

ALASKA LEGISLATURE COMMITTEE FILES 1991-1992 8672
7529 SENATE LABOR & COMMERCE

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FISCAL NOTE

Revision Date: April 29, 1991
 Title: An Act relating to food and housing for construction workers at remote construction sites on certain state construction projects, and providing for an effective date.
 Sponsor: Menard, Rodey, Collins
 Requestor: Menard
 Department Affected: DOT&PF
 BRU: Statewide Engineering & Operations Standards
 Component: Eng. & Oper. Standards
 Component Serial Number: 547

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY92	FY93	FY94	FY95	FY96	FY97
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	3.0	0	0	0	0	0
CONTRACTUAL	15.0	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:	18.0	0	0	0	0	0

CAPITAL	400.0	400.0	400.0	400.0	400.0	400.0
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REVENUE	0	0	0	0	0	0
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FUNDING: (Thousands of Dollars)

GENERAL FUNDS	418.0	400.0	400.0	400.0	400.0	400.0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL FUNDING:	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

Estimate of current year impact: None.

ANALYSIS: (Attach a separate page if necessary)

Prepared by: Jeffery C. Ottesen, Director

Phone: 465-2951

Division: Engineering and Operations Standards

Date: April 29, 1991

Approved by Commissioner: 

Phone: 465-3900

Frank G. Turpin

Agency: Department of Transportation and Public Facilities

Date: April 29, 1991

Distribution By Preparer: Legislative Finance, Legislative Sponsor, Requestor, OMB, Impacted Agency(ies).

ANALYSIS (cont. from page 1):

Regulations

There will be approximately \$18.0 in one-time administrative costs in FY 1992 due to the costs of implement regulations; these funds will be used for legal support, advertising, public hearings and travel to public hearings. Of this amount, \$15.0 is for contractual items (legal costs \$12.0, transcriptions \$2.0, advertising \$1.0) and \$3.0 is for travel and per diem to meetings.

Operating Costs

Administrative costs of establishing new contract specifications and having them reviewed by the Attorney General's office, regional staff and federal agencies will be borne by existing operating budgets.

Opportunity Costs: Federal-Aid Capital Programs

While not a new cost requiring an appropriation the bill has the effect of raising costs on certain federal-aid highway and aviation projects and thereby reducing buying power. This cost is essentially an opportunity cost to the program. It is estimated at \$2.0 to 3.0 million annually and will result in the delay of some projects as the schedule for highway and airport improvements will stretch out accordingly. It does appear as a cost on the fiscal note.

Capital Costs: General Funded Capital Programs

For the GF capital budget, we assumed that, on average, about \$4 million dollars of general funded construction would be defined as "remote" each year, and that the cost of a camp would contribute about 10% additional expense to these projects. This amount would vary with the size of the state's capital budget and the portion of the budget that is allocated to remote projects.

FISCAL NOTE

Revision Date: 4/5/91 Department Affected: DOT&PF
 Title: An Act relating to food and housing for construction workers at remote construction sites on certain state construction projects; and providing for an effective date. BRU: Statewide Engineering & Operations Standards
 Sponsor: Menard, Rodey, Collins Component: Eng. & Oper. Standards
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PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

Estimate of current year impact: None.

ANALYSIS: (Attach a separate page if necessary)

See Attachment.

Prepared by: Jeffery C. Ottesen, Director

Phone: 465-2951

Division: Engineering and Operations Standards

Date: April 16, 1991

Approved by Commissioner: 

Phone: 465-3900

Frank/G. Turpin

Agency: Department of Transportation and Public Facilities

Date: April 16, 1991

Distribution By Preparer: Legislative Finance, Legislative Sponsor, Requestor, OMB, Impacted Agency(ies).

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Alaska State Legislature

N
Senator Curt Menard



While in
Session:
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Senate
District
E

TO: Senator Drue Pearce
Chair - Senate Labor and
Commerce Committee

FROM: Senator Curt Menard *Curt*

DATE: April 9, 1991

RE: Request for hearing:
SS SB 37

I am the prime sponsor of SS SB 37 "An Act relating to food and housing for construction workers at remote construction sites on certain state construction projects."

This bill is now in Senate Labor and Commerce and I am writing to request that it be scheduled for hearing at your earliest possible convenience.

If you have any questions, please contact my staff member Iola Young. Thank you for your consideration of my request.

WE SUPPORT



Red. SB 37
SB 33
Furber's bill -
the one that triggered
SOS last year -
lets get both sides of
the argument.

Does Alliance have a
position on the bill?

DOIRF - last year's position
Paper?
etc.

7-LS0373J
Cramer
4/25/91

CS FOR SPONSOR SUBSTITUTE FOR SENATE BILL NO. 37 ()

IN THE LEGISLATURE OF THE STATE OF ALASKA

SEVENTEENTH LEGISLATURE - FIRST SESSION

BY

Offered:

Referred:

Sponsor(s): SENATORS MENARD, Rodey, Collins

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to food and housing for construction workers at remote construction sites
2 on certain state construction projects; and providing for an effective date."

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

4 * Section 1. AS 36.90 is amended by adding a new section to read:

5 Sec. 36.90.110. FOOD AND HOUSING AT REMOTE STATE CONSTRUCTION
6 SITES. (a) Except as provided in (b) and (c) of this section, the state shall require that a
7 contractor provide food and housing to an employee of the contractor working on a state
8 construction project at a remote construction site. The contractor may not consider the cost of
9 the food and housing in setting wages for the employee or in meeting wage requirements under
10 AS 23.10.065 or AS 36.05.

11 (b) Before the award of a state construction contract, the state shall estimate the length
12 of active, on-site workdays required to complete the project, and the number of contractor
13 employees required at peak employment periods. If the estimate indicates that the project will
14 require fewer than 60 continuous calendar days of active on-site work or fewer than 15 contractor

1 employees at peak employment periods, the project is exempt from the requirement to provide
2 food and housing set out in (a) of this section.

3 (c) A contractor who provides adequate transportation to employees is exempt from the
4 requirement to provide food and housing set out in (a) of this section for those employees for
5 whom the transportation is provided. Transportation is adequate under this subsection if it

6 (1) transports the employee from the departure point to the work site in 60
7 minutes or less or if the employer pays wages to the employee for time spent travelling to the
8 work site in excess of 60 minutes; return transportation shall be provided on the same basis;

9 (2) is available each workday at times reasonably close to the beginning and
10 ending of each work shift;

11 (3) begins from and returns to a departure point that is central to either a location
12 where commercially available food and lodging establishments exist or which is the domicile of
13 the employee; and

14 (4) meets applicable transportation safety standards.

15 (d) Unless a state construction contract is exempt under (b) or (c) of this section, the
16 specifications for the contract must contain a provision setting out the requirement for providing
17 food and housing at remote construction sites and the optional provisions for transportation
18 services. When this provision is required in a contract, the contract must designate the site and
19 include relevant permits for the housing.

20 (e) The Department of Transportation and Public Facilities shall implement this section
21 by regulation.

22 (f) In this section,

23 (1) "domicile" means the principal place of residence of an individual during the
24 90 days before employment on the state construction project;

25 (2) "remote" means a work site that is either more than 50 road miles from or
26 inaccessible by two-wheel drive vehicles from a location that has commercial food and lodging
27 establishments adequate to accommodate the work force of the state construction project;

28 (3) "state construction" means the on-site field surveying, erection, rehabilitation,
29 alteration, extension, or repair, including painting or redecorating, of buildings, highways, or
30 other improvements to real property, under contract for the state.

31 * Sec. 2. This Act does not apply to a contract for a state construction project that was entered into

1 before September 1, 1991.

2 * Sec. 3. This Act takes effect September 1, 1991.



*Department of Transportation
and Public Facilities*

POSITION PAPER

BILL NO: SSSB 37

APPROVED: *Randy Simon*

TITLE: An Act relating to food and housing for construction workers at remote construction sites on certain state construction projects; and providing for an effective date.

DATE: April 16, 1991

This bill represents a compromise between the department and labor unions regarding a statutory provision for camps on remote construction projects. While we are not enthusiastic about this bill, neither do we oppose it. Our position is neutral.

As background, camps were at one time required thru negotiated labor agreements. With the rise of non-union contractors, the cost of camps made union contractors less competitive, and in order to ensure union contractors could secure projects this provision was eliminated by negotiations. At remote projects unsanitary living conditions occurred as employees camped wherever they could find a site, without regard for trash disposal and basic sanitary requirements. In 1990, in response to the problem, the department adopted a contractual requirement for a contractor furnished campground at remote projects. Under this arrangement, the employee must provide the tent or camper and cook his/her own meals; the contractor provides, free of charge, a full-service camp site complete with power, water and a central lavatory, shower and laundry facility.

While we believe that mandatory campgrounds are a cost effective solution, union representatives have continued to stress their preference for contractor furnished housing and meals. Aside from the policy question of whether camps or campgrounds are appropriate, the original version of the bill was unworkable for practical reasons.

The sponsor substitute has effectively addressed the impracticalities. The requirement for camps will not apply to small or short duration projects. There is also a clear point of decision before the project is let, making it clear to all bidders as to what is required contractually. Finally, a contractor may weigh the cost of a camp

For Further Information contact Katy McHugh at 465-3900.

BILL NO: SSSB 37

TITLE: - An Act relating to food and housing for construction workers at remote construction sites on certain state construction projects; and providing for an effective date.

DATE: April 16, 1990

against the cost of compensated transportation time in order to make the most economical decision.

While we are neutral toward the bill, we must point out the opportunity costs. Camps will in essence add to a contractor's overhead thus raising the cost of remote projects. As we operate with a fixed amount of federal money for airport and highway improvements, we will lose some purchasing power. On state-funded projects, remote projects will also require an incrementally larger appropriation. Estimates of these costs are found in our Fiscal Note.

Finally, we would like to offer a nominal amendment. The Association of General Contractors has requested that it be made explicit that when a camp is required, the state take steps to provide the site and secure necessary permits. It has always been our intent that we do so, because it removes the possibility of "sweetheart" deals regarding a site and prevents undue delays while the contractor seeks permits; we endorse a statutory requirement. Recommended is the following:

Section 1, paragraph (d) Unless a state construction contract is exempt under (b) or (c) of this section, the specifications for the contract must contain a provision setting out the requirement for providing food and housing at remote construction sites and the optional provisions for transportation services. When this provision is required the contract must include a designated site and relevant permits for the placement of contractor furnished housing.

DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

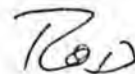
FACSIMILE TRANSMITTAL SHEET
FAX NO. (907) 586-8365TO: Gov. Mourant / Sen. Pearce's PHONE: 465-3844FROM: Katy McHugh / DOTPF PHONE: 465-3900NUMBER OF PAGES INCLUDING THIS COVER SHEET: 9

COMMENTS:

Rod - Enclosed is FN + PP from last year (SB 533 + HS 430 were same bill originally.) Also, for your or the Senator's information, if you want more background, is a briefing paper prepared for the Governor last Spring. Call if you need more info
Katy

DRUR -

KATIE McHUGH SAYS
EVEN THOUGH 1 YR OLD,
STILL REFLECT
ADMINISTRATION'S POSITION.



Department of Transportation and Public Facilities

POSITION PAPER

Bill No: HB 430

Approved: Mark S. Hickey *MSH*
Commissioner

Title: An Act requiring that overtime wages at twice the regular rate of pay be paid for certain work days and work ...
... and relating to food and housing for construction workers at remote construction sites."

Date: 2/6/90

The department is concerned that the cost of complying with this proposed legislation will significantly increase the cost of constructing highway, aviation and other public facilities in remote areas of the state.

Section 2 of the bill provides that contractors shall furnish food and housing to an employee working at sites inaccessible by two-wheel drive vehicles or 50 road miles or more from commercially available food and housing. The department is concerned that all construction workers, be they employed by the state or the contractors, have reasonable and adequate living circumstances while working on department construction projects. Toward this end, we have prepared a new standard for remote projects (though accessible by road). It requires that the contractor provide, at no cost to employees, full-service campgrounds including water, power, showers, laundry and waste disposal. We believe this new standard would save a substantial amount of money compared to "camps" and result in other benefits when compared to the standard proposed in the bill.

The campground standard contemplated by the department was one of four possible solutions to correct the problems associated with workers living in unsanctioned campgrounds (see "Policy Proposal for Accommodations on Remote Projects, October 1989," attached). Notably, the selected standard solves all health and sanitary conditions raised as a concern, and was well received by the Department of Environmental Conservation. It has three additional attributes worth mentioning when compared to the solution proposed in this bill.

- It requires that a worker provide a vehicle or trailer for his/her housing. This serves to hinder out-of-state workers from flying into the state with only their luggage and working for extended periods. Notably, this bill would largely affect federally funded projects to which no in-state hiring preferences can be applied.
- By coordinating with other agencies, the campgrounds created by the department's new standard could become permanent facilities adding to the state's tourism and recreational base.

For More Information Contact Catherine M. Hugh at 465-3900

- The department's standard results in significant savings when compared to the requirements of the bill. For DOT&PF highway and aviation projects the requirements set forth in this bill are estimated to cost 5 times the cost of the campground standard (2.4% vs. 12% of the aggregate construction cost). The consequences of the higher standard would be to raise the overhead cost of capital projects and subtract from the buying power of capital funds.

The department intends to implement the campground policy discussed. It is contemplated to be in force on the following projects in the coming year.

Glenn Highway, MP 135 North (Nelchina Slide)
Richardson Highway, MP 79 North

As substitute language we would encourage the following language for consideration to be inserted at line (10), page 5.:

(c) An employer or contractor, at sites accessible by two-wheel drive vehicle, but more than 50 road miles from a place that has adequate, commercially-available food and housing, shall be considered as satisfying the requirements to provide food and housing under (a) of this section by providing a full-service campground. A full-service campground is adequate under this section if it

- (1) has gravel, well drained surfacing at each camp space;*
- (2) provides power and potable water connections at each camp space;*
- (3) has common toilets, lavatories, showers, laundry with hot and cold water; and*
- (4) trash containers and holding tank discharge system is provided.*

Proposed paragraphs (c) thru (f) to be re-lettered to (d) thru (g).

We would also comment that the bill as written would all but eliminate the ability to use small contracts on remote locations without very large transportation or camp costs. This would impact trail and wilderness recreational facilities, hatchery renovation projects and similar smaller undertakings. We would propose that a dollar threshold be included below which projects would be exempt.

MEMORANDUM**State of Alaska**Department of Transportation & Public Facilities
Office of the Commissioner**TO:** The Honorable Steve Cowper
Governor**DATE:** March 29, 1990**THRU:** Garrey M. Peska
Chief of Staff**FILE NO:****FROM:** Mark S. Hickey *M&H*
Commissioner**TELEPHONE NO:** 465-3900**SUBJECT:** Camps at
Public Construction
Projects

This memo is submitted in view of the March 20, 1989, decision memorandum prepared by the Department of Labor. It describes why we think the option recommended by DOL should be rejected in favor of the solution already developed and implemented by this department.

Origin of the Issue

There is no question why camps are no longer part of the Alaskan construction industry for projects on the road system. In the early 1980's, as open shop contractors began to participate on public works projects, they gained a competitive advantage in bidding as they did not have to incur the cost of camps. Prior to open shop public works contractors, labor agreements included the requirement for full service camps for construction workers. This included the provision of room and meal service. Recognizing that the camp provision made union contractors uncompetitive, such contractors were able to get these provisions eliminated from the contracts through labor negotiations. Thus the issue at hand is an attempt to gain in statute what was lost at the bargaining table.

Further, the discussion thus far has strived to paint this department as the cause of the the loss of camps. This is fundamentally incorrect. The department did require that camps be provided for department staff at construction sites but dropped this requirement when camps were no longer required as part of labor agreements.

The absence of camps has resulted in some problems, such as the long-term crowding of public campgrounds with laborers and unauthorized camping and trespass in gravel pits and other areas with attendant sanitation problems from litter and human waste. However, many contractors now provide campgrounds for their employees and have found that they are an effective way to resolve the problems listed above. Thus the problem is not found on every remote job, but some action is necessary to ensure that crowding of public campgrounds, trespass, and unsanitary situations are avoided in all instances.

The Honorable Steve Cowper

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March 29, 1990

As an aside, contractors have informed us that some people camping illegally near construction sites are "would-be" workers hoping to get hired. Regardless of the outcome, these individuals will not benefit from the proposed change.

Legislative Proposals

The House Labor and Commerce Committee is sponsoring a bill (CS HB 430) which would require that full service camps be included on all public works projects (including municipal projects) if they are more than 50 road miles or otherwise inaccessible from a community with commercially-available food and housing. This bill parallels the recommendations in Commissioner Sampson's decision memorandum.

Department Action

Recognizing that there is a need for reasonable accommodations, the department undertook an analysis of what options could be considered and what they might cost. This analysis evaluated 4 options ranging from mandating minimum service campgrounds to full-service camps with meal service. The four options have a high degree of cost variability (see "Policy Proposal for Accommodations on Remote Projects, November 1989," attached). This draft policy paper was circulated to DOL at that time, though a written response was never received.

In the absence of any criticism during the review process, we elected to select the full service campground option as it fully resolves the trespass and sanitation problems at a modest cost increase to the capital budget. We feel that mandating full service campgrounds (a gravel surface, power, water, trash and dump station services, showers, toilets, lavatories and laundry facilities) would resolve all of the sanitary problems cited as the justification for the camps.

Notably, the selected standard solves all health and sanitary conditions raised as a concern and was well received by the Department of Environmental Conservation.

We have recently taken action to apply this provision to the bidding requirements of remote projects, thus in large measure, the problem has been solved without legislation or regulation.

It has three additional attributes worth mentioning when compared to the solution advocated by DOL.

- It requires that a worker provide camping equipment, including a tent, vehicle or trailer for his/her housing. This serves to hinder out-of-state workers from flying into the state with only their luggage and working for extended periods. Notably, this bill would largely affect federally funded projects to which no in-state hiring preferences can be applied.

The Honorable Steve Cowper

Page 3

March 29, 1990

- By coordinating with other agencies (such as DNR) the campgrounds created by this new provision could become permanent facilities adding to the state's tourism and recreational base.
- The department's standard results in significant savings when compared to the requirements of the bill. For DOT&PF highway and aviation projects, the requirements set forth in this bill are estimated to cost 4 times the cost of the campground standard (2.9% vs. 12% of the aggregate construction cost). The consequences of the higher standard would be to raise the overhead cost of capital projects and subtract from the buying power of capital funds.

Other Considerations

It has been suggested to us that requiring workers to provide their own camping facilities is an undue financial burden. We do not agree. Most Alaskans camp for recreational purposes and camping equipment is widely owned. Nor does it have to be overly expensive. While a large, modern, recreational vehicle can cost many thousands of dollars, a person of lesser means can adequately get by with a camping tent, or a pickup truck with canopy.

Some contractors who now provide campgrounds for their work force have talked about how much their workers like the idea of their family being welcome to join them in the campground. Unlike camps, which are ill-suited to a family staying with the workers, the campground concept may add to a more stable family environment for construction workers.

Criteria Issue

Another facet of this issue is when it would be invoked. For the department's contract requirement, we elected to waive the campground requirement for small projects (less than 15 workers or less than \$500,000), those of short duration (less than 60 days) and those located within 50 miles of a community capable of housing the work force in commercial facilities.

CS HB 430 includes a comparable 50 mile radius, but allows that if the contractor furnishes transportation that takes not longer than 30 minutes he may be exempt from the camp requirement. Realistically, given the maximum 55 mph limit on highways, this exemption is meaningless for projects on the road system.

CS HB 430 would also apply to every public works project including those of municipalities. It technically would even apply to small construction projects undertaken by Fish and Game and DNR at remote locations (e.g. fish by-pass structures, trail work, cabin refurbishment). The application of the camp requirement in CS HB 430 to very small projects in remote areas could be catastrophic, in terms of cost impacts, making it completely impractical to undertake these types of projects.

The Honorable Steve Cowper

Page 4

March 29, 1990

Labor's memorandum incorrectly asserts our criteria would eliminate most public works projects. Although it is correct that our criteria will only apply to certain projects, we believe it will cover those projects where adequate housing in remote locations is not otherwise available. Labor apparently believes full camp facilities should be guaranteed in all cases. This is unrealistic, unnecessary, and completely ignores the cost impact on meeting the state's capital needs. It's particularly disappointing to see Labor's criticism in this area since, to date, they haven't provided a single suggestion either formally or informally to moderate the problems with our criteria.

For projects not on the road system, the department's policy does leave open the option of requiring camps; though we find that contractor's provide them already without a specific contract requirement if warranted.

Comparison to DOT&PF Employees

It has been mentioned in the hearings and in the DOL memorandum that our own people receive better care. It is true that, by labor agreements, we must pay per diem for staff in travel status under some circumstances. However, we strive to hire our inspectors from communities near our projects which eliminate the cost of travel and per diem charges. Further, except for project engineers, our inspectors are paid substantially less per hour than are most construction workers.

We find it ironic that employees must pay their own lodging and meal costs for projects within 50 miles of a community but then receive fully paid accommodations beyond the 50 mile threshold. We think providing a full-service campground is in many ways preferable to commercial housing, in terms of cost, privacy and the ancillary benefits it provides. In fact, we would fully expect to find workers voluntarily camping at projects inside the 50 mile radius as a means of reducing their costs.

Cost Issue

The difference in cost between a full-service camp and a campground is significant. We reviewed actual camp costs with Alyeska, APA and contractors. From this we estimate a 12% burden to remote projects if a full camp is required. In contrast, the full-service campground would add about 3%. With the CS HB 430 proposal, in the next 6 years the state highway program would incur a cost burden of at least \$ 24 million and probably given the broad criteria. This is approximately equal to the cost of one-fifth of the state's annual highway construction program.

Whether camps or campgrounds, the cost of this issue subtracts from the purchasing power of capital budgets. The state vitally needs to efficiently use the capital budget if we are to improve safety, increase capacity and improve transportation. Our federal-aid funds are not free as many would suggest. The state has a fixed annual amount to spend. There is a real, reasonable opportunity cost by choosing to buy camps instead of more asphalt.

CORRECTION

**THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY**

The Honorable Steve Cowper

Page 4

March 29, 1990

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The Honorable Steve Cowper

Page 5

March 29, 1990

Given the deteriorating condition of our transportation facilities, the lack of general funds to meet our capital needs, and the real threat of major federal funding decreases on the near-term horizon, the added unnecessary cost of full camps cannot be justified. Especially when you consider the department is moving administratively to address the most serious condition problems.

Key Agency Views, Interest Groups

Our information is that the Associated General Contractors, Alaska Chapter, and the Highway Users Federation of Alaska are very troubled by the camp recommendations of CS HB 430.

Though we would concur with Labor that the Alaska AFL-CIO would prefer CS HB430, the representatives that met with us were very encouraged and appreciative of DOT&PF's proposal, as a major step in the right direction.

Recommendation

The provision of CS HB 430 pertaining to camps is overly expensive, unnecessary, and would impose extreme complications on small projects. The justification for this bill is the need to provide safe and sanitary facilities for workers on public construction. We have already accomplished this at far less cost than would be incurred under the bill.

The department's solution has additional benefits including adding to campgrounds, reducing the prospect of outside workers, and making remote projects easier for workers with families to hire on.

We would recommend that the administration endorse our administrative solution and not support the camps provision in CS HB 430.

cc: Don W. Collinsworth, Commissioner, Department of Fish and Game
Lennie Gorsuch, Commissioner, Department of Natural Resources
Dennis D. Kelso, Commissioner, Department of Environmental
Conservation
Jim Sampson, Commissioner, Department of Labor
Ron Clarke, Special Staff Assistant, Officer of the Governor
W. Keith Gerken, Deputy Commissioner, Operations, DOT&PF
Regional Directors, DOT&PF

**STATE OF ALASKA
1990 LEGISLATIVE SESSION**

**BILL VERSION: SB 533
PUBLISH DATE: 3/22/90 (6-2338A)**

REQUEST: FISCAL NOTE

Revision Date: Agency Affected: DOT&PF
 Title: An Act relating to food and housing workers of remote construction sites on public construction projects; and providing for and effective date. BRU: Design & Construction
 Sponsor: Labor and Commerce Committee Components:
 Requestor: Labor and Commerce Committee

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTURAL	60	60	60	60	60	60
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	60	60	60	60	60	60
CAPITAL	240	240	240	240	240	240
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND	300	300	300	300	300	300
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	300	300	300	300	300	300

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: The fiscal note is based on assuming an average of \$0.5 million per year of general fund dollars are spent on maintenance projects which would be affected and another \$2.0 million in general fund capital projects. To these amounts an average camp cost of 12% was applied. In addition, on federal-aid highway and aviation work, based upon the proposed program for the next six years a cost of \$4.0 million per year is anticipated. This would subtract from the buying power of our capital budget, but would not add new costs.

Prepared by: Jeffery C. Ottesen
 Division: Engineering and Operations Standards
 Approved by Commissioner: *Mark S. Hill*
 Agency: Department of Transportation and Public Facilities

Phone: 465-2960
 Date: April 4, 1990
 Date: 4/4/90

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

REMOTE SITE - NON WORK RELATED INJURIES

An employee was injured while swinging on a tree swing for recreation after dinner with 3 other guys. He was swinging on a rope swing and came back hit the tree and fell to the ground. The initial diagnosis of injury was a severe compression fracture superior half of L4 vertebral body. Surgery was performed and a strut graft across L3-4 and posterior fusion with a steffee plate, with complete reduction of the fracture.

This claim is still open and the employee is still receiving compensation. The long process of rehabilitation has not worked for either the employee or the employer/carrier and the claim remains open. This claim is almost 3 years old.

Three experienced men drove out to the blasting site in their private vehicle after work hours to watch and film the pit shot. One employee and his family lived in the camp as homeguards and the other two men lived in the bunkhouse. They were below the site on another road watching when the blast occurred and created a land slide. The three men were in the direct path of the mud slide. All three men were caught in the slide, two were killed and a third man was not seriously injured.

One employee's claim will remain open for up to 21 more years because of his minor dependents.

An employee injured his knee after a friend in a private vehicle backed up and hit the injured employee after work hours. The employee required surgery and was on time loss for a long period of time. There is a road connecting the camp with a town but the road was impassable at the time thus making the camp site remote. This claim is less than a year old.

An employee was sleeping in his room when another employee burst into his room and began fighting with the employee. The sleeping employee's arm went out through a window and severed the ulnar nerve in his right arm. The employee has virtually no use of his arm, his fingers are clawing and has to learn to write with his left hand. He is in the process of rehabilitation but it will be years before there is significant reinnervation of his arm, if ever. Medical costs will also be significant through the medical portion of the claim.

The employee has been and is still on time loss for a year now. It is undetermined when medical stability will be reached.

An employee was severely burned when he threw a flammable liquid on an open fire while helping his father burn trash at his personal trailer site after work. The fire exploded and he was engulfed in flames. His father was also burned trying to save his son. Both men were employees at the camp site. He was medivaced to Seattle to Harborview Medical Center. He suffered 2nd and 3rd degree burns over 80% of his body. He will be having skin grafts for the next 2 to 3 years.

This claim has cost nearly \$500,000. to date and is expected to exceed a \$1,000,000. This accident is less than a year old.

REINLAND



APR 23 1991

THE ALLIANCE

4220 'B' Street, Suite 200 / Anchorage, Alaska 99503-5911 / (907) 563-2226 / FAX 561-8870

Randall Kowalke - President

Robert Gardner - Vice President Policy
ENSR Consulting & Engineering

Gordon Stevens - Vice President Events
Fluor Daniel Alaska

James Udelhoven - Vice President Admin.
Udelhoven Oilfield Systems

Lowell Humphrey - Secretary
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Crowley Maritime Corporation

David Dorsey - Director
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Jim Drake - Director
Ditch Witch of Alaska, Inc.

David Haugen - Director
Lynden, Inc.

Martin King - Director and
Fairbanks Chapter Chair
Irish Trucking

Raymond Latchem - Director
NORGASCO, Inc.

Joe Mathis - Director
NANA Development Corp.

William McLaughlin - Director
Cold Weather Contractors, Inc.

Val Molyneux - Director
Norcon, Inc.

Wesley Nason - Director
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Mary Shields - Director
Northwest Technical Services

Ross Thompson - Director
Peak Oilfield Services

Bill Frazer - Peninsula Chapter Chair
Walters & Olson, Inc.

William Webb - Staff
General Manager

Jennifer Johnston - Staff
Issue Advocacy Manager - ANWR

Barbara Webb - Staff
Administrative Assistant

Kathryn Huseman - Staff
Office Assistant

April 18, 1991

Honorable Drue Pearce
Alaska State Senate
Post Office Box "V"
Juneau, Alaska 99811

Dear Senator Pearce:

Our Public Policy Committee has reviewed sponsor substitute for Senate Bill 37 and have no objection or suggested changes to this bill in its current form.

Sincerely yours,

William F. Webb
General Manager

cc: Public Policy Committee

Alaska Support Industry Alliance

... for responsible economic development

JAN 30 1991

LABORERS' INTERNATIONAL UNION
of NORTH AMERICA
LOCAL 341

2501 Commercial Drive
Anchorage, Alaska 99501
PHONE (907) 272-4571



MANO FREY
BUSINESS MANAGER
SECRETARY-TREASURER
ANDREW J. PIEKARSKI
PRESIDENT
VICE PRESIDENT
DON WEBER

FIELD REPRESENTATIVES:
ANDREW J. PIEKARSKI
WILLIAM "BILL" MCPHETERS
MIKE GALLAGHER
ROBERT J. GLORIOSO

January 25, 1991

The Honorable Drue Pearce
Alaska State Legislature
P.O. Box V (MS 3100)
Juneau, Alaska 99811

Dear Senator ~~Pearce~~: *Drue*

I would like to enlist your help on a humanitarian issue. Currently, there are many people working on our state's road construction jobs who are living in very unhealthy and unsanitary conditions. Sometimes these individuals have the luxury of living in their campers (usually without hookups), but most of them are living in squalor. When I say squalor, I mean visqueen lean-tos, tents, the back seats of cars, the front seats of pickups, and sometimes inside a nice, dry culvert.

The state used to provide for food and housing in the bid specifications. That is not the situation any longer. The outside NON-union contractors found they could underbid conscientious Alaskan contractors by cutting out decent living and working conditions on their bids. Then the Alaskan contractors followed suit to remain competitive. Since then, the DOTPF, at least under the last administration, has taken a negative position because the cost would cut into the actual physical construction dollars.

Dignity in the workplace has taken a setback to well before Alaska's statehood. People are getting sick because they don't have potable water, housing, laundry facilities, showers, or warm food. One laborer told me that he would come home to his visqueen tent after twelve hours on a muddy road job, make a sandwich out of stale bread, and fall asleep in the same clothes we worked in the day before. Then he'd wake up, drink a cup of cold instant coffee, and go to work with another stale sandwich for lunch. He was working a twelve-hour shift seven days a week.

Put yourself into this individual's position and ask yourself, "How long would I last on a job like this?"

I would appreciate it very much if you would add your name as a sponsor to Senate Bill 37 so that we may hopefully rectify this terrible situation.

Sincerely,

Mano Frey
Business Manager/Secretary-Treasurer

MF/dsr

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SENATE LABOR & COMMERCE COMMITTEE
BILL FILE

BILL NUMBER: SB 39

BILL TITLE: PERMANENT FUND & PFC

SPONSOR: POURCHOT

RECEIVED: 1/21/91

WRITTEN REQUEST TO SCHEDULE: DATE 1/21/91 FROM POURCHOT

SECTIONAL ANALYSIS RECEIVED: DATE 2/1/91 FROM TAM COOK

FISCAL NOTE REQUESTED: DATE — FROM —

FISCAL NOTE RECEIVED: DATE 2/1/91 FROM DANIEL - PFC

FISCAL NOTE CS REQUESTED: DATE 2/6/91 FROM DNR - WILSON

FISCAL NOTE CS RECEIVED: DATE 2/8/91 FROM " "

FISCAL NOTE CS REQUESTED: DATE 2/6/91 FROM ALAN BAUMANN - REV

FISCAL NOTE CS RECEIVED: DATE — FROM —

FISCAL NOTE CS REQUESTED: DATE — FROM —

FISCAL NOTE CS RECEIVED: DATE — FROM —

FIVE DAY NOTICE GIVEN:

COMMITTEES OF REFERRAL: FIRST: L & C SECOND: JUD THIRD: FIN

DATE

COMMITTEE ACTION

2/11

BILL HEARD AMENDED - CS SENT TO JUD

HEARING NOTIFICATION LIST

1. SPONSOR

6. OMB

2. AGENCY

7. —

3. JIM KELLY PFC

8. —

4. REVENUE

9. —

5. DNR

10. —

STATE OF ALASKA
1991 LEGISLATIVE SESSION

BILL NO. SB #39

Revision Date: _____ Department Affected: AK Permanent Fund Corporat
Title: An Act relating to the permanent BRU: AK Permanent Fund Corporation
fund and the Alaska Permanent Fund Corp. Component: #109 AK Permanent Fund Corporation

Sponsor: Senator Pourchot

Requestor: _____

COMPONENT SERIAL NO.

0	1	0	9
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Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
PERSONAL SERVICES	-0-	-0-	-0-	-0-	-0-	-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-	-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-

Estimate of current year impact: -0-

ANALYSIS: (Attach a separate page if necessary.)

Prepared By: Jim Kelly, Research & Liaison Officer Phone: 907/465-2047

Division: AK Permanent Fund Corporation Date: 1/31/91

Approved by Commissioner: *[Signature]*

Agency: Alaska Permanent Fund Corporation Date: 1/31/91

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

**STATE OF ALASKA
1991 LEGISLATIVE SESSION**

BILL NO. SB 39

Revision Date: 8-Feb-91 Department Affected: Natural Resources
 Title: Permanent Fund Technical BRU: Management & Administration
 Revision: _____ Components: Administrative Services
 Sponsor: Senator Pourchot
 Requestor: Senate Labor & Commerce COMPONENT SERIAL NO. 424

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND&STRUCTURES						
GRANTS,CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL						
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REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

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

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of Current year impact:

ANALYSIS: (Attach a separate page if necessary)

See Attached

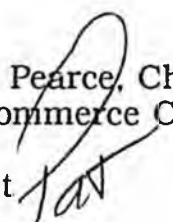
Prepared by: Sharon Barton Phone: 465-2400
 Division: Management and Administration Date: 8-Feb-91

Approved by Commissioner: MB Harold Heinze Date: 8-Feb-91
 Agency: Department of Natural Resources

Distribution (by preparer) : Legislative Finance, legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

Memorandum

To: The Honorable Drue Pearce, Chair
Senate Labor and Commerce Committee

From: Senator Pat Pourchot 

RE: Senate Bill 39

Date: , January 21, 1991

I am writing to request a hearing of SB 39, "An Act relating to the permanent fund and the Alaska Permanent Fund Corporation; and providing for an effective date," at your earliest convenience.

The legislation deals almost exclusively with technical changes to the permanent fund statute advocated both by the Office of Budget and Management Division of Policy and by the Commission on the Future of the Permanent Fund and does not make any major policy changes to the way the fund is managed or the way income from the fund is distributed.

I have requested a fiscal note from the Department of Revenue and a sectional analysis from legal services, and I will forward them to your committee as soon as they are available.

Thank you in advance for consideration of this request.

ALASKA STATE LEGISLATURE

SENATE FINANCE COMMITTEE,
CO-CHAIR



Senator Pat Pourchot

ANCHORAGE
P.O. BOX 104836
ANCHORAGE, AK 99511
(W) (907) 561-7623
(H) (907) 338-2425

JUNEAU
P.O. BOX V
STATE CAPITOL
JUNEAU, AK 99811
(907) 465-3712

**SB 39: Technical Changes to Permanent Fund statutes
presented to Senate Labor and Commerce Committee
February 11, 1991**

Contents:

- A. SB 39 with sponsor notes
- B. Pourchot SB 39 Summary
- C. SB 39 Fiscal Note
- D. SB 39 Sectional Analysis
- E. Sponsor Amendments
(with copies of affected statutes)
- F. Page 13 from the "Report of the commission on the
Future of the Permanent Fund"; Clean Up the Statutory
Language
- G. Page 10 from the Division of Policy report,
"Permanent Fund Policy Issues"; Maximizing Deposits
- H. Pages 14 and 15 from the Division of Policy report,
"Permanent Fund Policy Issues"; Treatment of Royalty
Litigation Interest Earnings

SB 39 Summary

SB 39, "An Act relating to the permanent fund and the Alaska Permanent Fund Corporation; and providing for an effective date."

Recent Office of Management and Budget research, the final report of the Commission on the Future of the Permanent Fund, and the Permanent Fund Board of Trustess have all identified several needed clarifications of statutory intent to ensure the legality of current Corporation practices. **Senate Bill 39** attempts to clean up many of the following inconsistencies, ambiguities and other confusing provisions currently in the statutes governing the Permanent Fund.

Language Consistency:

Currently in statute, the terms "Alaska Permanent Fund" and "Alaska Permanent Fund Corporation" are used inconsistently. The first term should refer to assets owned by the State of Alaska, and second term should refer only to the government instrumentality created to manage and invest those assets. The proposed legislation modifies AS 37.13.010 - AS 37.13.210 to use these terms correctly and consistently.

Adjustments to the Legislated List of Investments:

The Corporation is limited to investments of the types specified in statute. Unfortunately this list has not been updated to reflect the current state of financial markets. **Section 10** of SB 39 makes it possible for the Corporation to take advantage of investment opportunities in AA rated or better municipal and state bonds. This section also provides specific authorization for investments in money market instruments.

This proposal removes several investment instruments that have never been used, are not appropriate for the Fund, and have been prohibited by Board policy (**page 4, lines 4-24**). Neither the Permanent Fund Board, PERS, or TERS have invested in savings and loan or credit union CDs in Alaska because there are no secondary markets for

Alaskan certificates of deposits. Though the CDs are federally insured, once a savings and loan or credit union is in federal bankruptcy court, that security may be tied up for a number of years. In addition, the packages of investments are generally so small as to be undesirable on an administrative level; and there are very few savings and loans and credit unions in Alaska with AA or AAA rating.

Inflation-proofing Deposits:

Money is added to the principal of the Fund once a year to offset the loss of value of the principal due to inflation. Inflation-proofing monthly deposits to the principal from mineral lease royalties and rents could be a very complex task if each deposit were inflation-proofed at a different rate depending on when during the year it was added to the Fund. To ensure that the simplest, most conservative method of inflation-proofing is used, **Section 18** of this legislation mandates that all deposits to the principal of the Fund shall be inflation-proofed at the full annual rate. This change in statute conforms to the current practice of the Corporation.

Litigation Revenue:

The Permanent Fund has received and will probably continue to receive hundreds of millions of dollars from settlements and awards from contested leasing and royalty issues. The money received by the Fund as a result of royalty and leasing litigation has two components, the original amount owed the fund and the interest that money has garnered during the dispute. Current statutes are silent on how these individual components are to be treated by the Corporation. Auditors have differed in their opinions on how such funds should be treated.

This confusion raises two important questions that require legislative clarification: 1) Should interest earned on monies due the Permanent Fund be included in the monies deposited in the Fund when the state eventually receives the funds? and 2) If interest is deposited in the fund, should it be counted as a contribution to principal or counted as income in the year in which the money was received?

The resolution could have a serious fiscal impact on the Fund. For example, the Fund could receive as much as \$385 million in disputed rents, bonuses and royalties from the Dinkum Sands and North Slope Royalty disputes. In the years since litigation was initiated those monies have earned \$386 million in interest (source: April 1990 OMB Report as altered by 1990 Arco Settlement). If the interest income is not dedicated to the Fund, then the interest funds would be general funds available for legislative appropriation. If the interest income is

transferred to the Corporation, but is treated as income generated in the year it is received, the income picture of the Corporation for that year could be dramatically skewed, affecting dividends in that year. The four subsequent years of dividends would be affected as well because of the averaging method currently used to calculate dividends.

The final alternative, treating all interest received as contributions to principal is the course of action currently being used by the Corporation. The legislature ratified this interpretation in the FY91 Operating Budget by mandating similar treatment for any litigation settlement interest monies in FY91.

Section 1 of the proposed legislation clears up this uncertainty by ensuring that all interest on the Fund's share of any settlements or awards will be transferred to the Fund, and that both the original amount due the Fund and any interest it has garnered shall be counted as deposits to the principal of the Fund. This represents the most conservative approach to this question. It adds the greatest amount possible to the principal of the Fund and prevents unpredictable and destabilizing surges in the Corporation's earnings.

Timely Transfers from DNR:

Current law mandates the transfer of funds due the Fund from royalty and lease income from the Department of Natural Resources on a monthly basis. During the thirty-day period between transfers DNR can accumulate sizable balances of monies that will eventually be transferred to the Fund. During recent months of exceptionally high oil prices and high production these monthly transfers have been as high as \$55 million, (November of 1990).

Section 2 of this proposal changes the process so that the Fund receives a transfer whenever \$5 million dollars owed the Fund accumulates at DNR or once a month, whichever is sooner. This will allow the Fund to gain the greatest possible benefit from the monies that have been constitutionally and statutorily dedicated for that purpose.

DIVISION OF LEGAL SERVICES

**LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA**

P.O. Box Y, Juneau, Alaska 99811
(907) 465-3867 or 465-2450
FAX (907) 465-2029

Deliveries to: 240 Main Street
Court Plaza, Room 500
Mail Stop 3101

MEMORANDUM

February 5, 1991

SUBJECT: Permanent Fund Corporation (SB 39)
TO: Senator Pat Pourchot
FROM: Tamara Brandt Cook ^{TBC}
Director

Here is the sectional summary of SB 39 that you requested.

Section 1. Expands the statute setting out sources of deposits to the principal of the permanent fund to include interest earned by the state on those sources before the money is deposited into the fund.

Sec. 2. Requires that payments due to the permanent fund be paid on the day the amount due to the fund reaches at least \$5,000,000 or at least once each month.

Sec. 3. Substitutes references to the Alaska Permanent Fund Corporation with references to the fund itself.

Sec. 4. Deletes reference to assets allocated to the corporation with language requiring assets of the fund to be managed by the corporation.

Sec. 5. Replaces a reference to the board with a reference to the corporation. Substitutes a reference to the corporation with a reference to the fund itself.

Sec. 6. Substitutes a reference to the corporation with a reference to the fund itself.

Sec. 7. Substitutes a reference to the corporation with a reference to the fund itself. Deletes "Alaska Permanent" as it modifies "fund" because a definition of "fund" has been added in Sec. 24 of the bill and made applicable to the chapter. The same change is made throughout other sections of this bill.

Sec. 8. Substitutes a reference to the corporation with a reference to the fund itself.

Sec. 9. Reworded for clarity.

EXPANSION ~~Expands~~ Sec. 10. Substitutes a reference to the corporation with a reference to the fund itself. Deletes certain types of investments from those the fund assets may be invested in, including investments in notes secured by mortgages on commercial property. Expands the specific types of investments that may be made in real estate improved by substantially rented buildings while deleting the general authority to make those investments on substantially the same terms as those specifically set out in statute. Permits investments in taxable municipal or state securities rated "AA" or better. Permits investments in certain money market or short-term investment funds.

Sec. 11. Corrects cross-references to statutes to reflect changes in Sec. 10.

Sec. 12. Deletes "Alaska Permanent" as it modifies "fund."

Sec. 13. Substitutes a reference to the corporation with a reference to the fund.

Sec. 14. Substitutes a reference to the corporation with a reference to the fund.

Sec. 15. Adds additional types of collateral that may be used as security for investments in certificates of deposit that are not of a quality that may be readily sold in a secondary market at prices reflecting fair value.

Sec. 16. Adds a new provision permitting the board to require substitution of collateral to secure investments in certificates of deposit that are not of a quality that may be readily sold in a secondary market at prices reflecting fair value.

Sec. 17. References to "corporation" are replaced with references to "fund."

Sec. 18. Makes the way the rate of inflation is determined more specific for purposes of "inflation proofing" the principal of the permanent fund.

Sec. 19. Deletes a reference to the corporation in favor of a reference to the fund itself.

Sec. 20. Deletes a reference to the corporation in favor of a reference to the fund itself.

Sec. 21. Deletes references to the corporation and substitutes reference to the fund.

Sec. 22. Adds the fund as specifically tax exempt.

Sec. 23. Specifically provides resources of the fund, as well as those of the corporation, may not be used to influence political activities.

Senator Pat Pourchot
February 5, 1991
Page 3

Sec. 24. Adds a definition of "fund" applicable to the chapter.

Sec. 25. Provides a July 1, 1991 effective date.

TBC:lmb
91-018.lmb

TO: Tamara Cook, Director
Division of Legal Services

FROM: Rod Mourant, Committee Aide
Senate Labor & Commerce Committee

RE: Senate Bill 39

DATE: February 12, 1991

Please draft a committee substitute for SB 39 incorporating the changes titled amendments two through and including six on the attachment.

The version that is being drafted has been passed out of committee and will be read across to the Senate Judiciary Committee.

RRM

ATTACHMENT

PROPOSED AMENDMENTS TO SENATE BILL NO. 39

Amendment #1: Change Sec. 5, page 2, line 31 to read:

of the corporation [BOARD] is to manage and invest the assets of the permanent fund and other funds designated by law

ALL FUND: YES - LEGAL OPINION

Purpose: to recognize in the Permanent Fund Management Act that the Corporation is authorized to managed other funds (like the Alaska Science and Technology Fund) as designated by law. No change from the status quo.

Amendment #2: Change Sec. 7, page 3, lines 9-11 to read:

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

Purpose: to eliminate the reference to gender in the prudent-investor rule, and to make it clear that not only the trustees but also the staff of the Corporation are bound to follow this rule. No change from the status quo.

Amendment #3: Change Sec. 17, page 9, line 8 to read:

Sec. 37.13.140. INCOME. Net income of the fund includes income of the earnings reserve account established under AS 37.13.145. Net income [CORPORATION] shall be computed

Purpose: to clarify that income of the Fund includes income of the earnings reserve account as well as income of the principal. No change from the status quo.

Amendment # 4: Replace Sec. 18, page 9, lines 14-31 with the following:

* **Sec. 18.** AS 37.13.145 is repealed and reenacted to read:

DISPOSITION OF INCOME. (a) The earnings reserve account is established as a separate account in the fund. Income from the fund shall be deposited by the corporation into the account as soon as it is received. Money in the account shall be invested in investments authorized under AS 37.13.120.

(b) At the end of each fiscal year, the corporation shall transfer from the earnings reserve account to the dividend fund established under AS 43.23.045 50 percent of the income available for distribution under AS 37.13.140. However, income earned on money awarded after trial in *State v. Amerada Hess, et. al.*, 1JU-77-847 Civ. (Superior Court, First Judicial District) shall be treated in the same manner as other income of the permanent fund, except that it is not available for distribution to the dividend fund, and shall be annually deposited into the principal of the permanent fund.

(c) After the transfer under (b) of this section, the corporation shall transfer from the earnings reserve account to the principal of the fund an amount sufficient to offset the effect of inflation on principal of the fund during that fiscal year. The corporation shall calculate the amount to transfer to the principal under this subsection by

(1) computing the average of the monthly United States Consumer Price Index for all urban consumers for each of the two previous calendar years;

(2) computing the percentage change between the first and second calendar year average; and

(3) applying that rate to the value of the principal of the fund on the last day of the fiscal year just ended.

Purpose: to rewrite AS 37.13.145: (1) to clarify original legislative intent and Corporation practice regarding the annual disposition of Fund income; (2) to bring (without substantive change) the section of law addressing the annual Permanent Fund dividend transfer from AS 43.23 into AS 37.13; and (3) to spell out the procedure used by the Corporation in the annual inflation-proofing transfer.

Although this amendment represents no change from current legislative practice, there is one minor policy change: this amendment makes it clear that the annual inflation-proofing transfer shall be made from the earnings reserve account rather than from net income as provided for in existing law.

Amendment #5: Add new Sec. 25 to read:

* Sec. 25. AS 43.23.025(a) is amended to read:

Sec. 43.23.025. Amount of dividend. (a) By October 1 of each year the commissioner shall determine the value of a permanent fund dividend for that year by

(1) determining the total amount available for dividend payments, which equals

(A) the amount of income of the Alaska permanent fund transferred to the dividend fund under AS 37.13.145(b) [AS 43.23.045(b)] during the current year;

(B) plus the unexpended and unobligated balances of prior fiscal year appropriations that lapse into the dividend fund under AS 43.23.045(d);

(C) less the amount necessary to pay dividends from the dividend fund in the current year under AS 43.23.055(3) and(7);

(D) less the amount necessary to pay dividends from the dividend fund due to eligible applicants, who, as determined by the department, filed for a previous year's dividend by the filing deadline but who were not included in a previous year's dividend computation;

(E) less appropriations from the dividend fund during the current year, including amounts to pay the costs of administering the dividend program and the hold harmless provisions of AS 43.23.075;

(2) determining the number of individuals eligible to receive a dividend payment for the current year; and

(3) dividing the amount determined under (1) of this section by the amount determined under (2) of this section.

Purpose: this is a conforming amendment to amendment #4 above.

Amendment #6: Add new Sec. 26 to read:

* Sec. 26. AS 43.23.045(b) is repealed.

Purpose: this is also a conforming amendment to amendment #4 above.

.. SUBMITTED TO SENATOR PAT POURCHOT
BY DAVID A. ROSE, EXECUTIVE DIRECTOR
ALASKA PERMANENT FUND CORPORATION
FEBRUARY 1, 1991

(c) An individual who, in claiming a permanent fund dividend, or an individual who, in certifying another person's eligibility, wilfully misrepresents, exercises gross negligence, or recklessly disregards a material fact pertaining to eligibility forfeits the dividend, is subject to a civil fine of up to \$5,000, and loses eligibility to receive the next five dividends following the forfeited dividends. The commissioner may commence proceedings in court to enforce this subsection. (§ 1 ch 102 SLA 1982; am § 3 ch 159 SLA 1988)

Revisor's notes. — Sections 9 and 10, ch. 99, SLA 1985, amend (a) and (b) of this section, and add a new (c). The amendments are effective if § 1, ch. 99, SLA 1985 is repealed (see § 25, ch. 99, SLA 1985). If the amendments become law, the section will read: "(a) In addition to any criminal penalties imposed by state law, if an individual is convicted of a crime in connection with a false statement made in a certification required under AS 43.23.015, and the conviction is not reversed, that individual forfeits all permanent fund dividends credited or paid, together with any interest credited to that individual's annuity account and is not eligible for a future permanent fund dividend.

"(b) If the commissioner determines that a cash dividend should not have been claimed by or paid to an individual, the commissioner may use all collection procedures or remedies available for collec-

tion of taxes under this title to recover the payment of a permanent fund dividend that was improperly made. A notice of an improperly paid dividend must be sent to the individual within 10 years after the improper payment. If notice is not sent within the 10-year period, proceedings may not be commenced in court for recovery of the improper payment.

"(c) If the commissioner determines that a permanent fund dividend should not have been credited to an individual's annuity account, the commissioner may, after notice and opportunity for hearing, direct the commissioner of administration to debit the individual's annuity account for the amount wrongly credited. If the credit is the fault of the individual, the debit must be made within 10 years. If the credit is the fault of the state, the debit must be made within three years."

Effect of amendments. — The 1988 amendment added subsection (c).

Sec. 43.23.040. Penalties and enforcement. [Repealed, § 22 ch 102 SLA 1982.]

Sec. 43.23.045. Dividend fund. (a) The dividend fund is established as a separate fund in the state treasury. The dividend fund shall be administered by the commissioner and shall be invested by the commissioner in the same manner as provided in AS 37.10.070.

(b) Notwithstanding any contrary provision of law, each year the commissioner shall transfer to the dividend fund 50 percent of the income of the Alaska permanent fund earned during the fiscal year ending on June 30 of the current year and available for distribution. However, income earned on money awarded after trial in State v. Amerada Hess, et al., 1JU-77-847 Civ. (Superior Court, First Judicial District) shall be treated in the same manner as other income of the Alaska permanent fund, except that it is not available for distribution to the dividend fund, and shall be annually deposited into the principal of the Alaska permanent fund.

(c) [Repealed, § 24 ch 99 SLA 1985.]

Amendment 1985 460
Deletes (b),
From the
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it and moves
to P.F.
Statutes
37.13.145(b)

state managed or disposed of permanent fund dividends received on behalf of the minor or incompetent, or an election made or not made on that individual's behalf under AS 43.23.005(d).

"(i) The permanent fund dividend application form shall be prepared to allow an applicant, other than a person who is exempt under AS 47.45.015(b), to elect to receive the dividend either in cash or as an annuity credit."

Cross references. — For voluntary contributions to Alaska Winter Olympics account, see AS 05.35.100.

Effect of amendments. — The 1988 amendment rewrote the statement of eligibility and certification of residency in subsection (b) to the extent that a detailed comparison is impracticable.

The 1989 amendment substituted "24 months" for "six months" in the first two paragraphs of the form in subsection (b).

The 1990 amendment, effective January 1, 1991, inserted "a disabled or" before "an incompetent" in subsection (d) and near the beginning of subsection (f) and inserted "disabled or" before "incompetent" near the end of subsection (f).

Sec. 43.23.020. Proof of eligibility. [Repealed, § 22 ch 102 SLA 1982.]

Sec. 43.23.025. Amount of dividend. (a) By October 1 of each year the commissioner shall determine the value of each permanent fund dividend for that year by

(1) determining the total amount available for dividend payments, which equals

(A) the amount of income of the Alaska permanent fund transferred to the dividend fund under AS 43.23.045(b) during the current year;

(B) plus the unexpended and unobligated balances of prior fiscal year appropriations that lapse into the dividend fund under AS 43.23.045(d);

(C) less the amount necessary to pay dividends from the dividend fund in the current year under AS 43.23.055(3) and (7);

(D) less the amount necessary to pay dividends from the dividend fund due to eligible applicants who, as determined by the department, filed for a previous year's dividend by the filing deadline but who were not included in a previous year's dividend computation;

(E) less appropriations from the dividend fund during the current year, including amounts to pay costs of administering the dividend program and the hold harmless provisions of AS 43.23.075;

(2) determining the number of individuals eligible to receive a dividend payment for the current year; and

(3) dividing the amount determined under (1) of this section by the amount determined under (2) of this section.

(b) For the purpose of calculating the amount of a permanent fund dividend under (a) of this section, an individual who is ineligible to receive a dividend under AS 43.23.005(d) is counted as an eligible individual whether or not the individual has applied for the dividend. (§ 1 ch 102 SLA 1982; am § 1 ch 55 SLA 1983; am § 2 ch 43 SLA 1984; am § 2 ch 57 SLA 1987; am § 2 ch 54 SLA 1988; am § 4 ch 68 SLA 1990; am § 1 ch 198 SLA 1990)

changes references to AS 37.13.145(b) to reflect new location of dividend pursuant to amendment #4

SENATE BILL NO. 39

IN THE LEGISLATURE OF THE STATE OF ALASKA

SEVENTEENTH LEGISLATURE - FIRST SESSION

BY SENATOR POURCHOT

Introduced:

Referred:

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the permanent fund and the Alaska Permanent Fund Corporation; and
 2 providing for an effective date."

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

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

5 (a) Under art. IX, sec. 15 of the state constitution, there is established as a separate fund
 6 *language consistency* the Alaska permanent fund. The [ALASKA PERMANENT] fund principal consists of

7 (1) 25 percent of all mineral lease rentals, royalties, royalty sale proceeds, net
 8 profit shares under AS 38.05.180(f) and (g), and federal mineral revenue sharing payments
 9 received by the state from mineral leases issued on or before December 1, 1979, and 25 percent
 10 of all bonuses received by the state from mineral leases issued on or before February 15, 1980;

11 (2) 50 percent of all mineral lease rentals, royalties, royalty sale proceeds, net
 12 profit shares under AS 38.05.180(f) and (g), and federal mineral revenue sharing payments
 13 received by the state from mineral leases issued after December 1, 1979, and 50 percent of all
 14 bonuses received by the state from mineral leases issued after February 15, 1980;

1
2 *interest on*
litigation revenue

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

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

* Sec. 2. AS 37.13.010(b) is amended to read:

(b) Payments due the Alaska permanent fund under (a) of this section shall be made to the fund on the day the amount due to the fund reaches at least \$5,000,000 and at least once each month.

* Sec. 3. AS 37.13.020 is amended to read:

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

(1) the fund [CORPORATION] should provide a means of conserving a portion of the state's revenue from mineral resources to benefit all generations of Alaskans;

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

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

* Sec. 4. AS 37.13.030 is amended to read:

Sec. 37.13.030. PURPOSE. It is the purpose of this chapter to provide a mechanism for the management and investment of those [PERMANENT] fund assets by [ALLOCATED TO] the Alaska Permanent Fund Corporation in a manner consistent with the findings in AS 37.13.020.

* Sec. 5. AS 37.13.040 is amended to read:

Sec. 37.13.040. ALASKA PERMANENT FUND CORPORATION. There is established the Alaska Permanent Fund Corporation. The corporation is a public corporation and government instrumentality in the Department of Revenue managed by the board of trustees. The purpose of the corporation [BOARD] is to manage and invest the assets of the permanent fund

7 *timely*
8 *transfers*
9 *from DNR*
14 *language*
15 *consistent*

U

1 [CORPORATION] in accordance with this chapter.

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

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

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

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

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

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

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

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

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

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

26 (1) obligations of, or obligations insured by or guaranteed by, the United States
27 or agencies or instrumentalities of the United States;

28 (2) obligations secured by reserves paid in by the United States or agencies or
29 instrumentalities of the United States or obligations of corporations in which the United States
30 is a shareholder or member;

31 (3) certificates of deposit and term deposits of United States domestic banks that

1 are members of the Federal Deposit Insurance Corporation and that may be readily sold in a
2 secondary market at prices reflecting fair value or that are fully secured at all times as to
3 payment of principal and interest as described in (m) of this section;

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

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

14 (6) CERTIFICATES OF DEPOSIT AND TERM DEPOSITS OF MUTUAL
15 SAVINGS BANKS IN ALASKA THAT MAY BE READILY SOLD IN A SECONDARY
16 MARKET AT PRICES REFLECTING FAIR VALUE OR THAT ARE FULLY SECURED AT
17 ALL TIMES AS TO PAYMENTS OF PRINCIPAL AND INTEREST AS DESCRIBED IN (m)
18 OF THIS SECTION;

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

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

26 (5) [(9)] short-term

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

29 (B) nondomestic corporate promissory notes of comparable quality, the
30 interest on which may be payable in either United States dollars or nondomestic
31 currencies;

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

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

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

(13) THE PORTION OF FIRST LIEN REAL ESTATE MORTGAGES GUARANTEED BY THE FEDERAL VETERANS ADMINISTRATION;

(14)] the portions of business and industrial loans made under the Rural Development Act of 1972 that are guaranteed by the Farmers Home Administration;

(9) [(15)] the guaranteed portion of Farmers Home Administration loans:

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

high risk
investments
which have
been prohibited
by board policy

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

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

(11) [(17)] NOTES SECURED BY MORTGAGES GRANTING A FIRST LIEN ON COMMERCIAL REAL ESTATE IMPROVED BY COMPLETED BUILDINGS IF THE ORIGINATING FINANCIAL INSTITUTION RETAINS AT LEAST 25 PERCENT OF THE

1 MORTGAGE UNTIL MATURITY;

2 (18) preferred and common stock of corporations incorporated in the United
3 States;

4 (12) [(19)] certificates of deposit, term deposits, or bankers' acceptances, that are
5 issued by a United States or nondomestic bank or trust company located outside of the United
6 States and are denominated in United States or nondomestic currency, if either (A) they may be
7 readily sold in a secondary market at prices reflecting fair value, or (B) the issuing bank or trust
8 company has capital, surplus, and retained earnings at the date of issue equaling at least
9 \$500,000,000; investments made under this paragraph are not subject to the collateral
10 requirements for domestic certificates under (m) of this section;

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

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

20 (B) with corporations, partnerships, trusts, or entities in which, at the
21 conclusion of each investment transaction, at least 60 percent of the beneficial
22 ownership interests in the co-investing entity or entities as a whole are held by
23 institutional investors, if

24 (i) at the time of investment the fund has no more than
25 a 40 percent beneficial ownership interest in the real estate invested in as a
26 whole;

27 (ii) the rights and obligations of the fund are
28 substantially similar to those of the other institutional investors, except for the
29 percentage interest in the property; and

30 (iii) the property is managed and operated by an entity
31 that has had at least five years of experience in the management of real estate

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investments of institutional investors (IN CONJUNCTION WITH AND ON
SUBSTANTIALLY THE SAME TERMS AS AN ENTITY DESCRIBED IN (A)
OF THIS PARAGRAPH);

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

(15) [(22)] securities of non-domestic corporations, including common and
preferred stock, whose dividends, if any, may be payable in either United States dollars or non-
domestic currencies;

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

(17) shares in a money market or short-term investment fund that has either
collateral securities of a type authorized elsewhere in this section as acceptable collateral
or securities of similar quality to those authorized elsewhere in this section as acceptable
collateral.

authorizes
immediate deposit
of new money
into "overnight"
vehicles until
an investment
decision is made

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

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

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

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

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

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

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

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

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

7 (k) The board shall establish and from time to time as necessary modify guidelines for
8 the investment of the assets of the fund [CORPORATION]. Before adoption of any guidelines
9 the guidelines shall be reported to the Legislative Budget and Audit Committee for review and
10 comment.

11 * Sec. 14. AS 37.13.120(l) is amended to read:

12 (l) The board shall invest the assets of the fund [CORPORATION] in in-state
13 investments to the extent in-state investments are available if the in-state investments

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

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

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

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

21 (1) investments authorized for the [ALASKA PERMANENT] fund under (g)(1),
22 (2), (4), or (8) - (10) [(8), OR (12) - (17)] of this section;

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

27 (3) the guaranteed portion of Federal Small Business Administration loans;

28 (4) the portion of first lien real estate mortgages guaranteed by the federal
29 Department of Veterans Affairs; or

30 (5) notes secured by mortgages granting a first lien on commercial or
31 residential real estate improved by completed buildings if the originating financial

1 institution retains at least 25 percent of the mortgage until maturity. [THE BOARD MAY
2 REQUIRE SUBSTITUTION OF COLLATERAL IN ORDER TO ENSURE CONTINUED
3 SATISFACTION OF THE REQUIREMENTS SET OUT IN THIS SUBSECTION.]

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

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

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

8 Sec. 37.13.140. INCOME. Net income of the fund [CORPORATION] shall be computed
9 annually as of the last day of the fiscal year in accordance with generally accepted accounting
10 principles, excluding any unrealized gains or losses. Income available for distribution equals 21
11 percent of the net income of the fund [CORPORATION] for the last five fiscal years, including
12 the fiscal year just ended, but may not exceed net income of the corporation for the fiscal year
13 just ended plus the balance in the earnings reserve account described in AS 37.13.145.

14 * Sec. 18. AS 37.13.145 is amended to read:

15 Sec. 37.13.145. DISPOSITION OF INCOME. (a) At the end of each fiscal year, an
16 amount sufficient to offset the effect of inflation on principal of the [ALASKA PERMANENT]
17 fund during that year [, AS MEASURED BY THE CHANGE IN THE CALENDAR YEAR
18 AVERAGE UNITED STATES CONSUMER PRICE INDEX FOR ALL URBAN CONSUMERS]
19 shall be transferred by the corporation from net income as defined in AS 37.13.140, excluding
20 income on the earnings reserve account [IN THE ALASKA PERMANENT FUND], to the
21 principal of the [ALASKA PERMANENT] fund for reinvestment. The corporation shall
calculate the amount to transfer to the principal under this subsection by determining the
average rate of inflation for the previous fiscal year as measured by the change in the
calendar year average United States Consumer Price Index for all urban consumers and
applying that rate to the value of the principal of the fund on the last day of the previous
fiscal year.

22 (b) After the transfer under (a) of this section, the [THE] balance of the income
23 available for distribution under AS 37.13.140 shall be transferred to the earnings reserve account
24 in the [ALASKA PERMANENT] fund. Money in the earnings reserve account shall be invested
25 in investments authorized under AS 37.13.120. Income from the investment of the earnings
26 reserve account shall be treated as an addition to that account.

language
inflation-proofing
based on the 23rd value
of the principal on
the last day of the
fiscal year

1 * Sec. 19. AS 37.13.150 is amended to read:

2 Sec. 37.13.150. CORPORATION BUDGET. The revenue generated by the fund's
3 [CORPORATION'S] investments must be identified as the source of the operating budget of the
4 *language* corporation in the state's operating budget under AS 37.07 (Executive Budget Act). The
5 unexpended balance of the corporation's annual operating budget does not lapse at the end of the
6 fiscal year but shall be treated as income under AS 37.13.140.

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

8 Sec. 37.13.160. AUDITS. The Legislative Budget and Audit Committee may provide
9 *language* for an annual post audit and annual operational and performance evaluations of the fund's
10 [CORPORATION'S] investments and investment programs.

11 * Sec. 21. AS 37.13.170 is amended to read:

12 Sec. 37.13.170. REPORTS AND PUBLICATIONS. By September 30 of each year, the
13 board shall publish a report of the fund [CORPORATION] for distribution to the governor,
14 legislature, and the public. The report shall be written in easily understandable language. The
15 *language* report must include financial statements audited by independent outside auditors, a statement of
16 the amount of money received by the [ALASKA PERMANENT] fund from each investment
17 during the period covered, a statement of investments of the fund [CORPORATION] including
18 an appraisal at market value, a description of fund [CORPORATION] investment activity during
19 the period covered by the report, a comparison of the fund [CORPORATION] performance with
20 the intended goals contained in AS 37.13.020, an examination of the impact of the investment
21 criteria of this chapter on the fund [CORPORATION] portfolio with recommendations of any
22 needed changes, and any other information the board believes would be of interest to the
23 governor, the legislature, and the public. The annual income statement and balance sheet of the
24 fund [CORPORATION] shall be published in at least one newspaper in each judicial district. The
25 income statement and balance sheet for the two fiscal years preceding the publication of the
26 election pamphlet under AS 15.58 shall be included in that pamphlet.

27 * Sec. 22. AS 37.13.180 is amended to read:

28 Sec. 37.13.180. TAX EXEMPTION. The corporation and the fund are [IS] exempt
29 *language* from all taxes and assessments in the state. All security instruments issued by the corporation
30 or the fund, their transfer, and their income are exempt from all taxes and assessments in the
31 state.

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

2 Sec. 37.13.190. POLITICAL ACTIVITIES. The resources of the corporation or the fund
3 may not be used to finance or influence political activities.

4 * Sec. 24. AS 37.13.210 is amended by adding a new paragraph to read:

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

7 * Sec. 25. This Act takes effect July 1, 1991.

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

400 WILLOUGHBY AVENUE
JUNEAU, ALASKA 99801-1796
PHONE: (907) 465-2400
FACSIMILE: (907) 586-2754

February 8, 1991

The Honorable Drue Pearce, Chair
Senate Labor and Commerce Committee
P.O. Box V
Juneau, AK 99811

Dear Senator Pearce:

Subject: SB 39, relating to the permanent fund and the Alaska Permanent Fund Corporation.

Position: The Department of Natural Resources (DNR) is not taking a position on this bill. We are, however, providing information about the bill's effects on department programs.

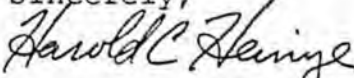
Background: The department's Division of Management is directly involved in the processing of revenues destined for inclusion in the permanent fund, as is the treasury division of the Department of Revenue, and the Department of Administration. When a vendor wires funds directly to the Philadelphia National Bank, the Department of Revenue receives a copy of the transfer, invests the funds, and enters the transaction in the Alaska State Accounting System (AKSAS). The financial services section of the DNR Division of Management determines, through an interface with the Division of Oil and Gas, the percentage of the payment (either 25% or 50%) to be deposited into the permanent fund. Division of Management staff then enters the entire payment into the department's revenue and billing system, and transfers the deposit to the general fund, the permanent fund, and the school fund. Transfers to the permanent fund are currently made twice a month (approximately the 10th and the 27th).

If the vendor sends or brings a check to DNR, staff deposits the check in the First National Bank of Anchorage. The actions described above are then taken.

We estimate this bill may require another 3 to 4 permanent fund transfers per month.

Please let me know if you would like additional information concerning the department's role in revenue transfers to the permanent fund.

Sincerely,


Harold C. Heinze

Commissioner

cc: Committee Members
Senator Pourchot
Bruce Kendall, Legislative Liaison, Office of the Governor
Lee Fisher, Commissioner, Department of Revenue
Millett Keller, Commissioner, Department of Administration



Alaska Permanent Fund Corporation

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

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

March 23, 1990

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

Dear Representative Boucher:

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

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

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

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

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

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

Representative Boucher
March 23, 1990
Page 2

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

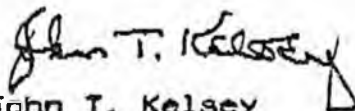
1) the Board supports "cumulative" inflation-proofing as an effective means to ensure that the purchasing power of Permanent Fund principal is fully preserved over the long term;

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

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

We would be pleased to provide additional testimony as requested.

With warm regards,



John T. Kelsey
Chairman,
Board of Trustees

cc: Members of the Board

Educational endowment

The Governor's proposed education endowment engendered lengthy comment and healthy debate before the Commission. People discussed the issues of the Permanent Fund's role, government spending in general, and specifically the level and method of funding education. This issue is now before the Legislature and this appears to be the appropriate forum for deciding upon any proposal to be placed before the voters.

Recommendation: The Commission forwards no specific recommendation on the proposed educational endowment.

Clean up the statutory language

The Legislature should re-examine all of the current statutes involving the Permanent Fund for consistency and clarity. A clear and precise definition and method of calculating net income should be adopted (in the absence of the adoption of a payout method). There appears to be less than precise use of the terms "fund", "principal", and "Corporation".

For example, A.S. 37.13.010(a) discusses the Permanent Fund and is generally cited as the statutory definition of the principal of the Fund. It is often stated that the balance in the earnings reserve account (ERA) is not part of the principal. However, a reading of A.S. 37.13.010(a)(3) and 37.13.145 "allocates" the ERA which is "in the Alaska Permanent Fund". If the ERA is not part of the "fund", i.e. principal, why are the earnings from the ERA used to calculate dividends? Also A.S. 37.13.140 addresses "net income of the corporation" and A.S. 37.13.040 discusses the "assets of the corporation", while neither of these phrases is defined.

Recommendation: The ambiguities in the existing statutes regarding the Permanent Fund should be clarified.

income for the Fund over time and, hence, lesser principal. The current inflation-proofing procedure (converting investments into cash which can then be deposited into the principal) may actually be robbing the Fund of real growth over time.

(2) Maximizing Deposits: In the past, the Corporation has calculated annual inflation-proofing requirements so as to produce the maximum possible deposit for inflation-proofing each year. The Corporation assumes that the dedicated mineral revenue deposits are included in the fund's principal for the entire fiscal year, when in fact dedicated revenue deposits into the Fund occur continuously throughout the year, and their actual inflation-proofing requirements are less than the inflation-proofing deposits made. With the statute silent on this point, the Corporation has chosen an approach unusual by accounting practices, but designed to produce maximum contributions to the fund's principal. The Corporation sought legislative approval for this approach through Legislative Budget and Audit, albeit after the fact. After one unsuccessful attempt (October 24, 1983 meeting, where action was tabled), Legislative Budget and Audit approved the methodology at its January 12, 1984 meeting. But it remains a matter of policy, not statute nor regulation, and with a different Board of Trustees or Corporation staff, the outcome could be different.

(3) Inflation-proofing Transfers: Inflation-proofing transfers used to occur automatically under AS 37.13.145, but arguably require an appropriation. In an April 11, 1979 memorandum, the Dept. of Law examined the clause concerning disposition of permanent fund income: "all income from the permanent fund shall be deposited in the general fund unless otherwise provided by law." and concluded that the clause does not exempt the fund's income from the prohibition against dedicated funds. Further, the constitution provides that "No money shall be withdrawn from the treasury except in accordance with appropriations made by law" (Art. IX, Sec. 13). Furthermore, the Alaska courts have subsequently ruled that continuing appropriations are not constitutional. The counter argument is that the statutory dedication is arguably required to achieve the basic goal for which the fund was established, i.e. provide permanence, and hence is allowable. If that argument were carried to its logical conclusion, however, then inflation-proofing would be automatically the first priority for Fund earnings, which it clearly is not. If there is ambiguity, it seems

Net Income of \$1.069 billion, minus Permanent Fund Dividends (PFD) of \$391 million, minus Inflation-Proofing of \$148 million, leaves a Net Income residual of \$530 million.

Income Available for Distribution of \$787 million, minus PFD of \$391 million, minus Inflation-Proofing of \$148 million,⁶ leaves an Income Available for Distribution residual of \$248 million.

The difference between the two residuals is \$282 million, which has since earned interest of about \$54 million, for a total of about \$335 million.

The statute calls for only the residual from "income available for distribution" to be transferred to the earnings reserve account, or \$248 million. Instead, the entire "net income" residual of \$530 million was retained in the earnings reserve account. The statutory confusion has resulted in the disposition of over \$300 million taking place without due legislative consideration. The policy consequences are to increase the size of the dividend and keep money out of the general fund which should be there as a matter of constitutional requirement. A clarification of the statute is warranted to establish legislative intent.

Treatment of Royalty Litigation Interest Earnings - - 8(g) or Dinkum Sands and North Slope Royalty Funds

When funds placed in escrow during royalty litigation generate interest earnings, should the interest that eventually goes to the Permanent Fund be treated upon receipt by the Corporation as principal or as earnings? If the latter, the money representing the interest component would be distributable and available for appropriation. As oil revenues dwindle in the future, the availability or non-availability of royalty litigation interest earnings will have significant fiscal and possible program implications for the state. Legal proceeds from both the North Slope Royalty and Dinkum Sands cases may be large, as much as \$2.3 billion. Of that combined total, approximately \$386

⁶ The statutes do not speak to subtracting Inflation-Proofing from Income Available for Distribution, but from Net Income. The practice, however, is as represented in the example. If one relies solely on the statutory construction, the numbers never add up.

million of interest earnings would go to the Permanent Fund, along with \$385 million in principal. The table below presents maximum distributions based on the "best of all possible worlds" outcomes for the state. Noteworthy is that interest earnings now rival the principal amount in both cases.

Maximum Possible Distributions to Permanent Fund of Dinkum Sands and North Slope Royalty-related Proceeds *

Dinkum Sands

\$ 194,797,825	Bonuses	244,126,432	Bonus Interest
<u>990,991</u>	Rents	<u>1,167,879</u>	Rent Interest
\$ 195,788,816	Total Rents/Bonuses	245,294,311	Total Interest

North Slope Royalty Case

\$ 131,249,721	RIV Deficiencies	101,117,831	RIV Interest
<u>58,266,680</u>	RIK Deficiencies	<u>39,747,053</u>	RIK Interest
\$ 189,516,401	Total Deficiencies	140,864,884	Total Interest

		<u>Principal</u>	<u>Interest</u>
Dinkum Sands	\$	195,788,818	245,294,311
North Slope		<u>189,516,401</u>	<u>140,864,884</u>
Total	\$	385,305,017	386,159,195
<hr/>			
Total Permanent			
Fund Distributions	\$	771,484,212	

* Dinkum Sands proceeds calculations based on Minerals Management Service data of 12/31/89; North Slope Royalty proceeds calculations based on estimated deficiencies plus interest as of 3/90; Hellen Partnow, and Condon.

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SENATE LABOR & COMMERCE COMMITTEE
BILL FILE

BILL NUMBER: SB64
BILL TITLE: AHFC "SPONSORS"

SPONSOR: FAHREN KAMP

RECEIVED: 1/21/91

WRITTEN REQUEST TO SCHEDULE: DATE _____ FROM _____
SECTIONAL ANALYSIS RECEIVED: DATE _____ FROM _____
FISCAL NOTE REQUESTED: DATE _____ FROM _____
FISCAL NOTE RECEIVED: DATE 1/29/91 FROM REJANUR
FISCAL NOTE CS REQUESTED: DATE _____ FROM _____
FISCAL NOTE CS RECEIVED: DATE _____ FROM _____
FISCAL NOTE CS REQUESTED: DATE _____ FROM _____
FISCAL NOTE CS RECEIVED: DATE _____ FROM _____
FISCAL NOTE CS REQUESTED: DATE _____ FROM _____
FISCAL NOTE CS RECEIVED: DATE _____ FROM _____

FIVE DAY NOTICE GIVEN:
COMMITTEES OF REFERRAL: FIRST: LIC SECOND: FIN THIRD: _____

DATE	COMMITTEE ACTION
_____	_____
_____	_____
_____	_____
_____	_____

HEARING NOTIFICATION LIST

1. SPONSOR
2. AGENCY
3. _____
4. _____
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9. _____
10. _____

SENATE COMMITTEE REPORT
(FIRST COMMITTEE OF REFERRAL)

DATE: 1/21/91

FURTHER: Finance

Date of 5-Day Notice: MARCH 7, 1991
(in accordance with Uniform Rule 23)

DATE TURNED INTO OFFICE: 3/14/91

L&C Committee considered SENATE BILL NO. 64

"An Act defining sponsors for purposes of laws relating to the Alaska Housing Finance Corporation."

and recommended:

- replace with _____ CS _____ same title
- attached amendment(s) new title
- _____ letter of intent adopted
- do pass
- do not pass
- no recommendation
- individual recommendations
- further referral to _____

ATTACHES NEW FISCAL NOTE(S):

Department(s)/Date:

Department(s)/Date:

fiscal note(s) _____

zero fiscal note(s) RAW 1/29/91

appropriation-no fiscal note

Governor's bill w/fiscal note

SIGNING DO PASS:

OTHER RECOMMENDATIONS:

[Signature]
[Signature]
[Signature]

[Signature]
Chair: Signature and Recommendation

FISCAL NOTE

STATE OF ALASKA
1991 LEGISLATIVE SESSION

BILL NO. SB 64

Revision Date: _____ Department Affected: Revenue
 Title: defining "sponsors" as related BRU: Alaska Housing Finance Corporation
to laws concerning AHFC Component: Alaska Housing Finance Corporation
 Sponsor: Fahrenkamp
 Requestor: Fahrenkamp COMPONENT SERIAL NO.

	1	1	0
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Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
PERSONAL SERVICES	-0-	-0-	-0-	-0-	-0-	-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-	-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-

Estimate of current year impact: -0-

ANALYSIS: (Attach a separate page if necessary.)

The bill elaborates on the term "sponsor", which is already in current statute. AHFC supports this bill in its present form.

Prepared By: Mitzi C. Barker Phone: 564-9323
 Division: AHFC/Planning & Research Date: 1/28/91
 Approved by Commissioner: *William B. Barker for*
 Agency: Revenue Date: 1-29-91

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

Alaska State Legislature

SENATOR BETTYE FAHRENKAMP
CHAIRMAN, RESOURCES COMMITTEE
119 N. CUSHMAN STREET, SUITE 201
FAIRBANKS, ALASKA 99701
OFFICE (907) 452-4882
HOME (907) 456-2899



Senate

WHILE IN JUNEAU
P.O. BOX V
JUNEAU, ALASKA 99811
CAPITOL, ROOM 125
OFFICE (907) 465-3834
HOME (907) 780-6027

MEMORANDUM

TO: Senator Drue Pearce, Chair
Senate Labor and Commerce Committee

FROM: Senator Bettye Fahrenkamp

DATE: March 8, 1991

SUBJECT: Senate Bill 64
"An Act defining 'sponsors' for purposes of laws relating to the Alaska Housing Finance Corporation."

The statutes which created the Alaska Housing Finance Corporation state, in the Findings and Purpose section, that "it is imperative that the supply of housing for persons of lower and moderate income . . . be increased and that coordination and cooperation among private enterprise, state and local government be encouraged to *sponsor*, build and rehabilitate residential housing for these persons."

AS 18.56.090, which lists the general powers of the corporation, states that AHFC "may, for the purpose of providing housing for persons of lower and moderate income or persons located in remote, underdeveloped, or blighted areas of the state and for its other corporate purposes, make or participate in the making of mortgage loans to *sponsors*, developers, builders, and purchasers of residential housing. . . ."

It is clear that the legislature envisioned non-governmental entities as participants in providing low income housing through the use of AHFC funds. However, nowhere in these statutes is "sponsor" defined.

SB 64 clarifies what a "sponsor" is. The definition in the bill would allow a cooperative church council, a non-profit housing agency, a consumer housing cooperative or other non-governmental entities to qualify for AHFC loans to provide low income housing, should AHFC choose to begin making loans for that purpose.

I have included copies of the pertinent statutes, and would be happy to answer any questions you might have on this bill. I would like to thank you for bringing this bill before the committee, and encourage your favorable consideration.

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SENATE LABOR & COMMERCE COMMITTEE
BILL FILE

BILL NUMBER: SB 70
BILL TITLE: TAXATION BY MUNIS

SPONSOR: PEARCE RECEIVED: 2/15

WRITTEN REQUEST TO SCHEDULE: DATE 2/14 FROM TALLY
SECTIONAL ANALYSIS RECEIVED: DATE _____ FROM _____
FISCAL NOTE REQUESTED: DATE _____ FROM _____
FISCAL NOTE RECEIVED: DATE _____ FROM _____
FISCAL NOTE CS REQUESTED: DATE _____ FROM _____
FISCAL NOTE CS RECEIVED: DATE _____ FROM _____
FISCAL NOTE CS REQUESTED: DATE _____ FROM _____
FISCAL NOTE CS RECEIVED: DATE _____ FROM _____
FISCAL NOTE CS REQUESTED: DATE _____ FROM _____
FISCAL NOTE CS RECEIVED: DATE _____ FROM _____

FIVE DAY NOTICE GIVEN:
COMMITTEES OF REFERRAL: FIRST: CRA SECOND: L&C THIRD: FIN

DATE	COMMITTEE ACTION
<u>3/4</u>	<u>HEARD & ADOPTED & PASSED OUT @SSB 70 (CRA)</u>
_____	_____
_____	_____
_____	_____

HEARING NOTIFICATION LIST

- | | |
|------------|-----------|
| 1. SPONSOR | 6. _____ |
| 2. AGENCY | 7. _____ |
| 3. _____ | 8. _____ |
| 4. _____ | 9. _____ |
| 5. _____ | 10. _____ |

FISCAL NOTE

STATE OF ALASKA
1991 LEGISLATIVE SESSION

BILL NO. CSSB 70 (C&RA)

Revision Date: _____ Department Affected: Commerce & Economic Dev.
 Title: An Act Relating to Taxation BRU: AK Industrial Dev. & Export Authority
 by Municipalities _____ Component: _____
 Sponsor: Pearce
 Requestor: Pearce COMPONENT SERIAL NO.

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Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

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

POSITIONS:

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

Estimate of current year impact: 0

ANALYSIS: (Attach a separate page if necessary.) Payment of taxes would approximate \$388.0 in FY 93. Foreclosure reserve account funds would be utilized which are not an operating or capital cost. The attached illustrates amounts payable by political subdivision using an estimated Mill rate. Amounts payable will vary with changes in the Mill rate and assessed valuation of properties included.

Prepared By: Bertram L. Wagon, Executive Director Phone: (907) 561-8050
 Division: AK Industrial Dev. & Export Authority Date: February 8, 1991
 Approved by Commissioner: Glenn A. Olds
 Agency: Department of Commerce & Economic Development Date: February 8, 1991

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

ANALYSIS - CSSB 70 (C&RA)

All costs associated with this legislation will be paid from AIDEA foreclosure reserves and do not require legislative appropriation.

Alaska Industrial Development and Export Authority:

The tax on \$27 million of defaulted loans at an average of 15 mills would equate to approximately \$420,000. Over the years, property acquired through foreclosures should decrease while the value of property will increase. The first payment to local governments would be January 1, 1992 which would occur in FY 93.

AS OF DECEMBER 31, 1990

<u>LOCAL GOVERNMENT</u>	<u>NUMBER OF PROPERTIES</u>	<u>ASSESSED VALUE</u>	<u>AIDEA PAYMENT (Excluding Bank Owned Portion)</u>
Municipality of Anchorage	41	\$15,828,742	\$257,080
Fairbanks North Star Borough	9	4,375,387	53,695
Kenai Peninsula Borough	13	4,442,086	42,840
Matanuska-Susitna Borough	10	2,269,530	27,968
City & Borough of Juneau	5	850,185	10,379
City & Borough of Sitka	1	501,480	6,174
City of Valdez	1	858,270	12,810
North Slope Borough	<u>1</u>	<u>507,045</u>	<u>9,314</u>
Total	<u>81</u>	<u>\$29,632,725</u>	<u>\$420,260</u>

FISCAL NOTE

No. 2

Version: C55B 70

(S) Publish Date: 2/15/91

STATE OF ALASKA
1991 LEGISLATIVE SESSION

Revision Date: _____ Department Affected: Commerce & Economic Dev.
 Title: An Act Relating to Taxation BRU: Investments
 by Municipalities _____ Component: _____
 Sponsor: Pearce
 Requestor: Pearce COMPONENT SERIAL NO.

	3	8	3
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Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
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						
FEDERAL FUNDS						
OTHER						
TOTAL	0	0	0	0	0	0

POSITIONS:

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

Estimate of current year impact: 0

ANALYSIS: (Attach a separate page if necessary.)
 SEE ATTACHED

Prepared By: Martin Richard, Director Phone: 465-2510
 Division: Investments Date: February 8, 1991
 Approved by Commissioner: Glenn A. Olds *Ballman Spec Ass II*
 Agency: Department of Commerce & Economic Development Date: February 8, 1991

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

ANALYSIS - CSSB 70 (C&RA)

Division of Investments:

All costs associated with this legislation will be paid from Investments' foreclosure reserves and do not require legislative appropriation.

The Division of Investments has reviewed the fund-owned repossessed property and estimated the property tax that would have been paid to municipalities in 1990 if the state were not exempt from property taxes.

Boroughs currently require the state to pay taxes the year that the property is repossessed. After notifying the boroughs that the property is owned by the state, future years' taxes are exempt.

The following breakdown by taxing jurisdiction has been adjusted for these amounts:

<u>BOROUGH</u>	<u>ESTIMATED 1991 R.E. TAXES</u>	<u>TAXES DUE UNDER CURRENT PROCEDURES</u>	<u>PROPOSED INCREASE</u>
Mat-Su	\$ 818.40		\$ 818.40
Anchorage	12,876.57	\$2,908.72	9,967.85
Juneau	4,744.96		4,744.96
Fairbanks	2,003.63	1,619.56	384.07
Ketchikan	<u>238.25</u>	<u> </u>	<u>238.25</u>
	<u>\$20,681.81</u>	<u>\$4,528.28</u>	<u>\$16,153.53</u>

It is anticipated that the 1992 tax amounts would not be materially different from the 1991 taxes.

FISCAL NOTE

STATE OF ALASKA
1991 LEGISLATIVE SESSION

BILL NO. CS SB 70

Revision Date: February 20, 1991
Title: An Act Relating to taxation of certain state property by municipalities
Sponsor: Pearce
Requestor: Senate C & RA

Department Affected: Revenue
BRU: Treasury /PERS & TRS
Component: _____

Component Serial No.

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Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS	219.3	375.0	350.0	325.0	300.0	275.0
TOTAL OPERATING	219.3	375.0	350.0	325.0	300.0	275.0

CAPITAL						
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REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER	219.3	375.0	350.0	325.0	300.0	275.0
TOTAL	219.3	375.0	350.0	325.0	300.0	275.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year impact: _____

ANALYSIS: The tax cost on the December 31, 1990 balance of \$25.8 million of default on loans owned by the retirement funds using an average millage rate of 17 would equate to approximately \$438,600. The effective date of January 1, 1992 would create a tax bill of approximately 219.3 for FY92. Over the years, property acquired thru foreclosure should decrease because of the improved state economy and reduction in real properties owned.

Prepared by: Brian C. Andrews

Phone: 465-2350

Division: Treasury

Date: February 20, 1991

Approved by Commissioner:

Agency: Revenue

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

FISCAL NOTE

No. 1
 Bill Version: SB 70
 (S) Publish Date: 2/15/91

STATE OF ALASKA
 1991 LEGISLATIVE SESSION

Revision Date: _____ Department Affected: Community & Regional Affairs
 Title: "An Act relating to taxation..of certain property of governmental...." BRU: _____
 Sponsor: Senator Pearce Component: _____
 Requestor: Senate C&RA Committee COMPONENT SERIAL NO.

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Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

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

REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

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

POSITIONS:

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

Estimate of current year impact: _____

ANALYSIS: (Attach a separate page if necessary.)
 Changes in SSB70 (C&RA) have no fiscal impact. This fiscal note is appropriate.
2/14/91 date [Signature] Comte Aide (initial)

Prepared By: Remond Henderson, Director Phone: 465-4708
 Division: Administrative Services Date: 2/13/91

Approved by Commissioner: _____
 Agency: Community & Regional Affairs Date: _____

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

FISCAL NOTE

STATE OF ALASKA
1991 LEGISLATIVE SESSION

BILL NO. CS SB 70 C&RA

Revision Date: _____ Department Affected: Community & Regional Affairs
 Title: "An Act relating to taxation..of certain property of governmental...." BRU: _____
 Sponsor: Senator Pearce Component: _____
 Requestor: Senate C&RA Committee COMPONENT SERIAL NO.

--	--	--	--

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

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

REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

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

POSITIONS:

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

Estimate of current year impact: _____

ANALYSIS: (Attach a separate page if necessary.)

Prepared By: Remond Henderson, Director *Remond Henderson* Phone: 465-4708
 Division: Administrative Services Date: 2/13/91
 Approved by Commissioner: _____
 Agency: Community & Regional Affairs Date: _____

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

FISCAL NOTE

STATE OF ALASKA
1991 LEGISLATIVE SESSION

BILL NO. SB 70

Revision Date: _____ Department Affected: Community & Regional Affairs
Title: "An Act relating to taxation..of BRU: _____
certain property of governmental.." Component: _____

Sponsor: Senator Pearce
Requestor: Senate C&KA Committee COMPONENT SERIAL NO.

	6	7	3
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Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

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

REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

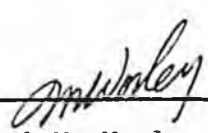
GENERAL FUND	-0-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

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

Estimate of current year impact: _____

ANALYSIS: (Attach a separate page if necessary.)



Prepared By: Michael W. Worley, State Assessor Phone: 465-4878
Division: Municipal & Regional Assistance Date: 2/6/91
Approved by Commissioner: Remond Henderson for Edgar Blatchford
Agency: Community & Regional Affairs Date: 2/6/91

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

Alaska State Legislature

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Anchorage, Alaska 99503
(907) 561-2038

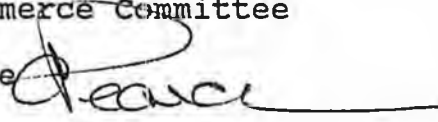


During Session:
P.O. Box V
Juneau, Alaska 99811
(907) 465-4993

Senator Drue Pearce
District G

MEMORANDUM

TO: Senate Labor & Commerce Committee

FROM: Senator Drue Pearce 

DATE: February 20, 1991

RE: CSSB 70 (C&RA), Taxation by municipalities of certain property of governmental entities

CSSB 70 (C&RA) would allow taxation of real property acquired by state and federal agencies through foreclosure or deed in lieu of foreclosure and retained for investment purposes.

The legislation was requested by the Alaska Municipal League because millions of dollars of assessed value are being removed from assessment rolls across the state by certain governmental agencies which have foreclosed on property in which they have a security interest. Some state agencies, like Alaska Industrial Development and Export Authority (AIDEA), the Public Employees Retirement System (PERS) and the Teachers Retirements System (TRS), have been exempted from taxation while others like Alaska Housing Finance Corporation (AHFC) pay local property taxes. Inequities are also created because exempt properties bear no tax burden but receive the same services they did while in private ownership. CSSB 70 (C&RA) will correct these inequities and will give municipalities the revenue to which they are entitled for the services they supply.

CSSB 70 (C&RA) extends to federal properties similarly held and not otherwise exempt from taxation by the provisions of federal law. Farmers Home Mortgage Association (FHMA) would pay taxes on their deed in lieu of foreclosed property if this legislation was passed.

This legislation is supported by the Municipality of Anchorage and the Alaska Association of Assessing Officers.

DP:tej

DIVISION OF LEGAL SERVICES

LEGISLATIVE AFFAIRS AGENCY STATE OF ALASKA

P.O. Box Y, Juneau, Alaska 99811
(907) 465-3867 or 465-2450
FAX (907) 465-2029

Deliveries to: 240 Main Street
Court Plaza, Room 500
Mail Stop 3101

MEMORANDUM

February 19, 1991

SUBJECT: Municipal Taxation of Property of Governmental Entities
(CSSB 70(CRA))

TO: Senator Drue Pearce

FROM: Tamara Brandt Cook
Director *TBC*

Here is the sectional summary you requested for CSSB 70 (CRA).

Section 1. Modifies the current tax exemption applicable to the Teachers' Retirement Fund to recognize the power of a municipality to impose taxes under section 2 of the bill.

Sec. 2. Removes the exemption from municipal taxation for property of a state entity acquired through foreclosure or deed in lieu of foreclosure and retained as an investment. Removes the exemption for property of another municipality if the property is located in the taxing municipality, except that a borough is prohibited from taxing property of a city located in the borough. Provides that property of an entity of the United States is exempt from municipal taxation only to the extent required by federal law.

Sec. 3. Foreclosure procedures do not apply to property of governmental entities that is taxable under the first section of the bill. A municipality may bring an action in superior court to compel payment of the taxes.

Sec. 4. Modifies the current tax exemption applicable to the Public Employee's Retirement System to recognize the power of a municipality to impose taxes under section 2 of the bill.

Sec. 5. Modifies the current tax exemption provision of the statutes dealing with the Alaska Industrial Development and Export Authority to recognize the power of a municipality to impose taxes on some property under section 2 of the bill. Although other exemption statutes are not specifically modified in the bill, the taxing authority granted to municipalities under section 2 of the bill will have priority over those

Senator Drue Pearce
February 19, 1991
Page 2

statutes. For example, property of the Alaska Permanent Fund Corporation that is taxable under section 2 will be taxable despite the general exemption for the corporation contained in AS 37.13.180.

Sec. 6. The bill takes effect January 1, 1992 to coincide with the beginning of the tax year.

TBC:gc/lrb
91-049.lmb