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SENATE FINANCE COMMITTEE
Thursday, January 21, 1971
8:30 a.m.

PRESENT: All members of the Senate Finance Committee were present.

Chairman Butrovich named Senator Lewis as Vice Chairman of the committee. Senator Ray and Hensley objected with Senator Ray noting that with the 10-10 split the Democrats felt that a Democrat should be named as Vice-Chairman.

PROCEDURES: Bill assignment procedures were discussed. Chairman Butrovich said that he and Senator Ray will handle the administration bills; that Senator Lewis will handle the bills that come to the Finance Committee from the Labor and Management Committee; that Senator Palmer will handle the bills from Resources Committee; that Senator Koslosky will handle the bills from State Affairs Committee and that Senator Hensley will handle the bills from Health Welfare and Education Committee. Chairman Butrovich said that he and Senators Lewis and Ray will handle the overflow.

Senator Ray requested an explanation of the ground rules for bringing a bill before the committee. Chairman Butrovich stated that the committee will be run by majority rule. Any member can propose that a bill be brought up and four of the seven members are sufficient to bring the bill up for discussion.

After a general discussion of staff and facilities, Chairman Butrovich announced that the committee will meet with O. K. Gilbreth of the Department of Natural Resources for oil and gas revenue projections at 1:00 p.m.; with Bob Stevenson of the Department of Revenue at 8:30 a.m. Monday and with Blythe and Co. at 8:30 a.m. Wednesday.

RECESS: The Senate Finance Committee recessed at 9:00 a.m.

After Recess
1:00 p.m.

Present: All members were present. Also present were Dale Wallington, Deputy Commissioner of Natural Resources and O.K. Gilbreth, Chief Petroleum Engineer for the Department of Natural Resources, along with members of the Press.

Revenue Projections Oil & Gas

Chairman Butrovich called the meeting back to order. Mr. Wallington introduced Mr. Gilbreth who was present to explain the revenue projections for oil and gas to the committee. Mr. Gilbreth distributed additional information to the committees (copies in department file). He stated that in preparing the estimates for tax and royalty incomes it is necessary to estimate production of wells for the next few years. Present tax is based on the daily average per well, but with some 250 wells in the state, this becomes quite a chore. They are attempting to calculate the 1970 taxes each month under the new law and to use projections under the old law to work out trends. He explained that the graph used in estimating the tax income is inaccurate for individual wells, but is valid for a 10 month average production and was used in preparing estimates for the next five years.

Mr. Gilbreth mentioned that there is a 25% variance from month to month in oil production and so there is a corresponding variance in the taxes and royalty.

From an engineer's point of view, Mr. Gilbreth said, projections within 20% are fairly accurate and he stated that projections in the past have been well within that percentage. The projections reflected in the revenue sources document were prepared a couple months ago, and do not reflect the per barrel

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increase of 25¢ which came into effect as of January 1. This is a 15% to 17% increase not reflected in the booklet. This 25¢/increase is partially offset by a decrease due to a 3 platform shut down by Shell, making a 22 1/2¢ increase.

Senator Palmer asked if any speculation can be done about the Cook Inlet area, i.e. should the court make a decision for the state versus federal control of the land, could developments then take place which would influence the projections for the near future. Mr. Gilbreth replied that he doubts it, because even should the case be settled this year, it will be a year before the land is put up for lease, and then once the operator has the lease, it will take another 18 months to three years to be ready for production.

In response to questioning by Chairman Butrovich, Mr. Gilbreth stated that changes in the projections will be reported, as weekly surveillance is maintained.

Mr. Gilbreth said that the production tax rates depend on daily average production. The effective tax rate is around 4.6%. A decline to 4% in 1972-74 is predicted; then when the North Slope production begins, around a 7% tax rate is expected for that area, averaging out to 5.8% for the state. Royalties are strictly on the basis of crude oil estimates. The current price being received for the oil has been used in preparing estimates.

The state and the oil companies are now engaged in a controversy over the value of the oil, with the state's position being that everyone should pay the highest price posted. The matter is in the courts now and will be settled at the end of the year.

It is expected that $4.2 million will be collected by the state should the case be won. If it is not won, the state will break even, not losing anything. This will be a precedent-setting case and will point the way in determining the value of oil on the North Slope. It is possible that the litigation could continue another year or so.

Mr. Gilbreth said that he does not anticipate any major changes in the gas income. He said that the estimates have included any income for gas sales from the North Slope. There are 800 to 900 cubic feet of gas per barrel of oil. The State Conservation Action Committee has ordered that there be no flaring on the Slope. To his knowledge, Mr. Gilbreth continued, there are now plans to put in injection equipment to reinject part of this gas until there is a gasline coming to the field. This will result in a low rate of table production until they can have a full stream. Based on the cost figures it would appear that the gas will have no wellhead value.

In response to questioning Mr. Gilbreth said that Canada has said that only one oil line and one gasline can be built through Canada. To his knowledge there are no firm plans for an oil line through Canada. Sen. Ray questioned Mr. Gilbreth further about the cubic footage of gas per barrel of oil. Mr. Gilbreth said that there is almost one MCF per barrel of oil, and an MCF of oil brings 16¢, thus making each barrel of oil contain around 12¢ worth of gas. The exact amount, of course, varies from pool to pool.

Sen. Rettig asked for the formula for figuring the royalty, beginning with the wellhead price.

Mr. Gilbreth gave the example assuming the price per barrel is $3.00 , then an eighth of that (which is the amount of royalty) is 37 1/2¢, leaving a net per barrel of $2.62. Sen. Rettig then asked about the cost of transportation, and Mr. Gilbreth said that this is a matter now in contention. Assuming a California price per barrel of oil being $3.65, 65¢ then being deducted for/transportation tanker to the tanker terminal, then 20¢ being deducted for transportation by common carrier to the on-shore storage, the figure $2.80 would then be the wellhead price in the state's opinion. The operators, on the other hand, contend that the 5¢ to 35¢ per barrel for transportation from the transport platform to the on-shore terminal should be deducted to find the wellhead price, and they are paying on this basis.

In response to questioning about the figuring of the production tax, Mr. Gilbreth explained that the tax is based on production rather than sale. Daily production for a 30 day period is averaged, to find the per day average, and the first 300 barrels are taxed at 3%, the next 1500 at 6%, the next 2500 at 8%; and so the formula would be figured for the first 300, assuming a $2.20 per barrel cost, as $2.20 x 300 x 3% x 7/8.

Senator Butrovich referred to the discussion on the increased value per barrel of oil (25¢ - 22 1/2¢ after the decrease due to the Shell fire) and asked if this is reflected in the revenue sources book, to which Mr. Gilbreth replied no, and Senator Butrovich asked if then as far as royalties are concerned they can be assured of a 10% increase and Mr. Gilbreth said yes, except for this year.

In response to questioning by Senators Koslosky and Rettig, Mr. Gilbreth said that prices for Alaska oil are competitive with the rest of the country, though specific costs are dependent on the quality of the oil. Senator Ray asked about this, and Mr. Gilbreth said that for each point drop in gravity, the price of oil drops 5¢ per barrel. In response to specific questioning on the Prudhoe Bay oil, Mr. Gilbreth said that the gravity is 26 or 27, which is not top quality oil.

Senator Koslosky expressed concern about the possibility of Alaska oil being priced out of the market due to high transportation costs from Prudhoe Bay to Valdez to the refinery. Mr. Gilbreth said that he feels this is a definite possibility. He mentioned that at least two major companies have already left Alaska, those being Shell and Tenneco. However, he said that he is unsure at what point this becomes a danger. Senator Palmer asked if they had been successful in the North Slope bid, and Mr. Gilbreth said that neither of those two companies had bid. Senator Rettig asked if the transportation cost of Prudhoe Bay oil will lessen with increased volume of production, and Mr. Gilbreth said yes, that if the line reaches capacity, then by virtue of the way the rates are set the rates should come down. At some point the rates should be lower than at the start. In response to further questioning by Sen. Rettig, Mr. Gilbreth said that he has contacted at least two major producers on the Slope and they feel there will be no problem selling the oil. Senator Palmer referred to the Levy report and the assumption made there that if there was insufficient market for the Alaska oil on the west coast, the cost of transporting this oil to the midwest would be offset by the higher prices paid there, and asked if Mr. Gilbreth agreed, which he did.

Referring to the production rate estimates for later years, Mr. Gilbreth made it clear that these are really "ball park" figures, Alaska production rates being as volatile as they are.

Senator Hensley asked if there is an estimate of production discounting Prudhoe Bay, and Mr. Gilbreth said to subtract $46 million out and for the last year of the projections to subtract $56 million.

Adj. Chairman Butrovich adjourned the meeting at 2:00.

SENATE FINANCE COMMITTEE
Friday, January 22, 1970
8:30 a.m.

Present: All members were present. Also present were Senator Merdes and Mr. LaRocca, member of the press.

Chairman Butrovich called the meeting to order. The committee discussed last year's HB 576 (Relating to the Alaska Pioneers Homes) which was not passed into statute, although the

SB 70 appropriation for the bill was passed. The committee elected to introduce the same bill this year with an immediate effective date so that the last five months' worth of the $25,000 appropriated can be used and so that the intent of the last legislature in this matter will be fulfilled. All members concurred.

Senator Butrovich expressed his feeling that members of the committee should vote on the floor the same way they recorded their votes on the committee reports, and requested the concurrence of the committee. All members agreed, with the understanding that if between the time a bill was reported out of committee and reached the floor something should come up changing a committee member's feeling about the legislation the matter would be brought to the attention of the Chairman before discussion on the floor.

B 6 Senator Ray moved and asked unanimous consent that SENATE BILL 6 (Relating to the introduction of bills) be brought up for discussion. No objection, so ordered. Sen. Ray explained that SB 6 is a qualifying amendment to the existing statute in which the language was somewhat unclear. Senator Butrovich asked if Legislative Audit has been introducing bills and Senator Ray said yes, but as the statute now reads there could be a cloud over any legislation put up by Legislative Audit. Senator Butrovich asked why the words "executive director" which had been in the statute were being deleted in SB 6, and after some discussion it was explained that this is a "clean up" action because this is taken care of elsewhere in the statutes. Sen. Ray moved and asked unanimous consent that SB 6 be reported out of committee with a "do pass" recommendation. No objection, so ordered.

SB 7 Sen. Ray moved and asked unanimous consent that SENATE BILL 7 (Relating to appropriations for capital improvement projects) be brought up for discussion. No objection, so ordered. Senator Ray said that while serving on the Finance Committee in the House it became apparent that monies left from bond proposals are often lying around and not doing anything, never having been encumbered. In several instances amounts of money as high as $700,000 or $800,000 have been found lying dormant. What this piece of legislation does is puts a time limit on encumbering the money for projects, one year for projects under $500,000, two years for projects $500,000 to $2,500,000, and three years for projects $2,500,000 and over. After considerable discussion, it was pointed out that this also prevents transfer of project monies by executive order several years after legislative authorization of the original project. Senator Rettig expressed the feeling that a better way of dealing with the situation would be a provision that unlapsed funds would be subject to review by the Finance Committees each year. Senator Ray disagreed, however, feeling that SB 7 gives protection against legislative oversight. He mentioned also the provision in the bill for an extension of the time allowed to encumber the funds by amendment by the legislature.

Senator Rettig expressed an interest in talking with the Dept. of Highways and Dept. of Public Works before taking further action on the bill, and the suggestion was made of talking also with the Attorney General; and so the committee returned the bill to the files, to be considered after further research.

Adj. There being no further business, the Chairman adjourned the meeting at 9:30.

SENATE FINANCE COMMITTEE
Monday, January 25, 1970
8:30 a.m.

Present: All members were present with the exception of Senators Rettig and Hensley.

General: Chairman Butrovich called the meeting to order, and assigned the budget subcommittees, a list of which can be found at the front of the Minutes book.

SB 7 Sen. Ray briefly discussed the purposes of SENATE BILL 7 (Relating to appropriations for capital improvements projects). This led into a discussion on the purposes and functions of Legislative Audit, with Senator Lewis expressing the feeling that the Audit is for the benefit of the Legislature and so he objected to the Governor being the first to receive the Audit report.

After further discussion, Senator Butrovich recessed the meeting until 1:00.

After Recess
1:00 p.m.

Present: All members of the Senate Finance Committee with the exception of Senator Hensley. Also present were Messrs. Stevenson, Wall and Kimlinger of the Department of Revenue and Mr. Joe LaRocca, member of the press.

General Revenue Sources

Chairman Butrovich called the meeting to order. He requested the witnesses to identify themselves before speaking. Mr. Stevenson indicated that Commissioner Wohlforth was preparing for another meeting and could not be present but would appear before the committee, Wednesday, January 27th. Mr. Stevenson distributed data pertinent to revenue sources and taxes and licenses. He explained that estimates for the Cumulative Summary of Revenue collected 7/1/69 through 6/30/70 were made around October or November 1969. At that time with respect to interest on bank deposits, it was assumed $200,000,000 would be placed in Alaska banks but that $100,000,000 was finally deposited, and that was deposited later than had been expected. The remainder was retained by the Bank of America.

Senator Rettig asked if the amount included amortization of discount investments. Mr. Stevenson answered that this amount is only on a cash basis. He said that there are separate figures for accruals, and so in response to Senator Rettig's question the amount is actually more than is indicated. Senator Ray asked about the percentage of error and Mr. Stevenson said over the last five years the percentage of estimates has been around 112%.

Mr. Stevenson explained that the second sheet of data distributed showed the first six months' of their fiscal year. Sen. Rettig asked if it was possible to obtain a similar analysis for the same period last year, and Mr. Stevenson agreed to furnish him with one. Senator Rettig also wanted to know what percentage of collections were realized the first half of last year and Senator Ray answered him approximately 40%. Mr. Stevenson noted that the first six months' estimates have been readjusted and he will send copies to all members of the committee.

The third sheet of data showed the 1970 gross tax revenues (calendar year) by month. Mr. Stevenson pointed out that this sheet included all taxes--heavy and light months. He stated that sometimes during legislature the tax is put on a fiscal year basis, ending up with two rates of tax, as most taxes are on a calendar year basis.

Senator Palmer questioned the Business License Tax total of $5,071,883.38 wondering if this was net. Mr. Stevenson answered that it was not--it was gross tax collections.

Senator Rettig asked the question--in allocating the refunds to the communities and boroughs do you deduct first the cost of collection? Mr. Stevenson answered yes.

Senator Ray noted that some of the taxes are ear-marked and the money can't be used--like the disaster severance tax, commercial, fishing licenses, etc. The fourth sheet of data--Gross Tax Revenue Collections by Calendar Years--

was discussed. Mr. Stevenson pointed out that an item like raw fish tax can't create a constant growth pattern because it takes dips.

Page five ranked state and local taxes per $1,000 of personal income in the United States. Mr. Stevenson noted that Alaska's per capita income is fourth highest in the country, but rates low on the list as far as state and local taxes.

Page six ranked state and local taxes per $1,000 of personal income in the Western states, Hawaii and Alaska.

Page seven--Alcoholic Beverages shipped into Alaska--Alaska's Fiscal Year Ended June 30, 1970. Mr. Stevenson noted that returns for the month of December would be in this month and a final audit would be prepared. There was discussion as to tax amounts lost by not taxing military and Senator Ray pointed out that when spirits don't go through the wholesaler they don't have a federal tax stamp. He also stated that considerable amounts of spirits come through the state and never see a distributor. Mr. Stevenson answered that this was primarily large quantities of beer. Senator Palmer wanted to know the justification for the alcohol not being taxed and Senator Ray then stated that there was some agreement between state and military regarding military help on searches, rescues, etc., and the feeling has been expressed that should the military liquor be taxed, this cooperation might cease. Senator Koslosky stated that if we started taxing the military they would ship everything in by transport and not use Alaska distributors at all to which Senator Ray replied that this has not happened in other states that charge the military, and felt that this is an idle threat. Senator Palmer asked what historical justification there is for the military not being taxed, and Mr. Stevenson said that at the time it started, the wage scale for the services was low and he felt that probably this was just considered an additional privilege to help make up for being so underpaid.

It was noted on page eight of the data that Alaska ranked fourth on hard liquor gallonage consumption for 1969 and Senator Ray remarked that it might be because we have so many construction people, military people and people without families. Page nine was noted to be self-explanatory. Senator Rettig inquired as to the effect of the lowered drinking age and Mr. Stevenson replied they have no statistics yet.

Pages 10 and 10A regarding state cigarette tax rates and taxation of tobacco products and discounts allowed wholesalers for collection or affixing indicia as of November 30, 1970, was discussed. Mr. Stevenson was questioned about the cigarette tax rates in other states as compared with Alaska, and he said that 34 states have a higher rate, six have a lower rate, and 10 are the same. He added that 22 states have a tax on tobacco products, and that the District of Columbia and the other 28 states, including Alaska, do not have. Mr. Stevenson went on to say that they are doing a study on the military, and in the last year have been able to get monthly reports from major distributors and manufacturers showing direct shipments to the military. They are attempting to see if there is a disproportionate percentage of military purchase of cigarettes per person as compared with the general population to find if there is a substantial sale of cigarettes by the military to non-military personnel. Chairman Butrovich expressed the feeling that this happens only negligibly.

Page eleven and twelve of the data regarding state motor fuel tax rates--January 2, 1970 (¢ per gallon) and Motor Fuel Tax Refund Rates (as of July 30, 1968) were discussed. The study on motor fuel tax rates indicates that Alaska is on a par with the rest of the country. Mr. Stevenson noted that we haven't had any changes in our motor fuel tax rates since July 1968. Senator Ray stated that he felt there was a definite problem in this area in marine inboard and outboard motors. He stated that there are incidences where the stove amount of fuel oil claimed is higher than the running time of the diesel. Senator Palmer noted that in some parts of the state people are limited to the number of hours and days they are permitted to fish and these people live on their boats the whole season which accounts for their high usage of fuel other than for the engines. He gave an example of a couple using 130 gallons of fuel oil and only 100 gallons for their engine. It was, however, a gasoline rather than diesel engine which proves they could not be trying to gyp the state.

Senator Ray stated that he definitely felt there is a problem and that something should be done about it.

Page thirteen was noted to be self-explanatory.

Pages fourteen, fifteen and sixteen regarding commercial receipts, sport fish and game receipts (fiscal year January 1 - December 31, 1970, were discussed. Mr. Stevenson noted that there would be trouble with income tax due to a law being passed whereby a commercial fisherman who owns a boat will not subject his crew to withholding tax. He pointed out that boat owners who used to withhold will no longer do so and there will be a problem of enforcement coming up with non-resident fishermen. Senator Palmer wondered if it might be possible to request tax information from the prior year before selling them a current license, or, before issuing a commercial fishing license asking if the boat owner would file an income tax return on what he made last year. Mr. Kimlinger pointed out that the Attorney General ruled the state could not deny selling the license. Senator Palmer said he realized this was true under the existing law but wondered if legislation on this could be passed and Mr. Kimlinger said this, too, was ruled against. Chairman Butrovich asked if there was any buildup over the years showing what non-residents are costing the state. Mr. Stevenson answered that his department is accumulating fish slips and is planning to take ten cases to court but they are outside the state now. Mr. Kimlinger stated that they are only taking cases where the gross receipts are 30 to 50 thousand. Chairman Butrovich stated that he had always had the feeling that a large amount of money was being lost due to this situation. Senator Ray requested that the committee members note the number of drift gill net licenses are the largest number sold. He also stated that 50% of the troll line licenses are really sport commercial which means they have commercial licenses but fish with sport gear. He felt that this is a prime conservation problem. Senator Rettig asked if the increase in the cost of the sport fish licenses would go to the sport fish fund and Mr. Kimlinger replied yes. Senator Koslosky stated that the business of selling licenses for the state can become expensive to private business owners who sell licenses for the state in that they have to hire additional help but he feels the state would lose money if they even set up offices for the sole purpose of selling licenses. Chairman Butrovich pointed out that a private business selling licenses should realize the advantage of getting customers into the business establishments. Senator Ray pointed out to Chairman Butrovich and Senator Palmer that he felt $41,000 should be all that is used from the general fund in the future in the fish and game budget. Chairman Butrovich requested a breakdown of subsistence licenses and Mr. Kimlinger said the total was 5,359 and that the fee should be raised to $1.00 to get matching funds. Page seventeen regarding bank deposits of state funds was discussed. (Senator Merdes arrived.)

Mr. Stevenson began explanation of page eighteen regarding relative ranking of net revenue sources collected by the Department of Revenue for the fiscal year 7/1/69 to 6/30/70, beginning with individual income tax, which is the biggest source of revenue. Senator Ray and Chairman Butrovich asked to be excused as they had to attend another meeting and Chairman Butrovich turned the chairmanship of the meeting over to Senator Lewis.

There was a lengthy discussion on the effect the construction of the pipeline will have on income tax in the state. Senator Rettig asked about the increase due to the pipeline, and Mr. Stevenson said that the first increase due to the pipeline will be in 1971-72, the largest increase will be in 1972-73, going back down again in 1973-74, with a very small carryover in 1974-75. Mr. Stevenson said that a total of 10,000 employees over the five years is expected. Senator Rettig brought up the fact that such an influx of people will also mean necessary increases in services, housing, schooling, etc., and that this could mean a potential disaster. Senator Koslosky expressed concern about what those hired to work on the pipeline will do when the work ends, and felt this could cause considerable problems as far as their finding work.

Senator Lewis recessed the meeting at 2:50 p.m. to a call of the Chair.

SENATE FINANCE COMMITTEE
Wednesday, Jan. 27, 1971
8:30 a.m.

[Complete transcript available from staff]

Present: All members of the Senate Finance Committee with the exception of Senator Butrovich and Senator Ray who was present briefly at the opening of the meeting. In the absence of Senator Butrovich Vice-Chairman Lewis chaired the meeting. Also present were Commissioner Wohlforth of Revenue; Mr. Howard Law, Senior Investment Officer; Mr. Mike Wade, Investment Officer; Mr. Bill Robinson, Investment Officer of the Department of Revenue; Mr. Leland Prussia, Vice-President and Mr. Skip Shaw of the Bank of America; Mr. Terrance E. Comerford, Vice-President and Mr. Frank Sariano of Blyth and Company; Mr. John Daugherty, Director of Treasury; and Mr. Joe LaRocca, member of the press.

General: Vice-Chairman Lewis called the meeting to order.

Mr. John Daugherty, Director of Treasury, distributed the revenue projections which were part of the five year review of funds submitted to the legislature two weeks ago and revised monthly breadkown of cash flow keyed against maturing investments now in the general fund to indicate the draw down of the fund based on assumptions in the five year revenue source book. It includes not only fund monies from the North Slope lease proceeds, but other minor investments in the general fund in the amount of $300,000 of the Alaska State Development Corp. bonds, in addition to bond construction funds. Mr. Daugherty gave an overview of the materials he had passed out.

He stated that there are the same miscellaneous investments the state has had for years in the general fund and the public school permanent fund with slight increases each year. A little "mileage" has been gained from construction funds which usually are not intended to earn money for the general fund, after sale and before they were spent. The oil slope investment fund is always on a declining fund balance invested with the Bank of America.

Commissioner Wohlforth informed the committee that expenditures were supplied by the Department of Administration, a generalized average of the increase over the past five years.

Mr. Daugherty went on to speak on certificates of deposit. He said that the information in the pamphlet was self-explanatory. Certificates are from surplus funds from general cash revenue.

Sen. Rettig asked about the last page of the first schedule and how the figure $13,871,500 was arrived at. Mr. Daugherty referred the question to Mr. Soriano, who passed out revised cash flow figures. These were prepared prior to the submission of the supplementals so that they don't include the effect of that. Thus the overall figures are somewhat worse than what would be shown now.

Mr. Sariano stated that the procedures used in the estimates made at the early part of this month was to take the monthly figures for the past fiscal years, 68-69 and 69-70, to determine what the monthly draw down was in each month and draw a composite average of the two years applying this average to the total revenues and expenditures that were supplied by the Department of Administration for the next five fiscal years. This gives a breakdown on a monthly basis of what the cash flow would be over a five year period. Then these were keyed into the portfolio investments to see if they would have to do selling or reinvesting. They had two goals: 1) to find the effect on interest earnings and provide the backup for the figures which had been supplied to John Daugherty, and 2) to provide the Dept. of Revenue with a guideline as to how investments might be repositioned and to provide Blyth and Co. with information needed to reposition investments as they came due. Some of the assumptions they used were to reinvest at the rate of 5%. The present rate is around 4 1/4%; bill rate a year ago was 8 1/4%, so 5% is probably a figure that can be lived with over a five year period. They reinvested at 5% any tax balances noted at the end of each month. Any sales which they felt they had to make in order to keep from shortages each month were done at approximately the 5% rate. If the coupons were above, they just assumed that they were sold at par, the effect being that of balancing out. Also in conjunction with this, they determined what effect the draw down would have on fund balances at the end of each fiscal year.

Table II shows the fund balance declines each year, he continued, and said that the $13 million figure Sen. Rettig was asking about is deficit. The state would be over expended by $13 million by the end of 76. Figures in the projection do not include the $100 million in certificates of deposit with Alaska banks. The investments included are all investments by Bank of America plus the $6 million Anchorage Borough bonds. With the $100 million added, you would have a plus figure of around $87 million at the end of fiscal year 76.

Mr. Sariano said that they took the figures supplied by the Dept. of Administration which shows the average increase at approximately 15% as basis for the draw down. It was 50% last year, 20% and 25% before that, so the average is roughly 30% a year for the past 5 years.

Mr. Comerford, Vice-President of Blyth and Co. said that he felt that this is one of the problems rating services have when they are looking at the budgetary experience of any municipality. Alaska is not unique in forecasting a decline. What is unique is that Alaska had the $900 million to begin with. The projection of income and expenses has a number of unknowns like the commencement of the pipeline and the flow of oil from it. He emphasized that they are only able to estimate. He said that he would like to bring to the attention of the committee that $900 million is not going to remain intact if expenditures exceed income to the magnitude forecast. The level of government services provided will effect the rating services. He does