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3385 HJUD HB 679 - HB 681 261

architects design a structure which DOTPF then sends out for bid. The construction contract is usually awarded to the lowest bidder, all other factors being equal. All DOTPF contracts contain a clause recommending use of local lumber as required by State statute.

In some cases, State funds are passed through to municipalities or REAAs, who then do their own contracting for projects. For example, the Lower Kuskokwim School District is supervising the construction of 17 new schools in that area. The REAAs have somewhat greater flexibility than DOTPF in their contracting procedures. AS 35.15.080 allows a local school board to assume all of DOTPF's responsibilities for planning, design, and construction of an educational facility. At least one REAA has even chosen to act as its own general contractor on some school construction projects.

The Alaska State Housing Authority (ASHA) is another State agency that has actively sponsored construction projects in rural areas, primarily housing. An ASHA housing project in Lower Kalskag in the 1960's utilized some local materials on an experimental basis, but extensive use was discouraged by the general unavailability of the material. A study was undertaken in 1969 to ascertain the feasibility of using Kuskokwim River lumber for the construction of ASHA subsidized housing units in Bethel, but it was found that local supply problems and the requirements for dry, surfaced, and graded lumber were major obstacles. (Kuskokwim Forest Resources Committee, Feasibility of Utilizing Kuskokwim Forest Resources at the Bethel Housing Project, 1969, attached)

ASHA is no longer active in the design and construction of rural housing. Instead, they encourage and provide funds to various regional housing authorities who then oversee their own projects. A large percentage of the funds available for rural housing projects are from the federal Department of Housing and Urban Development (HUD). At the request of a regional housing authority, HUD recently funded a construction project for 20 homes in Nenana which used locally produced logs. HUD official, Jack Smodey, indicated that he considered the project an experimental one. He still had some reservations about the insulation value of log construction.

Other federal agencies also provide construction funds in Interior Alaska. For example, the BIA oversees a variety of construction projects and has utilized locally produced lumber on a limited basis in the past. The

design, contracting, and construction management of many federally-funded construction projects are now being managed at the local level. For example, the Association of Village Council Presidents oversees projects for health clinics, utility systems, and housing in the Bethel region.

OBSTACLES TO USE OF LOCAL LUMBER PRODUCTS

The primary obstacles to use of locally produced lumber products include agency design specifications, an undependable supply, and underdeveloped local markets. Each of these obstacles is described below.

Design Specifications

The design and construction specifications for a structure influence whether local materials can be used. Wood material specifications that call for kiln-dried, standard graded and dressed lumber make it difficult to utilize locally produced materials. In addition, the building design may call for lumber lengths of over 20 feet that cannot be manufactured by local sawmills.

Architects and engineers who currently design houses, schools, or other public buildings for Interior Alaska seldom adjust their designs to accommodate the use of white spruce lumber. The use of three-sided house logs might be substituted for typical 2 x 4 framed walls. Spans or dimensions could also be changed to allow for any difference in the design stress of white spruce. For example, some of the structural carrying members such as joists and rafters might require larger dimensions to compensate for any lower stress rating of white spruce.

Before lumber can be used in a State or federally funded construction project, it must meet certain normal specifications such as dryness, surfacing, strength, grading and proper manufacture.

1. Dryness

Design drawings for all State buildings specify the maximum moisture content allowed in the lumber to be used in the structure. Less than 19 percent moisture content is a typical requirement. To meet this standard, lumber must be either kiln or air dried. Sometimes the building design will specifically call for kiln dried lumber. Neil Atkinson of the General Design section of DOTPF estimates that 99 percent of the lumber used in State projects is kiln dried.

Air drying takes 3 months or more depending on the thickness of the wood and the desired moisture content. It requires an area where the lumber can be properly stacked and covered. Kiln drying, on the other hand, can usually be accomplished in a matter of hours or days, but requires a steady supply of fuel and an initial investment for the structure. Kiln dried lumber is not necessarily better than air dried lumber if they are both dried to the same moisture content. Very little lumber drying is currently practiced by sawmill operators along the Kuskokwim and Yukon Rivers. No kilns exist and timber is usually sold green. As green (wet) lumber tends to warp and shrink, its use in buildings may cause major problems.

2. Strength and Other Properties

Contractors and designers may not be fully aware of the construction quality of white spruce. According to the U. S. Forest Service (Kuskokwim Corporation, Timber Resource Assessment, 1979, attached), white spruce is excellent structural wood for use in construction. It has an exceptionally high strength to weight ratio.

It holds nails well, does not tend to split, planes and glues easily, and takes paint well. Extremely resilient, it has excellent dimensional stability, dries easily, and has small tight knots. White spruce has strength characteristics that make it suitable for posts, poles, and piling in both utility and construction applications. When used in contact with the ground, preservative treatment is necessary for maximum durability.

Locally produced white spruce lumber is not grade marked. Grading is a measure of lumber quality that takes into account defects in the wood such as knots, splits, worminess, etc. Grading is generally done by a person certified by the West Coast Lumber Association who personally inspects and rates the lumber as it comes off the machine. The federal Department of Housing and Urban Development requires that grade marked lumber be used in all HUD financed housing projects. Construction grade or better is required for all horizontal members such as joists. Lower grade lumber (standard or utility) is allowed for the vertical members of a building. The Uniform Building Code, Section 2505, also requires that lumber be identified by a grade mark or a certificate of inspection issued by an approved agency.

3. Surfacing

Sawmills on the Yukon and Kuskokwim Rivers produce only rough-sawn lumber or house logs. Much of the current demand, however, is for dressed (surfaced) lumber. A planing machine, which is required to produce surfaced lumber, is a major investment that most sawmill operators are not able to afford given their current production levels.

Dependability of Supply

Most construction in rural Alaska is performed by private contractors and their willingness to use local lumber is directly affected by the dependability of supply. A contractor must be assured that sufficient amounts of good quality lumber are readily available; especially for large projects where significant delays can drastically increase project cost.

In 1969, interviews were held with Mel Braud, of Braud, Inc. the local contractor for a major housing project of over 200 houses in the City of Bethel, to determine the feasibility of using lumber produced along the Kuskokwim River for all or part of his construction needs. At that time, Mr. Braud indicated that he would require a very positive guarantee of delivery of the locally produced lumber. He also preferred to have the local suppliers bonded so that the cost of bringing the lumber in from another area would be covered if the local sawmills were unable to satisfactorily fill the orders.

Dependability of supply is affected by any river transportation problems. River transportation is the only economical method that a forest products industry along the Kuskokwim or Yukon Rivers can use to bring in supplies such as fuel and machinery, and to ship finished products to market. The two primary river transportation problems are the availability of adequate barge service and the short ice-free season during which commercial barges can operate. The Kuskokwim River is only open 5 to 6 months a year, and during several of these months the river is often too low to travel. In addition, only one major barge company, United Transport, is currently operating on the river. Under current conditions it might be difficult to bring a large volume of lumber up or down the river within a guaranteed time frame.

Local Markets

Perhaps the best potential use for white spruce logs and lumber is schools and housing projects. However, without a detailed survey of anticipated building needs, it is difficult to predict the amount of lumber that might be required for this type of construction.

One of the primary marketing problems may be a lack of adequate information about the characteristics and dependability of white spruce as a building material. Another marketing problem is the difficulty of meeting consumer specifications for graded and surfaced lumber without first investing in additional equipment and processing techniques. To justify the cost of this new equipment, the sawmill operators would need to have some assurance of a steady market.

In addition, before large amounts of processed lumber can be produced and marketed from the Yukon and Kuskokwim River areas, certain land status issues will need to be resolved. The Bureau of Land Management is in the process of conveying land to the Native corporations. Land in the Aniak to Stony River area is scheduled to be conveyed in 1981. In the McGrath area, conveyance decisions have already been made, but these are currently being appealed in court. It will be up to the various regional and village corporations to pursue timber harvest and processing options once the land conveyances are finalized. These corporations will probably find it desirable to undertake studies to determine what kinds of markets exist for white spruce and other species.

ALTERNATIVES FOR STATE ACTION

There are a number of possible actions that the State might consider to overcome the obstacles that exist to use of Interior lumber. Some of the suggestions enumerated here are based on recommendations made by the Kuskokwim Forest Resource Committee in an earlier report. (Feasibility of Utilizing Kuskokwim Forest Resources, Second Report, 1970, attached).

State Use of Interior Lumber

Although AS 36.15.010 requires use of local lumber products in State funded construction projects whenever feasible, the State might consider additional ways to carry out the intent of this statutory provision. For example, when the Department of Transportation and Public Facilities hires an architectural firm, it might specifically request that the structure be designed to accommodate the use of white spruce logs or processed lumber, and that a minimum moisture content for the wood be specified rather than requiring kiln dried lumber.

Another possibility is to give some preference in the awarding of bids to contractors who offer to use local lumber products. This would require

Representative Vernon Hurlbert
January 30, 1980
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a change in the statutory provisions which require the award of contracts to the lowest bidder (AS 35.15.050). It is important to note, however, that AS 35.15.020 allows the Department of Transportation and Public Facilities to provide the materials and supplies for a project if it so chooses. This might allow the Department to acquire locally produced lumber for a construction project and provide it to the contractor.

If the State or a contractor to the State chooses to utilize local forest products for a major local project, early ordering of materials will be essential. The sawmill operators must have sufficient lead time to gear up to supply the volume and specifications required.

Market Information

A study to determine the local market demand for lumber was sponsored in 1970 by the Federal Field Committee for Development Planning and the U. S. Forest Service. Data was collected from agencies, village councils, store owners and sawmill operators for the areas from Medfra to Bethel on the Kuskokwim River and from Kaltag to Ruby on the Yukon River. The study collected information on the volume, specifications and prices of timber products being purchased in the areas, the status of sawmills along the Kuskokwim and Yukon, the modes and costs of transporting logs and other timber products from sawmill sites to primary local markets, and the future plans of federal and State agencies for local timber utilization (Koweluk, Local Market Demand for Timber Products in the Middle Yukon and Upper Kuskokwim Rivers, 1970, copy attached).

An update of this study might be a useful first step in developing local markets. Especially important would be a realistic assessment of the quantity of lumber that may be required by State or municipal construction projects in the next five to ten years. For example, the Bethel region is growing rapidly and there is likely to be a continuing strong demand for school and housing construction. Of the total quantity of lumber required, an estimate of the percentage that might be supplied by local sawmills should be prepared, based on several different assumptions about the processing equipment and transportation options available to the producers. In conjunction with a study such as this, better information about the construction properties of the wood, its availability and cost, could be made available to potential consumers. As regional

housing authorities and REAAs are becoming more involved in the design and construction management of State and federally funded projects, they represent an important potential consumer of locally produced lumber.

Jan Fredericks, General Manager of the Kuskokwim Corporation, has indicated a strong interest in marketing research and emphasized the willingness of the corporation to cooperate in any studies of this kind. The State Department of Commerce and Economic Development might be a good agency to undertake such a research project.

River Transportation

A dependable and continuous river barging service is necessary to supply a forest industry and to carry its products to market. More barge equipment than currently exists may be required, such as a small shallow draft, self-powered barge for lumber only. The timber owners themselves might be able to acquire a barge for this purpose if markets were strong enough to justify the initial capital cost and operating expenses.

In 1970, the Kuskokwim Forest Resource Committee (KFRC) made the following recommendation regarding barge service:

The present barge operators have already voiced opposition to any subsidized competing barge service. The KFRC certainly feels that the existing private barge companies should first have the opportunity to show that they can develop the barging service needed. If they do not do this within a reasonable time, then some other, possibly subsidized, transport should be considered.

It is unclear what the State's role might be in ensuring more dependable barge service for the sawmill operators, although some kind of State grant or loan might be possible.

Facilities and Equipment

If sawmill operators are to produce lumber that is surfaced, graded and dried, they will require additional equipment, facilities and personnel including a planing machine, an air-drying yard, and a certified lumber grader. This kind of investment is likely to be beyond the means of the

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existing sawmill operators. Both State and federal loans might help to ease the financial burden of equipment acquisition. Another possibility is to dry lumber at a yard shared by a number of sawmill operators. For example, an air drying facility and retail lumber yard might be established in Bethel if steady markets could be developed in that area.

SB/bf

SOURCES OF INFORMATION

1. Dick Armstrong, Ed Thompson, Division of General Design, Department of Transportation and Public Facilities, Anchorage.
2. Neil Atkinson, Division of General Design, Department of Transportation and Public Facilities, Juneau.
3. Harry Goldbar, Executive Director, Alaska State Housing Authority, Anchorage.
4. Jay Gage, Jack Smodey, U. S. Department of Housing and Urban Development, Anchorage.
5. Bob Arnold, Bureau of Land Management, Anchorage.
6. Hank Hays, Area Planning and Development, U. S. Forest Service, Anchorage.
7. Jan Fredericks, General Manager, Kuskokwim Corporation, Anchorage.
8. John Guinn, Guinn Lumber Company, Bethel.

HOUSE RESEARCH AGENCY
Pouch Y - State Capitol
Juneau, Alaska 99811
465-3991

MEMORANDUM

January 31, 1980

TO: Representative Vernon Hurlbert
FROM: Susan Brody, Issues Analyst *SB*
RE: State Use of Interior Lumber
Research Request No. 25

I just received this memorandum from Ed Thompson of the State Department of Transportation and Public Facilities. It contains some additional useful information on the potential for State use of Alaska spruce wood products. Please call me if you have any questions.


SB/bf
Rncl.

TO: [Susan Brodie
House Research Agency
Pouch Y
State Capitol
Juneau, Alaska 99811

DATE: January 28, 1980

FILE NO: 220H-4000

TELEPHONE NO: 266-1580

FROM:  Edwin B. Thompson, A.I.A.
Chief, Technical Design Services
Division of General Design
& Construction
Department of Transportation
& Public Facilities
Anchorage

SUBJECT: Use of Alaska Spruce
Wood Products

RECEIVED
JAN 31 1980

HOUSE RESEARCH AGENCY

In response to your request of January 23, 1980 to R. S. Armstrong, Director, we forward the following observations on use of local lumber (Alaska Spruce) for construction of state facilities.

- 1) AS 36.15.010 requires the use of local forest products in projects financed by public money wherever practicable. AS 36.15.020 requires insertion of a clause containing the substance of AS 36.15.010 in all calls for bids and in all contracts awarded. This division's General Conditions, Construction Contracts, Section 00703, I (attached) complies with the statutory requirements.
- 2) This division has adopted the Construction Specifications Institute (CSI) format for facility design specifications. The Construction Specifications Institute is a nationally recognized organization of members representing all aspects of the construction industry. The CSI format represents the first successful effort to establish a flexible industry-wide standard for organizing specification nomenclature. It has been adopted by many governmental and private agencies including the General Services Administration and is endorsed by and subscribed to by the Associated General Contractors, The American Institute of Architects and Professional Engineers in Private Practice, etc. A sample of the CSI guide specification for Rough Carpentry is enclosed. Quality Assurance for grading materials indicates that the West Coast Lumber Inspection Bureau probably applies to Alaska Spruce - but does specifically identify Sitka Spruce. Lumber materials meeting their requirements are each grade stamped to indicate symbol of grading agency certified by Board of Review, American Lumber Standards Committee.
- 3) Alaska Statutes require that facilities in excess of 1,500 square feet and residences in excess of four-plexes must be designed by architects and/or engineers registered by the State. Design professionals therefore reference uniformly accepted standards, regulations and institute requirements for materials specified in their documents in order to minimize their liability for design and to establish a level of

quality for the completed constructed facility. Specifically, the grade stamps identify lumber to the consumer, in terms of intended use. The grade as stamped signifies that the lumber conforms to the grade, size and seasoning provisions of these rules. A Bureau Certificate of Inspection is the buyer's assurance that the shipment involved has been carefully inspected by a qualified inspector who is regularly supervised for grading efficiency by the Bureau.

- 4) Because Alaska spruce has lower strength values than douglas fir and hemlock, an entire extra architectural and structural design would be necessary in many cases to accommodate the use of Alaska spruce. Additional spruce pieces would be needed, as well as an increase in member sizes. In most cases the additional cost and effort required to duplicate a design would not be warranted since contractors prefer products stamped and graded to protect their interests and liability.

I have discussed the use and availability of Alaska spruce in the Anchorage area. Arctic Lumber does not stock Alaska spruce because of low demand. They do special order when requested - usually for an inexpensive fence or for large rough-cut pieces, i.e. 12" x 12" etc. Spenard Builders also special orders for piling use, skids and other large rough-cut pieces, i.e. 12" x 12" etc. United Building Supply does stock Alaska spruce. They have their own saw mill near Homer and obtain their logs from Stariski, north of Homer, and Montague Island. They also have a kiln to kiln dry their lumber. They stock about 10% Alaska spruce and 90% hemlock/fir.

- 5) In 1977, the Kodiak Area Native Association built some HUD housing. The specifications were prepared to hemlock/fir standards. There is a sawmill in Kodiak operated by Reed Osborne (486-4180) which uses Alaska spruce. The Contractor entertained the idea of using the local spruce in lieu of hemlock/fir from Seattle, but by the time he redesigned to spruce, requested Change Order etc. and recognizing the Owner would want discount rebate, it wasn't worth the effort. At that time, Osborne was quoting \$245/thousand board feet for spruce 2 x 4's and 2 x 6's and Seattle F.O.B. was \$285 for douglas fir 2 x 4's and \$275 for 2 x 6's. At cost of about 4¢ per board foot transportation from Seattle, the delivery of hemlock/fir in Kodiak would be between \$315 and \$325 per thousand board feet. Certainly a savings may have been realized by using local products but the extra effort identified above wasn't worth it. Another consideration by the Contractor was lack of recognized bureau grading of local supply. Also, Alaska spruce tends to warp and shrink and the finished product would reflect this.
- 6) In the Lower Kuskokwim River area, the contractor of schools in that area indicated that those mills basically furnished rough-sawed large timbers.

However, Jon Stachelbrodt of Kuskokwim Community College apparently advocates use of local timber for private financed housing. You may want to contact him.

- 7) Regarding school districts that use "force account" procedures to build some of their facilities and purchase materials locally - I understand Aleutian Chain REAA, Kuspuk REAA, Lake and Peninsula REAA and Northwest Arctic have done this. Perhaps they have utilized Alaska spruce in their programs.

I apologize for the length of this memo, but I trust it will adequately reflect the status quo. I feel sure that if all parties could get together and understand the requirements each needs, perhaps a viable approach could be identified to accommodate all and encourage the industry.

Enclosure: a/s

Bradley
4/16/86

Original sponsor: Rules/Governor

1 IN THE HOUSE

BY THE STATE AFFAIRS COMMITTEE

2 CS FOR HOUSE BILL NO. 679 (State Affairs)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the purchase of Alaska products;
7 and providing for an effective date."

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

9 * Section 1. AS 36.15.010 is amended to read:

10 Sec. 36.15.010. USE OF LOCAL FOREST PRODUCTS REQUIRED IN PROJ-
11 ECTS FINANCED BY PUBLIC MONEY. In a project involving public con-
12 struction described in AS 36.15.030 [FINANCED BY STATE MONEY] in which
13 the use of timber, lumber, and manufactured lumber products is requir-
14 ed, only timber, lumber, and manufactured lumber products originating
15 in this state from local forests may [SHALL] be used unless the com-
16 missioner of commerce and economic development certifies that

17 (1) the manufacturers and suppliers that have notified the
18 commissioner of commerce and economic development of their willingness
19 to manufacture or supply Alaska forest products have been given rea-
20 sonable notice of the forest product needs of the project; and

21 (2) the manufacturers and suppliers who have notified the
22 commissioner of commerce and economic development of their willingness
23 to manufacture or supply Alaska forest products are unable to supply
24 the products to the project at a cost that is within seven percent of
25 the price offered by a manufacturer or supplier of non-Alaska forest
26 products [WHEREVER PRACTICABLE].

27 * Sec. 2. AS 36.15 is amended by adding new sections to read:

28 Sec. 36.15.030. USE OF ALASKA PRODUCTS. (a) In a project
29 involving public construction as defined in AS 36.95.010 that is

1 financed in whole or in part with state money, Alaska products shall
2 be used whenever practicable. As used in this section, a project
3 involving public construction that is financed with state money means
4 a project constructed by an agency of the state, by a municipality of
5 the state under AS 14.11.010 or 14.11.100, AS 29.89, or AS 35.15.080,
6 or by a regional educational attendance area under AS 14.11.020.

7 (b) The provisions of AS 36.15.040 and 36.15.060 - 36.15.080 do
8 not apply to forest products required in projects involving public
9 construction. The use of Alaska forest products in public
10 construction is required by AS 36.15.010 - 36.15.020.

11 Sec. 36.15.040. CONTRACT SPECIFICATIONS. Contract specifica-
12 tions for a project described in AS 36.15.030 must include a provision
13 that a bidder that designates in a bid the use of Alaska products
14 identified in the specifications to the bid will receive the prefer-
15 ence granted under AS 36.15.060 in the evaluation of the bid if the
16 designated Alaska products meet the contract specifications.

17 Sec. 36.15.050. IDENTIFICATION OF ALASKA PRODUCTS. An agency of
18 the state, a municipality of the state, and a regional educational
19 attendance area may identify specific Alaska products for use in the
20 construction of a specific public construction project.

21 Sec. 36.15.060. GRANT OF PREFERENCE. (a) In the evaluation of
22 a bid, a bid that designates the use of Alaska products identified in
23 the contract specifications and designated as Class I, Class II, or
24 Class III state products under AS 36.15.080(a) and (b) is decreased by
25 the percentage of the value of the designated Alaska product under
26 AS 36.15.080(a) and (b).

27 (b) After determining the preference under (a) of this section,
28 the contract shall be awarded to the bidder submitting the lowest
29 total bid unless a different bidder must be awarded the contract under

1 AS 37.05.230(1).

2 (c) The contract amount of a contract awarded is the amount of
3 the bid offered by the bidder.

4 (d) This section does not apply to a public construction project
5 that is financed in whole or in part with federal money or aid if the
6 preference is contrary to a federal law or regulation.

7 Sec. 36.15.070. PENALTY FOR FAILING TO USE DESIGNATED PRODUCTS.

8 (a) If a successful bidder who designates the use of an Alaska prod-
9 uct in a bid fails to use the designated product for a reason within
10 the control of the successful bidder, each payment under the contract
11 shall be reduced according to the following schedule:

12 25% (1) for a Class I designated Alaska product - four percent;
13 50% (2) for a Class II designated Alaska product - six percent;
14 75% (3) for a Class III designated Alaska product - eight
15 percent.

16 (b) A person is not a responsible bidder if, in the preceding
17 three years, the person has twice designated the use of an Alaska
18 product in a bid for a public construction project and has each time
19 failed to use the designated Alaska product for reasons within the
20 control of the bidder.

21 (c) An agency of the state, a municipality of the state, and a
22 regional educational attendance area using state money for a project
23 involving public construction shall report to the commissioner of
24 commerce and economic development each contractor penalized under (a)
25 of this section. The commissioner of commerce and economic develop-
26 ment shall maintain a list of contractors determined not to be respon-
27 sible bidders under (b) of this section.

28 Sec. 36.15.080. CLASSIFICATION OF ALASKA PRODUCTS. (a) The
29 commissioner of commerce and economic development shall adopt

1 regulations establishing the value added in the state for materials
2 and supplies produced or manufactured in the state that are used in a
3 construction project and shall publish a list of the products annual-
4 ly. A supplier may request inclusion of its product on the appropri-
5 ate list.

6 (b) Materials and supplies with value added in the state that
7 are

8 (1) more than 25 percent and less than 50 percent of the
9 manufacturer's quoted price is a Class I product;

10 (2) 50 percent or more and less than 75 percent of the
11 manufacturer's quoted price is a Class II product; and

12 (3) 75 percent or more of a manufacturer's quoted price is
13 a Class III product.

14 (c) In a bid evaluation under AS 36.15.060,

15 (1) a Class I product is given a three percent preference;

16 (2) a Class II product is given a five percent preference;

17 and

18 (3) a Class III product is given a seven percent prefer-
19 ence.

20 * Sec. 3. AS 36.20.010 is amended to read:

21 Sec. 36.20.010. PREFERENCE FOR [OF PRODUCERS OR DEALERS IN]
22 ALASKA PRODUCTS. In making a purchase [PURCHASES] or awarding a
23 contract [CONTRACTS] for supplies, commodities, or materials for an
24 office or institution of this state that is financed in whole or in
25 part with state money, preference shall be given, whenever practica-
26 ble, to Alaska products [PRODUCERS AND DEALERS IN THE STATE], price
27 and quality being equal. A purchase is made and a contract for sup-
28 plies, commodities, or materials is awarded under this section when-
29 ever the purchase or award is made by an agency of the state. a

1 municipality of the state, or a regional educational attendance area.

2 * Sec. 4. AS 36.20 is amended by adding new sections to read:

3 Sec. 36.20.020. CONTRACT SPECIFICATIONS. Contract specifica-
4 tions for a purchase or a contract award described in AS 36.20.010
5 must include a provision that a bidder that designates in a bid the
6 use of Alaska products identified in the specifications to the bid
7 will receive the preference granted under AS 36.20.040 in the eval-
8 uation of the bid if the designated Alaska products meet the contract
9 specifications.

10 Sec. 36.20.030. IDENTIFICATION OF ALASKA PRODUCTS. An agency of
11 the state, a municipality of the state, and a regional educational
12 attendance area may identify specific Alaska products for use in
13 making a purchase or awarding a contract under AS 36.20.010.

14 Sec. 36.20.040. GRANT OF PREFERENCE. (a) In the evaluation of
15 a bid, a bid that designates the use of Alaska products identified in
16 the contract specifications and designated as Class I, Class II, or
17 Class III state products under AS 36.20.060(a) and (b) is decreased by
18 the percentage of the value of the designated Alaska product under
19 AS 36.20.060(a) and (b).

20 (b) After determining the preference under (a) of this section,
21 the contract shall be awarded to the bidder submitting the lowest
22 total bid unless a different bidder must be awarded the contract under
23 AS 37.05.230(1).

24 (c) The contract amount of a contract awarded is the amount of
25 the bid offered by the bidder.

26 (d) This section does not apply to a purchase made or a contract
27 awarded that is financed in whole or in part with federal money or aid
28 if the preference is contrary to a federal law or regulation.

29 Sec. 36.20.050. PENALTY FOR FAILING TO USE DESIGNATED PRODUCTS.

1 (a) If a successful bidder who designates the use of an Alaska prod-
2 uct in a bid fails to provide the designated product for a reason
3 within the control of the successful bidder, each payment under the
4 contract shall be reduced according to the following schedule:

- 5 (1) for a Class I designated Alaska product - four percent;
6 (2) for a Class II designated Alaska product - six percent;
7 (3) for a Class III designated Alaska product - eight
8 percent.

9 (b) A person is not a responsible bidder if, in the preceding
10 three years, the person has twice designated the use of an Alaska
11 product in contract awarded under AS 36.20.010 and has each time
12 failed to provide the designated Alaska product for reasons within the
13 control of the bidder.

14 (c) An agency of the state, a municipality of the state, and a
15 regional educational attendance area using state money to make a
16 purchase or award a contract under AS 36.20.010 shall report to the
17 commissioner of commerce and economic development each contractor
18 penalized under (a) of this section. The commissioner of commerce and
19 economic development shall maintain a list of contractors determined
20 not to be responsible bidders under (b) of this section.

21 Sec. 36.20.060. CLASSIFICATION OF ALASKA PRODUCTS. (a) The
22 commissioner of commerce and economic development shall adopt regu-
23 lations establishing the value added in the state for materials and
24 supplies produced or manufactured in the state that are used in making
25 purchases and awarding contracts under AS 36.20.010 and shall publish
26 a list of the products annually. A supplier may request inclusion of
27 its product on the appropriate list.

28 (b) Materials and supplies with value added in the state that
29 are

1 (1) more than 25 percent and less than 50 percent of the
2 manufacturer's quoted price is a Class I product;

3 (2) 50 percent or more and less than 75 percent of the
4 manufacturer's quoted price is a Class II product; and

5 (3) 75 percent or more of a manufacturer's quoted price is
6 a Class III product.

7 (c) In a bid evaluation under AS 36.20.040,

8 (1) a Class I product is given a three percent preference;

9 (2) a Class II product is given a five percent preference;

10 and

11 (3) a Class III product is given a seven percent prefer-
12 ence.

13 * Sec. 5. AS 36.95.010 is amended by adding new paragraphs to read:

14 (9) "Alaska product" means a product produced or manufac-
15 tured in the state if the value added in the state is not less than 25
16 percent of the quoted price of the manufacturer;

17 (10) "product" means materials or supplies but does not
18 include gravel and asphalt;

19 (11) "produced or manufactured" means processing, develop-
20 ing, or making an item into a new item with a distinct character and
21 use through the application within the state of materials, labor,
22 skill, or other services.

23 * Sec. 6. AS 37.05.230(1) is amended to read:

24 (1) a contract for construction and repairs, or a purchase
25 of and contract for supplies, materials, equipment, and contractual
26 services must be based on competitive bids; an award shall be made to
27 the lowest responsible bidder after advertising for bids, except that

28 (A) notwithstanding an Alaska product preference
29 determined under AS 36.15.060 or AS 36.20.040, a bid shall be

1 awarded to an Alaska bidder if the bid price offered by a bidder
2 is not more than five per cent higher than the lowest bid price
3 offered by a nonresident bidder [BIDDER'S]; and

4 (B) competitive bids need not be required

5 (i) for contractual services where no competition
6 exists;

7 (ii) for sales involving fair trade items;

8 (iii) when, in the judgment of the purchasing agent,
9 food, clothing, or medical supplies, or materials for use in
10 laboratory and experimental studies may be purchased other-
11 wise to the best advantage of the state;

12 (iv) where rates are fixed by law or ordinance;

13 (v) for items traded in on like items; or

14 (vi) for professional services;

15 * Sec. 7. AS 37.05.260 is amended to read:

16 Sec. 37.05.260. PREFERENCE FOR ALASKA PRODUCTS. This chapter
17 does not modify, amend, or alter AS 36.15.010 and 36.15.020 regarding
18 preference for Alaska forest products, AS 36.15.060 regarding a pref-
19 erence for Alaska products, or AS 36.20.010 regarding preference to
20 producers or dealers in Alaska except as provided in AS 37.05.230(1).

21 * Sec. 8. This Act takes effect January 1, 1987.
22
23
24
25
26
27
28
29

Sectional Outline CSHE 679
Alaska Products

Section 1.

This section amends AS 36.15.010 by requiring the use of Alaska forest products for public construction projects unless the Commissioner of Commerce and Development certifies notice was given to manufacturers to supply the products and none were able to supply the forest products at a cost within 7 percent of the cost for non-Alaska forest products.

Section 2.

AS 36.15.030 requires the use of Alaska products including forest products, where practical, for state public construction projects and state funded municipal and school district public construction projects.

AS 36.15.040 allows the inclusion of language in contract specifications granting a preference in bid evaluation if designated Alaska products are used. This section is not applicable to forest products.

AS 36.15.050 allows the designation of specific Alaska products for use in a specific public construction project. The section is applicable to forest products.

AS 36.15.060 allows the reduction of bids for the purposes of evaluation when designated Alaska products are used. This section does not include forest products in the preference scheme.

AS 36.15.070 requires a penalty be applied to contractors who designate the use of Alaska products in their bids and fail to use them for reasons within their control. The amount of the penalty is the amount of the preference given plus 1 percent. If a person has this penalty applied twice within a three year period, he is deemed a non-responsive bidder. Contracting authorities will report these violations to the Department of Commerce and Economic Development which shall maintain a list of bidders deemed non-responsive.

AS 36.15.080 requires the Department of Commerce and Economic Development to adopt regulations for establishing the value added in Alaska for products.

Value added in the state of more than 25 percent and less than 50 percent renders the product a Class I product, if value added is more than 50 percent but

less than 75 percent it is a Class II product and 75 percent or more it is a Class III product.

The three classes of products receive the following preferences in bid evaluation.

Class I	3 percent preference
Class II	5 percent preference
Class III	7 percent preference

AS 36.20.10 through 36.20.060 parallel the provisions of the language proposed above as AS 36.20.030 through AS 36.20.080. These statutes have application to all state funded procurement except public construction projects.

Section 3.

AS 36.20.010 is amended to require a preference for the use of Alaska products by state agencies as well as municipalities and REAA's funded in whole or part with state money.

Section 4.

AS 36.20.020 parallels AS 36.15.030.

AS 36.20.030 parallels AS 36.15.040.

AS 36.20.040 parallels AS 36.15.050.

AS 36.20.050 parallels AS 36.15.060.

AS 36.20.050 parallels AS 36.15.070.

AS 36.15.060 parallels AS 36.15.080.

Section 5.

This section amends AS 36.95.010 by stating definitions critical for the working of the bill. The terms defined are "Alaska product," "product," and "produced or manufactured."

Section 6.

This section amends AS 37.05.230 to make the Alaska products preference subject to the Alaska bidder's preference.

Section 7.

This section amends 37.05.260 by relation of its provisions to the Alaska products preference under AS 36.15.020.

Section 8.

The effective date for this bill is January 1, 1987.



RECORDS CERTIFICATION

I, the undersigned, an employee of the State of Alaska, do hereby certify that the microfilm images on this microform are accurate reproductions of the original records of the State of Alaska as accumulated during the regular course of business, and that it is the established policy and practice of this State to microfilm its records and to dispose of the original records after microfilm reproductions have been made.

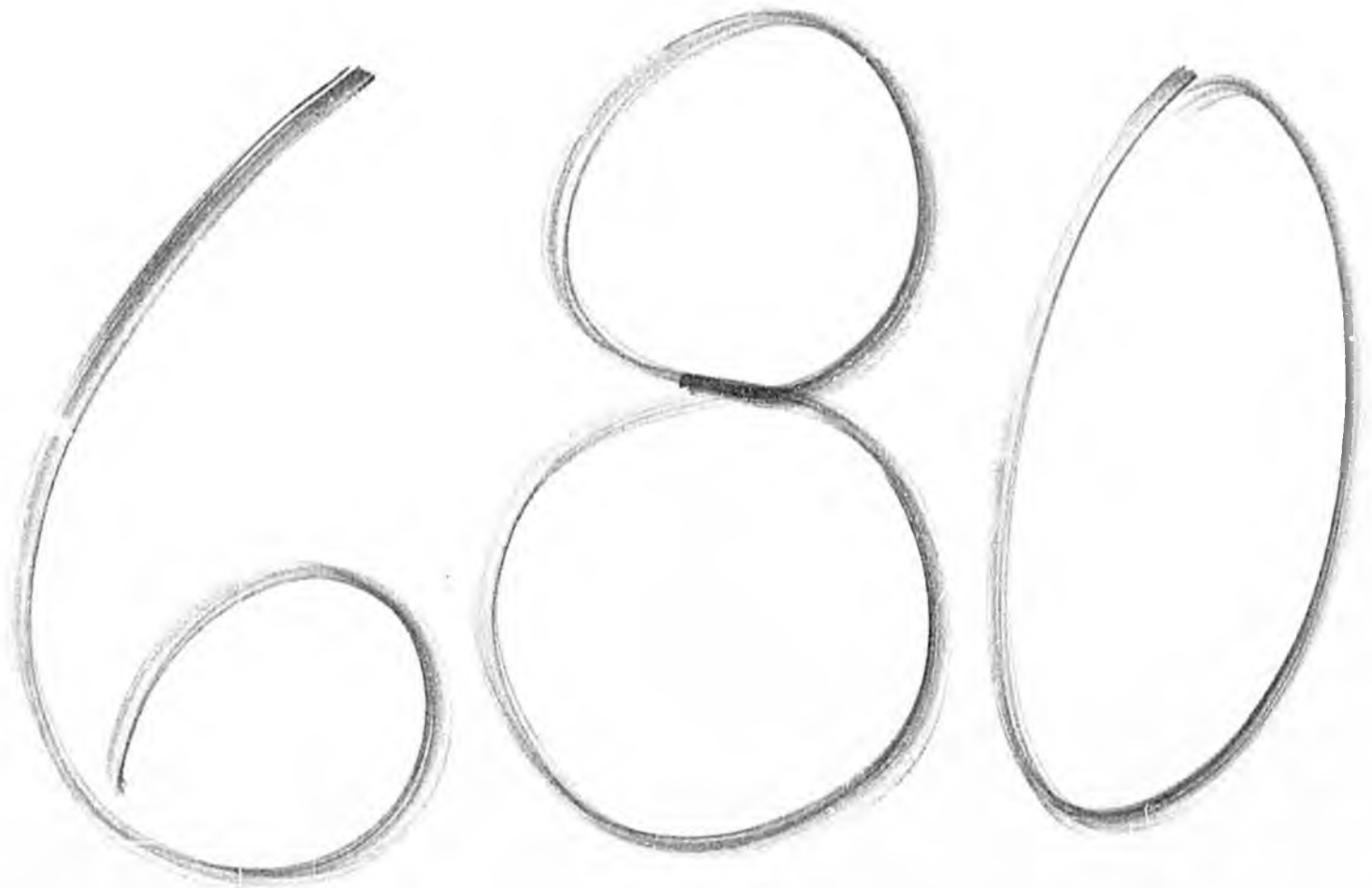
James O. Smith

Signature of Camera Operator

7/25/89

Date

HB



**HOUSE
COMMITTEE REPORT**

(7)

Date referred: 2/17/86

FURTHER REFERRALS: JUDICIARY

DATE: 30 April 1986

The TRANSPORTATION Committee has considered HB 680

"An Act relating to penalties for driving motor vehicles in the vicinity of the James Dalton Highway."

and recommends:

- do pass
- do not pass
- do pass with attached amendment(s)
- no recommendation
- replace with CS HB 680 (TRSP) same title
- new title

and recommends _____

further referral to the _____ Committee

- and attaches:
- letter of intent
 - first fiscal note
 - new fiscal note
 - zero fiscal note

SIGNING DO PASS:

Bette Auto

SIGNING OTHER RECOMMENDATIONS:

M. Piquillen no rec

Dirk Shultz No Rec

ABERNETHY

ACM MARCOU Do Not Pass
PROMITS HUNTING, FISHING, DEVELOPMENT
IN TEN-MILE-WIDE CORRIDORS

Bette Auto
Chairman

STATE OF ALASKA 1986 LEGISLATIVE SESSION FISCAL NOTE

Revision Date : _____

REQUEST

Bill/Resolution No. : HB 680
 Title : "An Act relating to penalties for driving motor vehicles in the vicinity of the James Dalton Highway."
 Sponsor : The Rules Committee
 Requestor : House Transportation
 Date of Request : _____

FISCAL DETAIL

Agency Affected : Public Safety
 BRU : Fish & Wildlife Protection

 Components : _____

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	0	0	0	0	0	0
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REVENUE	0	0	0	0	0	0
---------	---	---	---	---	---	---

FUNDING : (Thousands of Dollars)

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

POSITIONS :

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

ANALYSIS : Attach a separate page if necessary

K. New

Prepared by : Captain J. R. Nutgrass
 Division : Fish & Wildlife Protection

Phone : 269-5509
 Date : 4/8/86

Approved by Commissioner : *[Signature]*
 Agency : Public Safety

Date : 4/1/86

Distribution (by Agency preparing fiscal note) :

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

BILL SHEFFIELD
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

February 19, 1986

The Honorable Ben Grussendorf
Speaker of the House
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Representative Grussendorf:

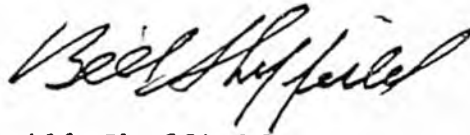
Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill establishing penalties for violating the law that prohibits driving a motor vehicle within five miles of the right-of-way of the James Dalton Highway (the North Slope haul road). Under existing law, there are no penalties for violating the law. Because of what appears to be a technical omission, no indication is given as to whether the legislature wanted this crime to be a violation, a misdemeanor, or a felony.

Due to the fact that it may be difficult at times to prove a person's intent to violate this law, we are recommending that the crime be established as a strict-liability offense and be classified as a "violation" -- which is only punishable by a maximum fine of \$300. No jail time may be imposed. Under a strict-liability theory, the state need not prove the existence of a culpable mental state -- just that the prohibited act was committed. However, if it can be proved that a culpable mental state did exist at the time the crime was committed (i.e., committed with "criminal negligence" as defined under AS 11.81.900(a)(4)), we are recommending that this crime be established as a class B misdemeanor (punishable by up to 90 days in jail or up to a \$1,000 fine or both). Commission of this crime can cause significant environmental damage. Thus, violators should be punished accordingly.

The bill also broadens the prohibition to all motor vehicles (as defined under AS 28.40.100), as distinct from just off-road vehicles (which term is not defined in Title 19).

To aid in the enforcement of this law by law enforcement officials and the courts, I urge your prompt and favorable action on this measure.

Sincerely,

A handwritten signature in cursive script, reading "Bill Sheffield". The signature is written in dark ink and is positioned above the typed name and title.

Bill Sheffield
Governor

STATE OF ALASKA 1986 LEGISLATIVE SESSION FISCAL NOTE

Revision Date : 2-11-86

REQUEST

Bill/Resolution No. : _____
 Title : An Act relating to penalties for driving off-road vehicles in the vicinity of the James Dalton Highway.
 Sponsor : Governor
 Requestor : Department of Public Safety
 Date of Request : 2-11-86

FISCAL DETAIL

Agency Affected : Department of Public Safety
 BRU : Fish and Wildlife Protection
Alaska State Troopers
 Components : Enforcement

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0

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

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

POSITIONS :

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

ANALYSIS : Attach a separate page if necessary

Prepared by : James D. Vaden
 Division : Commissioner's Office

Phone : (907) 465-4322
 Date : 2-11-86

Approved by Commissioner : _____
 Agency : Department of Public Safety

Date : 2-11-86

Distribution (by Agency preparing fiscal note):

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

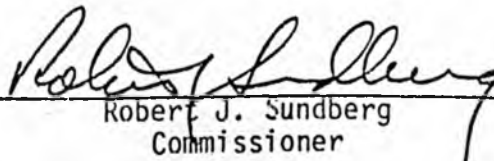
DEPARTMENT OF PUBLIC SAFETY

POSITION PAPER - HB 680

SUPPORT
April 6, 1986

House Bill No. 680 - "An Act relating to penalties for driving motor vehicles in the vicinity of the James Dalton Highway."

The Department of Public Safety supports HB 680., "An Act relating to penalties for driving motor vehicles in the vicinity of the James Dalton Highway."


Robert J. Sundberg
Commissioner

STATE OF ALASKA 1986 LEGISLATIVE SESSION FISCAL NOTE

Revision Date: _____

REQUEST

Bill/Resolution No.: HB 680
 Title: "An Act relating to penalties for driving motor vehicles in the vicinity of the James Dalton Highway."
 Sponsor: The Rules Committee
 Requestor: House Transportation
 Date of Request: _____

FISCAL DETAIL

Agency Affected: Public Safety
 BRU: Fish & Wildlife Protection
 Components: _____

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	0	0	0	0	0	0
----------------	---	---	---	---	---	---

REVENUE	0	0	0	0	0	0
----------------	---	---	---	---	---	---

FUNDING : (Thousands of Dollars)

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

POSITIONS :

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

ANALYSIS : Attach a separate page if necessary

K. N. ...
 Prepared by: Captain J. R. Nutgrass Phone: 269-5509
 Division: Fish & Wildlife Protection Date: 4/8/86

Approved by Commissioner: [Signature] Date: 4/27/86
 Agency: Public Safety

Distribution (by Agency preparing fiscal note):

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



RECORDS CERTIFICATION



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James O. Smith
Signature of Camera Operator

7/25/89
Date

H B

6 8 1

STATE OF ALASKA 1986 LEGISLATIVE SESSION FISCAL NOTE

Revision Date : 4/3/86

REQUEST

Bill/Resolution No. : CSHB 681 (L&C)
 Title : "An Act relating to unemployment insurance..."

Sponsor : Governor
 Requestor : Labor and Commerce
 Date of Request : 4/3/86

FISCAL DETAIL

Agency Affected : Labor
 BRU : Employment Security

Components : Unemployment Insurance

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL		150.0				
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS		60.0	180.0	180.0	180.0	180.0
MISCELLANEOUS						
TOTAL OPERATING	0	210.0	180.0	180.0	180.0	180.0

CAPITAL						
----------------	--	--	--	--	--	--

REVENUE *	0	150.0	170.0	177.0	184.0	191.0
------------------	----------	--------------	--------------	--------------	--------------	--------------

FUNDING : (Thousands of Dollars)

GENERAL FUND	0	60.0	180.0	180.0	180.0	180.0
FEDERAL FUNDS		150.0				
OTHER						
TOTAL	0	210.0	180.0	180.0	180.0	180.0

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

* Training and Building Fund

Prepared by : *John W. Shay, Jr.* Phone : 465-2712
 Division : Employment Security Division Date : 4/3/86

Approved by Commissioner : *Jim Robison* Date : 4/3/86
 Agency : Labor

Distribution (by Agency preparing fiscal note):

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

CONTINUATION of FISCAL NOTE ANALYSIS

For Bill/Resolution No. CSHB 681 (L&C)

This bill proposes to provide for an automatic adjustment of the weekly unemployment insurance (UI) amount. The adjustment will be based on fluctuations in the annual average weekly wage. It is expected that this adjustment will result in an increase in the weekly benefit amount. This will impact our UI trust fund balance as well as the State Interim Benefit (SIB) grant payments.

The law change will require modifications to our computer programs, which is estimated at \$150,000 in contractual monies (one-time expense). These modifications will be paid for out of federal funds.

The increase in general funds is anticipated in the SIB grant payments. This was determined by calculating the amount of benefits each 1985 SIB claimant would have received had the proposed schedule been in effect and multiplying the increase from the old schedule by the number of weeks that claimant was paid SIB benefits. The proposed change in the dependent allowance was then added. All variables are assumed to remain the same through FY 1991. The supplemental interim benefits are paid from late May to early September. Since the effective date of this legislation is October 1, 1986, the FY 1987 funding request will only cover anticipated costs for May and June 1987, and is estimated at \$60,000.

In addition to the increased costs associated with this bill there would be additional revenues to the Training and Building Fund (T & B Fund).

The bill also provides for a specific penalty on individuals who fraudulently receive unemployment insurance benefits. The penalty of 50% of the fraudulently obtained benefits would be transferred to the T & B fund upon collection.

We estimate \$150,000 would be collected in FY 87, \$170,000 in 1988, and a 4% increase per year beyond 1988.

Assumptions:

1. Based on actual recovery of \$250,000 in FY 85, 50% or \$125,000 would have been deposited to the T & B fund that year. With an estimated 30% increase in benefits effective October 1, 1986 if this bill passes, we estimate \$300,000 would be recovered, so \$150,000 deposited to the T & B fund in FY 87.
2. Benefits and hence penalty recoveries would increase 4% per year from 1988 to 1991.
3. The bill would be effective July 1, 1986.

Committee Substitute for
House Bill 681
Section-by-Section Analysis

OVERVIEW

The Department of Labor, Employment Security Division, Unemployment Insurance Section, operating under AS 23.20 pays temporary unemployment insurance benefits to qualified individuals and collects contributions to support the level of benefits. Both employers and employees pay contributions into the trust fund, similar to paying insurance premiums.

HB 681 provides certain enhancements and housekeeping changes to AS 23.20, as follows:

- increases current unemployment insurance benefits
- ties weekly benefit amounts to wages in the state
- liberalizes the dependent's allowance
- establishes an employee surcharge so that employers do not bear the costs of the increase in the unemployment insurance weekly benefit amount.
- imposes a penalty on claimants who defraud the benefit system and improves the department's ability to collect delinquent employer contributions and to recover from claimants benefits which were fraudulently obtained.
- provides relief to claimants who presently are not eligible for full benefits because their employer has gone bankrupt and has not reported any earnings for them.

SECTION-BY-SECTION ANALYSIS

SECTION 1:

This section provides that a fish processor's surety bond, required under AS 16.10.290(a), may be attached for unpaid unemployment insurance taxes. Under this proposal, wages and payment for raw fish would continue to have first priority on any action against a bond. One fourth of the fish processors in the state are delinquent in paying their unemployment taxes. This resulted in a loss to the UI Trust Fund of about \$545,000 in calendar year 1984.

SECTION 2:

This section provides for deposit of the penalty imposed under AS 23.20.390(f) into the Training and Building Fund where other penalties and interest are deposited.

SECTION 3:

Section 3 is a housekeeping measure to provide for the 10% penalty on delinquent employer reports and taxes to be optional instead of mandatory. This provision is not presently enforced.

SECTIONS 4, 5, 6, 7, AND 8:

Sections 4, 6, 7, and 8 provide the funding mechanism for the adjustment to the benefit formula and schedule in Section 9. Section 8, provides for a surcharge on all employees to pay for the cost of the difference in benefits between the current schedule and the schedule that will be generated by the benefit formula on October 1, 1986. Employees will bear the cost of this one-time increase in benefits on an ongoing basis. Any subsequent increases in benefits that the formula generates will be financed under the rate determination methodology in current statute.

Sections 4 & 5 of the bill provides for nonprofit organizations, who reimburse the U.I. Trust Fund for payments made to their former employees, to continue to pay the full state share of extended benefits. Under current law nonprofit organizations pay 50% (the state share) with the federal share being 50% also. Under the Gramm-Rudman-Hollings Act, the federal share of extended benefit payments will decrease because it is subject to sequester. Sections 4 and 5 therefore, provide for nonprofits to continue to pay the full state share which may fluctuate as a result of fluctuation in the federal share.

SECTION 9:

This section modifies the unemployment insurance benefit schedule by providing a formula to define the amount of benefits to be paid. The formula ties the level of weekly benefits to the wages paid in Alaska. Benefits would adjust upward or downward annually as a result of changes in annual wages. The schedule is also expanded to provide higher benefits to higher wage earners as well as a modest increase for all recipients. This formula results in an increase in the maximum weekly benefit amount to \$246 the first year.

This section also liberalizes the provisions covering dependents allowance payments. Presently a dependent claimed by one parent cannot be claimed by the other parent until the first person's benefit year has expired (even if they have no remaining benefits to receive). This proposal allows both parent to claim the same dependents. Three dependents is the most that can be claimed by any one claimant.

SECTION 10:

This section provides for a penalty to be assessed on individuals who are disqualified for fraudulent receipt of benefits. Currently persons who fraudulently receive benefits are disqualified from receiving benefits for a specified period of time and must repay the benefits fraudulently received (similar to an interest-free loan). As a further disincentive for fraud, the department's proposal would provide for the same disqualification period and restitution requirement and add a penalty of 50% of the amount overpaid.

SECTIONS 11 AND 12:

Sections 11 and 12 establish provisions for liens and attachment of property to facilitate the collection of overpayments that are caused by fraudulent receipt of benefits.

SECTION 13:

Section 13 is a housekeeping measure that moves the definition of employer, as it relates to corporate officers, members or employees, from AS 23.20.240 to AS 23.20.520(13). This places the definition of employer all in one place in the statute. This definition of employer would now apply throughout AS 23.20.

SECTION 15:

Section 15 expands the definition of wages to include earnings for work that an employee performs but is not paid because the employer files for bankruptcy. Under current law, an individual's eligibility for unemployment insurance cannot be based on this work because the wages were not paid.

SECTIONS 14, 16, AND 17:

These sections are housekeeping measures. Section 14 references AS 23.20.351, the section that now contains the benefit eligibility criteria. Section 16 and 17 repeal statutes that are either outdated or repetitive.

SECTION 18:

Provides for estimating collected surcharge in Section 6 of this act for 1987 and 1988.

SECTIONS 19, 20, AND 21:

These sections establish effective dates.

Position Paper
HB 681
An Act Relating to Unemployment Insurance

This bill adds a new section AS 23.20.351 which establishes a formula for computing unemployment insurance benefits which would be tied to State average weekly wage and would be adjusted annually. The proposed formula raises benefits from their current levels.

The bill establishes an employee surcharge (proposed AS 23.20.290(g)) to finance the initial increase in benefits under the proposed formula. Two options are provided for nonprofit organizations and government entities who have chosen to reimburse the Department of Labor for benefits paid. These are: (1) they can collect the surcharge and pay an amount determined by the formula in proposed AS 23.20.277(m) or (2) under proposed AS 23.20.277(m), reimburse the Department of Labor the full amount of their respective shares and forego collection of the surcharge.

Additional penalties are assessed individuals fraudulently obtaining benefits and additional facilities are provided for their collection. Proposed amendments also enhance the Department of Labor's ability to collect contributions from delinquent employers. Also included are housekeeping amendments.

Summary

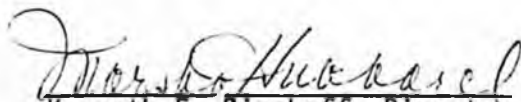
Section 6 of this act provides for an employee surcharge to assist the employer in the cost of the additional unemployment insurance benefits. Section 5 of the act allows the employer the option of collecting or not collecting the surcharge from employers. If surcharge is not collected the employer would need to pay 100% of the cost.

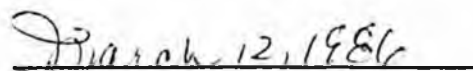
In order for the State to collect the surcharge from covered employees, major changes to the statewide payroll will be required. The one time cost to change the payroll system, forms, procedures, etc., is estimated at \$115.0. Ongoing annual cost will be \$20.0 per year.

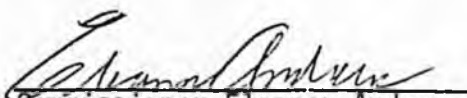
Position

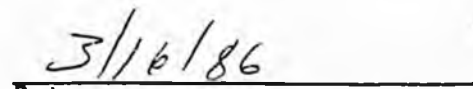
The State would select the option of collecting the surcharge from employees in order to keep employer cost for unemployment insurance to a minimum.

If gross wages for covered employees were \$500 million, the surcharge at 0.2% would be \$1.0 million.


Kenneth E. Bischoff, Director
Division of Finance


Date


Commissioner Eleanor Andrews
Department of Administration


Date

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST
Bill/Resolution No.: HB 681
Title: An act relating to unemployment insurance.

FISCAL DETAIL
Agency Affected: Administration
BRU: Finance

Sponsor: Rules Committee
Requestor: Governor
Date of Request: 2-17-86

Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
OPERATING						
PERSONAL SERVICES	0	125.0	20.0	20.0	20.0	20.0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	125.0	20.0	20.0	20.0	20.0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	125.0	20.0	20.0	20.0	20.0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	0	125.0	20.0	20.0	20.0	20.0

POSITIONS:

FULL-TIME	0	2.25	0.5	0.5	0.5	0.5
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: Attach a separate page if necessary See Attached

Prepared By: Kenneth E. Bischoff *KCB*
Division: Finance

Phone: 465-2240
Date: 3-5-86

Approved by Commissioner: Eleanor Andrews *Eleanor Andrews*
Agency: Department of Administration

Date: 3/16/86

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

CONTINUATION of FISCAL NOTE ANALYSIS

For HB 681

The operation of the automated payroll system and associated manual processes involved in paying employee salaries, assessing employer charges, and the taking of employee contributions is a daily function of the Division of Finance, Department of Administration (DOA).

Section 6 of this act (HB 681) provides for a surcharge to be deducted from individual employee's wages and held in trust until needed for payment [AS 23.23.165(c)].

The bill allows the State two options for collecting the surcharge:

1. The employer may assume the surcharge as an employer cost and not assess the employee in accordance with Section 5(n) of the bill.

This option would not require payroll system changes but employer costs would increase based on a formula defined by Section 5(m) of the bill. If the formula resulted in a cost of .2 percent of gross wages paid by the State, and gross wages were \$500 million, then the increase in employer costs would be \$1.0 million.

2. The employer may assess the employee in accordance with Section 6(g) of the bill.

We assume that the State would choose this second option as it would be less costly in terms of employer costs. The dollars reflected on the front page and in the following analysis reflect the impact of this employee surcharge option.

The impact of the second option on the automated payroll system, reports, forms, and manual processes of having to assess, maintain records, report and transmit surcharge contributions is very significant.

Each type of employee contribution requires additional data fields for the amounts. These fields must be established in numerous files, on numerous forms, and in numerous reports as well as the addition of computer program logic to calculate, pass, and record amounts collected.

One-time costs to implement this new employee surcharge are as follows:

1. Programming efforts that would be required to process changed forms, process expanded payroll files, and make changes to calculation programs and reporting programs are estimated at three programmers full-time for six months, for a cost of approximately \$100,000.
2. One-time efforts of approximately 500 hours would be required by Payroll Section technicians in order to make Administrative Manual changes, procedure changes, forms changes, and to train agencies prior to implementation.

On-going additional effort that would be required in the Payroll Section, DOA, is estimated at 775 hours per year. This new employee tax or surcharge would affect nearly every payroll warrant we write. New reporting, adjusting, calculating, and account balancing efforts would all be required.

In summary, the impact on the Division of Finance is as follows:

Cost of programming changes to the payroll and affected subsystems - (18 months at \$5,550/mo)	\$100,000
One-time cost to change forms, procedures, etc. (500 hours at an average of \$30/hour)	<u>15,000</u>
TOTAL ONE-TIME COST	\$115,000
Additional on-going annual cost (755 hours at \$26.50/hour)	\$ 20,000

APPROPRIATION/CO/AC
 APPROPRIATION EXPENDITURES BY ACCOUNT
 1-15 STATE OF ALASKA ORIG:85
 COA:1985 IN MILLIONS
 ENTITY NUMBER - DESCRIPTION

RSN:0011115 PSN:00429 01/10/86
 STATE OF ALASKA
 HISTORICAL
 3 FN:
 AUTHORIZED DISBURSE ENCUMBER UNOBLIG.

ENTITY NUMBER	DESCRIPTION				
S** 71000	PERSONAL SERVICES	884	786-	0	146
S** 71100	WAGES	0	534-	0	534-
S** 71150	REGULAR DUTY	0	511-	0	512-
S** 71170	REGULAR COMPENSATION	0	511-	0	512-
S** 71200	ADDITIONAL REGULAR	0	0	0	0
S** 71200	PREMIUM PAY	0	23-	0	23-
S** 71300	OVERTIME	0	21-	0	21-
S** 71360	SHIFT DIFFERENTIAL	0	2-	0	2-
S** 71390	STANDBY PAY	0	0	0	0
S** 71450	PENALTY PAY	0	0	0	0
S** 71480	DOUBLE TIME PAY	0	0	0	0
S** 71550	OTHER TAXABLE COMP	0	0	0	0
S** 71560	RETROACTIVE PAY	0	0	0	0
S** 71580	TOOLS/UNIFORMS	0	0	0	0
S** 71600	BENEFITS	0	166-	0	166-

FOR NEXT SECTION ENTER== NUMBER _____ YEAR _____ LEVEL LIMIT ____
 PF1=MENU PF3=PAGE FORWARD PF6=RT REQUEST MAINTENANCE