

BUDGET HEARINGS -- SENATE FINANCE COMMITTEE

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1969

SENATE SUBCOMMITTEE ASSIGNMENTS

OFFICE OF THE GOVERNOR -- Koslosky

DEPARTMENT OF ADMINISTRATION -- Lewis and Miller

DEPARTMENT OF COMMERCE -- Haggland

DEPARTMENT OF ECONOMIC DEVELOPMENT -- Lewis and Miller

DEPARTMENT OF EDUCATION -- Haggland and Bradshaw

DEPARTMENT OF FISH AND GAME -- Haggland and Bradshaw

DEPARTMENT OF HEALTH AND WELFARE -- Bradshaw and Koslosky

COURT SYSTEM -- Phillips &

DEPARTMENT OF HIGHWAYS -- Phillips and Blodgett

DEPARTMENT OF LAW -- Lewis

DEPARTMENT OF MILITARY AFFAIRS -- Phillips and Blodgett

UNIVERSITY OF ALASKA -- Miller and Blodgett

LEGISLATURE -- Phillips

DEPARTMENT OF PUBLIC WORKS -- Phillips and Blodgett

DEPARTMENT OF PUBLIC SAFETY -- Haggland

DEPARTMENT OF NATURAL RESOURCES -- Lewis

DEPARTMENT OF REVENUE -- Lewis and Koslosky

SENATE FINANCE COMMITTEE MEETING
January 30, 1969
10:30 a.m.

Present: All members. (Senator Vance Phillips, Chairman; Senator Haggland, Vice Chairman; Senators Lewis, Blodgett, Bradshaw, Miller and Koslosky).

Chairman Phillips reviewed the procedures followed in the past for the benefit of the new committee members. He stated there would be a meeting at 8:00 a.m. each morning, with most of the time devoted to budget work. He explained, however, that he would try to set aside time for bill sessions whenever it was needed.

The Chairman announced the following appointments to subcommittees for budget work:

Office of the Governor -- Koslosky

Department of Administration -- Lewis and Miller

Department of Commerce -- Haggland

Department of Economic Development -- Lewis and Miller

Department of Education -- Haggland and Bradshaw

Department of Fish & Game -- Haggland and Bradshaw

Department of Health and Welfare -- Bradshaw and Koslosky

Court System -- Phillips

Department of Highways -- Phillips and Blodgett

Department of Law -- Lewis

Department of Military Affairs -- Phillips and Blodgett

University of Alaska -- Miller and Blodgett

Legislature -- Phillips

Department of Public Works -- Phillips and Blodgett

Department of Public Safety -- Haggland

Department of Natural Resources -- Lewis

Department of Revenue -- Lewis and Koslosky

Senator Blodgett suggested that when the Department of Public Safety budget was before the committee, the commissioner should be questioned closely on travel between Juneau and Anchorage, and Juneau and Fairbanks. In answer to a query by Senator Miller, the Chairman assured the committee that meetings would be confined to mornings because four of the members were chairmen of other committees.

Adjournment: The meeting adjourned at 11:00 a.m. so that members could attend the joint session for the Governor's State of the State message.

JOINT FINANCE COMMITTEE MEETING
Monday, February 3, 1969
9:15 a.m.

Present: All members of the House Finance Committee were present, along with Senators Vance Phillips, P.B. Haggland and Jan Koslosky, representing the Senate Finance Committee. Also present were George Morrison, Commissioner of Revenue, and Dick Freer, Director of Budget and Management.

General Meeting: Chairman Bill Ray opened the meeting by explaining for the benefit of freshmen members the procedure for joint finance meetings.

Tax Study: Mr. Ray explained that the purpose of the joint meeting was to look at the Review of the Alaska Tax Structure prepared by the firm of Peat, Marwick, Mitchell & Co. He requested Mr. Morrison to summarize the report, and Mr. Morrison replied stating that this would be very difficult to do in a limited amount of time, and stressed the importance of all finance committee members reading the report in its entirety. He then passed out copies of two letters, one dated January 20, 1969, and the other January 23, 1969, from Peat et al which supplement the study. He stated that Senate Concurrent Resolution 6 am (introduced during the last legislature but which was not passed) was used as a guide for making this tax review. Chapter 111, SLA 68 appropriated \$150,000 which was used to make this report and set up a computer model. Two tests have been completed

with the computer model. The total appropriation, however, has now been expended - approximately \$75,000 for the report and \$75,000 for the computer model. The contract with the firm has been finalized and the last payment has been made.

Senator Vance Phillips asked if the 14 items suggested by the legislature in SCR 6am had been carried out. Mr.

Morrison said the 14 points were included, and read them aloud to the committee from SCR 6am, a copy of which is appended. Mr. Morrison explained in answer to a question by Senator Phillips that the firm did not recommend repeal of the Alaska Business License Tax, because they felt it

Alaska Business
License Tax:

was a broad based, equitable tax. Senator Phillips stated that the firm had been directed by the legislature to come up with a replacement for the Alaska Business License Tax and that he felt it was not the firm's prerogative to make the decision not to come up with a suitable replacement. In the ensuing discussion on the tax, Mr. Morrison stated that any gross tax is passed on to the consumer and that a net profit tax is essentially an income tax. Mr. Borer questioned Mr. Morrison about the statement that the Business License Tax is an "equitable" tax. Mr. Croft, after questioning Mr. Morrison, indicated that he felt the section on business license taxes penalized small business and noted that he found nothing in the recommendations to rectify that. In response to further questioning, Mr. Morrison stated that it could be said that this tax is a "general sales tax with few exemptions." Mr. Croft indicated that he did not understand the validity of this tax and Mr.

Introduced: 2/5/68
Referred: Finance

BY THE RULES COMMITTEE

1 IN THE SENATE

2 SENATE CONCURRENT RESOLUTION NO. 6

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTH LEGISLATURE - SECOND SESSION

5 Relating to a comprehensive review
6 with recommendations of the tax
7 structure of the state.

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

9 WHEREAS sound governmental financing requires periodic review of the
10 tax structure of the state in order to determine how well the tax system is
11 working and what changes or adjustments are needed; and

12 WHEREAS the state has a continuing responsibility to examine its tax
13 structure to achieve a system of taxation that will yield increasing amounts
14 of revenue as the economy expands and at the same time eliminate possible
15 inequities; and

16 WHEREAS this responsibility is especially important as a result of the
17 tremendous growth and development which has taken place in the state in
18 recent years and the consequent need for expanded revenues; and

19 WHEREAS the bulk of the tax information available to the legislature
20 and the administration is based upon a study made six years ago and is of
21 limited usefulness because of the changes which have taken place in the
22 state economy;

23 BE IT RESOLVED that the Governor is respectfully requested to direct
24 the Department of Revenue to make a comprehensive review of the tax
25 structure and existing tax laws of the state and its political subdivisions
26 and to formulate specific recommendations and proposals for modernizing and
27 improving the tax structure and laws, and to submit a report with recommend-
28 ations and proposals to the First Session of the Sixth Legislature; and be it

29 FURTHER RESOLVED that the review and report specifically include but

SCR 6 am

1 not be limited to review of the following:

- 2 (1) all existing tax laws;
- 3 (2) sources from which all revenues are presently derived;
- 4 (3) cost of administration of various taxes presently imposed;
- 5 (4) loss of revenues from nonpayment of taxes;
- 6 (5) tax exemptions presently granted, in particular excise tax
- 7 exemptions;
- 8 (6) tax effects of property tax exemptions;
- 9 (7) comparison of the existing tax structure with that of other
- 10 states;
- 11 (8) role of severance taxes in the tax structure;
- 12 (9) role of gross business license taxes in the tax structure;
- 13 (10) tax incentives for industry;
- 14 (11) tax forgiveness actions;
- 15 (12) relationships between state and local taxing jurisdictions
- 16 and demands;
- 17 (13) all corporate taxes; and
- 18 (14) recommendations respecting utilization of a computer forecast
- 19 center to aid the state in predicting the effect of changes, deletions,
- 20 or additions to the existing tax structure.
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Morrison responded that it is to produce revenue. Mr. Croft asked if it weren't true that the firm had been directed not to concern themselves with revenue but fairness. Mr. Morrison explained that the second part of SCR 6am directed that they eliminate possible inequities, but that the firm did not feel a gross business tax inequitable. Mr. Morrison stated in response to further questioning that a firm cannot be hired and told what conclusions to come up with. Mr. Ray requested that Mr. Morrison send over two copies of the contract between the State and Peat et al including the specifics given to the firm.

Mr. Ray then suggested outlining the summary of recommendation beginning on page I-1 of the report.

RECOMMENDATIONS:

NATURAL RESOURCE
Taxation

Oil and Gas

The first recommendation under Oil and Gas Taxation was to "establish a schedule which imposes a progressive tax rate on oil according to production per well." The next was to "allow credits against the tax for certain salary and wage, contract, transportation, and processing costs incurred in Alaska." The purpose of this, Mr. Morrison said, is to encourage and maintain exploration and processing in Alaska through the use of tax credits. In other words, he said, a company coming to Alaska and merely pumping the oil and transporting it out of state, under this structure, would pay 11% tax whereas one which spends considerable amounts here might pay closer to 5%. Varying tax credits would be given, according to transportation, employment, investment, etc. made in Alaska.

Mr. Borer asked if a computer model has been made

showing the effect of this in monetary figures. Mr. Morrison said that he had an IBM register for these figures. Mr. Borer said he doesn't feel the committee can make any decisions without first knowing what the results would be. Mr. Morrison said he would send copies of his analysis of the effect over. Mr. Croft expressed the feeling that a tax credit for something like salary and wages doesn't necessarily insure something for Alaska, since no reference is made to resident Alaskans being employed. Mr. Morrison said this wasn't the type of thing the firm dealt with. He said that possible loss through such a credit would be made up by income tax.

Mr. Bradner left at this point to go to the floor. Mr. Croft asked about tax incentives' real effects, mentioning an article he had recently read by an AMU professor in which it was stated that it has very seldom been shown that tax incentives or credits produce the desired results. He expressed the feeling that it would not be tax credits that would be decisive in a petroleum company's decision to operate in Alaska. Mr. Croft asked if an analysis had been made of the possible effect tax credits would have on a company's decision to drill in Alaska. Mr. Morrison said one had not been made.

Senator Koslosky asked if there would be an appreciable increase in administrative costs if such a tax credit program were adopted. Mr. Morrison indicated that the oil tax section is going to have to be expanded, as it is now composed of only one person in the excise tax division.

Senator Phillips expressed the feeling that with the vast wealth of oil in Alaska that tax incentives or credits will be completely unnecessary. Mr. Ray concurred, stating that the companies are going to get out more than they put in. He indicated that a flat severance tax and royalty tax should suffice and that with further complications there could be less revenue.

Mines & Mining
Production

The first recommendation under Mines and Mining was to include sand and gravel mining within the scope of mine severance taxation. Mr. Ray expressed the feeling that this is good. Mr. Croft asked if any estimate had been made on what this would produce in terms of revenue. Mr. Morrison read from page IV-40 of the report, which explained the difficulty at this time of making a realistic estimate. The second recommendation in this section was to "Exempt producing mineral leases and rights, underground facilities used in operation of mines, and ore from ad valorem taxes" Mr. Borer asked if it is proposed that this money be returned to boroughs and cities or other kind of municipality. He said they're robbing the municipalities of something important and he felt there were many cases where they would hang on to mineral leases and not do anything about them. Mr. Morrison said that as far as the fisheries industry taxation goes, they had basically used the same theory as in oil and gas and mines and mining. Mr. Haugen discussed with Mr. Morrison the present tax program for fisheries. Basically, Mr. Morrison said, the recommendations serve

Fisheries
Industry
Taxation

to eliminate raw fish taxes as they stand now and replace them with a 5% tax on all fish at the first sale. The intent partially is to shift the burden from the salmon industry which now may be paying 7 1/2% to some of the other fisheries which are now enjoying only a 1% or 4% tax. Mr. Haugen stated that there has been a lot of disparity between taxes salmon producers are paying and those of other fisheries, and he expressed the opinion that they should be equalized. In response to a question from Mr. Haugen, Mr. Morrison said that the fisheries tax today is the most confusing, most difficult tax to administer he has ever been confronted with. For simplicity's sake, he continued, one tax should be imposed on fish, based on the price at the fishing ground. Mr. Haugen asked how many people in the fishing industry were consulted on this tax matter. Mr. Morrison said they reviewed this with the Governor's Tax Advisory Commission, on which Pete Shoup represented fisheries.

Timber Industry Taxation

Mr. Morrison mentioned that since most of Alaska's timber is on state or federal land at this time, this section is not too appropriate. He said some cost analyses have been made and they show that here the theory of tax credits breaks because of the relatively high margin of wage and salary in relation to the product, and because rather than act as a revenue source, such a severance tax on timber would only pose administrative problems in dealing with tax credit

records and such. Therefore, the firm did not recommend a changeover to the type of severance tax recommended for the previously discussed industries.

Recess:

Chairman Ray recessed the meeting at 10:30 for 15 minutes.

After Recess
10:45 a.m.

Personal Income
Tax

The committee reconvened at 1:45 a.m. Mr. Morrison explained that the recommendations for Personal Income Tax are in five parts. The first two recommendations are (1) "Replace the existing \$600 personal exemption with a \$25 direct tax credit" and (2) "Provide a \$25 minimum tax credit per exemption to help relieve the regressiveness of consumption and property taxes." Mr. Morrison mentioned that he frankly prefers replacing the \$600 personal exemption with \$750 and said that recommendation #2 could be \$750 also. The third recommendation is to increase the tax rate to 20% of the 1963 Federal tax rates. This would be to replace revenues which will be lost by the \$25 tax credit and by the repeal of the disaster and school taxes. Number 4, which is to "modify the provisions relating to income subject to taxation and provide tax credits for taxes paid to other states" is to close a loophole in the presently existing structure, which creates incentive to invest in real property outside the state. Number 5 allows "part-year residents to use standard exemptions, credits and deductions based on an allocation formula."

Corporate Income
Tax & Fiduciary

The recommendation for corporate income tax was to "Consider modification of the corporate tax rate schedule to increase

tax equity between income groups." Mr. Morrison said that this is to correct the existing situation in which a corporation reporting a lower tax base pays a higher percentage income tax than one at a higher level. Senator Haggland asked about subsidiary corporations. Mr. Morrison said that the state now has the option to ask these corporations to report on a direct cost basis of allocation formula. Senator Phillips asked if Mr. Morrison had any idea how much would be lost if this were changed, and made the comment that perhaps income taxes could be lowered if corporations were paying their fair share. Mr. Morrison said that he does have requests from four fairly large corporation to go on apportionment rather than direct tax and there is in one case a difference of a million dollars. He is asking them to continue paying direct. He said that they argue that their home offices have the records, but he said they keep sufficient records in their offices to be able to report.

Multi-State Tax
Compact

Mr. Morrison brought up the subject of the Multi-State Tax Compact, a compact initially made up of 10 states, then 13, and now 26. He said a lot of pressure has been put on the federal level to pass a bill whose purpose is for the federal government to take on a portion of the costs. In order for Alaska to join the Compact, there is legislation needed, but last year, Mr. Morrison stated, Governor Hickel joined the Compact as an associate member, and Mr. Morrison stated that he feels it is important for Alaska to join

Sales, Use and
Gross Receipts
Taxation

the Compact as a full member.

Mr. Morrison said that Peat, Marwick, Mitchell & Co. recommended retaining the Alaska Business License Tax. In the event the legislature repeals the Alaska Business License Tax, it will be necessary to enact an Alaska Sales Tax. Mr. Morrison called it to the attention of the committees that the two items (The Alaska Business License Tax and Alaska Sales Tax) are diametrically opposed.

Excise Taxes

Alcoholic Beverage
Taxation

Mr. Morrison said that the recommendation for Alcoholic Beverage Taxation was to eliminate the exemption for sales to the Armed Services. There was a short discussion on the pros and cons of this, with the feeling expressed that if the exemption were removed, the military personnel would go elsewhere to buy their alcohol, and at least under the present situation the money is being spent here.

Senator Haggland expressed the feeling that the tax on hard liquor and fortified wine could be increased.

Mr. Sackett brought up the question of military-affiliated people buying liquor on base without being taxed and taking it off base. Senator Phillips said this could be brought up with the Military during their budget hearing.

Tobacco Tax

In the letter from Peat et al dated January 20, 1969, they recommended that the tobacco tax be increased from 8¢ a pack to 12¢ a pack.

Franchise
Taxes

The first recommendation under franchise taxes was to raise the annual corporation fee to \$100 from the \$15.00 it has been since 1913. Mr. Morrison said there is no reason to maintain the \$15 fee because the raise in

the price index is so great. The other recommendation is to combine the Corporate Franchise Tax and Corporate Annual Report into a single document. Senator Phillips asked how much additional revenue the corporate fee increase will mean. Mr. Morrison didn't know for sure but said he would find out. Dr. Haggland asked if combining the two reports could be done by regulation. Mr. Morrison said it would require legislation.

**Banks and
Financial
Institutions**

The recommendations for Banks and Financial Institutions were

- (1) "Increase the existing rate of tax to a minimum of 6% of income as presently measured under the existing statute."
- (2) "Exempt trust companies and savings and loan associations from the Alaska Income Tax."
- (3) "Extend exemption from personal property taxation to state banks and financial institutions."

Mr. Borer and Mr. Morrison talked about national banks for a while, and Mr. Borer mentioned that the recommendation to extend personal property taxation exemption to state banks and financial institutions will prevent a national bank from being able to come into a community and put a state bank out of business because the state bank has to spend money on personal property tax.

**Public
Utilities**

The two recommendations in Public Utilities were to determine revenues produced from utility taxation currently paid local government and to levy a gross receipts tax on all except municipally-owned utilities in lieu of all other taxes. Senator Phillips asked Mr. Morrison if his department is prepared to write up specific legislation to deal with this and he replied that it is being drawn up. At this point

Mr. Ray, who had left the meeting, returned to announce a meeting of House Finance at 1:30 on the Dept. of Administration Budget.

Insurance

The recommendation for insurance companies/franchise tax was to "Consider modification of the existing statutes to provide a tax credit to insurance companies based on their assets invested in Alaska." Mr. Morrison said this might be a tax incentive for investment, but he didn't see where the state could provide enough of a tax credit to encourage investment. Dr. Haggland asked how much insurance companies had invested in Alaska. Mr. Morrison said it was \$72,586,725.

Inheritance

The recommendation under Inheritance, Estate, and Gift Taxes was to replace the Alaska Inheritance Tax with an accessions tax. Senator Phillips asked if this would add additional income, and how much. Mr. Morrison said he didn't know since Alaska presently has no gift tax. Mr. Borer mentioned the possibility of having none of these taxes to encourage Alaskan investments.

Employment
Taxes

The recommendation here is to repeal both the disaster tax and school tax. Bills have been introduced to cover both taxes.

Business &
Occupational
Licenses

The recommendations made for business and occupational licenses were to "Revise the statutes to allow administrative establishment of license and fee rates" and to "Provide full recovery to the State for the cost incurred in administering the regulating acts." This, Mr. Morrison said, is an attempt to have these professional groups pay their own costs.

Recess:

The meeting was recessed at 11:45 until 1:30 p.m.

JOINT FINANCE COMMITTEE MEETING

February 5, 1969

1:30 P.M.

Present: All members of the House Finance Committee except Representative Mike Bradner. All members of the Senate Finance Committee except Senators Lewis and Bradshaw.

Robert Thomas, Department of Education; Don E. Fridley, Anchorage Borough School District; W. D. Overstreet, Superintendent, Juneau-Douglas District; Ernest Presher, Superintendent, Kenai; Ray Tinjum, Superintendent, Dillingham; Dale Lunsford, Superintendent, Skagway; Ray Nims, Superintendent, Wrangell; J. Davis, Superintendent, Kake, were also present.

General Meeting:

Mr. Ray turned the chair over to Senator Phillips. Chairman Phillips welcomed the superintendents to Juneau. Mr. Fridley, Mr. Fridley who is President of the Superintendents' Association, began the presentation by informing the committee that they would be explaining the development of their budgets and telling the committee the same thing they would be telling their own school boards. He also stated that they wanted to be of service to the committee. He stated there were seven points he wished to discuss and that most of the discussion would center around the Public School Foundation Program. Mr. Fridley stated that although a year ago there had been adjustments made for teachers' salaries, etc., they found the cost of doing business was increasing. He stated based

Mr. Fridley
ont'd

on his experience and on statistics he had seen he expects a 10 to 12% increase in doing business. He noted that debt service is siphoning money away from the instructional program. Mr. Fridley said he realized a great deal of legislation had been pre-filed and stated it was not their purpose to support or oppose any specific legislation.

In the October meeting of the Superintendents' Association, Mr. Fridley stated they discussed one of the ways to continue the state support would be to increase the pupil allotment to \$50 per pupil, which would mean approximately a \$3,000,000 increase.

He stated another area is the special education program and this is treated separately within the Public School Foundation Program. He emphasized the fact that there can not be as many special education pupils per teacher as in the regular program. He said there is approximately one teacher for every 10 pupils but in certain cases one teacher can only take care of five or six pupils and in many instances where for five or six pupils who are mentally retarded or uneducable, a teacher and teacher aide are needed to take care of the physical needs of the child. There are 950-1000 pupils projected to be in special education programs for 1969-70. At the present there are 840 enrolled in the state with 460 enrolled in the Anchorage area alone. Mr. Fridley proposed that there be further legislation along these lines and stated a drop of two or three youngsters per teacher would cost \$200,000.

Mr. Fridley
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He stated the larger centers such as Fairbanks, Juneau, Sitka, etc. were becoming a mecca for people whose children require special education. He noted that more buildings for these children will be needed due to the small number of children per class room -- 7-10 versus 30-35 in standard classes.

He stated another area that was being critized in the education program was the lack of terminal vocational education programs. He stated the cost of vocational programs is as great as special service programs for special children. He asked for further liberalization to include under the PSF program an allowance for vocational teachers. He also remarked that as a greater number of students in rural areas were interested in vocational programs, the heavier portions of these programs should be installed in rural areas.

He stated when reviewing the statistics of the state the average teacher's salary on the PSF program is \$8,200 but that the total salary is probably \$9,000 to \$10,000.

He noted that teachers are the same as other employees. They are requesting more fringe benefits, free lunch periods, etc., but he felt the added cost in this area could be somewhat reduced by the use of teacher aides.

Dr. Hartman entered the meeting.

Mr. Presher Mr. Presher felt that due to the difference in wealth of the different communities that the state should assume

Mr. Presher
cont'd

more responsibility. He stated that the \$6,000,000 for the 5-year program is allocated by the Department of Education. He thought the legislature should give some consideration to using a portion of this money for bond redemption rather than putting it all into new construction. Another area Mr. Presher discussed was the use of schools for a full year with vocational education programs conducted during the summer months. He said many people have need of instruction while they are working. This program offers a worker help in getting a job, guidance instruction on the job, and is especially beneficial to handicapped people and natives who are having difficulty.

Mr.
Overstreet

Mr. Overstreet commented on Public Law 874 and said they had received instruction from the U. S. Office of Education, after a court case, that these PL 874 funds must be used strictly under their guidance. He stated he thought this was a wise decision. Money would go to districts where the federal impact was felt and be used for the purpose that was intended. He said they assume that the state will simply fund now on the basis of the existing formula, with the net effect of increased support to district schools. Mr. Overstreet suggested a small program to encourage school districts to enter into combined programs. He said that if districts would undertake problems jointly that it would lead to solution on a more economical basis, i.e., instructional television would cover more than

Mr. Overstreet
cont'd

one district. He proposed that the legislature encourage this by appropriating a small amount of money for more district cooperative projects.

Mr. Overstreet stated the second thing he would like to see is a new study of the Public School Foundation Program. He said there have been significant changes since the last study six years ago. For example, the special education program is almost completely new, the vocational program has been greatly expanded, and there is a very significant change in revenue; and, hopefully the legislature could relieve property taxpayers by assuming a larger portion of the responsibility at a state level. Mr. Overstreet stated he would like to see the legislature appropriate some \$50,000 to \$70,000 for this study of the PSF program. He stated they could possibly obtain the same people who did the study before or people of the same caliber.

Mr. Fridley Mr. Fridley suggested a possible means of funding the major portion of this study is under Elementary and Secondary Act, Title V. He said these are funds designed to strengthen state organization and he felt that the Foundation Program fell in that category. He thought Title V should provide approximately \$40,000 and stated they would have to obtain agreements with various districts. The Anchorage district would probably benefit the most from the updating of the Foundation Program study and would be willing to go along

with the relinquishing of their Title V funds for this purpose.

Mr. Sackett commented on the fact that deaf children and those hard of hearing went outside for schooling. He asked if there were any plans for a state school for handicapped people. Mr. Fridley stated people whose children require these services are better off to relocate within the center of service. He explained that the state did not have facilities for the totally deaf, that it was more feasible to send severely handicapped people to the states for training, and they felt they could serve more people and expand easier in the larger centers of population. Senator Koslosky asked what the difference in salary is between teachers and teacher aides and if it would be better to hire teachers. Mr. Fridley stated teachers receive approximately \$9,000 and teacher aides about \$4,500 - \$5,000.

Senator Blodgett held a brief discussion on the need of vocational education programs in the school.

Mr. Croft cited an example of high school students performing in the capacity of teacher aides and asked of the feasibility of this. Mr. Fridley stated that this was done in areas of the United States as a pre-vocational service but he stated there were certain areas of responsibility such as playground duty and lunch time responsibility that required an adult.

Mr. Croft asked about the pupil teacher ratio for gifted children. Mr. Fridley stated that like consideration is to be given in this area. He said under the definition of exceptional children, gifted as well as retarded children are included.

Mr. Croft asked what the superintendents had done in the use of the school on a year around basis and if this would not be a savings. Mr. Fridley answered in the affirmative and stated in the Anchorage area they were going forward and had as many as 6,000 youngsters enrolled in Anchorage during the summer time. This was for a period of 6 weeks but he stated he believes it could be for 12 weeks. He stated administratively it would make it easier to have a year around routine but said he did not know if people in the community would accept it. Mr. Croft asked if the money wouldn't be better spent on a year around program rather than the Foundation Program study and Mr. Presher answered they could be done together.

Mr. Haugen gave a brief discussion on the needs and problems of the school system.

Mr. Sackett and Mr. Hohman left the meeting.

Mr. Haugen stated he felt an interim committee was needed to discuss these different areas. Mr. Haugen also discussed the problems of the federal government withdrawing funds from certain programs after they had been implemented.

Mr. Ray suggested that the school boards approach the governing bodies of their municipalities and persuade them to deflate their assessed valuation to its proper level, even though it would cost them in the limits of their bonded indebtedness.

He pointed out that he felt, especially in the case of Juneau-Douglas High School, that the accelerated classes were of great assistance to the gifted children, but that in the cases of the mentally retarded and severely handicapped that the Commissioner should research the reported and unreported segments of the population to determine the need of institutional buildings within the state to be located in the population centers.

Mr. Presher stated that the cost for gifted children was as great as for handicapped. They need additional material so those children can go ahead. He said delinquency may come from these children whose intelligence is not channeled constructively.

Mr. Borer asked to hear from the smaller districts, such as Bristol Bay, and wanted to know if the legislation passed last year had helped them. Mr. Tinjum answered that the legislation (Ch. 48, SLA 68) had helped a great deal. Chairman Phillips clarified Mr. Borer's question and Mr. Borer added he wished to know if the legislature had provided them with what they needed. Mr. Nims stated the legislation had been a great help; however, if his

school district had to absorb an \$8,000 loss for a teacher who had become ill it would be impossible. Teachers are paid when they are ill, and a long illness could be disastrous to a small school district but in large districts it can more easily be absorbed. Hopefully, the state could help the smaller school districts on this and Senator Phillips agreed that something should be done. Senator Phillips asked what the most important point was that had been discussed and Mr. Fridley stated his appraisal would be the increase in pupil allotment. He said other points should also be examined from the standpoint of programs. Mr. Presher added that the need for re-evaluation of the Foundation Program is very important. Senator Koslosky mentioned the possibility of obtaining a Ford Grant for this study and Chairman Phillips requested Commissioner Hartman to check into this.

Adjournment: Meeting adjourned at 2:50 p.m.

SENATE FINANCE COMMITTEE

February 7, 1969

8:55 a.m.

Present: All members. Also present were Mr. Sharrock, Commissioner; Mr. McMurtrey Deputy Commissioner; Mr. Fennel, Administrative Officer from the Department of Commerce; and Mario Martini, Budget and Management, Department of Administration.

Dept. of Commerce Business and Professions Dr. Haggland noted that there was a lapse of \$27,781 in Business and Professions and Mr. Sharrock said the principal reason for this was that some of the positions in this area had not been filled.

Banking: Dr. Haggland commented on the increase in contractual services and asked if the banks pay any of this. Mr. Sharrock answered that they do and stated that the examining method used was inadequate and that they now have accounting firms located in Alaska to do the examining. He said the smaller banks could not afford to pay the \$3,000 required and that they charge them about 40% of the cost. Chairman Phillips asked if the Department of Commerce knew if the banks were making money. Mr. Sharrock answered that the two banks referred to on page 34 of the Commerce budget are pretty marginal. He said these two banks (Valdez and Petersburg) were not members of the FDIC and were not capable of becoming members. Senator Blodgett asked if it was his opinion that two of the seven state banks were marginal and Mr. Sharrock answered in the affirmative and added that some of the other five were not in good shape

Banking
(cont'd)

either. Senator Blodgett asked what could be done to help these banks and Mr. Sharrock answered that they were hoping to come up with recommendations on this within the next two or three weeks. Senator Blodgett asked if it would be possible to tight up management on these banks and stated it would be very damaging to the state if a bank went off the deep end. Mr. Sharrock stated a possible help would be to increase the flow of capital. He said most west coast banks can loan their money out at a higher interest rate so they won't send it here at 7 1/2%.

Insurance

Dr. Haggland stated that in his opinion the request for an auditor-examiner (\$19,640 on page 43 of the budget) was justified.

Senator Blodgett discussed the insurance premium tax and said though we pay a 3% premium tax we appropriate back less than 4% of the money collected. Senator Blodgett noted that many agents are lackadasical and lack expertise. He recalled that there have been cases where the agents pocketed the premiums rather than sending it in to the company and when someone suffered a loss they found they were not insured. Mr. Sharrock stated that the position of auditor-examiner that they propose this year will allow them to keep tabs on insurance agents. Senator Blodgett asked if this would be adequate to clear up the problems we've been having

with insurance agents and Mr. Sharrock answered it would be a good beginning. He said they had a very good Director of Insurance and that he was capable of building up the department. But he added that, of course, they could do better if they had more money. Senator Blodgett continued the discussion on premium taxes and stated we should be appropriating at least 5%. Mr. Sharrock answered that under this budget we will be.

Senator Koslosky asked if they knew of the most critical insurance agents to be audited at this time and Mr. Sharrock answered in the negative.

Central
Licensing:

Dr. Haggland noted the increase in Central Licensing and asked if the new position for a clerk typist was necessary and Mr. Sharrock answered yes and stated that the activity in this section is increasing each year. Dr. Haggland noted the increase of \$2,000 for travel in this section and Mr. Sharrock answered yes and stated that the activity in this section is increasing each year. Dr. Haggland noted the increase of \$2,000 for travel in this section and Mr. Sharrock stated that this amount would allow only one member of each of the various boards to be able to travel outside of Alaska. He stated that there are national associations in most of these activities where they have meetings on problems of regulations. Dr. Haggland noted his approval and asked how much more they needed to allow for more board meetings inside Alaska. Mr. Sharrock

Central
licensing
(cont'd)

said this budget allowed for three day meetings and that this request was very minimal.

Senator Lewis asked if outside travel could be used for inside travel and Mr. Sharrock answered yes. He stated that three members of the boards should be allowed to attend the outside meetings but they could provide for only one. Dr. Haggland added that he thought transportation to these meetings for nurses should be paid for but that members of professions such as doctors and dentists could afford to pay their own way to attend.

Senator Lewis asked if Dr. Haggland was approving the budget of \$32,000 (Governor's allowance, page 73 of the budget) or the department's request of \$37,000 and Dr. Haggland stated he was approving the \$32,000.

Engineers
&
Architects

Dr. Haggland noted that the slight increase in the program of Engineers and Architects was fully justified.

Native
Housing

Mr. Sharrock stated that a breakdown of the budget for Native Housing would be furnished to the committee.

Senator Blodgett requested that a copy be sent directly to him. Mr. Sharrock noted that regarding Native Housing he understood that the federal government had appropriated \$1,000,000 and the state must appropriate about 1/10th of this amount. He stated that under this condition the amount requested for this program would be about \$100,000 rather than the \$95,000 shown.

Utilities
Commission

There was a brief discussion on the regulations of public service.

Chairman Phillips stated he wanted the committee to realize that these figures are just preliminary and when they are adopted formally time will be allowed for questions on both sides.

Senator Blodgett discussed some of the problems of the Kotzebue telephone system and asked about the Public Service Commission in this regard. Mr. Sharrock answered that the present act does not allow the PSC to do much along this line but he believes a new act will provide more to strengthen the activities of the PSC. Senator Blodgett held a discussion on the regulations of municipalities and Senator Phillips suggested that the committee should wait until they get the bill on this for further discussion.

Transportation
Commission

Mr. Sharrock stated that the transportation commission increase was due to activity increase in both air regulation and motor regulation primarily due to activity on the North Slope.

Senator Miller discussed a recent conflict between truck drivers in Fairbanks concerning the regulations placed on them. Senator Lewis stated that there was a bill in the fifth legislature that would have corrected some of these problems and it was stopped by representatives of the trucking industry.

Veterans'
Affairs

To Senator Blodgett's question, Mr. Sharrock answered that the Governor's review committee had increased the budgetary

request by \$3,000 for the veterans' affairs program.

Mr. Sharrock stated it was the intent of the department to consider all applications for loans fairly regardless of the area the state applications came from. In answer to Mr. Blodgett's remark that veterans should be better informed of the loans, Mr. Sharrock said that his department could possibly put out some type of educational program for the state.

Dr. Haggland said the final figure of this program of \$196,600 would be accepted.

Senator Bradshaw asked about the availability of veterans' loans and Mr. Sharrock stated they had had some technical problems in determining the fund balance, but that it was straightened out now. In February, he said the department expects \$350,000 to be available to process loans; however, the backlog in existence is \$1,000,000.

Senator Phillips asked about the new programs planned in the department and Mr. Sharrock answered that one of the items of priority is to improve the PSC. He mentioned that in the next year's banking budget they plan to get an authorized position for examiner. He said they had reached the point that they had to have an examiner to take care of a good many examining problems that are now taken care of under contractual arrangement. He said they also wanted to examine small loan companies.

Mr. Sharrock mentioned another area that had grown tremendously and that needed to be looked into was regulations of securities.

He mentioned the area of centralized licensing as an important function. He stated there are 7,000 people in Alaska that are licensed. He said one step that had been taken to improve centralized licensing was the hiring of an administrative officer. He said up to this time the section had not had proper supervision. Mr. Sharrock also stated that very shortly the department would need to get into microfilming and said they hoped to get the money next year to go into this.

Mr. Sharrock said that they also wanted to put an administrative officer in the Anchorage area where they now have 35 or 40 people working. He stated there was no administrative service in Anchorage now and that the administrative duties were being done by various employees who had other duties. He said next year they want to have an administrative officer to handle those functions.

Senator Blodgett asked why it was necessary to wait until next year and stated he would be willing to support an administrative officer now.

Mr. Sharrock also stated that they wanted to open up a branch of central licensing in Anchorage. He stated that central licensing operates in Juneau and there is no operation at the present time in Anchorage. Senator Phillips discussed the possibility of having the central office in Anchorage with the branch office located in Juneau.

Mr. Sharrock stated the total figure of the field agent in Fairbanks for the transportation commission is \$19,100. Another topic discussed by Mr. Sharrock was the natural gas safety program. He said the PSC is not presently budgeted for this program but that it had to be done. He said that gas safety regulations had been filed because they were required under federal statute.

Senator Phillips sent word down to the Senate to have the members of the finance committee excused from roll call.

There was a discussion on the rate of interest paid by other states and the problems that Alaska is encountering in banking problems. Mr. Sharrock stated that the Governor had asked the department to give him a report on the feasibility of setting up a little federal reserve board. Senator Phillips requested a copy of this after the Governor had reviewed it.

Senator Koslosky stated that the veterans' loan fund takes in around \$200,000 a year and remarked that they actually pay their own way. He asked if the regulations could be changed so that this department is funded under the General Fund and to leave the money in the program itself. Mr. Sharrock stated that although this money was in the General Fund it was accounted for separately under veterans' loans. A brief discussion was held on the veterans loan fund.

Weights & Measures:

Getting back to new programs, Mr. Sharrock said that we are eligible for a weights and measures equipment grant from the federal government if we get a building to house the equipment. He said the state would lose this grant unless they provided space next year for this equipment. This building would need to be a minimum of 3,000 square feet. He stated they had to assure the federal government that they had space for this equipment. He also suggested the possibility of renting a building. He stated he thought this building would have to be in Anchorage. There was a brief discussion on this building and Dr. Haggland suggested that they obtain an estimate of the cost of the building.

Adjournment: Meeting adjourned at 10:15 a.m.

SENATE FINANCE COMMITTEE
February 8, 1969 - Saturday
8:00 a.m.

Present:

All members except Senators Koslosky and Blodgett. Also present were Mel Personett, Commissioner of Public Safety, Captain Nelson, Director, Division of Technical Services, and Mario Martini, Budget and Management, Department of Administration.

Dept. of Public
Safety Budget
Review

Senator Haggland reviewed total budget figure as requested by the Governor versus what was allowed for 1968-69. He mentioned the reward fund (\$25,000) which was appropriated last year had not been used and now that it looked like the law would be repealed, he felt this sum could well be used elsewhere.

Commissioner's
Office
Contractual
Services

Senator Haggland said that Contractual Services was up a bit over last year. Senator Lewis inquired about the request for \$10,000 for printing (code 320) of regulations. Mr. Personett explained to the committee that it is required, by statute, that whenever there is a major overhaul of the regulations, these must be updated and printed for use and distribution by the Department. There was a brief discussion by the committee on whether they would have to comply with this and Mr. Personett was asked what he would do if the money was not appropriated. He replied succinctly they would not be printed.

Senator Koslosky arrived.

Senator Miller pointed out that if these regulations were not distributed as per the statute, they could not go into effect as the court would not be able to enforce them.

Senator Phillips spoke briefly on his views on the court

system.

Rescue & Relief

Mr. Personett told the committee that there had been some misunderstanding among the magistrates as to the use of this fund and there was a period of time where none of them applied to use it so some of the previous year's appropriation had lapsed. He said this year they have already expended about two-thirds of the appropriation for 1968-69 FY. In response to questions by Senator Lewis, the commissioner said that a magistrate could apply for \$250 to be used in search and rescue efforts. He said if any more than \$250 was needed, that the magistrate would have to apply to the Governor for approval. In answer to questions by Senator Lewis, Mr. Nelson pointed out that this money was intended for small searches, not the type that CAP usually conducts. Senator Lewis felt that this money could better be used by CAP and wanted to look further into this before any decision was made.

Rewards:

Senator Haggland, as he had remarked earlier, felt this particular statute would be repealed this session and at a later date, wanted to discuss where the money could be better used.

Technical Services

Senator Haggland pointed out that though they had requested many new positions, only the Clerk Typist III and Systems Analyst III were allowed by the Governor's Budget Review Committee. Mr. Personett said that the

Personal Services

Systems Analyst had originally been funded by Federal money but since this was no longer so, they needed the position badly to continue the program started by him which was aligning the accident reporting system, records, etc., to be recorded by the automatic data processing. The increase in this budget, according to the Commissioner, was not due to increased services, but to the fact that funds for the police contracts had been transferred from State Troopers to Technical Services, therefore causing an increase in Technical Services and decrease under State Troopers.

There was a brief discussion on funding the police contracts and Mr. Personett told the committee that these were 100 percent funded by the cities or towns involved. Senator Bradshaw wondered if a town like Barrow could really afford this 100 percent support and Mr. Personett said Barrow was trying to get enough money to have their own police department. He said most of these smaller areas find that running their own police system is more satisfactory than contracting with State Police and that many of them are successfully working towards this goal. He himself believes that this is a much better answer than the state police and he would like to eventually see the state only go in on an interim basis. Senator Miller asked if this was gradually being phased out and the commissioner replied that it was somewhat phasing itself out.

He said there was no set figure on what is costs to furnish police protection for an area, i.e., Bethel would of necessity be more expensive than Palmer.

He felt that since the cost was rising on this service, that more towns would work towards their own police department and this would contribute somewhat to the phasing out process.

Travel

Mr. Personett said the cut in this was because the training academy had been deleted and that most of the request for funds under this item was for traveling expenses for troopers going to and from the academy, and their per diem. Since the Governor's Budget Review Committee had deleted the training program, the necessity for travel would decrease. Senator Miller asked what they would do in place of the academy, and Mr. Personett said they would do as they had in the past and have in-service training. Senator Miller thought the committee should check into this because he did not like to see it discontinued. Senator Bradshaw concurred in this request as he had been very impressed with the men who had thus far attended the academy. In response to Senator Haggland's remarks, the Commissioner told him he had a priority budget and that this program was one of the top priorities. He was requested by Senator Phillips to break down the quoted amount of \$91,500 and let the committee know how it would be used.

Senator Phillips asked how last year's program was financed and Mr. Personett said there was no training program per se, they just took travel and per diem from other areas and were able to set it up on a temporary basis in that manner. There was a brief discussion concerning the good that had come out of the program, i.e., troopers staying with the state (not one of the troopers who participated has left state employment).

Contractual
Services

Mr. Personett told the committee that the reason the rent and utilities item had risen was because they were anticipating being moved from the capitol building in Juneau, which is rent-free.

Senator Haggland asked what position, of those deleted by the Budget Review Committee, was the most needed. Mr. Nelson said the Administrative Officer in the Juneau area, as this position would then allow him to travel. Though he was the Director of this division, he has not been able to leave the Juneau office due to the workload.

Recess

The committee recessed for 10 minutes.

After Recess
9:15 a.m.

State Troopers
Division
Headquarters

The only two positions allowed by the Budget Review Committee under personal services for division headquarters were the Secretary II and Police Aide. Mr. Personett

explained to the committee that the Police Aides were an outgrowth of the Careers' Program which was sponsored by the federal government under the OEO, for the unemployed and under-employed and he said that most of them were natives. He said they attended the academy and the results of this training were quite remarkable. He said they were given rigorous training and discipline and he felt of the 20 who attended that seven of them are among the best employees in the state and he had high hopes that of those who want to learn can eventually become troopers. He noted that some of them had deficiencies, i.e., too small, that would prohibit them from ever becoming troopers, but they were able to function well in other areas such as records, identification bureau, etcetera.

Senator Miller inquired about the seven cadet troopers that had been deleted by the budget review and Mr. Personett explained that the purpose of this program is to get young men just out of high school. So often they get into other fields before they reach the age of 21 and then they are unable to afford to start a new career. This cadet training gets them started soon after graduation from high school and keeps them in the program until they are old enough to work as troopers. He said it has to be a strict training

program, using them through the system or otherwise they end up doing "flunky" type work and do not learn. He said they also prefer that they get an associate degree from a university, and also have the academy training.

Commodities:

A discussion was held on the plastic licenses and Mr. Personett said the big expense in this had been the demand for duplicate licenses which they had not expected. He said they charge one dollar for this service; however, it goes directly into the general fund so in essence they never see it. Questions were asked on how these licenses were issued in the outlying areas. Mr. Personett said of course it would be prohibitive to supply every village with a camera, so these people must do as in the past, write for their license, then when they come into a town where there is a camera available, they can have their picture taken at that time and appended to the license.

Southeast District
Personal Services

The committee discussed the radio dispatcher for Ketchikan and one for Juneau which had been allowed in this area. Senator Blodgett questioned the commissioner on the work performed by the dispatcher and he was informed that along with dispatching five troopers, the dispatcher did all the clerical work, receptionist work, and kept records, etcetera. The five Ketchikan troopers were discussed and it was explained how one was a roving trooper (going from

village to village) while the others patrolled the Ketchikan area.

Southcentral

New positions allowed in Southcentral were: 5 troopers, 1 secretary, and 2 police aides. It was noted that \$100,000 was actually expended over and above the budgeted amount. Senator Blodgett asked what happened to a trooper on contract when the contract ended, and Mr. Personett said there was always the vacancy factor so they don't have any problem with this.

Travel

In response to questions by Senator Haggland, Mr. Personett said they do not operate any aircraft, they use scheduled airlines in most instances. Senator Lewis asked about the \$50,000 cut by budget review, and Mr. Personett said this cut was tied in with the new positions that had been deleted. With reference to travel for Amchitka state police, it was noted that all expenses involved were paid for by the federal government(Atomic Energy Commission).

Contractual Services

Senator Haggland asked Mr. Personett if any of the cut made in this area was badly needed, and he said the most urgent was the need to move from the present Anchorage headquarters. At the time the building was constructed, it was considered "out in the woods" but they were now surrounded by the Mall, Sears Roebuck, etcetera, and it made an incredible access problem, getting into and out of their building.

There was a brief discussion on the use of motorcycles and how the headquarters in Anchorage had two that had been loaned to them this summer and they found they had certain advantages in moving fast through heavy traffic.

Northwest District

It was noted that under personal services, there was one radio dispatcher and two police aides allowed by the Governor's Budget Review Committee.

Senator Miller asked about Governor Miller's reference in his state of the state message concerning the creation of a new narcotics team, and wondered why this wasn't in the budget. The commissioner said this would come down later as an addition to this budget.

Fire Prevention

Senator Haggland questioned Mr. Personett on the duties of this division and Mr. Personett enumerated on fire inspection, fire training to the volunteer firemen, assisting municipalities in training their personnel, fire prevention programs, inspection of all buildings that fall under inspection requirements, etcetera.

Mention was made of the closing of the Palmer school and Senator Blodgett remarked that he would be amenable to increasing this budget, much more so than in the area of the state troopers.

The subject of arson was discussed and Mr. Personett said he had no figures on this since they have so few people