

ALASKA LEGISLATURE

1636

HOUSE and SENATE FINANCE COMMITTEE FILES, 1997-1998

**SELECTED STATUTES AND REGULATIONS  
PERTAINING TO THE TAXATION OF JET FUEL**

**Alaska Statute 43.40.010** *Tax on transfers or consumption of motor fuel and expenditure of proceeds*

(a) There is levied a tax of eight cents a gallon on all motor fuel sold or otherwise transferred within the state, except that

....  
(3) the tax on all aviation fuel other than gasoline is three and two-tenths cents a gallon.

(b) There is levied a tax of eight cents a gallon on all motor fuel consumed by a user, except that

....  
(3) the tax on all aviation fuel other than gasoline is three and two-tenths cents a gallon.  
....

**Alaska Statute 43.40.100** *Definitions* In this chapter

....  
(2) "motor fuel" means fuel used in an engine for the propulsion of a motor vehicle or aircraft, and fuel used in and on watercraft for any purpose, or in a stationary engine, machine or mechanical contrivance which is run by an internal combustion motor; "motor fuel" does not include

....  
(B) fuel sold for use in jet propulsion aircraft operating in flights to foreign countries;  
....

**15 AAC 40.020** *FUEL SUBJECT TO TAX, BULK SALES, AND EXEMPTIONS*

(a) All motor fuel sold or transferred in the state or consumed by a user in the state is subject to the motor fuel tax under AS 43.40.010 - 43.40.100, unless exempted under (c) of this section. For purposes of AS 43.40.010 - 43.40.100 and this chapter, "motor fuel" is fuel used in an engine for the propulsion of a motor vehicle or aircraft, and fuel used in and on watercraft for any purpose, or in a stationary engine, machine, or mechanical contrivance which is run by an internal combustion motor, including bulk or other transfers of fuel between producing, refining, importing, or exporting companies, and gasoline separated from a mixture of gasoline and alcohol that was not taxed in its combined state.

(b) Bulk sales of fuel to a person who uses a common storage tank servicing both taxable and nontaxable uses, except bulk sales of jet fuel to a person who flies directly from the state to a foreign country, are subject to the motor fuel tax under AS 43.40.010 - 43.40.100, but the portion actually used for nontaxable purposes is eligible for a tax refund upon application to the department. A dealer who makes bulk sales of motor fuel shall collect and remit the tax in accordance with this chapter, except that if the sale is a sale of jet fuel to a person who flies directly from the state to a foreign country the tax may not be collected. However, if a portion of that jet fuel is used on a foreign flight that makes more than one stop in this state or makes a stop in another state, the user shall file a return as required by 15 AAC 40.010 and remit the amount of tax due for the jet fuel actually consumed over Alaska.

(c) Fuel meeting the following requirements is exempt from the motor fuel tax under AS 43.40.010 - 43.40.100:

....  
(13) fuel sold to, transferred to, or used on jet propulsion aircraft operating flights from the state to a foreign country, except flights to a foreign country with intermediate stops within the United States;  
....

## REPORT CONCLUSIONS

### Background

Aviation jet fuel is currently taxed at 3.2 cents per gallon under AS 43.40. However, not all privately used fuel is taxed; the primary exemption is "fuel sold for use in jet propulsion aircraft operating in flights to foreign countries." In FY 95, while jet fuel taxes generated approximately \$7 million, another \$10 million was exempted as relating to foreign flights.

This is a relatively small program for the Income and Excise Audit Division of the Department of Revenue (DOR). DOR's *FY 95 Income and Excise Audit Annual Report* lists 23,076 tax returns and \$334 million in revenue received in total by the division. In contrast, the jet fuel tax totaled only \$7 million and was collected from only a handful of taxpayers.

The last comprehensive DOR audits of jet fuel tax returns were completed in November 1992 and were for FY 91. The department found that the airlines and the jet fuel jobbers were in substantial compliance.

### DOR's audit approach is reasonable

Given the relatively small revenue potential of this program and the findings of substantial compliance, the department has not continually focused audit efforts on this program. It did, however, recently begin another series of jet fuel audits. If noncompliance is encountered, DOR has the option of auditing back three years in accordance with the statute of limitations. We consider this approach to be reasonable.

### Inefficient self-reported tax mechanism

We noted that DOR was having difficulty in obtaining essential documents to conduct these audits. We suggest the statutes and regulations be modified to tax all fuel on delivery, rather than on a self-reporting basis; any refunds due could be applied for and be accompanied by supporting documentation. This issue is discussed in more detail in the Auditor's Comments section of this report.

### Jet fuel taxes currently being contested

A major airline is presently challenging DOR's interpretation of the foreign flight exemption. This exemption is outlined on the opposing page. DOR uses a "next landing" rule to determine if fuel enplaned in Anchorage is to be taxed. That is, if the next landing is in the U.S., the fuel is taxed; if the next landing is in a foreign country, it is not taxed.

A formal DOR administrative hearing is pending. If the airline prevails, it would set precedent and could significantly reduce the aviation fuel tax revenues of the State.

We suggest that, if the legislature decides to continue a foreign flight exemption, the term "foreign" be clearly defined in statute. Regardless of whether the jet fuel tax statutes are amended or not, the department should revise its regulations.

No formal program implementation recommendations are presented in this report, as this program is being considered for modification through HB 362. Our comments on this bill, and on other principal options available to the legislature, are provided in Auditor's Comments. Our suggestions for program implementation are tailored to the individual options and are outlined therein.

## AUDITOR'S COMMENTS

1996

LEGISLATION

The legislature is currently considering the aviation fuel tax structure. Specifically, HB 362 would expand the foreign flight tax exemption to include "flights that continue from foreign countries." The public interest questions of whether and how much to tax, the equity of taxation between domestic and foreign carriers, and the impact of the tax on the ability of Alaskan businesses to compete for jet fuel sales are matters of public policy that should be addressed by the legislature. However, as we became familiar with aviation fuel tax related issues in the course of this audit, we offer the following outline of legislative options along with our observations and suggestions for implementation.

### Background

Aviation jet fuel is currently taxed at 3.2 cents per gallon under AS 43.40. However, not all privately used fuel is taxed: the primary exemption is "fuel sold for use in jet propulsion aircraft operating in flights to foreign countries." The Department of Revenue (DOR) has defined this exemption in regulation. Per 15 AAC 40.020, the exemption includes

*... fuel sold to, transferred to, or used on jet propulsion aircraft operating flights from the state to a foreign country, except flights to a foreign country with intermediate stops within the United States.*

The Anchorage port, the fuel tanks at the airport, and the pipeline connecting them are part of a federal Foreign Trade Zone (FTZ). FTZs are established under 19 USC 81 and 15 CFR Part 400 to "expedite and encourage foreign commerce." FTZs are commonly used to combine various foreign and domestic materials with the final assembled product being re-exported. No U.S. Customs' duties or other taxes are paid unless items are transferred for domestic consumption. This creates local employment that might not have otherwise been possible. Any organization can apply for a zone to the federal FTZ board: this board takes comments from interested parties and makes a decision on whether a zone will be established, its physical boundaries, and zone procedures (i.e., what products and processes will be allowed to use the zone). We understand that most applicants do not request zone procedure restrictions, thus the board does not usually establish such limitations. FTZ-160 was applied for by the Municipality of Anchorage with boundaries around the port, the fuel line, and the airport tanks. It currently has no zone procedure restrictions; any product, including jet fuel, can be processed through the zone. We understand that, while boundary change requests generally come from the original applicant, zone procedure changes are commonly requested by other interested parties. Per 19 USC 81, "[t]he Board may at any time order the exclusion from the zone of any goods or process of treatment that in its judgement is detrimental to the public interest, health, or safety."

Fuel that is refined from foreign oil is allowed to enter and leave the zone free of federal taxes<sup>1</sup> and also, under traditional interpretation, some forms of state and local taxes, provided it leaves on a foreign flight. This sounds similar to the State's foreign exemption. However, the difference is substantial, as the State's definition of "foreign" is narrow, while the federal government's definition is very broad. That is, any aircraft with a foreign original or ultimate destination is considered eligible for exempt FTZ fuel, regardless of the number of intermediate domestic stops.

Historically, in-state refineries have not supplied all of the jet fuel used at Anchorage International Airport. Prior to October 1995, the FTZ had been inactive; however, before year end two tankers totaling 20 million gallons were processed through the zone.

Various newspaper and magazine articles have voiced concerns that in-state refineries may not be able to compete with FTZ fuel. Irrespective of the relative advantage or disadvantage of in-state refineries in the global fuel market, these refineries would be disadvantaged by the 3.2 cents per gallon excise tax. The intent of the FTZ is not to injure local existing business, but to create additional opportunities that would not otherwise exist.

The expansion of the foreign flight exemption under HB 362 to include "*flights that continue from foreign countries*" is intended to place in-state refineries on a more equal footing with the FTZ. It is probably intended to allow those aircraft that could use the tax-free FTZ fuel to buy fuel from in-state refineries on a tax-free basis.

As an alternative to in-state fuel or FTZ fuel, the airlines may elect to use bonded fuel under 19 USC 1309. Under this program, foreign oil that is processed in foreign refineries can be bonded in conjunction with the U.S. Customs Service and be loaded onto foreign flights tax free. Although this alternative has been available, we understand that it has not been used by the airlines in Anchorage since the late 1970's. This approach is common in the Lower 48. We suspect that the reason for the difference is that fuel transportation costs are higher for Anchorage than for most Lower 48 airports. Whether to use bonded fuel or not is an economic decision based predominately on global fuel prices, fuel availability, and transportation costs. The airlines made a decision to discontinue using bonded fuel in Anchorage. Obviously, the relative cost factors will fluctuate over time. However, as the fuel pricing cycles of the past have not triggered a return to bonded fuel, we suspect that the economic disadvantage of this approach is substantial. We view the 3.2 cents per gallon tax as relatively minor and do not believe that its continuation would cause the airlines to use bonded fuel when they have not done so in recent years.

---

<sup>1</sup>The federal government adopted an excise tax on jet fuel of 4.3 cents per gallon, effective October 1, 1995. However, the Internal Revenue Service informed us that all foreign flights were exempt from this tax. As this tax would not encourage nor discourage FTZ use, it is excluded from the remainder of this discussion.

## Legislative Options

Simply put, the primary legislative options are to tax no flights, tax all flights, tax all except foreign flights, or select one of these tax plans and request that the FTZ be modified to eliminate the tax disadvantage to in-state refineries. Our comments on these options are as follows.

### Option 1: Tax no flights

Legislative Action: →Repeal the jet fuel tax

Probable Outcome: →Forgo jet fuel tax of \$17 million

→In-state refineries not disadvantaged by tax

Under this scenario, the excise tax would not be collected on domestic nor foreign flights. The State would not collect the \$7 million it currently does, nor would it collect the \$10 million that is currently exempt. Relative to a tax-all-flights program, this would be forgoing \$17 million per year in revenues. There would be no immediate drop in State expenditures; less than one full-time equivalent position audited these returns in FY 95. Eventually, however, this option would mean \$17 million less in State services.

In addition to the tax reduction, the airlines would also be able to eliminate some of the bookkeeping costs of tracking and reporting fuel usage for the State. In theory, lower costs to the airlines would eventually be passed through to the travelers and the purchasers of cargo. However, we observe that little of this benefit would be realized in Alaska.

While some might argue the necessity of tax concessions to the airlines in order to maintain and continue to attract their business, we believe that few would advance such an argument in support of domestic carriers. We do not see a significant net benefit to Alaska through such tax cuts.

### Option 2: Tax all flights

Legislative Action: →Repeal the statutory foreign flight exemption

→Pass resolution requesting that FTZ procedures exclude jet fuel

→Amend statutes to require taxation at point of delivery

Probable Outcome: →Receive jet fuel tax of \$17 million

→Very minor, if any, increase in DOR expenditures

→In-state refineries not disadvantaged by tax

→Federal tax exclusion benefits of the FTZ eliminated for jet fuel

Based upon 1995 flight activity, the General Fund would receive \$17 million per year. As mentioned above, some might argue that tax concessions are needed and that a tax increase would drive international flights away from Alaska. If this were true, much of the \$17 million would never be realized. We do not believe this would be the case, given the immateriality of the tax.

This is not to say that millions of dollars are immaterial, merely that within the context of an airline routing decision the incremental cost of this tax would be a relatively minor issue. We assume routing decisions are part of the daily life of an airline. In a serious consideration of whether or not to route through Alaska, an airline would likely consider such factors as fuel price levels, fuel price fluctuation, availability of fuel, social/political stability, availability of aircraft parts and services, space availability at the airport, capability and cost of local labor, risk of weather diversions and delays, air traffic control delays at busy airports, and flight distances. Anchorage has already established itself as a refueling stop for cargo aircraft, thus it appears to have an advantage in these categories.

We estimate the tax equates to approximately 20 minutes of fuel. That is, the fuel tax dollars paid by a cargo plane would pay its fuel bill for approximately 20 minutes<sup>4</sup> of flight time. We observe that this additional flight time may be quite immaterial in comparison to the costs and other considerations of proposed alternate routes. We believe the airlines have selected Anchorage partly because of its geographic advantages: a minor change in costs weighed against longer flight times or delays at other airports would still come out in Anchorage's favor.<sup>5</sup>

This option would not result in significantly higher state expenditures. As discussed under Report Conclusions, we consider DOR's periodic compliance audits to be a reasonable approach to the administration of the jet fuel tax program. Doubling the revenue would not necessarily double the audit staff. In fact, by taxing all flights, foreign and domestic, the audits would be much simpler and quicker to conduct. Thus, we would not predict a significant budget increase.

We also suggest that, if any jet fuel is to be taxed, it be taxed at the point of delivery, rather than being paid by the eventual user on a self-reporting basis. We understand that past DOR audits have been frustrated when some taxpayers were slow to share the supporting data. Under this tax option, it might be most efficient to tax the fuel when it is delivered. To accomplish this, AS 43.40.010(c) would need to be modified to eliminate the reference to user reporting. The regulations would then require updating.

---

<sup>4</sup>This estimate was based upon the ratio of the 3.2 cent tax to the current tax-off cost of jet fuel. This ratio was applied to the number of hours a flight may be airborne, to arrive at the 20 minute estimate. The calculation was based upon a cargo flight using a Boeing 747 on a flight of 8 hours, which we understand is the normal maximum.

<sup>5</sup>With the opening of Soviet airspace, many new routes are available. We observe that as airports are built in the region the geographic advantage held by Alaska may diminish or disappear. We also observe that Alaska's 3.2 cent tax would be clearly irrelevant in such a routing decision given the immense difference in flight miles.

As discussed earlier, the airlines currently purchase fuel through Anchorage's FTZ and avoid paying the excise tax. This leads to concerns that in-state refineries are being handicapped by the tax. That is, the airline can buy tax free through the FTZ but they must pay the tax if they choose to buy from in-state refineries. We suggest the legislature consider conducting hearings to determine if it is in the public interest to remove this disadvantage to in-state refineries and to tax all foreign flights. We understand that the FTZ board would give substantial weight to a resolution from the State legislature, particularly if hearings had been held to assist it in the public interest determination. The legislature could request that the board amend FTZ procedures to exclude jet fuel from the zone on the basis of public interest in terms of economy, employment, and revenues needed to provide services.

### Option 3: Tax all except foreign flights

- Legislative Action: → Define a foreign flight exemption in statute  
→ Consider whether taxation at the point of delivery is necessary
- Probable Outcome: → Revenues dependent upon which flights are defined as foreign  
→ Expenditures dependent upon which flights are defined as foreign  
→ Tax reduction required to eliminate in-state refinery disadvantage

This option is based upon the theory that, by not taxing foreign travelers and freight, Anchorage will continue as a global refueling station and will grow into a global warehousing and distribution center. We observe that any decision by a company on whether to refuel and/or set up distribution facilities in Anchorage would be based upon forecasted incremental costs of alternate routes and facilities. As discussed earlier, we do not believe that a 3.2 cents per gallon tax is material to such a decision.

If foreign flights are to be exempt, the term "foreign" should be carefully defined. Under current practice, only outbound flights in which the next stop is in a foreign country escape the taxes. However, there are many possible definitions of "foreign" that the legislature could consider, perhaps even a combination of the following:

- Location of immediately preceding or subsequent landing
- Aircraft owner's country or perhaps lessor's country
- Origin or destination of the majority of the payload
- Airport where aircraft's flight number originated or is to terminate
- Where this aircraft's maintenance is routinely performed
- Miles over Alaska
- Miles over the United States
- Number of U.S. stops before or after Anchorage stop

- Category of aircraft
- Category of payload
- Airport where the last major stopover occurred, specifying the number of hours
- Whether the flight is eastbound or westbound

Nevertheless, we observe that a complex definition of "foreign" would probably only serve to increase the costs of tracking it by the airlines and administering by DOR. The legislature could also select different tax rates for different categories of "foreign" flights. As immaterial as we believe this tax is to the airlines on an incremental route basis, we do not believe such complexity is justified.

As discussed earlier, if fuel taxes are to be levied, we suggest that, due to the difficulty of obtaining essential records, that the statutes and regulations be amended to collect the tax on delivery, rather than on a self-reporting basis. Any tax refund requests could be accompanied by supporting documents. With the foreign exemption under this tax option, this could be inefficient for the airlines and for DOR. Whether the current difficulty in obtaining records outweighs this inefficiency is a matter for DOR to address.

#### Option 4: FTZ modification to eliminate the tax disadvantage to in-state refineries

Legislative Action: →Pass resolution requesting that FTZ procedures cap jet fuel volume  
→Request a similar resolution from the Municipality of Anchorage

Probable Outcome: →In-state refineries not disadvantaged by tax  
→Full FTZ benefits on jet fuel below volume cap

The airlines currently have two alternatives to avoid any tax that the legislature does enact, if the flight is "foreign" as broadly defined by the federal government. First, the bonded fuel alternative is available; however, as discussed above, this does not appear to have been economically feasible. Second, the airlines could utilize FTZ imports to escape the tax. This, of course, would put in-state refineries at a relative disadvantage.

The legislature should consider requesting the FTZ board, based upon public interest findings, to amend zone procedures to limit jet fuel to a specified number of gallons each year. Alternatively, a floating cap could be established: a set percentage of the total annual purchases would qualify for FTZ benefits. We believe such a modification would accomplish the following.

**ANCHORAGE OFFICE**

THE BANK OF AMERICA CENTER  
550 WEST SEVENTH AVENUE, SUITE 1200  
ANCHORAGE, ALASKA 99501  
PHONE: (907) 277-6693  
FACSIMILE: (907) 270-1959

LEROY J. BARKER  
L.G. BERRY  
HAROLD E. SNOW, JR.  
JULIA B. BOCKMON  
MARGARET O. DULLANTY

**WASHINGTON, D.C. AND  
VIRGINIA OFFICE**

ARLINGTON COURTHOUSE PLAZA II  
2300 CLARENDON BOULEVARD, SUITE 1010  
ARLINGTON, VIRGINIA 22201  
PHONE: (703) 527-4414  
FACSIMILE: (703) 527-0421

\* STEVEN W. SILVER  
\* CARL W. WINNER  
\* BRADLEY D. GILMAN

**ROBERTSON, MONAGLE & EASTAUGH**

A PROFESSIONAL CORPORATION  
ATTORNEYS AT LAW  
JUNEAU, ALASKA 99802

March 10, 1997

**JUNEAU OFFICE**

GOLDBELT PLACE, SUITE 300  
801 WEST 10TH STREET  
P.O. BOX 21211  
JUNEAU, ALASKA 99802  
PHONE: (907) 586-3340  
FACSIMILE: (907) 586-6818

ROYAL ARCH GUNNISON (1873-1918)  
R.E. ROBERTSON (1885-1961)  
M.E. MONAGLE (1902-1985)  
F.O. EASTAUGH (1913-1992)

JAMES F. CLARK  
PAUL M. HOFFMAN  
ROBERT P. BLASCO  
TERRY L. THURBON  
DANIEL J. BOONE  
RUTH H. HAMILTON  
STACIE L. KRALY

ADMITTED IN WASHINGTON, D.C. \*  
AND ALASKA

ADMITTED IN VIRGINIA, \*\*  
WASHINGTON, D.C. AND ALASKA

ADMITTED IN VIRGINIA \*\*\*

ALL OTHERS ADMITTED  
IN ALASKA

Ms. Nancy Kelly  
Legislative Aide  
Office of Representative Gene Therriault  
Capitol Building, Rm. 511  
Juneau, AK 99801

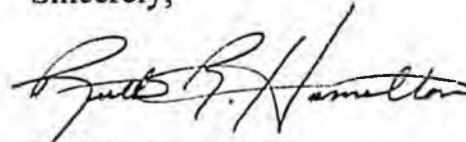
Re: Federal Express' Written Testimony on HB 63, Jet Fuel Tax Exemption Bill

Dear Ms. Kelly:

Please find enclosed ten (10) copies of Federal Express' written testimony on the jet fuel tax exemption bill. Please present this testimony to the House Finance Committee at the hearing scheduled for tomorrow, March 11, 1997, for submission into the legislative record.

Thank you for your assistance regarding the enclosed. Please do not hesitate to contact me if you have any comments or questions.

Sincerely,

  
Ruth R. Hamilton

RRH/kll.311

Enclosure

cc: Doug Buttrey

**HB**

**63**

SFIN

FILE

**SENATE FINANCE COMMITTEE REPORT**

DATE: 5/6/97

REPORTED BY  
SFC MAY 8 1997

FURTHER:

DATE TURNED IN TO OFFICE: 5-8-97

Finance Committee considered CS FOR HOUSE BILL NO. 63(2d RLS)

AVIATION FUEL TAX EXEMPTION

and recommends:

- be replaced with \_\_\_\_\_ CS \_\_\_\_\_ (\_\_\_\_\_)
- adopt previous \_\_\_\_\_ CS \_\_\_\_\_ (\_\_\_\_\_)
- attached amendment(s)
- adopt Letter of Intent by \_\_\_\_\_ Committee
- further referral to the \_\_\_\_\_ Committee

- Senate Bill:**
- same title
  - new title
- House Bill:**
- same title
  - technical change
  - new: SCR# \_\_\_\_\_

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
		<i>Rep. E. Kelly</i>		✓	
		<i>Sen. Farrell</i>	✓		
		<i>Sen. Adams</i>	X		
		<i>Sen. Donley</i>			✓ without amendment
Co-Chair:		Co-Chair: <i>Deane</i>	✓		
Co-Chair: <i>[Signature]</i>	✓	Co-Chair:			

**NEW FISCAL NOTE(S):**

Department                      Date      Zero      Fiscal


**PREVIOUS FISCAL NOTE(S):\***

Department                      Date      Zero      Fiscal

DOR	4/2		4575.0

APPROPRIATION -- no fiscal note

\*include fiscal notes accompanying Governor's bill

REPORTED OUT OF  
SFC MAY 8 1997

0-LS0262\X

CS FOR HOUSE BILL NO. 63(2d RLS)  
IN THE LEGISLATURE OF THE STATE OF ALASKA  
TWENTIETH LEGISLATURE - FIRST SESSION

BY THE HOUSE RULES COMMITTEE

Offered: 4/30/97  
Referred: Rules

Sponsor(s): REPRESENTATIVES THERRIAULT, Davies, Kelly, Brice

A BILL

FOR AN ACT ENTITLED

1 "An Act amending the definition of 'motor fuel' under the state's motor fuel  
2 tax to add, as a part of the tax exemption set out in that definition, exemption  
3 from the tax for fuel sold for use in jet propulsion aircraft operating in flights  
4 that continue from foreign countries, subject to termination of the exemption for  
5 that fuel if a refiner operating a refinery at which the fuel was produced fails  
6 to comply with terms of a voluntary agreement entered into by the refiner to  
7 use Alaska residents, contractors, and suppliers to provide goods and services  
8 when the refinery's capacity is expanded, to add exemption from the tax for  
9 certain number 6 'residual fuel oil,' also known as bunker fuel, and to delete the  
10 exemption from the tax for fuel that is at least 10 percent alcohol by volume;  
11 and repealing ch. 42, SLA 1994, the Act providing for the imposition of a  
12 different tax levy on residual fuel oil used in and on certain watercraft until

HB0063e

-1-

CSHB 63(2d RLS)

New Text Underlined (DELETED TEXT BRACKETED)

**COMMITTEE COPY**

**ENGROSSED**

1 June 30, 1998; and providing for an effective date."

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

3 \* Section 1. AS 43.40.015(d) is amended to read:

4 (d) A certificate of use is not required

5 (1) for fuel exempted under AS 43.40.100(2)(C) [, (F),] or (I) [(K)];

6 and

7 (2) for fuel exempted under AS 43.40.100(2)(I) [AS 43.40.100(2)(J)]

8 other than fuel sold or transferred under this exemption to a person who is engaged in  
9 construction or mining activity.

10 \* Sec. 2. AS 43.40 is amended by adding a new section to read:

11 **Sec. 43.40.092. Disallowance of exemption from motor fuel tax for certain**  
12 **fuel sold for use in jet propulsion aircraft operating in flights that continue from**  
13 **foreign countries.** (a) The provisions of this section apply to disallow the exemption  
14 for motor fuel sold for use by a dealer or used by a user in jet propulsion aircraft  
15 operating in flights that continue from foreign countries if, for motor fuel produced by  
16 a refiner,

17 (1) the refiner determines, on or after the effective date of this section,  
18 that the refiner will expand capacity or expand the refinery to produce more residual  
19 fuel oil used in watercraft;

20 (2) on or after the effective date of this section, the refiner has  
21 voluntarily committed by agreement entered into with the commissioner that, if the  
22 refiner expands its oil refining capacity in order to produce additional supplies of fuel  
23 for use in jet propulsion aircraft that qualify for the tax exemption, when the refiner  
24 expands capacity, the refiner will

25 (A) use the refiner's best efforts to advertise for, recruit, and  
26 employ in the construction activities associated with expanding refinery  
27 capacity resident workers who have experience in the specific fields in which  
28 they are hired to work;

29 (B) contract with licensed Alaska firms to prepare materials that  
30 are used in construction activities and to provide services in conjunction with

1 activities associated with expanded refinery capacity and, in contracting with  
2 those firms, to encourage the refiner's contractors to employ and, when  
3 necessary, train state residents; and

4 (C) enter into contracts with Alaska-licensed vendors,  
5 contractors, and suppliers for the provision of supplies and services used in  
6 conjunction with activities associated with expanding refinery capacity; and

7 (3) the commissioner determine that a dealer or user claiming the  
8 exemption for motor fuel acquired from a refiner who has entered into an agreement  
9 described in (2) of this subsection acquired the motor fuel for which the exemption is  
10 claimed from a refiner who has not complied with the requirements of the agreement  
11 in completing expansion of its oil refining capacity under the agreement described in  
12 (1) of this subsection.

13 (b) For purposes of this section,

14 (1) the term "resident worker" means an individual who

15 (A) is physically present in the state with the intent to remain  
16 in the state indefinitely and has a home in the state;

17 (B) demonstrates that intent by maintaining a residence in the  
18 state;

19 (C) possesses a resident fishing, trapping, or hunting license, or  
20 receives a permanent fund dividend; and

21 (D) may be required to state under oath that the individual is  
22 not claiming residency outside of the state or obtaining benefits under a claim  
23 of residency outside of the state;

24 (2) the phrases "Alaska-licensed contractors" and "Alaska firms" mean  
25 a contractor or firm that

26 (A) has held an Alaska business license for one year before  
27 performing any work in connection with the commitment described in (a) of  
28 this section;

29 (B) has maintained for one year a place of business within the  
30 state that deals in the supplies, services, or construction of the nature required  
31 for the commitment described in (a) of this section; and

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31

(C) is

(i) a sole proprietorship and the proprietor is an Alaska resident;

(ii) a partnership and more than 50 percent of the partners are Alaska residents;

(iii) a corporation that has been incorporated in the state or is authorized to do business in the state; or

(iv) a joint venture composed entirely of ventures that qualify under this subparagraph.

\* Sec. 3. AS 43.40.100(2) is amended to read:

(2) "motor fuel" means fuel used in an engine for the propulsion of a motor vehicle or aircraft, and fuel used in and on watercraft for any purpose, or in a stationary engine, machine, or mechanical contrivance that [WHICH] is run by an internal combustion motor; "motor fuel" does not include

(A) fuel consigned to foreign countries;

(B) fuel sold for use in jet propulsion aircraft operating in flights

(i) to foreign countries; or

(ii) that continue from foreign countries, unless exemption of the motor fuel from taxation is disallowed because of the refiner's failure to comply with the provisions of a voluntary agreement under AS 43.40.092 in conjunction with expansion of refinery capacity;

(C) fuel used in stationary power plants operating as public utility plants and generating electrical energy for sale to the general public;

(D) fuel used by nonprofit power associations or corporations for generating electric energy for resale;

(E) fuel used by charitable institutions;

(F) [FUEL WHICH IS AT LEAST 10 PERCENT ALCOHOL BY VOLUME; <sup>not exceed</sup> <sub>main. est. state & fed law</sub> } <sup>amend '13 (Donley)</sup>

(G) fuel sold or transferred between qualified dealers;

Sen. Donley  
move amend  
to 1 failed

1            (G) ~~[(H)]~~ fuel sold to federal, state, and local government  
2 agencies for official use;

3            (H) ~~[(I)]~~ fuel used in stationary power plants that generate  
4 electrical energy for private residential consumption;

5            (I) ~~[(J)]~~ fuel used to heat private or commercial buildings or  
6 facilities;

7            (J) ~~[(K)]~~ fuel used for other nontaxable purposes as prescribed  
8 by regulations adopted by the department; [OR]

9            (K) ~~[(L)]~~ fuel used in stationary power plants of 100 kilowatts  
10 [KW] or less that generate electrical power for commercial enterprises not for  
11 resale; or

12            (L) residual fuel oil used in and on watercraft if the residual  
13 fuel oil is sold or transferred in the state or consumed by a user; for  
14 purposes of this subparagraph, "residual fuel oil" means the heavy refined  
15 hydrocarbon known as number 6 fuel oil that is the residue from crude oil  
16 after refined petroleum products have been extracted by the refining  
17 process and that may be consumed or used only when sufficient heat is  
18 provided to the oil to reduce its viscosity rated by kinetic unit and to give  
19 it fluid properties sufficient for pumping and combustion;

20 \* Sec. 4. Chapter 42, SLA 1994, is repealed.

21 \* Sec. 5. This Act takes effect July 1, 1997.

FISCAL NOTE

No. 2  
Bill Version: CSHB 63(FIN)  
(H) Publish Date: 4/4/97

~~REPORTED OUT OF~~  
~~SFC~~ ~~MAY 8 1997~~

Revision Date: \_\_\_\_\_ Dept. Affected: Revenue  
Title: Aviation Fuel Tax Exemption BRU: Revenue Operations  
Sponsor: Representative Therriault Component: Income and Excise Audit  
Requestor: (H) TRA COMPONENT SERIAL NO. 113

Expenditures/Revenues: (Thousands of Dollars)

OPERATING EXPENDITURES	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
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 EXPENDITURES						
CHANGE IN REVENUES ( )	4,575.0	4,575.0	4,575.0	4,575.0	4,575.0	4,575.0

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY97) cost \$ 0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

(See Attached Analysis)

Prepared by: Robert Bartholomew, Assistant Director  
Division: Income and Excise Audit  
Approved by Commissioner: Wilson L. Condon  
Agency: Revenue

Phone: 465-2320  
Date: April 2, 1997  
Date: April 2, 1997

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE  
For further distribution information call the Governor's Legislative Office

**HB 63 Amends the Motor Fuel Tax Statutes for Three Types of Fuel. Outlined Below is an Analysis for Each Change**

**ISSUE #1 Aviation Jet Fuel Amendments**

The activation of a Foreign Trade Zone (FTZ) in Anchorage (Oct. 1995) allowed imported foreign aviation fuel to be sold preempted (by federal law) from state tax to aircraft flying directly or indirectly to a foreign country. Alaska oil refining industry believes that they will not be able to compete economically with FTZ (foreign import) fuel unless the current Alaska tax exemption for direct foreign flights is expanded to include indirect (i.e. flights that refuel in Alaska, stop in another U.S. city and then continue on to a foreign country). Current Alaska statutes provide only for an exemption for fuel sold on flights going directly to a foreign country.

**Current Law**

AS 43.40 (Alaska motor fuel tax) currently imposes a 3.2 cent per gallon tax on aviation jet fuel purchased in Alaska. Fuel purchased in Alaska for use in flights directly from Alaska to a foreign country is exempt from the Alaska tax. Fuel purchased for use in flights originating in a foreign country, refueling in Alaska and continuing to a U.S. destination prior to returning to foreign country (i.e. indirect foreign flight) is taxable.

**Proposed Law**

HB 63 would expand the above exemption to exempt from tax fuel purchased in Alaska for all flights to or from foreign countries.

**Revenue Impact**

**This bill will result in approximately \$2.800 million in revenue loss for FY 98 and annually through FY 2003. (See note #2 under assumptions, below.)**

This estimate considers the effect of the recent activation of Anchorage Foreign Trade Zones (FTZ). The FTZ allows international air carriers to use imported fuel without incurring customs duties. Under the rules and regulations of the U.S. Customs Service, the operation of the FTZ allows air carriers to place imported fuel in the FTZ and withdraw the fuel for use in flights to or from a foreign country. Under federal law, the State of Alaska cannot impose tax on fuel placed in the FTZ. Alaska will lose some tax revenues from the FTZ independently of HB 63.

The fiscal impact of HB 63 results from exempting fuel that could not otherwise qualify for FTZ treatment or the current foreign flight exemption. The fiscal impact is measured by the amount of domestic fuel that is used for flights that continue from foreign countries to a U.S. destination.

**Fiscal Note Assumptions/Calculations**

1) During calendar year 1996 169.4 million gallons of AVJET was imported into the Port of Anchorage. 37.6 million (22%) qualified as FTZ AVJET. For FY98 DOR assumes 37 million gallons of FTZ AVJET will be imported. Transportation costs and favorable crude price and supply will continue to make Alaska refined fuel most economical. West Coast imports will continue to be cheaper than imported foreign fuel. Alaska's growing AVJET demand and occasional favorable world market prices will support importation of some FTZ fuel.

2) Total estimated AVJET tax revenues to be collected in FY98 is \$7.2 million. Fuel used by carriers who fly primarily domestic routes accounts for \$3.2 million. Thus estimated revenues from indirect foreign flights is estimated at \$4.0 million. Estimated revenue loss due to import of FTZ fuel, based on 37 million gallons (calendar year 1996 actuals) is \$1.2 million. This assumes that 100% of all FTZ imports will be used on foreign flights, thus qualifying for tax preemption. Thus the remaining potential revenue loss from HB 63 is \$2.8 million for FY 98.

3) Actual revenue loss is dependent on the amount of foreign fuel that will be imported and placed in FTZ. Alaska is pre-empted from taxing this fuel.

**Issue # 2 Marine Motor Fuel Amendment.**

HB 63 removes the current 5 cents a gallon marine fuel tax on bunker fuel used in watercraft. Bunker fuel is defined as residual fuel oil (#6) that is the residue from crude oil after refined petroleum products have been extracted by the refining process.

**Revenue Effect**

DOR is receiving tax revenue on bunker fuel used in watercraft. But the amount could not be distinguished from the total \$8.5 million of FY96 marine fuel tax revenue. Industry provided information show 12.5 million gallons of bunker fuel were consumed in 1996 for a total tax revenue of \$625,000. By removing the tax on bunker fuel the state this would lose this revenue.

**Issue #3 - Repeal the motor fuel tax exemption for fuel that contains an alcohol additive (gasohol).**

HB 63 repeals the exemption from motor fuel tax for gasohol. DOR estimates that 100 million gallons of gasohol will be sold in FY98. \$8 million in tax revenues will be collected if the exemption is repealed.

**Summary of the Changes in tax Revenue from HB 63**

ISSUE #1 Aviation Jet Fuel Amendments	(\$2,800,000)
Issue # 2 Marine Motor Fuel Amendment	( 625,000)
Issue #3 - Repeal the gasohol tax exemption	<u>\$8,000,000</u>
Net New Revenue	<u>\$4,575,000</u>

**НВ**

**66**

**HFIN**

**FILE**

# HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: February 5, 1997

FURTHER REFERRALS:

Date of Committee Action: 4/2/97

The FINANCE Committee considered:

HB 66

HOUSE BILL NO. 66

APPROVE CENTRALIZED PUBLIC HEALTH LAB

"An Act giving notice of and approving the entry into, and the issuance of certificates of participation in, a lease-purchase agreement for a centralized public health laboratory facility."

recommends it be replaced with the following committee substitute CS HB 66 (Hes)  the same title  a new title

additional referral to \_\_\_\_\_ Committee  
 attached amendment(s)

ADOPTS: \_\_\_\_\_ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept)

APPROVES PREVIOUS: (Dept/Date)

fiscal note(s) \_\_\_\_\_

fiscal note(s) Admin 2/5/97  
DHSS 2/5/97  
REV 2/5/97

zero fiscal note(s) \_\_\_\_\_

zero fiscal note(s) DPS 2/5/97

SIGNING WITH RECOMMENDATIONS		DP	DNP	NR	AM
	Therriault			X	
	Kelly			X	
	G. Davis	X			
	Hanley			X	
	Martin	X			
	Kohring				X
	J. Davies			X	

Co-CHAIR'S SIGNATURE

Therriault Hanley

1997 LEGISLATIVE SESSION

Revision Date: \_\_\_\_\_  
 Title: Approve Centralized Public Health Lab  
 Sponsor: H. HESS  
 Requestor: H. HESS

Dept. Affected: Public Safety  
 Component: DPS Statewide Support  
Scientific Crime Detection Laboratory  
 COMPONENT SERIAL NO. 0527

EXPENDITURES/REVENUES: (Thousands of Dollars) (inflation not included)

OPERATING	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL EXPENDITURES	-0-	-0-	-0-	-0-	-0-	-0-
CHANGE IN REVENUES ( )	-0-	-0-	-0-	-0-	-0-	-0-
Code Revenue						

FUNDING: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

Estimate of current year (FY 97) impact: \$ \_\_\_\_\_

POSITIONS:

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

ANALYSIS: (Attach a separate page if necessary.)  
 No fiscal impact is anticipated to the Department of Public Safety

Prepared By: George Taft, Director Phone: 269-5687  
 Division: Scientific Crime Detection Laboratory Date: 1/29/97  
 Approved by Commissioner: *Ronald L. Otto* Date: 1/27/97  
 Agency: Ronald L. Otto, Dept. of Public Safety

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE  
**COMMITTEE COPY** For further distribution information call the Governor's Legislative Office

FISCAL NOTE

No. 2  
 Bill Version: CSHB 66(HES)  
 (H) Publish Date: 2/5/97

STATE OF ALASKA  
 1997 LEGISLATIVE SESSION

Revision Date: \_\_\_\_\_  
 Title: "An Act giving notice of and approving . . . a lease purchase agreement for a centralized health laboratory facility."  
 Sponsor: (H) HESS  
 Requestor: (H) HESS

Department Affected: Administration  
 BRU: General Services  
 Component: Leasing  
 COMPONENT SERIAL NO. 81

EXPENDITURES/REVENUES:

(Thousands of Dollars)

OPERATING EXPENDITURES	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL	0.0	0.0	0.0	(75.4)	(75.4)	(75.4)
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	(75.4)	(75.4)	(75.4)

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGE IN REVENUES ( )	0.0	0.0	0.0	(75.4)	(75.4)	(75.4)
------------------------	-----	-----	-----	--------	--------	--------

FUND SOURCE:

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	0.0	0.0	0.0	(75.4)	(75.4)	(75.4)
1005 GF/Program Receipts						
1037 GF/Mental Health						
OTHER * CIP receipts						
TOTAL	0.0	0.0	0.0	(75.4)	(75.4)	(75.4)

Estimate of any current year (FY 97) cost: \$ 0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary.)

The bill would authorize financing and construction of a new laboratory facility which would replace two leased locations in Anchorage and Juneau. Lease savings would be expected to begin in FY 2001. The specific leases and current costs are shown on the following page. Costs for the Juneau lease are budgeted in the Department of Health & Social Services. Future years estimated lease savings have been adjusted to reflect probable CPI adjustments. Payments for the new lease purchase, design, construction, acquisition and construction contract compliance are not included on this fiscal note.

Prepared by: Duane Petty, Director *[Signature]*  
 Division: General Services

Phone: 465-2250  
 Date: \_\_\_\_\_

Approved by Commissioner: Mark Boyer *[Signature]*  
 Agency: Department of Administration

Date: 1-29-97

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE

For further distribution information, call the Governor's Legislative Office

Rev 01/96 **COMMITTEE COPY**

**- ANALYSIS: (continued)**

**Current Public Health Laboratory Leases**

Lease #	Location	Property	FY 97 Cost		RSA Amount	Net FY 97 Estimated FY01	
			Sq Ft	/ Year		DOA Budget	DOA Reduction
1517C	Anchorage	CR Lewis Bldg	5,100	73,440	0	73,440	76,044
1517D	Anchorage	CR Lewis Bldg	385	2,079	2,079	0	0
			<u>5,485</u>	<u>75,519</u>	<u>2,079</u>	<u>73,440</u>	<u>76,044</u>

**STATE OF ALASKA  
1997 LEGISLATIVE SESSION**

No. 3  
Bill Version: CSHB 66(HES)  
(H) Publish Date: 2/5/97

Revision Date: \_\_\_\_\_  
Title: Centralized Lab Facility  
Sponsor: House HESS  
Requestor: \_\_\_\_\_

Dept. Affected: Health and Social Services  
BRU: State Health Services  
Component: Laboratory Services  
COMPONENT SERIAL NO. 291  
See also (SN#): \_\_\_\_\_

**Expenditures/Revenues:**

(Thousands of Dollars)

OPERATING	FY98	FY99	FY00	FY01	FY02	FY03
PERSONAL SERVICES	0.0	0.0	0.0	(83.2)	(85.3)	(87.4)
TRAVEL				(3.6)	(3.7)	(3.8)
CONTRACTUAL				(130.3)	(134.1)	(137.5)
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>(217.6)</b>	<b>(223.1)</b>	<b>(228.7)</b>

<b>CAPITAL EXPENDITURES</b>						
-----------------------------	--	--	--	--	--	--

<b>CHANGES IN REVENUES</b>	( )					
----------------------------	-----	--	--	--	--	--

**FUND SOURCE**

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF				(217.6)	(223.1)	(228.7)
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (please specify)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>(217.6)</b>	<b>(223.1)</b>	<b>(228.7)</b>

**POSITIONS:**

FULL-TIME				-2	-2	-2
PART-TIME						
TEMPORARY						

Estimate of any current year (FY97) cost: \$0.0

**ANALYSIS:** (Attach a separate page if necessary)

Currently, the Division of Public Health operates three inadequate state public health laboratories in Anchorage, Juneau and Fairbanks and the Medical Examiner's laboratory temporarily located in the Department of Public Safety crime lab. Consolidation of the Juneau lab activities within Anchorage would not only save the state from having to upgrade two laboratories but would also show a savings in operating costs.

The savings would start to occur in FY01 in the following line items.

**Personal Services Line 100**

With the consolidation of the two laboratories the current staffing level can be reduced by two positions:

PCN 06-1065 Lab Technician I, range 10 GG, PFT Juneau, \$48.4

Prepared by: Peter M. Nakamura, MD, MPH  
Division: Public Health  
Approved by Commissioner: Karen Perdue, Commissioner  
Agency: Department of Health & Social Services

Phone: (907) 465-3090  
Date: 01/22/97  
Date: 1/27/97

**COMMITTEE COPY** PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE  
For further distribution information, call the Governor's Legislative Office

**ANALYSIS (cont.):**

PCN 08-1436 Admin. Clerk II, range 8, GG, PFT, Juneau \$36.8

**Travel Line 200**

Travel would be reduced by \$3.5 due to the staff being located in two locations, rather than three, the Chief would have to travel to each laboratory as required under CLIA.

**Contractual Line 300**

Janitorial Services - \$2.2

Federal Inspections - \$1.5

Subscriptions - \$0.5

Telephones - \$1.9

Public Utilities - \$2.8

Rent - \$0.6

Maintenance and Repair of Equipment - \$3.2

Courier Services - \$2.9

Space Lease - \$115.2

All line items listed above assume a 2.5% per year inflation factor.

Revision Date: \_\_\_\_\_ Dept. Affected: Revenue  
 Title: Approve Centralized Public Health Lab BRU: Revenue Operations  
 Component: Treasury  
 Sponsor: (H) HES  
 Requestor: (H) HES COMPONENT SERIAL NO. 121

Expenditures/Revenues: (Thousands of Dollars)

OPERATING EXPENDITURES	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS-Lease Payments		2,378.3	2,381.3	2,379.2	2,380.2	2,381.2
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>2,378.3</b>	<b>2,381.3</b>	<b>2,379.2</b>	<b>2,380.2</b>	<b>2,381.2</b>
<b>CAPITAL EXPENDITURES</b>						
<b>CHANGE IN REVENUES ( )</b>						

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF		2,378.3	2,381.3	2,379.2	2,380.2	2,381.2
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other						
<b>TOTAL</b>	<b>0.0</b>	<b>2,378.3</b>	<b>2,381.3</b>	<b>2,379.2</b>	<b>2,380.2</b>	<b>2,381.2</b>

Estimate of any current year (FY97) cost \$ 0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS:

Authorizes a lease-purchase agreement for up to \$18,440,000 for a centralized public health lab facility with anticipated annual rent of \$2,420,000 and total rent of \$24,130,000. Bond counsel suggests that the sentence beginning in line 6 of the proposed bill be amended to read: "The State Bond Committee is authorized to provide for the issuance of certificates of participation for, and the Department of Administration is authorized to enter into, a lease purchase agreement for a centralized public laboratory facility to be constructed under the lease-purchase agreement and to be operated by the Department of Health and Social Services." The lease payments shown above are projected at current interest rates over ten years for \$18,440,000 and assume rental payments begin on 8-1-98. These payments are within the amounts anticipated in the proposed bill. If, however, interest rates are projected at current rates plus 75 basis points (.75%/year), the rental payments are projected to exceed the amounts anticipated in the proposed bill. In that event, the amount financed and available for project cost: would have to be reduced by approximately \$410,000.

Prepared by: Forrest R. Browne Phone: 465-3750  
 Division: Treasury Date: January 24, 1997  
 Approved by Commissioner: Ross A. Kinney *Ross A. Kinney* Date: January 24, 1997  
 Agency: Revenue

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE

**COMMITTEE COPY** For more information call the Governor's Legislative Office

**Sizing Debt Services Schedule**

Dated: 2/1/98  
 Delivered: 2/1/98

**H&SS Centralized Lnb  
 Current Interest Rates**

Fiscal Yr	Coupon M YY	Zer Cpn Date	Coupon Rate	Maturing Principal	Periodic Interest	Gross Semi-Annl Dbt Svc	Capitalized Interest	Debt Svc Rav Int & Prin	Contngncy Fnd Int & Prin	Net Semi-Annl Dbt Svc	Net Fiscal Dbt Svc
2	99	8/1/98			439,128.25	439,128.25				439,128.25	
8	99	2/1/99	N	3.800	1,500,000.00	439,128.25	1,939,128.25			1,939,128.25	2,378,252.50
1	2	0	8/1/99		410,628.25	410,628.25				410,628.25	
8	0	2/1/00	N	4.300	1,560,000.00	410,628.25	1,970,628.25			1,970,628.25	2,381,252.50
2	2	1	8/1/00		377,086.25	377,086.25				377,086.25	
8	1	2/1/01	N	4.550	1,625,000.00	377,086.25	2,002,086.25			2,002,086.25	2,379,172.50
3	2	2	8/1/01		340,117.50	340,117.50				340,117.50	
8	2	2/1/02	N	4.650	1,700,000.00	340,117.50	2,040,117.50			2,040,117.50	2,380,235.00
4	2	3	8/1/02		300,592.50	300,592.50				300,592.50	
8	3	2/1/03	N	4.750	1,780,000.00	300,592.50	2,080,592.50			2,080,592.50	2,381,183.00
5	2	4	8/1/03		258,317.50	258,317.50				258,317.50	
8	4	2/1/04	N	4.850	1,865,000.00	258,317.50	2,123,317.50			2,123,317.50	2,381,635.00
6	2	5	8/1/04		213,091.25	213,091.25				213,091.25	
8	5	2/1/05	N	4.950	1,955,000.00	213,091.25	2,168,091.25			2,168,091.25	2,381,182.50
7	2	6	8/1/05		164,705.00	164,705.00				164,705.00	
8	6	2/1/06	N	5.000	2,050,000.00	164,705.00	2,214,705.00			2,214,705.00	2,379,410.00
8	2	7	8/1/06		113,455.00	113,455.00				113,455.00	
8	7	2/1/07	N	5.100	2,150,000.00	113,455.00	2,263,455.00			2,263,455.00	2,376,910.00
9	2	8	8/1/07		58,630.00	58,630.00				58,630.00	
8	8	2/1/08	N	5.200	2,255,000.00	58,630.00	2,313,630.00			2,313,630.00	2,372,260.00
					<b>18,440,000.00</b>	<b>5,351,495.00</b>	<b>23,791,495.00</b>			<b>23,791,495.00</b>	<b>23,791,495.00</b>

*True Interest Cost (TIC).....4.9244049*  
*Net Interest Cost (NIC).....4.9381702*  
*Arbitrage Yield Limit (AYL).....4.9244049*  
*Arbitrage Net Interest Cost (ANIC)..... 4.9381702*

Prepared by: FORREST R BROWNE, STATE TREAS  
 Prepared on: 1/24/97 09:46 8.05 Rpt 14  
 Record ID: LAB-1998-P :MUNIDB

**Sizing Debt Services Schedule**  
**H&SS Centralized Lab**  
**Current Rates +75bp**

Desired: 2/1/98  
 Delivered: 2/1/98

Fiscal Yr	Coupon MYY	Zer Date	Coupon Cpn	n Rate	Maturing Principal	Periodic Interest	Gross Semi-Annl Dbt Svc	Capitalized Interest	Debt Svc Rsv Int & Prin	Cntgncy Fnd Int & Prin	Net Semi-Annl Dbt Svc	Net Fiscal Dbt Svc
2	99	8/1/98				508,971.25	508,971.25				508,971.25	
8	99	2/1/99	N	4.550	1,450,000.00	508,971.25	1,958,971.25				1,958,971.25	2,467,942.50
1	2	0	8/1/99			475,983.75	475,983.75				475,983.75	
8	0	2/1/00	N	5.050	1,515,000.00	475,983.75	1,990,983.75				1,990,983.75	2,466,987.50
2	2	1	8/1/00			437,730.00	437,730.00				437,730.00	
8	1	2/1/01	N	5.300	1,590,000.00	437,730.00	2,027,730.00				2,027,730.00	2,465,460.00
3	2	2	8/1/01			395,595.00	395,595.00				395,595.00	
8	2	2/1/02	N	5.400	1,675,000.00	395,595.00	2,070,595.00				2,070,595.00	2,466,190.00
4	2	3	8/1/02			350,370.00	350,370.00				350,370.00	
8	3	2/1/03	N	5.500	1,765,000.00	350,370.00	2,115,370.00				2,115,370.00	2,465,740.00
5	2	4	8/1/03			301,832.50	301,832.50				301,832.50	
8	4	2/1/04	N	5.600	1,865,000.00	301,832.50	2,166,832.50				2,166,832.50	2,468,665.00
6	2	5	8/1/04			249,612.50	249,612.50				249,612.50	
8	5	2/1/05	N	5.700	1,970,000.00	249,612.50	2,219,612.50				2,219,612.50	2,469,225.00
7	2	6	8/1/05			193,467.50	193,467.50				193,467.50	
8	6	2/1/06	N	5.750	2,080,000.00	193,467.50	2,273,467.50				2,273,467.50	2,466,935.00
8	2	7	8/1/06			133,667.50	133,667.50				133,667.50	
8	7	2/1/07	N	5.850	2,200,000.00	133,667.50	2,333,667.50				2,333,667.50	2,467,335.00
9	2	8	8/1/07			69,317.50	69,317.50				69,317.50	
0	8	2/1/08	N	5.950	2,330,000.00	69,317.50	2,399,317.50				2,399,317.50	2,468,635.00
<b>18,440,000.00</b>						<b>6,233,095.00</b>	<b>24,673,095.00</b>				<b>24,673,095.00</b>	<b>24,673,095.00</b>

**True Interest Cost (TIC).....5.6770480**  
**Net Interest Cost (NIC).....5.6925841**  
**Arbitrage Yield Limit (AYL).....5.6770480**  
**Arbitrage Net Interest Cost (ANIC)..... 5.6925841**

Prepared by: FORREST R BROWNE, STATE TREASURER  
 Prepared on: 1/24/97 10:01 8.05 Rpt 14  
 Record ID: LAB-1998-R :MUNIDB

**Sizing Debt Services Schedule  
H&SS Centralized Lab  
+75bp & Reduced Cost**

Dated: 2/1/98  
Delivered: 2/1/98

Fiscal Yr	Coupon M YY	Zer Date	Coupon Cpn	Rate	Maturing Principal	Periodic Interest	Gross Semi-Annl Dbt Svc	Capitalized Interest	Debt Svc Rev Int & Prin	Contingency Fnd Int & Prin	Net Semi-Annl Dbt Svc	Net Fiscal Dbt Svc
2	0	8/1/98				497,678.75	497,678.75				497,678.75	
8	0	2/1/99	N	4.550	1,415,000.00	497,678.75	1,912,678.75				1,912,678.75	2,410,357.50
1	2	0	8/1/99			465,487.50	465,487.50				465,487.50	
8	0	2/1/00	N	5.050	1,480,000.00	465,487.50	1,945,487.50				1,945,487.50	2,410,975.00
2	2	1	8/1/00			428,117.50	428,117.50				428,117.50	
8	1	2/1/01	N	5.300	1,555,000.00	428,117.50	1,983,117.50				1,983,117.50	2,411,235.00
3	2	2	8/1/01			388,910.00	388,910.00				388,910.00	
8	2	2/1/02	N	5.400	1,640,000.00	388,910.00	2,028,910.00				2,028,910.00	2,413,820.00
4	2	3	8/1/02			342,630.00	342,630.00				342,630.00	
8	3	2/1/03	N	5.500	1,725,000.00	342,630.00	2,067,630.00				2,067,630.00	2,410,260.00
5	2	4	8/1/03			295,192.50	295,192.50				295,192.50	
8	4	2/1/04	N	5.600	1,820,000.00	295,192.50	2,115,192.50				2,115,192.50	2,410,385.00
6	2	5	8/1/04			244,232.50	244,232.50				244,232.50	
8	5	2/1/05	N	5.700	1,925,000.00	244,232.50	2,169,232.50				2,169,232.50	2,413,465.00
7	2	6	8/1/05			189,370.00	189,370.00				189,370.00	
8	6	2/1/06	N	5.750	2,035,000.00	189,370.00	2,224,370.00				2,224,370.00	2,413,740.00
8	2	7	8/1/06			130,863.75	130,863.75				130,863.75	
8	7	2/1/07	N	5.850	2,155,000.00	130,863.75	2,285,863.75				2,285,863.75	2,416,727.50
9	2	8	8/1/07			67,830.00	67,830.00				67,830.00	
8	8	2/1/08	N	5.950	2,280,000.00	67,830.00	2,347,830.00				2,347,830.00	2,415,660.00
						<b>18,030,000.00</b>	<b>6,096,625.00</b>	<b>24,126,625.00</b>			<b>24,126,625.00</b>	<b>24,126,625.00</b>

True Interest Cost (TIC).....5.6771947  
 Net Interest Cost (NIC).....5.6927261  
 Arbitrage Yield Limit (AYL).....5.6771947  
 Arbitrage Net Interest Cost (ANIC)..... 5.6927261

Prepared by: FORREST R BROWNE, STATE TREAS  
 Prepared on: 1/24/97 10:34 8.05 Rpt 14  
 Record ID: LAB-1998-U :MUNIDB

New Public  
Health  
Laboratory

## The New Public Health Laboratory

1

New Public  
Health  
Laboratory

## What We Are Proposing

- ▶ New Public Health Laboratory located in Anchorage
- ▶ To include the Medical Examiner's Laboratory and functions of Juneau and Anchorage laboratories
- ▶ Designed and constructed through debt financing (certificates of participation/lease-purchase financing)

2

## The unique role of Public Health Laboratories

➤ To assess infectious diseases in  
partnership with private laboratories:



- Performing advanced tests for infectious agents with public health implications
- Analyzing for unusual, exotic, rare, sporadic, or hard to test diseases
- Confirming private laboratory tests with unusual results or difficulties
- Assisting private laboratories with difficulties in identifying microbial agents
- Collecting data for targeted disease control

3

## The unique role of Public Health Labs (cont.)

➤ Specialized in  
disease  
surveillance and  
recognition of new  
and re-emerging  
diseases

➤ Can apply critical  
state of the art  
technology for  
rapid testing of  
large numbers of  
specimens quickly  
in face of an  
epidemic



4



## Examples of how PH Labs benefit the public

- ▶ Epidemic gastroenteritis and contamination of king crab—Dutch Harbor 1991
- ▶ Epidemic Gastroenteritis in the Tourism Industry—May 1992
- ▶ Tuberculosis outbreaks in rural villages—1994/1995
- ▶ Rabies expertise—Pilot Point exposure 1995



## Examples of how PH Labs benefit (cont.)

- ▶ Perform tests essential for disease surveillance (including accessibility to indigent high risk populations):

**Examples:**

- Measles
- Influenzae
- Diphtheria
- Hepatitis B
- Rubella
- Pertussis
- Salmonella/Shigella

**Sexually Transmitted Diseases**

- Syphilis
- HIV
- Chlamydia
- Gonorrhea



## Public Health Labs: Mission Statement

- ▶ Essential component of state & national public health systems with a different mission than private laboratories.
- ▶ Provide scientific and technical information for disease prevention.
- ▶ First line of defense in recognizing and controlling spread of communicable diseases.

7

## Public Health Labs: Mission Statement (cont.)

- ▶ Accomplish core public health functions and responsibilities in partnership with private and federal laboratories, including:
  - disease control & prevention programs
  - maternal and child health programs
  - environmental health programs
  - epidemiological investigations
  - laboratory quality assurance in Alaska
  - Technology development
  - Diagnostic product evaluation
  - Data collection
  - Laboratory expertise
  - National surveillance link

8

## Lab Functions: Don't Privatize When...

- ▶ Service is a core function of government or legal barriers apply
- ▶ Tasks are uncertain, subject to change
- ▶ Value of output is hard to measure
- ▶ Public Laboratory has specialized, hard-to-transfer expertise
- ▶ Process is as important as the result

## But Do Privatize When...

- ▶ Performance standards can be established
- ▶ Results are more important than process
- ▶ Outputs are easy to measure
- ▶ Problem labs can be readily replaced
- ▶ Activity is short-term or intermittent
- ▶ Private sector has specialized expertise
- ▶ Privatized activity is successful elsewhere

## Why must we build a new laboratory?

### Solves Problems

- ◆ Existing Anchorage and Juneau Public Health Labs—*immediate health and safety threat to employees and the public.*
- ◆ The State Medical Examiner—*A permanent home must be found; temporarily occupying space at Dept. of Public Safety Crime Detection Laboratory.*



## Why must we build a new laboratory? (cont.)

- ▶ Saves Money
  - ◆ existing leased space would require substantial unrecoverable investment
  - ◆ staff functions are now duplicated at multiple locations
- ▶ Maintains an essential public service more cheaply and more efficiently
  - ◆ Specimens now must be sent to multiple locations

## Why must we build a new laboratory? (cont.)

- ▶ New advances require new technologies: A modern, well-designed, adaptable, safe laboratory is a necessity for the demands of the 21st Century.
- ▶ Examples:
  - ◆ DNA testing
  - ◆ Newly emergent diseases

13

## What problems will we solve?

- ▶ Current operations are inefficient  
*(services are fragmented)*
- ▶ In leased space or in temporary space
- ▶ Not designed for current operations  
*(two labs in office spaces)*
- ▶ Need work *(laboratories are inadequate and require significant capital investment to maintain)*
- ▶ Expensive *(we can't afford four separate laboratories)*

14

New Public Health Laboratory

## Where are the existing laboratories?

Fairbanks  
•Public Health Laboratory

•Public Health Laboratory  
•State Medical Examiner  
Anchorage

Juneau  
•Public Health Laboratory

15

New Public Health Laboratory

## Existing Laboratory Conditions

**Anchorage Public Health Lab:**  
Leased space; inadequate; not designed as laboratory; requires extensive upgrades.

**Fairbanks Public Health Lab:**  
Leased space; supports current operations but old and inflexible interior space incapable of absorbing additional activities.

**Juneau Public Health Lab:**  
Leased space inadequate; not designed as laboratory; TB testing moved to Anchorage because of safety hazards.

**Medical Examiner Lab:** Using borrowed space at Dept. of Public Safety's Crime Detection Laboratory in Anchorage. Space is inadequate and needed by Crime Detection Lab.

16



# DHSS has long history of analyzing the problems

- We know what the problems are
- We know how to solve them
- We've studied the problems
- We've taken a "Good Government" approach
  - engaged in long range planning
  - analyzed needs and reviewed many alternatives
  - developed a comprehensive, workable solution



# There have been many studies and plans



- 1988 (October) - *Study of Laboratory Services for the State of Alaska*
- 1990 (September) - *Public and Consumer Concerns Regarding Laboratory Services*
- 1992 (January) - *Consolidation of Alaska Public Health Laboratories, Alaska Legislative*
- 1992 (February) - *Final Report*
- 1993 - *Final Report*
- 1993 (March) - *Alaska Public Health Laboratories Background Information for Foralix*
- 1993 (May) - *State of Alaska Public Health Laboratories Assessment Architecture II*
- 1993 (December) - *Anchorage Public Health Lab Seismic Safety Inspection, Draft Memorandum*
- 1994 (February) - *State of Alaska Public Health Laboratories Strategic Plan Final Report*
- 1994 (April) - *Public Health Laboratory Anchorage Preliminary Program of Request*
- 1995 (February) - *Public Health Laboratory Anchorage Phase II Interior Renovations Re*
- 1995 (February) - *Health Hazard Evaluation Report HETA 93 0769-2489 Southcentral Re*
- 1995 - *State of Alaska Public Health Laboratories Strategic Plan*
  - Public Health Laboratories Strategic Plan
  - Financing a New Public Health Laboratory
  - Centralized Public Health Laboratories Site Selection Considerati
  - Allocated Cost Model Final Draft

## New lab would save money & solve problems

- ▶ Solves problem of inadequate Public Health Labs in Juneau and Anchorage
- ▶ Solves problem of permanent housing for Medical Examiner's Lab
- ▶ Increases operational efficiency
- ▶ Saves operating costs

## The status quo cannot continue

- ▶ We can't afford four separate labs
- ▶ We don't need four separate labs
- ▶ The current arrangement for the Medical Examiner is untenable—we must find a permanent space

**New Public Health Laboratory**

**SCS HB 529 (HES)— Financing almost approved last year**

SENATE

SENATE OF THE HOUSE BILL, NO. 529 (HES)  
IN THE LEGISLATURE OF THE STATE OF ALASKA  
NINETEENTH LEGISLATURE— SECOND SESSION  
BY THE SENATE HEALTH, EDUCATION AND SOCIAL SERVICES COMMITTEE

Introduced: 8/26  
Referred: Rules  
Sponsor: HOUSE HEALTH, EDUCATION AND SOCIAL SERVICES COMMITTEE

A BILL  
FOR AN ACT ENTITLED

1 "An Act giving notice of and approving the terms, and the issuance of  
2 certificates of participation in, a lease-purchase agreement for a renovated public  
3 health laboratory."

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

5 SECTION 1. NOTICE AND APPROVAL OF THE ENTRY INTO AND FINANCING OF A  
6 LEASE-PURCHASE AGREEMENT. The state board of health is authorized to issue  
7 certificates of participation for and the Department of Health and Social Services is authorized  
8 to enter into a lease-purchase agreement for a renovated public health facility to be  
9 constructed under the lease-purchase agreement in order to replace the existing public health  
10 laboratories located in Juneau and Anchorage. The anticipated total construction, in general,  
11 and other costs of the project are not to exceed \$17,400,000. The total anticipated annual  
12 amount of the rental obligation is \$748,000. The total anticipated lease payments for the  
13 full term of the lease-purchase agreement amount to \$20,574,000. The state shall own the  
14 facility at the end of the lease term. This section contains the notice and approval required

H 529-208  
Bill Log Link (and other bills) to the Bill Activity

**New Public Health Laboratory**

**Legislature Almost Approved the New Lab**

- Authorizing legislation nearly passed the Legislature
  - ◆ Combine Anchorage & Juneau Public Health labs and Medical Examiner into new lab in Anchorage
  - ◆ Fairbanks Public Health Lab to remain operating



## Operating Cost Savings (Fiscal Note)

### First Year (FY01) Operating Cost Savings (\$1,000's)

Dept. of Health and Social Services	217.6
- Savings in personal svcs., Juneau Lab lease, misc.	
Dept. of Administration	75.4
Savings in Anchorage Lab lease	
<b>Total</b>	<b>293.0</b>

## Principal and Financing Costs



### 1997 Estimate of Costs (10 year financing)

New Laboratory  
*Adjusted for inflation and Medical  
Examiners assumption of Coroner  
responsibilities*

Principal Costs	Max. Annual Debt Service (Rent)	Total Debt Service (Rent)
\$18,440,000	\$2,490,000	\$24,900,000

## Building Space Needed



- ▶ Labs moving to new facility now occupy 15,460 gross square feet.  
Current space is inadequate/crowded.
- ▶ Current architectural & laboratory standards require 23,400 gross sq. ft.
- ▶ The last Public Health Lab to be built for at least 50 years—must be flexible.

## Lab Construction Costs



- ▶ Construction start 1999 @ \$482/sq ft.
- ▶ Costs reflect:
  - ◆ special utility & ventilation requirements
  - ◆ special containment
  - ◆ explosion proof
  - ◆ morgue
  - ◆ security access
  - ◆ high floor loading & floor-ceiling heights



## Lab Construction Costs (Cont.)

- ▶ Relatively small project—more expensive on per square foot basis.
- ▶ Excludes design/engineering, equip., financing, project management costs.
- ▶ Comparable to similar Alaska projects
  - ◆ Alaska Native Medical Center Controlled Disease Center (13,439 s.f.)—\$422/s.f.
  - ◆ NOAA Fisheries Laboratory proposed in Juneau (43,794 s.f.)—\$507/s.f.

27

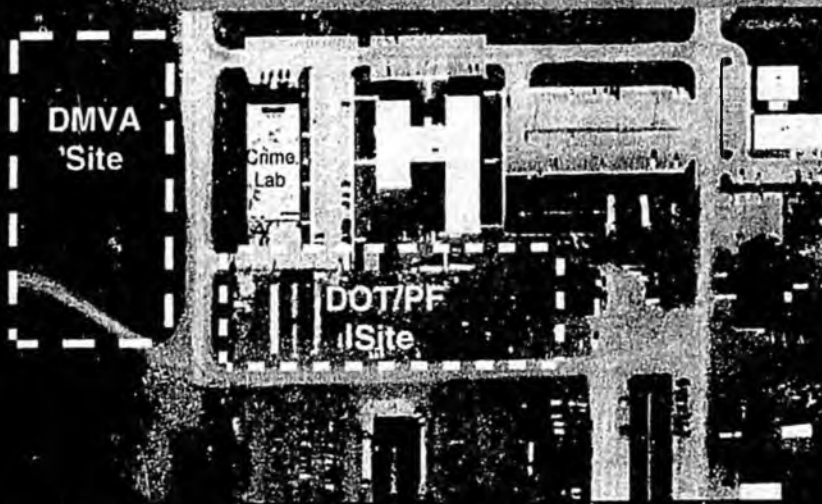
## Site Location

- ▶ Medical Examiner needs to be near Public Safety Crime Detection Lab (Crime Lab)
- ▶ Several alternatives for state-owned land are available immediately adjacent to the Crime Lab

28

New Public  
Health  
Laboratory

## Proposed Site Locations





STATE OF ALASKA  
OFFICE OF THE GOVERNOR

BILL ANALYSIS

DEPARTMENT Health & Social Services	DIVISION	BILL NUMBER HB 66	SPONSOR House HESS
SHORT TITLE OF BILL Centralized Lab Facility			
DEPARTMENT POSIT. ON The Department strongly supports this bill			
PREPARED BY	DATE	COMMISSIONER'S SIGNATURE	DATE

SUMMARY

OTHER AGENCIES AFFECTED BY BILL Department of Public Safety Department of Administration State Bond Committee (Department of Revenue) Office of Management and Budget	CONSTITUENT GROUP(S) AFFECTED BY BILL Health providers Public Health Laboratory employees General Public
ORGANIZATIONAL SUPPORT FOR BILL Alaska Medical Association Department of Public Safety Division of Epidemiology Anchorage Legislative Delegation	ORGANIZATIONAL OPPOSITION TO BILL Local organizations concerned about economic impacts of transfer of jobs to Anchorage or "capital move creep". Potential-public employee unions concerned about effects of transfers on employees.

FISCAL IMPACT:  NONE  FISCAL NOTE ATTACHED

BACKGROUND/LEGISLATIVE INTENT

The bill would satisfy the requirements of AS 36.30.085 to notify, and obtain approval from, the legislature for lease purchase financing of a new Public Health Laboratory (including Medical facilities) in Anchorage. The Department of Health and Social Services (DHSS) currently operates four laboratories with statewide functions. These include three public health laboratories in inadequate leased space and the Medical Examiner's laboratory temporarily located at the Department of Public Safety's Crime Detection Laboratory in Anchorage. The bill would allow DHSS to consolidate Juneau and Anchorage laboratory functions resulting in operating cost savings, while improving service delivery.

ANALYSIS OF BILL/PROGRAM EFFECTS

The bill would allow DHSS to construct a new Laboratory in Anchorage housing the functions of two current Public Health Laboratories (Anchorage and Juneau) and the Medical Examiner's Laboratory. The Department studied the issues extensively over the last ten years and developed a feasibility study that reviewed alternatives but clearly showed that a new laboratory was the most cost effective means of providing an adequate level of laboratory services. The new laboratory makes economic sense. Moreover, it would enhance services, replace existing poor quality leased space and provide a needed permanent home for the Medical Examiner.

1. **Makes Economic Sense.** Given present financial realities, the current situation is too costly and inefficient. The Department cannot afford to operate four separate laboratories and must find a way to provide an adequate level of services at less cost. The new facility would save operating funds and avoid costs related to the current laboratories and would allow maintenance of an adequate level of services in the future.

AMENDMENTS PROPOSED

None

Analysis of Bill/Program Effects (continued)

Operating savings will arise primarily from lease payments that will no longer be necessary and from a reduction in staff from economies of scale at the consolidated laboratory. Other savings are expected from reduction in duplicative supply and equipment costs. Natural attrition should accommodate the reduction in staff and the Department foresees that it will be able to offer a position to every existing laboratory employee when the new Laboratory opens (although some may have to transfer to Anchorage).

**2. Enhance Services.** All four existing laboratories serve statewide functions. Centralization of those functions at a new laboratory will improve overall accessibility to those services on a statewide basis. It will also increase coordination and enhance the Department's ability to support epidemiological investigations and disease surveillance and control. Consolidation will also facilitate collaboration by helping to create a critical mass of specialized facilities and laboratory professionals.

**3. Replace Poor Quality Leased Space.** The state is currently expending over \$300,000 a year in lease payments for the three existing Public Health Laboratories. Two of the laboratories (Anchorage and Juneau) are located in offices that were not designed for the specialized needs of laboratories. To maintain the facilities as laboratories in the future would require specialized upgrades. Some needed improvements are not feasible at any reasonable cost. In any case, making major unrecoverable investments in improvements in aging leased facilities would not be a wise business decision.

**4. Provide a Permanent Home for the Medical Examiner.** The State Medical Examiner is located temporarily in borrowed space needed by the Department of Public Safety's Crime Detection Laboratory and State Troopers offices. Another solution must be found in the future to provide a permanent home for the Medical Examiner. The proposed new Laboratory will be an ideal location and will help to increase collaboration between the Medical Examiner and Public Health Laboratory functions. The Department wants to locate the facility at the Crime Detection Laboratory site to maintain the necessary close partnership between the Medical Examiner and the Crime Detection laboratory.

**HB**

**66**

**SFIN**

**FILE**

**SENATE FINANCE COMMITTEE REPORT**

DATE: 4/28/97

FURTHER: REPORTED OUT OF  
SFC - APR 30 1997

DATE TURNED  
IN TO OFFICE: 4-30-97

Finance Committee considered CS FOR HOUSE BILL NO. 66(HES)

"An Act giving notice of and approving the entry into, and the issuance of certificates of participation in, a lease-purchase agreement for a centralized public health laboratory facility."

and recommends:

- be replaced with \_\_\_\_\_ CS \_\_\_\_\_ (\_\_\_\_\_)
- adopt previous \_\_\_\_\_ CS \_\_\_\_\_ (\_\_\_\_\_)
- attached amendment(s)
- adopt Letter of Intent by \_\_\_\_\_ Committee
- further referral to the \_\_\_\_\_ Committee

- Senate Bill:**
- same title
  - new title
- House Bill:**
- same title
  - technical change
  - new: SCR# \_\_\_\_\_

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
<i>Rob E. Plo</i>	✓	<i>Sean P. Russell</i>	✓		
<i>John Ingram</i>	✓	<i>Al Adams</i>	✓		
<i>Dave Wiley</i>	✓				
Co-Chair: <i>Peace</i>	✓	Co-Chair: <i>[Signature]</i>	✓		
Co-Chair:		Co-Chair:			

**NEW FISCAL NOTE(S):**

Department                      Date    Zero    Fiscal

Department	Date	Zero	Fiscal

**PREVIOUS FISCAL NOTE(S):\***

Department                      Date    Zero    Fiscal

Department	Date	Zero	Fiscal
1    DPS	1/29	✓	
2    DOA	1/29		✓
3    DHSS	1/27		✓
4    REV	1/24		2378.3

APPROPRIATION -- no fiscal note

\*include fiscal notes accompanying Governor's bill

1997 LEGISLATIVE SESSION

Revision Date: \_\_\_\_\_ Dept. Affected: Public Safety  
 Title: Approve Centralized Public Health Lab Component: DPS Statewide Support  
 Sponsor: H. HESS Component: Scientific Crime Detection Laboratory  
 Requestor: H. HESS COMPONENT SERIAL NO. 0527

EXPENDITURES/REVENUES: (Thousands of Dollars) (inflation not included)

OPERATING	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL EXPENDITURES	-0-	-0-	-0-	-0-	-0-	-0-
CHANGE IN REVENUES ( )	-0-	-0-	-0-	-0-	-0-	-0-
Code Revenue						

FUNDING: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

Estimate of current year (FY 97) impact: \$ \_\_\_\_\_

POSITIONS:

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

ANALYSIS: (Attach a separate page if necessary.)  
 No fiscal impact is anticipated to the Department of Public Safety

Prepared By: George Taft, Director Phone: 269-5687  
 Division: Scientific Crime Detection Laboratory Date: 1/29/97  
 Approved by Commissioner: Ronald L. Otte Date: 1/29/97  
 Agency: Ronald L. Otte, Dept. of Public Safety

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE

**STATE OF ALASKA**  
**1997 LEGISLATIVE SESSION**

Revision Date: \_\_\_\_\_  
Title: "An Act relating to notice of and approving . . . a lease purchase agreement for a centralized health laboratory facility."  
Sponsor: (H) HESS  
Requestor: (H) HESS

Department Affected: Administration  
BRU: General Services  
Component: Leasing  
**COMPONENT SERIAL NO. 81**

**EXPENDITURES/REVENUES:**

(Thousands of Dollars)

OPERATING EXPENDITURES	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL	0.0	0.0	0.0	(75.4)	(75.4)	(75.4)
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>(75.4)</b>	<b>(75.4)</b>	<b>(75.4)</b>

<b>CAPITAL EXPENDITURES</b>						
-----------------------------	--	--	--	--	--	--

<b>CHANGE IN REVENUES ( )</b>	0.0	0.0	0.0	(75.4)	(75.4)	(75.4)
-------------------------------	-----	-----	-----	--------	--------	--------

**FUND SOURCE:**

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	0.0	0.0	0.0	(75.4)	(75.4)	(75.4)
1005 GF/Program Receipts						
1037 GF/Mental Health						
OTHER * CIP receipts						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>(75.4)</b>	<b>(75.4)</b>	<b>(75.4)</b>

Estimate of any current year (FY 97) cost: \$ 0

**POSITIONS:**

FULL-TIME						
PART-TIME						
TEMPORARY						

**ANALYSIS:** (Attach a separate page if necessary.)  
The bill would authorize financing and construction of a new laboratory facility which would replace two leased locations in Anchorage and Juneau. Lease savings would be expected to begin in FY 2001. The specific leases and current costs are shown on the following page. Costs for the Juneau lease are budgeted in the Department of Health & Social Services. Future years estimated lease savings have been adjusted to reflect probable CPI adjustments. Payments for the new lease purchase, design, construction, acquisition and construction contract compliance are not included on this fiscal note.

Prepared by: Dugan Petty, Director *[Signature]*  
Division: General Services

Phone: 465-2250  
Date: \_\_\_\_\_

Approved by Commissioner: Mark Boyer *[Signature]*  
Agency: Department of Administration

Date: 1-29-97

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE

For other distribution information, call the Governor's Legislative Office

**FISCAL NOTE  
STATE OF ALASKA  
1997 LEGISLATIVE SESSION**

**BILL NO. HB 66**

**ANALYSIS: (continued)**

**Current Public Health Laboratory Leases**

Lease #	Location	Property	FY 97 Cost		RSA Amount	Net FY 97 Estimated FY01	
			Sq Ft	/ Year		DOA Budget	DOA Reduction
1517C	Anchorage	CR Lewis Bldg	5,100	73,440	C	73,440	76,044
1517D	Anchorage	CR Lewis Bldg	385	2,079	2,079	0	0
			<u>5,485</u>	<u>75,519</u>	<u>2,079</u>	<u>73,440</u>	<u>76,044</u>

STATE OF ALASKA  
1997 LEGISLATIVE SESSION

REPORT  
APR 30 1997

No. 3  
Bill Version: CSHB 66(HES)  
(H) Publish Date: 2/5/97

Revision Date: \_\_\_\_\_  
Title: Centralized Lab Facility  
Sponsor: House HESS  
Requestor: \_\_\_\_\_

Dept. Affected: Health and Social Services  
BRU: State Health Services  
Component: Laboratory Services  
COMPONENT SERIAL NO. 291  
See also (SN#): \_\_\_\_\_

Expenditures/Revenues:

(Thousands of Dollars)

OPERATING	FY98	FY99	FY00	FY01	FY02	FY03
PERSONAL SERVICES	0.0	0.0	0.0	(83.2)	(85.3)	(87.4)
TRAVEL				(3.6)	(3.7)	(3.8)
CONTRACTUAL				(130.8)	(134.1)	(137.5)
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>(217.6)</b>	<b>(223.1)</b>	<b>(228.7)</b>

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGES IN REVENUES ( )						
-------------------------	--	--	--	--	--	--

FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF				(217.6)	(223.1)	(228.7)
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (please specify)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>(217.6)</b>	<b>(223.1)</b>	<b>(228.7)</b>

POSITIONS:

FULL-TIME				-2	-2	-2
PART-TIME						
TEMPORARY						

Estimate of any current year (FY97) cost: \$0.0

ANALYSIS: (Attach a separate page if necessary)

Currently, the Division of Public Health operates three inadequate state public health laboratories in Anchorage, Juneau and Fairbanks and the Medical Examiner's laboratory temporarily located in the Department of Public Safety crime lab. Consolidation of the Juneau lab activities within Anchorage would not only save the state from having to upgrade two laboratories but would also show a savings in operating costs.

The savings would start to occur in FY01 in the following line items.

Personal Services Line 100

With the consolidation of the two laboratories the current staffing level can be reduced by two positions:

PCN 06-1065 Lab Technician I, range 10 GG, PFT Juneau, \$46.4

Prepared by: Peter M. Nakamura, MD, MPH  
Division: Public Health  
Approved by Commissioner: Karen Perdue, Commissioner  
Agency: Department of Health & Social Services

Phone: (907) 465-3090  
Date: 01/22/97  
Date: 1/22/97

**COMMITTEE COPY** PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE  
For further distribution information, call the Governor's Legislative Office

**ANALYSIS (cont.):**

PCN 06-1436 Admin. Clerk II, range 8, GG, PFT, Juneau \$36.8

**Travel Line 200**

Travel would be reduced by \$3.5 due to the staff being located in two locations, rather than three, the Chief would have to travel to each laboratory as required under CLIA.

**Contractual Line 300**

Janitorial Services - \$2.2

Federal Inspections - \$1.5

Subscriptions - \$0.5

Telephones - \$1.9

Public Utilities - \$2.8

Rent - \$0.6

Maintenance and Repair of Equipment - \$3.2

Courier Services - \$2.9

Space Lease - \$115.2

All line items listed above assume a 2.5% per year inflation factor.

Revision Date: \_\_\_\_\_ Dept. Affected: Revenue  
Title: Approve Centralized Public Health Lab BRU: Revenue Operations  
Component: Treasury  
Sponsor: (H) HES  
Requestor: (H) HES COMPONENT SERIAL NO. 121

Expenditures/Revenues: (Thousands of Dollars)

OPERATING EXPENDITURES	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS-Lease Payments		2,378.3	2,381.3	2,379.2	2,380.2	2,381.2
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>2,378.3</b>	<b>2,381.3</b>	<b>2,379.2</b>	<b>2,380.2</b>	<b>2,381.2</b>

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGE IN REVENUES ( )						
------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF		2,378.3	2,381.3	2,379.2	2,380.2	2,381.2
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other						
<b>TOTAL</b>	<b>0.0</b>	<b>2,378.3</b>	<b>2,381.3</b>	<b>2,379.2</b>	<b>2,380.2</b>	<b>2,381.2</b>

Estimate of any current year (FY97) cost \$ 0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS:

Authorizes a lease-purchase agreement for up to \$18,440,000 for a centralized public health lab facility with anticipated annual rent of \$2,420,000 and total rent of \$24,130,000. Bond counsel suggests that the sentence beginning in line 6 of the proposed bill be amended to read: "The State Bond Committee is authorized to provide for the issuance of certificates of participation for, and the Department of Administration is authorized to enter into, a lease purchase agreement for a centralized public laboratory facility to be constructed under the lease-purchase agreement and to be operated by the Department of Health and Social Services." The lease payments shown above are projected at current interest rates over ten years for \$18,440,000 and assume rental payments begin on 8-1-98. These payments are within the amounts anticipated in the proposed bill. If, however, interest rates are projected at current rates plus 75 basis points (.75%/year), the rental payments are projected to exceed the amounts anticipated in the proposed bill. In that event, the amount financed and available for project costs would have to be reduced by approximately \$410,000.

Prepared by: Forrest R. Browne  
Division: Treasury  
Approved by Commissioner: Ross A. Kinney  
Agency: Revenue

Phone: 465-3750  
Date: January 24, 1997  
Date: January 24, 1997

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE

**COMMITTEE COPY**

For more information call the Governor's Legislative Office

**Sizing Debt Services Schedule**  
**H&SS Centralized Lab**  
**Current Interest Rates**

Dated: 2/1/98  
 Delivered: 2/1/98

Fiscal Yr	Coupon M YY	Zer Date	Coupon Cpn	Rate	Maturing Principal	Periodic Interest	Gross Semi-Annl Dbt Svc	Capitalized Interest	Debt Svc Rsv Int & Prin	Contgncy Fnd Int & Prin	Net Semi-Annl Dbt Svc	Net Fiscal Dbt Svc
2	99	8/1/98				439,126.25	439,126.25				439,126.25	
8	99	2/1/99	N	3.800	1,500,000.00	439,126.25	1,939,126.25				1,939,126.25	2,378,252.50
1	2	0	8/1/99			410,626.25	410,626.25				410,626.25	
8	0	2/1/00	N	4.300	1,560,000.00	410,626.25	1,970,626.25				1,970,626.25	2,381,252.50
2	2	1	8/1/00			377,086.25	377,086.25				377,086.25	
8	1	2/1/01	N	4.550	1,625,000.00	377,086.25	2,002,086.25				2,002,086.25	2,379,172.50
3	2	2	8/1/01			340,117.50	340,117.50				340,117.50	
6	2	2/1/02	N	4.650	1,700,000.00	340,117.50	2,040,117.50				2,040,117.50	2,380,235.00
4	2	3	8/1/02			300,592.50	300,592.50				300,592.50	
8	3	2/1/03	N	4.750	1,780,000.00	300,592.50	2,080,592.50				2,080,592.50	2,381,185.00
5	2	4	8/1/03			258,317.50	258,317.50				258,317.50	
8	4	2/1/04	N	4.850	1,865,000.00	258,317.50	2,123,317.50				2,123,317.50	2,381,635.00
6	2	5	8/1/04			213,091.25	213,091.25				213,091.25	
8	5	2/1/05	N	4.950	1,955,000.00	213,091.25	2,168,091.25				2,168,091.25	2,381,182.50
7	2	6	8/1/05			164,705.00	164,705.00				164,705.00	
8	6	2/1/06	N	5.000	2,050,000.00	164,705.00	2,214,705.00				2,214,705.00	2,379,410.00
8	2	7	8/1/06			113,455.00	113,455.00				113,455.00	
8	7	2/1/07	N	5.100	2,150,000.00	113,455.00	2,263,455.00				2,263,455.00	2,376,910.00
9	2	8	8/1/07			58,630.00	58,630.00				58,630.00	
8	8	2/1/08	N	5.200	2,255,000.00	58,630.00	2,313,630.00				2,313,630.00	2,372,260.00
						<b>18,440,000.00</b>	<b>5,351,495.00</b>	<b>23,791,495.00</b>			<b>23,791,495.00</b>	<b>23,791,495.00</b>

True Interest Cost (TIC).....1,924,404.9  
 Net Interest Cost (NIC).....1,938,170.2  
 Arbitrage Yield Limit (AYL).....4,924,404.9  
 Arbitrage Net Interest Cost (ANIC)..... 4,936,170.2

Prepared by: FORREST R BROWNE, STATE TREAS  
 Prepared on: 1/24/97 09:46 8.05 Rpt 14  
 Record ID: LAB-1998-P :MUNIDB

**Sizing Debt Services Schedule**  
**H&SS Centralized Lab**  
**Current Rates +75bp**

Dated: 2/1/98  
 Delivered: 2/1/98

Fiscal Yr	Coupon M YY	Zer Date	Coupon Cpn	Rate	Maturing Principal	Periodic Interest	Gross Semi-Annl Dbt Svc	Capitalized Interest	Debt Svc Rsv Int & Prin	Cntgncy Fnd Int & Prin	Net Semi-Annl Dbt Svc	Net Fiscal Dbt Svc
2	99	8/1/98				508,971.25	508,971.25				508,971.25	
8	99	2/1/99	N	4.550	1,450,000.00	508,971.25	1,958,971.25				1,958,971.25	2,467,942.50
1	2	0	8/1/99			475,983.75	475,983.75				475,983.75	
8	0	2/1/00	N	5.050	1,515,000.00	475,983.75	1,990,983.75				1,990,983.75	2,466,967.50
2	2	1	8/1/00			437,730.00	437,730.00				437,730.00	
8	1	2/1/01	N	5.300	1,590,000.00	437,730.00	2,027,730.00				2,027,730.00	2,465,460.00
3	2	2	8/1/01			395,595.00	395,595.00				395,595.00	
8	2	2/1/02	N	5.400	1,675,000.00	395,595.00	2,070,595.00				2,070,595.00	2,466,130.00
4	2	3	8/1/02			350,370.00	350,370.00				350,370.00	
8	3	2/1/03	N	5.500	1,765,000.00	350,370.00	2,115,370.00				2,115,370.00	2,465,740.00
5	2	4	8/1/03			301,832.50	301,832.50				301,832.50	
8	4	2/1/04	N	5.600	1,865,000.00	301,832.50	2,166,832.50				2,166,832.50	2,468,665.00
6	2	5	8/1/04			249,612.50	249,612.50				249,612.50	
8	5	2/1/05	N	5.700	1,970,000.00	249,612.50	2,219,612.50				2,219,612.50	2,469,225.00
7	2	6	8/1/05			193,467.50	193,467.50				193,467.50	
8	6	2/1/06	N	5.750	2,080,000.00	193,467.50	2,273,467.50				2,273,467.50	2,466,935.00
8	2	7	8/1/06			133,667.50	133,667.50				133,667.50	
8	7	2/1/07	N	5.850	2,200,000.00	133,667.50	2,333,667.50				2,333,667.50	2,467,335.00
9	2	8	8/1/07			69,317.50	69,317.50				69,317.50	
8	8	2/1/08	N	5.950	2,330,000.00	69,317.50	2,399,317.50				2,399,317.50	2,468,635.00
						<b>18,440,000.00</b>	<b>6,233,095.00</b>	<b>24,673,095.00</b>			<b>24,673,095.00</b>	<b>24,673,095.00</b>

*True Interest Cost (TIC).....5.6770480*  
*Net Interest Cost (NIC).....5.6925841*  
*Arbitrage Yield Limit (AYL).....5.6770480*  
*Arbitrage Net Interest Cost (ANIC)..... 5.6925841*

Prepared by: FORREST R BROWNE, STATE TREASURER  
 Prepared on: 1/24/97 10:01 8.05 Rpt 14  
 Record ID: LAB-1998-R :MUNIDB

Dated: 2/1/98  
 Delivered: 2/1/98

**Sizing Debt Services Schedule**  
**H&SS Centralized Lab**  
**+75bp & Reduced Cost**

Fiscal Yr	Coupon M YY	Zer Date	Coupon Cpn	Coupon Rate	Maturing Principal	Periodic Interest	Gross Semi-Annl Dbt Svc	Capitalized Interest	Debt Svc Rsv Int & Prin	Cntgncy Fnd Int & Prin	Net Semi-Annl Dbt Svc	Net Fiscal Dbt Svc
2	99	8/1/98				497,678.75	497,678.75				497,678.75	
8	99	2/1/99	N	4.550	1,415,000.00	497,678.75	1,912,678.75				1,912,678.75	2,410,357.50
1	2	0	8/1/99			465,487.50	465,487.50				465,487.50	
8	0	2/1/00	N	5.050	1,480,000.00	465,487.50	1,945,487.50				1,945,487.50	2,410,975.00
2	2	1	8/1/00			428,117.50	428,117.50				428,117.50	
8	1	2/1/01	N	5.300	1,555,000.00	428,117.50	1,983,117.50				1,983,117.50	2,411,235.00
3	2	2	9/1/01			386,910.00	386,910.00				386,910.00	
8	2	2/1/02	N	5.400	1,640,000.00	386,910.00	2,026,910.00				2,026,910.00	2,413,820.00
4	2	3	8/1/02			342,630.00	342,630.00				342,630.00	
8	3	2/1/03	N	5.500	1,725,000.00	342,630.00	2,067,630.00				2,067,630.00	2,410,260.00
5	2	4	8/1/03			295,192.50	295,192.50				295,192.50	
8	4	2/1/04	N	5.600	1,820,000.00	295,192.50	2,115,192.50				2,115,192.50	2,410,385.00
6	2	5	8/1/04			244,232.50	244,232.50				244,232.50	
8	5	2/1/05	N	5.700	1,925,000.00	244,232.50	2,169,232.50				2,169,232.50	2,413,465.00
7	2	6	8/1/05			189,370.00	189,370.00				189,370.00	
8	6	2/1/06	N	5.750	2,035,000.00	189,370.00	2,224,370.00				2,224,370.00	2,413,740.00
8	2	7	8/1/06			130,863.75	130,863.75				130,863.75	
8	7	2/1/07	N	5.850	2,155,000.00	130,863.75	2,285,863.75				2,285,863.75	2,416,727.50
9	2	8	8/1/07			67,830.00	67,830.00				67,830.00	
8	8	2/1/08	N	5.950	2,280,000.00	67,830.00	2,347,830.00				2,347,830.00	2,415,660.00
						<b>18,030,000.00</b>	<b>6,096,625.00</b>	<b>24,126,625.00</b>			<b>24,126,625.00</b>	<b>24,126,625.00</b>

*True Interest Cost (TIC).....5.6771947*  
*Net Interest Cost (NIC).....5.6927261*  
*Arbitrage Yield Limit (AYL).....5.6771947*  
*Arbitrage Net Interest Cost (ANIC)..... 5.6927261*

Prepared by: FORREST R BROWNE, STATE TREAS  
 Prepared on: 1/24/97 10:34 8.05 Rpt 14  
 Record ID: LAB-1998-U :MUNIDB

**HB**

**69**

**HFIN**

**FILE**

(11)

Date Referred to Committee: February 13, 1997

FURTHER REFERRALS:

Date of Committee Action: 2/24/97

The FINANCE Committee considered:

SSHB 69

SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 69

ROHYPNOL AS SCHEDULE IVA DRUG

"An Act relating to designating flunitrazepam as a schedule IVA controlled substance; and providing for an effective date."

recommends it be replaced with the following committee substitute \_\_\_\_\_ [ ] the same title [ ] a new title

[ ] additional referral to \_\_\_\_\_ Committee

[ ] attached amendment(s)

ADOPTS: \_\_\_\_\_ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) \_\_\_\_\_

APPROVES PREVIOUS: (Dept/Date) \_\_\_\_\_

[ ] fiscal note(s) \_\_\_\_\_

[ ] fiscal note(s) \_\_\_\_\_

[ ] zero fiscal note(s) \_\_\_\_\_

2/1 zero fiscal note(s)

Law 2/13/97  
PS 2/13/97

SIGNING WITH RECOMMENDATIONS		DP	DNP	NR	AM
<i>Gene Theriault</i>	Theriault	X			
<i>Mark Hanley</i>	Hanley	X			
<i>Adon Mulder</i>	Mulder	X			
<i>Terry Martin</i>	Martin	X			
<i>Vic Kohring</i>	Kohring	X			
<i>John Davies</i>	DAVIES	X			
<i>Ben Grussendorf</i>	Grussendorf	X			
<i>Donald E. Moses</i>	Moses	X			
<i>Pat Kelly</i>	Kelly	X			
<i>Ruby Foster</i>	Foster	X			

CHAIR'S SIGNATURE *Gene Theriault*  
Theriault

*Mark Hanley*  
Hanley

# FISCAL NOTE

No. 1  
 Bill Version: SS HB 69  
 (H) Publish Date: 2/13/97

**STATE OF ALASKA  
 1997 LEGISLATIVE SESSION**

Revision Date: \_\_\_\_\_ Dept. Affected: Department of Law  
 Title: "An Act . . . designating flunitrazepam as a  
schedule IVA controlled substance . . ." BRU: Criminal Division  
 Sponsor: Representative Vezey Component: Criminal Division  
 Requester: House Judiciary Committee COMPONENT SERIAL NO. 2085

**Expenditures/Revenues (Thousands of Dollars)**

OPERATING EXPENDITURES	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGE IN REVENUES ( )						
------------------------	--	--	--	--	--	--

**FUND SOURCE (Thousands of Dollars)**

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY97) cost: \$ 0.0

**POSITIONS**

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

**ANALYSIS:** (Attach a separate page if necessary)

This bill designates the drug flunitrazepam, the "date-rape" drug, as a schedule IVA controlled substance. Passage of this legislation will have no fiscal impact on the Department of Law.

Prepared by: Joan M. Kasson *Joan M. Kasson* Phone: 465-5370  
 Division: Administrative Services Division Date: 2/11/97  
 Approved by Commissioner: Bruce M. Botelho, Attorney General Date: 2/11/97  
 Agency: Department of Law

**PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE**  
 For further distribution information, call the Governor's Legislative Office

STATE OF ALASKA  
1997 LEGISLATIVE SESSION

BILL NO:

(H) Publish Date: 2/13/97

Revision Date: \_\_\_\_\_ Dept. Affected: Public Safety  
 Title: Flunitrazepam Made Schedule IA Drug BRU: Alaska State Troopers  
 Component: Narcotics Task Force  
 Sponsor: Rep. Vezey  
 Requestor: House Judiciary COMPONENT SERIAL NO. 798

EXPENDITURES/REVENUES: (Thousands of Dollars) (inflation not included)

OPERATING	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
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-
CHANGE IN REVENUES ( ) Revenue Code	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program						
1006 GF/MHTIA						
Other						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

Estimate of current year (FY 97) impact: \$ \_\_\_\_\_

POSITIONS:

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

ANALYSIS: (Attach a separate page if necessary.)

This bill would make flunitrazepam a schedule IA drug. This would have no significant fiscal impact on AST.

Prepared By: Capt. Ted M. Bachman Phone: 269-5650  
 Division: Alaska State Troopers Date: 02/11/97  
 Approved by Commissioner: *Ronald L. Otte* Date: 2/11/97  
 Agency: Department of Public Safety

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE  
 For further distribution information call the Governor's Legislative Office

# Alaska State Legislature

## House of Representatives

Interim Address:  
110 N. Cushman, Suite 211  
Fairbanks, AK 99701  
(907)-456-5081  
Fax# (907)-456-8245

Session Address:  
Room 13



Official Business

State Capitol  
Juneau, AK 99801-1982

Representative Al Vezey

### HB 69

## CLASSIFYING FLUNITRAZEPAM AS A CONTROLLED SUBSTANCE

Flunitrazepam, trade name Rohypnol, is known by street names that include Roaches, Roches, Rocha, Rophies, Roofies, Ruffies, Ropes, and Rib. The drug induces deep sleep and causes amnesia. Illegal use of this drug is on the increase in the United States and its illegal use has been suspected in Alaska. Rohypnol is a drug that is not readily detectable in urine by using a standard urine test.

The most heinous illegal use of this drug is to slip it into the drink of a female as a prelude to rape. Typically the victim does not remember what happened for several hours after ingesting the drug.

Victims of drug induced rape can not identify their victims and conviction are difficult and rare. This bill would make the mere possession of this drug a serious crime in the same class as sexual assault in the first degree. HB 69 sends a clear message that we will not tolerate in our society those who would perpetrate sexual abuse.

*Flunitrazepam is the generic name for a drug in the class of prescription medicines known as benzodiazepines. It is manufactured in Europe and Latin American by Hoffman-La Roche under the trade name Rohypnol.*



## HLR Service

A Member of the Roche Group

HLR Service Corporation  
9707 166th Street Ct. E  
Puyallup, WA 98373

February 10, 1997

Jon Christensen  
Senior Regional Manager  
Tel 206-770-3741  
1-800-LA-ROCHE Ext 8-9772  
Fax 206-770-3723

Honorable Representative Al Vezey  
State Capitol  
Room 13  
Juneau, AK 99801

Dear Representative Vezey;

We at Roche are pleased to support your SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 69.

At Hoffmann-La Roche, the manufacturer of Rohypnol, we are extremely concerned by the issue of drug-induced sexual assault and reports that one of our medications may be one of the many misused in this way.

Rohypnol belongs to the class of medications known as benzodiazepines, which collectively have more than 30 years of medical use for the treatment of a variety of central nervous system conditions. They are currently classified in the U.S. in Schedule IV of the Federal Controlled Substances Act.

I am happy to answer any further questions you may have and welcome the opportunity to speak with you further on this issue.

Sincerely,

Jon C. Christensen



## HLR Service

A Member of the Roche Group

HLR Service Corporation  
3797 166th Street Ct E  
Puyallup, WA 98373

February 10, 1997

**Jon Christensen**  
Senior Regional Manager  
Tel 206-770-3741  
1-200-LA-ROCHE Ext 8-9772  
Fax 206-770-3723

Honorable Representative Al Vezey  
State Capitol  
Room 13  
Juneau, AK 99801

Dear Representative Vezey;

We at Roche are pleased to support your SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 69.

At Hoffmann-La Roche, the manufacturer of Rohypnol, we are extremely concerned by the issue of drug-induced sexual assault and reports that one of our medications may be one of the many misused in this way.

Rohypnol belongs to the class of medications known as benzodiazepines, which collectively have more than 30 years of medical use for the treatment of a variety of central nervous system conditions. They are currently classified in the U.S. in Schedule IV of the Federal Controlled Substances Act.

I am happy to answer any further questions you may have and welcome the opportunity to speak with you further on this issue.

Sincerely,

Jon C. Christensen

**ALASKA NETWORK ON  
DOMESTIC VIOLENCE AND SEXUAL ASSAULT**

130 Seward, Rm 501 Juneau, Alaska 99801 (907) 586-3650 (907) 463-4493 fx

**Statement Regarding SB94/HB69**

February 1997

The Alaska Network on Domestic Violence and Sexual Assault (Network) is the statewide coalition of community domestic violence and sexual assault intervention programs for Alaska. Twenty full member and five supporting member programs provide shelter, advocacy, crisis intervention and, information and referral services to victims seeking assistance in ending the violence being perpetrated against them. The Network works to promote institutional and systemic change necessary to end violence against women.

*The Network supports placement of flunitrazepam (rohypnol) on the list of controlled substances as a Schedule IVA substance. The federal DEA is considering moving rohypnol from Schedule IVA to Schedule I. The Network would also support the substance being moved to Schedule I as soon as the federal change is made.*

Rohypnol is a sedating substance. It is a prescription sleeping medication available outside of the United States. It is also used as a preanesthetic before surgery or other medical procedures in several countries. Rohypnol is not marketed in this country and a ban on its importation went into effect in March of 1996.

Rohypnol's sedating effect can be exacerbated by the presence of alcohol, a person's sensitivity to the drug, or an increase in the dosage. It's effects generally begin within 20 to 30 minutes of entering a person's system. It's strongest effects occur within one to two hours and, its overall effects usually last from six to eight hours.

Sedating substances such as rohypnol can temporarily inhibit a person's ability to remain awake and conscious. Other possible side effects include impaired judgment, confusion, loss of motor coordination, and dizziness. Periods of impaired memory may also result from being administered a sedating substance such as rohypnol.

Two of rohypnol's street names "the forget pill" and the "date rape drug" demonstrate the malicious intent behind its misuse in the United States. Rapists use the drug to keep victims from being able to resist and as a defense against being caught. Because survivors will have been heavily sedated, they probably will not have complete recall of the rape. They may be uncertain about exactly what happened and who was involved. The inability of a victim to recall facts makes prosecution of a rape where rohypnol was used very difficult.

According to statistics in the US Department of Justice Sourcebook of Criminal Justice Statistics, Alaska has over one and a half times the national average of sexual assaults per capita. Please support the effort to reduce the number of rapes in our state and take away one of the rapist's more insidious tools.

**HB**

**73**

**HFIN**

**FILE**

# HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: March 12, 1997

FURTHER REFERRALS:

Date of Committee Action: 1/19/98

The FINANCE Committee considered:

HB 73

HOUSE BILL NO. 73

SALMON MARKETING ASSESSMENT & ASMI

"An Act extending the termination dates of the salmon marketing programs of the Alaska Seafood Marketing Institute and the salmon marketing assessment; and providing for an effective date."

recommends it be replaced with the following committee substitute \_\_\_\_\_  the same title  a new title

additional referral to \_\_\_\_\_ Committee  
 attached amendment(s)

ADOPTS: \_\_\_\_\_ Letter of Intent

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

fiscal note(s) DOR, DCED  fiscal note(s) \_\_\_\_\_

zero fiscal note(s) \_\_\_\_\_  zero fiscal note(s) \_\_\_\_\_

SIGNING WITH RECOMMENDATIONS		DP	DNP	NR	AM
<i>Gene Therriault</i>	Therriault			<input checked="" type="checkbox"/>	
<i>Mark Hanley</i>	Hanley	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	
<i>Edon Mulder</i>	Mulder			<input checked="" type="checkbox"/>	
<i>Terry Martin</i>	Martin			<input checked="" type="checkbox"/>	
<i>Victor Kohring</i>	Kohring				<input checked="" type="checkbox"/> V.H.
<i>John N. L. Davies</i>	DAVIES	<input checked="" type="checkbox"/>			
<i>Don Gussendorf</i>	Gussendorf	<input checked="" type="checkbox"/>			
<i>Frank Davis</i>	Davis	<input checked="" type="checkbox"/>			
<i>Bob Kelly</i>	Kelly	<input checked="" type="checkbox"/>			
<i>Bob Foster</i>	Foster	<input checked="" type="checkbox"/>			

CHAIR'S SIGNATURE

*Gene Therriault* *Mark Hanley*  
 CO-Chair Therriault CO-Chair Hanley

# FISCAL NOTE

**STATE OF ALASKA**  
**1998 LEGISLATIVE SESSION**

**BILL NO.            HB 73**

Revision Date: \_\_\_\_\_ Department: Commerce and Economic Development  
 Title: An Act extending the termination dates of the BRU: Alaska Seafood Marketing Institute  
salmon marketing program of the Alaska Seafood Marketing Institute Component: Alaska Seafood Marketing Institute  
 Sponsor: HUDSON, Grussendorf, Elton  
 Requester: House Finance **COMPONENT SERIAL NO.            393**

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
PERSONAL SERVICES	500.0	500.0	500.0	500.0	500.0	500.0
TRAVEL	100.0	100.0	100.0	100.0	100.0	100.0
CONTRACTUAL	3,518.0	3,518.0	3,918.0	4,118.0	4,118.0	4,118.0
SUPPLIES	75.0	75.0	75.0	75.0	75.0	75.0
EQUIPMENT	7.0	7.0	7.0	7.0	7.0	7.0
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS	0.0	0.0	0.0	0.0	0.0	0.0
<b>TOTAL OPERATING</b>	<b>4,200.0</b>	<b>4,200.0</b>	<b>4,600.0</b>	<b>4,800.0</b>	<b>4,800.0</b>	<b>4,800.0</b>

<b>CAPITAL EXPENDITURES</b>						
-----------------------------	--	--	--	--	--	--

<b>CHANGE IN REVENUES</b>						
---------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 General Fund						
1005 GF/Program Receipts	4,200.0	4,200.0	4,600.0	4,800.0	4,800.0	4,800.0
1006 GF/MHTIA						
1091 Designated PR						
<b>TOTAL</b>	<b>4,200.0</b>	<b>4,200.0</b>	<b>4,600.0</b>	<b>4,800.0</b>	<b>4,800.0</b>	<b>4,800.0</b>

Estimate of any current year (FY 98) cost: \$ \_\_\_\_\_

**POSITIONS**

FULL-TIME	7	7	7	7	7	7
PART-TIME						
TEMPORARY						

**ANALYSIS:** (Attach a separate page if necessary)  
 The salmon marketing assessment is levied at 1% of the ex-vessel value on all salmon harvested in Alaska. The assessment generates revenue in a range from a high of \$4.8 million to a low of \$3.5 million. In FY98 the revenues are at a low point due to the decline in harvest and value of the 1997 salmon season. The market value of the salmon harvest is anticipated to gradually increase over the next three years to \$4.8 million. Revenues for the marketing assessment are reflected in the Department of Revenue Fiscal Note.

Prepared by: Cecile M. Rider Phone: 465-5560  
 Division: Alaska Seafood Marketing Institute Date: January 20, 1998  
 Approved by Commissioner: Debby Sedwick Date:             
 Agency: Commerce and Economic Development

**PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE**

For further distribution information, call the Governor's Legislative Office

Revision Date: January 16, 1998 Dept. Affected: Revenue  
 Title: Salmon Marketing Assessment & ASMI BRU: Revenue Operations  
 Component: Income and Excise Audit  
 Sponsor: Rep. Hudson  
 Requestor: (H) FSH COMPONENT SERIAL NO. 713

Expenditures/Revenues: (Thousands of Dollars)

OPERATING EXPENDITURES	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>CAPITAL EXPENDITURES</b>						
<b>CHANGE IN REVENUES (GF)</b>	<b>3,000.0</b>	<b>3,000.0</b>	<b>3,000.0</b>	<b>3,000.0</b>	<b>3,000.0</b>	<b>375.0</b>

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year cost \$ 0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

(See Attached Analysis)

Prepared by: Paul E. Dick  
 Division: Income and Excise Audit  
 Approved by Commissioner: Wilson L. Condon  
 Agency: Revenue

Phone: 465-3691  
 Date: January 16, 1998  
 Date: January 16, 1998

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE  
 For further distribution information call the Governor's Legislative Office

**Alaska Department of Revenue**  
***Income and Excise Audit Division***

HB 73

Salmon Marketing Assessment & ASMI

January 16, 1998

Page 2 of 2

**BILL ANALYSIS**

**Section 1** extends the sunset date for the salmon marketing tax (AS 43.76.110-130) authorized under ch 55, SLA 1993. This bill extends the sunset date from June 30, 1998 to June 30, 2003.

**Section 2** extends the sunset date for duties of the ASMI board related to salmon marketing authorized under ch 55, SLA 1993. This bill extends the sunset date from June 30, 1999 to June 30, 2004.

**Section 3** establishes an immediate effective date.

**Operating Costs**

Department of Revenue does not anticipate that there will be any additional costs associated with extending the sunset date for the salmon marketing tax. The department would continue administering this program with existing staff.

**Revenue**

The department estimates that salmon marketing tax collections will be \$3.0 million for each year during the extension, FY 99 through FY 03. Tax collections will fluctuate depending on prices paid for salmon and the volumes harvested in a given year. We estimate collections of \$375.0 in FY 04 because June 2003 monthly tax returns will be received and processed in July and August 2003. June collections represent about 1/8 of total tax revenues in a fiscal year.

# Alaska State Legislature

REPRESENTATIVE BILL HUDSON

State Capitol  
Juneau, Alaska  
99801-1182  
(907) 465-3744  
Fax (907) 465-2273

## COMMITTEES

CO-CHAIR  
Resources Committee

MEMBER  
Transportation Committee  
Labor & Commerce Committee

## SPONSOR STATEMENT

**HB 73, "An Act extending the termination dates of the salmon marketing programs of the Alaska Seafood Marketing Institute and the salmon marketing assessment; and providing for an effective date."**

HB 73, if enacted, would extend the current 1% domestic salmon marketing assessment when the law will sunset on June 30, 1998. Additionally, enactment of HB 73 would authorize Alaska Seafood Marketing Institute (ASMI) to continue to expend those revenues on salmon marketing programs.

In 1981, seafood processors elected to tax themselves in order to form a single marketing voice for Alaska seafood. Each processor who purchases at least \$50,000 of seafood products in Alaska pays a .3% marketing assessment. From 1981-1993 this tax, along with the state's general fund appropriations were the basis for ASMI's domestic market funding. As marketing pressure grew from the heavily subsidized farmed salmon industry, it became apparent that Alaska needed to increase its domestic marketing efforts. In 1993, in order to provide additional funding for this effort, a 1% salmon marketing tax was enacted by the legislature, stipulating that limited entry permit holders shall pay a market tax at the rate of 1% of the value of salmon that is either removed from the state or transferred to a buyer within the state. Current law will be repealed on June 30, 1998 unless legislation is passed to extend the tax.

ASMI's domestic salmon marketing program is paying off in more sales in the Lower 48. Salmon consumption has increased 27% nationwide according to National Marine Fisheries Service. Salmon orders by diners in over 900 restaurants increased almost 60% in 1995 compared to 1994. Additionally, sales in grocery stores increased significantly from 1995 to 1996. At a time when Alaska salmon harvests are at all time highs, and foreign produced salmon are threatening Alaska's traditional markets, it is especially important to increase our markets. Alaska salmon prices are a product of supply, demand and consistency in marketing. HB 73 will enable harvesters to continue underwriting this valuable marketing program.

