lease which is being terminated that is consistent with the provisions of this Act. However, for purposes of determining the annual rent by the state, the fair market value of the property which is used to establish the fixed base annual rental for the initial period of the lease may not exceed the fair market value as it was last appraised on or before January 1, 1975, brought forward to January 1,1976 at the rate of ten per cent per year or, if the lease was entered into after January 1, 1975, on the basis of the fair market value at the time the lease was entered into.

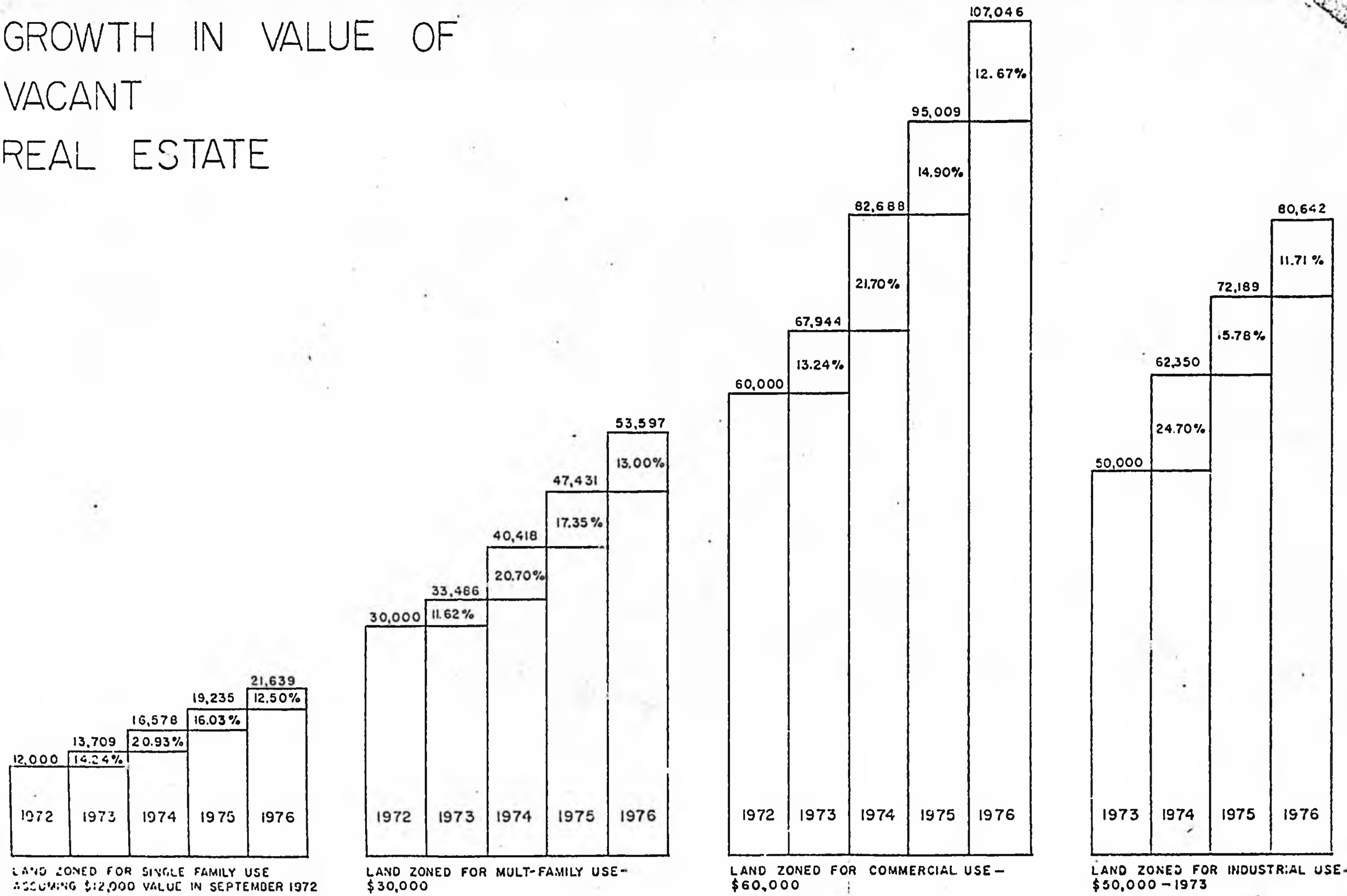
4 * Sec. 5. The provisions of Sec. 4 expire on January 1,1979.

* Sec. 6. ThisAat takes effect immediately in accordance with AS 01.10.070(c).

Multiple of Value of Initial Worth @ Various Interest

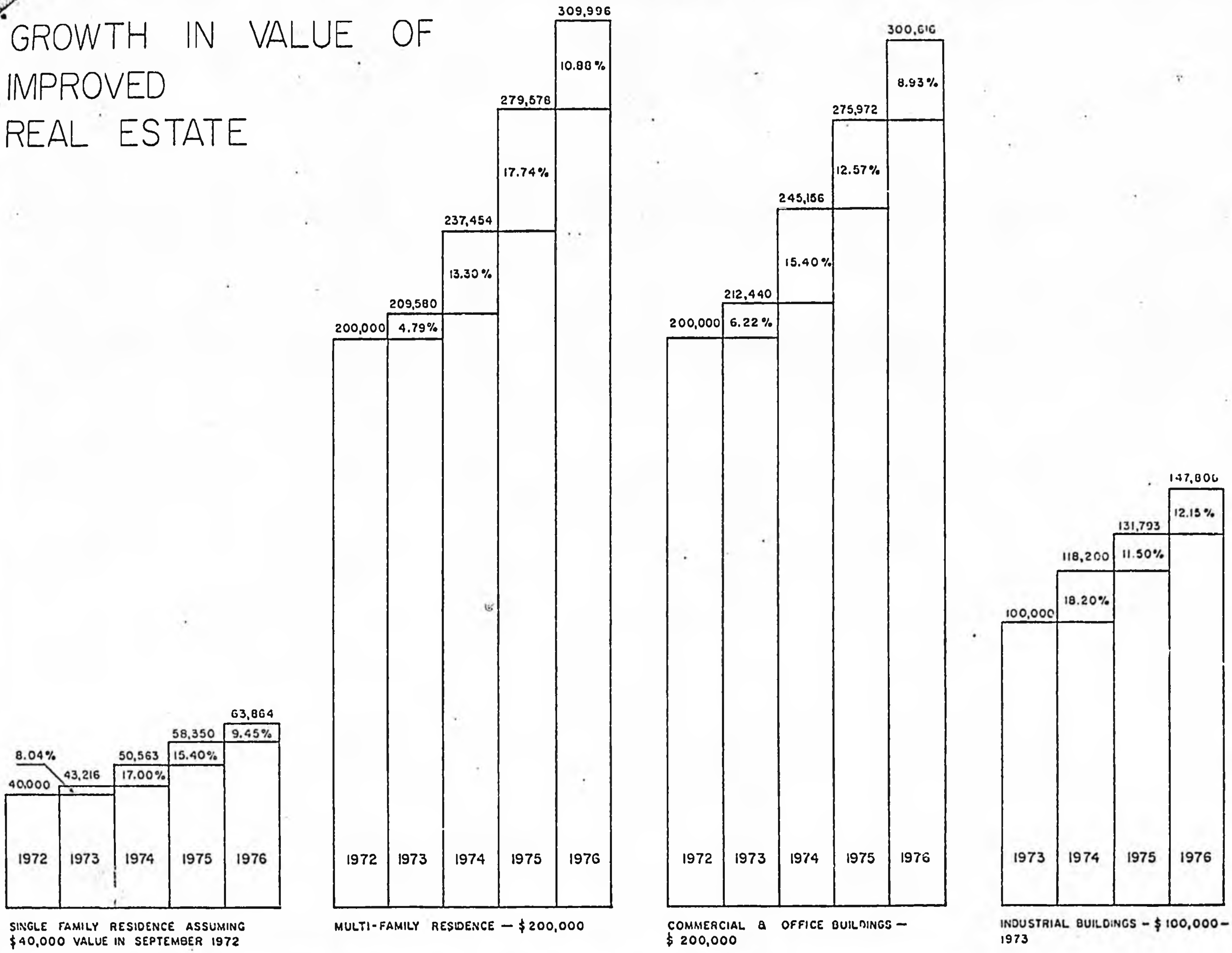


GROWTH IN VALUE OF VACANT REAL ESTATE



BASED ON A SURVEY TAKEN BY REAL ESTATE SERVICES CORPORATION

GROWTH IN VALUE OF IMPROVED REAL ESTATE



THE LEGISLATURE OF THE STATE OF ALASKA
TENTH LEGISLATURE

FISCAL NOTE

I. REQUEST
Bill/Resolution No. SB 159
Title Leasing of State land other than for extraction of Natural resources
Requested by __________ Date __________

II. FISCAL DETAIL
Agency Affected Natural Resources
Program Category Affected NRMEC
Budget Request Unit(s) Affected Land and Water Management

EXPENDITURES (Thousands of Dollars)

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL	-0-	-0-	-0-	-0-	-0-	

FUNDING (Thousands of Dollars)

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
GENERAL FUND						
FEDERAL FUNDS						
OTHER (Specify)						

POSITIONS

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
FULL TIME						
PART TIME						
TEMPORARY						

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

There would be no change in cost of administration due to this bill.

Revenues would be reduced substantially, especially trust fund revenues (see attached).

IV. DATE February 23, 1977 PREPARED BY Ted Smith
AGENCY Land and Water Management
PHONE 279-5577

Original: Legislative Finance
cc: Budget and Management
Prime Sponsor (First Legislator Named)

33-001 (Rev. 10/76)

LEASE METHOD COMPARISONS

	LEASE (1)	LEASE (2)	LEASE (3)	LEASE (4)
Rent Per Present Law and State Appraisal	(a)$5,691	$5,232	$1,300	$1,650
Rent Per Lessess Appraisal	(b)$4,552	$4,160	N/A	N/A
Rent Per Ad Hoc Committee	a or b	a or b	$1,300	$1,650
Rent Per S.B. 159	$ 930	$ 800	$ 120	$ 270
Lease Commencement	1961	1961	1969	1969
Lease Term	55 yrs.	55 yrs.	55 yrs.	55 yrs.
Location	Anchorage	Anchorage	Susitna Valley	Susitna Valley
Size	14,782 S.F.	18,012 S.F.	40 Ac.	80 Ac.

LEASE NO. 1

Term	(a) Rent By S.B. 159	(b) Economic Rent Per Lessee's Appraisal	(c) Rent Savings (Per Period)	(d) Economic Rent Per State's Appraisal	(e) Rent Savings (Per Period)
76-81	$ 930	$4,552	$18,110	$5,691	$23,805
81-86	930	4,552	18,110	5,691	23,805
86-91	1,395	4,552	15,785	5,691	21,480
91-96	2,092	4,552	12,300	5,691	17,995
96-2001	3,138	4,552	7,070	5,691	12,765

Assume: (1) Land value does not rise beyond present value
(2) Economic lease rate does not rise

Column:

(a) Annual rent for each year under S.B. 159
(b) Present economic rent as determined by lessees appraisers
(c) Period rent savings under S.B. 159 (difference between column (a) and column (b)).
(d) Present economic rent as determined by states appraiser
(e) Period rent savings under S.B. 159 (difference between column (a) and column (d)

LEASE NO. 3

Term	(a) Rent By S.B. 159	(b) Economic Rent Per State's Appraisal	(c) Rent Savings (Per Period)
76-81	$120	$1,300	$5,900
81-86	120	1,300	5,900
86-91	180	1,300	5,600
91-96	270	1,300	5,150
96-2001	405	1,300	4,475
2001-2006	607	1,300	3,465
2006-2011	911	1,300	1,945

Assume:

(1) Land value does not rise beyond present value
(2) Economic lease rate does not rise

Column:

(a) Annual rent for each year under S.B. 159
(b) Present economic rent as determined by states appraisal
(c) Period rent savings under S.B. 159

1) Assume property is initial value @ $1000

@ 8% Rent for 1st 10 yrs = $80/yr or $800/ten

2) Assume the property has increased in value ~~&~~ $ 1500

then @ 8% rent for next 5 yrs = 120/yr or $600/5

~~[illegible]~~ which is the maximum under this bill –

I.e.:

Bill assumes 50% increase in value each 5 yrs –

TESTIMONY ON SENATE BILL #159

By Joe Wilhour

file w/bill

Ladies and Gentlemen:

First, I would like to thank you for your time and efforts in consideration of our "headache"; and second, I would like to request you "hang in there" -- we're improved, but not cured.

On my lot 7-A, Block 3, Alaska Industrial Subdivision, the proposed lease payments of Bill 159 would total over three million dollars. That's 45 times the 1975 valuation, or approximately 600 times the appraised value when first leased in 1958.

I contend that this is not a fair lease. Not to me, not to future leaseholders, and not to the State of Alaska. It will not encourage development; in all probability it will force the leaseholders to do unto others as the State of Alaska has done unto them; increase our tenants' rent, increase the price of our products and services to the extent they are not competitive, thereby forcing us out of business and to abandon our State leases. Within 10 to 15 years, Section 16 could easily be mistaken for a slum area.

I built a 12,500 foot warehouse for over $200,000.00, and have it leased to Mammoth Trucking for 35 cents per foot, which is a fair market value for the location. This is a gross annual income of $52,500.00. With annual expenses as follows:

Bank payments	$21,000.00
Utilities	4,274.59
Taxes, Insurance	6,311.14
Maintenance, Misc.	5,400.64
Land Lease	3,940.00
Total:	$40,926.37

This produces a net profit, before taxes, depreciation, inflation, vacancies, etc. of $11,573.63. Senate Bill #159 would allow me to hold the property for approximately 10 years, which would relieve my present situation and allow the leaseholders time to seek additional corrective legislation, but both my inability to obtain bank financing and my common sense would prohibit improvements or further development. Look at the statistics:

ALASKA INDUSTRIAL SUBDIVISION LEASEHOLDERS ASSOCIATION

EFFECT OF SENATE BILL #159 ON MY PROPERTY LOCATED BLOCK 3, LOT 7A, ALASKA INDUSTRIAL SUBDIVISION. LOT SIZE APPROXIMATELY 64,000 SQ. FT. APPRAISED AT $65,640.00 TO BE REAPPRAISED 1978.

TERM	% INC TERM	% ORIG VALUE	NEW APPRAISED VALUE	LEASE PAYMENTS	ACCUMULATED COST TO LEASEE
1-10	0%	100%	$ 65,640.00	$ 52,512.00	$ 52,512.00
10-15	50%	150%	98,460.00	39,384.00	91,896.00
15-20	50%	225%	147,690.00	59,076.00	150,972.00
20-25	50%	337.5%	221,535.00	88,614.00	239,586.00
25-30	50%	506.25%	332,302.00	132,920.80	372,506.80
30-35	50%	759.38%	498,454.00	199,381.60	571,888.40
35-40	50%	1,139.07%	747,686.00	299.074.40	870,962.80
40-45	50%	1,708.61%	1,121,531.00	448,612.64	1,319,575.44
45-50	50%	2,562.92%	1,682,301.00	672,920.28	1,992,495.72
50-55	50%	3,844.38%	2,523,451.00	1,009,380.40	3,001,876.12

1. Above is MINIMUM

2. Rates are compounded

3. When lease finished, leasee will have paid 45.73 times value (3,001,876 ÷ 65,640)

What amount would I, or anyone, have to invest to make this land support a State lease under SB#159? And where and how could it be financed?

Regardless of the formula used, as I said before, whether it be a percentage of the reappraised value every five years, a comparison to private leases, the number of quills on a porcupine divided by pi, or the number of moose in the Mat-Su Valley times the square root, if the total monetary figure exceeds six times the appraised value of the land at the time of lease, it will not be a fair rental that will enhance development and be acceptable to future leasees.

This is but one example of many, so again I request your cooperation. Put your feet in my boots and walk a mile and I'm confident we can pass a better law that will be fair to present leaseholders, more desirable to all future leaseholders and non-leaseholders, and beneficial to our State Government both now, and in the future.

THE FIRST NATIONAL BANK OF ANCHORAGE

February 22, 1977

Mrs. Kay Poland
Resource & Finance
Legislature of Alaska
Juneau, Alaska

Dear Mrs. Poland:

This concerns our bank's attitude in providing funds for the purpose of financing leasehold improvements on land leased from the State of Alaska.

Our loans on improved real estate are governed by certain regulations made by the Comptroller of the Currency, United States Treasury Department. Any leasehold, against which we are lending money, must have a firm lease extending at least ten (10) years beyond the term of our loan. In calculating the amount of the loan against a leasehold, we must project the expenses incident to the operation of the property. This includes lease payments that are subject to increases of an unknown amount. We are understandably reluctant to make such loans.

Our bank's policy is to loan against leaseholds for a term in which we are assured of a reasonable fixed payment. We will not make loans when we are not able to accurately forecast the lease payments during the term of our loan.

Sincerely,

David G. Freund
David G. Freund
Vice President

DGF/er

The First National Bank of Anchorage • P.O. Box 720 • Anchorage, Alaska 99510

IN SUPPORT OF THE LEASEHOLDERS BILL

In support of the 6% annual rental rate, I would like to request you re-read the Hearing Panel Proposed Decision and Recommendations, page 12, ¶4, which quite clearly defines our position.

The total lease rental for the 55 year period proposed in our bill would amount to $379,411.00. This is 5.78 times the 1975 appraised value, or 75.88 times the 1958 appraised value. Under SB#159, the total lease rental for the 55 yr. period would amount to over three million dollars. This is 45 times the 1975 appraised value, or approximately 600 times the 1958 appraised value.

In my opinion, our bill provides the maximum rental to be beneficial to all concerned; an excellent return to the State, a fair settlement to the existing State leaseholders, a fair opportunity for future leaseholders, as well as the maximum rental allowable to encourage development and bank financing. Whereas SB#159 is not beneficial to all concerned. It is a maximum return to the State from current leaseholders with existing improvements, from 10 to maybe 15 years when they will be forced to give up their leases, it is not a fair settlement to the existing leaseholders, it is not a fair opportunity to future leaseholders, it will not encourage development, and it is not acceptable to the banks for financing.

I would also suggest the elimination of the floating easement be added to SB#159, as recommended by the Hearing Panel on page 19, ¶5 of their report.

Joe Wilhour

ALASKA INDUSTRIAL SUBDIVISION LEASEHOLDERS ASSOCIATION

EFFECT OF ALASKA LEASEHOLDERS ASSOCIATION PROPOSED BILL ON MY PROPERTY LOCATED BLOCK 3, LOT 7A, ALASKA INDUSTRIAL SUBDIVISION. LOT SIZE APPROXIMATELY 64,000 SQ. FT. APPRAISED AT $65,640.00 TO BE REAPPRAISED 1978.

TERM	% INC TERM	% ORIG VALUE	NEW APPRAISED VALUE	LEASE PAYMENTS	ACCUMULATED COST TO LEASEE
1-25	0%	100%	$ 65,640.00	$ 19,700.	$ 98,500.00
25-35	50%	150%	98,660.00	59,196.	157,696.00
35-45	50%	225%	147,990.00	88,794.	246,490.00
45-55	50%	337.5%	221,535.00	132,921.	379,411.00

1. Above is MAXIMUM
2. Rates are compounded
3. When lease finished, leasee will have paid 5.78 times value (379,411 ÷ 65,640)

Subject: State land Leases

The following comments, ipinions, and recommendations regarding State land leasing are offered to further acquaint you with the bill we are submitting this session.

I first leased property in Section 16 in 1958 in an advertised competitive bid sale. Mr. Chipperfield, Territorial Director of Lands at the time, told the group that we would pay no taxes on the land because we didn't own it. This is not true - the city of Anchorage came up with what they call lease-hold-interest, and we have paid taxes every year. Also, we were told that over the 55 year period we would be paying more than the land could sell for, but not having to pay taxes, it would be very little more. Many of the present leaseholders acquired their land at the original sale and were told that the State wanted to develop a tax base, and develop the land.

I was in my thirties in 1958, so a 55 year lease represented my life span. Either through stupidity or unwarranted faith in the integrity of the State, I have spent most of my, and my wifes, available time and money that was not absolutely necessary for a growing family, on the development of these leases. A lot of this time and money was spent improving the land itself; stripping the trees and tip soil, filling a large gully which ran from the road through the property and along the south side and adding gravel. I now lease these improvements back from the State.

Until recently the State has adjusted our rent every five years from approximately 40 to 100 percent, which is high, but workable. Now that the land has been developed and put to good use, forming a tax base by the investment of millions of dollars, and creating employment for over a thousand people, the State has adjusted our rent 850 percent to over 1000 percent.

Are we reverting back to a feudal system? Or State Land Baron vs sharecropper leasees? Or a con-game? One wonders, but with lease payments so high it's the equivalent of the State condeming the land! Through their reappraisal, the State has, in effect, condemed the leases.

Under the current policy the State has turned a 55 year lease into a 5 year lease. This year there has been less development in Section 16 than in any other part of town. It is impossible for the leaseholders to get financing, which has stopped development. See paper from the First National Bank of Anchorage attached. One questions whether it is advisable to repair a leaky roof.

My position is impossible. My annual rent increased from $3,940.00 to $32,800.00. I cannot increase my investment because the financing has been made impossible. I cannot raise my tenants rent and compete with fee-simple land rents. To raise my rents accordingly will only create vacancies and undermine my chances of making lease payments if and when the State does come up with a fair rental. And I cannot afford to just walk away from my 20 years investment of time and money, with only part of the money repaid to the bank.

At the 1975 rate of $3940.00 per year, I would pay the State, for my less than 2 acres, a lease rental for my remaining 37 years, $145,780.00 - nearly 15 times the original appraised value, plus what's already been paid the past 18 years.

At the current rate of $32,800.00 per year, and with no additional reappraisals but precariously assuming I could hold onto the property, I would pay the State for my less than 2 acres, a lease rental for my remaining 37 years, $1,213,600.00, plus what's already been paid the past 18 years.

If the State raises my rent the same 850 percent every 5 years, I would pay the State a lease rental of my less than 2 acres, for my remaining 37 years, $272,151,090,464.00, plus what's already been paid the past 18 years. Fantastic!

It appears the State not only wants their land back, but also my improvements! Who pays the bank? What amount would I have to invest to make it support a State lease? Few, if any of us, would not give up our leases if we could recover our investments.

In comparison to the Fishing land leases, the lease for set-net fishing, not to exceed 10 years, quote, "The Director shall establish a reasonable rental for the lease, equal to the Administration costs involved in processing the leasehold application." These leases, however, may produce large profits for the leasee with small, comparable investment, and cost less than $50.00 a year.

In comparison of individual tracts of land, Bob Penney and the Teamsters Union are leasing larger tracts, of greater value, for pennies where many are paying dollars. Mr. Penney averages about $750.00 per acre. The Teamsters Union averages about $3,500.00 per acre - with no reappraisal. My lease averages of $19,000.00 per acre! If I, and my banker, had chosen to be dishonest we could have arranged a similiar situation, but that is not justification for bias on the States behalf.

In comparison to housing, the State has passed a law of rent control whereby the leasor must justify any housing rent increase. No law exists for State leaseholders and rents may be unjustly raised. No law states we cannot just pass this increase on to our tenants, but there is no way we could still compete with fee-simple land rents so we will only create vacant land and buildings. Because, however, additional expenses must be commensurate with additional income if we are to survive financially, a large measure, or all, of such additional expense must be passed on to our tenants, or added to the cost of our product or services. The State should not be the leader increasing such inflation, but should take every action possible to hold it down.

In comparison to other land lease policies, the Mat-Su Borough pamphlet of June 26th states the lease amount is not subject to reappraisal. The highest bid establishes the annual rental for the 55 year term of the lease. With the capital move to Willow, how will the State lease land in the Willow area?

Some possible recommendations:

1. Level payments, similar to the recent Mat-Su Borough auction, not changed every time the administration is changed. Eliminate the State "open-end" policy. A stable lease enables the leasee to plan ahead and this ridiculour predicament won't happen again in the future.
2. Some arrangement should be made whereby a lease is bankable. A long term lease should be comparable and competitive in price at time of lease, with fee-simple sales.
3. Taxes, if any, on the land itself, should be at a percentage rate, on all state-owned lease land.
4. Consideration and lowering lease rate scale for value of improvements made, due to additional taxes incurred and as incentive to develop industry, and protect human rights.
5. Some method to renew a lease 15 to 20 years prior to its current expiration date, in order to secure financing and continue to develop the property.
6. Maximum return for State leased land should be a fair rental encouraging leasing and development of additional State land, and not exorbitant returns and the eventual forced voidance of the approximately one percent of state land now leased. Forced voidance of the present land leases, and continuance of the existing policy so no one will be dumb enough to lease additional lands, will surely not benefit the State, and just as surely will not benefit her residents.
7. The present blanket easement should be eliminated from the leases not only because it is not bankable, but also because if exercised, it would take all value out of the leasehold interest, and could ruin the leasee business without any compensation.

As I see it, the recommendations should result in a lease policy that make leases desirable to you as individuals, and all residents of the State. They shouldn't change every 5 years. They should be bankable and have a value, especially after payments have been made for some 20 years or more. They should, as the Constitution states, "enhance development". The State will get their maximum return by taxing the development and its income, and by being able to lease their millions of surplus lands. Reappraisal and any adjustment of increased values due to inflation should come at the end of the lease period. If this can't be done, the land should be sold, allowing credits for those who have for a long time paid lease rentals, paid to improve the land itself, and paid to develop the property into taxable use.

The State gets three shots at its leaseholders; (a) land lease rental payments, (b) taxes on improvements and (c) income tax. By taking an unfair advantage of the lease rental payments, the State will, or possibly has already, eliminated all three.

On Thursday morning, Dec. 16th, I attended the Governors Advisory Committee meeting wher two representatives of F.H.A. testified that the appraisal clause and other parts of the State leases would not be acceptable for F.H.A. commercial or residential loans.

Mr. Paul Troch, (344-4665) a constitutional lawyer and teaching professor testified he has clients who are going to bring suit if that is the only way to get the State to comply with the regulations provided in its charter, which reads the State must provide a way to distribute its lands to the public for development.

Thursday afternoon I saw Mr. Richard Ullrich, Loan Examiner of the State Veterans Affairs. After explaining the terms of our State leases, he said the State Veterans would not, or could not, make a loan under the terms of our leases. Expecially the reappraisal clause which the State Division of Lands claims is a fair rental.

Also, Thursday, I visited the Alaska State Bank where I couldn't help but notice the pictures of Anchorage, taken about 1915, on the walls. And compare the Anchorage of today through the windows. I wondered what Anchorage would look like now if the Territory, or Federal Government, had used the present state land policy to develop the area.

There is no way the leaseholders can unreasonably increase the price of their rentals, products, or services, every five years to meet the increased rentals which the State Division of Lands claims are fair. Local competition in the town and the State, as well as State and Federal regulations, such as the trucking industry who must abide by ICC regulations, eliminate the possibility. Other businesses in town, grocery stores, department stores, banks, etc. do not raise the price of their products and services because of the appreciation of the land their businesses are occupying. They must compete too.

It would seem the State is in the same position with their excess lands as the banks are with their money. Both need people to manage it. The banks, thanks to competition and regulations, do not change their interest rates every five years on committed loans. The State should be forced by law to adopt the same policy and not be allowed to take advantage of their monoply of State land, or the few dumb tenants they have trapped.

I think that six percent annual rental of the original appraised value of the land for 55 years would be a fair rental which would enhance development. This would net the State over three hundred percent more income than could be derived from the sale of the lands, plus considerable savings in State administration and litigation costs, plus the return of the land to lease again or re-evaluation of the leases at their expiration, which would be acceptable to the citizens of the State, be they present of prospective leaseholders, or non-leaseholders who none-the-less derive benefits from the money collected.

The problem as I see it, is not the few leasees who now hold State leases. They are insignificant. It is restoring the credibility of the State as a monopolistic landlord, and creating a workable policy of developing and utilizing a portion of Alaskas millions of acres of land, whether by leasing or selling. The people of this State cannot afford, and will not allow this, or any other administration, to lock up their 100 million acres of land in a non-productive policy. A percentage of it must be made productive to support the parks, animal habitats, scenic lands, wild rivers, and so forth.

Senator Stevens newsletter is attached, informing us of an amendment signed by President Ford with regard to Federal leasing in Alaska. The law will allow individuals to gain a right to and an interest in federal lands by actively working to develop and use the land productively. I intend to find out what their lease policy is.

The land policy of the State, if not changed or altered, has been and will be, more devastating to the State and its present leasees than the 1964 earthquake. High prices are caused by the scarcity of land, which is caused by the State.

I would like to present the paper I gave to Commissioner Martin showing the effects of a 5% annual increase in appraised value. It shows the State would collect over 13 times the value of the property in 55 years, plus the return of the land. The State would collect $131,967.00 for property valued at $10,000.00. Commissioner Martin said this was much too high and overvalued. I then asked him to visualize and calculate raises of 40%, 100%, and 850%, the raises we have been accessed, in lieu of the 25% as shown on the first three re-appraisals.

Th Commissioner said the State did not want our land back, but he did not explain the ridiculour increaase in our rentals.

I saw Mr. Whitehead, one of the Governors Aids, who among others, said there were those who did not believe in individuals owning land, though he didn't name any, and I have not met any who have admitted this belief. He said I was on the defensive- this I will admit. I asked him what other position I could take considering our past experience with the Division of Lands. Except for a few slips in our recent hearing, I have not heard of any evidence from any person in the administration making any effort to resolve some of the deficiencies in their land lease policy. Surely they have had many opportunities.

Possibly if we could have seen the Governor first, about six months ago like we requested, we would have had a solution long ago. I would like to make the sugestion this committee recommend that we see the Governor before he makes his final decision so that he can get our information first hand.

In support of our bill - first the proposed decisions and recommendations of the hearing we had with the Division of Lands. It appears that their decisions were almost entirely in our favor, though I don't feel they addressed the five year reappraisal fully. Many of the Legislators we contacted said the only solution would be for the State to sell the land, giving preference and some credit to the leaseholders who have paid rent, improved the land and developed the land for a long period of time. This would return to the State 100% of its value, but no return of the land.

Others said we should have a lease with level payments of 6% of the value for 55 years, which would return to the State 360% of the value plus return of the land.

Still others said they should use 8% with the above formula, which would return to the State 480% of the value, plus the return of the land.

These proposals were not submitted - not because we thought they were unfair to the Statem or the leaseholders, but because we did not think they would pass the Legislature and the Governor.

Our bill will return to the State almost 600% of the value, plus the return of the land. In our conference with John Radar, he asked us if we owned the land, would we lease it under the terms of our bill? I answered Definitely Yes! If I could collect about six times the value of the land over a 55 year period and still retain the title with no taxes, or expenses, and then pass it on to my children to release or sell at a new appraised value, it would be an excellent deal!

I also told him that I would have no problem lobbying our bill in the States behalf, except that I am not sure it would be acceptable and marketable to future potential leasees. Certainly it should be more acceptable than the States present lease policy, and return to the State a much greater amount of money.

Mr. Radar said we are dealing in future money with probable less value. The banks are dealing with future money with probable less value, and because of inflation also have a declining principal value. The State should be satisfied with future money in order to get present money. But in addition, they will get an accelerated principal in the return of their land. There is very little business anyone can conduct without committing themselves to accept future money.

Lease value is determined by the terms of the lease. Surely sophisticated bidders will bid up the price to where the State will get their maximum value. The State can set the minimum price, see if the leases will sell and adjust the price in future sales, up or down, according to the response of the buyers. But they should not wait until their leaseholders have devoted 20 years of their lives developing State leases, then raise lease rentals to the extent that they make unsolphisticated, negative state leaseholders out of trusting leaseholders. I think our recent hearing proved that we are negative leaseholders. The terms of the lease we now have are negative. Negative to the degree that it has reduced both the value of our leases and improvements to almost zero. Terms of the lease determine the value. Future sales will be to the highest bidder and should assure the State of maximum return for their land.

One State Senator stated he thought the State has destroyed their leasing program and their creditability beyond repair, regardless of their future policy.

The State claims our leases are undervalued. I would say they are wrong. I and others have paid in the past seventeen years several times the value of our leases, and will in the next 38 years pay for it 17 times more if our proposed bill is passed. Is that an undervalued lease?

In closing, I would like to state that I have been an Alaskan since 1941 with continual residence except for my years in service from 1943 to 1946. The last 20 years I've worked to improve this leased land and now have several substantial buildings, tho I owe the bank over $400,000.00 in personal guaranteed loans. I've worked hard. I've provided for increases such as inflation and taxes, but who of us can afford 850 percent increases? We who have paid many times the original value, held it, and improved it, should be entitled to justice. It seems impossible that 20 years of work and investment can be wiped out with one stroke of a pen - in this country! Particularly so, when it does not appear beneficial to the State Government, or her resident Alaskans.

I ask again for you to give our bill your most considered deliberation and wish you well in coming to a fair decision. Thank you for your time.

Joe Wilhour
376-5601
Box 740, Wasilla, Alaska 99687

THE FIRST NATIONAL BANK OF ANCHORAGE

June 18, 1976

Mr. Joe Wilhour
Anchorage, Alaska

Dear Mr. Wilhour:

We have reviewed your informal request to consider financing a new building on Commercial Row, the loan to be secured by an assignment of the State land lease and the building placed on the lease.

At this time it is impossible for us to give you a commitment for construction until we can confirm what the future rental on the building will be. We have reviewed the other financing that we have done for you on your property and find that the quarterly rent has been raised from $996.00 to $8,200.00, an increase of 850%. A further review of the lease indicates that every five years it can be similarly raised.

Under these circumstances, it is impossible for us to guess what the future land rentals will be, and therefore, unless you are able to secure a lease of an equal term to the mortgage wherein the tenant agrees to pay the increased land rental, it will be impossible for us to advance the credit requested.

Sincerely,

D. H. CUDDY
President

DHC:mh

ALASKA LAND AND LEASE OWNERS ASSOCIATION

TRANSMITTAL TO
ALASKA DIVISION OF LAND

EXAMPLE OF A LONG TERM LEASE APPRAISAL METHOD

ASSUME ORIGINAL COST OF LEASE $10,000.00
LEASE PAYMENTS TO EQUAL 75% OF APPRAISED VALUE X 6%/YR.

TERM	% INC YR	% INC TERM	% ORIG VALUE	NEW APPRAISED VALUE	LEASE PAYMENTS	ACCUMULATED COST TO LEASEE
1-5	5%	25%	100.00%	10,000.00	2,250.00	12,250.00
5-6	5%	25%	125.00%	12,500.00	2,812.50	15,062.50
6-10	5%	25%	156.25%	15,625.00	3,515.63	18,578.13
10-15	5%	25%	195.31%	19,531.25	4,394.53	22,972.66
15-20	5%	25%	244.14%	24,414.06	5,493.16	28,465.82
20-25	5%	25%	305.18%	30,517.58	6,866.44	35,332.28
25-30	5%	25%	381.48%	38,146.98	8,583.05	43,915.35
30-35	5%	25%	476.85%	47,683.73	10,728.81	54,644.16
35-40	5%	25%	596.06%	59,604.66	13,411.02	68,055.18
40-45	5%	25%	745.08%	74,505.83	16,763.77	84,818.95
45-50	5%	25%	931.35%	93,132.29	20,954.71	105,773.66
50-55	5%	25%	1,164.18%	116,415.36	26,193.39	131,967.05

At the end of a typical 55 year lease using a reasonable 5%/year increase in appraised value, the State of Alaska collects $131,967.05 for a parcel that cost $10,000.00 originally - still owns the land, and lease holder has no accrued equity, to compare this to fee simple title for appraisal is wrong and not good business on the part of the state.

If the parcel changes hands during a 55 year lease the state could place a reasonable tax on any net lease holder gain, for example 5%, this would leave incentive for investors, developers and not unfairly penalize individual lease holders who want to live on state lease land.

In view of the example above how can reappraisals amounting to increases of from several hundred to over one thousand percent in a 5 year period be justified?

RESPECTFULLY SUBMITTED
BY

ALASKA LAND AND LEASE OWNERS ASSOCIATION

Stevens News Letter

...TIONAL PARK -- Claudia Louis, a member of the Washington, D.C. Staff, presents the ceremonial pen used by President Ford to sign S. 98, the Klondike Park bill, into law to Mayor John Edwards (right) of Skagway and Ward A. Hisman (left), Superintendent of the White Pass & Yukon Route Railway.

BLM Bill

President Ford has signed a bill which will allow Alaskans to continue to use public lands to build homes, farms, or trade or manufacturing concerns, under provisions added to the bill in the Senate by Senator Stevens.

The amendment allows the Secretary of the Interior to grant long-term leases for habitation, cultivation, trade or manufacturing on the lands.

The National Resource Lands Management Act, S. 507, also known as the BLM Organic Act, repeals homesteading in 10 years and this amendment was needed to enable individuals to continue to use and develop public lands, despite the repeal of homesteading laws.

The authority of the new law designed to provide for the management, protection and development of public domain lands not committed to other uses -- extends to the unreserved federal land in Alaska remaining after Alaska Native Claims Settlement Act and Statehood Act withdrawals are made.

It was pointed out that the passage of this law with this amendment will provide some type of incentive for people to come in and carve a livelihood out of the wilderness. The law will allow individuals to gain a right to and an interest in federal lands by actively working to develop and use the land productively.

The leases could be used to build new communities, farms, small sawmills and small manufacturing plants needed in isolated rural areas.

Mid-Decade Census Law

A bill which could mean substantially increased federal funding for Alaska from programs based on population has been signed into law by President Ford.

The bill, cosponsored by Senator Stevens, authorizes a national census and July 1, 1975, Alaska's population increased by 16.3 percent. An official census every five years would allow this rapid change to be reflected in federal funding and programs.

The Office of Management and Budget estimates that about $39 billion in federal funds are distributed every year to the states according to formulas based on population.

Wonder what their lease policy is?

NB 383

X

STATE OF ALASKA

WILLIAM A. EGAN, Governor

DEPARTMENT OF EDUCATION

BOARD OF EDUCATION / POUCH F -- ALASKA OFFICE BUILDING
JUNEAU 99801

April 8, 1977

See where it is?
In (H) Resources
CSSB 159 - will
go out of committee
their

Honorable Alvin Osterback, Chairman
House Resources Committee
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Chairman Osterback:

HB 383, relating to state land, was introduced at the request of the Governor on March 22 and is, we hope, among those bills that he indicated he would not press for passage this year.

In HB 383 we see areas of public concern that require review, record search and fuller public discussion. We do not oppose the bill at this time, but we recommend that action not be taken on it this year.

We believe HB 383 has certain drafting deficiencies and uncertainties, and we would hope those might be addressed between sessions. To mention one substantive point of concern, we think it too early to charge management costs against trust land income. We believe that the history of those lands and their management and proceeds should first be traced before the Legislature makes such a determination. Whatever such search reveals, we believe it inappropriate that some government agencies enjoy free use of trust lands while (under HB 383) such remaining trust lands as do yield income are charged for management costs. We believe this an unwitting subversion of such lands' intended purpose; namely, to create income for stated public programs. At very least, free use should be weighed against charging management costs to some trust lands.

Now that HB 383 has been introduced, we hope to make necessary analyses and to put them before this Legislature's second session.

We note that HB 387, introduced a day later, touches on at least one of the same subjects addressed by HB 383. Because of that, and because HB 387 is not in a form that permits ready comparison of the existing statutes with the proposed bill's new language, we suggest that legislative action on HB 387 also be deferred.

Sincerely,

Katherine T. Hurley

Katherine T. Hurley, President
State Board of Education

cc: Jay S. Hammond, Governor
State of Alaska

John Sackett, Chairman
Senate Finance Committee

Steve Cowper, Chairman
House Finance Committee

Kay Poland, Chairman
Senate Resources Committee

Hugh Malone, Speaker
House of Representatives

John L. Rader, President
Alaska State Senate

Theodore G. Smith, Director
Division of Land & Water Resources
Department of Natural Resources

Members, State Board of Education

Original

STATE OF ALASKA
THE LEGISLATURE
LEGISLATIVE AFFAIRS AGENCY

POUCH Y · STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

M E M O R A N D U M — March 9, 1977

SUBJECT: CSSB 159, relating to leasing of state lands

TO: Senator John Sackett, Chairman
Senate Finance Committee

FROM: John B. Chenoweth
Legislative Counsel

The above-referenced bill has been referred to the Finance Committee.

Should the committee concur in the changes to the original bill made by the Resources Committee, please amend page 1, line 23 to make reference to "the preceding ten-year period" rather than the five-year period mentioned, to conform to the alteration of the reappraisal period from five to ten years.

JBC:hjd

February 22, 1977

Jay S. Hammond, Governor
Pouch A
Juneau, AK 99811

Dear Governor Hammond:

The Ad Hoc Committee on land policies and procedures has met on a weekly schedule since late October. We have addressed many problems dealing with the administration of the state's land patrimony. Many of these problems need resolution through the legislative process. Accordingly we are submitting these following recommendations as an interim report of the Committee, in the hope that the legislature may act during its current session.

Recommendation #1

The committee recommends that the State adopt a system of level payments in place of declining payments in its sales contracts. The system of level payments is in common use in the business world, and the payment figures are easily set forth in a contract. The disadvantage of the present method is that interest must be recalculated every year and the payments decrease each year. From both the State's and the buyers' viewpoints, the level payment method would be preferred. The State would receive slightly more in interest payments over the contract terms and the buyer would not have to make as high initial payments.

Section 2 & 3 of the attached draft bill would accomplish this.

Recommendation #2

The committee recommends that the State charge a market rate of interest in its sales contracts. The interest rate, at present 6%, is below market levels and may have contributed to inflated prices at state land sales. By setting interest rates at market levels, the State would help prevent inflated land prices and at the same time return more income to the State. To provide for a market rate of interest in sales contracts, no change in AS 38.05.065 would be required. The addition of a statement of market rate in this statute would be desirable, however.

Section 3 of the attached draft bill would accomplish this.

Recommendation #3

The Committee recommends that all sales contracts over $400.00 per year have the option of paying in quarterly installments instead of annual installments. It is the committee's belief that this would ease the financial strain on the buyer and yet not add significantly to the State's administrative costs.

Section 3 of the attached draft bill would accomplish this.

Recommendation #4

The committee recommends that the Director be given the authority to set the payment period from one to twenty years. This type of flexibility would allow the State and buyers greater market possibilities.

Section 3 of the attached draft bill would accomplish this.

Recommendation #5

The committee believes that the word "primarily" may imply special consideration to some lessees. In order to treat all lessees fairly and equitably the committee recommends that the word primarily be stricken. Deleting "primarily" would clarify the basis for reappraisal. This recommendation is also made by the hearing panel on the Alaska Industrial Subdivision leasing protest.

Section 8 of the attached bill will accomplish this.

Recommendation #6

Since public notice is covered in AS 38.05.345 the change to "appraisal" for AS 38.05.310 is warranted by its present content. The committee recommends that land may be appraised 120 days in advance of a sale or lease. The change from 90 to 120 days would be desirable in that minimum bid information could be given to the public well in advance of the actual sale or lease auction.

Section 10 of the attached draft bill will accomplish this.

Recommendation #7

The committee recommends that land offered over the counter be reviewed at 90 to 120 day intervals to determine if an increase in value has occurred. This review is desired so that parcels are not undervalued by progressive changes in the market.

Section 10 of the attached draft bill would accomplish this.

Recommendation #8

The committee recommends that in Title 38.05 of the statutes the terms "fair market value" be used in place of "fair appraised market value" and "market value." The meaning is meant to be the same in all cases. The committee would like to see one standard term used to avoid confusion and misunderstanding.

Sections 4, 5, 7, & 13 of the attached draft bill would accomplish this.

Recommendation #9

The duration of a lease and the economic life of substantial improvements, such as stores or factories may not coincide. In order to see that state leased land is used in a rational economically productive manner the committee recommends that lessees of long-term leases be given a renewal option for up to fifteen years. This type of option would grant the lessee more flexibility in maximizing his investment returns, especially during the final years of his lease. It would also increase the lessee's planning possibilities for use of the leased ground. This action would also soften the impact of termination of the lease. Specifically, this would permit a lessee to work substantial repairs to a building when the remaining term of the lease would not otherwise justify it.

Section 6 of the attached draft bill would accomplish this.

Recommendation #10

In order to provide a uniform 55 year limit for all long-term leases the committee recommends deletion of the 99 year provision found in 38.05.070(c) for school lands.

Section 6 of the attached bill would accomplish this.

Recommendation #11

The committee believes that state trust lands (school, mental health, and university) are now and have been managed at a low intensity. These lands may be returning only a fraction of their potential value that could be realized by a small full time management staff. The Division manages, these lands at no charge to the various trust funds and receives no reimbursement for its services. Therefore, it has traditionally placed low priority on management of these lands. This committee recommends that the State Legislature authorize each trust board the authority to freely contract with any agency or private firm for the management of its lands for revenue production in accordance with the state's land act.

Section 1 of the attached draft bill would accomplish this.

Recommendation #12

To provide the lessee insurance against a land boom or unexpected increase the committee recommends that rental increases at the five-year reappraisal periods not exceed 100% of the prior existing annual rental rate. This action would increase the predictability of the lessees payments. The stability thus created would add significant borrowing power for the lessee to finance improvements on the leased ground. Mr. Mack of this committee does not concur and believes that 100% is too high a ceiling.

Section 8 of the attached draft bill would accomplish this.

Recommendation #13

The Division of Lands has had many protests from private parties over the past few years leading the committee to believe that a board of appeals is highly desirable and needed, at this time. At present there exists no arbitration board or board of appeals to handle appeals allowed by Division of Lands regulations. The creation of a board of appeals would effect a responsive mechanism for solving most problem cases arising out of Division of Lands transactions that affect private parties. The board of appeals would be faster and less costly to private parties than legal recourse, which would still be available. The board is structured to maintain adequate expertise while attempting to eliminate bias in favor of the

Division of Lands. The appeal board would substitute for the Commissioner in the present appeal process.

Section 14 of the attached draft bill would accomplish this.

Recommendation #14

The current procedures.for informing the public of state lands transactions are covered in AS 38.05.305 and AS 38.05.345. The two procedures do not mesh in a clear manner. The committee recommends that the procedures be clarified in a manner that will be flexible enough to inform the public fully and yet not require multiple advertising for minor negotiated transactions.

Section 11 of the attached draft will accomplish this.

Recommendation #15

To implement the new lease provisions recommended by this committee new lease forms for various types of leases will be required. It is the committee's recommendation that the Division draft new lease forms to comply with the statues adopted, and that the new forms be reviewed by this committee.

Recommendation #16

At present many lessees are suffering hardship due to rent increases of several hundred percent. To provide for this relief and as a curative for such future increases the statutory provisions found in section nine are recommended. Provision for optional conversion of present leases to ones that will place a ceiling of 100% on rental increases every five years will largely prevent future hardship cases and resolve satisfactorily the present cases. With a rent ceiling lease rental increases will be more predictable resulting in more financial stability for the lessee. Mr. Mack does not concur with the limitation of 100%.

Section 8 & 9 of the attached draft bill will accomplish the above recommendations.

Recommendation #17

The committee recommends that the Legislature apply the provisions found in Title 38 to those in Title 3 and Title 19. The rationale would be to make land laws uniform between the Division of Aviation, Department of Highways and Division of Lands.

Recommendation #18

To comply with new statues the committee recommends a major overhaul of Division of Lands regulations. The committee has found many of the regulations now in effect to be outdated and superseded by statutes.

Recommendation #19

The committee recommends that the State be given more flexibility to resolve contract of sale violations. This is necessary to prevent foreclosure as the