

LEGISLATIVE FINANCE - HOUSE / SENATE FINANCE COMM. FILES 8879

HB 581 cont. - HB 594, EO 72 556 47

Table 1. Average Practice Expenses and Net Incomes of Self-Employed Physicians in Ontario and the United States in 1986, According to Specialty.*

SPECIALTY	ONTARIO		UNITED STATES	
	EXPENSES	INCOME	EXPENSES	INCOME
	<i>thousands of U.S. dollars</i>			
General practice	54.6	78.6	119.9†	84.3†
Family practice	54.9	74.7		
Internal medicine	57.3	121.9	110.5	118.6
Anesthesia	24.4	106.4	96.7	160.6
Psychiatry	35.0	91.0	46.7	98.3
Pediatrics	63.9	103.4	93.2	90.8
General surgery	63.3	109.7	112.3	152.8
Orthopedic surgery	68.4	130.4	210.3	212.8
Urology	28.2	136.1	125.5	136.6
Ophthalmology	90.6	116.4	152.3	163.5
Otolaryngology	80.2	132.5	159.6	154.2
Obstetrics and gynecology	75.7	114.9	149.5	144.5
Pathology	100.0	106.1	67.8	177.8

*The sources of these data are the Ontario Medical Association, which bases its data on information provided by Revenue Canada, and the American Medical Association's Socioeconomic Monitoring System. Income figures for Ontario are based on data for physicians whose income is derived solely from self-employment. U.S. physicians cited are non-federal patient care practitioners.

†Figures for general practice and family practice are combined in the AMA data.

Frederick H. Lowy, a professor of psychiatry at the University of Toronto and former dean of its faculty of medicine, who recently chaired the Pharmaceutical Inquiry of Ontario, a commission established by the Ontario Ministry of Health to study the rapid rise in the cost of prescription drugs, summarized the sentiment in an interview:

My physician colleagues are increasingly dissatisfied. Medical incomes are really quite good, that's not the central problem. It is more psychological. Physicians feel they are being increasingly conscripted by administrators and government. The cost containment methods allow government to negotiate from great strength. The playing field is quite unequal. There are significant restrictions on the availability of technology and hospital beds. Physicians are being asked to make unusual sacrifices compared to other segments of society.

A survey in 1989 of 608 physicians randomly selected from all parts of Ontario, conducted for the Ontario Medical Association, agreed with Lowy's view. When the physicians were asked whether they approved of the provincial government's handling of rising costs, 94 percent said they disapproved, and only 3 percent approved. Half the physicians polled said that they were finding it increasingly difficult to have patients admitted to hospitals; in Ontario, hospitals have an average occupancy rate of 90 percent.

CONCLUSION

In 1986, I reported that Canada's provincial health insurance plans resembled a pressure cooker building up steam on a hot stove.¹⁸ Three and a half years later, the analogy holds, but the heat has been turned up. Canada's health care system is buffeted by conflicting forces — its strong commitment to universal access, of which Canadians are justifiably proud; the accelerating efforts of the provinces to control costs while they continue to expand the scope of covered benefits; and

the increasing frustration of practicing physicians and hospital stewards who are caught in the middle. Until recently, these tensions have remained within manageable bounds throughout Canada, but whether that will continue, without a new accommodation, particularly if the national economy slows, is an open question. Most of the provinces have created blue-ribbon working groups in the past several years to seek solutions to identified problems, and these exercises have eased some of the tension temporarily. But it seems inevitable that Canada will eventually reopen the question of how care is financed. The provinces will jeopardize their capacity to support other social priorities if they continue to rely on tax revenues to finance unlimited access to most health services, and to produce more physicians than can be accommodated. At the same time, private investment could endanger the egalitarian nature of Canadian health care. Revising the current formulation of policy will require a more meaningful dialogue than exists at present among the federal and provincial governments, organized medicine, and other major stakeholders in the system. Without such dialogue, Canadians place at risk the future of their provincial health insurance plans, social enterprises that are admired throughout the Western world. The medical profession faces an additional challenge: to examine more rigorously the appropriateness and efficacy of the clinical care it renders.¹⁹

REFERENCES

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CSHB 581 (FIN)

FISCAL NOTE CALCULATIONS AND ASSUMPTIONS

April 18, 1990

		FY 91	FY 92	
PERSONNEL	<i>WAS</i>			<i>FY 92 was</i>
RAIII 20 ^{1/2} months	= \$ 84,740	\$ 33,896	\$ 50,844	
RA II 16 ^{1/2} months	= 54,912	24,024	30,888	
CTIII 18 ^{2/3} months	= 39,564	15,336	24,178	
Total personnel	\$179,216	<i>43,031</i> \$ 73,306	\$105,910	<i>102,470</i>
<hr/>				
TRAVEL		FY 91	FY 92	
Task Force travel:				
8 meetings, 5 members, 3 days per diem	<i>\$17,250</i>	\$ 15,000	25,000	<i>28,750</i>
Evenings will be public meeting & discussion				
Next day is education/work session				
3 days stipend @ \$100; avg. fare \$400; misc.				
\$30 total per meeting, per member \$850				
Staff travel for research and meetings:	<i>9,000</i>	7,000	9,000	<i>12,000</i>
Total travel	<i>26,250</i>	\$22,000	\$34,000	<i>40,750</i>
<hr/>				
CONTRACTUAL		FY 91	FY 92	
Printing			-0-	<i>1,000</i>
3 X \$5,000 for expert testimony & task force education	<i>10,000</i>	14,000	-0-	<i>10,000</i>
Advertizing (display ads)	<i>1,500</i>	3,500	6,500	<i>2,500</i>
Telephone long distance calls		350	650	
Office Space	<i>6,750</i>	-0-	-0-	<i>9,000</i>
Employer survey (phone)		20,000		
Characteristics survey (phone, interview and observation)		50,000		
Total contractual	<i>88,600</i>	\$87,850	\$ 7,150	<i>23,150</i>
<hr/>				
SUPPLIES		FY 91	FY 92	
Paper goods, office supplies		\$ 600	450	
Reference books	<i>Same</i>	300		<i>Same</i>
Total supplies		\$ 900	\$ 450	
<hr/>				
EQUIPMENT		FY 91	FY 92	
Personal Computer <i>≈ \$4,500 value</i>	<i>same</i>	-0-	-0-	<i>same</i>
<hr/>				
TOTAL FOR PROJECT		<i>208,781</i> \$184,056	\$147,510	<i>166,820</i>

Assumptions:

Total Reduction from HB581 - 44,035

1. Written work of the task force in providing program description and supportive documentation will be provided by legislative research agency, including any report printing.
2. Teleconferencing of public meetings will be provided at no cost through the legislative network or other comparable arrangement.
3. Reimbursement for services of those appointed by the Governor will be limited to \$100 per day plus travel and per diem.
4. Advisory committee members will provide funding for travel and other costs for their participation from their respective budgets.
5. Office space to be provided within existing legislative offices or by other donated arrangement.
6. Computer used for staff research work will be donated.

WE WERE ABLE TO REDUCE THE FISCAL NOTE FOR THIS BILL BY OVER \$44,000 BY:

CAREFULLY REVIEWING THE NUMBER OF MONTHS THAT PERSONNEL WOULD BE REQUIRED FOR THE PROJECT:

	FROM	TO	DIFFERENCE
RESEARCH ANALYST III	22	20	2 MONTHS
RESEARCH ANALYST II	17	16	1 MONTH
CLERK TYPIST III	20	18	2 MONTHS

PERSONNEL REDUCTIONS IN FY 91 SAVE ABOUT \$20,000 ON THE PROJECT.

REDUCING STAFF TRAVEL AND ADVISORY COMMITTEE STIPENDS FROM \$150 PER DAY TO \$100 PER DAY
KNOCKS OFF OVER:

FY 91		FY 92
\$4,000	AND	\$5,000

WHILE A CERTAIN AMOUNT OF EXPERT TESTIMONY WILL BE NECESSARY WE THINK THE ORIGINAL \$20,000 IS TOO MUCH AND HAVE REDUCED THAT BY \$6,000.

ADDING CONTRACTUAL COST OF ALMOST \$16,000 FOR OFFICE SPACE WAS A REDICULOUS EXPENSE THAT CAN BE HANDLED WITHIN THE SPACE WE ALREADY HAVE. THIS COST IS TOTALLY ELIMINATED.

WE DO NOT REQUIRE ANOTHER COMPUTER \$4,500 FOR THIS PROJECT.

ALL OF THESE REDUCTIONS ADD UP TO A \$44,000 REDUCED COST FOR THE TOTAL PROJECT:

FY 91	FY 92	TOTAL REDUCTION IN FISCAL NOTE
\$24,725	\$19,310	\$44,035

FISCAL NOTE

REQUEST:

Revision Date: April 4, 1990 Agency Affects: DHSS
 Title: "An Act creating a universal health care task force and providing for an effective date." BRU: Administrative Services
 Sponsor: by the HESS Committee Components: Planning and Development
 Requestor: by the HESS Committee

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES	73.3	105.9				
TRAVEL	22.0	34.0				
CONTRACTUAL	87.8	7.2				
SUPPLIES	0.9	0.5				
EQUIPMENT	0.0	0.0				
LAND & STRUCTURES	0.0	0.0				
GRANTS, CLAIMS	0.0	0.0				
MISCELLANEOUS	0.0	0.0				
TOTAL OPERATING	184.0	147.6	0.0	0.0	0.0	0.0
CAPITAL	0.0	0.0				
REVENUE	0.0	0.0				

FUNDING: (Thousands of Dollars)

GENERAL FUND	184.0	147.6				
FEDERAL FUNDS	0.0	0.0				
OTHER	0.0	0.0				
TOTAL	184.0	147.6	0.0	0.0	0.0	0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY	3	3				

ANALYSIS: (Attach a separate page if necessary)

See attached assumptions and calculation analysis. No fiscal impact in FY 1990.

Prepared by: D. Williams *DW* Phone: 465-3015
 Division: Div. of Admin. Svcs., DHSS Date: April 18, 1990
 Approved by Commissioner: *Mike J. Minner* Date: 4/18/90
 Agency: Dept. of Health & Soc. Svcs

Distribution (by preparer):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

CSHB 581 (FIN)

FISCAL NOTE CALCULATIONS AND ASSUMPTIONS

April 18, 1990

PERSONNEL		FY 91	FY 92
RAIII 20 months	= \$ 84,740	\$ 33,896	\$ 50,844
RA II 16 months	= 54,912	24,024	30,888
CTIII 18 months	= 39,564	15,386	24,178
Total personnel	\$179,216	\$ 73,306	\$105,910

TRAVEL		FY 91	FY 92
Task Force travel:			
8 meetings, 5 members, 3 days per diem		\$ 15,000	25,000
Evenings will be public meeting & discussion			
Next day is education/work session			
3 days stipend @ \$100; avg. fare \$400; misc.			
\$30 total per meeting, per member \$850			
Staff travel for research and meetings:		7,000	9,000
Total travel		\$22,000	\$34,000

CONTRACTUAL		FY 91	FY 92
Printing			-0-
3 X \$5,000 for expert testimony & task force education		14,000	-0-
Advertisizing (display ads)		3,500	6,500
Telephone long distance calls		350	650
Office Space		-0-	-0-
Employer survey (phone)		20,000	
Characteristics survey (phone, interview and observation)		50,000	
Total contractual		\$87,850	\$ 7,150

SUPPLIES		FY 91	FY 92
Paper goods, office supplies		\$ 600	450
Reference books		300	
Total supplies		\$ 900	\$ 450

EQUIPMENT		FY 91	FY 92
Personal Computer		-0-	-0-

TOTAL FOR PROJECT		\$184,056	\$147,510

Assumptions:

1. Written work of the task force in providing program description and supportive documentation will be provided by legislative research agency, including any report printing.

2. Teleconferencing of public meetings will be provided at r cost through the legislative network or other comparable arrangement.

3. Reimbursement for services of those appointed by the Governor will be limited to \$100 per day plus travel and per diem.

4. Advisory committee members will provide funding for travel and other costs for their participation from their respective budgets.

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 Requestor: by the HESS Committee

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY92	FY93	FY94	FY 95	FY 96
PERSONAL SERVICES	93.0	102.5				
TRAVEL	26.3	40.8				
CONTRACTUAL	88.6	23.2				
SUPPLIES	0.9	0.5				
EQUIPMENT	0.0	0.0				
LAND & STRUCTURES	0.0	0.0				
GRANTS, CLAIMS	0.0	0.0				
MISCELLANEOUS	0.0	0.0				
TOTAL OPERATING	208.8	167.0	0.0	0.0	0.0	0.0

CAPITAL	0.0	0.0				
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REVENUE	0.0	0.0				
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FUNDING: (Thousands of Dollars)

GENERAL FUND	208.8	167.0				
FEDERAL FUNDS	0.0	0.0				
OTHER	0.0	0.0				
TOTAL	208.8	167.0	0.0	0.0	0.0	0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY	3	3				

ANALYSIS: (Attach a separate page if necessary)

See attached assumptions and calculation analysis. No fiscal impact in FY 1990.

Prepared by: D. Williams
 Division: Div. of Admin. Svcs., DHSS
 Approved by Commissioner: [Signature]
 Agency: Dept. of Health & Soc. Svcs

Phone: 465-3015
 Date: April 4, 1990
 Date: 4/4/90

Distribution (by preparer):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

CSHB 581
FISCAL NOTE CALCULATIONS AND ASSUMPTIONS

PERSONNEL	FY 91	FY 92
RAIII 22 months = \$ 93,214	\$ 42,370	\$ 50,844
RA II 17 months = 58,327	30,879	27,448
CTIII 20 months = 43,960	19,782	24,178
Total personnel \$195,501	\$93,031	\$102,470

TRAVEL	FY 91	FY 92
Task Force travel:		
8 meetings, 5 members, 3 days per diem	\$ 17,250	28,750
Evenings will be public meeting & discussion		
Next day is education/work session		
3 days stipend @ \$150; avg. fare \$400; misc.		
\$30 total per meeting, per member \$850		
Staff travel for research and meetings:	9,000	12,000
Total travel	\$26,250	\$40,750

CONTRACTUAL	FY 91	FY 92
Printing		1,000
4 X \$5,000 for expert testimony & task force education	10,000	10,000
Advertizing (display ads)	1,500	2,500
Telephone long distance calls	350	650
Office space (500 sq. ft. lease @ 1.50 per sq ft)	6,750	9,000
Employer survey (phone)	20,000	
Characteristics survey (phone, interview and observation)	50,000	
Total contractual	\$88,600	\$23,150

SUPPLIES	FY 91	FY 92
Paper goods, office supplies	\$ 600	450
Reference books	300	
Total supplies	\$ 900	\$ 450

EQUIPMENT		
Personal Computer ≈ \$4,500 value donated	-0-	-0-

TOTAL FOR PROJECT	\$208,781	\$166,820

Assumptions:

1. Written work of the task force in providing program description and supportive documentation will be provided by legislative research agency.
2. Teleconferencing of public meetings will be provided at no cost through the legislative network or other comparable arrangement.
3. Reimbursement for services of those appointed by the Governor will be limited to \$150 per day plus travel and per diem.
4. Advisory committee members will provide funding for travel and other costs for their participation from their respective budgets.
5. Computer used for staff research work will be donated.

HB

5841

SENATE FINANCE COMMITTEE REPORT

DATE: 4/26/90

FURTHER:

DATE TURNED INTO OFFICE: 5/5/90

The Finance Committee considered

HB 584 am

Revolving loan fund in the Dept of Health and Social Services.

and recommended:

- replace with _____ CS _____ same title
 or adopt _____ CS _____ new title
 attached amendment(s) technical title change (HB only)
 _____ letter of intent adopted

do pass

do not pass

no recommendation

individual recommendations

further referral to _____

ATTACHES NEW FISCAL NOTE(S):
Dept/Date:

fiscal note(s) _____

zero fiscal note(s) _____

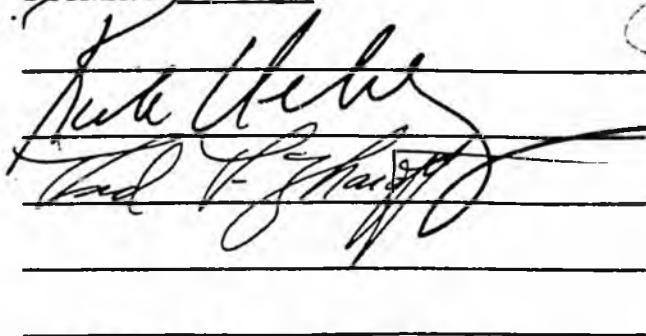
appropriation-no fiscal note

APPROVES PREVIOUS:

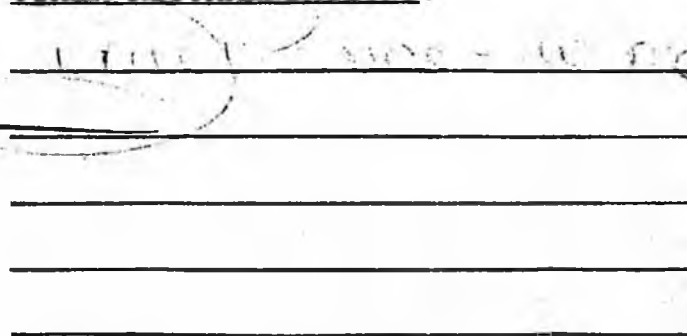
Dept/Date:
 fiscal note(s) _____


zero fiscal note(s) DH&SS 3/28/90

SIGNING DO PASS:



OTHER RECOMMENDATIONS:



1.  2. _____
Co-Chairs: Signatures and Recommendations

FISCAL NOTE

REQUEST:

Revision Date: _____ Agency Affected: Health & Social Services
 Title: Relating to a revolving loan fund BRU: _____
in the Department
 Sponsor: House HESS Components: _____
 Requestor: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY92	FY93	FY94	FY 95	FY 96
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL	0.0	0.0	0.0	0.0	0.0	0.0
REVENUE	0.0	0.0	0.0	0.0	0.0	0.0

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:

FULL-TIME	0.0	0.0	0.0	0.0	0.0	0.0
PART-TIME	0.0	0.0	0.0	0.0	0.0	0.0
TEMPORARY	0.0	0.0	0.0	0.0	0.0	0.0

ANALYSIS: (Attach a separate page if necessary)
 FY 90 fiscal impact is "0".

Prepared by: Matthew Felix, Acting Director
 Division: Alcohol and Drug Abuse
 Approved by Commissioner: Myra M. Munson
 Agency: Department of Health and Social Services

Phone: 586-6201
 Date: 3/28/90
 Date: _____

- Distribution (by preparer):
 Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)

Adopted

BY THE HESS COMMITTEE

1 IN THE HOUSE

2

HOUSE BILL NO. 584 am

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

SIXTEENTH LEGISLATURE .. SECOND SESSION

5

A BILL

6

For an Act entitled: "An Act relating to a revolving loan fund in the

7

Department of Health and Social Services."

8

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

9

* Section 1. AS 44.29 is amended by adding new sections to read:

10

ARTICLE 3. ALCOHOLISM AND DRUG ABUSE REVOLVING LOAN FUND.

11

Sec. 44.29.210. CREATION OF AN ALCOHOLISM AND DRUG ABUSE REVOLV-

12

ING LOAN FUND. (a) There is created in the department an alcoholism

13

and drug abuse revolving loan fund as required under 42 U.S.C. 300x -

14

4a to qualify the state to receive block grant money from the United

15

States Department of Health and Human Services under 42 U.S.C. 300x -

16

2.

17

(b) The fund consists of money appropriated to it, payments of

18

principal on loans made from it, and money chargeable to principal

19

that is collected through liquidation by foreclosure or other process

20

on loans made from it.

21

(c) Money in the fund may be used as required under 42 U.S.C.

22

300x - 4a to make loans to private nonprofit organizations for the

23

cost of establishing programs to help pay the living expenses of

24

individuals recovering from alcohol or drug abuse who may reside in

25

groups.

26

Sec. 44.29.215. SPECIAL ACCOUNT ESTABLISHED. (a) There is

27

established as a special account within the alcoholism and drug abuse

28

revolving loan fund the foreclosure expense account. This account is

29

established as a reserve from fund equity.

1 (b) The department may expend money credited to the foreclosure
2 expense account when necessary to protect the department's security
3 interest in collateral on loans made under AS 44.29.210 or to defray
4 expenses incurred during foreclosure proceedings after a default by an
5 obligor.

6 Sec. 44.29.220. POWERS AND DUTIES OF THE DEPARTMENT. (a) The
7 department may

8 (1) adopt regulations necessary to carry out its functions
9 under AS 44.29.210 - 44.29.230 and to administer the program required
10 under 42 U.S.C. 300x - 4a, including regulations to establish reason-
11 able fees for services provided, procedures for foreclosure proceed-
12 ings, and procedures for collecting delinquent accounts;

13 (2) establish amortization plans for the repayment of
14 loans;

15 (3) charge and collect the fees established under this
16 subsection; and

17 (4) contract for the servicing of loans made under AS 44.-
18 29.210.

19 (b) The commissioner of administration shall separately account
20 for all earnings, interest, fees, and collection charges that the
21 department deposits in the general fund. The annual estimated balance
22 in the account may be used by the legislature to make appropriations
23 to the department to carry out the purposes of AS 44.29.210 - 44.29.-
24 230.

25 Sec. 44.29.225. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR
26 FORECLOSURE. The department shall dispose of property acquired
27 through default or foreclosure on a loan made under AS 44.29.210.
28 Disposal shall be made in a manner that serves the best interests of
29 the state and may include the amortization of payments over a period

1 of years.

2 Sec. 44.29.230. DEFINITION. In AS 44.29.210 - 44.29.230, "de-
3 partment" means the Department of Health and Social Services.

H B

5841

HOUSE COMMITTEE REPORT

File

(11)
Date Referred: March 30, 1990

FURTHER REFERRALS:

Date of Committee Action: 4/19/90

The FINANCE Committee considered:

HB 584

HOUSE BILL NO. 584 ALCOHOLISM & DRUG ABUSE LOAN FUND

"An Act relating to a revolving loan fund in the Department of Health and Social Services."

RECOMMENDATIONS:

- [] be replaced with _____ [] the same title
- [] have attached amendment(s) [] a new title
- [] do pass
- [] do not pass
- [] no recommendation
- [] individual recommendations
- [] additional referral to the _____ Committee

ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(s): APPROVES PREVIOUS: (Date/Dept)

- [] fiscal impact _____ [] fiscal note(s) _____
- [] zero fiscal note _____ [] zero fiscal note(s) DHSS 3/30/90
- [] zero with analysis _____ [] zero fn/analysis _____

SIGNING DO PASS:

SIGNING:
(Check approp. column)

Do Not Pass No Rec Amend

<u>Ronald J. Larson</u> Larson	<u>Dick Shultz</u> Shultz			
<u>Swackhammer</u> Swackhammer	<u>Phillips</u> Phillips		✓	
<u>Brown</u> Brown				
<u>Koponen</u> Koponen				
<u>Weger</u> Weger				
<u>Waus</u> Waus				
<u>Hoffman</u> Hoffman				

Ronald J. Larson Larson
CG-Chairman's Signature

FISCAL NOTE

REQUEST:

Revision Date: _____ Agency Affected: Health & Social Services
 Title: Relating to a revolving loan fund BRU: _____
in the Department
 Sponsor: House HESS Components: _____
 Requestor: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY92	FY93	FY94	FY 95	FY 96
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL	0.0	0.0	0.0	0.0	0.0	0.0
REVENUE	0.0	0.0	0.0	0.0	0.0	0.0

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:

FULL-TIME	0.0	0.0	0.0	0.0	0.0	0.0
PART-TIME	0.0	0.0	0.0	0.0	0.0	0.0
TEMPORARY	0.0	0.0	0.0	0.0	0.0	0.0

ANALYSIS: (Attach a separate page if necessary)
 FY 90 fiscal impact is "0".

Prepared by: Matthew Felix, Acting Director
 Division: Alcohol and Drug Abuse
 Approved by Commissioner: Myra M. Munson
 Agency: Department of Health and Social Services

Phone: 586-6201
 Date: 3/28/90
 Date: _____

Distribution (by preparer):
 Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)

Adopted

Introduced: 3/16/90
Referred: HESS, and Finance

6-2287A

BY THE HESS COMMITTEE

1 IN THE HOUSE

2 HOUSE BILL NO. 584

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to a revolving loan fund in the
7 Department of Health and Social Services."

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

9 * Section 1. AS 44.29 is amended by adding new sections to read:

10 ARTICLE 3. ALCOHOLISM AND DRUG ABUSE REVOLVING LOAN FUND.

11 Sec. 44.29.210. CREATION OF AN ALCOHOLISM AND DRUG ABUSE REVOLV-
12 ING LOAN FUND. (a) There is created in the department an alcoholism
13 and drug abuse revolving loan fund as required under 42 U.S.C. 300x -
14 4a to qualify the state to receive block grant money from the United
15 States Department of Health and Human Services under 42 U.S.C. 300x -
16 2.

17 (b) The fund consists of money appropriated to it, payments of
18 principal on loans made from it, and money chargeable to principal
19 that is collected through liquidation by foreclosure or other process
20 on loans made from it.

21 (c) Money in the fund may be used as required under 42 U.S.C.
22 300x - 4a to make loans to private nonprofit organizations for the
23 cost of establishing programs to provide housing in which individuals
24 recovering from alcohol or drug abuse may reside in groups.

25 Sec. 44.29.215. SPECIAL ACCOUNT ESTABLISHED. (a) There is
26 established as a special account within the alcoholism and drug abuse
27 revolving loan fund the foreclosure expense account. This account is
28 established as a reserve from fund equity.

29 (b) The department may expend money credited to the foreclosure

1 expense account when necessary to protect the department's security
2 interest in collateral on loans made under AS 44.29.210 or to defray
3 expenses incurred during foreclosure proceedings after a default by an
4 obligor.

5 Sec. 44.29.220. POWERS AND DUTIES OF THE DEPARTMENT. (a) The
6 department may

7 (1) adopt regulations necessary to carry out its functions
8 under AS 44.29.210 - 44.29.230 and to administer the program required
9 under 42 U.S.C. 300x - 4a, including regulations to establish reason-
10 able fees for services provided, procedures for foreclosure proceed-
11 ings, and procedures for collecting delinquent accounts;

12 (2) establish amortization plans for the repayment of
13 loans;

14 (3) charge and collect the fees established under this
15 subsection; and

16 (4) contract for the servicing of loans made under AS 44.-
17 29.210.

18 (b) The commissioner of administration shall separately account
19 for all earnings, interest, fees, and collection charges that the
20 department deposits in the general fund. The annual estimated balance
21 in the account may be used by the legislature to make appropriations
22 to the department to carry out the purposes of AS 44.29.210 - 44.29.-
23 230.

24 Sec. 44.29.225. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR
25 FORECLOSURE. The department shall dispose of property acquired
26 through default or foreclosure on a loan made under AS 44.29.210.
27 Disposal shall be made in a manner that serves the best interests of
28 the state and may include the amortization of payments over a period
29 of years.

1 Sec. 44.29.230. DEFINITION. In AS 44.29.210 - 44.29.230, "de-
2 partment" means the Department of Health and Social Services.
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STEVE COWPER, GOVERNOR

DEPT. OF HEALTH AND SOCIAL SERVICES

OFFICE OF THE COMMISSIONER

P.O. BOX H
JUNEAU, ALASKA 99811-0601
PHONE: (907) 465-3030

March 28, 1990

Honorable Johnny Ellis, Chair
House Health, Education, and
Social Services Committee
Alaska State House of Representatives
P.O. Box V
Juneau, Alaska 99811

Re: Analysis of House Bill 584

Dear Representative Ellis:

HB 584 creates in the Department of Health and Social Services a revolving loan fund which is required by Federal law as a condition of receipt of Federal Block grant funds. The legislation is necessary because the Office of the Attorney General has determined that the Department does not have authority under current statute to create the loan program.

The use of money from the loan fund must conform to Federal law (42 USC 300x - 4a) which provides that the State must agree to:

- * Establish, directly or through the provision of a grant or contract to a non-profit private entity, a revolving loan fund to make loans for the costs of establishing programs for the provision of housing in which individuals recovering from alcohol or drug abuse may reside in groups of not less than 4 individuals;
- * ensure that programs are carried out in accordance with guidelines issued under this subsection;
- * ensure that not less than \$100,000 of federal funds will be available for the revolving loan fund;
- * ensure that each loan made from the revolving fund does not exceed \$4,000 and that each loan is repaid to the revolving fund not later than 2 years after the date on which the loan is made; and

Honorable Johnny Ellis

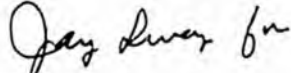
-2-

March 28, 1990

* ensure that such loans are made only to non-profit entities.

The administration of this loan fund will be absorbed within the Department's current budget so that the legislation will have no fiscal impact.

Sincerely,



Myra M. Munson
Commissioner

POSITION PAPER

HOUSE BILL NO. 584

"An Act relating to a revolving loan fund in the Department of Health and Social Services."

Background

HB 584 creates, within the Department of Health and Social Services, a revolving loan fund as required under 42 USC 300x - 4a. Money from within this fund may be used, in accordance with federal law, to make loans to private non-profit organizations for the cost of establishing programs to provide housing in which individuals recovering from alcohol or drug abuse may reside in a group facility.

HB 584 also gives the Department authority to adopt regulations necessary to administer the program, establish plans for the repayment of loans, charge and collect fees associated with the loans and contract for the servicing of loans made from the loan program.

Analysis

Recently, Congress, through the Comprehensive Alcohol Abuse, Drug Abuse and Mental Health Amendments of 1988, mandated that States, to be eligible for the Alcohol, Drug Abuse, Mental Health Block Grants must establish a loan program according to the provisions of 42 USC 300x - 2a. During the next federal fiscal year, the State expects to receive approximately \$2.7 million from this block grant.

This legislation is necessary because the Attorney General has determined that current law does not provide sufficient authority to the Department to establish the loan program. HB 584 will provide the Division of Alcoholism and Drug Abuse (A/DA) with the needed authority to establish the loan program according to the requirements mandated in federal law. If the loan program is not created within A/DA, future Alcohol, Drug Abuse and Mental Health Block grant funds could be jeopardized.

POSITION PAPER/Department of Health & Social Service

Position

The department of Health and Social services supports HB 584.

Recommended by: *Matthew C. Felix*
Matthew C. Felix
Acting Director
Division of Alcoholism and
Drug Abuse

Date: 3/28/90

Approved by: *Myra M. Munson*
Myra M. Munson, Commissioner
Department of Health and
Social Services

Date: 3/28/90

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HOUSE COMMITTEE REPORT

FILE

(11)

Date Referred: April 2, 1990

FURTHER REFERRALS:

Date of Committee Action: 4/22/90

The FINANCE Committee considered:

HB 589

HOUSE BILL NO. 589

PERMANENT FUND TECHNICAL AMENDMENTS

"An Act relating to the permanent fund, the Alaska Permanent Fund Corporation, and disposition of income from the permanent fund; and providing for an effective date."

RECOMMENDATIONS:

- be replaced with CS HB 589 (FIN) the same title
- have attached amendment(s) a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the _____ Committee

ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(s):
(Dept)

APPROVES PREVIOUS:

(Date/Dept)

- fiscal impact _____
- zero fiscal note _____
- zero with analysis _____

- fiscal note(s) _____
- zero fiscal note(s) 4/2/90/4. SA CMTE.
- zero fn/analysis _____

SIGNING DO PASS:

SIGNING:

(Check approp. column)

Do Not Pass
No Rec
Amend

[Signature] SWACKHAMMER
[Signature] BROWN
[Signature] KOPONEN
[Signature] ULMER

Signature	Do Not Pass	No Rec	Amend
<u>[Signature]</u>			
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[Signature]
 Chairman's Signature
[Signature]

FISCAL NOTE

REQUEST:

Revision Date: _____ Agency Affected: _____
 Title: Permanent Fund Technical BRU: _____
Amendments _____
 Sponsor: House State Affairs Components: _____
 Requestor: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
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REVENUE	-0-	-0-	-0-	-0-	-0-	-0-
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FUNDING: (Thousands of Dollars)

GENERAL FUND	-0-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

No fiscal impact.

Prepared by: House State Affairs
 Division: _____
 Approved by Commissioner: H. A. "Red" Boucher
 Agency: _____

Phone: 465-4963
 Date: March 28, 1990
 Date: March 28, 1990

Distribution (by preparer) :
 Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)

Adopted

Original sponsor(s): State Affairs Committee

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 589 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the permanent fund and the Alaska
7 Permanent Fund Corporation; and providing for an
8 effective date."

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

10 * Section 1. AS 37.13.010(a) is amended to read:

11 (a) Under art. IX, sec. 15 of the state constitution, there is
12 established as a separate fund the Alaska permanent fund. The [ALASKA
13 PERMANENT] fund consists of

14 (1) 25 percent of all mineral lease rentals, royalties,
15 royalty sale proceeds, net profit shares under AS 38.05.180(f) and
16 (g), and federal mineral revenue sharing payments received by the
17 state from mineral leases issued on or before December 1, 1979, and 25
18 percent of all bonuses received by the state from mineral leases
19 issued on or before February 15, 1980;

20 (2) 50 percent of all mineral lease rentals, royalties,
21 royalty sale proceeds, net profit shares under AS 38.05.180(f) and
22 (g), and federal mineral revenue sharing payments received by the
23 state from mineral leases issued after December 1, 1979, and 50 per-
24 cent of all bonuses received by the state from mineral leases issued
25 after February 15, 1980;

26 (3) interest earned by the state on money described in (1)
27 and (2) of this subsection before that money is deposited in the fund;

28 (4) any other money appropriated to or otherwise allocated
29 by law to the [ALASKA PERMANENT] fund.

1 * Sec. 2. AS 37.13.020 is amended to read:

2 Sec. 37.13.020. FINDINGS. The people of the state, by constitu-
3 tional amendment, have required the placement of at least 25 percent
4 of all mineral lease rentals, royalties, royalty sale proceeds, and
5 federal mineral revenue sharing payments and bonuses received by the
6 state into a permanent fund. The legislature finds with respect to
7 the fund [ALASKA PERMANENT FUND CORPORATION] that

8 (1) the fund [CORPORATION] should provide a means of con-
9 serving a portion of the state's revenue from mineral resources to
10 benefit all generations of Alaskans;

11 (2) the fund's [CORPORATION'S] goal should be to maintain
12 safety of principal while maximizing total return;

13 (3) the fund [CORPORATION] should be used as a savings
14 device managed to allow the maximum use of disposable income from the
15 fund [CORPORATION] for purposes designated by law.

16 * Sec. 3. AS 37.13.030 is amended to read:

17 Sec. 37.13.030. PURPOSE. It is the purpose of this chapter to
18 provide a mechanism for the management and investment of those [PERMA-
19 NENT] fund assets by [ALLOCATED TO] the Alaska Permanent Fund Corpora-
20 tion in a manner consistent with the findings in AS 37.13.020.

21 * Sec. 4. AS 37.13.040 is amended to read:

22 Sec. 37.13.040. ALASKA PERMANENT FUND CORPORATION. There is
23 established the Alaska Permanent Fund Corporation. The corporation is
24 a public corporation and government instrumentality in the Department
25 of Revenue managed by the board of trustees. The purpose of the
26 corporation [BOARD] is to manage and invest the assets of the perma-
27 nent fund and other funds designated by law [CORPORATION] in accor-
28 dance with this chapter.

29 * Sec. 5. AS 37.13.060 is amended to read:

1 Sec. 37.13.060. TERM OF OFFICE. The public members of the board
2 shall be appointed for terms of six [FOUR] years, and they may be
3 reappointed. The terms of the public members shall be staggered so
4 that no more than one term of a public member expires each year.

5 * Sec. 6. AS 37.13.110(b) is amended to read:

6 (b) If a member of the board or an employee of the corporation
7 acquires, owns, or controls an interest, direct or indirect, in an
8 entity or project in which fund [CORPORATION] assets are invested, the
9 member shall immediately disclose the interest to the board. The
10 disclosure is a matter of public record and shall be included in the
11 minutes of the board meeting next following the disclosure.

12 * Sec. 7. AS 37.13.120(a) is amended to read:

13 (a) The prudent-man rule shall be applied by the board in the
14 management and investment of [ALASKA PERMANENT] fund assets. The
15 prudent-man rule as applied to investments of the fund [CORPORATION]
16 means that in making investments the board shall exercise the judgment
17 and care under the circumstances then prevailing that an institutional
18 investor of ordinary prudence, discretion, and intelligence exercises
19 in the management of large investments entrusted to it not in regard
20 to speculation but in regard to the permanent disposition of funds,
21 considering probable safety of capital as well as probable income.

22 * Sec. 8. AS 37.13.120(b) is amended to read:

23 (b) The fund [CORPORATION] assets shall only be used for income-
24 producing investments.

25 * Sec. 9. AS 37.13.120(e) is amended to read:

26 (e) The corporation may not borrow money [FUNDS] or guarantee
27 from principal of the [ALASKA PERMANENT] fund the obligations of
28 others.

29 * Sec. 10. AS 37.13.120(g) is amended to read:

1 (g) Subject to the limitations contained in this section, the
2 board may invest fund [CORPORATION] assets at the competitive national
3 market rates or prices that are applicable to each investment only in

4 (1) obligations of, or obligations insured by or guaranteed
5 by, the United States or agencies or instrumentalities of the United
6 States;

7 (2) obligations secured by reserve paid in by the United
8 States or agencies or instrumentalities of the United States or obli-
9 gations of corporations in which the United States is a shareholder or
10 member;

11 (3) certificates of deposit and term deposits of United
12 States domestic banks that are members of the Federal Deposit Insur-
13 ance Corporation and that may be readily sold in a secondary market at
14 prices reflecting fair value or that are fully secured at all times as
15 to payment of principal and interest as described in (m) of this
16 section;

17 (4) [CERTIFICATES OF DEPOSIT AND TERM DEPOSITS OF FEDERALLY
18 CHARTERED SAVINGS AND LOAN ASSOCIATIONS IN ALASKA THAT MAY BE READILY
19 SOLD IN A SECONDARY MARKET AT PRICES REFLECTING FAIR VALUE OR THAT ARE
20 FULLY SECURED AT ALL TIMES AS TO PAYMENTS OF PRINCIPAL AND INTEREST AS
21 DESCRIBED IN (m) OF THIS SECTION;

22 (5) CERTIFICATES OF DEPOSIT AND TERM DEPOSITS OF STATE
23 CHARTERED SAVINGS AND LOAN ASSOCIATIONS IN ALASKA THAT MAY BE READILY
24 SOLD IN A SECONDARY MARKET AT PRICES REFLECTING FAIR VALUE OR THAT ARE
25 FULLY SECURED AT ALL TIMES AS TO PAYMENTS OF PRINCIPAL AND INTEREST AS
26 DESCRIBED IN (m) OF THIS SECTION;

27 (6) CERTIFICATES OF DEPOSIT AND TERM DEPOSITS OF MUTUAL
28 SAVINGS BANKS IN ALASKA THAT MAY BE READILY SOLD IN A SECONDARY MARKET
29 AT PRICES REFLECTING FAIR VALUE OR THAT ARE FULLY SECURED AT ALL TIMES

1 AS TO PAYMENTS OF PRINCIPAL AND INTEREST AS DESCRIBED IN (m) OF THIS
2 SECTION;

3 (7) FIXED-TERM CERTIFICATES OF INDEBTEDNESS OF FEDERALLY
4 INSURED CREDIT UNIONS IN ALASKA THAT MAY BE READILY SOLD IN A SECON-
5 DARY MARKET AT PRICES REFLECTING FAIR VALUE OR THAT ARE FULLY SECURED
6 AT ALL TIMES AS TO PAYMENTS OF PRINCIPAL AND INTEREST AS DESCRIBED IN
7 (m) OF THIS SECTION;

8 (8)] domestic corporate debt securities that are rated AA
9 or better by a nationally recognized rating service, or nondomestic
10 corporate debt securities of comparable quality;

11 (5) [(9)] short-term

12 (A) domestic corporate promissory notes of the highest
13 ratings assigned by a nationally recognized rating service; [,]
14 or

15 (B) nondomestic corporate promissory notes of compara-
16 ble quality, the interest on which may be payable in either
17 United States dollars or nondomestic currencies;

18 (6) [(10)] bankers' acceptances drawn on and accepted by
19 United States banks each of which has a combined capital and surplus
20 aggregating at least \$200,000,000;

21 (7) [(11)] repurchase agreements, the securities underlying
22 the agreements being any of the items in (1) - (6) [(1) - (3) AND
23 (8) - (10)] of this subsection;

24 (8) [(12) THE GUARANTEED PORTION OF FEDERAL SMALL BUSINESS
25 ADMINISTRATION LOANS;

26 (13) THE PORTION OF FIRST LIEN REAL ESTATE MORTGAGES GUARAN-
27 TEED BY THE FEDERAL VETERANS ADMINISTRATION;

28 (14)] the portions of business and industrial loans made

1 Farmers Home Administration;

2 (9) [(15)] the guaranteed portion of Farmers Home Adminis-
3 tration loans;

4 (10) [(16)] notes secured by mortgages granting a first lien
5 on [COMMERCIAL OR] residential real estate improved by completed
6 buildings if the mortgages are insured by a private mortgage insurance
7 corporation that is authorized to do business in this state [ALASKA]
8 and has combined capital and surplus aggregating at least \$20,000,000,
9 and if loan-to-value ratios do not exceed [75 PERCENT FOR COMMERCIAL
10 MORTGAGES AND] 90 percent [FOR RESIDENTIAL MORTGAGES]; however,

11 [(A) MORTGAGE INSURANCE IS NOT NECESSARY FOR COMMERCIAL
12 LOANS HAVING LOAN-TO-VALUE RATIOS OF LESS THAN 50 PERCENT AND THE
13 MINIMUM COVERAGE OF OTHER COMMERCIAL LOANS SHALL BE 10 PERCENT
14 FOR THOSE HAVING A LOAN-TO-VALUE RATIO OF 50 - 60 PERCENT AND 15
15 PERCENT FOR THOSE HAVING A LOAN-TO-VALUE RATIO GREATER THAN 60
16 PERCENT BUT NO MORE THAN 75 PERCENT; AND

17 (B)] mortgage insurance is not necessary for residen-
18 tial loans having a loan-to-value ratio of less than 70 percent
19 and the minimum coverage of other residential loans shall be 10
20 percent for those having a loan-to-value ratio greater than 70
21 percent but less than 90 percent and 20 percent for those having
22 a loan-to-value ratio of 90 percent;

23 (11) [(17) NOTES SECURED BY MORTGAGES GRANTING A FIRST LIEN
24 ON COMMERCIAL REAL ESTATE IMPROVED BY COMPLETED BUILDINGS IF THE
25 ORIGINATING FINANCIAL INSTITUTION RETAINS AT LEAST 25 PERCENT OF THE
26 MORTGAGE UNTIL MATURITY;

27 (18)] preferred and common stock of corporations incorpo-
28 rated in the United States;

29 (12) [(19)] certificates of deposit, term deposits, or

1 bankers' acceptances, that are issued by a United States or nondomes-
2 tic bank or trust company located outside of the United States and are
3 denominated in United States or nondomestic currency, if either (A)
4 they may be readily sold in a secondary market at prices reflecting
5 fair value, or (B) the issuing bank or trust company has capital,
6 surplus, and retained earnings at the date of issue equaling at least
7 \$500,000,000; investments made under this paragraph are not subject to
8 the collateral requirements for domestic certificates under (m) of
9 this section;

10 (13) [~~(20)~~] equity interests in, and debt obligations
11 secured by mortgages granting a first lien on, real estate improved by
12 completed and substantially rented buildings and located in the United
13 States, if these investments are made

14 (A) in a corporation, partnership, trust, or other
15 entity in which, at the conclusion of each investment trans-
16 action, at least 60 percent of the beneficial ownership interests
17 are held by other institutional investors, and which is organized
18 and operated for the purpose of making real estate investments by
19 a bank, insurance company, or other manager of institutional
20 funds that has had at least five years of experience in the
21 management of real estate investments of institutional investors;
22 or

23 (B) with corporations, partnerships, trusts, or en-
24 tities in which, at the conclusion of each investment trans-
25 action, at least 60 percent of the beneficial ownership interests
26 in the co-investing entity or entities as a whole are held by
27 institutional investors, if

28 (i) at the time of investment the fund has no
29 more than a 40 percent beneficial ownership interest in the

1 real estate invested in as a whole;

2 (ii) the rights and obligations of the fund are
3 substantially similar to those of the other institutional
4 investors, except for the percentage interest in the proper-
5 ty; and

6 (iii) the property is managed and operated by an
7 entity that has had at least five years of experience in the
8 management of real estate investments of institutional
9 investors [IN CONJUNCTION WITH AND ON SUBSTANTIALLY THE SAME
10 TERMS AS AN ENTITY DESCRIBED IN (A) OF THIS PARAGRAPH];

11 (14) [(21)] securities of non-domestic governments and
12 non-domestic government agencies, the principal of, or interest on,
13 which is payable in either United States dollars or non-domestic
14 currencies;

15 (15) [(22)] securities of non-domestic corporations, includ-
16 ing common and preferred stock, whose dividends, if any, may be pay-
17 able in either United States dollars or non-domestic currencies;

18 (16) taxable municipal or state debt securities that are
19 rated "AA" or better by a nationally recognized rating service.

20 * Sec. 11. AS 37.13.120(i) is amended to read:

21 (i) The [ALASKA PERMANENT] fund may at no time own more than
22 five percent of the voting stock of a corporation. Domestic stocks,
23 except for bank and insurance company stocks, must be listed at the
24 date of purchase on an exchange registered with the Securities and
25 Exchange Commission. At the time of each investment, the aggregate
26 investment of the fund in each stated category of investment may not
27 exceed the following stated percentage of the total investments of the
28 fund:

29 (1) mortgages under (g)(10) [(g)(16)] of this section - 15

1 percent;

2 (2) real estate investments under (g)(13) [(g)(20)] of this
3 section - 15 percent;

4 (3) certificates of deposit, term deposit, or bankers'
5 acceptances under (g)(12) [(g)(19)] of this section - 20 percent;

6 (4) securities of nondomestic governments, nondomestic
7 government agencies, and nondomestic corporations under (g)(4), (14),
8 and (15) [(g)(8), (21), AND (22)] of this section, domestic corporate
9 stocks and debt securities under (g)(4) [(g)(8)] and (11) [(18)] of
10 this section, and short-term nondomestic corporate promissory notes
11 under (g)(5)(B) [(g)(9)(B)] of this section - 50 percent.

12 * Sec. 12. AS 37.13.120(j) is amended to read:

13 (j) The assets of the [ALASKA PERMANENT] fund may not be used
14 for the purchase of bonds of a corporation, upon which any regular
15 interest payment has been defaulted within five years before purchase,
16 except bonds never in default but which have been outstanding for less
17 than five years.

18 * Sec. 13. AS 37.13.120(k) is amended to read:

19 (k) The board shall establish and from time to time as necessary
20 modify guidelines for the investment of the assets of the fund [CORPO-
21 RATION]. Before adoption of any guidelines the guidelines shall be
22 reported to the Legislative Budget and Audit Committee for review and
23 comment.

24 * Sec. 14. AS 37.13.120(1) is amended to read:

25 (1) The board shall invest the assets of the fund [CORPORATION]
26 in in-state investments to the extent in-state investments are avail-
27 able if the in-state investments

28 (1) have a risk level and expected yield comparable to
29 alternate investment opportunities; and

1 (2) are included in the list of permissible investments in
2 (g) of this section.

3 * Sec. 15. AS 37.13.120(m) is amended to read:

4 (m) Certificates of deposit or the equivalent instruments that
5 are not of a quality that may be readily sold in a secondary market at
6 prices reflecting fair value must be secured by a pledge as collateral
7 of

8 (1) investments authorized for the [ALASKA PERMANENT] fund
9 under (g)(1), (2), (4), or (8) - (10) [(8), OR (12) - (17)] of this
10 section;

11 (2) [OR BY A PLEDGE AS COLLATERAL OF] obligations of the
12 state or instrumentalities of the state that are rated at least "A" by
13 a major bond rating service and have a demonstrated secondary market,
14 which investments or obligations have value at least equal to the face
15 value of the certificate of deposit;

16 (3) the guaranteed portion of Federal Small Business Admin-
17 istration loans;

18 (4) the portion of first lien real estate mortgages guaran-
19 teed by the federal Veterans Administration; or

20 (5) notes secured by mortgages granting a first lien on
21 commercial or residential real estate improved by completed buildings
22 if the originating financial institution retains at least 25 percent
23 of the mortgage until maturity. [THE BOARD MAY REQUIRE SUBSTITUTION
24 OF COLLATERAL IN ORDER TO ENSURE CONTINUED SATISFACTION OF THE RE-
25 QUIREMENTS SET OUT IN THIS SUBSECTION.]

26 * Sec. 16. AS 37.13.120 is amended by adding a new subsection to read:

27 (n) The board may require substitution of collateral in order to
28 ensure continued satisfaction of the requirements set out in (m) of
29 this section.

1 * Sec. 17. AS 37.13.140 is amended to read:

2 Sec. 37.13.140. INCOME. Net income of the fund includes income
3 of the earnings reserve account established under AS 37.13.145. Net
4 income [CORPORATION] shall be computed annually as of the last day of
5 the fiscal year in accordance with generally accepted accounting
6 principles, excluding any unrealized gains or losses. Income avail-
7 able for distribution equals 21 percent of the net income of the fund
8 [CORPORATION] for the last five fiscal years, including the fiscal
9 year just ended, or [BUT MAY NOT EXCEED] net income of the corporation
10 for the fiscal year just ended plus the balance in the earnings re-
11 serve account, whichever is less [DESCRIBED IN AS 37.13.145].

12 * Sec. 18. AS 37.13.150 is amended to read:

13 Sec. 37.13.150. CORPORATION BUDGET. The revenue generated by
14 the fund's [CORPORATION'S] investments must be identified as the
15 source of the operating budget of the corporation in the state's
16 operating budget under AS 37.07 (Executive Budget Act). The unexpend-
17 ed balance of the corporation's annual operating budget does not lapse
18 at the end of the fiscal year but shall be treated as income under
19 AS 37.13.140.

20 * Sec. 19. AS 37.13.160 is amended to read:

21 Sec. 37.13.160. AUDITS. The Legislative Budget and Audit Com-
22 mittee may provide for an annual post audit and annual operational and
23 performance evaluations of the fund's [CORPORATION'S] investments and
24 investment programs.

25 * Sec. 20. AS 37.13.170 is amended to read:

26 Sec. 37.13.170. REPORTS AND PUBLICATIONS. By September 30 of
27 each year, the board shall publish a report of the fund [CORPORATION]
28 for distribution to the governor, legislature, and the public. The
29 report shall be written in easily understandable language. The report

1 must include financial statements audited by independent outside
2 auditors, a statement of the amount of money received by the [ALASKA
3 PERMANENT] fund from each investment during the period covered, a
4 statement of investments of the fund [CORPORATION] including an ap-
5 praisal at market value, a description of fund [CORPORATION] invest-
6 ment activity during the period covered by the report, a comparison of
7 the fund [CORPORATION] performance with the intended goals contained
8 in AS 37.13.020, an examination of the impact of the investment cri-
9 teria of this chapter on the fund [CORPORATION] portfolio with recom-
10 mendations of any needed changes, and any other information the board
11 believes would be of interest to the governor, the legislature, and
12 the public. The annual income statement and balance sheet of the fund
13 [CORPORATION] shall be published in at least one newspaper in each
14 judicial district. The income statement and balance sheet for the two
15 fiscal years preceding the publication of the election pamphlet under
16 AS 15.58 shall be included in that pamphlet.

17 * Sec. 21. AS 37.13.180 is amended to read:

18 Sec. 37.13.180. TAX EXEMPTION. The corporation and the fund
19 are [IS] exempt from all taxes and assessments in the state. All
20 security instruments issued by the corporation or the fund, their
21 transfer, and their income are exempt from all taxes and assessments
22 in the state.

23 * Sec. 22. AS 37.13.190 is amended to read:

24 Sec. 37.13.190. POLITICAL ACTIVITIES. The resources of the
25 corporation or the fund may not be used to finance or influence polit-
26 ical activities.

27 * Sec. 23. AS 37.13.210 is amended by adding a new paragraph to read:

28 (3) "fund" means the Alaska permanent fund established
29 under art. IX, sec. 15, Constitution of the State of Alaska.



1 * Sec. 24. Notwithstanding AS 37.13.060, as amended in sec. 5 of this
2 Act, the members of the board of the Alaska Permanent Fund Corporation in
3 office on the effective date of this Act serve only the period of the term
4 of office to which they were appointed.

5 * Sec. 25. This Act takes effect July 1, 1990.
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SECTIONAL ANALYSIS OF CS FOR HOUSE BILL 589 (STATE AFFAIRS)

"An Act relating to the permanent fund, the Alaska Permanent Fund Corporation, and disposition of income from the permanent fund; and providing for an effective date."

- Section 1: TECHNICAL/POLICY -- Would ensure that the interest earned on funds placed in escrow during royalty litigation would be deposited in Fund principal and treated as principal. This is cited here as technical because it represents no change in current policy. That is the way the Corporation has always treated such money -- including fiscal 1988 when the Corporation deposited into principal all \$146 million received as partial settlement of the Dinkum Sands case. Nonetheless, by approving this section of the bill, the legislature would be making its first clear policy statement on the issue.
- Section 2: TECHNICAL -- Replaces [ALASKA PERMANENT FUND CORPORATION] with fund. In this case (and in all subsequent sections in which similar changes are made), the purpose is simply to clarify what was intended when the Alaska Permanent Fund Corporation Act was originally enacted in 1980. Specifically, the change makes clear the distinction between the "Alaska Permanent Fund" which comprises assets owned by the State of Alaska, and the "Alaska Permanent Fund Corporation" which is the government instrumentality created to manage and invest those assets.
- Section 3: TECHNICAL -- See Section 1.
- Section 4: TECHNICAL -- Recognizes that the purpose of the corporation is to manage and invest the assets of the permanent fund "and other funds designated by law"; for example, the Science and Technology Fund.

Sectional Analysis
April 4, 1990
Page 2

- Section 5: POLICY -- Extends the term of office for public members of the Board from [FOUR] years to six years.
- Section 6: TECHNICAL -- See Section 1.
- Section 7: TECHNICAL -- See Section 1.
- Section 8: TECHNICAL -- See Section 1.
- Section 9: TECHNICAL -- See Section 1.
- Section 10: TECHNICAL -- (1) See Section 1. (2) Replaces a sub-section relating to equity real estate investment which had little real meaning with language which clearly spells out current Corporation policy.

POLICY -- (1) Removes from the Fund's list of authorized investments those investments which are not considered by the Corporation to be of trust-grade quality and which have never been made by the Corporation. These include: Certificates of Deposit issued by Alaska Savings & Loan Associations, Mutual Savings Banks and Credit Unions for which a readily-available secondary market exists; the guaranteed portions of Small Business Administration (SBA) and Veterans Administration (VA) loans; and commercial mortgages.

(2) Adds taxable municipal or state debt securities that are rated "AA" or better by a nationally-recognized rating service to the list of authorized investments.

- Section 11: TECHNICAL -- (1) See Section 1. (2) Conforming amendments.
- Section 12: TECHNICAL -- See Section 1.
- Section 13: TECHNICAL -- See Section 1.
- Section 14: TECHNICAL -- See Section 1.
- Section 15: TECHNICAL -- (1) See Section 1. (2) Conforming amendments. (3) Clarifies that the investments which are removed from the authorized list in Section 9 above may still

be used as collateral under the Alaska Bank Certificate of Deposit program.

- Section 16: TECHNICAL -- Conforming amendment.
- Section 17: TECHNICAL -- (1) See Section 1. (2) Clarifies that income of the Fund includes income of the earnings reserve account as well as income of the principal.
- Section 18: TECHNICAL -- Rewrites AS 37.13.145: (1) to clarify original legislative intent and Corporation practice regarding the annual disposition of Fund income; (2) to bring (without substantive change) the section of law addressing the annual Permanent Fund Dividend transfer from AS 43.23 into AS 37.13; (3) to spell out the procedure used by the Corporation in the annual inflation-proofing transfer.
- POLICY -- (1) Provides that the annual inflation-proofing transfer shall be made from the earnings reserve account rather than from current year income as provided for in existing law.
- (2) Adds a new section providing "cumulative" inflation-proofing. Under this provision, if there is a shortfall in inflation-proofing in any one year, at the end of the next or subsequent year, -- after providing for that year's dividend and inflation-proofing transfers -- the Corporation shall transfer from the balance remaining in the earnings reserve account, the amount necessary to fully offset the effect of inflation on Fund principal since and including the shortfall.
- Section 19: TECHNICAL -- See Section 1.
- Section 20: TECHNICAL -- See Section 1.
- Section 21: TECHNICAL -- See Section 1.
- Section 22: TECHNICAL -- See Section 1.
- Section 23: TECHNICAL -- See Section 1.
- Section 24: TECHNICAL -- Conforming amendment.

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- Section 25: TECHNICAL -- Conforming amendment.
- Section 26: TECHNICAL -- Conforming amendment.
- Section 27: TECHNICAL -- Provides transitional language for the change in Board members' terms.
- Section 28: EFFECTIVE DATE -- July 1, 1990.

-- Prepared by the Alaska Permanent Fund Corporation on
April 4, 1990.

PROPOSED AMENDMENTS TO
CS FOR HOUSE BILL NO. 589 (STATE AFFAIRS)

Submitted to the House Finance Committee by the
Alaska Permanent Fund Corporation on April 5, 1990

Amendment #1: Amend Sec. 7 (Page 3, Lines 14-16) to read as follows:

(a) The prudent investor [MAN] -rule shall be applied by the corporation [BOARD] in the management and investment of [ALASKA PERMANENT] fund assets. The prudent investor [MAN] -rule as applied to investments of the fund [CORPORATION] means that in making investments the corporation [BOARD] shall exercise the judgement etc.

Amendment #2: Amend Sec. 17 (Page 11, Lines 8-13) to read as follows:

... Income available for distribution equals 21 percent of the net income of the fund [CORPORATION] for the last five fiscal years, including the fiscal year just ended, but may not exceed net income of the fund [CORPORATION] for the fiscal year just ended plus the balance in the earnings reserve account [DESCRIBED IN AS 37.13.145].



Alaska Permanent Fund Corporation

P.O. Box 4-1000 Juneau, Alaska 99802-4100

(907) 465-2047 Telex 099-46-323

March 23, 1990

Honorable H. A. "Red" Boucher
Chairman, House State Affairs Committee
P.O. Box V
Juneau, Alaska 99811

Dear Representative Boucher:

I am writing regarding the Permanent Fund bill which you have drafted to make certain technical and policy changes to the Alaska Permanent Fund Corporation enabling act, AS 37.13.

At our Board meeting of March 21, the Trustees reviewed a draft of the legislation and the following motion was adopted by a vote of 4 to 1:

"It is resolved that the Board of Trustees of the Alaska Permanent Fund Corporation agrees with the technical changes proposed in this bill as well as the general intent of the policy changes, and directs Corporation staff to work with the Committee and assist the members in their efforts to advance the legislation. In addition, staff is directed to keep the Trustees informed on a timely basis of the progress of this bill and any substantive changes."

Red, let me make clear the Board's position:

First, the Board supports timely legislative action on the recommendations of the Commission on the Future of the Permanent Fund. We supported the process that the Commission used to come up with their recommendations, and we wish to be responsive to the legislature as it attempts to accomplish those recommendations.

Second, regarding this particular piece of legislation, there is full support for the technical changes being proposed. Although in our view, past Corporation practices have in every instance conformed to legislative intent, we agree that existing statutory language can be improved to make that conformity perfectly clear.

Representative Boucher
March 23, 1990
Page 2

Third, regarding the policy changes, there are three points in particular I would like to make on behalf of my colleagues on the Board:

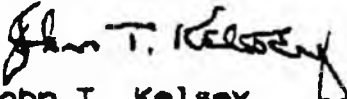
1) the Board supports "cumulative" inflation-proofing as an effective means to ensure that the purchasing power of Permanent Fund principal is fully preserved over the long term;

2) adoption of the sections amending the current list of authorized investments would not adversely affect either the Board's current asset allocation or its investment policies; and

3) the Board neither supports nor opposes the extension of the terms of Board members from four years to six years.

We would be pleased to provide additional testimony as requested.

With warm regards,


John T. Kelsey
Chairman,
Board of Trustees

cc: Members of the Board

SECTIONAL ANALYSIS

"An Act relating to the permanent fund, the Alaska Permanent Fund Corporation, and disposition of income from the permanent fund; and providing for an effective date."

- Section 1: TECHNICAL -- Replaces [ALASKA PERMANENT FUND CORPORATION] with fund. In this case (and in all subsequent sections in which similar changes are made), the purpose is simply to clarify what was intended when the Alaska Permanent Fund Corporation Act was originally enacted in 1980. Specifically, the change makes clear the distinction between the "Alaska Permanent Fund" which comprises assets owned by the State of Alaska, and the "Alaska Permanent Fund Corporation" which is the government instrumentality created to manage and invest those assets.
- Section 2: TECHNICAL -- See Section 1.
- Section 3: TECHNICAL -- Recognizes that the purpose of the corporation is to manage and invest the assets of the permanent fund "and other funds designated by law"; for example, the Science and Technology Fund.
- Section 4: POLICY -- Extends the term of office for public members of the Board from [FOUR] years to six years.
- Section 5: TECHNICAL -- See Section 1.
- Section 6: TECHNICAL -- See Section 1.
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- Section 9: TECHNICAL -- (1) See Section 1. (2) Replaces a sub-section relating to equity real estate investment which had little real meaning with

Sectional Analysis
March 23, 1990
Page 2

language which clearly spells out current Corporation policy.

POLICY -- (1) Removes from the Fund's list of authorized investments those investments which are not considered by the Corporation to be of trust-grade quality and which have never been made by the Corporation. These include: Certificates of Deposit issued by Alaska Savings & Loan Associations, Mutual Savings Banks and Credit Unions for which a readily-available secondary market exists; the guaranteed portions of Small Business Administration (SBA) and Veterans Administration (VA) loans; and commercial mortgages.

(2) Adds taxable municipal or state debt securities that are rated "AA" or better by a nationally-recognized rating service to the list of authorized investments.

Section 10: TECHNICAL -- (1) See Section 1. (2) Conforming amendments.

POLICY -- Would prohibit the Corporation from making any more Alaska home mortgages. The Board's current investment policy already excludes making any more of this type of investment.

Section 11: TECHNICAL -- See Section 1.

Section 12: TECHNICAL -- See Section 1.

Section 13: TECHNICAL -- See Section 1.

Section 14: TECHNICAL -- (1) See Section 1. (2) Conforming amendments. (3) Clarifies that the investments which are removed from the authorized list in Section 9 above may still be used as collateral under the Alaska Bank Certificate of Deposit program.

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March 23, 1990
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- Section 16: TECHNICAL -- (1) See Section 1. (2) Clarifies that income of the Fund includes income of the earnings reserve account as well as income of the principal.
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- Section 18: TECHNICAL -- See Section 1.
- Section 19: TECHNICAL -- See Section 1.
- Section 20: TECHNICAL -- See Section 1.
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- Section 22: TECHNICAL -- See Section 1.

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- Section 24: TECHNICAL -- Conforming amendment.**
- Section 25: TECHNICAL -- Conforming amendment.**
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- Section 27: EFFECTIVE DATE -- July 1, 1990.**

-- Prepared by the Alaska Permanent Fund Corporation.

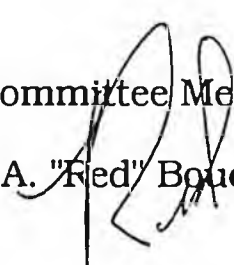


Alaska State Legislature

House of Representatives
COMMITTEE ON STATE AFFAIRS

MEMORANDUM

TO: House Finance Committee Members

FROM: Representative H.A. "Red" Boucher 

DATE: April 10, 1990

RE: HB 589 Disposition of Permanent Fund Income;
Technical Amendments

HB 589 is one of three bills (HB 511, HB 563, HB 589) sponsored by the House State Affairs Committee which addresses the recommendations of the Commission on the Future of the Permanent Fund.

HB 589 is the result of extensive work by a number of individuals representing the Permanent Fund Corporation, the Department of Revenue, the Office of Management and Budget, Legislative Research, and others who have been involved with Permanent Fund issues over the last few years.

The above working group's goals and objectives were to carry out three of the recommendations of the Commission on the Future of the Permanent Fund. The most important recommendations were:

- **preserve the value of the Permanent Fund;**
- **retain the dividend program; and**
- **clean up the statutory language.**

Considerable discussion and debate took place by the working group. There were those who initially supported reversing the priority between inflation-proofing and dividends. Others felt that a new procedure for calculating earnings was in order.

The result of 6 weeks of meetings by the working group is before you in HB 589. This bill represents a consensus between the many viewpoints that were put forward that HB 589 was a way to accomplish the goals and objectives that were set out.

The attached provides a sectional analysis of HB 589. You should note that there are a number of technical changes and policy changes. The most important policy change is the introduction of a new concept - "**Cumulative Inflation Proofing**" - which provides dividend payment stability and allows for full inflation-proofing over time.

Under Cumulative Inflation Proofing, if an inflation-proofing shortfall occurs in any year, then in the next or subsequent year, the Corporation is authorized to transfer from the earnings reserve account to the principal to make up that shortfall. To summarize:

- 1) the current year's dividends would always be paid first;
- 2) inflation-proofing for the current year would then be provided for, to the extent that funds are available in the earnings reserve account; and
- 3) any inflation-proofing deficiency outstanding from a previous year would then be transferred from the earnings reserve account to principal.

In addition to strengthening the current provision for inflation-proofing, HB 589 clears up a number of technical ambiguities which exist under current law.

Attached you will find a sectional analysis of HB 589, a letter of support from John Kelsey, Board of Trustees, Permanent Fund Corporation, and a copy of two minor technical amendments offered by the Permanent Fund Corporation.



Alaska Permanent Fund Corporation

P.O. Box 4-1000 Juneau, Alaska 99802-4100
(907) 465-2047 Telex 099-46-323

March 23, 1990

Honorable H. A. "Red" Boucher
Chairman, House State Affairs Committee
P.O. Box V
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Dear Representative Boucher:

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At our Board meeting of March 21, the Trustees reviewed a draft of the legislation and the following motion was adopted by a vote of 4 to 1:

"It is resolved that the Board of Trustees of the Alaska Permanent Fund Corporation agrees with the technical changes proposed in this bill as well as the general intent of the policy changes, and directs Corporation staff to work with the Committee and assist the members in their efforts to advance the legislation. In addition, staff is directed to keep the Trustees informed on a timely basis of the progress of this bill and any substantive changes."

Red, let me make clear the Board's position:

First, the Board supports timely legislative action on the recommendations of the Commission on the Future of the Permanent Fund. We supported the process that the Commission used to come up with their recommendations, and we wish to be responsive to the legislature as it attempts to accomplish those recommendations.

Second, regarding this particular piece of legislation, there is full support for the technical changes being proposed. Although in our view, past Corporation practices have in every instance conformed to legislative intent, we agree that existing statutory language can be improved to make that conformity perfectly clear.

Representative Boucher
March 23, 1990
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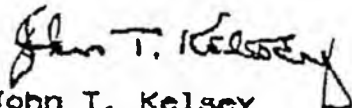
1) the Board supports "cumulative" inflation-proofing as an effective means to ensure that the purchasing power of Permanent Fund principal is fully preserved over the long term;

2) adoption of the sections amending the current list of authorized investments would not adversely affect either the Board's current asset allocation or its investment policies; and

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We would be pleased to provide additional testimony as requested.

With warm regards,



John T. Kelsey
Chairman,
Board of Trustees

cc: Members of the Board

**PROPOSED AMENDMENTS TO
CS FOR HOUSE BILL NO. 589 (STATE AFFAIRS)**

**Submitted to the House Finance Committee by the
Alaska Permanent Fund Corporation on April 5, 1990**

Amendment #1: Amend Sec. 7 (Page 3, Lines 14-16) to read as follows:

(a) The prudent investor [MAN] -rule shall be applied by the corporation [BOARD] in the management and investment of [ALASKA PERMANENT] fund assets. The prudent investor [MAN] -rule as applied to investments of the fund [CORPORATION] means that in making investments the corporation [BOARD] shall exercise the judgement etc.

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SECTIONAL ANALYSIS OF CS FOR HOUSE BILL 589 (STATE AFFAIRS)

"An Act relating to the permanent fund, the Alaska Permanent Fund Corporation, and disposition of income from the permanent fund; and providing for an effective date."

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April 4, 1990
Page 2

Section 5: POLICY --- Extends the term of office for public members of the Board from [FOUR] years to six years.

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Section 7: TECHNICAL -- See Section 1.

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- Section 27: TECHNICAL -- Provides transitional language
for the change in Board members' terms.
- Section 28: EFFECTIVE DATE -- July 1, 1990.

-- Prepared by the Alaska Permanent Fund Corporation on
April 4, 1990.

H B

590

HOUSE COMMITTEE REPORT

File

(11)

Date Referred: April 11, 1990

FURTHER REFERRALS:

Date of Committee Action: 4/28/90

The FINANCE Committee considered:

HB 590

HOUSE BILL NO. 590

APPROP: INHOLDINGS, TIMBER RTS/KACHEMAK BAY

"An Act making a special appropriation to the Department of Natural Resources for the purchase of the inholdings of the Seldovia Native Association, and the timber rights of the Timber Trading Company, within the Kachemak Bay State Park; and providing for an effective date."

RECOMMENDATIONS:

- be replaced with CS HB 590 (Res) the same title
- a new title
- have attached amendment(s)
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the _____ Committee

ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(s): (Dept) APPROVES PREVIOUS: (Date/Dept)

- fiscal impact _____ fiscal note(s) _____
- zero fiscal note _____ zero fiscal note(s) _____
- zero with analysis _____ zero fn/analysis _____

SIGNING DO PASS:

SIGNING:
(Check approp. column)

		Do Not Pass	No Rec	Amend
<i>[Signature]</i> Swackhammer BROWN	<i>[Signature]</i> Carson			
<i>[Signature]</i> (support subject to budget adjustment to stay within spending limit) TUMER	<i>[Signature]</i> KOPONEV	X		
	<i>[Signature]</i> PHILLIPS	✓		
<i>[Signature]</i> BARNES	<i>[Signature]</i> RIEGER	✓		
	<i>[Signature]</i> WALLIS	✓		
	<i>[Signature]</i> HOFFMAN	X		

[Signature] Hoffman
Chairman's Signature
[Signature] Carson

Funding Information: General Fund \$20,000,000
Other Funds -0-
\$20,000,000

Original sponsor(s): Rules/Governor

1 IN THE HOUSE BY THE RESOURCES COMMITTEE

2 CS FOR HOUSE BILL NO. 590 (Resources)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act making a special appropriation to the Depart-
7 ment of Natural Resources for the purchase of the
8 inholdings of the Seldovia Native Association, and
9 the timber rights of the Timber Trading Company,
10 within the Kachemak Bay State Park; and providing for
11 an effective date."

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

13 * Section 1. LEGISLATIVE FINDINGS. (a) The legislature finds that the
14 Kachemak Bay State Park is an important scenic and recreational area and
15 that the inholdings within the park, if developed, would seriously compro-
16 mise the integrity of the existing park land. The legislature finds,
17 therefore, that it is in the interest of the state to acquire the inhold-
18 ings of the Seldovia Native Association, and the timber rights of the
19 Timber Trading Company, within the Kachemak Bay State Park.

20 (b) The legislature further finds that the value, to the state, of
21 the Seldovia Native Association's inholdings, and the timber rights of the
22 Timber Trading Company, within Kachemak Bay State Park is \$20,000,000.

23 * Sec. 2. The sum of \$20,000,000 is appropriated from the general fund
24 to the Department of Natural Resources for the purchase of the inholdings
25 of the Seldovia Native Association, and the timber rights of the Timber
26 Trading Company, within the Kachemak Bay State Park as identified in the
27 Preliminary Exchange Agreement dated June 30, 1989, as amended as of the
28 effective date of this Act, between the state, the Seldovia Native Asso-
29 ciation, and the Timber Trading Company.

**Purchase of Inholdings
within
Kachemak Bay State
Park**

**HB 590
SB 536**



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

The Honorable Tim Kelly
President of the Senate
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Mr. President:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill that enables the state to acquire 37 square miles of inholdings within Kachemak Bay State Park. The bill appropriates \$17,820,000 to the Department of Natural Resources (DNR) to purchase all of Seldovia Native Association's land and Timber Trading Company's timber on this land in the park.

For 15 years the state has been working on various land exchange proposals to acquire Seldovia Native Association's (SNA) 24,000 acres of inholdings that are within Kachemak Bay State Park. The land was state-owned when the park was established in 1970, but then it was subsequently acquired by SNA under the Alaska Native Claims Settlement Act of 1971. In 1987, the timber on a portion of SNA's land was sold to Timber Trading Company (TTC), a subsidiary of Koncor Forest Products.

This 24,000-acre parcel lies south and east of China Poot Bay, extending south to Sadie Cove. This land is in the center of Kachemak Bay State Park. China Poot Bay has high fish and wildlife habitat values. The land owned by SNA has high recreation and scenic values and lies directly across Kachemak Bay from Homer.

Commercial recreation development and timber harvest have been proposed on this land. Acquisition of SNA's land is crucial to protect the public recreation, wildlife, and scenic values of the park. Since October 1988, DNR, SNA and TTC have been actively involved in developing a land exchange. DNR was working towards separate exchanges with SNA for the land and TTC for the timber rights. Consistent with Alaska Statutes 38.50, we had intended to submit a final exchange agreement to the Legislature for approval this session. Efforts to develop a final exchange agreement were slowed because of significant disagreements over the appraised value of the land.

An appraiser hired by SNA arrived at two different values of SNA's land in the park -- \$22.7 million and \$25.6 million. We disagreed with both appraisals because the appraiser used only parkland as comparable properties to set the value of SNA land. The appraiser made few adjustments to comparables to address differences in size, location, and date of sale. DNR contracted for an independent appraisal that valued the land at \$12 million, which SNA disagreed with.

In February, DNR established an appraisal review panel to render their opinion of the value of SNA's land. The panel concluded the value of SNA's land, with the timber still in place, is \$17,820,000. Assuming that the timber was cut on a portion of the land, the panel arrived at values for SNA's land that ranged from \$11.62 to \$15.49 million.

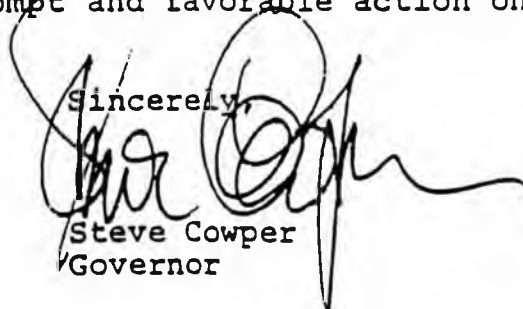
On February 28, after an exchange of offers, DNR offered SNA \$15.49 million, the highest value the panel arrived at assuming the timber was harvested on a portion of the land. SNA rejected this value unless the state was willing to pay the full value in cash. SNA would agree to a land exchange only if the state agreed to pay a higher value for SNA's land. DNR refused to consider an exchange that valued SNA's land higher than \$15.49 million because appraisals have not substantiated a higher value.

We agree that \$17.82 million is an acceptable value for SNA's land. This is at the high end of the appraised values, but this is a difficult parcel to appraise. This value should be the same whether SNA's land is acquired by exchange or through a cash purchase.

I support a cash purchase recognizing that past land trade efforts failed, in part, due to differing opinions of the value of SNA's land. SNA will not negotiate an exchange that is based on fair market value, but is willing to sell its land for cash at fair market value.

I request that the legislature appropriate the funds to purchase SNA's land and TTC's timber. The amount of time, effort, and money spent by the state, SNA, and the people of Alaska over fifteen years demonstrates that there is public support for making Kachemak Bay State Park whole. The length of time further demonstrates how difficult it has been to reach an agreement such as the one represented by this bill. I urge your prompt and favorable action on this measure.

Sincerely,



Steve Cowper
Governor

Funding Information: General Fund \$17,820,000
Other Funds -0-
\$17,820,000

BY THE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

1 IN THE HOUSE

2 HOUSE BILL NO. 590

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act making a special appropriation to the Depart-
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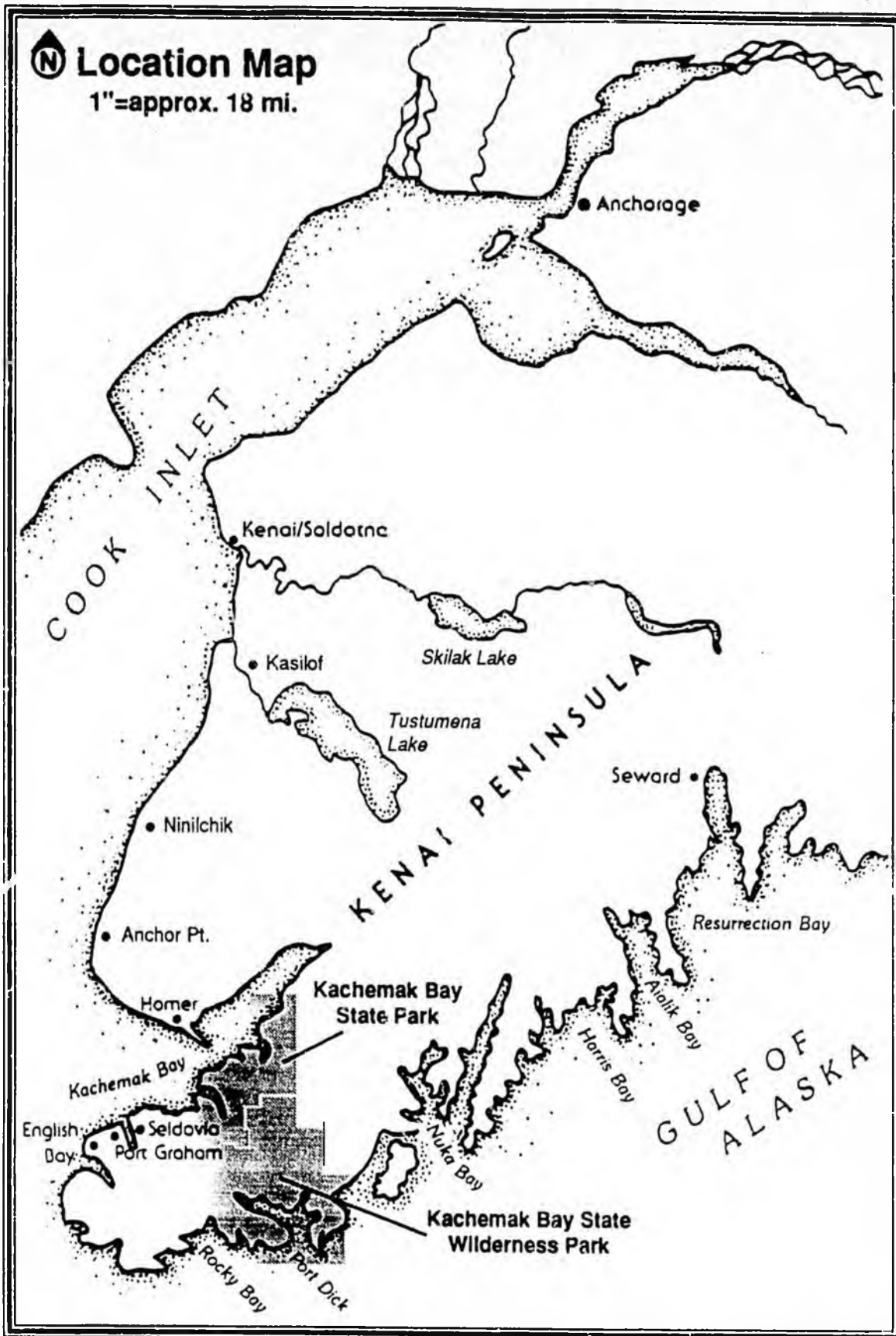
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26 Trading Company, within the Kachemak Bay State Park as identified in the
27 Preliminary Exchange Agreement dated June 30, 1989, as amended as of the
28 effective date of this Act, between the state, the Seldovia Native
29 Association, and the Timber Trading Company.

N Location Map

1"=approx. 18 mi.



COOK INLET

KENAI PENINSULA

GULF OF ALASKA

● Anchorage

● Kenai/Soldotna

● Kaslof

● Ninilchik

● Anchor Pt.

● Homer

● Seward

Resurrection Bay

Kachemak Bay State Park

Kachemak Bay

English Bay

● Seldovia
● Port Graham

Rocky Bay

Port Dick

Kachemak Bay State Wilderness Park

Nuka Bay

Harris Bay

Atalik Bay

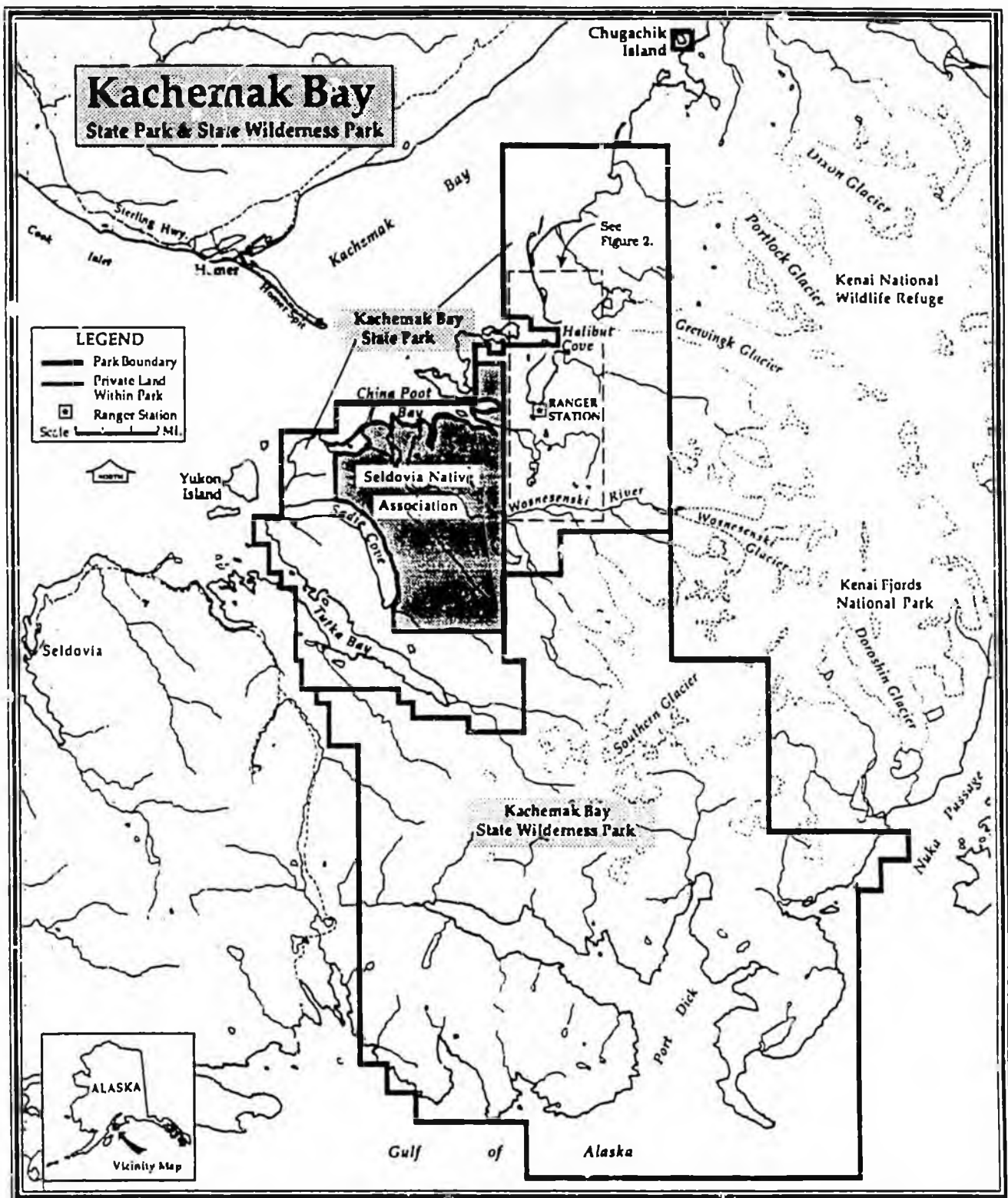


Figure 1.

History:

Kachemak Bay State Park was created by the Alaska Legislature in 1970. The following year, the U.S. Congress passed the Alaska Native Claims Settlement Act (ANCSA), which entitled Alaska Natives to receive land as settlement of aboriginal land claims (including federal lands that had already been transferred to the state).

SNA selected and received title to over 29,000 acres of its ANCSA settlement from lands within Kachemak Bay State Park. The SNA selections included key coastline and other high public use areas, including lands near China Foot Bay, one of the most beautiful and accessible sites within the park.

In 1979, a Memorandum of Understanding between SNA and the state Department of Natural Resources (DNR) was executed. Among other things, the memorandum committed the state and SNA to exchange SNA's park inholdings for state land of equal value.

In 1983 and again in 1985, the state and SNA successfully completed two small land exchanges. Two larger exchange attempts were unsuccessful, and further negotiations waned. At this writing, SNA still owns 23,642 acres within the park.

Recent Developments:

Roughly two years ago, it was disclosed that SNA had sold timber cutting rights on 15,400 acres of its park inholdings as well as other nearby SNA land to Koncor Forest Products Company, through its subsidiary Timber Trading Company (TTC).

With a twelve year timber harvest contract (from May 30, 1987 until April 30, 1999), TTC planned to begin logging operations in the near future. These plans dismayed a number of people who appreciate the recreational and scenic values of Kachemak Bay State Park, and who want to see the integrity of the park preserved.

Almost immediately, a statewide grass roots effort to revive the trade started, and a new round of negotiations began. Participants included representatives from DNR, SNA, TTC, members of the Kachemak Bay Citizen's Coalition, and local representatives.

The first step in the revived exchange process was to assemble a pool of state land to offer SNA. Once DNR completed this, the next step was an appraisal of SNA's land within the park.

An independent appraiser, under contract to SNA, arrived at two different values for SNA's property within the park, depending on the potential for timber harvest was treated: \$22.7 million and \$25.6 million. Market value of timber was considered in addition to this, and at one point, the total value of the inholdings was estimated to be in the area of \$32 million.

DNR officials disagreed with the methods used by SNA's appraiser, maintaining that these values were not substantiated. DNR then contracted for its own independent appraisal, which placed the land values at \$12 million. SNA disagreed with this value.

In February, an arbitration panel of three independent appraisers was selected by DNR and SNA to review the appraisals and render an opinion of the value of SNA's property. Though SNA agreed to the panel, it did not agree to be bound by the panel's results.

After some deliberation, the panel concluded that the value of SNA's land, with the timber left in place, was \$17.82 million. If timber on a portion of those lands were harvested, the value

for the land alone ranged from \$11.62 to \$15.49 million, depending on what assumptions were made regarding the impact of any potential timber harvest. SNA still felt these values were too low, but agreed to negotiate.

After an exchange of offers and counter-offers, an agreement was reached on February 28, 1990. Under the terms of this accord, the state declared its willingness to purchase the balance of SNA's lands within Kachemak Bay State Park for \$15.49 million. Though the figure is at the high end of the arbitration panel's valuation, DNR concedes that it is a very difficult parcel to appraise. SNA has assented to this price only if the state makes an outright purchase of the property, not an exchange of land.

Timber:

TCC's timber within the park has been recently appraised as having a market value of \$6.4 million, and the DNR has been working on state acquisition of TTC's timber within the park through an equal value timber exchange. State timber available for an exchange is limited. After considerable effort, TTC and the state agreed on two suitable parcels for an exchange: one near Thorne Bay on Prince of Wales Island, and the other at Frederick Point on Mitkof Island, near Petersburg.

The Thorne Bay timber is primarily red cedar (44%) and western hemlock (41%), with some Sitka spruce (11%). At this time, market prices for red cedar are dropping, and it is expected this trend will continue. This price drop has affected negotiations between the state and TTC. Additionally, there is some objection by Thorne Bay residents to harvest in this area, though such objection may be lessened if harvest would result in construction of a road to Tolstoi Bay.

The Mitkof Island parcel is composed mainly of western hemlock (61%) and Sitka spruce (36%). The timber values are high, and the market for hemlock & spruce appears to be relatively stable. However, substantial portions of Mitkof Island have already been harvested, and there is strong objection by Petersburg residents to any further harvest.

In light of the political reality that without approval from area residents, any exchange of timber (and subsequent harvest by TTC) of the Thorne Bay and Mitkof Island areas will be very difficult to accomplish, another option has been chosen: the cash purchase of TTC's timber within Kachemak Bay State Park.

Legislation:

House Bill 590 (and a Senate companion bill, Senate Bill 536) was introduced by the Governor on March 28, 1990. The measure provides an appropriation of \$17.82 million for the outright purchase of both land and timber inholdings within Kachemak Bay State Park.

What the State will Gain:

Seldovia Native Association's 23,642 acres are in the center of Kachemak Bay State Park, lying south and east of China Poot Bay, and extending southward to Sadie Cove. This comprises the "heart" of the park, and is noted as one of the most beautiful scenic areas in the state. Because of its high recreational values as well, state acquisition of these inholdings will protect and preserve the integrity of the park for generations to come.

Scenic and Recreational Values

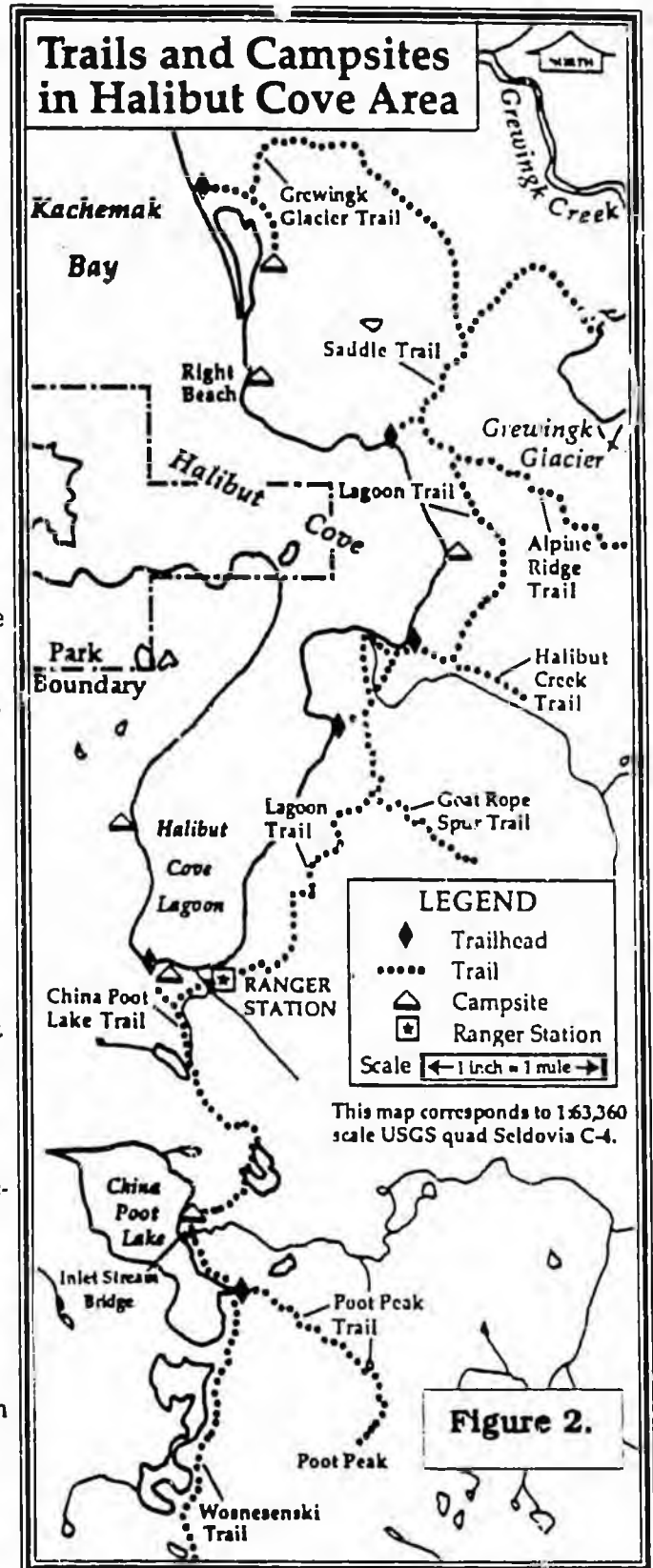
A large portion of SNA's park inholdings are highly visible from Homer and the Homer Spit, with China Poot Bay being the centerpiece for this breathtaking tableau. A photograph of China Poot, taken from the Homer side, was used by the Nation Geographic Society in its 1990 calendar, "Seashores of the World." The proposed timber harvest would include most of these scenic uplands.

Scenic flights and fly-in fishing trips are conducted by at least two Homer based flight services, and there are numerous charter boat operators offering scenic and fishing tours of the area. A major commercial lodge is located at China Poot Bay, directly across from SNA's land, and the Center for Alaska Coastal Studies is located on the Island Peninsula between Peterson bay and China Poot Bay. There are smaller lodges, private residences and cabins located along Peterson Bay, Neptune Bay, Sadie Cove and Halibut Cove. Most park users feel strongly that any logging of this pristine area would threaten the primary uses of the park, which are based on fishing and tourism. The common focus of the Homer and Kachemak Bay communities is to enhance and encourage greater recreational opportunities, while retaining the wilderness values of the park.

Most recreational use of Kachemak Bay State Park is concentrated on or adjacent to water - pleasure boating, sport fishing, clam digging, kayaking, crabbing, shrimping, beachcombing, photography, scuba diving and wildlife observation. Visitor use figures for Kachemak Bay State Park are hard to determine, and are incomplete, but annual visitor use day counts taken during periods from 1982 to 1989 range from 21,444 (seven-month period in 1982) to 27,134 (four-month period in 1987). A visit to the bay on any summer day makes it obvious that the park is one of the most heavily used recreational areas in southcentral Alaska.

Since many beach areas provide firewood, tent sites, and occasional drinking water, they are important focal points for recreational activities, including picnicking, camping and hiking. Many of the existing trailheads in the park (see Fig. 2) are located on beaches, and thus are entry points for other upland activities - hunting, backpacking, mountaineering and skiing. As the trail system improves, backpacking is becoming more popular, and improved access has spurred an increase in mountaineering and skiing on the park's many snowfields and glaciers.

Natural fish runs, combined with Dept. of Fish & Game enhancement programs, provide fishing opportunities that attract large numbers of both sport and commercial fishermen to Kachemak Bay waters.



Gerald E. Grilly
Publisher



Howard Weaver
Editor

Michael Carey, Editorial Page Editor
Patrick Dougherty, Managing Editor

Katherine Fanning, Editor and Publisher 1971 to 1983
Lawrence Fanning, Editor and Publisher 1987 to 1971

Founded in 1946 by Norman C. Brown

Anchorage Daily News - Sat - March 31, 1990

Time to deal

State should buy Kachemak park inholdings

To appreciate how Homer-area residents feel about Kachemak Bay State Park, consider an analogy to Anchorage's Bicentennial Park. Several proposed developments in the city's midtown wilderness park have stirred angry opposition. But imagine the outcry if a private company owned Bicentennial Park's timber and wanted to turn loose the chainsaws.

That gives some sense of how people near Homer feel about the possibility that the jewel of a park across the bay will be logged. And that prospect is no idle threat. Seldovia Native Association owns some 25,000 acres in the park. The firm has already sold timber rights on one-sixth of the lands.

The state would like to protect the park. To do so, it's been trying to work a land exchange with the Seldovia firm for some 13 years without success.

But now comes hope a deal can be done. The state has dropped the idea of a land trade in favor of paying cash. A new state estimate of what Seldovia's land is worth has brought the two sides closer together than ever.

There's just one large hurdle left: The legislature must agree to fund the park purchase. Lawmakers should seize the moment.

Gov. Cowper is asking for \$17.8 million. That's not as much as the Seldovia firm and its timber partner want, but it's more than the land is worth as timber property. The three parties can fine-tune the price as the legislature reviews the funding proposal.

Failing to strike a deal will have bitter consequences. Any logging will disrupt China Poot Bay, one of the area's most popular and sensitive estuaries. A ugly scar will sit for all to see on the Homer side of the bay. As state parks director Neil Johannsen points out, the inevitable backlash could jeopardize public support for more appropriate logging projects.

But the situation needn't become so poisoned. Both sides agree the land's highest and best use is a park. The state is willing to pay a price that reflects that fact.

The legislature should give the parks division enough money to show the state is serious about a deal. If the two sides will then quit haggling over the price, Seldovia Native Association will have a solid deal for its shareholders and Kachemak Bay State Park will get the protection it deserves.

 FAX TRANSMITTAL
 TO: Mike Neumann / Pat Malone
 DEPT: Home FAX #: 4654565
 FROM: Mylius PHONE: 7622660
 CO: DNR FAX #: _____

 END OF PAGES
 2

HB

5941

HOUSE COMMITTEE REPORT File

(11)

Date Referred: April 11, 1990

FURTHER REFERRALS:

Date of Committee Action: 5/1/90

The FINANCE Committee considered:

HB 594

HOUSE BILL NO. 594

AIDEA BONDS: AIRCRAFT MAINTENANCE FACILITY

"An Act authorizing the Alaska Industrial Development and Export Authority to issue bonds for an aircraft maintenance facility located at the Anchorage International Airport; granting the authority an exemption from the state procurement code for contracts relating to airports; and providing for an effective date."

RECOMMENDATIONS:

- be replaced with _____ the same title
- have attached amendment(s) a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the _____ Committee

ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(s):
(Dept)

APPROVES PREVIOUS:

(Date/Dept)

- fiscal impact _____
- zero fiscal note _____
- zero with analysis _____

- fiscal note(s) _____
- zero fiscal note(s) CE&C D/ 4/4/90
- zero fn/analysis _____

SIGNING DO PASS:

SIGNING:

(Check approp. column)

Do Not Pass No Rec Amend

Ronald J. Larson Larson

Jay Brown Brown

Harjo Koponen Koponen

Tom Miller Miller

Stacy Swackhammer Swackhammer

	Do Not Pass	No Rec	Amend
<u>Ronald J. Larson</u> Phillips	✓		
<u>Dick Shultz</u> Shultz	✓		

Chairman's Signature
Ronald J. Larson Larson

FISCAL NOTE CL

REQUEST:

Revision Date: _____
Title: An Act relating to issuance of
bonds and procurement of an Aircraft Maint.
Sponsor: Rules Committee
Requestor: Governor

Agency Affected: Commerce & Economic Dev.
Alaska Industrial Development
and Export Authority
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Analysis is attached as page 2.

Prepared by: William R. Snell, Deputy Director - Development Phone: (907) 561-8050
Division: Alaska Industrial Development and Export Authority Date: 4/2/90

Approved by Commissioner: Larry Mercuri Date: 4/2/90
Agency: Department of Commerce & Economic Development

Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

ANALYSIS

Section 1 of this bill would give AIDEA the authority to issue up to \$50 million in bonds for the acquisition, design and construction of a multi-bay aircraft maintenance facility located at Anchorage International Airport to be owned by the authority.

Preliminary cost estimates range from \$25 million to \$50 million, with the final cost depending on the number of users and their requirements.

o Development Schedule

The project development sequence is as follows:

- Phase I - obtain airline consensus and commitments
- Phase II - design development and permitting
- Phase III - construction

It is expected that Phases I and II would be completed in 1990 and Phase III in 1991.

Section 2 of this bill would exempt AIDEA from the competitive bidding requirements of the state procurement code (AS 36.30) for contracts related to airport construction. The exemption would give the project the same status under the procurement code as other airport projects undertaken by the Department of Transportation and Public Facilities (see AS 36.30.850(b)(8)).

This would allow the delegation to users the responsibility for the design and construction facilities that are intended for a special airport use. This approach recognizes that the state and primary users are partners in the project and that the facility should be designed with the special needs of the user in mind. The state also benefits by extracting indemnification from the user for any liability related to the performance under the delegation.

No separate legislative appropriation is required for AIDEA to issue the revenue bonds; therefore, the fiscal note is zero.

BY THE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

1 IN THE HOUSE

2

HOUSE BILL NO. 594

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

SIXTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6 For an Act entitled: "An Act authorizing the Alaska Industrial Development
7 and Export Authority to issue bonds for an aircraft
8 maintenance facility located at the Anchorage Inter-
9 national Airport; granting the authority an exemption
10 from the state procurement code for contracts
11 relating to airports; and providing for an effective
12 date."

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

14 * Section 1. The Alaska Industrial Development and Export Authority may
15 issue bonds to finance the acquisition, design, and construction of a
16 multi-bay aircraft maintenance facility located at Anchorage International
17 Airport, to be owned by the authority. The principal amount of the bonds
18 may not exceed \$50,000,000. This section grants the legislative approval
19 required by AS 44.88.090 and 44.88.172(c).

20 * Sec. 2. AS 36.30.850(b)(8) is amended to read:

21 (8) acquisitions or disposals of property or other contracts
22 relating to airports under AS 02.15.070, 02.15.090, [AND] 02.15.091,
23 and AS 44.88;

24 * Sec. 3. This Act takes effect immediately under AS 01.10.070(c).

25

E O

7 2



OFFICIAL BUSINESS

Alaska State Legislature

Senate

Office of the Secretary

PO. BOX V
CAPITOL BUILDING
JUNEAU, ALASKA 99811

January 12, 1989

MEMORANDUM

TO: Senator John Binkley, Co-chairman
Senator Rick Uehling, Co-chairman
✓ Finance Committee

FROM: Nancy Quinto
Secretary of the Senate

RE: Executive Order No. 72

The President has referred Executive Order No. 72 (transferring the rate-setting and some other related functions of the Medicaid Rate Commission to the Department of Health and Social Services) to your committee.

Section 23, Article III of the Constitution states:

The governor may make changes in the organization of the executive branch or in the assignment of functions among the executive branch or in the assignment of functions among its units which he considers necessary for efficient administration. Where these changes require the force of law, they shall be set forth in executive orders. The legislature shall have sixty days of a regular session, or a full session if of shorter duration, to disapprove these executive orders. Unless disapproved by resolution concurred in by a majority of the members in joint session, these orders become effective at a date thereafter to be designated by the governor.

Attachment

STEVE COWPER
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

January 9, 1989

The Honorable Tim Kelly
President of the Senate
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Senator Kelly:

Under the authority of art. III, sec. 23, of the Alaska Constitution, I am transmitting Executive Order No. 72, transferring the rate-setting function, and some other related functions, regarding hospitals and long-term-care facilities under the medicaid and general relief-medical programs from the Medicaid Rate Commission to the Department of Health and Social Services. In line with that transfer, and in recognition that the commission will be providing advice to the department on rate-setting, the Executive Order changes the name of the commission to the Medicaid Rate Advisory Commission.

The Order reassigns the function of rate-setting to the department, to link it with the department's policy-setting and budgeting functions for the two programs, thus increasing overall efficiency in the administration of these closely integrated functions.

This transfer will allow the state to take effective management control so that rates set, in the aggregate, meet federal standards, thus assuring that the receipt of federal money under the medicaid program is not put in question by the rate-setting process. Additionally, this transfer will enable better management of the resources that Alaska allocates to the institutional care of its needy citizens and for better evaluation of the effectiveness of those services.