

ALASKA LEGISLATIVE COMMITTEE FILES 2012072

2055 SSA VETERAN'S PACKAGE - SB 13

2055

Evaluate - - -

BY BRADLEY, COLLETTA, GILMAN, HOHMAN,
KELLY, KERTTULA AND ZIEGLER

1 IN THE SENATE

2 ~~PROPOSED~~ SPONSOR SUBSTITUTE FOR SENATE BILL NO. 315

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TWELFTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act providing for the establishment of a Joint
7 Legislative Committee on the Alaska Veterans and
8 Pioneers Memorial Museum; and providing for an effec-
9 tive date."

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

11 * Section 1. ESTABLISHMENT OF COMMITTEE. The Joint Legislative Committee
12 on the Alaska Veterans and Pioneers Memorial Museum is established.

13 * Sec. 2. COMPOSITION. The committee consists of the following persons:

14 (1) three members ^{of the Senate} appointed by the president of the senate;

15 (2) three members ^{of the House} appointed by the speaker of the house of repre-

16 sentatives.

17 * Sec. 3. COMPENSATION. A member of the committee serves without compen-
18 sation, but is entitled to per diem and travel expenses authorized by law
19 for boards and commissions under AS 39.20.180.

20 * Sec. 4. POWERS AND DUTIES OF THE COMMITTEE. (a) The committee shall

21 (1) plan for the establishment of the Alaska Veterans and Pioneers
22 Memorial Museum;

23 (2) make recommendations [to the legislature] concerning

24 (A) the construction of a museum facility;

25 (B) the administration and operation of the museum.

26 (b) The committee may hire an executive director and additional profes-
27 sional and administrative staff as may be necessary to the function of the
28 committee.

29 * Sec. 5. REPORT. The committee shall file a report ^{filed} with the governor

1 and the legislature [concerning the work and accomplishments of the committee
2 by February 15, 1982.]

3 * Sec. 6. DEFINITION. In this Act "committee" means the Joint Legis-
4 lative Committee on the Alaska Veterans and Pioneers Memorial Museum.

5 * Sec. 7. TERMINATION. This Act is repealed and the existence of the
6 committee terminated one year from the effective date of this Act.

7 * Sec. 8. This Act takes effect immediately in accordance with AS 01.10.-
8 (10(c)).

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Alaska Department of Education

POSITION PAPER

Senate Bills 315 and 316

Summary

Senate Bill 315 calls for the establishment of an Alaskan Veterans and Pioneers Memorial Museum and SB 316 provides funds. The intent of this legislation is admirable - to provide for the preservation and interpretation of Alaska's veterans and military history. The military has played a major role in Alaska's development from the Alaska Purchase to the present. There are a wide range of artifactual, archival, aircraft, and other materials which should be preserved as a record of the military influence in Alaska and the role of Alaskans in the military. There can be no question of the contribution of the pioneers. What Alaska is today is a direct result of what they contributed. We strongly support the concept of the expansion of the state's ability to preserve this segment of Alaska's heritage.

Concerns

Establishment of new and thematic museums by the state should be part of a carefully planned expansion. In addition to this proposal, for a Veterans and Pioneers Memorial Museum, last year a maritime museum was proposed and there is a possibility that a "living museum" or nature interpretive center will be proposed in the near future. A broad look at the thematic areas needing expansion or establishment should be taken. Of particular importance is their relationship to existing museum services. Areas of collection and program presentation should be most carefully delineated so that unnecessary overlap is eliminated and competing state funded museums are not created. For instance, almost all museums in Alaska will have material relating to the pioneers. The smaller museums focus primarily on the local pioneer's contribution to development. At the state level, museums focus on the broader picture of the total state. The Transportation Museum of Alaska, Inc. located in Palmer is the custodian of a fairly large collection of historical transportation artifacts which belong to the State of Alaska as well as many additional ones which are a part of their own collection. The relationship between the Transportation Museum and the proposed military museum, especially in the light of the interest in historic aircraft, should be carefully studied before embarking on the establishment of the new museum.

Senate Bill 316 places a commission in the Office of the Governor. This is counter to the apparent desire of the Governor's Office to have program activities administered by departments who are assigned that responsibility. Several agencies have recently been moved from


the Office of the Governor by Executive Order, such as the Historical Commission and the State Council on the Arts to the Department of Education. It would seem desirable to have the proposed new museum placed within the Department of Education also where it directly relates to the State Museum. One alternative might be to expand the membership of the statutory five member Museum Collections Advisory Committee of the State Museum (AS 14.57.020) to add additional representation specifically for other subject areas including veterans and pioneers rather than to establish a separate commission.


Recommendation

Rather than taking action on the bills this year, \$25,000 could be added to the State Museum Operating Budget to fund a task force to address the programmatic and administrative development of thematic museums and specifically the Veterans and Pioneers Memorial Museum. The task force should represent the museum profession of the state as well as those individuals and groups with specific interest in the subject areas. The funds would primarily be used for travel to bring the task force members and interested individuals together to jointly address these issues. It would also include some travel to existing museums outside in order to focus on the best potentials for development of these areas. The task force would present its report to the 2nd. Session of the 12th Legislature in January, 1982.

Providing for statewide input and preparing a multi-year plan for implementation of expansion of museum subject activities will be the most efficient and powerful method to address the emerging needs to present the people of the state and its visitors the history of the culture and development of Alaska.

Because the programs envisioned by the bills have not been fully developed no formal fiscal note has been prepared.


Richard B. Engen, Director
State Libraries & Museums


Steve Hole, Administrator
Department of Education

THE LEGISLATURE OF THE STATE OF ALASKA
TWELFTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. Sponsor Substitute for Senate Bill No. 375
 Title Authorizing commissioned officers of the armed forces to (cont.)
 Requested by Senate State Affairs Committee Date May 6, 1981

TITLE (cont.) perform the functions of a notary public.

II. FISCAL DETAIL

Agency Affected Office of the Lieutenant Governor
 Program Category Affected Office of the Lieutenant Governor
 BRU, Program, or Subprogram(s) Affected Office of the Lieutenant Governor
 (Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 81	FY 82	FY 83	FY 84	FY 85	FY 86
100 PERSONAL SERVICES	0	0	0			
200 TRAVEL	0	0	0			
300 CONTRACTUAL	0	0	0			
400 COMMODITIES	0	0	0			
500 EQUIPMENT	0	0	0			
600 LAND & STRUCTURES	0	0	0			
700 GRANTS, CLAIMS, ETC.	0	0	0			
TOTAL	0	0	0			

FUNDING (Thousands of Dollars)

GENERAL FUND	0	0	0			
FEDERAL FUNDS	0	0	0			
OTHER (Specify Fund Source)	0	0	0			

POSITIONS

FULL TIME						
PART TIME						
TEMPORARY						

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

No fiscal impact.

IV. DATE May 6, 1981 PREPARED BY Deborah B. Baley
 AGENCY Office of the Lieutenant Governor
 PHONE 465-3520
 Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)

SENATE STATE AFFAIRS COMMITTEE SCHEDULE

May 5 - May 7

TUESDAYMay 5
1:30 p.m.SB 257---Hearing

Relating to natural gas: establishing the Alaska Natural Gas Industrial Development Authority and authorizing it to issue revenue bonds for construction of a gas conditioning plant.

SB 299---previously considered
Relating to electionsHB 1---previously considered
Appropriating \$1.8 million to the permanent fundWEDNESDAYMay 6
7:00 p.m.SB 415---previously considered
Alaska and minority bidders' preference in contractingSB 167---previously considered
Relating to the Alaska Public Offices CommissionTHURSDAYMay 7
1:30 p.m.

Legislation affecting veterans

SB 145---Hearing
Provides for free resident hunting and sport fishing licenses for disabled veteransSB 146---Hearing
Relating to veterans' burial allowancesSB 147---Hearing
Provides exemption of a disabled veteran's residence from levy and collection of property taxesSB 315---Hearing
Establishing the Alaska Veterans and Pioneers Memorial Museum CommissionSB 316---Hearing
(Appropriation for SB 315)SB 375---Hearing
Relating to appointment and commission of commissioned officers or commanders of units of the armed forces as notaries public

OUT OF TOWN HEARINGS---SENATE STATE AFFAIRS COMMITTEE

SATURDAY

May 9

9:30 a.m. to 12:00 noon

ANCHORAGE

Legislation affecting veterans---same agenda as May 7

This hearing will be conducted at the Anchorage Legislative Information Office at 6th and K streets

SUNDAY

May 10th

1:00 p.m. to 3:00 p.m.

FAIRBANKS

Legislation affecting veterans---same agenda as May 7

This hearing will be conducted at the Fairbanks Legislative Information Office at 315 Barnette St., Ste. 101

ALL JUNEAU HEARINGS WILL TAKE PLACE IN THE SENATE STATE AFFAIRS COMMITTEE ROOM IN THE FIRST FLOOR OF THE BEHREND'S BUILDING. IF YOU HAVE ANY QUESTIONS PLEASE CONTACT SENATOR VIC FISCHER'S OFFICE AT 465-4954. THANK YOU.



Official Business

Alaska State Legislature

Senate
Office of the Secretary

Pouch V
State Capitol
Juneau, Alaska 99811

MEMORANDUM

DATE: February 4, 1981

TO: Senator Fischer
Chairman
State Affairs Committee

FROM: *Peggy Mulligan*
Peggy Mulligan
Secretary of the Senate

SUBJECT: Report on Veterans' Affairs Loans

The President referred the attached report to your Committee for review.

STATE OF ALASKA

FEB 3 1981

JAY S. HAMMOND, GOVERNOR

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

OFFICE OF THE COMMISSIONER / POUCH D - JUNEAU 99811

January 29, 1981

Mr. Jalmar M. Kerttula
President of the Senate
Pouch V
Juneau, Alaska 99811

Dear Mr. Kerttula:

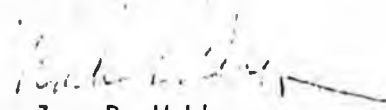
As required by AS 37.05.035, the Department of Commerce and Economic Development, Division of Veterans' Affairs, submits for your review the following reports on loans closed during FY 1980:

1. Loans made by loan type
2. Income groups benefited under the Veterans' Loan Program

The prevailing market rates used were obtained from the Department of Revenue, Division of Treasury.

Because of the number of assumptions made during FY 1980 and the use of subsidized loan funds, a separate report on assumptions was included with the report of loans made by loan type. The prevailing market rate at the time of the assumption was used to determine the amount of subsidy provided by the State for this type of loan.

Sincerely,


Charles R. Webber
Commissioner

CRW/cw#20F3

Annual State Loan Report
Loans Made by Type
Fiscal Year 1980

NEW LOANS

	Total # of Loans	Total Principal Loaned	*Return on Loan at Veterans' Int. Rate	*Return on Loans at Prevailing Int. Rate	*Total State Subsidy
Home	50	\$3,075,450	\$1,177,313	\$1,829,066	\$ 651,753
Personal	6	60,000	12,715	20,388	7,673
Multi-Dwelling	18	1,688,650	2,955,820	5,249,885	2,294,065
Business	3	315,000	168,001	300,457	132,456
Total New Loans	77	\$5,139,100	\$4,313,849	\$7,399,796	\$3,085,947

Assumptions

Home	35	\$2,045,832	\$2,577,927	\$5,864,958	\$3,287,031
Personal	2	9,621	519	1,898	1,379
Multi-Dwelling	10	819,998	1,054,261	2,437,224	1,392,963
Business	2	77,132	23,196	59,317	36,121
Total Assumptions	49	\$2,952,583	\$3,655,903	\$8,363,397	\$4,707,494

*Assuming the loan goes to full term.

Annual State Loan Report
Income Groups Benefited Under the
Veterans' Loan Program for FY 1980

<u>Family Income Level</u>	<u>New Loans</u>	<u>Assumptions</u>	<u>Total</u>	<u>% Families With Second Income</u>
\$ 0 - \$ 9,999	0	1	1	
10,000 - 19,999	1	1	2	100%
20,000 - 29,999	13	6	19	21%
30,000 - 39,999	25	11	36	39%
40,000 - 49,999	20	10	30	53%
50,000 - 59,999	10	8	18	50%
60,000 - 69,999	3	4	7	71%
70,000 - 79,999	3	2	5	40%
80,000 - 89,999	1	1	2	50%
90,000 - 99,999	0	1	1	100%
100,000 & over	1	4	5	80%
	77	49	126	46% average

5-10-81 - FAI

BILL CROSBY - VA
TED DIXON - TV SPORTSMEN'S ASSN

~~[DICK ENGEN]~~

- lack of communication w/ Aud rep off-
→ benefits, educ, disability benefits,
funeral/burial benefits
- Vets → educ. benefits - exp Dec 31, '89 -

^{John Emmerichs}
[Vets outreach - VietN. readjustment-counseling]

SJR - 41 - requ Army to relinqu. Known
Distance Kill Route → BLM → State

5-9-81 / Such - Vets Registration

William Olson

Vets business loans & education loans

- not looking for handouts,
- in bus. loans - declin. assist from STA
but no money - need state money,
loans.

• Gr has assisted 1700 - 10%
have reger loan as well, -
e.g. razor clam operation + in funding, mang.
survival - 20 people - 6 months - ~~all~~
20 vets to dig clams & fly out
- needed 50K

→ ceramic business - 7K
→ to 50K / loan

College - ~~1000~~ 10000 college ind. loan prog,
w/ 250K max
- licensing requirements

EXECUTIVE

ORDER - 48

STATE OF ALASKA

DEPT. OF ENVIRONMENTAL CONSERVATION

JAY S. HAMMOND, GOVERNOR

POUCH 0 - JUNEAU 99811
(907) 465-2600

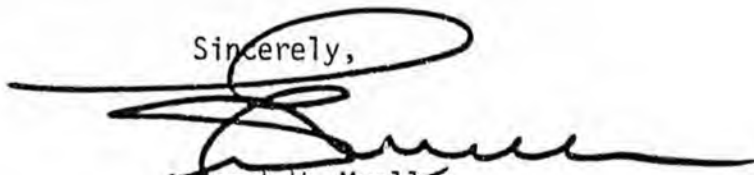
January 22, 1981

The Honorable Vic Fischer
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Senator Fischer:

The Department of Environmental Conservation supports the transfer of the Alaska Council on Science and Technology to the Department of Administration as detailed in Executive Order No. 48.

Sincerely,



Ernst W. Mueller
Commissioner



THE ALASKA COUNCIL ON SCIENCE AND TECHNOLOGY

January 20, 1981

Senator Vic Fischer, Chairman
State Affairs Committee
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Senator Fischer:

As requested by your committee staff, I have included several items regarding Executive Order 48 for background purposes (E.O. 48 transfers the Alaska Council on Science and Technology to the Department of Administration): 1) short history; 2) justification; and 3) description of the Alaska Council on Science and Technology.

History:

Last year the Governor, in an effort to streamline the executive operations, divested his office of most of the boards, councils and commissions which had been placed there over the past few years. The method for doing this for the Council was by issuing executive order 46; transferring the Council to the Department of Environmental Conservation. However, for reasons outlined below, the Council subsequently requested that the move be to the Department of Administration instead. To accomplish this, the House State Affairs Committee submitted H.B. 931. This, however, was amended on the floor of the House of Representatives to add two legislators to the Council; a move not appreciated by the administration due to their contention this violated the separation of powers doctrine. Consequently, the governor vetoed CS HB 931 am S and the Council moved (administratively) to the Department of Environmental Conservation via the previously submitted executive order 46.

It should be noted that in his veto message the governor pointed out that he would submit another executive order at the start of the 12th Legislative Session moving the Council from Environmental Conservation to Administration. Hence, executive order 48.

Justification:

There are two major reasons for executive order 48:

- 1) The Alaska Council on Science and Technology transcends all aspects of science and is not solely concerned with one discipline or category. Therefore, it should not be in a "mission" oriented agency. Further, as the Alaska Council on Science and Technology

is directed by statute to advise the executive and legislative branches, it must remain as independent and objective as possible. Being a non-program or nonadvocacy agency, the Department of Administration fills these needs.

- 2) Since the reason for the move is to fulfill administrative support requirements, the agency best suited for this is the Department of Administration.

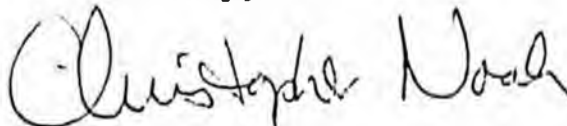
Description of the Alaska Council on Science and Technology

Created by statute in 1978, the Council was established to provide scientific advice on current issues to the legislature and governor. The primary process for delivering this advice has come through its research needs committees. Comprised of experts in twelve categories, the Council has produced short, concise recommendation papers used by state policy makers on decisions relating to science and technology or requiring analysis by the scientific community. Examples of these committees include agriculture, transportation, minerals and health.

Another major responsibility of the Council is administration of research and technology grants. Last year the Council completed its second round of Northern Technology Grants under this program and was given an additional appropriation for \$300,000 to address "Geophysical Hazards and other Research".

Finally, all parties involved in this move are supportive of executive order 48: the Alaska Council on Science and Technology, the Department of Environmental Conservation and the Department of Administration. If you or your staff desire further elaboration on either the executive order or the Council, please let me know.

Sincerely,



Christopher Noah
Executive Director

January 12, 1981

President of the Senate
Alaska State Legislature
Pouch V
Juneau, AK 99811

Dear Mr. President:

Under the authority of Article III, Section 23, of the Alaska Constitution, I am transmitting to you Executive Order No. 48, dated January 12, 1981. This order would transfer the Alaska Council on Science and Technology from the Department of Environmental Conservation to the Department of Administration. Under that section of the constitution, the legislature has 60 days of a regular session, or a full session if of shorter duration, to disapprove this executive order.

In the 1980 legislative session, the legislature passed CSHB 931 am S, making this same transfer. However, I vetoed that bill because, in making the transfer, the legislature also added a provision which would have placed two members of the legislature on the council, which is unconstitutional in at least three respects. Please see my June 13, 1980 letter to the president of the senate and the speaker of the house. 1980 Senate Journal, page 1735, and 1980 House Journal, page 2197.

Other than the relocation, this order makes no change in the existing law pertaining to the council. Although it concerns me as a matter of separation of powers under our constitution, I am leaving unchanged the provision of existing AS 44.46.070(a) (proposed AS 44.21.200(a)) which places a legislative staff member on the council. To the extent that the council's functions are only informational or advisory, this poses no problem. However, existing AS 44.46.080(d) (proposed AS 44.21.210(d)), for example, authorizes the council to make grants of financial assistance to persons engaged in the development of "northern technology." (Also see existing AS 44.46.080(a) and (b)(3) and (5) [proposed AS 44.21.210(a) and (b)(3) and (5)].) That is an executive-branch function; i.e., making grants is a function which carries out the law, and, under the constitution, the executive carries out the law. A person who is employed by the legislature is not legally capable of doing so,

except as an incident to carrying out the functions of that branch. Buckley v. Valeo, 424 U.S. 1 (1976). The provision authorizing the council to make grants for northern technology will terminate June 30, 1984, and that will remove part of the problem.

Section 7 of this order terminates two provisions, consistent with sec. 8, ch. 56 SLA 1979.

Sincerely,

S/JSH

Jay S. Hammond
Governor

SENATE STATE AFFAIRS
 COMMITTEE MEETING SCHEDULE

TUESDAY

Feb. 10
 1:30 p.m.

SENATE BILL 124

"An Act relating to a state office complex at Anchorage; and providing for an effective date."

Hearing

SENATE JOINT RESOLUTION 11

"Relating to actions of the Bolivian government."

Hearing

THURSDAY

Feb. 12
 1:30 p.m.

SENATE BILL 110

"An Act making a special appropriation to DOTPF for a senior citizens' building in Chigiak; and providing for an effective date."

Hearing

SENATE BILL 133

"An Act relating to memorials to Alaskan veterans; and providing for an effective date."

Hearing

SENATE BILL 134

"An Act making a special appropriation to the Dept. of Transportation and Public Facilities for construction of a memorial to Alaskan veterans; and providing for an effective date."

Hearing

ALL HEARING WILL BE CONDUCTED IN THE SENATE STATE AFFAIRS COMMITTEE ROOM, BEHRENS BLDG., FIRST FLOOR. IF YOU HAVE ANY QUESTIONS, PLEASE CONTACT SEN. FISCHER'S OFFICE (465-4954, 4955).



Alaska State Legislature

Senate

Committee on State Affairs

Pouch V
State Capitol
Juneau, Alaska 99811

Official Business

Jan. 29, 1981

Behrends Bldg.

1:30 p.m.

First Floor

MEMBERS PRESENT

SENATOR FISCHER, CHAIRMAN
SENATOR BRADLEY
SENATOR COLLETTA

MEMBERS ABSENT

SENATOR ELIASON
SENATOR STIMSON

AGENDA: Senate Bill 90 "An Act relating to privacy and public information and changing Rule 65 of the Alaska Supreme Court Rules of Civil Procedure."

Chairman Fischer called the meeting to order and then requested testimony on Senate Bill 90. Eight persons testified on the bill (see attached sign-in sheet).

Senator Parr, prime sponsor of the legislation, outlined the provisions of the bill, from the opening general statement of policy on information to a detailed analysis of the exemptions described. With regard to the exemptions, Senator Parr suggested that there were two ways of grouping them for consideration: 1.) Alaska constitutional right to privacy, and 2.) public policy securing confidentiality for the general public benefit. The exemptions and definitions outlined in SB 90 were carefully covered by Senator Parr prior to more substantive discussion of the legislation. He cited the passage into law of the Federal legislation addressing freedom of information more than thirteen years ago as an example Alaska might follow. Senator Parr also stressed the importance of correctly balancing the people's right to privacy and the people's right to know. Although the legislation has been introduced four times since May of 1975, it has never passed, and the existing statutes remain vague, marked by insufficient definition. Sen. Parr responded to various questions about the language and intent of specific sections.

Bruce Horowitz, supervising attorney of Alaska Legal Services, provided a written proposal for amendment of SB 90. He presented the proposed amendments individually and expressed general support of the legislation.

Barry Stern, representing the Dept. of Law, emphasized in his testimony that existing statutes addressing freedom of information are inadequate. He further remarked that the constitutional provision for a right to privacy frequently conflicts with the public's right to know. The concept of the right to privacy is left up to the agency to decide. Mr. Stern stressed the need for guidelines in determining the scope of a person's right to privacy. He also maintained that the exemptions section of the legislation is too specific, and agreed to transmit to the committee written suggested language to amend this section.

Elizabeth Cuadra, of the League of Women Voters of Alaska, gave brief testimony expressing support for SB 90 and for accessibility of records.

Patty Moriarty, of the Ombudsman's office, provided testimony from two perspectives: that of the Ombudsman's office, and that of the complainant seeking assistance from the Ombudsman's office. She read from the Ombudsman's report of Hawaii which bore the premise that information should be shared between the people and their elected representatives for decision-making purposes. Ms. Moriarty proposed language changes for specific sections of SB 90.

Earl Deater, of the Operating Engineers Union-302, testified in favor of SB 90, pointing out passage of such a measure would assist people in many professions in obtaining information.

Lee Sharp, attorney for the City and Borough of Juneau, provided testimony on the bill regarding the effect it would have on municipalities. Mr. Sharp maintained that local government should make decisions on how local records should be made available. He pointed out that additional costs would be created by the passage of SB 90 in terms of "search costs" and duplication costs. Mr. Sharp concluded his testimony with the statement that he agreed that public records should be made public, but that some things must rest at the local level.

Roland Shanks, of the Alaska Environmental Lobby, provided brief testimony in support of the bill and the intent behind it, noting that "public corporations" were not included in the list of people and agencies covered by the bill.

Chairman Fischer adjourned the meeting in light of the fact that scheduled time had expired.

SENATE STATE AFFAIRS
COMMITTEE MEETING SCHEDULE

TUESDAY

Feb. 3
1:30 p.m.

EXEC. ORDER #48

Relating to the transfer of the Alaska Council on Science and Technology from the Department of Environmental Conservation to the Department of Administration.

Hearing

SENATE BILL 54

"An Act relating to the Alaska National Guard and Naval Militia; and providing for an effective date. "

Hearing

SENATE BILL 72

"An Act relating to veterans and public records. "

Hearing

THURSDAY

Feb. 5
1:30 p.m.

SENATE BILL 90

"An Act relating to privacy and public information; and changing Rule 65 of the Alaska Supreme Court Rules of Civil Procedure. "

All-sites teleconference hearing

ALL HEARINGS WILL BE CONDUCTED IN THE SENATE STATE AFFAIRS COMMITTEE ROOM, BEHREND'S BLDG., FIRST FLOOR. IF YOU HAVE ANY QUESTIONS, PLEASE CONTACT SEN. FISCHER'S OFFICE (465-4954, 4955).



Official Business

Alaska State Legislature

Senate

Committee on State Affairs

Pouch V
State Capitol
Juneau, Alaska 99811

PUBLIC SERVICE ANNOUNCEMENT

The Senate Committee on State Affairs, chaired by Senator Vic Fischer, will be holding an all-sites teleconference hearing on Senate Bill 90 entitled "An Act relating to privacy and public information; and changing Rule 65 of the Alaska Supreme Court Rules of Civil Procedure." The teleconference will be held on Thursday, February 5, 1981 at 1:30-3:00 pm (Pacific Standard); 11:30 am - 1:00 pm (Alaska Standard); 10:30 am - 12 noon (Bering Standard). In Juneau, the teleconference will be held in the State Affairs Committee Room, 1st floor Behrends Building. Please call your local Legislative Information Office for other locations. An opportunity will be provided for as many persons as possible to testify during the allotted time. Send written testimony to Senator Vic Fischer, Senate State Affairs Committee, Pouch V, Juneau, Alaska 99811 or call 465 - 4954.

Thank you.

STATE OF ALASKA
THE LEGISLATURE

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

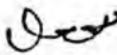
LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

February 11, 1981

SUBJECT: Senate State Affairs Committee meeting
February 12, 1981

TO: J. Christopher Noah
Executive Director
Alaska Council on Science and Technology

FROM: David T. Walker 
Co-Revisor of Statutes

Chris, I look forward to the opportunity to meet Senator Fischer and will be there tomorrow at 1:30 P.M. Would you do whatever you can to get me on the agenda early in the meeting?

I understand that Senator Fischer wants me to address the matters raised by Arthur Peterson's memo of February 6, 1981 and I thought a preliminary remark or two might be of some help to the committee.

Mr. Peterson's memo makes the following assertions/recommendations regarding Executive Order No. 48:

- (1) That the reference to AS 44.19.181 - 44.19.189 in line 12 on page 1. is correct because AS 37.12.070(16) still contains that reference. I agree completely.
- (2) That AS 44.19.181 is properly referenced in line 17 on page 5, for the same reason. I agree completely.
- (3) That the error in Sec. 6 is a manifest clerical error which can be corrected by the revisor. This is the sort of error routinely corrected by the revisor.

Since you have already conveyed this information to the Committee, I can only speculate that they wish to know the technical answers to the following questions:

J. Christopher Noah
Page 2
February 11, 1981

(1) AS 37.12.070(16) -- why was it not corrected in the supplement? The section was not amended in 1980 -- the publisher just reprinted it as it was and missed the internal cross-reference change.

(2) AS 44.66.010(a)(6) -- This internal reference was also missed by the publisher.

The publisher will be notified so that the correct references will appear in the statutes. The revisor's office deals routinely and often with this type of correction -- it is one of our statutory responsibilities.

DTW:ljb

~~cc~~ Senator Vic Fischer, Chairman
Senate State Affairs Committee

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

POUCH K - STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3600

February 6, 1981

Hon. Vic Fischer, Chairman
Senate State Affairs Committee
Alaska State Legislature
Pouch Y
Juneau, Alaska 99811

DAVID WALKER

Hon. Mike Miller, Chairman
House State Affairs Committee
Alaska State Legislature
Pouch Y
Juneau, Alaska 99811

PROBLEMS OF
CITATION

Re: Executive Order No. 48 and Senate
Bill No. 48 (Council on Science
and Technology)
Our File No. J-77-105-81

Dear Sen. Fischer & Rep. Miller:

I understand that, when Executive Order No. 48 was being considered in the Senate State Affairs Committee recently, a question arose regarding the reference to "44.19.181 -- 44.19.189" in line 12 on page 1. Concern was expressed about that reference because the co-revisors of statutes, acting under AS 01.05.031, relocated the statutes pertaining to the Council on Science and Technology from as 44.19.181 -- 44.19.189 to AS 44.46.070 -- 44.46.110. It was evidently felt by the committee that the reference to the old numbers at that point in the order was a mistake since AS 44.19.181 -- 44.19.188 now pertain to the Yukon-Taiya Commission.

However, that reference appears in the order because the statute being amended in sec. 2 of the order -- AS 37.12.070(16) -- still contains that reference. It is set out in brackets to delete it. This has no effect on the Yukon-Taiya Commission.

For the same reason, AS 44.19.181 is referred to in line 17 on page 5, where AS 44.66.010(a)(6) is being amended.

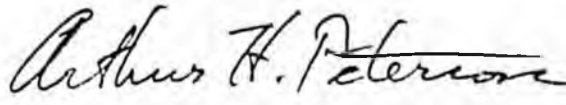
You will note that the repealer in sec. 6 of the order repeals the relevant statutes in their current location, not their old location. AS 44.19.181 -- 44.19.188 are not being repealed. And SB 48, a companion measure, amends two of the Council on Science and Technology statutes in their current location.

It is in sec. 6, however, that a small error appears. The reference to "44.46.100" should be to "44.46.110." I believe that this is a "manifest clerical error" which can be corrected by the co-revisors of statutes under AS 01.05.031(b)(7). It would make no sense to repeal AS 44.46.070 -- 44.46.100 and leave AS 44.46.110 untouched, because the latter section is simply one that gives the short title of that whole group of sections.

If you should have any further questions on this matter, please do not hesitate to call me.

Yours truly,

WILSON L. CONDON
ATTORNEY GENERAL

By: 
Arthur H. Peterson
Assistant Attorney General

AHP:wjp

cc: Donna Pegasus & David Walker
Co-revisors of Statutes
Legislative Affairs Agency

Chris Noah, Executive Director
Council on Science & Technology

THE LEGISLATURE OF THE STATE OF ALASKA
TWELFTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. Executive Order #48
 Title Transfer of the Alaska Council on Science & Tech to Dept. of Admin.
 Requested by Governor Date 1/8/81

II. FISCAL DETAIL

Agency Affected Administration
 Program Category Affected Natural Resources Management and Environmental Conser.
 BRU, Program, or Subprogram(s) Affected Alaska Council on Science and Technology
 (Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 81	FY 82	FY 83	FY 84	FY 85	FY 86
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING (Thousands of Dollars)

GENERAL FUND	-0-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER (Specify Fund Source)						

POSITIONS

FULL TIME						
PART TIME						
TEMPORARY						

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

IV. DATE 1/8/81 PREPARED BY Christopher Noah, Executive Director
 AGENCY Alaska Council on Science and Technology
 PHONE 465-3510
 Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)

2/3/81
4:26 P.M.

uniform

Chris Noak talked w/
A.G.'s office

- Tarja - Has been out of business

send an amendment ASAP recognizing
fact & changing it
→ a technical change

problem -
an chg. could be vetoed

1/20/81

Ernest W. Mueller, Commissioner
Dept. of Environmental Cons.

Executive Order #48

Executive Order 48

Y
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O
C

1/20/81

Judge Crondahl, Leg. Liason

Executive Order #48

Ex. Order #48

Y
d
O
C

1/20/81

Rod Mourant

Executive Order #48

Ex. Order #48

Y
d
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C

Call Sheet

Executive Order # 48

<u>Pos.</u>	<u>Name</u>	<u>Group</u>	<u>Number</u>
<u>Yes</u>	Chris Noah, Ex. Dir.	AK Council on Science & Tech	3510

Executive Order # 48 1/15/81

Chris Noah - #3570

AB 931 - amended Sen.
Ex. Dir. AK Council on Science & Tech.
annual report 1st of Feb.
contact people

- Environmental Conservation

Ernie Mueller

- Dept. of Admin.
Fudy Crandall?

- call list

① advisory

260,000 from leg.

② grants

③ 300,000 - geophysical
regards

1 day notice for hearing

- sd. How's office, Environmental
Conservation Dept. of Admin. all
in favor.

- will send 10 copies of newsletter
& letter re: position by 1/24/80

L X. order 96



Newsletter

Alaska Council on Science and Technology

Volume 1 No. 2

October/November 1980

ACST Report Executive Director

Christopher Noah

Much of this issue focuses on the results of this year's Northern Technology Grants Program. The Alaska Council on Science and Technology was overwhelmed with responses to this popular program - more than three times the number from its initial program. Further, because of the interest of the scientific community, the Council also was able to tap the services of over 200 scientific and technological reviewers - again, up significantly from last year. The Council and I would like to personally thank all who participated in the program.

Now that the Northern Technology Grants Program cycle is over for this year and a new one expected in late winter, we should take time to reflect - to improve the process. For even though the Council was able to grant \$133,000 in projects, there were many which went unfunded. The main cause for this was lack of adequate information presented by the proposers. Either people had misinterpreted our directions in the guidelines and understood "short" to mean loose or we did not provide adequate guidance - or both. We found that although many, many of the ideas were fundable, it was difficult to tell what the applicants were going to do, how they were going to spend the state's funds and how they would transfer their knowledge to other citizens.

We are now in the process of re-writing our grant guidelines to improve directions for the applicants. However, that is only half of the problem. If average citizens are going to be asked to prepare proposals in response to numerous state grant and loan programs, then they should be given assistance on how to write an application for these programs.

There are many ways to do this: conferences for citizens; a simple instruction booklet on how to write state grant and loan applications; a toll-free number with a recorded message; classes at the community college; just to name several.

One might ask "Why didn't the Alaska Council on Science and Technology do this sooner?" This has been a learning experience for us too as it is a new, innovative program; we

have constantly been revising our procedures and guidelines to meet the needs of the citizens of Alaska. And as the Northern Technology Grants Program moves administratively from the Council's tutelage next year, we will pass on our suggestions. Any suggestions from you would also be appreciated.

AAAS Alaska Division News

T. Neil Davis

Approximately 420 registrants attended the successful 31st Alaska Science Conference held at the Captain Cook Hotel in Anchorage, September 17-19. Even before the meeting was over, 1981 Alaska Division president Dr. John Bligh was planning the 32nd annual conference. Dr. Bligh heads the Institute of Arctic Biology, the hosting group for the 32nd conference, to be held in Fairbanks, August 25-27, 1981. This conference will emphasize the biological sciences, but, as with other Alaska science conferences, all topics of northern science will be included.

AAAS Alaska Division President-elect Dr. Vera Alexander, Director of the Institute of Marine Science, will conduct the 1982 conference. This conference, the 33rd, also will take place in Fairbanks.

ACST Meeting

A meeting of the Alaska Council on Science and Technology will be held November 5 and 6, in the second floor display room of the Geophysical Institute, University of Alaska, at Fairbanks.

On November 5, at 2 p.m., the meeting will be open to the public. ACST will welcome input from the public concerning research needs and priorities in Alaska, and discussion concerning the feasibility of suggested projects or dissemination of information.

ACST invites individuals or organizations to contribute to a planned "Calendar of Events and Meetings" in the ACST newsletter.

ACST

Pouch AV

Juneau, Alaska 99811

(907) 465-3510

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Northern Technology Awards

Close to 600 proposals for the Northern Technology 1980 summer grants program were received by ACST. 250 state-wide technological experts assisted the council in evaluating the proposals.

Final grant designations were made by the 15-person Northern Technology Review Committee at Chena Hot Springs in mid-August. Proposals were assessed in terms of innovativeness of approach; potential benefit to Alaska or some segment of its population; basis of concept upon sound scientific principles; approach to use of funds and other criteria.

44 grants, ranging from \$200 to \$5000 were awarded for a total of \$133,000.

Name	Proposal	Amount
Alakanuk City Council Alakanuk	Wind powered generator - for remote villages.	\$4000
Alaska Alternative Energy Resources Center Anchorage	Solar space heater - workshops to be conducted	\$1500
Don Bailey Anchor Point	Furnace conversion - from oil to wood	\$400
Norman Bair Dillingham	Treatment unit - to help establish state disposal regulations	\$1100
Thomas Berson Chugiak	Fuel cell made from scrap metal	\$800
Jim Cunningham Anchorage	Window insulation - vocational school project	\$200
Bill Hall Eagle River	Dog, water, or wind powered washing machine.	\$400
K. Quinn Hart Eagle River	Greenhouse - soil thermal mass storage/waste heat recovery - workshop upon completion	\$2200
Steve Hicks Glennallen	Wind generator to be constructed from junk parts	\$1600
Marnie & John Isaacs Anchorage	Waterproofing for earth shelter house	\$3300
Ed Knoebel Glenallen	Greenhouse using excess domestic warm water from home heating system	\$4100
Alex Matheson Anchorage	Rear axle steering device for truck trailers	\$5000
John Phillips Anchorage	Recycling aluminum scrap into ingots for easy shipping	\$700
Radio Communications Inc Anchorage	Generator - solar/wind to power 25 Watt 12 V D.C. load	\$5000
Robert Reinhardt Aniak	Solar heat house - also used as fruit drying house, greenhouse and clothes drying area	\$5000
Alfred Doner Wasilla	Boiler system - design heat storage tank with solar assist. Add wood burning boiler in series with oil/gas boiler	\$1800
Bruce Forster Homer	Solar wood drying kiln - to use local wood rather than importations	\$3000
William Hightower Moose Pass	Wind generator using auto electrical parts to light outbuilding	\$2600
Edward Johnson Soldotna	Digester - methane gas producing for disposal and energy	\$5000
Cecil Jones Homer	Improved willow rake - remove willow and alder roots with little disturbance to top soil	\$3000
Karen Lee Homer	Fruit/Nut Tree cultivation - to grow fruits and nuts in remote areas	\$1000
Charles Posson Palmer	Permafrost excavation - a prefabricated method - will eliminate major portion of environmental damage - save gas and oil	\$5000
Ricardo Quintoz Valdez	Hybrid electric car - modify gas powered engine compatible to Alaskan weather	\$2300
Elizaveta Shadura Kenai	Flood hydro feed system - use of nutrient film technique	\$5000
Steven Smiley Homer	Solar home plans - to design standard plans that will meet FHA approvals	\$1700
Alaska Federation Community Self Reliance Fairbanks	Greenhouse shutters - rolled down quilt type at community garden project - demonstration project	\$1000
Philip Albert Ruby	Subterranean outbuildings - for chickens, goats, etc., greenhouse on surface	\$4800
Joseph Balch Fairbanks	Solar thawing of permafrost - thermal tube method with heat packet at base of tube	\$5000
Axel Carlson Fairbanks	Effective U-Value measurements - computer program to be developed to convert air tabulate data as U-Values.	\$5000

Bobby Cloyd Fairbanks	Arctic home construction techniques at Hutchinson Career Center - results to be monitored.	\$3400
Michael Crawford Fairbanks	Solar greenhouse - at Two Rivers Grange - used by community, 4-H.	\$4800
John Dillon & Mary Moorman College	Home energy system - build and demonstrate hybrid solar, wood and coal energy system.	\$5000
Chris Lamb Nome	Methane generator - utilizing honey buckets with two-stage generator.	\$400
Ed McGrath Fairbanks	Automated thermal shutters - R value of 18.	\$2400
Robert McHattie & Richard Jurick Fairbanks	Subsurface exploration - to be developed with an electro-magnetic solid conductivity instrument.	\$5000
Carl Pelz Petersburg	Generating system - using Pelton wheel.	\$5000
James Raymond Fairbanks	Data recording instrument - will build for recording environmental data in remote regions.	\$1100
Richard Seifert & Gary Newman Fairbanks	Solar energy heating system - two systems to be monitored and compared.	\$5000
Charles Simmons College	Solar wood drying kiln - to utilize local wood rather than importations.	\$2000
Leslie Viereck Fairbanks	Water heating - a combination of wood stove and solar panels.	\$2000
Ole Wik Savoonga	Fish drying process - vacuum chamber powered by existing wind electric system.	\$5000
Ronald Klein Juneau	Steam plant for small boat - modify commercially made steam boiler and engine.	\$5000
David Molvik Narrows Broadcasting Corp. Petersburg	1 Watt translator - for operation of radio broadcast transmission equipment.	\$5000
Jay Moor Juneau	Home energy conservation system - coordinated by means of small computer or operated manually when power fails. To be demonstrated.	\$4800

Energy Center

The multi-million dollar Energy Research and Development Center, to be headquartered in Fairbanks, is aimed at helping to solve the nation's energy crisis.

The Center will sub-contract for research and will seek the best uses of existing resources while developing alternative energy and renewable resources. One of the center's chief purposes will be to help solve the long-term energy needs of the United States, partially through development of Alaska's huge coal and petroleum reserves.

Rep. Brian Rogers, D-Fairbanks, one of the chief proponents of the legislation for the Center, said it would bring about more efficient and advanced energy technologies, would create jobs and would show the federal government that Alaska is committed to helping solve the nation's energy problems.

\$6 million in funding for the center's first year of operation was also approved by the Governor. The goal is to make the non-profit Center self-supporting through private and federal grants, plus money from patents on new technologies developed. This plan was questioned by several scientists at the recent Science Conference in Anchorage. They argued that the term 'self-supporting' could be used at a later date to legitimately cut off funding to the center, should the 'self-supporting' plan fail.

Through modification of its enabling legislation, the ACST will assist the center's board of directors in various areas. One of these includes recommending projects which should be coordinated or supported by the Alaska Energy Center. ACST Chairman Neil Davis and Executive director Chris Noah met with the Center's board of directors in October.

Earlier this year, energy studies by ACST recommended a number of research projects based on Alaska's natural resources. These natural resources include coal, oil and gas, hydropower, geothermal, windpower and solar energy.

Research Grants

Grants totalling \$300,000 will be allocated by ACST for research on Alaskan natural hazards, domestic violence and one or more categories to be named at an early date, it was announced by Neil Davis, ACST chairman.

\$150,000 will be awarded in one or more grants to support natural hazards research. \$50,000 will be used to develop approaches for prevention of domestic violence. Davis explained that the council is studying priority research needs in Alaska and expects to name the remaining grant proposal categories before the end of this year.

Proposals will be selected for award on the basis of the research design, the capability of the individual or organization submitting the proposal to perform the suggested research, and the apparent potential value of the research to Alaska. December 1, 1980 is the deadline for submitting proposals.

For further information, please write:

**Christopher Noah, Executive Director
Alaska Council on Science and Technology
Pouch AV
Juneau, Alaska 99811**

Report Updates

The following reports are the results of workshops conducted by the Alaska Council on Science and Technology and are available at the ACST office in Juneau.

Report contents include: executive summary, background and status of current research on the subject matter, major issues in research, analysis and discussion, priorities and recommendations, and contributors to the report.

Alaska Seismology **Alaska Agriculture and Animal Husbandry**
Alaska Energy **Husbandry**
Alaska Minerals **Alaska Natural Hazards**
Alaska Health and Human Life

A report on Scientific and Technological Research Needs in Alaska from a joint meeting between the Alaska Council on Science and Technology and the Polar Research Board, including public comments is also available at the ACST office (limited copies).

Newsletter mailing list

ACST is working on updating its present mailing list. If you are receiving duplicate copies of the newsletter, or have changed your address, please notify the ACST office in Juneau. Or, if you have names of individuals or organizations who would be interested in receiving a copy of the newsletter - please let us know.

TV Special

"Grassroots Energy" TV special is a collaborative effort between KAKM and AEIDC, with support from the State of Alaska to document the ACST Northern Technology Grants Program.

Producer Carroll Hodge and cameraman/engineer Bob Jenkins are joined "on the road" with narrator Doug McConnell of the Arctic Environmental Information and Data Center. They visit and film grant recipients from Kasilo on the Kenai Peninsula, through Copper Center to Fairbanks and Chena Hot Springs.

It's an excellent half hour of TV viewing and shows the innovativeness of Alaskans at work. "Grassroots Energy" was aired in Anchorage early in October. Program scheduling for other parts of the state will be announced. Also, there will be an extra videotape available for loan from the ACST office in Juneau.

Science Conference

At the 31st annual Alaska Science Conference, held in Anchorage September 17th through 19th, Alaskan scientists expressed fears that Alaska will be a target for federal cutbacks, which will include scientific research.

Neil Davis, ACST chairman, pointed out that America is already losing its competitiveness in the field of Arctic research and that the only real polar research is being done in the Antarctic.

The problems facing Alaskan research are the closing of federal facilities in Alaska, a slow-down in research funding to the University of Alaska and a breakdown in communication amongst federal agencies concerning responsibilities and interest.

The following letter from Senator Ted Stevens is of interest for it states that the U.S. Senate will earmark \$900,000 for cold weather research this coming year.

Dear Neil:

Thank you for providing me with a copy of your recent letter to Dr. Frank Press, Director of the Office of Science and Technology, about the need to develop a federal commitment to coordinated research in the arctic and subarctic regions. This is an issue that I have addressed while in the U.S. Senate.

For a number of years I fought the Environmental Protection Agency to keep an arctic research laboratory in Fairbanks. This year, the U.S. Senate will earmark \$900,000 for cold weather research in the EPA FY 1981 budget, most of which will be conducted in Alaska.

The Federal Government has been lax in its commitment to scientific research in the part of the world that could provide vast research possibilities. An attempt at a coordinated policy between the Federal, State, and private sectors is a step in the right direction.

On your behalf, I have contacted Dr. Press to request that he look into your concerns and provide me with his comments. In addition, I have asked that he provide me with a copy of his response to your letter.

With best wishes,

Cordially,

(signed) Ted Stevens
United States Senator

Alaska Council on Science and Technology

The Science and Technology Act of 1978 was the first step in political recognition of the importance of the role of science and technology in public policy and decision making. The act gave a statutory framework for the creation of the Alaska Council on Science and Technology. The Council's aim is to guide research activities in support of state objectives and to ensure the efficient transfer of resulting data and information.

Robert D. Burkett
Department of Fish & Game

T. Neil Davis (ACST Chairman)
Geophysical Institute
University of Alaska

Mim Dixon
Private Anthropological Consultant

David Hickok, Director
Arctic Environmental Information & Data Center
University of Alaska

Jay Hogan, Director
Division of Legislative Finance

Ernst Mueller, Commissioner
Department of Environmental Conservation

Richard Straty (ACST Vice Chairman)
Director, Marine Investigations
Auke Bay Fisheries Laboratory
U.S. Dept. of Commerce/NOAA

Christopher Noah, Executive Director
Alaska Council on Science and Technology
Pouch AV, Juneau, Alaska 99811
(907) 465-3510

S

B

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B

FISCAL NOTE

I. REQUEST

Bill/Resolution No. SENATE BILL NO. 13

Title Making special appropriations for capital improvements for projects for which general obligation bonds were approved by the voters Date 1/13/81
Requested by at the 1980 general election.

Requested by Senate State Affairs Committee

II. FISCAL DETAIL

Agency Affected State Bond Committee, Dept. of Revenue

Program Category Affected General Fund

BRU, Program, or Subprogram(s) Affected _____

(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 81	FY 82	FY 83	FY 84	FY 85	FY 86
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						

TOTAL

FUNDING (Thousands of Dollars)

IN TERMS OF OPPORTUNITY COST

	MILLIONS ←	4.0	10.8	14.4	16.7	19.0
GENERAL FUND →						
FEDERAL FUNDS						
OTHER (Specify Fund Source)						

POSITIONS

FULL TIME						
PART TIME						
TEMPORARY						

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

This bill would use a general fund appropriation to pay for these capital improvements rather than issue General Obligation bonds. The opportunity cost assumes the State would either invest its own money, if bonds would have been sold, or if spent on other projects, etc., that project has an implicit rate of return equal to what the State could have gotten by investment.

Assumptions: (1) A 12% earnings rate on invested funds or project.

(2) An 8% interest rate on cost of debt.

(3) If debt were issued it would be as follows (in millions):

FY 82-\$100, FY 83-\$150, FY 84-\$39.712; Total issued \$289,712,500.

(4) Projects start/debt incurred at beginning of each period.

(5) Not discounted for present value.

Anselm C. Staack

IV. DATE February 19, 1981

PREPARED BY Anselm C. Staack, Treasury Comptroller
AGENCY Dept. of Revenue/Treasury Division
PHONE 465-2351

Original: Legislative Finance

cc: Budget and Management

Prime Sponsor (First Legislator Named)

UNIVERSITY OF ALASKA

FAR BANKS ALASKA 19701



TO: Senator Vic Fisher

DATE: 2/25/81

Attached is my testimony before the Senate
State Affairs Committee public hearing on 2/21/81.
I appreciate the opportunity to appear and
present testimony.

Scott Goldsmith

Testimony Before Senate State Affairs Committee

of .

Scott Goldsmith
Institute of Social and Economic Research

February 21, 1981

Senate Bill 13 - An act to appropriate cash from the general fund to pay for capital improvements approved by G.O. bonds in 1980.

The logic of borrowing to pay for capital projects when the state has the money to pay cash rests upon the idea of "arbitrage." That is the ability to earn money by borrowing at a low rate of return and investing the borrowed funds at a higher rate of return. When arbitrage is possible, income is maximized by borrowing to pay for capital and, in fact, any expenditure. Thus, when the state can effectively invest money at a higher return than it must pay to borrow, paying cash does not maximize state revenues.

There are, however, two considerations which could alter this conclusion in the unique situation which faces the state of Alaska.

1. The arbitrage model assumes rational behavior on the part of government. Although government is composed of rational individuals, their collective decisions on the spending of money are not always rational. In other words, money gets spent on projects which do not yield a positive return, and this is more likely to occur when the state has more money to spend.

Thus, in analyzing whether paying cash for capital projects makes sense, you should try to determine what spending would be eliminated by such a policy. (Or if the capital project were paid for with borrowed funds, what would actually happen to the funds made available for other purchases.) If unproductive investments are curtailed, then the opportunity cost of paying cash would be zero and no income would be lost. If productive investments are curtailed, then the opportunity cost of paying cash is the lost income from arbitrage.

2. At some time, ten-to-twenty years hence, state revenues, because they are so dependent upon Prudhoe Bay oil and gas production, will be considerably smaller than today. It is unlikely that public needs will be less, however. This suggests the public spending opportunities available to the next generation will be limited relative to our own. Further restricting their options with the requirement of retiring a substantial debt may be an unfair burden. In the extreme, state revenues could fall to such a level that they would all be required for debt service, leaving nothing for schools, highway maintenance, etc. Simply put, an ability to pay criterion suggests paying cash for capital projects.

One rationale for debt finance is to pay for the facility over its lifetime, such that those people pay who are actually getting the benefits as the good is consumed. In the Alaskan context, this rationale may break down because of the transient nature of the population associated with the boom-bust character of the economy, combined with the nature of the project "benefits." For example, a benefit advanced for many capital projects is the employment generated in the construction phase. This directly benefits the present population but not the population which may be here in ten-to-twenty years. The people benefiting today may leave Alaska when the boom construction jobs are all gone because state revenues cannot support them. Should they leave behind an unpaid bill in the form of annual debt service payments for those who remain in the state after the bust?

Senate Bills 21 and 68 - An act to appropriate general fund money to the permanent fund.

State revenues from Prudhoe Bay should be viewed as a one-time inheritance. From this perspective, rules about the proportion of revenues which should be saved in the permanent fund emerge.

The unique good fortune of Alaska in its ownership of Prudhoe Bay reserves is evident from the attached Table A which compares the initial reserves in the Prudhoe Bay Field with the largest oil fields in North America and the world. At 10 billion barrels, Prudhoe Bay contains the largest reserves in North America, and only two other fields in the United States had over 2 billion barrels. A field of 100 million barrels, which would be one-hundredth as large as Prudhoe, is considered a giant and hailed as a major discovery in the United States. Consequently, the probability of the discovery of additional reserves, on state land, to compensate the state treasury for the eventual decline in Prudhoe Bay oil production is virtually nil.

Thus, Prudhoe Bay state resources are an inheritance, primarily in the form of oil in the ground but partly in the form of money into which some of the oil is annually transformed. This is commonly called revenues but is more properly viewed as a portion of the principal of the inheritance in monetary, rather than physical (oil in place), form.

Using current (FY 1982) estimates of the per barrel revenues from Prudhoe Bay oil as well as current estimates of recoverable oil, the present value (in 1981 dollars) of the state's inheritance is very roughly \$80 billion (royalties and various taxes associated with oil production and transportation).

We can easily calculate that if that \$80 billion were all invested to earn a 2 percent real rate of return, the state could withdraw \$1.6 billion annually from the invested fund without reducing its value. This \$1.6 billion (in 1981 dollars) would be the annual annuity which could be withdrawn every year to finance government. Such an annuity could completely finance the 1980 state budget.

This suggests that saving \$1.5-to-\$1.8 billion out of total revenues of \$6.6 billion and spending \$4.7-to-\$5 billion is cutting into principal to the tune of over \$2 billion. Thus, if one objective of financial planning is a sound long-term, revenue-generating base, a policy of saving \$1.5-to-\$1.8 billion this fiscal year in the permanent fund is inadequate.

It will, of course, be argued that the best way to ensure a stable long-term tax base is through investment in state resources. The truth is that the revenue-generating capacity of other resources does not have any possibility of providing revenues equal to the \$1.6 billion annuity available through a savings and investment program of the permanent fund.

For example, consider coal. Demonstrated resources in Alaska are about 4.8 billion tons, primarily centered at the Neona and Susitna Coal Fields (McGee and O'Connor, Mineral Resources of Alaska and the Impact of Federal Land Policies on their Availability: Coal, Open File Report #51, BNR, DGGG, 1975, p. 2).

If the state could get a 30 cent royalty on each ton of coal mined, how many tons would need to be mined annually to generate \$1.6 billion from royalties? (The minimum royalty rate on state land is 5¢/ton with recent leases carrying a 20¢-35¢ royalty rate.) The answer is 5.3 billion tons. So each year, more coal would need to be mined than is currently available as reserves in order to match the \$1.6 billion annuity. (The mining license tax and corporate income tax would generate some additional revenue but would not substantially alter the conclusion.) It is interesting to note that actual production of coal is presently about one million tons, or about 1/6th the amount necessary for a tax base dependent upon coal.

5300

TABLE A

I. LARGEST OIL FIELDS IN NORTH AMERICA

		<u>Billion Barrels</u>
1. Prudhoe Bay	USA	10.014
2. Chiapas	Mexico	6.513
3. East Texas	USA	5.999
4. Wilmington	USA	2.418
5. Poza Rica	Mexico	2.020
6. Pembina	Canada	1.742
7. Midway Sunset	USA	1.683
8. Yates	USA	1.600
9. Wagon	USA	1.508
10. Kern River	USA	1.453
11. Panhandle	USA	1.415
12. Swan Hills	Canada	1.315
13. Ebanco-Panuco	Mexico	1.304
14. Sho-Vel-Tum	USA	1.300
15. Elk Hills	USA	1.296
16. Naranjos Cerro Azul	Mexico	1.177
17. Huntington Beach	USA	1.076
18. Santa Ynez	USA	1.000

II. LARGEST OIL FIELDS IN THE WORLD

1. Burgan	Kuwait	68.930
2. Ghawar	Saudi Arabia	60.273
3. Safania	Saudi Arabia	17.051
4. Kirkuk	Iraq	16.320
5. Samotjerskoye	USSR	14.600
6. Romashkino	USSR	14.040
7. Rumaila	Iraq	13.835
8. Gachsaran	Iran	11.435
9. Marun	Iran	10.687
10. Lagunillas	Venezuela	10.732
11. Agha Jari	Iran	10.034
12. Prudhoe Bay	USA	10.014



ALASKA ASSOCIATION OF REALTORS®

1818 W. Northern Lights Blvd., Suite 104 • Anchorage, Alaska 99503
Telephone 907-272-8016

1981

Alaska Association of Realtors Statement of Legislative Policy

PREAMBLE

Under all is the land. Upon its wise utilization and widely allocated ownership depend the survival and growth of free institutions and of our civilization. The Alaska Association of REALTORS recognizes that the interest of our State and its citizens requires the highest and best use of the land and the widest distribution of land ownership. They require the creation of adequate housing, the building of functioning cities, the development of productive industries and farms, and the preservation of a healthful environment.

In furtherance of these needs and desires, the Alaska Association of REALTORS, by action of its membership meeting in convention at Juneau, Alaska, in September, 1980, has adopted a Statement of Legislative Policy as a guideline for evaluation of legislation pending before the 1981 session of the Alaska State Legislature. Said Statement of Legislative Policy is as follows.

Permanent Fund Legislation

We believe that monies invested in the Permanent Fund should be primarily invested in the State of Alaska for the purpose of improving the economic well being of the State and the standard of living and life styles of its citizens. We specifically oppose the current policy of investing the majority of the fund outside Alaska.

Where possible, existing financial institutions should be utilized to originate and service loans from the Permanent Fund.

We believe that the earnings from such investments should be reinvested in the same manner as the original principal.

Stimulation of the Economy

We favor expedited capital expenditures on projects already approved in bond elections by the citizens of the State of Alaska, or approved by the Alaska State Legislature, and the immediate funding of other projects with long-term economic benefits.

We oppose short-term economic stimulation through programs such as increased unemployment compensation which have no long-term economic benefit.

We support use of State funds including money from the Permanent Fund for business loans, and loans for agricultural, fishing, tourism, and natural resource development.

Tax Relief

We favor tax relief which will benefit and encourage private property ownership, and economic development.

Business Loans

We support expansion of the current business loan program to include loans for purchase of inventory and equipment and/or establishing working capital. Pledges of inventory, equipment, accounts receivable, and other business assets should be accepted as acceptable collateral.

The current business loan program should be

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Testimony of Robert B. Flint
of
Wohlforth & Flint, State Bond Counsel
on S. B. 13 Before the
Senate Committee on State Affairs
Alaska State Legislature

Mr. Chairman and members of the Committee on State Affairs, I am Robert B. Flint, a partner in the law firm of Wohlforth & Flint, Bond Counsel to the State Bond Committee. I appreciate the invitation extended to our firm to testify on S. B. 13 which would appropriate general fund money for the capital projects approved at the 1980 bond election. Since the State currently enjoys a large cash surplus a number of advocates have urged a cessation of general obligation bonding for capital improvements and the pursuit of a cash only policy. My remarks today are confined to an analysis of this position and of S. B. 13 from a financial point of view. I recognize that there are considerations other than financial that need to be taken into account, but such political or policy questions are beyond our firm's role as Bond Counsel and legal advisor to the State Bond Committee.

ALTERNATE OPPORTUNITY

From a financial perspective a "cash only" policy is unwise. One of the advantages of borrowing money for capital improvements as opposed to paying cash is an expansion in the availability of funds. For most state and local governments this means an ability to build projects that they could not otherwise afford. Alaska is obviously not in this position but it

does have alternative uses for its surplus cash. The State has decided as a matter of policy to set aside a portion of the nonrecurring oil wealth in a permanent fund to ensure its availability after the oil runs out. To the extent the State builds its capital improvements for cash there will be less funds available for this kind of set-aside.

There is an ascertainable cost to such a "cash only" policy since funds set aside will earn more than the cost of borrowed funds cost. The estimated earnings over and above borrowing costs for ten year bonds with level principal payments in the amount of \$150 million is \$33 million. If the current borrowing rate of approximately \$150 million per year is assumed the lost earnings for the 25 year life of Prudhoe Bay is \$825 million without allowance for compounded interest. As capital needs and costs will increase this estimate is very conservative.

Obviously such money is not needed currently but we all know that the oil will be gone within our lifetime. At the time Prudhoe runs out our savings will be needed at least to cushion the shock of transition to normal taxation and budgeting. The idea of special funds is to preserve some of the wealth for future generations. Judicious use of general obligation debt can materially assist this goal.

FISCAL OVERSIGHT

Regular entry into the municipal bond market subjects the State to the scrutiny of that market and the rating agencies. Such an exposure is a helpful aid to the self-discipline necessary even in affluent times. Moreover it builds a reputation with the market that is invaluable when

borrowing becomes necessary. Alaska has carefully built its reputation over the last 20 years starting with a Baa rating (medium grade with speculative characteristics) to Aa (high grade) this year. This effort has resulted in excellent interest rates for State borrowing. The table on Exhibit "A" shows the improvements in the state's credit. If entry into the bond market is stopped this effort will be wasted. After the oil is gone the State will simply have to start all over again. Like any private person a State must establish credit. An applicant who has never borrowed is a poorer risk than one who has. The bond market is like all bankers. The devil it knows is preferred to the saint it doesn't. It would be wise to leave a good credit rating to future generations.

FINANCIAL IMPACT

The current impact of debt service on the State budget is minimal. Only 2.9% of 1980 general fund revenues were spent on debt service. The ratio of debt to assessed valuation in 1979 was about 3%. These are low figures which will certainly decline further even if borrowing is increased. The table on Exhibit "B" shows the decline in the debt burden. There is plenty of room to continue a sensible borrowing program.

CONCLUSION

From the point of view of a technical advisor S. B. 13 is not good public policy. The cost will be substantial to the state if adopted and continued during the period of oil wealth. Continuing the present policy of a conservative use of the capital markets on the other hand has clear

Testimony of Robert B. Flint
Page 4

benefits without any negative effects. As I stated in my opening remarks the perspective I present today is limited and is intended to provide information for your consideration. As Bond Counsel to the state, I, of course, take no position on the actual passage of S. B. 13.

EXHIBIT "A"

State G.O. Bonds

The following tabulation gives details of bonds sold since 1973:

Date of Bonds	Amount of Issue (Millions)	Maturities	Avg. Life in Years	NIC	Bond Buyer Index	Interest Cost Per Borrowed Dollar	Ratings (at the time of issuance) Moody's/S&P
Jan. 15, 1973	\$ 20.0	1976-1998	15.3	5.12%	5.08%	78.2¢	Baa 1/A
June 1, 1973	27.0	1976-1998	14.8	5.10	5.10	75.6	Baa 1/A
Aug. 1, 1973	31.0	1977-1998	16.7	5.80	5.58	96.8	Baa 1/A
Sept. 1, 1974	30.0	1978-1998	15.6	6.85	6.88	107.2	A 1/A
Feb. 1, 1975	40.3	1978-1998	14.6	5.98	6.59	87.3	A 1/A+
May 1, 1975	42.0	1979-1999	15.1	6.52	6.95	98.5	A 1/A+
Oct. 1, 1975	42.9	1978-1997	12.5	6.85	7.49	85.8	A 1/A+
March 1, 1976	40.0	1978-1993	9.5	5.86	6.95	55.7	Baa 1/A+
July 1, 1976	40.0	1978-1993	9.5	5.80	6.87	57.3	A 1/A+
Feb. 1, 1977	40.0	1979-1988	9.5	5.08	5.90	48.3	A 1/A+
Oct. 1, 1977	40.0	1979-1988	7.0	4.50	5.50	29.3	A 1/A+
April 1, 1978	45.0	1980-1988	7.0	4.86	5.59	29.2	A 1/A+
Jan. 1, 1979	40.0	1979-1989	5.5	5.52	6.29	30.0	A 1/A+
May 1, 1979	60.0	1979-1989	5.5	5.59	6.25	32.1	A 1/A+
July 1, 1980	125.0	1981-1990	5.5	5.76	7.55	35.8	Aa/AA-

Source: John Nuveen & Co. Incorporated

EXHIBIT "B"

The schedule below compares debt service with general unrestricted revenues for the last eight fiscal years:

Fiscal Years Ending June 30	General Unrestricted Revenues (Millions)	Debt Service (Millions)	Percent Required for Debt Service
1973	\$ 214.6	\$23.5	10.95
1974	258.1	26.3	10.22
1975	333.6	30.1	9.03
1976	705.4	35.1	4.98
1977	877.4	41.8	4.77
1978	768.0	50.0	6.51
1979	1,117.4	60.0	5.36
1980 (est.)	2,550.0	75.1	2.95
1981 (est.)	3,808.8	—	—

Source: John Nuveen & Co. Incorporated

SENATE STATE AFFAIRS COMMITTEE HEARING

ON

1. DEPOSITS IN THE PERMANENT FUND: 2. PAYING CASH FOR CAPITAL IMPROVEMENTS

February 21, 1981

Testimony by Harold E. Pomeroy

Our future is bright if we don't spend billions and billions of dollars unproductively trying to create an artificial destiny for Alaska.

Right now we are misreading the signals.

There is popular belief that if we just do the right things we can achieve a prosperous, diversified and renewable resources economy, including renewable resource production and processing-manufacture. This means, of course, producing goods for export.

We are negligible producers of processed-manufactured goods - with few exceptions, relative to our resource production and services economy, due to far higher costs here than elsewhere - costs that cannot be cured by spending money. Where the potential for competitive position in the market is lacking, direct and indirect aid is only creating artificial viability that can last only until the money runs out.

The wrong signal is that somehow, if we just put enough money into artificial viability in the direction of diversification and renewable resource processing we can turn a liability into an asset. The result is the false assumption that taxes generated out of these areas of activity will be able to make up for less oil income in the future.

The hard fact is that there is no basis whatever for believing the aggregate of all tax revenue from all sources, other than oil production will increase the approximate 1/10 of our expenditures such revenues now pay, by an appreciable amount, if at all - unless taxes are raised drastically.

Testimony, 2/21/81

Harold E. Pomeroy

Take the molybdenum mine soon to be established near Ketchikan. Though one of the largest deposits anywhere, molybdenum won't be made there; the concentrate will go Outside for processing for reasons of economy. Would we increase taxes on the plant two or three or more times in the future to make both ends meet due to less oil income?

Our future economic stability rests heavily on the reason the question has to be asked.

There will be a few individual exceptions to the revenue potential overall - plants with profits coming from huge investments and very few workers.

We can be encouraged about the future if we take the right signal from the dramatic increase in the amount of oil income from even two years ago. A Permanent Fund that generates a substantial part of future needed revenue is practical - with room also for such benefits as no personal income tax and some desirable capital improvements that are cost effective.

Our tremendous good fortune in quantity of oil money is that we can make massive early years deposits in the Permanent Fund, accumulate the interest and arrive at a total of as much as \$125 billion to produce \$13 billion or \$14 billion in annual revenue from then on.

We should place the highest priority on action to secure as strong a financial future as possible, rather than to grab more toward a taxless society and what amounts, indirectly, to colossal price support for economic enterprise that simply isn't economically viable in the open market.

PERMANENT FUND

BUDGET GROWTH

	I. \$2 Billion at 11% compounded	II. \$4 Billion at 11% compounded	III. \$2 Billion - at 11% rate of increase	IV. \$2 Billion - at 15% rate of increase
Yrs				
5	\$3.37	\$6.74	\$3.37	\$4.02
10	\$5.68	\$11.36	\$5.68	\$8.09
15	\$9.57	\$19.14	\$9.57	\$16.27
20	\$16.12	\$32.29	\$16.12	\$32.73

- I. At the end of 20 years the \$16.12 would produce \$1.67 billion yearly - from then on.
- III. The \$1.67 billion would not go very far toward funding the \$16.12 billion budget.
The 11% rate of increase may not be enough for inflation and population growth and would allow zero for real growth.
- IV. At 15% growth, \$120 billion in the Permanent Fund would produce about \$13 billion in earnings revenue toward the \$32.73 billion budget

February 21, 1981

Harold E. Pomeroy

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

FINANCE DIVISION
POUCH WF—STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3795

MEMORANDUM

DATE: January 22, 1981

TO: Honorable Al Adams
House of Representatives
Alaska State Legislature

FROM: Milt Barker, Fiscal Analyst
Legislative Finance Division

Defease State G.O. Bonded Debt

The Department of Revenue estimates the total cost to defease all state G.O. bonds in FY 82 at \$905 million. This is made up of three items:

Defease \$720 million of outstanding G.O. bonds	\$570 million
Cash out all authorized but unissued bonds	463 million
Delete FY 82 debt service	(128 million)
	<u>\$905 million</u>

The \$570 million would be paid over to bond trustees to purchase securities whose term and value at maturity matched the \$720 million in bond maturities to be paid by the state. The AG does not believe authorizing legislation for this is necessary. However, there is no mention of such action in AS 37.15, the state bonding act, so it might be a good idea to have authorizing legislation.

The \$463 million in cash would be to fund the capital projects that would have been funded with bond proceeds. The state's bond counsel says there would be trouble with the IRS if we defeased outstanding bonds and then subsequently issued new bonds within a few years time.

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

FINANCE DIVISION
POUCH WF-STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3795

M E M O R A N D U M

DATE: June 23, 1980

TO: Honorable Russ Meekins, Chairman
House Finance Committee

FROM: Milt Barker, Fiscal Analyst
Legislative Finance Division

SUBJ: Refunding G.O. Debt

In the attached letter of April 7, 1980 from Bache Halsey, it is claimed that refunding the outstanding general obligation indebtedness of the state will result in savings in debt service on a present value basis. This does not appear to be the case.

If the refunding debt is issued at 8.5% as in the Bache projection, then the average rate of earnings on general or permanent fund investments should be around 11.5%.¹

If the debt service schedules for outstanding debt² and refunding debt are discounted at 11.5%, which more properly represents the alternative earnings rate on funds that would be used for debt service, i.e. their opportunity cost, the existing schedule of debt service has the lowest present value, i.e. least cost to the state.

-
1. See attached Table 1 and yield chart which indicate that the average interest differential over the past five years between municipal and corporate Aa bonds has been 3.05%.
 2. Bache's total for existing debt service of \$831 million appears to be total debt service for fiscal years 1981 through 2000 exclusive of the debt service on the 1979 Bond Series B. See attached schedule from the "official statement" for the 1979 sale.

Only if the discount rate is reduced to 10%, representing arbitrage earnings of only 1.5% between state G.O. debt and other market instruments, does the present value cost of the refunding debt service roughly equal the present value cost of existing debt service.

	<u>Present value of Debt Service (\$ millions)</u>	
	<u>@ 10%</u>	<u>@ 11.5%</u>
Existing	444.3	412.2
Refunding		
5 year maturity	443.9	427.4
8 year maturity	449.7	426.2

The point here is that as long as the state can earn arbitrage because of the lower tax-exempt rates on its bonds, the state profits by having more debt outstanding over a longer period of time. Shortening the state's debt structure is not of financial benefit.

If an improvement in the state's bond rating is desired by committing funds to pay off the bonds, the Nuveen approach described in the attached Memo of February 6, 1980 is a better alternative in that there is no shortening of the state's debt structure and thus no reduction in the arbitrage earnings that will accrue to the state.

attachments

MB:bf

Bache

Bache Halsey Stuart Shields Incorporated
Bache Plaza, 100 Gold Street
New York, N.Y. 10038 (212-791-3688)

Samuel L. Plaia
First Vice President

April 7, 1980

Mr. Peter A. Bushre
Deputy Commissioner of Revenue
State of Alaska
Department of Revenue
State Office Building
Juneau, Alaska

Re: Alaska Debt Reorganization

Dear Mr. Bushre:

Preparatory to making a detailed presentation to the State Bonding Commission relative to the above subject, we thought we should give you a summary of the two variations on the refunding program and some selected data on each.

For calculation purposes, we have chosen an 8 1/2% rate and one bond issue dated June 1, 1980, with principal retirements beginning June 1, 1981, and a final maturity of June 1, 1988. The other issue will be dated the same but have its final maturity on June 1, 1985.

Total debt service on the outstanding bonds is \$863,523,203 and accrued debt service at June 1, 1980, will be \$32,338,362 (will have been paid) leaving a net of \$331,184,841 to be provided for by the escrowed proceeds of the refunding bonds plus the earnings of the escrowed funds.

The two refunding issues will comprise the following debt service schedules:

Mr. Peter A. Bushre
 Page 2
 April 7, 1980

Issue "A" - 8 1/2%

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
6.1981	\$ 43,910,000	\$ 40,424,300	\$ 84,334,300
6.1982	47,645,000	36,691,950	84,336,950
6.1983	51,690,000	32,642,125	84,332,125
6.1984	56,085,000	28,248,475	84,333,475
6.1985	60,855,000	23,481,250	84,336,250
6.1986	66,025,000	18,308,575	84,333,575
6.1987	71,640,000	12,696,450	84,336,450
6.1988	<u>77,730,000</u>	<u>6,607,050</u>	<u>84,337,050</u>
Totals	\$475,580,000	\$199,100,175	\$674,680,175

Gross Savings

Net Outstanding Debt Service	\$831,184,841
Refunding Bonds Debt Service	<u>674,680,175</u>
Gross Savings	\$156,504,666

Present Value Savings

Net Outstanding Debt Service Present Value @ 8.5%	\$488,608,900
Refunding Debt Service Present Value @ 8.5%	<u>-475,580,000</u>
Present Value of Difference	\$ 13,028,900

Mr. Peter A. Bushre
 Page 3
 April 7, 1930

Issue "B" - 8 1/2%

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
6.1981	\$ 77,895,000	\$ 39,233,875	\$117,128,875
6.1982	84,520,000	32,612,800	117,132,800
6.1983	91,705,000	25,428,600	117,133,600
6.1984	99,500,000	17,633,675	117,133,675
6.1985	<u>107,955,000</u>	<u>9,176,175</u>	<u>117,131,175</u>
Totals	\$461,575,000	\$124,085,125	\$585,660,125

Gross Savings

Net Outstanding Debt Service	\$831,184,841
Refunding Bonds Debt Service	<u>585,660,125</u>
Gross Savings	\$245,524,716

Present Value Savings

Net Outstanding Debt Service Present Value @ 8.5%	\$488,608,900
Refunding Debt Service Present Value @ 8.5%	<u>-461,575,000</u>
Present Value of Difference	\$ 27,033,900

The "A" issue plan drains an extra \$167,294,416 over an eight-year period from the general funds of the State; this being over and above the existing debt service. In other words an additional average of \$21,000,000 per year is committed to debt service.

The "B" issue plan drains an extra \$266,017,994 over a five-year period from the state's general funds compared to outstanding debt service, or an average of in excess of \$53,000,000 annually. Obviously, this latter plan is more "dramatic" and also produces an extra \$14,000,000 in present value savings.

Mr. Peter A. Bushre
Page 4
April 7, 1980

The merits of both plans can be discussed in detail at a formal presentation. At that presentation to the State Bond Committee, in a form as suggested by Anselm Staack, the escrow investment income will be demonstrated to provide the necessary funds to fully extinguish the State's outstanding debt.

We look forward to hearing from you as to when we might return to Juneau for a formal presentation. At that time, we will be accompanied by representatives of Haynes & Miller, special counsel on the debt reorganization.

Sincerely,



SLP:ln

cc: Mr. Anselm Staack, Department of Revenue
Rep. Hugh Malone, House of Representatives
Mr. Jim Rhode, Rep. Malone's Aide
Rep. Russ Meekins, House of Representatives
Mr. Mike Doonan, Rep. Meekins' Aide

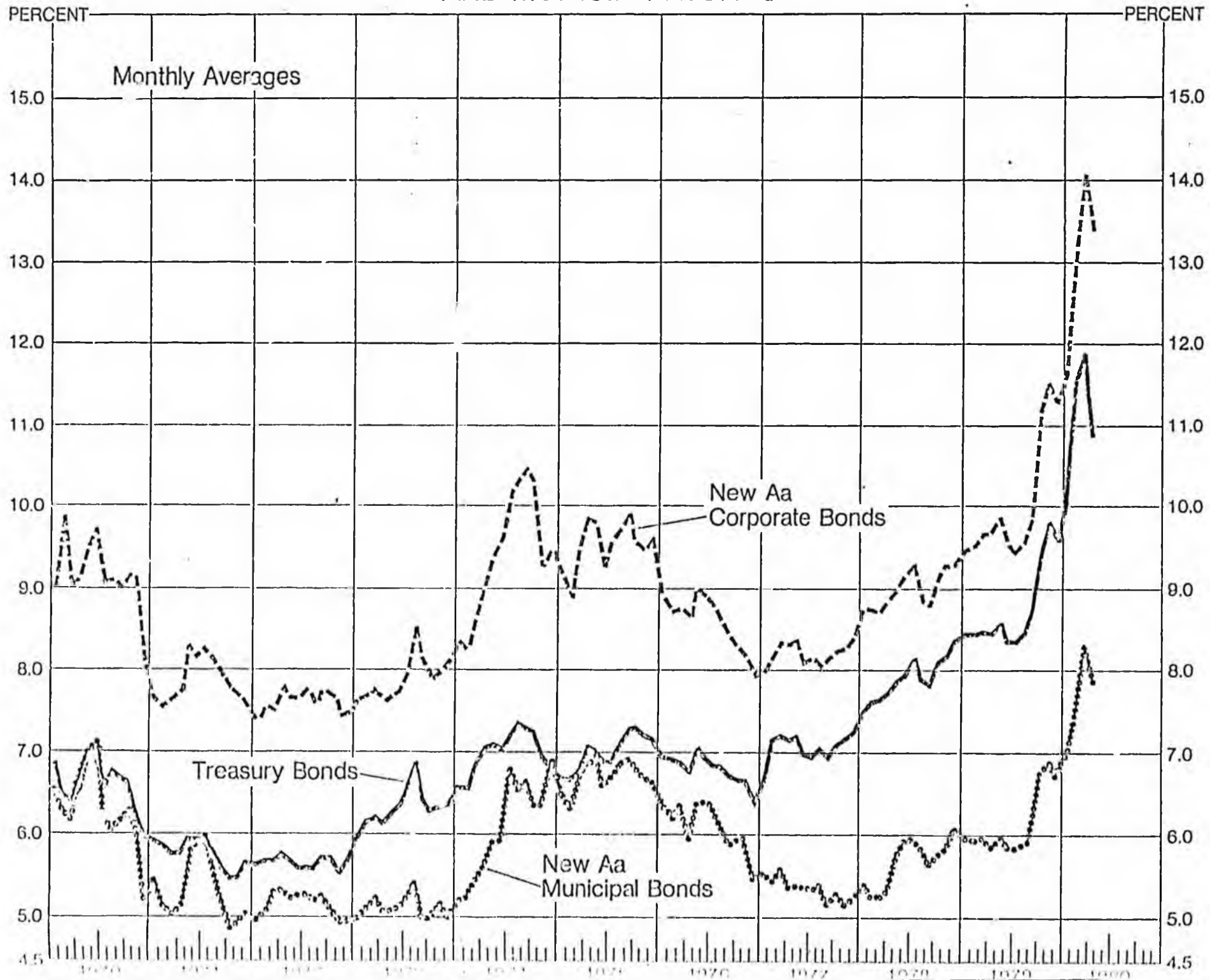
TABLE 1

INTEREST RATES ON BONDS
OF TWENTY YEAR OR GREATER MATURITIES

<u>YEAR</u>	Aa <u>CORPORATE</u>	Aa <u>MUNICIPALS</u>	<u>DIFFERENCE</u>
1979	9.77	6.00	3.77
1976	8.98	5.65	3.33
1977	8.20	5.34	2.86
1976	8.59	6.09	2.50
1975	9.51	6.70	<u>2.81</u>
		Five-year Average	3.05

Source: November 1979 Treasury Bulletin

AVERAGE YIELDS OF LONG-TERM TREASURY, CORPORATE, AND MUNICIPAL BONDS



DEBT SERVICE REQUIREMENTS

The annual debt service requirements on all outstanding State of Alaska general obligation bonds are shown below, together with the estimated annual debt service requirements on the State of Alaska 1979 Bonds, Series B, assuming interest at 6%.

Fiscal Year Ending June 30	Debt Service on Outstanding Bonds			1979 Bonds Series B			Estimated Debt Service Total
	Principal	Interest	Total	Principal	Interest	Total	
1979	\$ 25,710,000	\$ 33,177,202	\$ 58,887,202	\$ —	\$ —	\$ —	\$ 58,887,202
1980	33,780,000	33,825,273	72,605,273	6,000,000	3,600,000	9,600,000	82,205,273
1981	37,045,000	31,604,607	68,649,607	6,000,000	3,240,000	9,240,000	77,889,607
1982	40,265,000	29,432,781	69,697,781	6,000,000	2,880,000	8,880,000	78,577,781
1983	40,500,000	27,147,922	67,647,922	6,000,000	2,520,000	8,520,000	76,167,922
1984	40,945,000	24,894,165	65,839,165	6,000,000	2,160,000	8,160,000	73,999,165
1985	40,830,000	22,624,860	63,454,860	6,000,000	1,800,000	7,800,000	71,254,860
1986	42,235,000	20,340,763	62,575,763	6,000,000	1,440,000	7,440,000	70,015,763
1987	41,350,000	18,071,221	59,421,221	6,000,000	1,080,000	7,080,000	66,501,221
1988	41,665,000	15,815,505	57,480,505	6,000,000	720,000	6,720,000	64,200,505
1989	36,717,000	13,509,721	50,226,721	6,000,000	360,000	6,360,000	56,586,721
1990	28,550,000	11,581,590	40,131,590	-0-	-0-	-0-	40,131,590
1991	28,989,000	9,958,430	38,947,430	-0-	-0-	-0-	38,947,430
1992	29,849,000	8,303,425	38,152,425	-0-	-0-	-0-	38,152,425
1993	25,063,000	6,656,987	31,719,987	-0-	-0-	-0-	31,719,987
1994	20,598,000	5,219,975	25,817,975	-0-	-0-	-0-	25,817,975
1995	19,096,000	3,987,625	23,083,625	-0-	-0-	-0-	23,083,625
1996	18,610,000	2,864,412	21,474,412	-0-	-0-	-0-	21,474,412
1997	14,865,000	1,800,419	16,665,419	-0-	-0-	-0-	16,665,419
1998	13,330,000	1,006,194	14,336,194	-0-	-0-	-0-	14,336,194
1999	8,640,000	368,931	9,008,931	-0-	-0-	-0-	9,008,931
2000	2,531,000	60,081	2,591,081	-0-	-0-	-0-	2,591,081
Total	<u>\$636,213,000</u>	<u>\$322,263,089</u>	<u>\$958,476,089</u>	<u>\$50,000,000</u>	<u>\$19,800,000</u>	<u>\$79,800,000</u>	<u>\$1,038,276,089</u>

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

FINANCE DIVISION
POUCH WF-STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3795

MEMORANDUM

TO: Hon. Leo Schaeffer
House Finance Committee

DATE: February 6, 1980

FROM: Milt Barker ^{MB}
Fiscal Analyst

SUBJ: Paying off State Bonds

Outstanding state general obligation bonds of \$670,503,000 could be paid off with an appropriation of \$546 million according to item 2 of the attached letter from John Nuveen & Co., the state's financial advisor.

The prefunding approach suggested by Nuveen would not cost the state any lost interest as would paying off the bonds immediately. In other words, the state hangs on to its cash, invests it at taxable rates, say 10%, while continuing to pay off bonds at only 6% or so, thus earning a net of 4% interest which it would not earn if the bonds were simply paid off.

Yet, the prefunding approach does assure bondholders of being paid off. This has two effects. One, existing bonds would immediately get improved ratings; the state would not benefit on this account but the bondholders would as there would be an immediate increase in the value of their bonds should they wish to sell them. Sterling Gallagher of Nuveen & Co. has suggested the state try to capture some of the increase in bond prices that would occur by making the prefunding contingent on bondholders turning in their existing bonds in exchange for new bonds with a lesser coupon or interest rate. We could split the difference of the price increase with them.

The second effect of prefunding would be to improve the ratings for any future bonds the state issues. Here, the state would get the full benefit of the effect. However, as the attached tables indicate the maximum reduction in the interest rates would normally be no more than thirty basis points or .3%. This is based on the state going from its present A1 or A+ rating to Aaa. On \$100 million of bonds with an average 5 year maturity, this would thus save the state at most \$1,980,000 in interest costs over the life of the bonds.

Sterling Gallagher has also suggested that prefunding only the later maturities of the bonds could have the same effect on the interest cost to the state of future bond issues. In other words, the state's revenues on Prudhoe Bay production in the near-term would provide maximum security for bonds while prefunding

Hon. Leo Schaeffer
February 6, 1980
Page Two

would serve the same function after Prudhoe begins to decline. Mr. Gallagher estimates only \$100 million in prefunding would be required to prefund the tail end of outstanding state GOB's.

If you wish to seriously consider an appropriation for prefunding, we should request a legal opinion from state bond counsel as to whether such prefunding would cause any IRS arbitrage problems. In other words, the guarantee fund established by prefunding could result in the IRS finding that the prefunded bonds are arbitrage bonds and taking away the federal income tax exemption allowed on interest received by the bondholders. This would have no direct cost to the state, but the bondholders would undoubtedly prefer that prefunding not be done in that case.

In the attached letter from Orrick, Herrington, the state's bond counsel, a preliminary judgment is made that "establishment of the fund (prefunding account) probably could not affect the tax status of interest on bonds issued before the fund is established".

MB:kw

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

FINANCE DIVISION
POUCH WF-STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3795

MEMORANDUM

TO: Hon. Leo Schaeffer
House Finance Committee

DATE: February 6, 1980

FROM: Milt Barker *MB*
Fiscal Analyst

SUBJ: Paying off State Bonds

Outstanding state general obligation bonds of \$670,503,000 could be paid off with an appropriation of \$546 million according to item 2 of the attached letter from John Nuveen & Co., the state's financial advisor.

The prefunding approach suggested by Nuveen would not cost the state any lost interest as would paying off the bonds immediately. In other words, the state hangs on to its cash, invests it at taxable rates, say 10%, while continuing to pay off bonds at only 6% or so, thus earning a net of 4% interest which it would not earn if the bonds were simply paid off.

Yet, the prefunding approach does assure bondholders of being paid off. This has two effects. One, existing bonds would immediately get improved ratings; the state would not benefit on this account but the bondholders would as there would be an immediate increase in the value of their bonds should they wish to sell them. Sterling Gallagher of Nuveen & Co. has suggested the state try to capture some of the increase in bond prices that would occur by making the prefunding contingent on bondholders turning in their existing bonds in exchange for new bonds with a lesser coupon or interest rate. We could split the difference of the price increase with them.

The second effect of prefunding would be to improve the ratings for any future bonds the state issues. Here, the state would get the full benefit of the effect. However, as the attached tables indicate the maximum reduction in the interest rates would normally be no more than thirty basis points or .3%. This is based on the state going from its present A1 or A+ rating to Aaa. On \$100 million of bonds with an average 5 year maturity, this would thus save the state at most \$1,980,000 in interest costs over the life of the bonds.

Sterling Gallagher has also suggested that prefunding only the later maturities of the bonds could have the same effect on the interest cost to the state of future bond issues. In other words, the state's revenues on Prudhoe Bay production in the near-term would provide maximum security for bonds while prefunding

Hon. Leo Schaeffer
February 6, 1980
Page Two

would serve the same function after Prudhoe begins to decline. Mr. Gallagher estimates only \$100 million in prefunding would be required to prefund the tail end of outstanding state GOB's.

If you wish to seriously consider an appropriation for prefunding, we should request a legal opinion from state bond counsel as to whether such prefunding would cause any IRS arbitrage problems. In other words, the guarantee fund established by prefunding could result in the IRS finding that the prefunded bonds are arbitrage bonds and taking away the federal income tax exemption allowed on interest received by the bondholders. This would have no direct cost to the state, but the bondholders would undoubtedly prefer that prefunding not be done in that case.

In the attached letter from Orrick, Herrington, the state's bond counsel, a preliminary judgment is made that "establishment of the fund (prefunding account) probably could not affect the tax status of interest on bonds issued before the fund is established".

MB:kw

January 21, 1980

Milt Barker
Fiscal Analyst
Alaska State Legislature
Budget and Audit Committee
Finance Division
Pouch WF - State Capitol
Juneau, Alaska 99811

Dear Milt:

This letter responds to the questions posed in your letter of January 2 regarding policies affecting management of the State's debt.

1. Should the State bond or pay cash for future capital improvements?

In today's tax-exempt market, Alaska can borrow funds at interest rates ranging from 6.20% to 7.1% depending on maturities. Currently, the State can invest surplus revenues in a variety of high quality money market instruments at yields of 10 to 13% or more. So long as Alaska continues to pursue a policy of prudent growth in its outstanding indebtedness, it can and should continue to benefit from the favorable interest rate differential that exists between the rate at which it borrows and the rate at which it can invest. The credit standing of the State is not so much affected by the means chosen to finance capital improvements as it would be by the magnitude of capital improvement programs in relation to the State's long-term sources of revenue.

2. Could retirement of all or part of Alaska's outstanding indebtedness improve its credit rating?

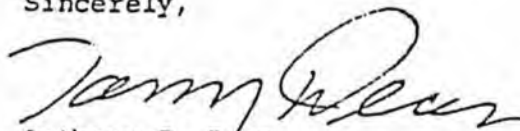
Alaska's outstanding general obligation debt of approximately \$670-million could be prefunded by the creation of a special investment account, the principal and interest of which would be used exclusively to meet interest and principal payments on the debt. A deposit of \$546-million to be invested in appropriate U.S. Government securities at today's market yields would generate sufficient cash to meet principal and interest on the \$670-million outstanding general obligation debt. This deposit is \$124-million less than the cost of simply paying off the debt. Whether the State prefunds the debt or

Milt Barker
January 21, 1980
Page Three

those to be derived from a prefunding of the State's general obligation debt. In addition, the credit standing and debt capacity of local governments in Alaska would be substantially improved. During my visit to Juneau this week, we will assemble the data necessary to provide a preliminary estimate of the cost and potential financial advantage to be derived from a prefunding of the outstanding school debt.

I look forward to an opportunity to meet with you later this week.

Sincerely,



Anthony T. Dean
Assistant Vice President

ATD:lw

DIFFERENCES BETWEEN ANNUAL AVERAGES OF YIELDS ON 20-YEAR,
GENERAL OBLIGATION BONDS, BY RATING
(Basis Points)

Year	Differential Between Grades		
	Aa minus Aaa	A minus Aaa	Baa minus Aaa
1945	25	58	79
1950	19	54	75
1955	14	47	96
1956	21	50	99
1957	22	65	105
1958	22	59	92
1959	14	50	81
1960	16	51	82
1961	14	34	61
1962	11	25	52
1963	8	20	43
1964	7	19	42
1965	7	19	40
1966	9	25	49
1967	10	26	55
1968	10	31	63
1969	13	37	62
1970	26	47	63
1971	28	53	67
1972	15	34	52

Source: Moody's Series: Annual average of monthly differences.

TABLE 4

INTEREST COST DIFFERENTIALS AMONG RATING CLASSES
(Basis Points)

Differential Between Grades	Study (Period)		
	Phelps ¹ (1957-58)	Kessel ² (1959-67)	Petersen ³ (1964-1971)
Aaa-Aa	21	15	13
Aa-A	33	21	19
A-Baa	33	25	30
Baa-Ba	—	—	35
Item: Aaa-Baa	87	61	62

¹Charlotte DeMonte Phelps, "The Impact of Tightening Credit on Municipal Capital Expenditures in the United States," *Yale Economic Essays*, Vol. 1 (Fall 1961), p. 300. In Phelps's equation, interest cost differentials between rating classes vary in proportion to the Federal Government's long-term bond rate. The figures above were calculated upon the assumption that the long-term bond rate was 3 percent.

²Reuben A. Kessel, "A Study of the Effects of Competition in the Tax-Exempt Bond Market," *Journal of Political Economy* (Sept. 1971). Instead of using the net interest cost of the issue as the dependent variable in his equation, Kessel used the difference between the twenty-year reoffering yield and White's Yield of 100. Standard & Poor's ratings were used instead of Moody's. Kessel's data sample included more than 9000 bond issues that appeared between 1959 and 1967, with virtually complete coverage of competitively offered issues that were larger than \$1,000,000.

³John E. Petersen, "A Note on the Determinants of Municipal Bond Net Interest Costs" (unpublished), 1972. See summary of study at end of this chapter.

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WILLIAM L. HOISINGTON
THOMAS R. SWEAGER, JR.
CAREW W. WOLFE, JR.
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M. PETER LILLEVAND
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G. AIP EDWARDS
RAYMOND G. ELLES
STEVEN A. EPICK
JOHN F. SEEGAL

October 30, 1979

Mr. J. H. Hogan
Director
Legislative Finance Division
State of Alaska
Pouch WF, State Capitol
Juneau, Alaska 99811

Dear Mr. Hogan:

In response to the questions in your letter of October 15:

1. This question will need considerably more elaboration before I can answer it with any reasonable assurance. I am not sure whether the suggested fund is to be used to guaranty debt service on general obligation bonds of the State or debt service on general obligation bonds of local governments in the State. I do not know the source of the moneys to be put into the fund, but I assume that those moneys will not come from any proceeds of bonds. On that basis, I do not think that a proper interpretation of the Internal Revenue Code would result in any arbitrage yield restrictions on the fund, because the applicable Code provision relates to the use of the proceeds of bonds.

However, the Internal Revenue Service has stretched and distorted the term "proceeds" in the Treasury Regulations and rulings thereunder. The result appears to be that, if the State deposits moneys from any source into a fund to be used to pay the debt service on general obligation bonds of the State or on general obligation bonds of local governments, or which fund is pledged as security for any such debt service, the Internal Revenue Service would consider the fund to be "proceeds" subject to arbitrage yield restrictions. This is indicated by Rev. Rul. 78-302 and Rev. Rul. 78-348, a copy of which is enclosed.

Even on this basis, the establishment of the fund probably could not affect the tax status of interest on bonds issued before the fund is established or before it was expected

Mr. J. H. Hogan
State of Alaska
October 30, 1979
Page Two

to be established. Moreover, if the amount in the fund considered allocable to bonds hereafter issued, together with any other amounts chargeable under arbitrage rules to the "minor portion" of the proceeds of those bonds which is not subject to arbitrage limitations, do not aggregate more than 15% of the face amount of those bonds, the investment of the fund should not be subject to arbitrage yield restrictions.

The foregoing is all subject to further qualifications and complexities, but I think there is no point in pursuing them here. If you can give me a complete description of the workings of the proposed fund, I will try to give you a more definitive answer as to the federal income tax results. If there is any special need or desire for such a fund, I might suggest requesting a ruling from the Internal Revenue Service as to their treatment of the specific facts, and possibly an appeal from that ruling to the Tax Court in the quite possible event that we consider the ruling to be contrary to the law.

In any event, I am somewhat mystified as to the purpose of or need for the proposed fund, particularly if it is to relate to general obligation bonds of the State.

2. The issuance of bonds by the State in the presence of a "massive general fund surplus" should not result in taxability of the interest on the bonds, and it surely would not. This conclusion appears to be supported by Rev. Rul. 78-302 (enclosed). However, your phrasing of the question in terms of "a possible arbitrage problem with the IRS" prompts me to note that the IRS has gone so far in its pursuit of "arbitrage" that I would not be entirely surprised at anything that organization might contend.

In connection with all of the foregoing, I urge you and others in the State government to support the bill sponsored by the Municipal Finance Officers Association and about to be introduced in Congress to cure problems like these and to prevent further excesses.

Sincerely yours,

C. Richard Walker

Enclosure

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

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JUNEAU, ALASKA 99811
PHONE: (907) 465-3795

M E M O R A N D U M

DATE: January 18, 1980

TO: Honorable Terry Gardiner, Speaker
Alaska State House of Representatives

FROM: Milt Barker, ^{MB} Fiscal Analyst
Legislative Finance Division

SUBJ: Bonding Policy

This Memo is in response to a number of questions you posed regarding bonding and capital projects, some of which were addressed by Jay Hogan in his November 14, 1979 Memo to you (attached). The remaining questions and my comments follow.

1. WHAT ARE THE PRO'S AND CON'S OF PAYING CASH OR BONDING FOR CAPITAL IMPROVEMENTS?

Pragmatism and Equity

Most state and municipal governments most of the time do not have the luxury of this choice; borrowing is often the only pragmatic and equitable way of funding capital improvements.

Most governments which would attempt to fund major capital spending for the first time by cash would be compelled to raise taxes, always a decidedly unpopular move, or perhaps reduce operating expenditures. Certainly the question presumes that if Alaska were to pay cash it would do so from the large surpluses it is enjoying, rather than a tax increase or budget reductions. So, unless a decision is made to pay over the entire surplus to all Alaskans, the option of cash for capital projects would be viable.

Conceivably, a government could pay cash by taking a rather small additional tax bite each year and accumulating it until sufficient funds were available. However, this means postponing the project until the cash is in hand, whereas borrowing permits immediate enjoyment of the project's benefits.

Taxing
for
Cash

Accumu-
lating
Cash
Project
Delay

This attraction of borrowing is not merely a desire for early realization of project benefits but may involve pragmatic considerations as well; certain types of projects such as schools may be needed now but not necessarily twenty years from now. Fortunately for Alaska, paying cash need not mean delay.

It is not unknown for governments to accumulate cash for projects. Where project cost is relatively small paying cash will not result in a large tax bite or undue delay as, for example, when Juneau financed its swimming pool and ski area from sales tax surcharges. Or cash can be an option if politically acceptable ways of generating relatively large cash flows can be found, as Texas has in using royalty proceeds for university construction.

Of course, Texas' method involves a non-tax source of funds. It could be argued that even without its large surplus, Alaska is obligated to pay cash for a sizable amount of projects because of a situation similar to Texas'. That is, AS 37.05.-157 creates a "reserve for capital outlay" account in the general fund while AS 37.05.158 creates a "reserve for energy facilities development" account which are to receive respective allocations of 25% and 5% of mineral bonuses, rentals and royalties. This would be respectively \$268.4 million and \$53.6 million for FY 81 at a minimum based on current oil prices, and could arguably be increased since no funding of capital projects has been designated as coming from these two accounts since their inception on October 15, 1978.

Equity considerations normally favor bonding, the more so that bond payments are scheduled over the life of the project so that those who enjoy its benefits are the ones to pay for the project. If a government were to pay cash for a capital improvement program that varied significantly in amount from year to year, those arriving just after major improvements were made would be getting a free ride, while those leaving just after would be paying for something for nothing.

As well as for transiency, there is an intergenerational equity problem, since older persons may pay for but not live to enjoy the benefits of a cash-funded capital improvement, while many younger persons not yet paying taxes will nevertheless be around to enjoy the benefits.

To the extent capital budgets were constant in real terms, there would be no equity problems. Also, the equity considerations for transients would tend to be ameliorated if other governments were funding capital improvement programs with cash.

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quity

Arbitrage

Turning to financial considerations though, bonding is to be preferred to paying cash because of interest arbitrage. That is, instead of paying cash, the state could invest its surplus at taxable market rates of interest and use these invested funds and earnings to pay off bonds issued at lower rates of tax-exempt interest, and pocket the difference in interest rates.

Table 1 shows that the average spread in interest rates between Aa rated long-term corporate and municipal bonds averaged 2.5% to 3.77% during the last five years, with a recent differential of 4.46% for October 1979. Chart 1 traces these rates back to 1969.

As Table 2 shows, rates for ten year maturities which typify Alaskan issues are about .5% lower than the twenty year maturities.¹

Also, Alaskan bonds are rated A1 by Moody's and A+ by Standard and Poor's, thus selling at about .1% higher than the Aa bonds. All told, this means a spread in rates between 3% and 5% between Alaskan bonds and the market. The attached December 31, 1979 letter from John Nuveen & Co., the state's financial advisor, corroborates this information.

A 3% minimum spread or 4% average spread would mean the state could earn respectively \$19.2 million or \$26.4 million in interest arbitrage over the life of \$100 million in bonds issued with a five year average maturity. Presumably, active portfolio management can improve arbitrage earnings beyond the average spread.

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maturities
nd
rbitrage

The amount of arbitrage could also be increased by issuing bonds with longer maturities. A longer payback means we hang onto our cash longer and pocket the difference in earnings longer; it means greater outstanding bonded indebtedness in total.

¹This lesser rate for shorter maturities is partially a reduction in risk premium, since a lender's funds are not exposed as long, as well as a reduction in the liquidity premium that is largely due to the greater presence of banks in the short-term municipals market. Banks have to balance short-term liabilities (checking and passbook savings) with short-term assets.

As mentioned previously, there is normally an interest penalty of .5% for twenty year maturities in comparison with ten year maturities. In Alaska's case, the penalty would be even greater because our credit is really based on the somewhat shorter period of prolific Prudhoe production. Assuming that the amount of indebtedness projected to be outstanding in the post-Prudhoe period is not so large as to make a bond unmarketable, the potential arbitrage on a \$100 million issue with an average life of ten years would be \$28.8 million or \$43.2 million respectively for spreads of only 2% minimum or 3% on average. Certainly, there has to be room for some lengthening of Alaska maturities, either in new issues or in refinancing of old ones, based on the doubling of world oil prices in the last six months and the decontrol of Prudhoe oil which began January 1980 -- if there is also restraint in spending decisions in relation to the revenues that will be available, sufficiently so to impress the bond market.

Effects on Spending

In fact, the postulated arbitrage gains may be completely hypothetical depending on the effects bonding has on spending and investment decisions of the state.

It may be argued that the bonding method assures greater political consensus, if not restraint, on the projects to be undertaken since referendums are required. Some feel that capital spending is greater under the bonding process than through appropriations because of the need to regionally balance bond proposals to assure voter approval. In the last three general elections, four out of thirty bond propositions have failed, counting the new capital bond issue.

A possible greater inducement to increased spending through the bonding process is the amount of cash that is freed up. Instead of being invested and earning arbitrage it may be appropriated as well, for operating budgets if not capital -- if not in the current session, then the next. On the other hand, cash for capital projects has as one of its main attractions the attribute of being a brake on the operating budget, if not the capital budget. In the case of capital, cash for projects would preserve unused debt capacity that could be "banked" for use in future sessions. Also, an enunciated policy of cash for projects may seem to be an implied endorsement of spending all the cash on capital projects.

The choice of the method of financing may not be the most critical factor affecting the level of expenditures. Financing choices cannot substitute for policy determinations as to what the expenditure level should be nor for a good capital and

operating budgeting process to inform such policy decisions. Certainly some particular expenditures will have benefits outweighing any arbitrage earnings.

Other Opportunity Costs of Cash for Projects

payments
to
individuals

To the extent cash left on the table from bonding for capital projects is used for cash payments to individuals or investment in other than the money and bond markets, the arbitrage argument may still be valid.

Certainly, if an individual receives a cash payment, he can invest it at the higher taxable market rates and thus earn the arbitrage on his own account. Of course, he may spend it instead; though presumably he is judging his present consumption to have greater utility than possible future consumption augmented even at market rates of interest.

Where this alternative really falls short in relation to state arbitrage with payment of the earnings to individuals is the federal tax bite that would be taken out of principal if it is given to individuals. Instead, the money could be loaned to individuals at the tax-exempt cost to the state and in that way retain the arbitrage argument's validity; this, of course, removes the possibility of expenditure of the principal by individuals.

development
projects

The arbitrage argument can certainly be enhanced if the state or individuals with state loans can make investments which yield even greater returns than the money and bond markets. If these are development projects in Alaska, there may be other benefits besides a higher rate of return. The state's fiscal position may be benefited, its bond ratings possibly improved, etc., from the expanded tax base if immigration is not pronounced or state budgets do not swell as a result. Incomes and employment will increase, hopefully for the long-run if the project is economically viable. Of course, there is always a danger that the state will be providing consumption disguised as investment.

Bonding During Periods of High Interest Rates

One final consideration as to whether to bond or pay cash would be the possibility of avoiding bonding during periods of high interest rates. Referring to Chart 1 again, one can see that municipal bonds' interest rates have varied from 5% to 7% during the 1970's. Thus, paying cash would save at most 2% based on recent experience, while foregoing the opportunity to earn 3% to 4% in arbitrage. Moreover, careful timing of actual bond sales by the administration may help

keep interest costs down. Lags in the political process would make it difficult to attempt to take advantage of swings in interest rates from the legislative end of things anyway.

Revenue Bonds

The discussion heretofore of cash vs. bonding as a financing method for capital projects is for the most part applicable to general obligation and revenue bonds. However paying cash or using general obligation bonds where a revenue bond can be used results in a shifting of the costs of benefits for a particular group from that group to the general populace and is usually judged to be unacceptable.

If the equity considerations are not overriding, general obligation bonds are certainly cheaper than revenue bonds; recent sales have had a .7% to 1.5% advantage over revenue bonds. Of course, significant increases in indebtedness on account of this would eventually have adverse effects on interest costs on all new GOB's. Regardless of equity considerations, revenue bonds would still offer arbitrage opportunities whether the cash alternative has state funds or user income as its source. Any shift away from revenue bonding might necessitate review of the policy for user charges and accrued surpluses.

2. WHAT ARE THE PRO'S AND CON'S OF PAYING OFF OUR PRESENT DEBT SERVICE?

Equity	Given the short maturity structure of our present debt, the equity situation would not be much changed by paying it off since either way it appears that it will be oil revenues, not individual taxpayer dollars, that will be used to pay it off.
Arbitrage	By not paying it off, the state can in theory continue to earn arbitrage. However, this depends on to what alternative use the potential bond redemption funds are put as discussed under question 1; if they are spent on budget items there is no arbitrage.
Effect on Bond Ratings	As discussed in the John Nuveen & Co. letter and also the attached April 3, 1978 White Weld letter, Alaska compares unfavorably against the traditional yardsticks used to rate bonds, i.e. debt per capita, debt as a percent of personal income, etc. Paying off our debt would dramatically improve our statistics, including the one deemed most relevant in our case, debt service as a percent of general fund revenue.

However, this action would do nothing to overcome the lack of diversification in the economy and the almost complete dependence of state revenues on a single source, Prudhoe Bay. Besides, there is no assurance that in following years bond authorizations might not be sought which would put indebtedness back at traditional levels. Thus, paying off existing indebtedness might lessen interest costs on future issues and possibly improve the state's bond ratings if the redemption is seen as part of a long-range policy of fiscal restraint and convincingly documented in long-range capital budget plans.

Potential Savings vs. Arbitrage
 However, as indicated in Tables 3 and 4, the maximum reduction in interest costs should the state be upgraded to the highest rating (Aaa) would normally be no more than thirty basis points or .3%. This would be one-tenth the amount that could be earned, 3%, in arbitrage if the funds were invested instead of used to pay off the bonds. Thus, paying off \$680 million in outstanding debt would require the issuance of \$6.8 billion in new debt for interest savings to make up the lost arbitrage. Undoubtedly, our interest differential would be erased long before that level of indebtedness was reached. Although some improvement could also be expected in rates and ratings for other Alaska municipals which track somewhat with the state, this method of paying off indebtedness would still not be an attractive investment, but would be a method of budgetary restraint.

Alternative
 An alternative that would possibly be a good investment though not absorb as much funds is to pay off the tail end of the state's debt service, i.e. the longer maturity bonds. Earl Gallagher of Nuveen & Co. estimates that possibly \$10 million so spent would have almost the same impact as paying off all indebtedness.

3. WHAT ARE THE PRO'S AND CON'S OF PAYING OFF PRESENT MUNICIPAL DEBT?

Arbitrage
 Considering the state as a whole, the arguments here are the same as for question 2. The potential arbitrage from retaining indebtedness is almost as great since the Municipal Bond Bank Authority carries an A rating, only slightly below the state's. Of course, looking at it solely from the municipalities point of view, payoff is desirable since the cash comes from the state, not the municipality. This would be an expenditure from the state's point of view, whereas paying off its own liabilities does not change its net worth.

Interest
Costs

The improvement in interest costs should be about the same magnitude as that for the state, thus putting the amount of new debt required to realize savings in interests costs equivalent to the foregone arbitrage at odds with the idea of reduced levels of indebtedness to secure better interest rates. Again though, paying off the tail end maturities might be a good investment.

Equity

Any such program to payoff municipal debt would not benefit individuals in unorganized areas or municipalities with no debt. If the proposal is a blanket payoff of 100% of outstanding debt, some municipalities will benefit more than others, even on a per capita basis. "Alaska Taxable 1979" indicates that municipal debt per capita varies from \$120 to \$26,751. Payoff of equal amounts on a per capital basis would be more equitable than payoff of all or a percentage of total indebtedness.

Municipal
Spending

There would be no assurance that municipalities would pass on the savings in debt service to taxpayers rather than increasing other budget expenditures. Direct payments or credits to taxpayers might be superior in this regard. If a municipal debt redemption program is to be considered, it might also be appropriate to consider ceilings on municipal indebtedness.

4. AT WHAT LEVEL SHOULD WE BOND FOR CAPITAL IMPROVEMENTS?
BY WHAT LOGIC?

Recommended
Levels

The John Nuveen & Co. letter suggests \$175 to \$225 million per year, which would be \$350 to \$450 million in authorizations this session. The Governor reputedly will insist on no more than \$300 million in authorizations this session because of concerns that the rising level of debt service will leave little room for increases in other operating items within his long-range budget growth ceilings. The possibility of stretching out maturities based on improved revenue projections might permit the Governor to increase debt and debt service and still meet his budget growth objectives. Authorizations in the 1978 session totaled \$275 million exclusive of the \$966 million new capital bond issue.

Standards

According to the White Weld memo, debt service could be as high as 16% of general fund revenue before the state would experience significant interest penalties. In the judgment of John E. Petersen, Director of the Government Finance Research Center of the Municipal Finance Officers Association (MFOA), as quoted in his book, The Rating Game, "a ratio of ten percent is felt to be the separation between better and lesser creditworthiness, fifteen percent warrants concern, and it should never exceed twenty to twenty-five percent."

Potential Levels Ten percent of the \$3,052.2 million estimated as FY 80 unrestricted revenue in the Department of Revenue's "Revenue Sources" would be \$300 million in debt service. \$300 million a year in debt service over a ten year period would amortize \$2,252.3 million at 6% interest. Thus, the state could theoretically increase its current total indebtedness of \$680 million several times over, this session, if future bonding were to be cut back considerably.

Market Limits In reality, the market limits are more likely determined "by intangible psychological, perhaps even irrational factors and attitudes" according to the Nuveen letter, which further states that "no one can accurately predict what level of debt will trigger a reaction leading to a negative shift in market sentiment". (Should it be desired Legislative Finance can readily run long-range computer projections of debt service in relation to revenues based on a given pattern of bond authorizations.)

It appears there are no ready-made rules for the level of debt; by the above standard the state has tremendous unused capacity -- by other standards such as debt per capita there is no excess capacity. The state can always find the limits by testing the water. Needless to say, budgetary restraint and sound management of the state's portfolio will increase its debt capacity in relation to a given level of revenues.

UPDATE

5. WHAT IS OUR PRESENT MUNICIPAL DEBT?

As of July 1, 1979 the general obligation bond debt of municipalities was \$768,508,903.

ADDENDUM

You may note that in our letter to Nuveen we wondered if a guarantee fund for general obligation bonds would improve interest costs or ratings. Nuveen felt it would raise more questions than it would be worth.