

HOUSE / SENATE FINANCE COMMITTEE MINUTES - 1967-1982 2503

remarriage, or her death. Mr. Croft asked as far as the treatment of state troopers is concerned if the provision of HCSSB 463 am is the same as HB 736.

Miss Hackwood said they are not exactly the same because

HB 736 HB 736 did not have some continuing benefits following death to survivors which HCSSB 463am has. Mr. Croft asked then if in that way HCSSB 463 am is more liberal and Miss Hackwood said yes. Mr. Croft asked if there is any way it is more restrictive. Miss Hackwood said the contributions are more; they are 5% rather than 3.5%. The benefit formula, she continued, is 2% of average monthly compensation received the the three highest years, and is 2 1/2% under HB 736 for one year of service. Employees contirbutions under HB 736 are 3.5%, she reiterated, and are 5% under HCSSB 463. The normal retirement age under HB 736 is 20 years of service with no age requirement; under the original SB 463 it is 55 years of age and 15 years of service or 25 years of service whichever is earlier and no age requirement. Under HCSSB 463am it is 55 years of age and 10 years of service or 20 years of service for early retirement. She added that the retirement age for regular employees is age 60. Under deferred benefits, provision is made under HB 736 after completing 10 years of service and being 55 years of

age; under both the original and committee substitute for SB 463 it is eight years of credited service with no age requirement.

Mr. Ray came in at this time.

Mr. Croft asked if SB 463 removes tax exemptions on the benefits, and Miss Hackwood said yes, for all state employees. HB 736 does not remove tax exemptions for state troopers. Miss Hackwood said that the disability benefits are about the same in both of the bills. There are differences between the bills in definitions.

Miss Hackwood said that there is a special board under HB 736 with two troopers on the board. This is not there in SB 463, in this one they could be elected -- same as the others. There is a very expensive provision in HB 736 called escalated benefits which means a retired person's benefits are calculated as if they had remained working; e.g. if troopers receive a 20% in salary then the retired person's benefits would be calculated according to that increase rather than what his salary was at the time of retirement. There are provisions in the federal retirement for cost of living but nothing like this.

Mr. Croft asked if under HB 736 benefits are based on the last year's income and Miss Hackwood said the last

year or whichever year is highest. She said this provision is not in SB 463 or the committee substitute. Mr. Croft felt that the built-in salary provision might make it very difficult to keep the retirement fund fiscally sound. Miss Hackwood said that it would be impossible. She said that under HB 736 it would cost 54% of the payroll and under HCSSB 463am it would be 37%. She said that when it is spread out over the total state payroll it comes out to about 8.26%. Mr. Croft asked if there is a statute which limits the amount of employee contributions, and Miss Hackwood said yes. The original senate bill was within that, but if the committee substitute were passed Sec. 35.040.5(a) would have to be amended. Mr. Sackett asked what is the smallest amount and Miss Hackwood said 7%. Miss Hackwood said that the difference between the original and the committee substitute for SB 463am is about \$540,000. Mr. Borer asked if there is a breakdown on these if they were adopted and what additional cost to political subdivisions would be involved. Miss Hackwood said no, that it wouldn't be easy and said this will be done when they have a final bill. Mr. Borer was concerned about the cost to some of the smaller towns. Miss Hackwood said that none of the political subdivisions have more

than one or two employees who would be covered except Juneau, so it will affect their total payroll very slightly.

Mr. Croft asked if SB 463 was an Administration bill, and Miss Hackwood said yes. He then asked what Administration's position on the committee substitute is. Miss Hackwood said that there are several provisions that they don't care for, which she has mentioned and are mentioned in the memorandum. When Administration presented its bill, they had a board meeting to review various problems; their primary concern is the cost. Although it is just an increase of 7% to 8.26% this over the whole payroll amounts to over a million dollar increase.

Miss Hackwood reminded the committee that the projected figure on this does not include increased number of troopers.

Miss Hackwood referred to page 6, lines 12, 13 and 14 of HCSSB 463. She said that she thinks it would be agreeable to both Alaska State Troopers and Administration if this was stated so that it was minus the amount equal to any workmen's compensation which is paid for in part or totally by the employer rather than "any additional

insurance or other compensation benefits" [less any contribution paid for solely or in part by the employer]. This would not take into consideration any insurance benefits but merely wage continuation. Mr. Borer said, going back to page 5, if this is non-occupational disability there is no way a person could get workmen's compensation. Miss Hackwood said that people have gotten workmen's compensation for non-occupational disabilities, such as in some heart attack cases. Mr. Borer said that in the case of occupational disabilities there is no problem but talking about non-occupational disabilities, he felt it is inconceivable that there could be workmen's compensation involved. Miss Hackwood said that she agrees but this is the wording in the present law.

Referring to page 7 of the committee substitute, sec. 13, Miss Hackwood again noted the removal of the three months provision in (b), and she reiterated that Retirement feels administratively they need by regulation or law to have this three month provision in. Mr. Chafin said that the Troopers have no objection to this being left in.

Mr. Croft referred to (a) of Sec. 13, and asked if there

is any need to distinguish between peace officers and other employees. The section reads:

"A peace officer or a fireman is eligible for an occupational disability pension if his employment is terminated because of an occupational disability, and any other employees is eligible if his employment is terminated because of an occupational disability before his normal retirement date and after at least one year of credited service."

Miss Hackwood said that her interpretation is that there is no service requirement at all for peace officers, but that any other employee is required to have at least one year's credited service. Mr. Chafin said he interprets this the same way. Mr. Croft asked what the reason was for the distinction. Mr. Chafin said that he would say the reason is because of hazardous duty of the police officer. Mr. Borer expressed the feeling that if a person is injured in the line of work, he should be compensated regardless of how long he has worked there, and Mr. Croft said he, too, feels all the employees should be treated the same as long as it is an occupational disability. This appeared to be the consensus of the committee, that the required length of time to be working should be removed for all employees. Miss Hackwood said it would have very little effect on the average cost.

Mr. Croft asked about the significance of that 2/3 salary for peace officers for retirement, and Mr. Ray asked if that is because of the additional 5% that they put in. Miss Hackwood said yes; this is for hazardous duty. Mr. Croft asked if the contribution rate is 5% for the peace officers and firemen and 3.5% for other state employees and Miss Hackwood said yes.

Mr. Borer repeated his feeling that anyone with an occupational disability should be treated the same.

Mr. Croft asked what the reason is for distinguishing, why are they not deducting because of peace officers pensions but are deducting from other state employees.

Miss Hackwood said if the new language is taken out of (e) on page 8, then it is equal. Mr. Croft asked Miss Hackwood if that is agreeable as far as she is concerned.

Miss Hackwood said yes, they would like to go back to the old language. Mr. Ray said that if a person has insurance under an association that should have nothing to do at all with this but whatever comes from the employer, this shouldn't be additional. Mr. Chafin said that he agrees.

Referring to page 8, (g), Miss Hackwood said that she doesn't like to see personnel hiring policy written into the law. Mr. Ray said that if he has an employee

working on a job who is hurt there should be some way of assuring that he can be reappointed to the position when he is well again. Miss Hackwood said that their comment as far as retirement system goes is that they don't disagree with the philosophy but it is difficult for the retirement system to be in a position of telling the state or a political subdivision to hire or put this person back on the payroll because they have recovered. If the person does not go back the retirement system will have to continue paying benefits, and they could be employed by another employer and still be receiving benefits from the retirement system.

Mr. Chafin said that the Troopers Association considered this section because they felt there could be a situation where a policeman would be insured in the line of duty and given an occupational disability; and then later he could be certified ready to go back to work yet the Department could say because of some disability (e.g. a limp due to being shot) that they wouldn't rehire him. There should be some way this man can be given protection, he felt, so he could continue his career. Mr. Borer said that he feels this is academic as far as the state is concerned because of the large number of

state employees. He said that this could set small municipalities, however, open for a law suit. Miss Hackwood said that one of the problems of the wording "reappointed to a position of the same classification" is that a person could be certified but there would be no job opening in his classification and she gave the example of a man who perhaps after 10 years was certified as recovered and had been a Captain, but there was no position open to him. According to this he could continue drawing his pension even though he is capable of working, until a captain's position became available. Mr. Borer asked if Administration put this in, and Miss Hackwood said no. Mr. Chafin said that the refusal to accept employment could be grounds for loss of pension. Mr. Lahn said that he felt the person should be given preferential treatment but he said he is not sure that this belongs in the retirement bill but rather in personnel. Miss Hackwood agreed, stating that as far as this provision she just doesn't believe it belongs in the retirement act. Mr. Croft asked Mr. Lahn how he feels about the old language. Mr. Lahn said that he thinks they want to go further than that.

He thinks the person should be placed on the list but given preferential treatment. Mr. Ray read lines 4 to 7 on page 9 of the committee substitute which read:

"If, in the judgment of the board, the examination indicates that the retired employee is no longer incapacitated for service in the position held at the time his disability pension began, payments of his disability pension shall cease."

Mr. Ray said that if the person is certified by the board, it is necessary to provide him with an opportunity for employment. With that provision he said he can see some calloused employer saying to the man there is no more room for him, and he asked what happens then. And, he continued, if there is no position open for him in the same classification and he still desires to be employed by the state he can get another job and still get his retirement pension. Miss Hackwood read the new material on lines 14 to 17 of the same page, which read:

"In any event, the disability pension shall not cease until the employee is either re-appointed, retired or otherwise disqualified from receiving a benefit by being disqualified for re-appointment."

She said it was covered in this sentence and that this section is workable with those lines. She said it does not, however, cut the cost.

Mr. Ray said that he can see some real problems from a legal angle of "otherwise disqualified." For example, if there is no position open, a person could be considered disqualified. There was some discussion on this, and then the Chairman stated they would return to this later.

Going on to page 9, sec. 14 on non-occupational death benefits, Mr. Croft said that the first section applies to all employees except policemen and firemen. He asked if it substantially changes anything, and Miss Hackwood said no.

Referring to Sec. 15, (b) on page 10, Mr. Borer asked why "male" peace officer is spelled out, and Miss Hackwood said that the actuary insisted on that. She said that it is just a tradition that really doesn't make any difference as far as cost. Mr. Ray suggested using the wording "surviving spouse" rather than "widow" later on in that same section. Miss Hackwood said that changing to "spouse" is fine.

Mr. Ray reverting back to page 9, (a) asked why policemen and firemen get the benefits for nonoccupational deaths that they do, and Mr. Borer said that the firemen and policemen are paying more. Mr. Lahn said that this is nothing more than added fringe benefits for the police

department. Mr. Chafin said that they would be willing to agree on the nonoccupational benefits to be the same as the other state employees. He felt they should be treated like everyone else under Sec. 14 and 15. The committee after some discussion decided to take out the underlined portion of Sec. 14 and eliminate Section 15 to accomplish this. Mr. Croft asked Miss Hackwood to have the actuary prepare an estimate of savings from the elimination of Section 15. Mr. Croft asked if (c) in Sec. 15 is new, and Miss Hackwood explained that that referred to policemen and firement. Mr. Borer and Mr. Ray could see no reason for (c) and felt it should be deleted. In Sec. 16 the committee discussed replacing "widow" with "surviving spouse" wherever it was used and seemed to be in agreement that that wording would be preferable.

In Sec. 17, Mr. Croft asked what the significance of this amendment is since the new language seems to be a completely different subject than the deleted language. Mr. Ray said that all it is saying is that the board shall make the determination. The portion that had been deleted Miss Hackwood said, had been deleted she thought

because of Sec. 15, but since it is the intent of the committee to delete Sec. 15, it will be necessary to put this language in Sec. 17 back in, since it provides for when the payments should be made.

Mr. Ray asked what would happen if the survivor is a 14 year old boy, how would that be handled. Miss Hackwood said that the money would be paid to a legally appointed guardian. Mr. Croft recommended using the word "beneficiary", but Miss Hackwood pointed out that that could be anybody, and would not even have to be a blood relative. She said that "spouse" could be used, with a definition of spouse given.

Sections 17 and 16 would have to be reworded, she noted.

Mr. Ray asked if section 18 is where the troopers get additional money because of the additional money they have put in. Miss Hackwood said that it can't be said that this is additional money just because of the additional money the employee has put in, because it is the employer, too. She said that this provides the surviving spouse with 100% of compensation the employee was getting at the time of death and this will continue until remarriage or if there is no surviving spouse, will be split up among the children who are under 18 years old or under 23 years old and registered and

attending full time an education of technical institution.

It was pointed out that lines two and three of page 12 should read "at and attending on a full-time basis an accredited educational or technical institution recognized [accredited] by the Department of Education.", the point being that the Department of Education cannot accredit colleges or technical schools.

It was commented that it would be possible for a widow to get 100% of her husband's salary plus other wage continuations as the bill is written. Mr. Chafin said that he thinks it is entirely fair and just that the woman should get 100% of her husband's salary, but he wouldn't consider it unreasonable if she received that minus other wage continuation payments she might receive. Miss Hackwood said that this will include social security, and this would be considerably more, all told than the salary would have been had the man been living. Mr. Chafin said that he doesn't feel social security should have a bearing on this. Social security is something that a person pays into throughout his working life. Mr. Ray agreed.

Mr. Croft suggested that the sum be reduced by any insurance program contributed to by the employer except for social security. Section 20 needs to be amended also on page 13

lines 9 and 10 of the HCSSB 463, so that it reads "attending on a full-time basis an accredited or a technical institution recognized [accredited] by the Department of Education."

On page 13, Sec. 21, LIMITATION ON USE OF CREDITED SERVICE AS PEACE OFFICER OR FIREMAN, Mr. Ray asked if this isn't the same as teachers' retirement. Miss Hackwood said it establishes a maximum service which will be recognized. Mr. Chafin said it would be 25 years maximum for accruing maximum benefits. He felt by adding this to the retirement act for state police that it would prevent the state troopers from having a lot of men over the age of 55. Mr. Ray noted that this is what happened under the old Territorial police.

On page 13, Section 22, Mr. Ray asked if the tax exemption applies to all state employees and Miss Hackwood said yes. She added that teachers, judicial and U. S. Civil Service is already tax exempt from state taxes. In response to a question, Miss Hackwood said Section 23 was a proposal by the Administration. In response to questioning by Mr. Ray, Miss Hackwood said that Section 24 of the committee substitute and section 14 of SB 463 am differ inasmuch as the committee

substitute provides "normal retirement date for a peace officer or a fireman" means the first day of the month following either his 55th birthday and 10 years of credited service or his 20th year of credited service, whichever is earlier, and for any other employee it means the first day of the month following either his 60th birthday and eight years of credited service or his 30th year of credited service, whichever is earlier."; and in the original senate bill, the figures are 55 years of age and 15 years of credited service or his 25th year of credited service. Mr. Chafin said that this is the section his group is very interested in. Mr. Lahn reverted back to page 4 of the committee substitute, line 25, "after he completes 15 or more years of credited service" and he felt this should be changed to 8 rather than 15, to correspond to the other 8 year figure, and the committee agreed. They also felt line 28 where 10 years has been written in should be 8 years. The committee appeared to be in agreement on this.

Recess: Mr. Chafin, Miss Hackwood and Mr. O'Donnell left at this time and the meeting recessed at 3:10 p.m.

After Recess
3:15 p.m.

Present: All committee members were present with the exception of Mr. Bradner.

HB 614 HOUSE BILL NO. 614 (relating to roads to areas rich in mineral resources) was brought before the committee for discussion.

Mr. Croft proposed a COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 614, which would make three changes to the original bill:

Page 1, line 12: "...sources, except oil and gas, by authorizing funds to participate in construction of...."

Page 2, lines 3 & 4: "...participate with the applicant in the cost of construction of the road, up to \$50,000 or up to 50 per cent of the cost, whichever is lower; however,"

Page 3, lines 8, 9 & 10: "...the state may participate up to \$50,000, or up to one-third of the cost of construction and of the maintenance of these roads in Alaska, whichever is lower."

Mr. Ray felt the word "maintenance" should be taken out. Mr. Croft didn't think so as it is supposed to be a public road.

Mr. Haugen asked how the state could have a road and not maintain it.

Mr. Ray agreed then the state would have to maintain it.
HB 615 Mr. Croft then referred to HOUSE BILL NO. 615 (appropriating to the Department of Natural Resources the sum of \$1,000,000 for the construction of access roads), which is a companion bill to HOUSE BILL NO. 614, and said that Natural Resources had told him they would only need \$100,000 for the next fiscal year.

HB 614 Mr. Croft said there were two prospects being considered, according to Mr. Wallington. One is the Denali, and the other is the Kaska Creek. The road on the Denali would cost \$40,000 and the road on the Kaska Creek, which is in the Lake Clarke area would cost about \$6,000,000. There was a brief discussion on suggested routing and the conclusion was it could cost as much as \$20,000,000 if certain routes were followed.

Mr. Borer asked if the wording in this is intended to make each project \$250,000, to which the reply was yes.

Mr. Croft quoted from the Stanford Research Institute report and told the committee that according to this report there has been no evidence that they could find where new roads [into areas such as this bill would cover] had been found to stimulate or improve the economy of the area.

Mr. Borer questioned the appropriation for this, and Mr. Ray said he thought the \$250,000 maximum was too much and

that \$100,000 should be the limit. Mr. Borer concurred and Mr. Croft said as far as he was concerned this bill only subsidized the "big guys" and he was inclined to go along with Mr. Borer but suggested cutting it even further, to \$50,000. The committee concurred in this figure so the bill was amended accordingly.

SB 127

Mr. Ray requested that the committee consider SENATE BILL NO. 127 (appropriating to Wright Truck and Tractor Service, Inc.). Mr. Borer, the subcommittee, said he had been unable to obtain any information and therefore could not report on it until Mr. Wright provided him with some backup material. Mr. Ray directed Mr. Borer to request this information from Mr. Wright so this measure could be pursued.

HB 614

Mr. Ray asked what Mr. Croft's recommendation is, and Mr. Croft said his personal preference is that the committee forget about it; however, he would recommend that HOUSE BILL NO. 614 be replaced with COMMITTEE SUBSTITUTE and that this COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 614 be reported out without recommendation. On vote by the committee, COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 614 was reported out without recommendation, the members voting as follows:

NO RECOMMENDATION: Messrs. Hohman, Croft, Haugen, Sackett and Borer.

DO PASS: Mr. Ray.

SB 256

Mr. Croft moved and asked unanimous consent that SENATE BILL NO. 256 (relating to a community grant-in-aid program for alcoholism) be brought before the committee. No objection, so ordered.

Mr. Croft said he has proposed a committee substitute that would change the bill as passed by the Senate in certain respects:

Page 1, line 25: "...ratio of 75 [50] per cent state money and 25 [50] per cent to community...."

Page 2, lines 18, 19 & 20: "...on the application, and the issuance of licenses for facilities receiving grants-in-aid under sec. 475 of this chapter. The department...."

Page 2, insert as Sec. 3: "The department shall submit an annual report concerning alcoholism in Alaska and the grant-in-aid program within 10 days after the convening of the legislature in each regular session."

Therefore, on page 2, what was Sec. 3 in the original bill is now Sec. 4, and what was Sec. 4 in the original bill is now Sec. 5.

Mr. Ray said he would not agree to Sec. 4 of the proposed COMMITTEE SUBSTITUTE, and suggested holding action on this bill until the committee could "look at the whole package."

HB 93

HOUSE BILL NO. 93 (providing for a college expense deduction in the state income tax) was brought before the committee

for discussion. According to the fiscal note furnished by the Department of Revenue, this bill would cost the state a minimum loss in income tax of \$63,395, and probably much more.

Mr. Ray said Representative John Holm is particularly anxious for the Finance Committee to take action on this bill.

Mr. Borer moved this bill be sent back to subcommittee for further study. Mr. Ray objected.

Mr. Hohman said that an amendment has been suggested that the words "within the State of Alaska" be deleted from line 17.

Mr. Ray presented his views on college education, which Mr. Hohman did not feel was relevant, and HOUSE BILL NO. 93 was returned to file.

Recess: Meeting recessed 3:35 p.m.

HOUSE FINANCE COMMITTEE
April 13, 1970
9:20 a.m.

Present: All members except Mr. Sackett.

Mr. Ron Rettig and Mr. Robert Van Houte were also present.

HB 708 Mr. Rettig gave testimony on HOUSE BILL NO. 708 (an act relating to mutual banks). Mr. Rettig said this bill was introduced at the request of the bankers -- specifically, the Mt. McKinley Savings Bank in Fairbanks. He said that section 1 of the bill is similar to legislation passed in the State of Washington last year. This permits savings banks to contract for a firm rate of interest, Mr. Rettig said. He said the restriction to pay according to earnings is no longer applicable. He said since 1962 they have been able to do this on public funds and this will extend it to other depositors. He said that section 2 re-instates language that was inadvertently repealed last year.

Mr. Croft questioned how this was left out.

Mr. Bradner wanted to know what other state banks would be regulated. Mr. Rettig said the state does not regulate, the federal regulates all banks. He said this bill effects only mutual savings banks and there are no state banks at this time. He felt, however, this law should be changed, too. Mr. Croft asked what the effect of the first section would be if they passed it as they are limited by regulation "Q" to 5 per cent. Mr. Rettig said this is correct but they

are not able to say they will pay the 5 per cent. He said they can't declare a rate until after the period is passed. He said for instance on June 30 they will declare the rate for the previous six months. Mr. Rettig read Section 2 of the bill (the underlined section being what was in the legislation passed last year):

"Sec. 2. AS 06.15.250(2) is amended to read:

(2) No investment in any one mortgage may exceed two per cent of the assets of the mutual bank at the time the investment is made, or as specified in (1) of this section, whichever is greater, or more than 80 per cent of the appraised value of a one-to-four family residence securing a conventional loan; or more than 75 per cent of the appraised value of any other real property securing a conventional loan however, a mutual bank may make 90 per cent of appraised value loans on a one-to-four family residence if the term of the loan does not exceed 30 years,

Mr. Rettig said this re-instates the section relating to conventional loans and adds a provision that permits mutual savings banks to declare a rate.

[The legislation that was passed last year was SENATE BILL NO. 305, Ch. 47, SLA, 1969 an act amending Mutual Savings Bank Act.]

Mr. Borer asked if this isn't "class" legislation.

Mr. Rettig said this would apply to all depositors.

Mr. Ray did not feel this is what the bill said. Mr. Rettig said that paragraph (a) permits payment to all.

Mr. Rettig said that paragraph (a) covers everything and paragraph (b) covers certificates of deposits.

Mr. Ray questioned the "Except as otherwise provided in this chapter,..." on page 1, line 10. Mr. Rettig said this is from the old language and is justifiable.

Mr. Ray asked about line 16, page 1, "the certificate may provide for the payment of a fixed rate of interest..."

Mr. Rettig said it may or it may not. He said this is permissive. Mr. Rettig said they do not need paragraph (b). Mr. Rettig left the meeting.

Mr. Ray requested that Mr. Borer write a report on HOUSE BILL NO. 708.

HB 348 There was a brief discussion on HOUSE BILL NO. 348 (an act relating to the transportation allowance of legislators). Mr. Ray requested that the staff check with the airlines and find out what the regulations are regarding air freight.

SB 228 Mr. Ray moved and asked unanimous consent that the committee consider SENATE BILL NO. 228 (maximum coupon interest rate for state GO bonds). No objection, so ordered. Mr. Ray noted the six per cent in the bill should be changed to seven per cent. Mr. Borer felt the sentence "No semi-annual interest may be, nor may a coupon evidence,

interest at a rate greater than seven [SIX] per cent a year." was not necessary. Mr. Ray said there may be some reasoning behind having this sentence in the bill. Mr. Borer said the first couple of years a bond might be 3 to 4 per cent and at the back end of the years it might be 8 or 9 per cent but the average cost of the bond is 6 per cent. He said this is the way bonds are bid and bought. Mr. Croft questioned why this sentence was put in the bill originally. Mr. Borer did not know but said he could not see what difference it made if they let a bond flow up or down.

Mr. Ray said he was having a committee substitute for this bill typed and they would revert back to this when the bill was prepared.

Mr. Sackett entered the meeting.

Bill
Assignment

The following bills were assigned:

SB 257	Allocation of gross revenue taxes collected from electric and telephone	Mr. Croft
SB 431	GO bonds \$9,000,000 capital improvements to certain airports	Mr. Ray
SB 432	GO bonds \$2,300,000 for capital improvements to state recreational	Mr. Ray
SB 437	GO bonds \$3,000,000 for capital improvements Alaska Remote Housing	Mr. Haugen

SB 440	GO bonds \$5,600,000 for capital improvements to mental health facilities, etc.	Mr. Sackett
SB 441	GO bonds \$8,000,000 for capital improvements for water supply and sewerage	Mr. Croft
SB 442	GO bonds \$8,600,000 for capital improvements to State Correctional buildings	Mr. Hohman
SB 466	GO bonds \$29,200,000 for capital improvements to highways and roads	Mr. Borer

HCSSB228 The committee reverted back to the discussion on Senate Bill No. 228. The sentence which Mr. Borer had been opposed to had been deleted and Section 2 read as follows:

"Sec. 2. AS 37.15.210(b) is amended to read:
 (b) Refunding bonds and the coupons attached to them are negotiable instruments. The effective rate of interest over the life of refunding bonds may not exceed seven [SIX] per cent a year and the amount of premium which is paid to effect the redemption of outstanding bonds may not be considered in determining the effective rate of interest."

Section 3 had been added:

"Sec. 3. AS 37.15.380 is amended to read:
 Sec. 37.15.380. SALE OF NOTES. Notes issued under this chapter shall be sold by the state bond committee in such manner and at such price or prices as it shall determine, at either public or private sale; provided that no such note shall be sold for less than par and accrued interest or at an interest rate exceeding seven [FIVE] per cent a year."

Section 4 had been added:

"Sec. 4. This Act takes effect the day after its passage and approval or on the day it becomes law without approval."

Mr. Croft asked why the sentence "The bonds shall mature

in not more than 30 years from date of issue, unless a longer period is specifically authorized by statute." is necessary. Mr. Borer said the state has some bonds going into housing that may be as long as 40 or 45 years.

Mr. Ray moved and asked unanimous consent that the committee adopt HOUSE FINANCE COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 228 in lieu of SENATE BILL NO. 228.

No objection, so ordered. HOUSE COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 228 was passed out of committee with 5 "do pass" recommendations, Mr. Croft and Mr. Bradner signing "no recommendation."

Mr. Ray said he felt the committee should act as a committee of the whole in regard to the bills that had been received from the Special Committee on Monetary Investment.

HB 814 The committee considered HOUSE BILL NO. 814 (an act relating to a program of state aid for municipal purposes). Mr. Ray explained that this bill doubles the per capita to cities and boroughs. Mr. Croft questioned why they allow so much for police protection, fire protection air or water pollution control, etc. He asked why they could not just give the cities and boroughs a grant-in-aid. Mr. Bradner said this was a compromise reached by the Special Committee on Monetary Investment and it was felt this would make the cities and boroughs spend the money in these particular areas. Mr. Croft said the

state is, in effect, telling them where they have to spend this money.

Mr. Ray said that in most of the areas, except for the industrial centers, air and water pollution are not factors. He said air pollution is no factor whatsoever and said that air pollution in Juneau is not a factor. He said it is much more desirable to provide adequate police and fire protection. Mr. Croft said he felt they were setting a precise ratio for each of these areas and a precise ratio is not applicable.

Mr. Ray said they are putting the dollar value on the services most desirable and most necessary for every area of the state. Mr. Croft said the assumption is that the municipality can handle the problem best and he said he felt they should give every municipality a straight per capita grant. Mr. Ray said that not all of these areas would need to provide each of these things [air pollution, water pollution, police protection, fire protection etc.] on an equal basis so why should they receive an equal amount. Mr. Bradner said he personally favored a straight per capita grant. He said this could cause a movement toward consolidated powers between the cities and boroughs and briefly discussed this.

Mr. Borer said that the material on this bill and the cost had been prepared by Legislative Affairs and that

he thought Mr. Freer should also be involved with this, and that he had called Mr. Freer to attend the meeting. Mr. Freer arrived.

Mr. Ray said that the committee planned on packaging these bills into groups of four or five that they could work on and at that time they would call Mr. Freer for an estimate of cost on the bills.

Senator Blodgett entered the meeting.

Mr. Croft referred back to HB 814 and said each local government has a function and one of the functions is to determine what the needs are in the local area.

He said the state in designating so much for each service is not making sure the communities provide good service.

He said they are saying the state does not trust them enough to make their own decision. Mr. Ray said these are just proposals and that the committee was discussing the dollar amount. He pointed out that the revenue sharing plan had passed the House and the Senate last year and they are not interested in changing the concept of revenue sharing. Mr. Ray felt it was too late for this.

Mr. Bradner said he understood why these are enumerated categories and if they go the other way the 4th class cities would be "shafted." He said he felt each year they would add a few more categories. Mr. Ray said if they go the other way the municipalities could use the money and would not have to do anything with it. He said they

have to provide certain services. Mr. Croft said the state would not make the municipalities meet any standards. Mr. Ray said the people in the community would demand that these services be provided.

Mr. Ray said that some of the smaller number of towns are controlled by a few people and gave Nome as a prime example of this.

Mr. Ray said he didn't feel they should be changing the revenue sharing at this stage of the game.

Mr. Croft said since they are doubling this amount he did not see why they could not discuss the possibility of improving it. Mr. Ray said he would like to discuss this, but would rather discuss it at another time.

Mr. Freer left the meeting.

SB 257 Senator Blodgett spoke briefly on SENATE BILL NO. 257 (an act relating to allocation of gross revenue taxes collected from electric and telephone cooperatives).

Mr. Ray suggested that Senator Blodgett get together with subcommittee on this bill. Senator Blodgett left the meeting.

HB 814 The committee reverted back to HOUSE BILL NO. 814.

Mr. Croft said this year they are proposing \$29 per capita.

Mr. Ray said that under the revenue sharing plan an interested citizen can go to the City Council and force

an issue, i.e. if he is interested in parks and recreation he could force the City Council to do this.

In answer to Mr. Croft, Mr. Ray said in order to encourage municipalities to set up and establish these functions the state is saying if they do have these functions the state will pay them so much. There was more discussion on this.

Mr. Croft said possibly they might have \$3 per capita for boroughs and \$10 per capita if they are within a unified government and this might give them the incentive to unify. There was a brief discussion on this and Mr. Haugen reminded the committee of the mandatory borough law.

Recess: The committee recessed at 10:45 a.m.

AFTER RECESS
10:55 a.m.

HB 814 The committee continued their discussion of HOUSE BILL NO. 814. The bill allowed \$2 per capita for air or water pollution. Mr. Ray suggested this might possibly be changed to \$1 for air and \$1 for water pollution. Mr. Croft asked who defines Alaska's water quality standards and Mr. Ray answered the Board. There is \$2 per capita for land use planning and Mr. Ray felt this was drawing money away. Mr. Croft said they would not have to spend the money on this.

Mr. Ray went through each section of the bill and asked the committee members if they were against the function or for it.

Mr. Borer did not feel they could decide on these services until they received a cost figure from Mr. Freer.

The committee discussed Section 3 which provided:

"(h) During each fiscal year the state shall pay to an organized borough or a city outside an organized borough, in which a health facility is operated, a sum equal to \$1,000 for each bed used for patient care within the facility, or \$4,000 for a facility, if the local government elects to accept payment on that basis for a particular facility..."

Mr. Ray said he thought this makes the most sense from the people's point of view.

Mr. Croft asked if the health facility in Ketchikan which is owned by a church could qualify under this section.

Mr. Borer said as long as they use it for health services they could give it to them.

Mr. Croft asked if the constitutionality of this had been checked.

Mr. Ray felt this should be "public care" and if they are a private institution they can't get the money.

There was a discussion on which hospitals this would apply to and Mr. Borer pointed out they have to be a non-profit hospital in order to qualify.

Mr. Ray said the Department of Highways wanted to know if public use trails would qualify under Section 2 of the bill. Mr. Sackett said he felt they would and Mr. Ray disagreed, noting this was not the intent of the bill.

Mr. Ray asked that the constitutionality of Section 3 be checked, and HB 814 was returned to the files.

HB 815 The committee discussed HOUSE BILL NO. 815 (an act authorizing state loans for hospitals and related health facilities; and providing for an effective date). Mr. Borer said this might as well be a grant instead of a loan. He said this provides local monies for their share of a hospital. He explained that the state contributes money, the federal (Hill-Burton funds) contributes, and the local government contributes toward construction of a hospital.

Mr. Haugen moved and asked unanimous consent that HB 815 be tabled. Mr. Croft objected.

Mr. Croft explained that it is difficult for local municipalities to get normal commercial loans and this makes it difficult for them to expand and because they can't expand this causes hospital costs to rise.

House Bill No. 815 was returned to the files.

HB 817 The committee considered HOUSE BILL NO. 817 (an act providing for state loans as advances on amounts approved by the federal Department of Housing and Urban Development for programs within the state). Mr. Borer explained that this would allow the local governments to go ahead with the construction of the various HUD projects. In answer to Mr. Sackett, Mr. Borer explained this is interim financing until the federal funds are received. Mr. Bradner said this could be significant in meeting construction seasons. In answer to Mr. Sackett, Mr. Borer said this will not be the local share -- just the federal part. Mr. Ray questioned the word "sponsors" and Mr. Borer said the churches might also be sponsors. Mr. Ray questioned why this would apply to anybody but the local government. Mr. Bradner left the meeting. Mr. Borer said the sponsor would have to be a non-profit organization and all this bill does is let them go ahead with construction by advancing the federal money. Mr. Ray questioned the wording. Mr. Borer said the appropriation bill (HB 818) sets this up more clearly. [HOUSE BILL NO. 818 -- appropriating funds to the Department

of Administration, did not clarify the wording.]

Mr. Ray requested that the staff use the summary that had been prepared for HB 817 and to have a committee substitute prepared on this.

Representative Irwin Metcalf entered the meeting.

HCR 29 Mr. Metcalf said that there were people coming to Juneau to testify on HOUSE CONCURRENT RESOLUTION NO. 29 (relating to the completion of the Resurrection Valley Tourist Access Road) and asked if the committee would be available to listen to them. Mr. Ray said that Mr. Sackett had been assigned this bill and suggested that Mr. Metcalf get together with him in this regard.

Mr. Metcalf left the meeting.

HB 819 The committee briefly discussed HOUSE BILL NO. 819 (an act establishing a program of state aid for school construction within borough and city school districts). Mr. Ray said that all this bill does is provide for Anchorage. He added that Anchorage is the only place that has in-house pupils. Mr. Croft said that Valdez has the same problem only on a smaller scale. Mr. Croft said this is more possible now because the

state now has the money. Mr. Ray said as far as he was concerned the state did not have the money for this and he would vote no on this bill.

Mr. Borer pointed out they are looking at a program that will cost about \$135,000,000 over the next five years if it is adopted. He added that Anchorage's need is about \$105,000,000. There was a brief discussion on this and the bill was returned to the files.

Recess: The meeting recessed at 11:40 a.m.

After Recess
1:45 p.m.

Present: All members of the committee were present.

HB 820 HOUSE BILL NO. 820 (appropriating to the school construction grant fund in the Department of Education the sum of \$18,900,000) was brought before the committee.

Mr. Ray passed copies of the bill to the committee members. He said there was nothing to say at this time about HB 820 and directed the committee members to give this some in-depth study.

HB 821 HOUSE BILL NO. 821 (relating to investing \$300,000,000 in public funds) was brought before the committee.

Mr. Ray passed copies of this bill to the committee members, and noted that this also included agricultural revolving loans. This bill provides for investment in loans when the treasurer determines that there are funds in the state treasury above an amount sufficient to meet current demands, up to \$300,000,000 of them shall be first used to continuously invest in (1) Federal Housing Administration mortgages at the market rate but not exceeding six and one-half per cent; (2) Federal Veterans Administration mortgages at the market rate but not exceeding six and one-half per cent; (3) notes insured by Farmers Home Administration, the proceeds of which are used to finance projects in Alaska; (4) Alaska Veterans Administration

mortgages and agricultural revolving loans at the market rate but not exceeding six and one-half per cent; conventional residential mortgages at the market rate but not exceeding six and one-half per cent if the originating financing institution retains at least 25 per cent of the mortgage and no less than the mortgage than it already had; the six and one-half per cent applies only to that part of the mortgage purchased by the state; and (6) other secured loans, not exceeding \$75,000 per mortgage, at the market rate but not exceeding seven and one half per cent if the originating financial institution retains at least 33 1/3 per cent of the mortgage and no less than the mortgage that it already had, the seven and one-half per cent applies only to that part of the mortgage purchased by the state.

Mr. Sackett asked if other than remote housing anything is being done about federal housing out in the rural areas to get loans. Mr. Borer referred to HB 825, HB 826, and HB 827, all Special Monetary Investment Committee bills which are acts relating to low and moderate income housing, Alaska Native housing and housing assistance. In addition, he said, there is \$5,000,000 for the HUD projects, which includes remote housing.

Mr. Ray asked Mr. Borer if he knew what HB 821 would

provide; and Mr. Borer said this bill is providing the opportunity for him, as a banker, to make money like he never dreamed, and explained to the committee that at 43.90% at the present time for every million dollars he has to invest in the bank, assuming 8% tax rate, it would give him \$80,000 in gross income -- income tax is \$40,000, leaving him a net of \$40,000. Under this bill, he said, the banks have to keep 1/4 of the loan. On that 1/4 of the loan, assuming 8% interest would give him \$20,000 in income. He would have sold the other 3/4 to the state, and by selling the state 3/4 and giving 1/4 to the bank, he can put that into 6% tax exempts, which would bring in about \$45,000. In addition, he is paid 1/2 of 1% servicing of the loans sold to the state, which would be \$750,000, this would give him another additional taxable income of \$3,750. He has a gross of \$67,750 from these three sources, of which only \$23,750 is taxable. He figured he would have a net of approximately \$57,250.

Mr. Borer said that with 6 1/2% rate on these mortgages the state is buying at par. They are automatically worth 85¢ on the dollar, and they are also obtaining about 30%

less income from other investment than they could otherwise. He said, for example, it is going to affect the state in a monetary manner if the pipeline doesn't go in and they have to draw from other sources for revenue.

Mr. Borer felt by investing on the basis of HB 821 the state will absolutely lose a tremendous amount of income, and it will be beneficial only to the people who get to borrow at a low rate of interest.

Mr. Ray asked how much of this \$300,000,000 would go into real estate mortgages. Mr. Borer said on the basis of the bill everybody is going to be happy to come down from 9 - 10% and re-mortgage. It will be worth \$100 to get their mortgage rewritten to get it below the 9 - 10%. For example, he said, the total loans from May 1 to December 31 made in the state by all the banks was \$241,187,000. What everyone will do is pay off their present loans with interim financing and go in for the 6 1/2%.

Mr. Croft said this is similar to a bill he introduced, but his would prohibit any repayment of existing loans and refinancing.

Mr. Borer said that as a practical matter the reason this won't work is because people who have taken loans out at 10% would rather pay 6 1/2% if they can.

They would go up the street and borrow the money for a week or so to pay this loan off, and then come back and tell them they needed the money anyway and get a loan for 6 1/2%. Mr. Ray asked what effect this would have on the banks. Mr. Borer said it would very substantially enhance the banks' earnings. Money is going to go to where they can get the best return. Something has to be done along this line, he said, but on the basis of HB 821, he did not feel this is the right approach.

Mr. Borer said he disagreed substantially with the House Monetary Committee on the state having one "clerk typist" taking care of this money. Anytime there is \$100,000,000 or \$300,000,000 in loans Mr. Borer stressed that they have to have someone there watching this very closely.

Mr. Croft asked how many mortgages they have over 6 1/2%, and Mr. Borer said they are running at a rate of around \$60,000,00 in FHA mortgages a year.

Mr. Borer said those would automatically come down because everyone would sell and finance through the state.

Mr. Ray asked what would be the percentage of delinquents in this. Mr. Borer said it shouldn't exceed 1/4 of one per cent, but could get up to 1/2 of one per cent.

In answer to Mr. Ray's question on investing \$300,000,000 in the regular manner, Mr. Borer said today they could buy 35 year Triple A bonds that would yield 8.75% or well over 8%. Mr. Ray asked if they can make their 8 1/2% with repos now. Mr. Borer said with this bill they would be giving the people who borrow a break because they are only paying 6 1/2% instead of paying 9 1/2% -- or a savings of 3% on \$30,000 a year would be \$900 a year.

Mr. Ray asked what the percentage is of people who will be getting a break with this bill. Mr. Borer replied something like 30,000.

Mr. Bradner asked what the state might expect in the market right now. Mr. Borer said they could go into the market with \$300,000,000 and tie it up with 8 1/2% for 30 years. Any loss would be inconceivable. He said 6 1/2%, less 1/2% for service leaves 6%. In answer to Mr. Bradner's question, Mr. Ray said he didn't think they should go under the rate they are trying to sell their bonds for.

Mr. Bradner said they want to make the mortgage money available; however, the question is how important is it to try to give a man a break. He thought the present usury law would probably hold and there would be no penalty on dwellings up to four-plex.

Mr. Borer said that Mr. Fink, Mr. Miller and Mr. Kay [of the Special Monetary Investment Committee] think it is better to put this \$300,000,000 into the Alaskan economy than "pig farms in Arkansas."

Mr. Ray said they would be cutting off 2% interest from the state earning power that the money could be otherwise making in the open market. Mr. Borer heartily concurred.

Mr. Ray said it was fiscally irresponsible to put it out on loan for less than what they could get on the open market. Mr. Croft said this very easily could become a political football; or in other words, the state would buy from those banks that support the administration.

Mr. Bradner wondered what the general feeling of the committee was regarding whether they should be in at the prevailing market or something substantially lower.

Mr. Ray said he didn't know about the lower part but suggested 1/2 of one percent under the going market, and said that this would give a man a break and still be a

restraint on the banks. Mr. Bradner said he was inclined to agree. Mr. Ray wondered what the reasoning was of the Special Monetary Investment Committee and Mr. Borer said that Messrs. Kay, Miller and Fink of the Special Monetary Investment Committee had all the answers since they were the ones who pushed for this particular legislation.

Mr. Ray thought that HB 821 would be like throwing \$20,000,000 a year out the window, and that the state just isn't that rich.

Mr. Borer agreed that what they would be throwing away would fund out and pay off nearly \$150,000,000 in 20 year bonds; it would pay off the whole bonding issue the state has now.

Mr. Sackett said he didn't understand why the Special Monetary Investment Committee went this route, that they must think the advantages are greater even though the state is losing money.

Mr. Ray said they don't seem to recognize the fact that all they are doing is contributing to a limited few.

Mr. Haugen asked if the state had this \$300,000,000 in an investment portfolio at \$20,000,000 a year as a revenue to the general fund, would it help more people in the long

run. Mr. Ray said it would pay off \$150,000,000 in general obligation bonds. Mr. Bradner said it seems like this would be fine for the transient population coming in and out of Fairbanks who make a high wage and then get out and sell their mortgage to someone else.

Mr. Ray said this would be appealing to every newly married couple or people over 21-22 years old who are thinking about buying a home.

Mr. Croft said the high cost of living has always been a problem in Alaska. They would be using this fund to reduce the cost of owning a home in Alaska, which he felt and hoped would reduce the cost of living.

Mr. Ray disagreed and said it might reduce the cost of living for one or two years, but it would advance again.

Mr. Borer said they are trying to help the person who is making \$8,000-\$12,000 a year, but this would only give the people who are making \$18,000 to \$40,000 a good subsidy.

Mr. Bradner remarked that this kind of legislation would be discriminating against everyone who doesn't want to get a mortgage.

Mr. Bradner said that by providing low rental housing for the permanent Alaskan, they are also providing some

place in the community for someone else to move in where the other left.

Mr. Ray agreed they would be stabilizing a certain amount for demand. If they could eliminate so land owners have to provide a competitive deal with low income housing, they would have made a big step towards solving the problem.

Mr. Sackett asked what they could do for a person who wants to buy a \$25,000 home and makes \$12,000 a year, and Mr. Bradner said the answer there would be in competitive low housing -- it isn't the best kind of housing, but it would be the answer.

Mr. Ray referred to this proposal as "ASHA in reverse."

HB 822 HOUSE BILL NO. 822 (relating to the legal rate of interest) was brought before the committee.

Mr. Borer said the maximum is 10 percent now and will be until December 31, 1970 and most banks are charging between 9 and 10 percent. This bill would just extend this 10 percent rate until December 31, 1971 at which time it would then revert to 8 percent. He quoted from a report on the various banks in Alaska and the varying rates of interest they are charging.

Adjournment: The meeting adjourned at 2:45 p.m.

HOUSE FINANCE COMMITTEE
Tuesday, April 14, 1970
9:00 a.m.

Present: All members were present. Also present were Miss Hackwood and Mr. O'Donnell of the Department of Administration.

SB 463 am Mr. Ray called the meeting to order at 9:00, and explained that Mr. O'Donnell and Miss Hackwood were present to go over further with the committee SENATE BILL NO. 463 am (Relating to public employees retirement system).

The committee began by discussing sections 3 and 4 of the House Committee Substitute. These are the sections concerning rehiring retired employees, with sec. 4 referring specifically to rehiring retired policemen or firemen as police or fire chiefs while they continued receiving their retirement pensions. After considerable discussion, the committee elected to delete the underlined sections of Sec. 3, lines 11 and 17, and add the provision that the individual rehired would have the option of having benefits terminate during the period of employment and continuing to participate in the system during the time of employment and so receiving greater benefits on retirement the second time, or have the benefits terminated during the period of employment and not pay into the retirement system and receive no additional benefits on second retirement. Sec. 4 (c) will be deleted entirely. These changes mean there are no

special considerations for policemen or firemen.

Mr. Croft asked if there is a mandatory retirement age, and Miss Hackwood said that it is 65 according to Personnel rules, although extensions may be granted. It is the same for teachers.

The committee then went on to secs. 6 and 7, Creditable Service as a Peace Officer or Fireman, and decided to delete both sections entirely.

On Sec. 9 (c), Miss Hackwood said that Mr. Chafin and Captain Burton said the Fraternal Order was willing to have 2% benefit formula (rather than 2 1/2%) with normal retirement at age 55 with 15 years service or 20 years service, whichever comes earlier, in order to allow leeway for future increases. The 2 1/2% formula gives no leeway for increases under the present retirement acts or funding structures, she said. It would be the highest in the nation (some other places have gone to 2 1/2%, but none are higher).

Mr. Croft asked why this should be reduced to 2%. Miss Hackwood said that at 2% this will bring the total cost down. Mr. Ray read from the memorandum [see pages 1330 to 1332 of Minutes] of April 13 from Mr. McVay, which gives a total figure of \$3,206,899 for HCS SB 463, 5% contribution rate @ 2 1/2% benefit @ 55 years and \$3,089,752 for 2% @ 55/15 or 20 years. These are the amounts the state would be paying. Mr. Ray asked how much the employees would be paying, and Miss Hackwood

said about \$1.4 million for state employees other than peace officers and firemen, and about \$100,000 for policemen and firemen, making a total of about \$1.5 million dollars for the employees, and a total state and employee contribution of around \$4.5 million. Mr. Borer asked Miss Hackwood if there is any way they can figure out the impact on political subdivisions that are members of the retirement system. Miss Hackwood said that the impact of the police and firemen will be minimal except in Juneau, but Juneau is aware of the changes formulating. The costs have not been finalized, but when a final bill has been agreed on, then they will determine the impact. Mr. Ray said that Juneau understands what is being done and does not object, or at least has expressed no objection.

The committee decided to change the 2 1/2% to 2% @ 55/15 or 20 years. Mr. Croft objected.

Mr. Ray referred to page 4, line 25 and line 28, which the committee had earlier discussed and decided to change the 15 in line 25 to 8 and the 10 to 8 in line 28. There were no objections.

Section 12 (b) is another section where the committee decided to put back the deleted language. They decided in Section (c) to delete lines 27 to 29, reading

"However, the period of disability does not constitute credited service except for peace officers and firemen."

CORRECTION

**THIS DOCUMENT
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TO ASSURE LEGIBILITY**

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"However, the period of disability does not constitute credited service except for peace officers and firemen."

Mr. Borer referred to page 6, lines 5 and 6, and said that he felt the wording "workmen's compensation benefits or" should be removed, since it is impossible to get workmen's compensation for a nonoccupational disability. Miss Hackwood mentioned that yesterday they had been requested to find the cost reduction for deleting Sec. 12 of the bill[Nonoccupational disability pensions] and she said that this is included in the memorandum sent over yesterday.

Recess: Meeting recessed at 9:45.

MEMORANDUM**State of Alaska**
DEPARTMENT OF ADMINISTRATIONTO: **The Honorable Bill Ray, Chairman**
House Finance CommitteeDATE : **April 13, 1970**

FROM:

B. N. McVay *B*
Deputy Commissioner
Department of AdministrationSUBJECT: **HCS SB 463**

Attached are cost comparisons of various alternatives to HCS SB 463. This is prepared in the same format as the attachment to our March 26th memorandum.

The cost reduction for deleting Section 12 of the bill, and the increase for changing the definition of "widow" to that applicable to "spouse" is added to the data submitted on March 26. Other changes discussed do not require a cost calculation.

Mr. Ernie Dawson, Actuary with Marsh-McLennan, has advised us that a section by section cost analysis would take at least two weeks' processing.

If additional information is required, please let us know.

Enclosures

Prepared by Department of Administration
and Marsh-McLennan
Consulting Actuary, Ernie Dawson

April 13, 1970

	<u>Non-Police & Fire</u>	<u>Police & Fire</u>	<u>Total (Spread)</u>
HCS SB 463, 5% contribution rate @ 2½% benefit @ 50/10 years			
# of Employees	4187	193	4380
Total Payroll	\$39,690,932	\$2,147,292	\$41,838,224
Total Employers Contribution as % of Payroll	6.35%	37.00%	8.260%
\$ Amount	\$ 2,520,374	\$ 794,498	\$ 3,455,837
Sec. 12 Non-Occ.Disability Benefit Differential		(.50%)	(.060%)
Total	6.35%	36.50%	8.200%
"Spouse" rather than "widow"		\$ 783,761 .25%	\$ 3,430,073 .025%
Total			8.225% \$ 3,441,193
<hr/>			
HCS SB 463, 5% contribution rate @ 2% benefit @ 50 years			
# of Employees	4187	193	4380
Total Payroll	\$39,690,932	\$2,147,292	\$41,838,224
Total Employers Contribution as % of Payroll	6.350%	25%	7.630%
\$ Amount	\$ 2,520,374	\$ 536,823	\$ 3,192,256
Sec. 12 Non-Occ.Disability Benefit Differential		(.50%)	(.060%)
Total	6.350%	24.50%	7.570%
"Spouse" rather than "widow"		\$ 526,086 .25%	\$ 3,167,153 .025%
Total			7.595% \$ 3,177,613
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HCS SB 463, 5% contribution rate @ 2½% benefit @ 55 years			
# of Employees	4187	193	4380
Total Payroll	\$39,690,932	\$2,147,292	\$41,838,224
Total Employers Contribution as % of Payroll	6.350%	25.000%	7.700%
\$ Amount	\$ 2,520,374	\$ 558,296	\$ 3,221,543
Sec. 12 Non-Occ.Disability Benefit Differential		(.500%)	(.060%)
Total	6.350%	25.500%	7.640%
"Spouse" rather than "widow"		\$ 547,559 .250%	\$ 3,196,440 .025%
Total		25.750%	7.665% \$ 3,206,899

April 13, 1970

	<u>Non-Police & Fire</u>	<u>Police & Fire</u>	<u>Total (Spread)</u>
HCS SB 463, 5% contribution rate @ 2% benefit @ 55/15 or 20 years			
# of Employees	4187	193	4380
Total Payroll	\$39,690,932	\$2,147,292	\$41,838,224
Total Employers Contribution as % of Payroll	6.350%	21.000%	7.420%
\$ Amount	\$ 2,520,374	\$ 450,931	\$ 3,104,396
Sec. 12 Non-Occ.Disability Benefit Differential		(.50%)	(.060%)
Total		20.500%	7.360%
"Spouse" rather than "widow"		\$ 440,194 .25%	\$ 3,079,293 .025%
Total			7.385% \$ 3,089,752

After Recess
1:30 p.m.

Present: All members with the exception of Messrs. Hohman and Bradner. Also present were Miss Hackwood and Mr. O'Donnell of the Department of Administration, Retirement.

SB463am Picking up where they left off before the recess, the committee began discussing Sec. 12 (d) on nonoccupational disability. Miss Hackwood said that she knows of no employer with a wage continuation policy but it is possible that a person could be on nonoccupational sick leave and yet continue to receive salary or insurance by the employer. Mr. Ray said that then they would just take out "workmen's compensation or". Mr. Ray then referred to lines 9 through 13. Miss Hackwood said that Mr. Croft had requested Friday that the committee be provided with a calculation of the cost if the provision were granted all employees. This information is contained in the April 13 memo. The committee decided to delete this special provision for policemen and firemen, so lines 9 - 13 are eliminated.

Mr. Hohman came in at this time.

They also deleted "other than peace officer or fireman" on line 2.

Going on to (e) of the same section, Mr. Borer asked if employees when they receive nonoccupational disability

are considered employees or retired. Miss Hackwood said they are considered retired. Mr. Ray asked why they should be reappointed to a position if they get hurt off the job. Mr. Borer felt it more reasonable to leave in the original language. Miss Hackwood said that if the original language is left there is a vehicle for reappointment left open. It is not required but is left open. Mr. Borer felt that the new language should be deleted. Mr. O'Donnell said that under the state personnel rules they can be placed back on the rehire list without examination. The committee agreed to eliminate the new language and reactivate the old language down to line 28. Lines 28 and 29 of page 6 and 1 and 2 of page 7 read "In any event, the disability pension shall not cease until the employee is either re-appointed, retired or otherwise disqualified from receiving a benefit by being disqualified for re-appointment." Mr. Ray said he could see nothing wrong with that.

In Sec. 13, Occupational disability, Miss Hackwood mentioned changing the period after "date" on line 9 and deleting the rest of lines 9 and 10, so as to make all employees equal; this was the committee's decision in an earlier meeting. Other changes the committee made in Section 13 were deleting all the new language in lines 4 - 8 and reactivating the old

language, putting back the old language in (b), deleting the new language and reactivating the old language in (e) and in (g), lines 6 and 7, putting back the old language. They decided to leave lines 14-17 in, which they had been discussing deleting. After discussion, the committee the committee left in Sec. 14 and changed "widow" to "survivor" and deleted all of Sec. 15.

The committee left Section 16 as it is, except for changing "widow" to "spouse" and making other corrections relating to that change.

They decided to put the deleted language back in Sec. 17, and changed "widow" to "spouse".

In Sec. 18 (b) and Sec. 20 (b) the language needs to be corrected to read an "accredited educational or technical institution recognized by the Department of Education".

Section 20 (d) was deleted.

In Sec. 24, Miss Hackwood said they would like to have 25 years changed to 30 years so this would be a 60 year benefit. She also mentioned changing line 11 from 10 to 15 years. Mr Croft felt it should be 8 years when everything else is 8, and after discussion they agreed to make it 8 which is the number of years for other state employees.

Mr. Bradner came in.

Miss Hackwood said this would be all right.

Miss Hackwood said that two other sections need to be redefined, contributions and the definition of spouses.

Recess: Meeting recessed at 2:00.

After Recess
2:15 p.m.

Present: All members of the committee were present. Also present was Mr. Bob Mottram from the Associated Press.

HJR 118 HOUSE JOINT RESOLUTION NO. 118 (encouraging the Farmers Home Administration to continue to provide low-cost housing in rural Alaska) was brought before the committee for discussion.

Mr. Ray asked how they had come up with the 8,000 figure for housing units indicated in the bill that must be built.

Mr. Borer said they arrived at this from figures ASHA provided from surveys and information forwarded to them from Rural Affairs based on the number of housing units requested under the program they have. These 8,000 units of housing are needed mostly in the rural areas, he said.

Mr. Ray said he saw nothing wrong with this resolution, that it appeared to be a worthy resolution they could pass out at this time.

Mr. Borer referred to line 22 of the resolution, which reads, "BE IT RESOLVED that the Farmers Home Administration is respectfully requested to not only continue but to increase its activities in the field of providing low-cost housing in rural Alaska." He suggested that instead of requesting them to continue, to commend them on what they have done and ask for direction in which the legislature can help or assist them. He definitely felt they should be commended.

Mr. Sackett asked if they have done anything in the past. Mr. Borer said they assist any community that has less than 5,000 people. Mr. Bradner added they are doing some work beyond Glacier Valley. Mr. Borer said they have helped Barrow, Cordova, and Valdez with long-term, low-interest loans. They are providing a method of financing that no one else does.

Mr. Ray read back to Mr. Borer the suggested amendment, and Mr. Borer said he would like it to specify "in the field of financing low-cost housing in rural Alaska," as they do not build the housing, but only provide financing. Therefore, the amendment to HOUSE JOINT RESOLUTION NO. 118 reads as follows: "BE IT RESOLVED that the Alaska State Legislature commends the Farmers Home Administration and respectfully requests the Farmers Home Administration to not only continue, but to increase its activities in the field of financing low-cost housing in rural Alaska."

Mr. Hohman wondered if it would be appropriate to invite Mr. Dale Sanner, Director of the Farmers Home Administration to come before the committee to explain what they have done. Mr. Ray asked how many members of the committee approved of a resolution encouraging the Farmers Home Administration. On vote by the committee, those in favor were Messrs. Ray, Haugen, Borer and Bradner.

Mr. Croft said he doesn't know why they should request the

federal government to do more here; they could very well write back and ask why the state doesn't use their \$900 million to do this.

Mr. Ray said the state can recommend to the federal government, but can't tell them to contribute money to the state.

Mr. Bradner said the Farmers Home Administration does accept other funds also, and the state could make money available to them and they would lend it back through their agencies and subsidize the interest.

Mr. Borer told the committee that the Farmers Home Administration sells debentures to the public to provide money to make individual loans. The FHA has advised the administration, according to Mr. Borer, that they will guarantee that any of the debentures that the state buys, and that that amount of money will be funneled back into the state.

Mr. Ray said the resolution was introduced by another committee [Rules by request of the Special Committee on Monetary Investment], and there must be some reasoning behind it, and that it is certainly nothing that could harm anyone. Mr. Ray moved and asked unanimous consent that HOUSE JOINT RESOLUTION NO. 118 (with Finance Committee amendment) be reported out with a "do pass" recommendation. On vote by the committee, HOUSE JOINT RESOLUTION NO. 118 (with Finance Committee amendment) was reported out with a "do pass"

recommendation, the members voting as follows:

DO PASS: Messrs. Ray, Hohman, Bradner, Haugen
and Borer.

NO RECOMMENDATION: Messrs. Croft and Sackett.

HR 13

HOUSE RESOLUTION 13 (encouraging the Alaska State Housing Authority to continue to provide low-cost housing in rural Alaska) was brought before the committee for discussion.

Mr. Sackett said this resolution does absolutely nothing.

Mr. Ray said that it is certainly incorrectly drawn in the fact that it specifies "rural" Alaska. He recommended eliminating the word "rural" in the title and the body of the resolution as it gives the bad connotation that they are not doing anything anywhere else.

Mr. Ray moved and asked unanimous consent that HOUSE RESOLUTION NO. 13 be amended to delete the word "rural" from the title and the body of the resolution on lines 7, 10, 16 & 25. Mr. Hohman objected.

On vote by the committee, however, HOUSE RESOLUTION NO. 13 (with Finance Committee amendment) was reported out with a "do pass" recommendation, the members voting as follows:

DO PASS: Messrs. Ray, Hohman, Bradner, Haugen
and Borer.

NO RECOMMENDATION: Messrs. Croft and Sackett.

HB 824

HOUSE BILL NO. 824 (relating to moderate and low income housing) was brought before the committee for discussion.

Mr. Ray said he did not agree with (b) on page 2, which reads, "Money held in the community housing development

cost fund which is not required or permitted to be disbursed immediately under secs. 10 - 60 of this chapter may be invested, at the discretion of the commissioner in a manner not inconsistent with the provision for the investment of other state funds. Any income or interest earned by money invested shall be added to the money held in the fund for the purposes of secs. 10 - 60 of this chapter."

Mr. Ray said if they don't disburse the money they can invest it. He felt it was being left open administratively as to what is feasible.

Mr. Ray wondered what a "mutual housing sponsor" was; however, it was noted that on page 6 of the bill it defined a "mutual housing sponsor" as "a nonprofit association or nonprofit corporation organized under the laws of the state for the purpose of providing dwelling accommodations for families of low and moderate income, which are operated, or are to be operated upon completion of construction or rehabilitation, exclusively for the benefit of the families who are entitled to occupy the dwelling accommodations by reason of co-ownership of the premises in a horizontal property regime under AS 34.07."

Mr. Ray then noted that this bill provides for two different programs; however, Mr. Sackett pointed out that there are actually three programs to be provided by this bill [see page 1349 of the minutes for copy of letter].

Mr. Ray thought the committee should hold action on this bill until they hear something on the Native Land claims. Mr. Sackett said this is a loan program.

Mr. Borer said it amounts to about a 50% grant from the federal government and 50%-75% by the state and federal government, and this will provide 25% of the cost on a long-term basis, so effectively they are paying 1/4 of the cost of their loan.

Mr. Ray said they would ask when they get further along in it, that an amendment be put in so that if the Alaska Native Land claims go through they will pay the state back.

Mr. Sackett said the bill is incorrectly worded, it should not say Alaska "Native" housing program, but Alaska "remote" housing program, and added that this program is not only for Natives.

Recess: Committee went into executive session at 3:05 p.m., then adjourned.

HOUSE FINANCE COMMITTEE
April 15, 1970
9:10 a.m.

Present: All members of the committee were present. Also present was Mr. Bob Mottram from the Associated Press.

Mr. Ray called the meeting to order and made the following bill assignments:

- HCR 12 HOUSE CONCURRENT RESOLUTION NO. 12 (relating to the promotion of the Alaska tourist industry by the preparation of a color movie) -- assigned to Mr. Haugen.
- HCR 47 HOUSE CONCURRENT RESOLUTION NO. 47 (requesting the construction and equipping of rural airfields) -- assigned to Mr. Borer.
- HB 13 HOUSE BILL NO. 13 (creating the Department of Insurance) -- assigned to Mr. Borer.
- HB 640 HOUSE BILL NO. 640 (relating to the disposal of property and vacating of lands by the Department of Highways) -- assigned to Mr. Croft.
- SB 270 COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 270 AMENDED -- previously received in committee and assigned to Mr. Bradner; reassigned to Mr. Bradner.
- HB 840 HOUSE BILL NO. 840 (appropriating \$33,051,750 to the Department of Public Works) was brought before the committee for discussion, and Mr. Ray passed out copies of the bill to the members.

The bill calls for a direct appropriation from the general

fund, he said. It was noted that this bill is higher than HOUSE BILL NO. 705 (appropriating \$22,056,300 to the Department of Public Works) which requested similar projects. Mr. Ray said they have a hard time with the offices so scattered in Nome, and thought the construction and equipping of the Nome District Highway Complex and Office Building would have to come sooner or later.

He directed the committee members to consider this bill and give some thought to additions or deletions.

HB 843 HOUSE BILL NO. 843 (providing for the issuance of general obligation bonds in the amount of \$32,000,000 for capital improvements to the state ferry system) was brought before the committee, and Mr. Ray requested the members consider this bill.

HB 837 HOUSE BILL NO. 837 (appropriating to the school bond redemption fund \$72,121,157) was brought before the committee, and Mr. Ray directed the members to consider this bill also.

HB 828 HOUSE BILL NO. 828 (creating a long-range fisheries research and development program for the state) was brought before the committee, and Mr. Ray said the only comment he wanted to make was that he would like to see the committee study this bill closely in light of the fisheries economy in the state of Alaska -- possibly as a number two resource now that oil has displaced it, but certainly still the backbone of the economic support of the state.

HB 845 HOUSE BILL NO. 845 (providing for the issuance of general obligation bonds in the amount of \$2,700,000, for capital improvements to the state buildings for use by the Department of Public Safety) was brought before the committee. Mr. Ray suggested the committee members consider this bill also. At the present time, he said, the Department of Public Safety is occupying the fourth floor of the State Capitol, and it is going to be necessary to move some of these people to make room for legislative offices and committee rooms. He said there is a thought regarding building a detachment office for the Department of Public Safety in the vicinity of Engineers' Cutoff, probably 11 or 12 miles from Juneau on the Department of Highways property.

HB 841 HOUSE BILL NO. 841 (providing for the issuance of general obligation bonds in the amount of \$21,300,000 for acquiring, constructing and equipping certain elementary and secondary public schools within the state) was brought before the committee for discussion.

These bills, Mr. Ray said, are not all of the priorities, but a sprinkling of all the priorities they want to consider immediately. He said to start putting their minds to work on these bills.

SB 256 SENATE BILL NO. 256 (relating to a community grant-in-aid program for alcoholism) was brought before the committee

for discussion at the request of Mr. Croft.

Mr. Croft referred to Sec. 4 of the proposed committee substitute [Sec. 3 of the original bill], and said that it should be eliminated altogether. In addition to that, he proposed three other changes; which are:

Page 1, line 25: "...ratio of 75 [50] percent state money and 25 [50] percent to community..."

Page 2, starting with line 18: "... action taken on the application, and the issuance of licenses for facilities receiving grants-in-aid under sec. 475 of this chapter. The department...."

Adding a new Sec. 3: "The department shall submit an annual report concerning alcoholism in Alaska and the grant-in-aid program within 10 days after the convening of the legislature in each regular session."

The original Sec. 3, "It is the intent of this Act....." would then be deleted.

Mr. Sackett asked the criteria in licensing, and Mr. Croft said they will use such things as number of people, space available, qualifications of staff, accepted methods of treatment, etc.

Mr. Croft said he would suggest a \$700,000 appropriation for this, and he will prepare an appropriation bill for it. Testimony at the hearings he held indicated there will be eight other communities that will participate in it.

In answer to Mr. Borer's question, Mr. Ray said the facilities referred to in SENATE BILL NO. 256 are not considered health facilities. He asked the committee what their feelings were on reporting this bill out with the changes expressed by Mr. Croft. On vote by the committee, HOUSE COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 256 was reported out with a "do pass" recommendation, the members voting as follows:

DO PASS: Messrs. Ray, Hohman, Croft, Bradner and Sackett.

DO NOT PASS: Messrs. Haugen and Borer.

SB 160

Mr. Hohman moved and asked unanimous consent that SENATE BILL NO. 160 (relating to the adoption of the Multistate Tax Compact) be brought before the committee for discussion. No objection, so ordered.

Mr. Hohman said there are copies of all the backup material in the file folder for all the members.

The purpose of this, he said, is to provide an alternative to federal regulation of taxation of businesses conducting business in two or more states. Big multistate business firms (principally those affiliated with the National Association of Manufacturers and the National Association of Wholesalers) have and currently are bringing much pressure on the United States Congress to regulate the entire multistate tax field.

The alternative to this, he said, is federal legislation.

Mr. Hohman continued saying that Congress has before it several bills which would regulate the entire multistate tax area. The Rodino Bill has passed the U.S. Senate Finance Committee.

Under the two factor apportionment formula (payroll and property) of the Rodino bill rather than the three factor formula (sales, payroll and property) followed by Alaska and the Multistate Compact, Alaska would have received \$6,200 less in corporation taxes than it did in 1968, the latest year for which figures are available.

[See pages 1349-1357 for more details in Vernon L. Snow's letter of April 6, 1970.]

Mr. Hohman said it would cost the state \$1,164 to join the Compact, and they would lose \$200,000 if they don't pass this bill. He moved and asked unanimous consent that SENATE BILL NO. 256 be reported out with a "do pass" recommendation. No objection, so ordered.

Recess: Meeting recessed 9:50 a.m.

7/12

STATE OF ALASKA
THE LEGISLATURE

POUCH Y SIAH CAPHOI
JUNEAU, ALASKA 99801

LEGISLATIVE AFFAIRS AGENCY

April 7, 1970

MEMORANDUM

TO: All Members of the Legislature

SUBJECT: An Act relating to moderate and low income housing.

This bill provides for three separate programs relating to low and moderate income housing.

The first program authorizes the Department of Administration to make available a sum equal to 10 per cent of the annual federal appropriation or, if a federal appropriation is not forthcoming, at least \$1,000,000 to fund the Alaska Native Housing Program each fiscal year.

The second program creates a community housing development fund in the Department of Commerce. The money in the fund is to be used to make non-interest bearing advances to nonprofit and mutual housing sponsors to defray development costs for low and moderate income housing projects constructed with federally insured mortgages or state mortgage loans. The housing sponsor must meet certain standards under the act to be eligible for an advance. Advances are repayable in full to the department. Development costs are those incurred before the first mortgage advance under an eligible mortgage loan and may include: (1) payments for options, deposits or contracts to purchase properties; (2) legal and organizational expenses; (3) fees for preliminary feasibility studies and for the services of architects, engineers, planners, etc.; (4) expenses for tenant surveys and market analyses; (5) and other expenses the commissioner determines to be necessary. The department may also provide housing sponsors with advisory, consultative and educational services to assist in planning, construction, rehabilitation and operation of housing projects.

The third program creates a housing assistance fund in the Department of Commerce. This fund is to be used by the commissioner to make direct payments to mortgagors or mortgagees to assist in paying mortgage interest charges on qualified housing developments, when the direct payments will be applied to decrease carrying charges to low and moderate income occupants of the housing. To be a qualified mortgagor, the person must be a nonprofit or limited dividend mortgagor, or owner entity or individual, buying, building or operating housing under a federal or state low or moderate income housing program.

The housing assistance fund may also be used by the commissioner to provide financial assistance to enable low and moderate income housing developments to be completed. Assistance of this type may include, but is not limited to, a direct loan to a qualified mortgagor, subordinated to the federal mortgage loan, with repayment of principal and interest deferred until the federal loan is paid or discharged.

ALASKA

KEITH H. MALLER, GOVERNOR

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER / POUCH 5 - JUNEAU 99801

April 6, 1970

The Honorable Bill Ray
Chairman, House Finance Committee
Alaska State Legislature
Juneau, Alaska 99801

Re: Senate Bill 160 - Multistate Tax Compact Act

Dear Mr. Ray:

On April 3, 1970 Senate Bill 160 was referred to the House Finance Committee. I am writing to you to urge its immediate consideration and passage. Following is a general description of the Multistate Tax Compact, its purpose, what it hopes to do and reasons why it is to the definite advantage of Alaska to adopt the Compact.

1. The Multistate Tax Compact was first contemplated at a National Association of Tax Administrators (N.A.T.A.) meeting in Chicago in January, 1966 where the idea was unanimously approved.

The purpose of the Compact is to provide an alternative to Federal regulation of taxation of businesses conducting business in two or more states. Big multistate business firms (principally those affiliated with the National Association of Manufacturers and the National Association of Wholesalers) have and currently are bringing much pressure on the United States Congress to regulate the entire multistate tax field.

Congress has had and currently has before it several bills which would regulate the entire multistate tax area. Most notable among these are the Willis Bill (90th Congress) and the Rodino Bill (H.R. 7906 - 91st Congress). These bills strongly favor the large multistate companies at the expense of the states.

The Rodino Bill has passed the U. S. House of Representatives in Congress and is pending before the U. S. Senate Finance Committee. The U. S. Senate Finance Committee also has before it Senate Bill 2804 with the backing of 32 Senators which would provide the Multistate Tax Compact approach in working out multistate tax problems in lieu of the Federal government doing this.

2. The Multistate Tax Compact is made up of 19 full member states and 12 states who are associate members. The full member states are:

Kansas	Nevada	Hawaii
Washington	Oregon	Colorado
Texas	Missouri	Wyoming
New Mexico	Nebraska	Utah
Illinois	Arkansas	Montana
Florida	Idaho	North Dakota
		Michigan

Associate members, including Alaska do not vote but are allowed to participate in a limited degree. It is expected that the associate members who do not adopt the Multistate Tax Compact within a reasonable time will be dropped.

3. The Multistate Tax Commission's headquarters was in Kansas City, Missouri but is now in Denver, Colorado. It operates with an Executive Director and a small staff. The Commission is composed of one representative member from each full member state and meets three times a year. Subcommittees may meet oftener.

4. The Multistate Tax Compact was set up to deal with all types of multi-state taxation. At this time it is most active in the fields of income tax, sales and use tax, and property taxes. Regulations standardizing procedures are being drafted and some have already been distributed to member states. In particular I refer to such items as consolidated income tax returns, standard accounting procedures in the construction industry, and sales and use taxes.

5. The Multistate Tax Commission is the only organization which has testified in Congress against passage of S. 2044 which would greatly restrict the withholding of income taxes from the wages of transportation workers. This area vitally concerns Alaska since we have been accused of causing problems to transportation workers by our action in bringing the case of Alaska v. Petronia, 418 P 2d 755 (Wash. 1966), cert. den. 389 U.S. 7 (1967) in which the state's position was upheld.

6. The Multistate Tax Commission has also arranged with several member states to conduct joint audits of multistate firms to avoid duplication of audits by those states. The Commission has also met with railroad companies to work out standard rules for the assessment of real estate.

7. If the states do not act and Congress passes the Rodino bill, Alaska will suffer in the following ways:

a) Under the two factor apportionment formula (payroll and property) of the Rodino bill rather than the three factor formula (sales, payroll and property) followed by Alaska and the Multistate Compact, Alaska would have received \$6,200 less in corporation taxes than it did in 1968, the latest year for which figures are available. If the Rodino bill were changed to cover all businesses, rather than only those businesses having a net income of less than \$1,000,000 as it presently reads, Alaska would have lost \$167,056 in corporation income taxes in 1968.

b) The Rodino bill would exclude from Alaska state income tax the income of multistate businesses which do not have an office in Alaska but who have salesmen which come into the state or otherwise conduct businesses in Alaska. In

April 6, 1970

1968 Alaska would have lost \$18,581 in corporation income tax under this restriction.

c) The Rodino bill would prohibit Alaska from imposing its gross receipts tax (AS 43.70) on multistate businesses which do not have a business location in Alaska. This would reduce Alaska's business license tax collections. The Multistate Compact contains no such restrictions.

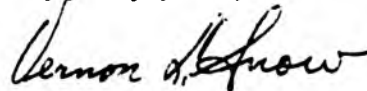
d) The Rodino bill would limit the jurisdictional standards on our state and local governments and jeopardize collection of any Alaska or local government sales and use tax. We could not require an out-of-state retailer to collect the use tax if it has a representative, agent, salesman, canvasser or solicitor in this state. This would give the nonresident business an advantage over local business and make more difficult the collection of a use tax by local governments.

I suppose that what everything boils down to, really, is simply this: there is clearly so much pressure on the United States Congress from big multistate business firms that Federal legislation giving them some relief from state taxation will be passed unless the states offer a proper alternative. In other words the "Federal solution" to the alleged version of complying with the tax laws of many states is to exempt multistate operators from state taxing jurisdiction. Because of the revenue losses which must inevitably follow from this sort of "solution", many of the states believe that the problems of non-uniformity and multiple returns should be worked on (i.e., simplified or made more uniform) through their voluntary, collective efforts through the Multistate Tax Compact. In this way will the legitimate complaints be solved while at the same time preserving the fiscal integrity and political independence of the states in our Federal system.

The Multistate Tax Commission budget is apportioned to members on a basis of 10% in equal shares and 90% on the basis of tax revenue. It was originally estimated that Alaska's share would be about \$1,900 for the current year. However, subsequent information received indicates that it would be approximately \$1,650. Compared to the tax loss that the state can incur, this cost is very low.

It is recommended that Senate Bill 160 be passed. Permission is requested to appear before your committee to answer any questions that it may have.

Very truly yours,



Vernon L. Snow
Deputy Commissioner

VLS/ge

Enclosures: Memorandum from Eugene F. Corrigan, Executive Director
Multistate Tax Commission, dated February 27, 1970
Second Annual Report - Multistate Tax Commission

cc: 6 copies of this letter w/enclosures
John Beard w/enclosures
R. D. Stevenson w/o enclosures

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EUGENE F. CORRIGAN, Executive Director

RECEIVED
MAR 2 1970

DEPARTMENT OF REVENUE
STATE OF ALASKA
JUNEAU

February 27, 1970

**WHY
ALASKA
SHOULD BE A MEMBER
OF THE
MULTISTATE TAX COMMISSION**

One of the major reasons why each state should join the Multistate Tax Commission is that the Multistate Tax Commission provides the only viable alternative to federal invasion of the field of state and local taxation of multistate business. The thrust of such a federal invasion of the field is now a very real one in the form of H.R. 7906, which has passed the House and is soon to be considered in the Senate Finance Committee. Our hope lies in convincing the Senate that the business complaints which gave rise to the Bills in question are no longer justified, that some of the problems have been solved, and that solutions are being developed for the others through cooperative efforts among the states.

The Multistate Tax Commission stands as the only vehicle available for such efforts. We have already received many compliments for having codified a sales and use tax jurisdiction standard...the first time that it has been done.

The Multistate Tax Commission has been pursuing experiments in joint auditing for income tax purposes. Joint audits should eventually prove to be of immense value not only to the states but to business as well. To the states they will offer the benefits of periodic audits of all businesses. To business they will offer the assurance of decreasing interference with business operations by state auditors since one audit will suffice for many, and eventually all, states.

The Multistate Tax Commission is also seeking to foster increasing uniformity in the manner in which all states approach taxation of multistate business. This does not mean uniformity in tax rates. It means optional uniformity in the means by which is determined the tax base to which each state applies its tax rate. We use the word "optional" because the Multistate Tax

Compact provides only that the three-factor formula is available for use with respect to a taxpayer if the taxpayer chooses to use it. This does not preclude the state from using a formula more favorable to taxpayers if the state so chooses.

A major complaint of the business world to Congress has been that the same income of a multistate business is often taxed in two or more states. The Multistate Tax Commission approach offers a guarantee against such results; and it does so without restricting the states' option to choose alternatives so long as those alternatives do not produce such double taxation.

By comparison, H.R. 7906 (to which we have referred in the first paragraph of this memorandum) would answer business' complaints about non-uniformity in a way which would provide no uniformity whatsoever. Rather, it would simply exempt from taxation a large share of the income of certain preferred multistate businesses. It is apparent that this exemption approach is unfair to the states whose markets are being exploited by these multistate businesses free of tax consequences; and that it is equally unfair to in-state businesses with which said multistate businesses compete.

On the other hand, many multistate business complaints have been valid. The Multistate Tax Commission seeks solutions to problems in this field for the benefit of both business and the states. We know that we can be successful if states such as yours will support us.

How much would it cost Alaska to support the Multistate Tax Commission as a regular member? Your state's share of our budget would decrease as membership increased. The following example illustrates how the computation of your state's share would be made under the provisions of Paragraph 4(b) of Article VI of the Multistate Tax Compact:

The Commission's approximate budget for 1970-71 is \$160,000.00. One tenth of the budget is divided equally among all member states. We currently have 19 members. The next member will be the twentieth. One-twentieth of \$16,000.00 (one-tenth of \$160,000.00) would be \$800 for 1970-71. The balance of each state's share is determined by the ratio of that state's revenues from certain types of taxes compared to the revenues of all members of those types of taxes. The taxes in question are the sales, use, income, capital stock and gross receipts taxes. The total of such taxes collected by our current members for the period July 1, 1967 through June 30, 1968, was approximately \$5,567,324,150. According to your Revenue Department's figures Alaska collected \$33,688,684 from the above mentioned taxes for that period, which amount is approximately .6% of \$5,601,012,834 (\$5,567,324,150 plus \$33,688,684). Accordingly, your state's share of the remaining nine-tenths of the budget would be approximately \$864 for 1970-71. .6% of \$144,000 (\$160,000 less 10%) would be \$864.

To summarize:

1970-71

\$	800.00
	864.00
	<u>\$ 1,664.00</u>

The above figures are based upon the assumption that Alaska would be the twentieth state. We emphasize that increased membership decreases the per-state percentage share of expenses. Also, appropriate adjustments will be made with respect to time lapsed in the current budget period for those states becoming members between payment due dates.

The increased budget for 1970-71 (\$144,000 in 1969-70) reflects our expectation of rendering substantially increasing services to the member states. There is no desire on our part to spend money unnecessarily. We are well within our budget for the current year.

Ultimately, of course, the viability of the Multistate Tax Commission will depend upon the willingness of all states to become Regular Members. This will determine the long-range value of the Multistate Tax Commission as an instrument of state government in the field of state and local taxation of multistate businesses.

We are occasionally asked whether the Multistate Tax Commission will not be just another supergovernmental agency with all of the objectionable features which a federal agency would have in this field. The answer is negative. The various tax administrators of the member states operate the Multistate Tax Commission through the Executive Committee elected from among themselves. The Executive Director, who has many years of experience in state revenue administration, is responsible to these state tax administrators. A federal agency would not be responsible to any state tax administrator or group thereof.

The following may help to emphasize the advantages which the Multistate Tax Commission offers to all states as an alternative to the type of federal legislation with which H.R. 7906 threatens them:

- 1) The Multistate Tax Commission cannot and never will tell a state what tax or what rate of tax it may apply to a business. A federal agency ultimately would do so.
- 2) The Multistate Tax Commission is a means of protecting each state's current tax base. The threatened federal legislation would immediately diminish that tax base.
- 3) The Multistate Tax Commission will make it possible for each state to benefit from a larger number of audits at decreased cost. The threatened federal legislation offers no help whatsoever in this field. A federal agency would eliminate the need for any

state tax collection activities at all, which would ultimately result in the elimination of the states as sovereign entities.

- 4) The Multistate Tax Commission will ultimately ensure that each business carries its fair share of the governmental burdens of the states in which it does business. The threatened federal legislation would ensure that many businesses would in fact be exempt from any obligation whatsoever to many states whose markets they exploit.
- 5) The Multistate Tax Commission will protect each multistate business against the multitude of audits to which it is subjected today. This will be true because many states (ultimately, we hope, all states) will participate in one complete audit performed under the auspices of the Multistate Tax Commission.
- 6) The Multistate Tax Commission has available to it the expertise of the tax experts who participate in its activities, including several prominent consultants and the Revenue Administrators of all member states. The threatened federal legislation is the product of mainly non-state-oriented people who have been overly impressed by certain non-state-oriented aspects of multistate tax problems but have paid far too little attention to the state-oriented aspects of those problems and who have ignored the great strides which the states have been making in curing the causes of the original 1961-62 complaints to Congress.
- 7) The Multistate Tax Commission offers business a vehicle by which to communicate its problems to tax administrators as a group and also a vehicle via which those problems can in many cases be solved.
- 8) The Multistate Tax Commission is run by the state tax administrators of its member states operating co-operatively. The threatened federal legislation would jeopardize each state tax administrator's operation of his own revenue department.
- 9) A. The Multistate Tax Commission offers:
 - a) unity of purpose for both the states and business;
 - b) uniformity of approach;
 - c) the distribution of its benefits to its members and to the business world.

B. The threatened federal legislation offers:

a) unity of purpose on behalf of certain favored businesses only, thereby affording those businesses a discriminatory approach which limits the benefits to those particular businesses. This defeats the interests of all other businesses as well as the interests of the states.

b) no uniformity whatsoever; it really offers less uniformity than exists now.

c) virtually no benefits to either the states or the business world as a whole, the exception being the benefits which it confers on the certain favored multistate businesses.

-----The Multistate Tax Commission needs the support of Alaska as a member. We hope that this memorandum has served to convince you of the importance of your state becoming a regular member.

EUGENE F. CORRIGAN
EXECUTIVE DIRECTOR



HOUSE FINANCE COMMITTEE
Thursday, April 16, 1970
9:00 a.m.

Present: All members with the exception of Messrs. Croft and Bradner. Also present were Mr. Ormond O. Robbins, City Manager of Kenai, Mr. Raymond Burke, Finance Officer for Kenai, Mr. Tom O'Donnell of Administration, Retirement, Mr. Paul Fisher, Federal Projects Director for the Kenai Borough, and a woman from the Alaska State Employees Association.

City of Kenai
General: Chairman Ray called the meeting to order at 9:00. He explained to the committee that the city manager and finance officer for Kenai were present to explain a problem they are having to the committee. Mr. Borer passed out materials that they had prepared [see copy in Department of Revenue file], which he felt spoke for itself.

The finance officer spoke briefly, explaining that what has happened is that firms which have been conducting business in Kenai but were not based in Kenai have not been paying gross business license taxes to Kenai but rather to their home cities. This has resulted in a considerable loss to the city of Kenai. Kenai presently is suffering financial difficulty, such a great amount of money that should have been theirs having been paid to Anchorage, in particular. They were present to request that the legislature appropriate \$50,000 to the City of Kenai to make up for the money that had gone to Anchorage.

Mr. Tillion came in at this time.

The feeling expressed by the committee was that this would not be a realistic way of dealing with this problem, and it was discussed that a better way would be for the Department of Revenue to go through the records and reallocate to correct this mistake. It did not seem to be the state's responsibility to pay money to one city because another city had gotten the first city's money. Mr. Robbins said that a problem is that Anchorage is counting on their money for this year, however, and also that the Department of Revenue does not really have the staff to go through the records, and the City of Kenai has neither the staff nor the "wherewithall" to do so either. Mr. Tillion said that one situation being dealt with is who is responsible for enforcing a state law. The small towns are just too small to be able to protect themselves. Mr. Ray suggested that a resolution be drawn up requesting the Department of Revenue to go through the records and determine the amount that should have gone to Kenai; he felt this would be the fastest way for Kenai to receive their money. The finance committee agreed to sponsor this resolution, and Mr. Tillion will have it written up.

Mr. Bradner came in.

HB 745

Mr. Paul Fisher, Federal Project Director for the Kenai Borough School System appeared before the committee. He said that he was here to urge the committee to get HB 745

(Appropriation - Department of Education for Kenai Peninsula Borough School District environmental education program) out of committee. He said that the purpose of this is to give year round laboratory approach to environmental education. He said that Kenai had been awarded a grant under Title 3 of elementary secondary education grant of \$100,000. He said that this is fine for the Kenai School District, but he said that he had asked several other districts if they would be interested, and received positive response from a number of them; therefore they have worked up a budget to include these other districts of \$178,000. The Title 3 allotment to Alaska is very small because it is based on per capita and the state funds have already been committed; therefore, the only way to handle/^{this} is by direct appropriation. He said that this just a one-year appropriation. Next year Title 3 will have enough to cover the total cost and by the fourth year when the federal government pulls out, the local governments will pick up the expenses.

There were no questions of Mr. Fisher.

Mr. Ray moved and asked unanimous consent that HOUSE BILL NO. 615 (Appropriation to Natural Resources, construction of access roads) be brought up for discussion by the committee, at the request of the Rules Chairman. Mr. Croft objected, and on vote by the committee the bill was brought up for discussion. Mr. Ray said that the bill is for \$1,000,000, and he moved that the bill be amended to \$100,000. Mr. Croft voiced considerable objection

HB 615

over this bill being brought out of committee when it could be funded in the budget, and when HB 506, which is the appropriation for the Village Safe Water Act, and which is sponsored by three members of the finance committee, cannot get out of committee, because Mr. Ray said it can be funded in the budget. He felt that the committee system was not being used in the way that he understood it was intended to be used. Mr. Ray requested that Mr. Croft's objections be put in the minutes. Mr. Ray moved and asked unanimous consent that HB 615 be passed out of committee with a "do pass" recommendation. Mr. Croft objected and on vote the bill was passed out with the following recommendations:

DO PASS: Messrs. Borer, Ray, Bradner, Haugen
DO NOT PASS: Mr. Croft
NO REC.: Messrs. Sackett and Hohman

Miss Hackwood arrived at this time.

HB 506: Mr. Croft moved and asked unanimous consent that HOUSE BILL NO. 506 (Appropriation - Village Safe Water Act) be brought up for consideration. Mr. Ray objected, and on vote the motion failed, with Messrs. Croft and Sackett and Hohman voting yes.

SB 463 (Public Employees Retirement) SENATE BILL NO. 463/was brought up again for discussion by the committee. The committee had before them at this time copies of the finance committee substitute draft of SB 463, and discussed possible changes.

Mr. Dean said that the first change that needs to be made is page 2, Section 4, since the committee had decided to do away with the special provisions for policemen and

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