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than they presently are accorded. We respectfully suggest that unless this type of administrative arrangement we propose is established, a great deal of pressure may be brought upon the Legislature to establish the community colleges and extension centers as a separate and distinct institutional arrangement apart from the statewide university. We do not believe that to be sound educational administration because it would ensure that two separate educational systems would be competing before the Legislature for appropriations and other sources of support. We think that would weaken the quality of higher education in the State of Alaska. At the same time, we also believe that a separate vice-president for community colleges in the statewide university system would ensure the maintenance of the identity of the community college program within the University of Alaska without the creation of any additional unnecessary layers of administration. We believe that the community college program has been highly successful in Alaska because it has met the needs of the communities each college serves. Many of the community colleges have developed unique programs of their own, and it is interesting to note that the newest community college, Tanana Valley, located in Fairbanks, opened in the fall of 1974 with more than 1,000 students enrolled. It became instantly the second largest community college in the state without diminishing in any way the enrollment at the Fairbanks campus of the University, which at the same time was increasing by 2 percent. We suggest that this clearly demonstrates that the University of Alaska was not really meeting the post-secondary educational needs of the Fairbanks community and that the new Tanana Valley Community College was reaching out to do so. We think this type of innovative strength should be recognized in the highest councils of the University.

144 Fourthly, the bill establishes the community college advisory councils as statutory bodies and clarifies the tenure in office of their members as well as the duties and responsibilities of the council for each community college. Originally conceived as public relations "fronts" for the university to sell bond issues, these advisory bodies now should have input into the statewide university system, including the Board of Regents. The statutory provision will ensure that because the Regents have not devised regulations governing the advisory councils, membership on these councils will be meaningful and the contribution of time and effort made by members of these bodies throughout the state will have some significant impact on the development of educational policy for the statewide university system.

Finally, it is important to note that the bill makes no change whatsoever in the status of any existing community college or extension center. In other words, it is not possible under this legislation to downgrade a presently existing community college to an extension center.

We believe that it is important that a revision of the Community College Act be enacted at the 1975 Session of the Alaska State Legislature. This bill, in one form or another, has been under consideration since 1972. We learned during the course of our hearings, particularly in Fairbanks this last fall, that had this bill been enacted by the Legislature in 1974, it would have been most helpful in the establishment and organization of the Tanana Valley

Community College because it would have eliminated the need for extensive duplicate type of record keeping that this presently outmoded law requires and would have materially assisted in the negotiations between the University of Alaska and the North Star Borough School District. We urge the Legislature's favorable consideration of this measure at an early date.

HB
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Finally, the Committee offers for the consideration of the Legislature another measure that was before the Eighth Alaska Legislature, Second Session, in substantially the same form in which it is presented to you today, namely House Bill 836, an act relating to the regulation of post-secondary educational institutions. The bill in its present form, as in 1974, is the result of a report of the Task Force on Model State Legislation for Approval of Post-Secondary Educational Institutions and Authorization to Grant Degrees, undertaken by the Education Commission of the States and recommended to the several state legislatures in June, 1973.

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This is a consumer protection measure which significantly broadens the existing Alaska law, popularly known as the "anti-diploma mill" bill. Expert testimony by a staff attorney for the Federal Trade Commission as well as by an attorney for the Consumer Protection Division of the Attorney General's Office during the course of extensive hearings on this measure this last fall persuades this Committee that it is absolutely urgent that Alaska significantly expand the coverage of the existing regulatory statute. Formerly the responsibility of the Department of Education, the Alaska Commission on Post-Secondary Education is now charged with issuing licenses and permits to operate as a post-secondary educational institution, because the Legislature reasoned that along with the planning function imposed upon the Commission should go the responsibility for regulating the entry into the post-secondary educational field in this state. Under present law, certain post-secondary educational institutions are required to be registered and licensed by the Department of Education or the Post-Secondary Education Commission if they are diploma-granting institutions. Also, it is required that if an institution uses the term "college" or "university" in its name, it also must be authorized to do so. The purpose of this type of legislation is to eliminate consumer abuse, primarily in the area of the private vocational school industry, that is intended to provide students with training that results in jobs. Alaska has had its share of problems with private vocational schools, as testimony last fall noted. The Federal Trade Commission advised us that it was investigating, for example, a Washington-based school operating in Alaska which had been accused by one of our residents of falsely advertising job opportunities, placement assistance, credit terms and membership in a phony professional organization. Responsible state and federal agencies believe that one of the side effects of oil development in this state will be to attract the "con man" and the "bunco artist" that prey upon the desire of people to advance in their occupation or profession by taking vocational type courses. As the attorney for the Federal Trade Commission observed, this is the time to adopt strong state legislation to keep out-of-state operations from seeking to exploit Alaska's new wealth and student market before the community college system is fully developed.

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In testimony before the Legislative Interim Committee on Higher Education, the Federal Trade Commission's staff attorney, Mrs. Sharon Armstrong, stressed the necessity for legislation at the state level and listed at least three reasons why State law in this area is so important. First, testimony indicated that present accreditation does not prevent consumer abuses in the industry. It was pointed out that some schools are accredited by dummy organizations and even if a school is accredited by a legitimate agency recognized by the U. S. Office of Education, the agencies themselves are supported by dues paid by member schools. Therefore, their investigations are often self-serving and subject to bias. The criteria for accreditation frequently is minimal and investigations are conducted only infrequently. In fact, of the four major vocational school cases before the Federal Trade Commission now, three involve schools that are accredited. And even though accreditation has had little impact on quality control, the Department of Health, Education & Welfare approves almost automatically any accredited school for participation in the federally insured student loan program. In 1972 alone, it was pointed out, HEW provided \$214 million to private vocational school students. While this amount accounted for only 30 to 35 percent of all FISL loans, it represents 60 to 75 percent of all the defaults. Students, it was observed, are less willing to pay back loans when they feel they have been gyped.

The second reason the Federal Trade Commission attorney urged adopting strong state legislation in this area is that the Veterans Administration is required by statute to delegate most of its supervisory duties over private vocational schools to state approval agencies. The state agencies, in turn, can either rely on accreditation as a standard for approval or they can set their own standards. Once the state agency approves a course, the VA is required by law to pay out veterans benefit funds. In 1972 it was pointed out that the VA paid out \$381 million in benefits but over a five year period the government accounting office reported that 75 percent of the veterans enrolled in correspondence schools dropped out. Clearly, it was observed, there is a great need for comprehensive legislation to enable state agencies to save taxpayer dollars.

The third reason for adopting a strong state law is that the Federal Trade Commission, its staff attorney pointed out, does not have the jurisdiction or resources to reach more than a few of the problems in the vocational school industry. At the present time, the Commission is formulating a trade rule which would require factual documentation of earnings or employment claims, require disclosure of drop-out rates, require a 10 day cooling off reaffirmation period before contracts become effective, and provide for pro-rata refunds to students who do not complete courses. While helpful, this rule only touches the tip of the iceberg of abuses. It cannot prevent them. It does not in any way regulate quality and it may not be adopted for many months. Since 1970, it was pointed out, the Federal Trade Commission has issued 25 complaints against vocational schools and many cases are under investigation. However, the Commission's law enforcement authority comes into play only after Section 5 of the Federal Trade Commission Act has been violated. With over 10,000 schools in operation the Commission may not detect violations until hundreds of students have been cheated. Many violations are never detected. Enforcement may require long and complicated litigation.

The Commission has no authority to deny or suspend eligibility to participate in government programs such as FISL, veterans benefits or those sponsored by the Bureau of Indian Affairs. It has no jurisdiction over schools whose operations are wholly intrastate in character. In short, the Federal Trade Commission attorney pointed out, state agencies are in the best position to prevent unfair and deceptive acts or practices before they occur because state agencies can keep shady operators out of the State. With this in mind, the Federal Trade Commission is encouraging all 50 states to adopt the education commissions of the state's model post-secondary education authorization act. The FTC attorney observed that House Bill 836 of the 1974 session, Alaska's version of the model act, would provide a comprehensive scheme for quality control of vocational schools. It goes far beyond the FTC's trade rule, she said, and moreover would serve as an alternative to federal involvement in an industry considered by many to be a State concern.

Specifically, the legislation we offer today would:

First, establish minimum criteria for determining whether an institution may operate within the State, the most important criteria being the school's ability to enable students to achieve the school's stated objectives and to ensure that the school has the means of doing so.

Secondly, it would require truth in advertising as well as affirmative disclosures of relevant information in order to adequately inform prospective students prior to their enrollment.

Thirdly, it would clearly define procedures and conditions under which any school or sales employee may be authorized to operate in the State. It would require bonding of both schools and their agents and allow for denial or revocation of authorization to operate in the State.

Fourthly, it would provide procedures by which a student may lodge a formal complaint against a school and, if justified in the judgment of the Alaska Commission on Post-Secondary Education, obtain an award of damages.

Fifthly, it would prevent use of the "holder in due course" doctrine under which an institution uses a third party to collect payments from a student for services that are not provided.

Finally, it is important to note that this bill would establish a requirement that schools going out of business would be required to deposit their academic records with the Alaska Commission on Post-Secondary Education. It would now appear from the announcements that have been made by Alaska Methodist University and the negotiations which are on-going between AMU and the University of Alaska that the former institution will close its doors with the end of the Spring, 1975 semester. Your Interim Committee on Higher Education believes it is imperative that this particular requirement be enacted so that alumni of Alaska Methodist University will be able to secure transcripts of their records here in the State of Alaska, rather than to have to appeal to a distant body, namely the National Board of Missions of the Methodist Church to obtain a transcript of their records at this school. Thus, this measure is extremely timely. It carries an immediate effective date clause and we strongly urge our colleagues to give

this measure early favorable consideration at the first session of the Ninth Alaska Legislature. We believe this bill will provide an excellent device for regulating private vocational school industry operations primarily in Alaska as well as overseeing the operations of other private post-secondary educational institutions to ensure the maintenance of high quality post-secondary educational opportunities.

*Sub-Committee
Sent to Rep. Ostrom*

13 February 1975

Senator Genie Chance
State Capitol
Pouch V
Juneau, Alaska 99811

Dear Senator Chance:

At your suggestion, I am writing this letter to indicate how we can serve most effectively as consultants on higher education to the Legislature during the period from February 1, 1975, through January 31, 1976.

In light of the fact that the Alaska Commission on Post-Secondary Education (the 1202 Commission) has not yet been organized, the Legislature continues to be in need of expert counsel on the rapidly changing higher education scene. My judgment is that we can be involved most effectively in the following ways:

- (1) serve as the legislature's professional staff in higher education, particularly as the issues pertain to educational legislation and budgets;
- (2) serve throughout the year as a continuing information-gathering group in order to keep the Legislative Council, the Interim Committee on Higher Education, and the Legislature closely informed on developments in Alaska higher education.

In order to perform these functions, Stephen McLean of McClellan Associates would be coordinator and I would serve as Project Director; we would bring in regularly consultants from across the nation who are experts in the areas in which there are particular problems or issues in Alaska higher education, as well as in the development of instructional television.

Even though these functions should eventually be assumed by the newly enacted Alaska Commission on Post-Secondary Education, the Commission, in our opinion, would be unable to become an effective agency for the next several months because it will need to organize itself, elect a chairman and vice chairman, select an executive director, and plan its course. During its formative period, the Commission will need unbiased, professional

guidance, which we can provide. Among the specific functions which I perceive to be desirable for us to perform during the coming twelve months would be

(1) provide professional expertise to the Legislature on Alaska Methodist University's announced plans to negotiate the sale of their campus to the University of Alaska.

(2) serve as a coordinator to bring together the experts and the resources for developing the technological delivery system, including instructional television, for post-secondary education in rural Alaska;

(3) function as a resource to interpret pertinent materials and programs from other parts of the country regarding their possible application in Alaska higher education;

(4) evaluate any new programs proposed by any of the institutions in Alaska in an effort to avoid duplication and waste of funds;

A number of matters and issues most likely will be important and probably should have special study during the year. This list includes, but is not limited to the following:

(1) the future of programs and personnel of Alaska Methodist University;

(2) the function of the University of Alaska in extended, diversified education for Alaska Natives;

(3) the strengthening of relationships between vocational-technical programs and the community colleges;

(4) preparing for the possibility of satellite television and producing the kinds of "software" in the form of courses, mini-courses, individual lessons, and other relevant materials for different parts of Alaska;

(5) the need for a study of what is happening to the students who have attended the community colleges-to include both graduates and dropouts from the community colleges;

(6) the need for a definitive study on fee structures within the University with particular reference to the possibility of going to the arrangement of charging different fees at different educational levels, rather than standardized;

(7) the need to prevent fraudulent educational activities such as "diploma mills".

I would anticipate that my colleagues and I would be able to bring a continuing objectivity to the evaluation of higher education in Alaska and to recommendations for the future. Since Alaska State government appropriates such a high percentage of the State's budget for higher education, the thrust of our proposal is that our group would serve the legislature as a professional staff in this field so that the State would be exposed to alternatives and to objective data on higher education proposals.

This should result in considerable savings to the State by reducing its expenditures in higher education, as well as producing better coordination, efficiency and service.

We would expect to file a final report on our work by January 31, 1975, as we have done in previous years, in which we would analyze developments in higher education during the year and make recommendations for the future. We are particularly pleased that such a high percentage of the recommendations we have made in previous reports have been adopted.

The first contract between the Legislative Council and McLean Associates was \$50,000; for the past year's contract, which expired January 31, it was \$40,000, including \$10,000 for additional consultants. I have carefully calculated the costs, especially for bringing in experts from Caltech's Jet Propulsion Laboratory and satellite television specialists and, recognizing the service to be involved during the next twelve months, propose the same figure of \$40,000 for the period from February 1, 1975 to January 31, 1976. This sum would include all travel of all the individuals involved, the consulting fees, and all related expenses.

We feel the next twelve months in Alaska will be crucial in the history of higher education and would be pleased to be a part of it.

Sincerely,

Armen Sarafian

Armen Sarafian
Project Director

dedicated

ROBERT W. HIATT
PRESIDENT



UNIVERSITY OF ALASKA
OFFICE OF THE PRESIDENT
FAIRBANKS, ALASKA 99701

March 4, 1975

Mr. Rich Guthrie
Fiscal Analyst
Legislative Budget and Audit Committee
Pouch WF
Juneau, Alaska

Dear Rich:

On 28 February Don Dafoe replied to an inquiry by you relating to AMU physical assets.

The AMU Trustees' Committee made a proposal to the Board of Regents and the Board replied after sitting as a full Board. These documents are enclosed. This is the latest in negotiating events. I am also enclosing for your use and distribution as you see fit a synopsis of the AMU land purchases from BLM. As you can see, a total of \$102,000 was paid for 505 acres. The State paid them \$2,000,000 for 186 of those acres in 1972.

As to Bob Bradley's questions:

- Actual
Audit.
of Bond-HUD?
discount if HUD takes over, because AMU going on ill?*
1. There is a federal involvement (HUD) in the financing of AMU facilities. The indenture, arrears interest payments and penalties are listed in their proposal. We are checking with HUD to verify their accuracy and to learn whether HUD would be willing to shift these debts to the University of Alaska. *How about forgo. any*
 2. There is an amendment applicable to all parcels of AMU lands which requires their dedication in perpetuity for educational, recreational or health uses. This was placed on record when the State made the \$2,000,000 land purchase in 1972.

UNIVERSITY OF ALASKA

Guthrie, Mr. Rich

..2..

March 4, 1975

3. Independent appraisals of the AMU properties have been completed. We are not privy to AMU's appraisal, but ours is appended. We are now requesting an appraisal on "deferred maintenance" and on furniture and fixtures.

I should note that the land appraisals have been made on the basis of commercial values, for this is about the only basis available to appraisers. Naturally, lands dedicated for restricted uses, such as these, will be actually valued at a far lesser amount.

I probably will be in Juneau next week and would be pleased to meet with Bob Bradley and others on this or other matters. Please give him copies of the materials enclosed.

Best personal regards,

Sincerely,



Robert W. Hiatt
President

RWH:dm
Enclosures

ORIGINAL VALUES & AMOUNT PAID FOR ANU LANDS

(INFO FROM BLM ANK. FILES)

<u>PATENT NO.</u>	<u>ACREAGE</u>	<u>APPRAISED</u>	<u>DISC. ALLOWED</u>	<u>PAID</u>	<u>\$/ACRE</u>
1150278* November 28, 1958	242.5	\$ 36,375.00	68%	\$11,640.00	\$ 48.00
(1188433) same data <i>Expiry: 1983</i>		\$ 150.00 acre			
50-64-0186* June 2, 1964	227.5	\$204,750.00 \$ 900.00 acre	70%	\$61,425.00	\$ 270.00
50-64-0187* June 2, 1964	35	\$ 58,975.00 \$ 1,685.00 acre	50%	\$29,500.00	\$ 842.85
<u>Total appraised</u>	505 A	\$302,105.00		\$ 598.21/acre	
<u>Total paid</u>	505 A	\$102,565.00	65%	\$ 203.10/acre	

What's this? Why?

Four

Four

Note

Note

less other

REFERENCE: ANU Real Estate produced by Tryrk, Nyman & Nays on file in University of Alaska Planning files.

These are patents to the land and therefore title is held by ANU and they can sell or lease as long as they do not violate the restrictive clauses. The 50 patent has a re-issue (PAT.1188433), but the original was not cancelled, so there are two patents for the same land.

- * Reverter clause expires at end of 25 years from issue.
- * Reverter clause runs in perpetuity.

Why not pay the commercial value?

MEMORANDUM OF AGREEMENT

This Memorandum of Agreement is made the ____ day of March, 1975, by and between the University of Alaska (hereinafter UA) and Alaska Methodist University (hereinafter AMU).

W I T N E S S E T H:

WHEREAS, AMU is willing to sell its campus and buildings and certain personal property at Anchorage, Alaska; and

WHEREAS, UA is desirous of purchasing said campus, buildings and personal property;

NOW, THEREFORE, the parties agree as follows:

1. AMU agrees to convey to UA in fee simple absolute its entire campus at Anchorage, Alaska, with the exception of the following described parcels:

Parcel No. 1

The West half (W 1/2) of the North half (N 1/2) of the Northeast quarter (NE 1/4) of the Southeast quarter (SE 1/4) of Section 28 (S28), Township 13 North (T13N), Range 3 West (R3W), Seward Meridian.

Parcel No. 2

The West half (W 1/2) of the Northeast quarter (NE 1/4) of the Northeast quarter (NE 1/4) of the Southeast quarter (SE 1/4) of Section 28 (S28), Township 13 North (T13N), Range 3 West (R3W), Seward Meridian.

Parcel No. 3

The South half (S 1/2) of the Southwest quarter (SW 1/4) of the Southeast quarter (SE 1/4) of the Northeast quarter (NE 1/4) of Section 28 (S28), Township 13 North (T13N), Range 3 West (R3W), Seward Meridian.

Parcel No. 4

The Southwest quarter (SW 1/4) of the Southeast quarter (SE 1/4) of the Southeast quarter (SE 1/4) of the Northeast quarter (NE 1/4) of Section 28 (S28), Township 13 North (T13N), Range 3 West (R3W), Seward Meridian.

105/100
10/10/75



Parcel No. 5

All that portion south of University Drive of the North half (N 1/2) of the Southwest quarter (SW 1/4) of the Southeast quarter (SE 1/4) of the Northeast quarter (NE 1/4) of Section 28 (S28), Township 13 North (T13N), Range 3 West (R3W), Seward Meridian.

The land which is agreed to be conveyed hereby, excluding the above-described parcels, contains approximately 265 acres and is more fully described as follows:

Parcel No. 1

The East quarter (E 1/4) of the Northeast quarter (NE 1/4) of the Northeast quarter (NE 1/4) of the Southeast quarter (SE 1/4) of Section 28 (S28), Township 13 North (T13N), Range 3 West (R3W), Seward Meridian.

Parcel No. 2

The East half (E 1/2) of the East half (E 1/2) of the Southeast quarter (SE 1/4) of the Northeast quarter (NE 1/4) of Section 28 (S28), Township 13 North (T13N), Range 3 West (R3W), Seward Meridian.

Parcel No. 3

The North half (N 1/2) of the South half (S 1/2) of the Northeast quarter (NE 1/4) of the Southeast quarter (SE 1/4) of Section 28 (S28), Township 13 North (T13N), Range 3 West (R3W), Seward Meridian.

Parcel No. 4

The South half (S 1/2) of the South half (S 1/2) of the Northeast quarter (NE 1/4) of the Southeast quarter (SE 1/4) of Section 28 (S28), Township 13 North (T13N), Range 3 West (R3W), Seward Meridian.

Parcel No. 5

The South half (S 1/2) of the South half (S 1/2) of the Northwest quarter (NW 1/4) of the Southwest quarter (SW 1/4) of Section 27 (S27), Township 13 North (T13N), Range 3 West (R3W), Seward Meridian.

Parcel No. 6

The North half (N 1/2) of the South half (S 1/2) of the Northwest quarter (NW 1/4) of the Southwest quarter (SW 1/4) of Section 27 (S27), Township 13 North (T13N), Range 3 West (R3W), Seward Meridian.

Parcel No. 7

The North half (N 1/2) of the Northwest quarter (NW 1/4) of the Southwest quarter (SW 1/4) of Section 27 (S27), Township 13 North (T13N), Range 3 West (R3W), Seward Meridian.

Parcel No. 8

The Northwest quarter (NW 1/4) of the Northeast quarter (NE 1/4) of the Southwest quarter (SW 1/4) of Section 27 (S27), Township 13 North (T13N), Range 3 West (R3W), Seward Meridian.

Parcel No. 9

The North half (N 1/2) of the Southwest quarter (SW 1/4) of the Northeast quarter (NE 1/4) of the Southwest quarter (SW 1/4) of Section 27 (S27), Township 13 North (T13N), Range 3 West (R3W), Seward Meridian.

Parcel No. 10

The South half (S 1/2) of the Southwest quarter (SW 1/4) of the Northeast quarter (NE 1/4) of the Southwest quarter (SW 1/4) of Section 27 (S27), Township 13 North (T13N), Range 3 West (R3W), Seward Meridian.

Parcel No. 11

The East half (E 1/2) of the Northeast quarter (NE 1/4) of the Southwest quarter (SW 1/4) of Section 27 (S27), Township 13 North (T13N), Range 3 West (R3W), Seward Meridian.

Parcel No. 12

The South half (S 1/2) of the Northwest quarter (NW 1/4) of Section 27 (S27), Township 13 North (T13N), Range 3 West (R3W), Seward Meridian.

Parcel No. 13

The Northwest quarter (NW 1/4) of the Northwest quarter (NW 1/4) of Section 27 (S27), Township 13 North (T13N), Range 3 West (R3W), Seward Meridian.

Parcel No. 14

The South half (S 1/2) of the Northeast quarter (NE 1/4) of the Northwest quarter (NW 1/4) of Section 27 (S27), Township 13 North (T13N), Range 3 West (R3W), Seward Meridian.

Parcel No. 15

The Northwest quarter (NW 1/4) of the Northeast quarter (NE 1/4) of the Northwest quarter (NW 1/4) of Section 27 (S27), Township 13 North (T13N), Range 3 West (R3W), Seward Meridian.

Parcel No. 16

All that portion south of University Drive of the North half (N 1/2) of the Southwest quarter (SW 1/4) of the Southeast quarter (SE 1/4) of the Northeast quarter (NE 1/4) of Section 28 (S28), Township 13 North (T13N), Range 3 West (R3W), Seward Meridian.

Parcel No. 17

All that portion south of University Drive of the Northwest quarter (NW 1/4) of the Southeast quarter (SE 1/4) of the Southeast quarter (SE 1/4) of the Northeast quarter (NE 1/4) of Section 28 (S28), Township 13 North (T13N), Range 3 West (R3W), Seward Meridian.

2. AMU agrees to transfer to UA all improvements on said real property. The buildings include the following:

- a. Gould Hall
- b. Grant Hall
- c. Campus Center Buildings
- d. Behavioral Science Building
- e. Faculty housing (9 units)
- f. Maintenance and storage buildings

3. UA agrees to pay the sum of \$20,000,000.00 for the above-listed real property and improvements. The terms of said payment shall be as follows:

- a. The sum of \$3,000,000.00 as a down payment. Said down payment shall be reduced by the sum of the obligations for salary at current AMU rates assumed by UA as a result of the termination by AMU of its faculty contracts due to the closure of AMU and the employment by UA of some or all of the AMU faculty. The exact sum of said obligation shall be determined prior to May 1, 1975, by the joint UA-AMU administrative task force subject to the approval of the Presidents of the two Universities and shall be limited to the salary obligations at current AMU rates for faculty actually employed by UA for the 1975-1976 school year.

b. UA shall assume AMU's rights and obligations under that certain Indenture dated October 1, 1972, between AMU and the First National Bank of Anchorage, as Trustee, and under that certain Indenture dated April 1, 1966, between AMU and the First National Bank of Anchorage, as Trustee. The said Indentures have a principal balance of \$2,721,000.00, of which principal balance the sum of \$100,000.00 is presently in arrears. The additional sum of \$250,000.00 is presently due and owing under said Indentures, which sum includes \$95,000.00 interest in accordance with the payment schedules under said Indentures, \$140,000.00 deficiency in the sinking fund provided for in said Indentures, and the sum of \$15,000.00 in miscellaneous interest and penalties under said Indentures. UA agrees to assume all of said principal, interest and penalty obligations and bring all arrearages current. It is understood by the parties that the concurrence of the Trustee and the bond holder under said Indentures will be required prior to the assumption by UA of AMU's obligations under said Indentures. The parties agree to jointly approach said Trustee and bond holder to secure their approval to the assumption. The purchase price set out hereinabove shall be reduced by the amount of the assumed indebtedness under said Indentures.

*What a push
the legislature*

3. The first installment of the down payment shall be due on or before April 1, 1975 and shall be the sum of \$1,000,000.00. The balance of said down payment shall be due on July 1, 1975.

4. AMU shall, in addition, sell to UA furniture, fixtures and other personal property for the additional sum of \$800,000.00. Schedules of said furniture, fixtures and other

personal property shall be prepared and affixed to this agreement as exhibits. The parties understand that certain personal property may be subject to restrictions in the applicable deed of gift and AMU may therefore be required to retain said property.

5. The balance due of the purchase price shall be paid in equal annual installments commencing on the 1st day of July, 1976, and continuing annually thereafter on the 1st day of July until the total purchase price, together with interest at the rate of 8.5% per annum on the unpaid balance, is paid in full.

TO high 10 (6 1/2%)

6. The unpaid balance due under the terms of this agreement shall be evidenced by a promissory note which shall be secured by an appropriate deed of trust on the real property and improvements transferred hereby and by an appropriate security agreement covering the personal property transferred hereby. The deed of trust and security agreement shall be superior to all other security interests in said real and personal property with the exception only of the Indentures described in paragraph 3(b) hereinabove. The deed of trust and security agreement shall provide for a minimum of six months within which any default under said deed of trust and security agreement may be cured by UA.

✓ 7. AMU shall retain its art collection and its Alaskan library.

8. AMU shall retain office space in Grant Hall. The office space retained shall be the southwest corner of Grant Hall from the present front counter to the west side of Grant Hall and from the south side of Grant Hall to the boiler room, (executive and business suite) together with three offices on the east side of the main hall on the first floor of Grant Hall, which offices presently contain the University Development Offices, Grants office and the institutional research office. AMU shall lease

all of said offices from UA for an annual rental of \$1.00 per year. AMU shall retain title to the furniture, fixtures and office equipment presently located in said offices.

9. UA agrees to hire the present AMU registrar on a permanent basis to maintain the AMU student records.

10. The parties through the negotiating committees, the Board of Regents and Board of Trustees respectively, and through the parties' legal counsel shall cooperate fully in securing approval of the sale by the Legislature of the State of Alaska and by the United States Department of the Interior. Both parties agree to use their best efforts to promptly secure the approval of both of said agencies.

11. The details regarding the implementation of the transfer of the property and improvements of AMU to UA shall be negotiated by the joint AMU/UA administrative task force subject to the approval of the Presidents of the two institutions. Any dispute which cannot be finally resolved between those groups shall be submitted to the sale negotiating committees appointed by the Regents and Trustees of the two universities. Any dispute which cannot be resolved through negotiations between that committee shall be submitted for arbitration by the parties under the rules of the American Arbitration Association. The results of said arbitration shall be binding upon the parties.

12. It is understood and agreed by the parties hereto that this agreement is a preliminary agreement intended to express the general understanding of the parties with regard to the terms of the sale and that this agreement may require amendment, modification or substitution at a later date.

DATED the day, month and year first written hereinabove.

UNIVERSITY OF ALASKA

By: _____

Its _____

ALASKA METHODIST UNIVERSITY

By: _____
Its _____

March 3, 1975

TO: Alaska Methodist University Trustees' Committee

FROM: University of Alaska Board of Regents

RE: Responses to AMU Trustees' Draft Memorandum of Agreement
Concerning the Sale of the AMU Campus, Buildings, Furniture and
Fixtures

The Board of Regents met on Friday, 28 February to review and respond to the draft Memorandum of Agreement (MOA) concerning the sale of the AMU campus, buildings and certain personal property at Anchorage submitted by the Reverend Ac C. Wischmeier to Mr. Robert McFarland, President of the Board of Regents of the University of Alaska.

The Board concurred on certain important basic approaches with respect to this transaction which provided direction for specific responses to points made in the draft MOA. These are herewith noted and form a preamble to the specific responses detailed later.

The transactions between Alaska Methodist University and the University of Alaska being entered into now differ fundamentally from those resulting in the purchase of AMU lands in 1972. The 1972 land purchase was the most convenient vehicle available to the State of Alaska for providing major substantive financial aid to AMU for the express purpose of maintaining AMU as a viable institution so that it might continue to provide Alaskans seeking post-high school education a choice between public and private educational delivery systems. Because of this objective, the land involved was priced and acquired at near or at its "fair market value" without patent restrictions.

The current transaction is not involved with the maintenance of AMU as an institutional alternative to public higher education in Alaska, but rather one which will enable AMU to close its operations, pay its incurred debts and ostensibly establish an organization with any remaining funds, the nature of which is yet unknown but which will in some manner benefit higher education in Alaska. The resulting organization, presumably will be eleemosynary.

The AMU campus lands are dedicated in perpetuity for educational, recreational or health purposes. They were given to AMU without fee for educational purposes. Thus, although the appraisers had no choice but to value the lands on the basis of current commercial transactions in the vicinity and to assume that there was no restriction on the title, the Regents feel that a [token] payment should be negotiated for said lands.

*

March 3, 1975

Alaska Methodist University Trustees' Committee/ University of Alaska Board of Regents
..2-

The Regents wish to make clear to the AMU Trustees that the amount and schedule of payments are the prerogative of the Legislature and the Governor. To effect this transaction in the most expeditious and timely manner the Regents and the Trustees should present to these State governmental bodies an agreed program fully and jointly supported. The President of the Board of Regents, Mr. McFarland, invites your Trustees' Committee to meet with the Regents' Committee at the earliest date possible following receipt of this response to the draft MOA.

Herewith are the specific responses to the numbered points set forth in the draft MOA.

1. The Regents are willing to negotiate an excepted parcel of land for AMU use, but not necessarily the parcels specified in the draft MOA. An explanation of uses to be made of the property and choices of location can be presented for resolution at the joint negotiating Committee meeting.
2. Acceptable.
3. The Regents are agreeable to negotiating a total sum for the campus and buildings based upon (1) a fair appraisal of the buildings which has taken into consideration their deferred maintenance; (2) a fair appraisal of furniture, fixtures and other personal property; and (3) a sum which is based upon a token payment for land dedicated to educational use.
 - 3a. Acceptable, depending upon legislative appropriation.
 - 3b. Acceptable dependent upon the Regents' negotiations with HUD concerning the now delinquent sums. Should the Regents be unable to negotiate any or all of these delinquent sums with HUD, such sums would have to be deducted from the specified down payment of \$3,000,000.
 - 3c. Acceptable, but subject to legislative approval.
4. Acceptable in principle. The Regents' appraiser has not considered these items, but will do so when a schedule of said items is prepared.

- 5. Schedule of payments will depend upon legislative approval. Because an eleemosynary organization is contemplated with the sale's net proceeds, the Regents believe a prime rate of interest improper, and will agree instead to a rate of 5 per cent subject to legislative approval.
- 6. Acceptable.
- 7. Acceptable providing the Alaskan library is not part of the Consortium Library collection already purchased and owned by the University of Alaska.
- 8. Retention of office space specified in Grant Hall is not acceptable. Should furniture, fixtures and office equipment presently located in such offices not be involved in the sale, the schedule of appraisals should clearly omit it.

The Regents would consider the rental of space to the AMU successor organization in locations and under conditions agreeable to the Administration of the University of Alaska.

- 9. This proviso is not acceptable for inclusion in this MOA. The joint Administrations are now planning for the transfer of selected personnel, programs and other important aspects, such as student records, from AMU to the University of Alaska. This matter will be included in that transaction.

- 10. Acceptable.

- 11. With the deletion of the last two sentences referring to "arbitration," this point is acceptable.

- 11a. (Board of Regents' statement re litigation) AMU will hold UA harmless for any litigation or liability arising in relation to the operation of AMU or arising prior to the transfer of possession of the premises to UA.

- 12. Acceptable.

Handwritten notes:
 Are they...
 separating...
 students + teachers...
 from the...
 Board...
 they (adm.)...
 budget...
 pages

Handwritten signature:
 Robert W. Shatt

Robert W. Shatt
 Executive Officer of the Board of Regents

DIRKSEN APPRAISAL COMPANY

PAUL P. DIRKSEN, S.R.A.-R.M.

531 West Third Avenue, Anchorage, Alaska 99501

(907) 277-8675

December 31, 1974

RECEIVED
OFFICE OF PLANNING &
INSTITUTIONAL STUDIES

DIST. JAN 3 1975 LCC # 2
DCM PAH JLO

Dr. Donald C. Moyer
Director of Planning
University of Alaska
Fairbanks, Alaska 99701

Re: Appraisal of Alaska Methodist University

Dear Dr. Moyer:

As requested, I have made an inspection and preliminary analysis of the value of land and buildings owned by Alaska Methodist University. The land is described as follows:

- The NW $\frac{1}{4}$ Section 27 EXCEPT The NE $\frac{1}{4}$ NE $\frac{1}{4}$ NW $\frac{1}{4}$ Section 27;
- The N $\frac{1}{2}$ SW $\frac{1}{4}$ Section 27;
- The NE $\frac{1}{4}$ SE $\frac{1}{4}$ Section 28;
- The SE $\frac{1}{4}$ NE $\frac{1}{4}$ Section 27 lying South of University Drive;
- The E $\frac{1}{2}$ E $\frac{1}{2}$ SE $\frac{1}{4}$ NE $\frac{1}{4}$ Section 27 lying North of University Drive;
- The SW $\frac{1}{4}$ SE $\frac{1}{4}$ SE $\frac{1}{4}$ NE $\frac{1}{4}$ North of University Drive.

The gross area is approximately 292.69 acres.

Alaska Methodist University proposes to sell this property to the University of Alaska. The purpose of this preliminary estimate is to ascertain a fair price to be paid for the real estate. While the final appraised value may vary somewhat from this preliminary estimate, it should not be significantly different.

In my opinion, the Market Value of the Alaska Methodist University real estate as of December 27, 1974 is:

NINETEEN MILLION, TWO HUNDRED THOUSAND

(\$19,200,000)

See p. 6 for
restriction on release
of this info. to public media!

Allocation:

<u>Improvements</u>	<u>Present Value</u>
(1) Underground Utilities	\$ 277,186
(2) Parking	69,027
(3) Student Union	5,663,886
(4) Grant Hall	3,654,509
(5) Gould Hall	1,409,600
(6) Behavioral Sciences	31,159
(7) Shop Garage	52,029
(8) Ski Jump	67,900
(9) Carillon	72,750
(10) Tennis Courts	28,384
(11) Hockey Rink	24,302
(12) Landscaping	158,586
(13) Faculty Residences (including land)	652,500
Total Improvements	<u>\$12,161,818</u>
Land	<u>7,000,000</u>
TOTAL VALUE ALASKA METHODIST UNIVERSITY REAL ESTATE	\$19,161,818
(rounded)	<u><u>\$19,200,000</u></u>

Methodology:

The subject is a special purpose property. The standard method of appraising special purpose properties is to value the improvements based on cost new less depreciation then add the land. Depreciation must include all forms including

physical deterioration, functional obsolescence and economic obsolescence when these elements are present.

The land is zoned PLI, Public Lands and Institutions District, by the Greater Anchorage Area Borough. This district is intended to include major open lands, major public and quasi public institutional uses. The standard method in appraising land in this type of zoning is to substitute the highest and best use of the land as if it were in the private sector. This is because parks and institutional lands very seldom transfer on a Market Value basis. The highest and best alternate use for this land would be for a PUD, which includes condominiums, apartments, a small amount of offices and commercial and possibly some single family residences. The subject land has been valued on this basis.

There is a restrictive covenant in the patent from the Bureau of Land Management to Alaska Methodist University which restricts the use of this land to school purposes. The sale agreement between Alaska Methodist University and the University of Alaska for 197 acres of adjacent land in 1972 also contained a restriction on the remaining Alaska Methodist University land to school purposes. ~~The land value in this preliminary estimate has not been penalized because of the restrictions placed on the land.~~ Prior to completion of the final appraisal, I would like to have an opportunity to discuss the impact of these restrictions with counsel.

[The land has been appraised with the streets in place. That is to say, land is more valuable with street frontage than land without street access. Therefore, although the streets are privately owned and maintained, the value of those streets is included in the land value.] Near the South end of the property is a ~~25 acre lake~~ which was created by mining of the gravel resources previously located thereon. Assuming that Chester Creek, which flows nearby, could be diverted in and out of the lake to fill it and freshen it, the lake is an asset to the land. The ~~25 acre lake~~ area has been deducted from the total land area for purposes of calculation of land value. However, the 58.4 acres surrounding the lake have been valued at a higher unit value than the rest of the land.)

The faculty residences have been valued on a comparative basis rather than cost less depreciation. This method includes the land on which a residence is located. Typical lot size for residences of this size is 16,000 square feet each, which would result in 3.31 acres being utilized for faculty housing.

Dr. Donald C. Moyer
December 31, 1974
Page 4

This land value is included with the value of the faculty housing and was, therefore, deducted from the land area which was valued on an acreage basis.

Land Values:

58.4 Acres @ \$35,000/Acre	=	\$2,044,000
192.18 Acres @ \$25,000/Acre	=	4,804,500
<u>13.8 Acres @ \$15,000/Acre</u>	=	<u>207,000</u>
264.38 Acres	TOTAL	\$7,055,500
25 Acre Lake		
3.31 Acres with Faculty Housing		
	(rounded)	<u>\$7,000,000</u>

As requested, the above presentation has been abbreviated with the supporting evidence retained in the appraiser's files. The final appraisal, when requested, will contain the back-up evidence for land value, cost of reproduction estimates and the comparable sales utilized in valuing the faculty housing.

The land areas utilized are approximate. No survey was made, and there is no warranty as to land area.

We acknowledge assistance of Terry Gorsuch, Cost Estimator, and Fred Ferrara, Appraiser, in this report.

We wish to thank you for this opportunity to be of service.

Sincerely,
DIRKSEN APPRAISAL COMPANY

Paul P. Dirksen

Paul P. Dirksen

PPD/sm

Attachments (5)

*Is this guy
Wor. Dep. Comm. for Public Works -
Council who goes to Committee*

Report to P. 1

Dr. Moyer

THE FOLLOWING DOCUMENT(S) MAY NOT FILM
LEGIBLY BECAUSE OF POOR QUALITY OF THE
ORIGINAL.



SWAMP

S

AND

CLAY

ROAD

TRAIL

Providence
Heaps

361

EAST HIGH

TRAIL

TRAIL

TRAIL

AND

THE PRECEDING DOCUMENT(S) MAY NOT FILM
LEGIBLY BECAUSE OF POOR QUALITY OF THE
ORIGINAL.

ASSUMPTIONS AND LIMITING CONDITIONS

1. No legal questions are considered in this analysis, such as titles, encumbrances, etc.. The property is considered as if free and clear.
2. All dimensions and legal descriptions are assumed to be correct, as furnished.
3. All information, as found in data furnished, is deemed to be reliable. If any errors are found, the right is reserved to modify the conclusions reached.
4. No study has been made to determine whether structures may have an infestation, such as termites or dry rot. In the absence of such study, it is assumed the property is free of such problems.
5. While various "approaches to value" and various mathematical calculations have been used in estimating value, these are but aids to the formulation of the opinion of value expressed by the appraiser in this report. In these calculations, certain arithmetical figures are rounded off to the nearest significant amount.
6. The data and conclusions embodied in this appraisal are a part of the whole valuation. No part of this appraisal is to be used out of context; and, by itself alone, no part of this appraisal is necessarily correct, as being only part of the evidence upon which final judgment as to value is based.
7. Employment to make this appraisal does not require testimony in court, unless mutually satisfactory arrangements are made in advance.
8. This appraisal is made in accordance with the standards of the American Institute of Real Estate Appraisers.
9. Fair Market Value is defined as "the price it (the real estate) will bring between a willing buyer and a willing seller, with equity to both.
10. This report is delivered subject to the stipulation that neither all nor any part of the contents shall be conveyed to the public media through advertising, public relations, news, sales or any other media without the written consent and approval of the author, particularly as to valuation conclusions, the identity of the appraiser, his firm, or any reference to the American Institute of Real Estate Appraisers.

CERTIFICATION:

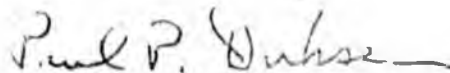
The undersigned does hereby certify that, except as otherwise noted in this appraisal report:

1. I have no present or contemplated future interest in the real estate that is the subject of this appraisal report.
2. I have no personal interest or bias with respect to the subject matter of this appraisal report or the parties involved.
3. To the best of my knowledge and belief the statements of fact contained in this appraisal report, upon which the analyses, opinions and conclusions expressed herein are based, are true and correct.
4. This appraisal report sets forth all of the limiting conditions affecting the analyses, opinions and conclusions contained in this report.
5. This appraisal report has been made in conformity with and is subject to the requirements of the Code of Professional Ethics and Standards of Professional Conduct of the American Institute of Real Estate Appraisers of the National Association of Real Estate Boards.
6. No one other than the undersigned prepared the analyses, conclusions and opinions concerning real estate that are set forth in this appraisal report.

RESTRICTION UPON DISCLOSURE & USE:

Disclosure of the contents of this appraisal report is governed by the By-Laws and Regulations of the American Institute of Real Estate Appraisers of the National Association of Real Estate Boards.

Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraiser or the firm with which he is connected, or any reference to the American Institute of Real Estate Appraisers or to the M.A.I. or R.M. designation) shall be disseminated to the public through advertising media, public relations media, news media, sales media or any other public means of communication without the prior written consent and approval of the undersigned.



Paul P. Dirksen, S.R.A. - R.M.

QUALIFICATIONS OF PAUL P. DIRKSEN, S.R.A., R.M.

PROFESSIONAL AFFILIATIONS:

Society of Real Estate Appraisers, Designation - S.R.A.
President, Anchorage Chapter #158, 1974-75
American Institute of Real Estate Appraisers, Designation - R.M.
American Right of Way Association
Anchorage Board of Realtors

EDUCATION:

Miami University, B.S., 1957, Oxford, Ohio
AIREA Appraisal Course I, Milwaukee, Wis., 1958
AIREA Appraisal Course II, University of Pacific, 1963
AIREA Appraisal Course IV, University of San Francisco, 1964
University of California, 1962 - 1964

BUSINESS EXPERIENCE:

Dirksen Appraisal Company, Anchorage
Alaska Department of Highways,
State Supervising Appraiser
Alaska Attorney General's Office,
Special Consultant on cases related to eminent domain
Savings & Loan Commissioner's Office,
Appraiser Class IV (California)
Lloyd Thomas Company, Chicago, Ill.
American Appraisal Company, Milwaukee, Wis.

COURT EXPERIENCE:

Qualified as Expert Witness in various Superior Courts

TYPICAL CLIENTELE:

Alaska Department of Highways
Alaska State Housing Authority
Greater Anchorage Area Borough
Alaska Department of Public Works,
Division of Aviation and Division of Buildings
University of Alaska
City of Anchorage
City of Fairbanks
City of Juneau
U.S. Coast Guard
Washington Highway Commission
San Francisco Bay Area Rapid Transit District
Various Urban Renewal Agencies
Private property owners and attorneys

ANCH

AIRPORT

HRRINGS

STATE OF ALASKA

JAY S. HAMMOND, Governor

DEPARTMENT OF PUBLIC WORKS

OFFICE OF THE COMMISSIONER

POUCH Z-JUNEAU 99801

File

April 4, 1975

*Receipt 3:55 PM
4/4/75*

BB

The Honorable Bob Bradley
House of Representatives
Chairman, Commerce Committee
Pouch V
Juneau, Alaska 99811

Dear Representative Bradley:

In accordance with your April 3, 1975, request, enclosed under separate cover are seven copies of all known information pertaining to the Anchorage International Airport Satellite Building Project, with the exception of the transcripts of the meetings held March 6 with air carriers.

Sincerely,

Donald Harris

Donald Harris
Commissioner

Enclosures

Airport Hearing

Telegrams sent to:

Jack Peck, Director Division of Aviation
4510 International Airport Road, Anchorage

Richard Jensen, Airport Manager
Anchorage International Airport, Anchorage

Anchorage Chamber of Commerce

Anchorage Airport Affairs Committee
Anchorage International Airport, Anchorage

Heinz Hoonan, Division of Aviation
4510 International Airport Road, Anchorage

Letters sent to:

Commissioner Donald Harris, Dept. of Public Works

Commissioner Sterling Gallagher, Dept. of Revenue

More telegrams sent to:

Air France
British Airways
Japan Airlines
KLM Royal Dutch Airlines
Lufthansa German Airlines
Sabena Belgian World Airlines

Anchorage
- International
Airport

Northwest Design
839 W Northern Lights Blvd., Anchorage

Eric Wohlforth
645 G Street, Anchorage, Alaska

April 3, 1975

Commissioner Donald Harris
Department of Public Works
Pouch Z
Juneau, Alaska 99811

Dear Commissioner Harris:

Pursuant to the Speaker of the House's charge that the House Commerce Committee investigate the circumstances surrounding the intended cancellation of the Anchorage Airport International Air Carriers Construction Project, I am formally requesting copies of all material related to the project. Let me clarify the above.

1. All means all, not part.
2. Material means written, voice recorded, and arithmetical calculations.
3. Copies means reproductions. (Seven sets of copies please, for the seven members on the committee).

I respectfully request that the above be fully and factually presented to the office of the House Commerce Committee no later than the close of business April 4, 1975. This deadline is required to allow reasonable review time for committee members prior to commencement of formal hearings on the subject.

Commissioner Donald Harris
April 3, 1975
Page 2

Your cooperation in this matter will be appreciated.

Very truly yours,

Bob Bradley

BB/cc



Alaska Communications

NL 50

Telegram

Overnight or Letter Telegram Personal Opinion Message Press (Full Rate unless marked.) This telegram will be transmitted by cable, radio, or satellite, and is accepted subject to the tariff rates, rules, and regulations of RCA Alaska Communications, Inc. on file with the FCC and the Alaska PUC. Liability is limited to \$500 except for repeated or specially valued service which is available upon request.

Sender's Name and Address HOUSE COMMERCE COMMITTEE

Account Number 415-3324

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British Airways
Japan Airlines
KLM Royal Dutch Airlines
Lufthansa German Airlines
Sabena Belgian World Airlines

Anchorage
International
Airport

Northwest Duxco
ST W Northwest flights 3rd Anchorage

see Wichita
645 0 ST Anchorage

The House Commerce Committee is holding hearing Monday April 7th at 8:00 AM in connection of Anchorage airport terminal. Please attend

Bob Durdley, Chairman

BOB BRADLEY

state house



CHAIRMAN, COMMERCE COMMITTEE
POUCH V
JUNEAU, ALASKA 99811
465-3824

VICE CHAIRMAN, JUDICIARY
601 N. BRAGAW
ANCHORAGE, ALASKA 99504
272-0275

April 2, 1975

Commissioner Gallagher
Dept. of Revenue
Juneau, Alaska

Dear Commissioner Gallagher,

The House Commerce Committee has been charged with investigating the cancellation of construction of the airport terminal in Anchorage.

The committee will be holding hearings beginning April 7 at 8:00 a.m. You are requested to attend.

Sincerely,

B. Bradley
Bob Bradley

BB/mr

BOB BRADLEY

state house



CHAIRMAN, COMMERCE COMMITTEE
POUCH V
JUNEAU, ALASKA 99811
465-3824

VICE CHAIRMAN, JUDICIARY
601 N. BRAGAW
ANCHORAGE, ALASKA 99504
272-0275

April 2, 1975

Commissioner Harris
Dept. of Public Works
Juneau, Alaska

Dear Commissioner Harris,

The House Commerce Committee has been charged with investigating the cancellation of construction of the airport terminal in Anchorage.

The committee will be holding hearings beginning April 7 at 8:00 a.m. You are requested to attend.

Sincerely,

B. Bradley
Bob Bradley

BB/mr

HB 311

J. RHODE

Airport
file

STATE OF ALASKA

JAY S. HAMMOND, Governor

DEPARTMENT OF PUBLIC WORKS

OFFICE OF THE COMMISSIONER

POUCH Z--JUNEAU 99801

March 27, 1975

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

Dear Representative Malone:

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

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

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

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

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

The Honorable Hugh Malone

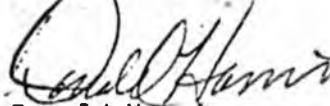
-2-

March 27, 1975

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

Your consideration in passage of this bill will be appreciated.

Sincerely,



Donald Harris
Commissioner

Attachments: 3 copies correspondence

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

H.B. 311
MEMORANDUM

J. RHODE
State of Alaska

TO: Donald Harris
Commissioner
Dept. of Public Works

DATE: March 24, 1975

FILE NO:

TELEPHONE NO:

FROM: AVRUM M. GROSS
ATTORNEY GENERAL

SUBJECT: Pending Legislation concerning
\$10,600 State of Alaska Inter-
national Airports Revenue Bonds
Series E.

BY: Dickerson Regan
Assistant Attorney General

Transmitted to you is the opinion of Eric E. Wohlforth,
the state's counsel on bond matters.

As you know, in this specialized field the state relies
on interpretations of its bond counsel. Accordingly, Mr. Wohlforth's
legal opinion is adopted as the opinion of this office.

DR:jw

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

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

TELEPHONE
AREA CODE 907
274-2519
272-9489

March 21, 1975

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

RECEIVED
Department of Law

MAR 24 1975

AM
7 8 9 10 11 12 1 2 3 4 5 6
PM

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

Dear Attorney General:

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

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

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

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

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

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

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

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

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

Very truly yours,

WOHLFORTH & FLINT

By Eric E. Wohlforth
Eric E. Wohlforth

EEW/am

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Date: March 17, 1975

SCHEDULE "A"

SUMMARY SHEET

CAPITAL IMPROVEMENT PROGRAM

F.Y. 1975 - 1980

(Contemplated changes)

<u>PRIORITY</u>	<u>CHANGES</u>
76-1	Eliminate
76-3	Eliminate
76-8	Eliminate
76-12	Reduce by \$252,000
77-3	Eliminate
77-4	Eliminate
77-5	Hold for re-evaluation
77-6	Hold for re-evaluation
77-11	Hold for re-evaluation
77-12	Hold for re-evaluation
77-14	Hold for re-evaluation
78-2	Hold for re-evaluation
78-6	Eliminate
78-7	Department upon N/S Runway
78-10	Hold for re-evaluation
79-1	Hold for re-evaluation
79-2	Hold for re-evaluation
79-3	Hold for re-evaluation
80-1	Hold for re-evaluation
80-3	Eliminate
80-4	Hold for re-evaluation
80-5	Hold for re-evaluation
80-6	Hold for re-evaluation
80-8	Eliminate

April 3, 1975

Commissioner Donald Harris
Department of Public Works
Pouch Z
Juneau, Alaska 99811

Dear Commissioner Harris:

Pursuant to the Speaker of the House's charge that the House Commerce Committee investigate the circumstances surrounding the intended cancellation of the Anchorage Airport International Air Carriers Construction Project, I am formally requesting copies of all material related to the project. Let me clarify the above.

1. All means all, not part.
2. Material means written, voice recorded, and arithmetical calculations.
3. Copies means reproductions. (Seven sets of copies please, for the seven members on the committee).

I respectfully request that the above be fully and factually presented to the office of the House Commerce Committee no later than the close of business April 4, 1975. This deadline is required to allow reasonable review time for committee members prior to commencement of formal hearings on the subject.

Your cooperation in this matter will be appreciated.

Very truly yours,

Bob Bradley

BB/cc

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HOUSE COMMERCE COMMITTEE WILL HOLD HEARING ON CANCELLATION
OF TERMINAL CONSTRUCTION APRIL 7TH, MONDAY 8:00 A.M.

PLEASE ATTEND IF POSSIBLE.

BOB BRADLEY CHAIRMAN

HOUSE COMMERCE COMMITTEE

Hearing on Anchorage Airport

Bradley- I'll start off with a few opening remarks. The House Commerce Committee has been requested by the Speaker of the House to investigate the proposed cancellation of construction of additional facilities at the Anchorage International Airport. In our capacity we have made the attempt to include all the interested parties and have requested all relevant data and have tried to review such. I think at this time we will ask Commissioner Harris and individuals who are down here from the Division of Aviation to start off this morning to give us a historical overview and hopefully there'll be members from the bond committee that we can request testimony and we'll make sure industry has the chance to say all they want to, and anyone else. Commissioner, can you lead off and tell us what we're here for.

Commissioner Harris- Mr. Chairman and Committee member, when first coming into the office of Commissioner, on about the 7th of December the Director of Aviation indicated to me that the plans were ready to go forth on the construction of an international satellite building at Anchorage International Airport, and that if we did not proceed we would lose the, or if we did not pick up a building permit by the first of February we would lose much of the value of the design because of a change of the building code in the Anchorage Borough, and based on other information I had that they had gone to bid with this project previously, due to a feeling of uncertainty in the bond market, I consulted with the new people in this administration. They advised that it should probably go to bond on the bond market and sell the bonds, and so we proceeded on that basis and advertized the job for bids. The bond committee went on the market for the sale of the bonds, the sale of the bonds came in at about 7.5 percent, subsequently we opened the bids on the Anchorage terminal and during this interval of time, I should say that we had begun a review of a number of things in regard to international airports. In this review we contacted all of the air carriers and asked them to have meetings with us in regard to the proposed Capital Improvement Program for upcoming years. We began to get reactions from the air carriers to the proposed rates on the statement put out for the issuance of revenue bonds. We proceeded on and opened the bids for construction of that facility, the bids came in at a quite favorable rate but in the first open meeting that we had with the air carriers I might say

all the users of the airport other than Japan Airlines and Duty-free Shoppers indicated that they didn't want to go into a new rate structure at this time because of the economic situation they were looking at the cost of factors they'd been experiencing over the past year and a half namely the prime thing was the quadrupling of fuel costs in approximately that period of time. The international air carriers were particularly distressed and it's my understanding they have lost, those carriers that use Anchorage International Airport, and their overall operations have lost, between half a billion and a billion dollars in the previous years time and that along with the balance of payments that their national interests were experiencing it was a very decisive factor in their determination to reduce costs in any way that they could and they all asked that we not proceed with this facility at this time, they said that they'd be willing to work together in rearranging space in the existing facilities of the airport until such time as they had the economic factors within their own business operation better adjusted so that they could take on some rate increases. That's essentially what they said, they all expressed a desire for having such a facility I might say, they never, I haven't seen any indication that they didn't think a facility such as that was desirable from any of them. But everyone is looking at increasing cost factors to a magnitude that they seem to have a hard time adjusting rates to keep ahead of the costs. In another meeting on the 16th of March, Japan Airlines, who originally ...

Bradley- This first meeting you referred to as the first open meeting, was this the latter part of February?

Harris- Yes, it was in February. At the March meeting there were the property people from nearly every carrier that uses Anchorage International Airport and it is without exception now this time. Japan Airlines had reversed their position, originally they had continued to favor the building of such a facility. They came in on the March 6th meeting and had reversed their position. They'd indicated from the outset that they had wanted the use of four gates, approximately half of that facility, and when they had come in and reversed their position, we then had only the duty-free shoppers that indicated they would still like to go ahead with construction. Their prime reason was that they wanted more space for their marketing area in connection with the airline business. At that point in time I decided to deal with their request and other factors that were indicated, as a result of this look is a view that we obtained from the situation that we should probably hold off construction of this facility to a future time, revise our Capital Improvement Program for Anchorage and Fairbanks International Airports we feel

till such time as the economics for the user group will change. One of the major considerations in my mind is the fact that Japan Airlines had in the February meeting said that they would have 80 flights per week to Anchorage. In the March meeting they came and said no, we're only going to have 70 flights per week to Anchorage, they knocked 10 flights in that interval of time. They also indicated in the previous meeting that they planned to use Vancouver, B.C. as a diversion point rather than Anchorage. Well, 10 flights a week means between \$8,500 and \$10,000 per week in earnings to the Anchorage International Airport. This is a very decisive indication that the airlines, with equipment available to them at this time, have new options available to them in their routing. They can go directly to the West Coast. This of course is another consideration of what we should do with the airport at this time. We can see if there are other carriers that choose to exercise that option, that as the earnings for the airport drop off the international carriers, the domestic carriers are going to have to experience increased rates to pay for the existing outstanding bonds, and this I considered very undesirable and chose not to do. I choose at this time not to be faced with that situation, I would like to keep the Anchorage International Airport at this time in the most competitive position possible. I find that by raising the rates only to cover the increased costs that we've experienced is the best posture we can maintain. That's essentially what I have Mr. Chairman. I'll answer any questions you may have.

Bradley- Commissioner, are you aware that industry in the past several years have been meeting in open meetings regarding this construction?

Harris- Yes, I certainly am.

Bradley- Even to the tune of forty or fifty people, which is a sizable input?

Harris- Yes, that's true, there were at least 3 previous meetings that I am aware of, as well as technical groups that really weren't recorded, they were meeting with representatives of various groups giving their song and dance trying to give aid in figuring the building that came out in the design.

Bradley- Are you aware from any of these meetings whether industry was stating from a historic note several years ago that in fact they didn't want this built.

Harris- There were some of the industry people who indicated

from the outset that they didn't desire the building. At the time we made the decision to proceed into it, I personally wasn't aware of that fact, I was only made aware of it at a late time, I became aware of all of the meetings that had take place. At the time I made the decision to go into this, I wasn't aware of all the factors involved.

Bradley- Commissioner, we talked about re-routing, because of new aircrafts that can overfly Anchorage and touch down on the West Coast information shows you can go as far as Los Angelos. With that in mind might they just not do this anyway? Whether we build this facility anyway? Historically, they've stopped in Anchorage for fuel. We want to remember our rates haven't been increased since '61, is that correct?

Harris- No, it's not, there were rate changes subsequent to that, there were rate changes at the time the existing terminal was built.

Bradley- Do you know the amount of increases vis-a-vis 1961?

Harris- No, I do not.

Bradley- Do you think that whether we build this building or not that Anchorage International Airport is somewhat in jeopardy of flyover?

Harris- I think that the airlines will be looking at anything they can do to reduce their costs and if they have that option without the penalty of loss of load being too high, I think that they'll take the shortest route and go directly on to the West Coast. They may excercise that option. I think that's essentially what JAL told us when they told us they were reducing their flights from 70 to 80, they were excercising that kind of option.

Bradley- Any questions of the committee? Mr. Wallis.

Wallis- Commissioner, what was the engineer's estimate on the project?

Harris- The estimate on the project originally came in at about 11 million dollars, the estimate we had when we went into the project, the bid was 8.17.

Wallis- What was the high bis?

Harris- I think the high bid was in the neighborhood of 11.3 or 11.4.

Wallis- How many bidders bid on the project?

Harris- Eight;

Wallis- So there was a range of 3 million dollars with 8 bidders. Do you see any possibilities of a contractor suit?

Harris- No, I don't feel that there will be. We have no indication at all that there will be.

Wallis- Who was the low bidder?

Harris- Lease Company.

Wallis- Are they local?

Harris- They have an office in Anchorage, their home office is in Seattle.

Wallis- Do you have an estimate on what the engineering design cost was?

Harris- The design costs were in the neighborhood of \$580,000.

Wallis- Do you know how much it cost to put the whole package together, what did your bid cost?

Harris- Well, we haven't any figures broken out on the in-house cost or the amount of input from the Division of Aviation, the total costs involved it appears are between 775,000 & 800,000 dollars, that's for the costs of design and all of the costs involved in the issuance of the sale of the bonds.

Wallis- Have you been in contact with the Lease Company?

Harris- Yes, the Division of Buildings has been in contact with the Lease Company.

Wallis- And what are their feelings on this?

Harris- The Lease Company, we've notified them that the bids were going to be rejected, all bids would be rejected.

Wallis- Will there be any attempt to reimburse them for their bid costs etc.?

Harris- They haven't asked for that, originally we had thought to hold them to their bid for an additional 30 days and they came back and responded that they would hold to their bid a week past the original schedule without any additional costs to the state and on the cost that day of that indicated extension the Lease Company, we, made the decision to reject bids and we so notified them.

Bradley- Commissioner, Howard Lease, though it's a Seattle firm, is located in South Muldoon in Anchorage, is that right?

Harris- Yes, they have a long working experience in the Anchorage area and in Alaska.

Bradley- What I'm getting at is they are located in Anchorage, have a real sizable operation there, in fact they've been doing some real big projects for the U of A, is that correct? Yes, that's probably their biggest job going on in town or is it?

Harris- I can't tell you, I know that they did the original Penneys Garage and I know that they've been there since that time and done a great amount of work in Anchorage.

Bradley- Commissioner, I see Heinz nodding his head that I guess the U of A projects are their biggest ones. The reason for bringing this up is it appears they've had substantial economic intercourses with the state, and Mr. Wallis seems to indicate that it's sort of I guess standard operating procedure to try and get something out of this. It might be sort of unusual if they didn't sort of growl and say, well, we're gonna contact our attorney and we'll see you in court, because we're going to lose X amount of dollars over this and of course you guys asked us for the bid, then when we signed all the papers you come back and say we can't make this profit that we had plugged in. There's been no real part on the state to say look, be understanding with us at this point because in fact you've been involved in a number of Capital Improvement Programs with us in the past, and in fact we've liked your style, so why not let us off the hook. You know what I'm getting at?

Harris- Yes, there's been no attempt on the part of the Department of Public Works to approach the contractor in that manner, not at all, nothing except the notification. First we asked them to extend the award time period, they said well they came back and said how long do you want to extend it and we said ideally 30 days. They said if you want thirty days then we think we should bid, well you should pay for our bidding costs at least if you do decide to reject what, well you should at least be paying for our bidding costs, and perhaps some inflation factor for that period of time. The Director of the Division of Buildings in the course of his communication asked them all if they would consider it, a lesser period and they said well they would consider allowing us an additional week without payint any cost considerations involved. That as I previously told you is the option we chose.

Bradley- Thank you Commissioner, Mr. Wallis.

Wallis- What were the domestic carriers versus the international carriers, what's their difference in opinion?

Harris- The fees levied are the same rate for all carriers, the fee schedule that was written up for the official statement for the sale of the bonds, the schedule that was proposed by the Division of Aviation would have put about 70% of the burden of the increase in rates upon the domestic carriers, and of course this wasn't favored by the domestic carriers. Subsequent to that we went in and bid some work in relation to rates and soon we'd come up with proposed changes in the method of rates that we indicated we would impose, and we had planned to impose a rate schedule that would have effectively increased the rates on fuel flowage which would have had the effect to put in approximately 67% of the rate increase on the international carriers.

Wallis- Under the new rate we have the domestic carriers picking up 70% of the fees, what is it now?

Harris- At the present time I think I'd refer to Heinz Noonan on that, I don't have that in mind Mr. Wallis.

Noonan- You mean in terms of the total picture?

Wallis- Yes, we have under the new rate increase where the domestic carriers would pick up 70% of the fees and the international carriers 30%. What was it at the old rate or existing rate?

Noonan- At the present or existing rate now? We levy at 3/10 of a cent fuel increase and it's effective April first, and again the burden of that 3/10 of a cent, 62/2% falls on the foreign carriers, 11.8 falls on the U.S. international carriers and 26% falls on the domestic air carriers. If you shift the burden and increase the landing fee, it has the exact opposite effect. The heavy burden of 65% would fall on the domestic carriers and 24% on the foreign carriers and 11% on the U.S. international carriers.

Wallis- Are all the internationals using bonded fuel?

Noonan- The way the fuel prices are at the present time there really isn't much difference of costs.

Bradley- Commissioner, you have currently under your employ a guy by the name of Peck, Jack Peck. What is he, with the Division of Aviation?

Harris- Director of the Division of Aviation, yes.

Bradley- Not to pose a leading question, but he's a knowledgeable guy isn't he?

Harris- Well, Jack Peck has been associated with the airline industry in Alaska for 39 years, he was the International Airport manager for a period of time before he went into the position he now holds.

Bradley- The reason why I'm asking this is, in a conversation he had on February 10, 1975 he says there hasn't been any landing fee increases for 15 or 17 years.

Harris- I think that on landing fee increases that might be true but with that there was imposed a 2¢ fuel flowage fee and the time the time the new satellite building was built. That could be true in the case of the landing fee.

Bradley- This landing fee, is that the biggest fee that the airlines,

Noonan- fuel fees, fuel flowage fees

Bradley- because of volume?

Noonan- Yes sir.

Bradley- And then number two would be the landing fees?

Noonan- That's right, then would come the concession fees and terminal building rental fees.

Bradley- So it's only because the uniqueness of the oil crisis that it's an international crisis that the fuel flowage fee has gotten really out of hand with fuel gone up three times.

Harris- I think it's four

Bradley- Then four, really it's increased price to the airlines. Is there any more questions, Mr. Union.

Union- Don, when was this project first conceived of?

Harris- Approximately three years ago discussions were begun with the air carriers with the Division of Aviation in regard to the planning of such a facility. It could have been something going on previously to that that I'm not aware of.

union- When was it approved or bond issues approved to go ahead with the project?

Harris- It was approved in January of this year to proceed with the issuance of bonds and to put the project up to bid.

Union- You You had the engineering done prior to this? You had planned for something?

Harris- Yes

Urion- When was the engineering done?

Harris- I'm not sure of that, Heinz are you?

Noonan- The engineering was done about roughly 6 to 9 months previous to that done by Northwest Architects and Associates and there was a previous study done by the Division of aviation before it was turned over to the engineering design firm.

Urion- During that or sometime during that time period, or let me ask the question, were the air carriers always opposed to the project?

Noonan- Some of them did, I believe that some of the carriers had never favored the project, two specific carriers there were Flying Tigers and Northwest Orient Airlines, they are both domestic carriers and international carriers.

Urion- Those two always opposed it, the others didn't? What made them change their minds? Evidently you had come up with, your engineering costs had, were estimated as 11 million, the bid was 8.7. The bonds sold for 7.5 and you probably estimated somewhat lower, but your costs weren't even in the ball park.

Harris- The square foot cost on that was 66 dollars per square foot, which we didn't feel was out of line, in these times for that construction.

Urion - But you knew fairly well in advance or you had a good idea probably well in advance as to how much the project was going to cost and evidently you told the air carriers weren't made aware of this.

Harris - I've been told that the air carriers that it was indicated to the air carriers down through the years there would be little or no increase in rates during the building, I don't find anything in writing that indicates so but I've been told that from a variety of sources. There is one thing that I might say in this regard and that is that the international airport is along with everything else has suffered considerably in the way of cost increases, the operation and maintenance of the airports, and we are looking at the requirement for 800 thousand dollars in rate increases just to pay for the increased cost of keeping the bond coverage required under the previous issues. But we had proposed to raise the rates if we were to go into this design to bring in some 2.4 million to cover the increased costs the bond coverage required for the next four years period.

Urion- When was this 11 million dollar engineering estimate on the project?

Harris - Well, I believe that it was arrived at the time the plan was finalized for the building.

Urion - When would that have been?

Noonan - Approximately in the latter part of December, there was one estimate done in October, revised in November, and finalized in December.

Urion - What was the October estimate?

Noonan - It was the, there were some small changes I think, it was around 10.8 and the final one was 11.1. It was just escalation and reflected field prices and escalation and some other areas had a heavy impact on the building. We wanted to have a pretty current estimate.

Urion - Don, at no time do you know of did you predecessor indicate to the carriers that ther'd be an increase necessary to cover cost of this thing?

Harris - I'm not aware of it, i don't find any indication of it, in any of the hearings that were held. I'm told that the, it was indicated the carriers down through the planning from the inception of this program it was indicated the carriers that they wouldn't have any rate increases of any magnitude for the cost of such a program.

Noonan - There is a letter available from JAL thanking the division of Aviation that there would be no increase in landing fees and that was beought up in some other previous meeting. It's the only record I can find where JAL did respond.

Urion - When did JAL say they were going to have 80 flights per week and then they changed it to 70?

Harris - At the February 10th meeting they indicated to us that they planned to have 80 flights per week through Anchorage this summer and they said we have 8 to 10 flights that are optional. I believe they were charter flights, and they had discession in how they oruted those flights, so he said we can guarantee we require this striclty verbal, we can guarantee 80 flights per week this summer, On the March 6th meeting they indicated they were going to be having 70 flights a week through Anchorage.

Urion - How manyare they having presently? How many flights a week?

Noonan- They're droppping off at just, just before I came up here yesterday I was told by the airport manager Mr. Jensen that apparently they are dropping some addistional flights to lower 70 and are diverting them to Vancouver, and that along with JAL there are four other international air carriers going right to Vancouver at the present time and I asked him

for the specific airlines but he said he would wire me this morning. But Vancouver is in the process of expanding their airport tremendously and I talked with the airport manager there in Vancouver and he, they're right now in the process of building between a 15 and 10 million dollar brand new terminal and he made the mention that they are soliciting air carriers travelling thorough Anchorage International Airport to divert to Vancouver, and the rates that are ver competi-tive and I've got the landing fees a little higher accouring to international carriers but for domestic carriers they only have a 1¢ fuel flowage fee. Terminal fees are a little bit higher, no custom charges, it's a better airport, in most ways, it carries 5 million passengers a year and exonomy in terms of labor alone could save JAL quite a bit of money, and so it's, I don't know how aggressive but he said they were very aggresive , he said we need additional flights to get the terminal on the go. He gave me all of the rates and I made a comparison.

Harris - The one factor that we haven't brought up is that the airlines, they look at their total the way that they figure costs on an airport is what it costs primarily the way they figure the costs to board a passenger in the airport, all the costs involved in putting a passenger on board an air-plane and even though our rates are quite competitive the other rates that are involved in operating in Anchorage are evidently such that it's a deciding factor in what these airlines that have an option choose to do.

Urion - What would happen if you went ahead with the project and didn't increase rates to the airlines, where would you be?

Harris - Well, we would have, by moving in all of the International flight operations to the new terminal facility, we would have emptied the approximately 55,000 square feet of existing space in the existing facilities, which in the short period of time any indications from the domestic carriers that they would have been pickinf up that space, so with the effect, what it would have been, we would have been maintaining and heating space that we had no earnings on, that we presently have earnings on. The earnings on that space at this time is in the range of 5 or 6 hundred thousand dollars a year.

Urion - Didn't they realize this before?

Harris - I can't tell you frankly, I don't know, whether they took this into consideration and I'm sure that it must have been taken into consideration. I'm not sure they were aware of the magnitude of it or perhaps with the rate projection, the rate of growth projection they were working with they thought that they would get people to pick up that space, in

the interval of construction of the new satellite, I think that this is one of the things we're looking at is whether we're gonna have those growth rates that were being, that that construction was predicted on.

Urion - OK, so if we've gone ahead of the project and we've emptied 55,000 square feet of the existing facility, what would it have done to our costs versus revenue? Where would we be?

Harris - I would refer you to Heinz on this, he's been involved in the work up on it.

Noonan - By shifting the operations you wouldn't accumulate any more, in other words, the revenues, you wouldn't have any more revenue, only 18% of the new terminal building was revenue earning, in other words lease space, where in the other building at the present terminal we have 45% so as we estimated that to come out you know, if you rented the 18% of the entire building then I'd say in the 10 to 15 year amortization schedule it came out 31,000 square footage, you'd have to rent the building at at the present time we charge \$8.25 in the old building so some adjustments were made in terms of a hook-up fee where the air carrier, if they, by us buying the jetways, a docking fee of half 15¢ per thousand pounds of the airplane and that would bring us up to \$20 per square foot but that just to keep the building self-sustaining, we had otherwise with the increased losses in Fairbanks, we would have fallen below the minimum debt ceiling on our bonds within a one or two year period, but you wouldn't have gained any additional revenues. The only revenue that we've talked about that we could have gained is how much the duty-free shop is losing right now. You know because of crowded conditions, and split operations because if in the duty-free shop is the center of the concourse and then it has a split operation near where it sells the liquor now, and so many flights come in and it's often very crowded. We've asked Mr. Lyons the president of the duty-free shop what the revenue and how much he loses and he said it's pretty hard to estimate, he said maybe another 5 or 6% that we can add in terms of revenue but that would be the only additional revenue component that you would be adding on to.

Urion - So that the only one who was really happy with the new proposal was the duty-free shop?

Noonan - The duty-free shop, which brings in approximately 1.3 million, no 1.5 million dollars a year considering Anchorage and Fairbanks. Fairbanks has only 23,000 dollars.

Bradley - Commissioner, I guess we don't have any letters on file saying from the carriers, saying they were in favor of this at any point? Right? I couldn't find any.

Harris - I'm not aware of any letters that were generated if they are in the files of Aviation, I'm certainly not aware of them.

Bradley - But of course they had meetings historically,

Harris - I'm certainly aware of those that you have reports on.

Bradley - Well, maybe industry when there's, well, does industry ever go on record as being for something that could increase costs to them, I mean obviously they weren't on record against it because it got locked in, we've got just tons of letters saying they didn't want it but I mean, I'm trying to, Was this a scheme by the Division of Aviation to go to build a big dinosaur out there, was the need there and then they said well sure we'll include you guys in and the industry sort of came because they figured well there's nothing better to do and we'll just go along and placate the Division of Aviation and somewhat participate and I guess if it really looks like the State's gonna build this then we can say no, was there any sort of tacit approval?

Harris - I think that some of the carriers were looking forward to increased space, they evidently indicated so the projections that the airport that were made indicated that by 1978 there would be a demand for I think 8 additional gates, and that's what this design was based on. I think there was, back 3 years, indication that they should be planning for such a facility, to accommodate the traffic, essentially, the carriers have said in nearly every instance, the international carriers have said yes, we would like to have the facility, but the cost factor that we are experiencing, we don't want you to impose the rates at this time.

Bradley - So they were told, they were led to believe that in fact there wasn't going to be any increases based on the building.

Harris - I'm not prepared to say that they were told that there wouldn't be any increase but I think that they thought it would be a very small increase in cost.

Bradley - Was the building always going to be built through revenue bonds?

Harris - Yes.

Bradley - And of course revenue bonds, can you explain that for us, how that differs from obligation bonds?

Harris - Well revenue bonds are based on the earning capability of the facility that issues them and they are retired strictly out of the earnings of that facility whatever it might be.

Bradley - OK, in this case then was revenue bonds being sold for

the construction of a satellite building the only people you have who can pay it are the airlines, is that correct?

Harris - The users of the airport whatever they might be. There are some industrial users that are only marginally connected with the industry. There are a number of land leases to operators on the airports that aren't necessarily connected with the industry directly.

Bradley - Correct me if I'm wrong but this building was always going to be built by revenue bonds, and at least in this case the only people primarily to pay for those bonds were the air carriers and one might, the reasonable and prudent business manager might presume that in fact that that he was paying X amount here they were going to float a bond and build a building you know they're gonna have to so that was changing the structure of payment. The reasonable man might presume that in fact rates, he's gonna have to pay it right in a reflective fashion so that the presumption should probably be the, uh, number one, industry was going to have to pay for that building and number two, because of the payments coming onto already existing payments that rates would, couldn't very well stay where they were, they couldn't very well go down so they probably would have to go up. Is that unfair?

Harris - I don't think so under the normal conditions. I think that really what they were looking at in the case of this airport is that they were looking at increases use projections of a magnitude that evidently the people in Aviation thought that just the increased revenues, because of use, it would gain most of the revenue that was required without the increase in rate, the thing that I don't believe was taken into consideration was that the proper extent was in the increased cost to operate the airport, the FAA had come in with an ever increasing security program the cost of the magnitude of the, which is greatly impacted the cost picture of the airports, and in conjunction with that well, the personal service increases that have been experienced I don't believe were contemplated at the time that the original planning got off the ground.

Bradley - Are the domestic airlines such as Wien, Western, the two in the south 48 and Alaska Airlines, what Delta, well I'm thinking about Continental now is tying in with Alaska Airlines from Texas and isn't it Braniff with Western or vice versa or something like that now those guys looking at an increase in business?

Harris - Well certainly there's been an considerable increase recently in domestic travel primarily due to the pipeline.

Bradley - Have you projected that at all in the next couple three or five years?

Noonan - Yes, one thing that I might add that in relation to the terminal satellite that the major user revenue source was supposed to be the duty-free shop, and it and the surrounding economics in building the new satellite was by putting the new duty-free shop, relocating it and making a better, larger one, giving it 6,000 square feet rather than having it on the 2,000 square feet, right now you have that much more earning capability, and it to this effect, various increases were cranked in that made it very feasible to build the building. In my own observation I've projected 10 to 15%, however, a predecessor who did a study generated around 30% and the latest if we were to go ahead with the building with Joe Lyons who is the president of the duty-free shop and Mr. Polaro who is the chairman of the Board, their increases right now are less than 10%. In other words they are experiencing in the duty-free shop area has been between 20 and 60% per annum, and it's just leveling not only just leveling off but it's declined, the recent decline is that the Japanese people can't take as much money out of the country as they used to, the Japanese economy is in a very sort of a recessionary state, plus the travelling situation you know is in a very critical condition so they've lowered their estimate considerably and I have both of, they made an estimate that Feb. 10th meeting and March 6th meeting and again they estimated that they were a lot lower the last meeting.

Harris - I think that it's fair to say that the International Carriers would have liked to have had this building if the domestic carriers would have picked up the cost of it, the bulk of the cost. I think that what we've been looking at is considerably increased cost for Alaskans in rates that they would experience in domestic carriers, there's no reason to believe that they can pay those costs without passing them on. This in my mind is what is essential to the point in time to keep that airport most or those airports, both Anchorage and Fairbanks in the most competitive position possible. I think that between 80 and 90% of all of the air traffic in the state is generated from those airports and all the outlying areas and any increase in cost are just going to impose a burden on in the user, consume it in every case. And if we raise rates and discouraged international carriers well then of course we're going to have to go into increased rates structure for the domestic carriers in order to maintain coverage on existing bond issues there for this time.

Wallis - With the international carriers are most other carriers utilizing the international airport, are they the polar flights and the overseas flights? Do we have any idea what the difference in flights would be if they landed in Anchorage versus landing in Vancouver?

Harris - I don't have the mileage.

Noonan - From what I've gathered again from Mr. Jensen talking with people before I came here, approximately 2 to 2 1/2 hours for flight time and these are . .

Wallis - How much fuel per hour do they use? Roughly?

Northwest Orient Representative - What kind are you talking about?

Noonan - a 747

NW representative - I'd say about a thousand pounds.

Wallis - So with the extra cost in fuel they're willing to swallow that extra cost in fuel versus the mileage versus the increased landing fees.

Harris - I assume . . .

Wallis - and the increased cost in fees would be considerably less it would seem to me that perhaps this is a scare tactic.

Noonan - It would very well be and in talking with Mr. Cotini from Air France he thought the same way but whether it is or whether it isn't it remains to be seen. How much of their flights they're really diverting permanently.

Harris - On the other hand the other costs that are involved or the difference in costs that are involved with the two airports we haven't made an assessment of all the factors that are involved such as the cost of crews to service aircraft, we have none of that information at hand, it could be or make a significant difference with all of the factors involved it could make that airport looked upon much more favorably.

Wallis - What increased costs in crews would there be? Why would they have to increase their crews to take care of it?

Harris - Just the difference in cost of hiring wages in BC versus wages in Anchorage, all of the other factors involved.

Wallis - Just to go back to another topic Mr. Chairman, again on the contractor suit, has the Attorney General looked at this?

Harris - They've looked at it but I don't believe they looked at it from the point of a suit from the contractor.

Wallis - With the new increased rate structure if the building was gone ahead your domestic carriers would be picking up 70% of the costs.

MEMORANDUM

State of Alaska

DEPARTMENT OF PUBLIC WORKS

TO: Donald Harris, Commissioner
Department of Public Works

DATE: April 4, 1975

FILE NO: DB-13-0199

TELEPHONE NO:

FROM:

WHR
William H. Race, P.E.
Director
Division of Buildings
Juneau

SUBJECT: Anchorage International Airport
Passenger Terminal - Satellite
Addition

We have consulted with the architects regarding the above project. It has been determined it would cost an additional \$250,000 for the architects to redesign and make minor changes.

Commissioner	<input checked="" type="checkbox"/>
Deputy Commissioner	<input type="checkbox"/>
Administrative Director	<input type="checkbox"/>
Aviation	<input type="checkbox"/>
Buildings	<input type="checkbox"/>
Communications	<input type="checkbox"/>
Marine Transportation	<input type="checkbox"/>
Water & Harbors	<input type="checkbox"/>
Fiscal	<input type="checkbox"/>
Leasing	<input type="checkbox"/>
Personnel	<input type="checkbox"/>
Property & Supply	<input type="checkbox"/>
Payroll	<input type="checkbox"/>
Mail & Records	<input type="checkbox"/>

MEMORANDUM

State of Alaska

TO: Emmitt L. Wilson
Chairman
Airport Revenue Bond Committee

DATE: November 22, 1974

FILE NO:

TELEPHONE NO:

FROM: Buel A Taggart
Commissioner
Department of Public Works

SUBJECT: Airport Revenue Bond Sale

This will confirm my verbal disapproval of the airport revenue bond sale slated for December 4, 1974. The reasons for the cancellation of this bond sale are as follows:

1. I was not satisfied as to the coverage that would occur in 1977 according to the difference between expenditures and revenues.
2. The figures have been juggled by too many people and I could not reconcile myself as to the actual coverage that would occur.
3. I feel that it is better to have meetings with all airlines and a specific rate increase agreed before any bonds are sold. These meetings will be held directly after the first of the year and, after this, new figures will be available.



TELEGRAM

BCA ALASKA COMMUNICATIONS, INC.

PHONE: 586-6440

JUNEAU, ALASKA 99801

JUN 4 5 44

06061 NL JUNEAU ALASKA 50 04-04 0425P PDT

PMS REP BOB BRADLEY CHAIRMAN HOUSE COMMERCE COMMITTEE

JUN

0335

AS YOUR LEGISLATIVE ASSISTANT WAS ADVISED

I HAVE A CONFLICT AND CAN NOT ATTEND THE HEARING

SCHEDULED FOR 8AM MONDAY ON THE ANCHORAGE INTERNATIONAL

AIRPORT BILL. I WILL BE AVAILABLE AT MORE OR LESS YOUR

CONVENIENCE AFTER APRIL 15.

ERIC WOHLFORTH

TELEGRAM

ALASKA COMMUNICATIONS, INC.
PHONE: 583-6440
JUNEAU, ALASKA 99801

2 4 PM 9 14

4

02100 NL ANCHORAGE ALASKA 149 04-04 0615P ADT

PMS REP BOB BRADLEY

JUN 0361

DEAR LEGISLATOR BOB

NEW INTERNATIONAL TERMINAL WOULD BE A TREMENDOUS ADDITION TO ANCHORAGE AND WOULD RELIEVE CROWDED CONDITIONS DURING PEAK PERIOD. HOWEVER DUE TO ECONOMIC SITUATION IN THE WORLD TODAY THE AIRLINES CANNOT AT THIS TIME AFFORD THE INCREASE IN OPERATIONAL COSTS THE STRUCTURE WOULD ENTAIL. DOMINATE PRIORITY AT ANCHORAGE INTERNATIONAL IS THE ESTABLISHMENT OF A NORTH/SOUTH RUNWAY VITAL TO THE FUTURE OF THE AIRPORT AND CRUCIAL TO INCREASING TRAFFIC WHICH IN TURN PAVES THE WAY IN AFFORDING NEW GROUND FACILITIES. MODERN AIRCRAFT DESIGN WILL ALLOW OVER FLIGHTS OF ANCHORAGE IF WE GIVE THE INTERNATIONAL AIRLINES REASON OR CAUSE TO DO SO BY IGNORING RESPONSIBLE LANDING STRIP SAFETY CONCERNS OF PILOTS AND CREWS THAT HAVE REPEATELLY WARNED OF THE NEED FOR THIS ADDITIONAL RUNWAY. OUR CHAMBER IS IN UNANIMOUS AGREEMENT ON PRIORITY OF IMMEDIATE CONSTRUCTION OF A NORTH/SOUTH RUNWAY. WILL BE AVAILABLE MONDAY IN JUNEAU.

BILL BORLAND GREATER ANCHORAGE CHAMBER OF COMMERCE

TELEGRAM

ALASKA COMMUNICATIONS, INC

PHONE: 583-6440

* JUNEAU, ALASKA 99801

02083 NL ANCHORAGE AK 50 04-04 213P ADT

PMS REPRESENTATIVE BOB BRADLEY

03:50

CHAIRMAN HOUSE COMMERCE COMMITTEE

JUN

REGRET UNABLE ATTEND COMMITTEE HEARINGS APRIL 7

LEO E GOFF/AIR FRANCE

APR 4 PM 5 20

HB

19

H B 19

Tape No.

13

Date

3/13

March 6, 1975

President
Alaska Telephone Association
500 W. International Airport Road
Anchorage, Alaska 99503

Dear Mr. President,

The House Commerce Committee will be holding hearings on HB 19 relating to telephone utilities on Thursday March 13 at 8 a.m. The hearing will be held in room 203 of the Assembly Building in Juneau. Testimony will be heard at this time.

Sincerely,


Bob Bradley

BB/ar

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LEGIBLY BECAUSE OF POOR QUALITY OF THE
ORIGINAL.

URGENT

Herb Cotton - Mgr Revenue Accounting
John Russell - Mgr Data Processing

To Ken Sprain Location Juneau Date March 12, 1975
 Bill Gooding

From Andrew R. Sarisky Location Anchorage Telephone

Subject House Bill No. 19 by Representative Swanson - Committee Hearing
 4 p.m. March 13.

Please deliver the following message to either Herb Cotton, Gordon Parker, John Russell or Henry Pratt before this afternoon's hearing. (Gordon Parker is staying at the Baranoff.)

The proposed requirement (Section 42.20.170), which would do away with liability for telephone service charges if they are not billed within sixty days, is arbitrary and not based upon any data or studies supporting the sixty-day limitation. As a matter of fact, the established industry practices and standards, and the details involved in the billing cycles clearly require more than sixty days to permit billing of the various types of telephone charges. The section is not clear as to whether or not telephone service charges are the monthly recurring charges. An attempt to circumscribe this arbitrary period without foundation or support is an invasion of the business and management of telephone companies, and there is serious question as to whether or not this extreme action proposed to the Legislature can in fact legally discharge the liability to pay for telephone services, and may be an intervention into a contract relationship and the right to contract.

The proposed Section 42.20.160 unjustifiably and without any legal authority would have each customer make a unilateral deduction of telephone service charges for each day that a telephone is inoperative,

Attention: Bill Gooding
For delivery to Messrs. Cotton, Parker, Russell or Pratt
House Bill No. 19
March 13, 1975

due to the malfunction of the individual subscriber's telephone service or the telephone system to which it is connected, without distinguishing between the fact that the local exchange company has the responsibility for the working order of the telephone instruments. The proposal does not set up any lines of demarcation or means of identifying responsibility and, as written, the customer could deduct charges for long distance calls which were completed, even though the long distance company might not have had anything to do with the outage or the malfunction.

This proposed self-policing can only lead to chaos, as people claim outages and arbitrarily deduct from billings, thus depriving the companies of earned revenues by arbitrary deductions that bear no relationship to the problems sought to be corrected. The proposal is not clear, but appears to be referring to deducting from the monthly recurring charge of the local exchange service company, but inasmuch as telephone billings usually include the local exchange service and the long distance telephone charges for the month, no doubt the subscriber would deduct 1/30th of the local service and the long distance charges.

This proposed legislation raises serious questions as to constitutionality, invasion of private enterprise, and arbitrary action without sufficient foundation to support the deduction as reflecting a measure of damages, and in the case of the 60-day billing limitation there are no facts upon which the 60 days can