

HOUSE / SENATE FINANCE COMMITTEE MINUTES - 1967-1982 2536

could see what the various items are. They would be asking for that in any case.

- HCR 20 Dr. Starcher went on to HOUSE CONCURRENT RESOLUTION 20 (Relating to personnel retirement policies of the University of Alaska). He said this resolution simply suggests that it would be wise for the Board of Regents to consider a policy of retirement from administrative responsibility at age 65 and from teaching at age 70. This is a standard that is in practice everywhere else.
- HCR 21 Dr. Starcher moved on to HOUSE CONCURRENT RESOLUTION 21 (Relating to the establishment of a graduate school at the University of Alaska). He said there was a great deal of interest in graduate work on the part of the faculty. The question is whether it should go on organized as it is with a great deal of flexibility or whether it should be formalized with a team of persons. The resolution provides that the Board of Regents establish a graduate college with a graduate studies committee at Anchorage and Fairbanks, and that a statewide committee on graduate study be appointed to plan and coordinate development of graduate work on each campus to avoid duplication and expensive proliferation of programs beyond the needs of the state or the ability of the state to support.
- HCR 22 Dr. Starcher stated that HOUSE CONCURRENT RESOLUTION 22 (Relating to the research institutes of the University of Alaska) provided for more research in teaching. He explained that there are people who would like to be on the teaching faculty who haven't been invited. This resolution directs attention to that situation.
- HCR 23 Dr. Starcher went on to HOUSE CONCURRENT RESOLUTION 23 (Relating to the community colleges and the University of Alaska campuses in Anchorage and Fairbanks. Dr. Starcher suggested that this resolution be withdrawn since it really didn't say anything, since the U. of A. is statewide and the community colleges are already part of the total university.
- HCR 24 Dr. Starcher went on to HOUSE CONCURRENT RESOLUTION 24 (Relating to the location of the central office of the University of Alaska). Dr. Starcher said they had already talked about the idea of the statewide administration being on the Fairbanks campus. This resolution requests that the office of the Board of Regents of the university and the offices of the statewide administrative officers of the university be moved off the Fairbanks campus and established in a location that is not on a university or community college campus. It further requests that the office be moved and established at a location in downtown Fairbanks by July 1, 1972.

HCR 25

Dr. Starcher went on to the final resolution in the package, HOUSE CONCURRENT RESOLUTION 25 (Relating to a study of vocational education in Alaska). Dr. Starcher felt this to be an important resolution. This would involve the appointment of a special statewide committee to study the program and administration of vocational education in Alaska, including a review of studies that have been made by various groups in the past, what is now being done and what needs to be done, with recommendations for the future of administration of vocational education in this state.

ADJOURN Meeting adjourned at 6:15 p.m.

HOUSE FINANCE COMMITTEE

March 8, 1972

10:05 a.m.

Present: All members present.

HB 510 The committee considered HOUSE BILL NO. 510 (supplemental appropriation to the State-Operated School System). The committee considered the information that had been presented on this bill (see bill file). Mr. Wright said he would like to know the administrative costs for SOS and requested that this bill be held until testimony from SOS was received (this would be discussed during budget hearings on SOS). There was no objection and the bill was returned to file.

HB 503 The committee considered HOUSE BILL NO. 503 (supplemental appropriation to the Department of Law). Mr. Hohman read a letter from Mr. Gorsuch, Dept. of Law, which had been furnished at the request of the committee.

The committee requested that Mr. Gorsuch be asked to provide a breakdown on the expended \$45,611 for FY 71-72 for Cook Inlet and the unexpended \$4,389 (the amount left from the Authorized \$50,000).

The bill was returned to file.

HB 515 The committee briefly considered HOUSE BILL NO. 515 (an act appropriating for extraordinary expenses incurred by the state as a result of the airplane crash of September 4, 1971). No action was taken and the bill was returned to file.

Recess: The committee recessed at 10:25 a.m.

HOUSE FINANCE COMMITTEE

March 14, 1972

10:45 a.m.

Present: All members.

SB 168 Senate Bill No. 168 (an act relating to the oil and gas production tax) was considered by the committee.

Mr. Fink had two drafts for proposed committee substitute for Senate Bill No. 168 and a memo prepared and distributed to the committee members.

Mr. Fink went over the memo in detail (see bill file). He said this bill is an attempt to satisfy all areas of the state although it would not satisfy the North Star Borough.

Mr. Ditman asked if this would cover tank farms and Mr. Fink said no. This was briefly discussed.

The committee discussed ad valorem taxes. Mr. Fink said if they are going to allow a substantial ad valorem tax then they would have to lower the severance tax.

Mr. Ditman questioned page 2 of draft #2 which said "The governor shall review and evaluate all requests for reimbursement and include his recommendations in the annual budget for state government expenditures". Discussion followed.

Mr. Fink requested that the members study the proposed drafts and the bill was returned to file.

Recess: The committee then went into a discussion on the proposed location for Health and Social Services (see budget minutes).

AFTER RECESS

7:35 p.m.

Present: All members except Mr. Wright. Mr. Walter Levy and Mr. Milton Lipton, oil consultants, were also present.

OIL
HEARING

Chairman Hohman called the meeting back to order.

Mr. Warwick explained to the consultants that basically the Committee was concerned with the potential problem that might develop upon construction of the pipeline. He stated that the pipeline would be running through organized and unorganized boroughs, and the boroughs could put a property tax on it from 10 to 20 mills. He said that would be a considerable amount of money. Mr. Warwick stated that many felt that the oil and the line should be taxed for the benefit of the State as a whole. He referred them to Mr. Fink's proposal on cents per barrel tax.

Mr. Lipton stated that they were very uninformed about the whole structure of taxes in Alaska. He said, for example, he would assume that the taxing authority of local jurisdiction would be precluded by statute, so it could be withdrawn -- the State Legislature, in its wisdom could do it.

As Mr. Levy saw it, if they did nothing, the local communities would be entitled to put in a 10 to 20 mill tax. He said they were not excluded up to now by the severance tax. He assumed the property tax applied to everybody. Consequently, he assumed that when the severance tax was introduced it also took care of property, so he thought that the exclusion of production lines may have been an oversight.

Mr. Fink thought it was an oversight. He said that the original legislation exempted production properties. The interpretation, he said, is that production property gets it away from wells, and that is all, in so much as the law provided what is production and what is not production.

Mr. Levy said they had a problem if they did nothing on the local basis. He said the problem before them is whether they want to tax it at all, or whether they want to let the local community tax it or include it in statewide tax severance or a separate tax. He asked what type of statewide tax they had.

Mr. Levy suggested they look to other states for precedence as to what is taken care of by severance tax.

He thought they should look particularly at Texas and Louisiana. He felt the State should not get completely out of line with the precedence for severance tax. Mr. Levy felt that if by any chance the severance tax picture is not clear in some states, then it would be necessary to pick those most suitable to the State's interest.

He wondered whether the local communities should be allowed to take property tax on the line. He said it would really serve no purpose as it goes through a huge area without much population, so he didn't know what would happen.

Another thing Mr. Levy felt pertinent was that the line was not excluded from taxation. He said they should have a property tax on oil that would be completely in line with the property tax on another industrial property. He wouldn't recommend singling out the oil industry for either a higher or lower rate. He stressed they should not move ahead without knowing how severance tax is handled in other states.

Mr. Lipton said that information was available to them in connection with the whole policy of taxation on oil and gas from the Legislative Council. This was published in January of 1970. He added that Louisiana has a cents per barrel production severance tax. The state statutes provide no further or additional license to be added or any additional value added to land.

Mr. Levy said they would have to have a more careful look at what added property taxes may or may not be possible. He said their attempt was to establish the level of severance tax. He said they should not look at refineries or pipelines as it was quite possible localities could still levy on such facilities.

Mr. Lipton said it was their indication that Louisiana could do that. Mr. Lipton said that in Texas where there is a relatively low severance tax, local taxing is permitted.

Mr. Warwick repeated what he had said earlier--if the boroughs were allowed to tax, it would be a lot of money, about \$70 million. He asked if the severance tax was fair and reasonable if it exempted the pipeline from ad valorem taxes. Mr. Levy said he couldn't say what was fair and reasonable. On the other hand, he said that if every industrial facility in the State has to pay ad valorem taxes, there would be a problem in saying that oil facilities be excluded.

Mr. Fink said that the electrical corporations in the State pay a percentage of the gross. He felt that some types of industry were much easier to levy on gross business rather than ad valorem and the electrical facilities cross several

government boundaries. It was Mr. Fink's feeling that it was more fair and equitable to take a percentage of the gross.

Mr. Levy indicated that it was his instinct that the taxing power should be taken out of local government. He thought that would be reasonably safe. Secondly, he thought that at this time it would be better to reserve the decision of what was to be done until the problems connected with the pipeline would be resolved.

Mr. Levy said that he had testified that afternoon on the potential of the ad valorem tax as further bargaining for contracts. He told the committee they should get copies of the transcript of his earlier testimony. He said that if a tax was in effect which meant \$70 million a year, it was really very high.

Mr. Fink said that the Governor proposed ownership, because he felt it was the only way to get the value out of it for the State. He said that the Impact Committee was suggesting it be regulated for the same reason. Mr. Fink said the State has the right-of-way and can impose several conditions, but this too is designed to produce revenue. The fear was that the pipeline was so complex that the State could lose control of the well-head price. The other problem is that this is a huge borough with a small number of people.

Mr. Fink said that some of the legislators felt that all the Governor's and Pipeline Impact Committee's bills did, was see that the State got its fair share. Mr. Fink thought it would be lot simpler for the State and the industry if they didn't have to fight over regulations and right-of-way. At the same time they could accomplish the Governor's purpose of not allowing one area of the State to take all of the funds through ad valorem taxing.

Mr. Levy felt that the major problem was to pass pipeline legislation that was fair and reasonable to all parties and which encouraged future oil production and exploration in all areas. He went on to say that the intent of the Impact Committee was not to get increased revenue, but to give a bargaining lever so that they can get revenue from the oil which would be equitable from their point of view and to stop a set-up which would deprive the state of its fair share. He said their bill was designed so that only if everything else failed, the revenue would accrue through a formula. He believed that it was the intent of the Governor's proposal to attain revenue. Mr. Levy went on to say that the ad valorem tax was definitely a revenue producing tax for which there is precedent and which is not discriminatory. The point Mr. Levy was making was that this was something they didn't need to handle now. Later, when they decided on the proper valuation, it could be done. He said that what was important news was that taxing was not preempted by local boroughs. He said that power would have to be taken away from them; otherwise, it would be hard to handle.

Mr. Lipton asked whether in the minds of the committee they would consider the necessity or the value of a general statewide ad valorem property tax at the present time if it were not for the fact that there was a huge \$3 billion pipeline in the offing, or if it was that that persuaded the urgency towards the Governor's bill. Mr. Fink said that the Governor had certainly been motivated by the big valuation that was going to be taxed by one borough. Mr. Lipton pointed out that the borough could be deprived of that power. Mr. Fink said they couldn't be deprived unless they were given something.

Mr. Levy said they could also consider a graduated ad valorem tax. He said that it was hard to say what to do since everything was up in the air. He said that if another \$70 million a year was put onto it, that could be added to the cost of operation. He stated that he could think of various ways of handling it depending on how the other problems were resolved.

Mr. Fink said that the Governor thought the State was going broke and had convinced a certain amount of the public of that opinion. Mr. Fink didn't think the legislature could adjourn without doing something to assure the populus that the State was going to get its fair share of the oil.

Mr. Levy said the ad valorem tax is one of the means of obtaining revenue in the future. By not passing the law now, they wouldn't lose anything, because at the present time there isn't much to tax, and there won't be until the facilities are constructed or even perhaps in operation. Mr. Levy felt they had to exclude the taxing power of the boroughs, but he would hate to freeze an ad valorem tax at any particular percentage or any graduated percentage. He said he would hate to set up a formula now which would only have to be changed soon.

Mr. Fink said that with the political thing in Alaska if they had a graduated property tax the rate would go up instead of down. Mr. Fink then asked whether Mr. Levy felt regulations were important for right of way. Mr. Levy felt a tariff was important which was determined by a reasonable team. He said it would be different than what is permitted by federal legislation and interstate commerce. He said that the whole thrust of getting that was to move away from I.C.C. maximum valuation of rates and taxations to reasonable ones considering the special circumstances of Alaska. Mr. Levy said that if the I.C.C. formula for tariffs were to be adopted, the maximum in the early part of the operation when they were running at low capacity, the value at the well-head, even at one million barrels a day would probably not be much more than \$1.30. Mr. Levy said that if a fair tariff was established, maybe the well-head value would be \$1.75 to \$1.80 or more. That was assuming present prices. The fact that this figure is lower than what was assumed in the past is because when

the pipeline was first proposed it was supposed to cost \$1 billion and now it is going to cost \$3.5 billion. Also the market had been thought to be available in California and Chicago. At the moment it is limited to California because the necessary pipeline from Seattle to Chicago will probably not be built.

It was Mr. Levy's feeling that the ad valorem tax applied to everybody. He said that if it was not the general rule of the game to exclude the ad valorem tax on facilities which are not production facilities, he saw no reason why they shouldn't have one-- if other oil producing states did; however, he did not feel it should be imposed until he could see the whole pipeline picture.

Mr. Lipton said he didn't know how they could evaluate the real property value of Alyeska. Mr. Fink said they would just send out an assessor and what he said was the value would be the value -- if someone didn't agree, then they could appeal it.

Mr. Fink said that the oil companies' testimony indicated they didn't want to get involved in right-of-way or additional regulations. He said that if the oil industry would rather have cents per barrel that might be the answer. Mr. Levy said that could deprive certain producers on the North Slope. He explained that those oil companies with an interest in the pipeline would suffer the reduced well-head but gain in the pipeline operation. Those without interest in the pipeline will not have that possibility. He said he would introduce a cents per barrel tax only when they could do nothing else.

Mr. Fink asked how states in the rest of the world protected themselves if they didn't own part of a pipeline. Mr. Levy said they didn't have that problem elsewhere. In other places, there was no distinction between the oil value and the transportation costs. For example, in Texas they provide a main stream of fuel production for refineries. He said that the well-head value of oil in Texas becomes the basis for cost of oil elsewhere beyond the well-head. He said that transportation costs were 30¢ per barrel from Texas to Chicago, and the cost of transporting the oil from Texas is recoverable in the value of the oil that enters the Chicago refinery. He explained that in Alaska the oil will have a fixed value and must deduct all transportation costs by tanker to California from Valdez and by pipeline from the North Slope to Valdez. All that reduces the well-head price. He said that, in effect, Texas and Louisiana oil were "price makers" on the market. Alaska won't have that possibility. Mr. Levy said that it was tremendously important, aside from the immediate issue of Alyeska, that any oil field have the lowest possible transportation costs which are possible.

It seemed to him that the long-run interest of the State is to insure they get the maximum value out of the economic cost of the oil and gas resources the State has, both discovered and future.

Mr. Lipton said that the main problem at Alyeska is the tremendous run-up in transportation cost. The difference between \$1 billion and \$3.5 billion has to come out of the value of 10 billion barrels of recoverable reserves. Mr. Lipton said the main thrust of their testimony before the legislative committees this week has been whether the oil industry likes regulations or not, pipeline regulations are imperative for the State of Alaska. He said the economic interests of the State can be protected by legislation and negotiations with the industry.

Mr. Fink asked why they were against the State of Alaska building a pipeline, and Mr. Levy replied that in other places, such a pipeline would be a \$100 million to \$200 million venture. In Alaska, it would be \$3.5 billion, and that is what makes the difference. In addition to the financing, there would be tremendous risks to the State. Mr. Levy said they wouldn't say they were opposed to state participation or option to participate in the pipeline.

Mr. Fink asked if they had opposed state ownership of the pipeline when it was thought to be a \$1 billion venture. Mr. Levy said that even that was a little "stiff". He said they would not oppose it as a last resort, but wouldn't start with it.

Mr. Fink said they wouldn't want to discourage the oil industry, and it seemed to him that the oil companies would be very discouraged if they had right-of-way and additional regulations.

Mr. Levy stated that some of the presentations of the oil industry left him "cold". He said that if they said there should be no regulations since ICC was doing such a fantastic job, he'd like to have it demonstrated by fact and figures. He didn't believe it was so. He said that if the oil industry said that if everything discouraged them, they might as well move out. That was a risk they had to face. He reiterated that if they were discouraged because of fair regulations of the State, let them be. Mr. Levy admitted that the right-of-way legislation included many provisions which should perhaps be scrapped. He told the Committee to get a copy of his testimony from that day as he had gone further into detail on the subject.

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wanted to participate in the pipeline. Mr. Levy said he'd like to say the lowest percentage which would do the maximum job for them because the lowest would cause the least financial drain.

Mr. Haugen asked whether the state's interest would be protected on a percentage basis too, and Mr. Levy said they would have more power. He said they would be on the inside and party to all arrangements, even those not openly arrived at. He said they had expanded a little more in their testimony that afternoon.

Mr. Levy said that the maximum one would consider was about 18.5% in the pipeline because they would gain as equity what would be lost in amortization. He said it was still in the state's best interest to have as low a transportation rate as could fairly and reasonably be arrived at.

Mr. Levy went on to say that with participation in the pipeline, if they felt it should be expanded or new fields brought in, they would have quite a right as a minority stock-holder to insist and if the others didn't want to, the state could go ahead on its own accord. He pointed out that they would know more as a partner than they did now. Mr. Fink asked if they couldn't be out-voted and Mr. Levy said a minority could not be "raped".

Mr. Fink asked who would represent the State, and Mr. Levy said they could probably have a public corporation to hold bills and advise of funding rights, etc.

Mr. Lipton said they would have to opt for the lowest rates consistent with long-range transportation problems and economic value to the State or have the highest rate they can get away with under the eye of the ICC. He said there were fantastic problems.

Mr. Levy said that if they used the maximum rate under ICC, the oil companies would call them names.

Mr. Haugen didn't feel the State should be involved. Mr. Levy said there were peculiar circumstances in Alaska, and they should protect their right to have an option to purchase by introducing such legislation. Mr. Lipton pointed out that they didn't need to exercise their option, but they could enter in later if they felt it served a purpose at a later time. However, the rights should be established now, since it could be a weapon the State will need.

Mr. Fink asked if there were other states with such an arrangement. Mr. Lipton knew of no other state that was a partner, but

he also didn't know of any other state with the problems Alaska faces.

Mr. Fink said the State wasn't trying to get into a business, it just wanted to get part of the income. It seemed to him that the best way to do it with the least difficulties was to let the industry develop the business.

Mr. Levy said that an ad valorem tax was not the way and \$70 million was not the way. Everything else went against it.

Mr. Fink thought they should initiate a cents per barrel tax, and let the companies do what they wanted, but under right of way if the State felt that a new producer was getting "shafted" the State could come in. It appeared to him this would be much simpler.

Mr. Levy was not certain the oil companies would sign such a lease. He didn't think the State could give up its responsibility for continuing surveillance of oil.

Mr. Fink asked the purpose of regulations, and Mr. Levy said it wasn't revenue alone. He said that it was important that a monopoly couldn't be misused, so the surveillance was necessary.

Mr. Lipton said that pipeline regulations were not unique to Alaska. He stated that Texas has tough regulatory statutes over its pipeline. He said there were quite a range of regulations on pipeline statutes of various states. He didn't think the oil industry could reasonably take the position--when transportation was so important--of objecting to arrangements over regulating statutes. He pointed out that Texas had never relied upon I.C.C. regulations to take care of its pipeline.

Mr. Levy asked whether they had been threatened by oil people that if they didn't "behave", they would move to Canada. He asked whether they had heard that the oil people were discouraged by the regulations there. He explained that the Canada Energy Board had complete control in Canada. The C.E.B. has control over trans-Canada pipelines with overall rate of return on capital use of 9% which includes cost tax. It also has the right of interfering with private investments, which Mr. Levy had made it possible to operate.

Mr. Lipton said that when the severance tax was under review there the industry was very opposed to a change in it. The problem was introduced on the concept of a rate schedule. Regulations are in effect which vary according to production and are not for the extent of the lease.

Mr. Fink said a condition of right of way should be that if any

other company wanted to become a member of the pipeline and if the State had that ownership option, the new company could buy up to whatever percentage of the book value was there.

Mr. Levy said they had a common carrier provision already, and if that provision was added, it would really put a burden on the oil company.

Mr. Fink said that if the State had an option for 18%, they could tell new companies they could buy up to 18% if that would encourage them to drill for oil. Mr. Levy said that might be considered if they couldn't establish a reasonable formula for tariffs. Mr. Levy added that the idea of cents per barrel--from the oil company's point of view--would create further problems. However, it might be what they have to face.

Mr. Levy gave the committee members copies of the Canadian National Energy Act, revised as of 1971.

Mr. Fink said that the cents per barrel tax wouldn't effect that at all. Mr. Levy said they didn't rule that out, they just say that this is not the time and there may never be the time. He said it was a problem and it would undermine the confidence of the oil companies.

Mr. Levy said that the rates could go up to \$2 a barrel under the present I.C.C. rules instead of 60¢ or 80¢. Mr. Fink asked whether the State would end up in court if it had rules saying it couldn't go up that high and I.C.C. said that it could. Mr. Levy thought that instead of ending up in court they would come to a fair agreement.

Mr. Lipton said that his opinion of the per barrel tax was that it was not necessary. He stated that the nature of the severance tax presently was based on the value of oil at the well-head. It was his feeling that at this stage of the game one could still live with the present form of severance tax. He didn't feel it was necessary to use it as a device for other purposes. He said that if they felt in all other respects that things were getting complicated, he would not deny that a per barrel severance tax on revenue or state income tax procedure might be a way for the legislature to look at the protection of the State's financial interest.

Mr. Lipton said that he realized the draft bill had tried to come to grips with at least some of the problems involved with cents per barrel taxation. He noted there were other problems which hadn't been taken into account, such as the location of the oil. He thought that the present severance tax was workable and said that unless they had very strong reasons for moving away from it, he would not advise it.

Mr. Levy said that what Mr. Fink was proposing would mean about 25% more tax than the present formula would yield. Again he pointed out that production was still four years away and there was time to take a good look. He thought they should follow the policy designed to do the best possible job.

ADJOURN Meeting adjourned at 9:25 p.m.

HOUSE FINANCE COMMITTEE

March 16, 1972

8:35 a.m.

Present: All members except Mr. Ditman. Mr. M. Lipton, Oil Consultant, and Mr. Jack Roderick were also present.

OIL
HEARING

Chairman Hohman called the meeting to order and said the committee would continue discussion with Mr. Lipton.

Mr. Lipton said in Alyeska each company will set a tariff for transportation of oil -- it is possible there will be as many pipeline tariffs posted as there are participants in the pipeline. He said it is not uncommon for different participants to post different tariffs. Mr. Lipton noted the competitive value in the Lower 48 and said that one company may take the initiative to post a lower tariff. The maximum tariff will presumably be closer to the same by virtue of ICC regulations. He gave the example of British Petroleum saying what they would make on transportation of other people's oil would be more than offset by a relatively high tariff.

Mr. Lipton referred to the tariff structure at Alyeska saying there have to be tariffs which are really compensatory with the oil companies investigations and risks.

Mr. Lipton said the oil companies in their testimony constantly referred to the ICC regulations. He said he did not know whether they seriously meant this or not. He said what is important is that the private oil company is in a very difficult position to gratuitously volunteer that it is not entitled to the highest tariff by law, when they do not know where they will end up. He said if the State comes up with regulations comparable with the interest of the companies then the companies can begin to talk realistically. He said it is important to have state regulatory machinery set up by the legislature. He said they should quickly get on to the business to determine what rules, procedures and principles are in the "eyes and mind of the state". He added Alaska will have to do this in any case for intra-state movement and if Alaska ends up with an unreasonable rate now the companies will challenge this.

Mr. Lipton said if it turns out these rates are fair and reasonable then the oil companies will know how the state feels. He said he felt they could get a lot lower than the ICC regulation. He added that the risks Alaska will face, should they take on ownership of the pipeline, will be the same as the risks the companies will take. Mr. Lipton added that the rate making rule of ICC was set in 1940 -- it is a generation old.

Mr. Fink asked if the companies do set different rates would this be to the state's advantage. Mr. Lipton said there may be many rates and differences among them. He said that one advantage is that any company that posts a lower rate will create an environment that would make the other companies justify a higher rate. The major thrust of opinion is that perhaps a company that posts a lower rate is satisfied with a reasonable rate and doesn't have to demand more.

In answer to Mr. Fink, Mr. Lipton said the state may be in a position to argue that the prevailing well-head value is set by the higher value on the basis of lower transportation costs -- then that could be the basis for the tariff for everybody's oil, even though some may be charging a higher transportation rate.

Mr. Lipton said the federal government is now reviewing the value of all federal on-shore leases.

Mr. Lipton spoke on the advantages of having a multiplicity of tariffs. Mr. Fink said since there are seven owners they would have seven sets of books to audit. Mr. Fink said that all of their costs were common with the exception of the maximum of capital. He said he would assume the borrowing would be a joint venture. Mr. Lipton said they did not know this. Mr. Fink said all the companies would use the same pump, same price and the same labor. Mr. Lipton said all their operating costs may not be the same. He said if Alyeska is operating on 75% of their capacity it does not mean each owner is using 75% of his capacity. Mr. Fink asked what advantage the state would have to allow the companies to spread seven different ways. Mr. Lipton said he was talking about the way in which Alyeska is pointed. The present organization contemplates they will operate as an undivided interest on the pipeline.

He added that this may change. Mr. Lipton said the reason regulations are needed now is that in the intra-state movement to the refinery in Fairbanks, assuming there is a refinery there, the cost of the oil to this refinery will depend on the tariff between Prudhoe Bay and Fairbanks. He said what is a fair tariff. Mr. Lipton said this tariff would have to be subject to state review. This may not matter in the overall scheme but it will matter to the people in Fairbanks.

In answer to Mr. Fink, Mr. Lipton said the state does not have any regulatory machinery yet and this is what he is proposing.

Mr. Lipton said he has heard talk in Fairbanks about the cost of gas transported from Cook Inlet. He said this has never been subject to review. He added that he did not know how Anchorage felt about paying more for gas than the people in Japan who are receiving the same gas. Mr. Fink said that under the existing law this is subject to regulation.

Mr. Fink asked if in Cook Inlet each company is charging a different tariff. Mr. Lipton said it was his impression that this is a corporation entity but not an undivided interest. He said it was his recollection there is only one tariff on Cook Inlet.

Mr. Fink asked why the oil companies would prefer undivided interest. Mr. Lipton said he was not sure but would guess this would provide them with certain benefits.

Discussion followed. Mr. Lipton said he would take the position that it would be impossible for the industry on one hand to talk about Alyeska as the largest private industry undertaking in the world and on the other hand insist that it is invisible. He said he felt there was no question that the data on the operating cost and interest charges will at the end be visible, despite the fact it is held as undivided interest.

Mr. Lipton said the companies will be filing with ICC accounts on standard forms of accounting. ICC will have as the work progresses an accumulation of capitalization identified by facility. When the

pipeline is finished ICC will know the capitalization and everything involved -- then the companies will file tariffs. This will be the rates charged by each owner of the pipeline unless the ICC says no, it exceeds the rate making rule. Unless this is exceeded it automatically becomes the tariff. Mr. Lipton explained the 8% rule. This is 8% after tax profit to the pipeline operator including interest payment -- this is on total capital after all costs. He said the question has come up; can the state do anything about it. He said the whole purpose of the Governor in suggesting ownership, the purpose behind the administration's regulatory bill, the purpose behind the Pipeline Committee's leasing bill and the purpose behind an option to buy an equity, all of this is to provide the state with a bargaining position so they can in effect get the companies to agree to a very fair and reasonable rate. He said there are alternatives. One alternative is to force ICC into a review of rate procedures.

Mr. Lipton said if the state has its own concept of a fair and reasonable rate then the companies will know what position the state is taking. Before the pipeline is operating there will be an agreement. Mr. Lipton said the companies can be more relaxed if they know what the state means by reasonable approach. In answer to Mr. Fink, Mr. Lipton said he was talking about intra-state rates. He said there is a body of legal opinion which feels the state may have jurisdiction over all oil from Prudhoe Bay to Valdez. He said if the state does not claim jurisdiction it will not have it. He said this would provide the state with an apparatus for determining what is a fair and reasonable rate for the movement of oil from Prudhoe Bay to Valdez. He said hopefully this would enable companies to undertake serious negotiations because there would be a "benchmark". He said if the state did not do this they may have the possibility of determining the prevailing value of the oil of the North Slope. He said if the state would have to protest before ICC they will be in a position to do so. He said a regulatory bill would not have to be something so strange that the oil companies would rise up in protest. There are existing pipeline regulations in other states and Mr. Lipton said he did not feel the companies would have very much of a reason to complain. He said the state regulatory body should

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not have the right to impose rates upon the pipeline. It should have the right to suspend rates but to impose a rate and insist the pipeline operator be under this before the final adjudication has been made goes too far. Mr. Lipton said he hoped that he was not making a plea for extreme legislation that will upset the "apple cart". He said they know what powerful incentive there is for oil companies to maximize. He said the oil companies are entitled to a fair break but so is Alaska. Mr. Lipton said it is imperative to get started early.

Mr. Fink said the ICC determines a fair rate but asked if they look at the depreciation schedule and amortization schedule. Mr. Lipton answered there is an ICC rate of depreciation which applies to all pipelines. He said they allow appreciation for increase.

Mr. Fink compared the construction of the pipeline with a building. He said if he had a building and charged rents in the first two or three years so there could be immediate profit he could not rent the building. Mr. Lipton said during the first year of operation at Alyeska if they were to apply the ICC 8% rule to claim maximum profit and spread it over only 600,000 barrels a day the tariff would be so high the well head value would be negative. He said obviously they will not do this. He said they will look at the capital cost picture and rate of through-put and try to work out a tariff. He said as the through-put builds up the tariff will go down further.

In answer to Mr. Fink, Mr. Lipton said the amortization is not geared to the total amount of oil that will flow through the pipeline. He said for valuation purposes by ICC they depreciate over 35 years on a straight line basis and for taxes they depreciate over 22 years on a formula of years digit basis. Discussion followed.

Mr. Fink asked how they could automatically assume the cost of the pipeline will be from \$3.5 to \$4 billion. Mr. Lipton said this is subject to error but they hope the very large range of error on the off side will be offset by reasons on the other side. Mr. Lipton said as far as he knew none of the companies had quarreled with this cost. Mr. Lipton said the biggest single factor the tariff has to cover under ICC regulations is the return of capital -- this overwhelms everything else.

Mr. Fink questioned the 8% interest on the debt for the pipeline. He felt this was high. Mr. Lipton said he did not know if it is in view of the interest involved. Discussion followed on the cost if a lower interest is received. Mr. Lipton said the administration has computerized models and the committee could find almost anything they want in computerized capitalization.

Mr. Lipton said the State has been placed in a horrendous position by all the uncertainties involved. He said the oil discovery was bound to attract tremendous exploration effort and yet the Division of Geological Survey had reported only one exploratory hole in contrast to what is an exceedingly attractive exploration. He said because of the delay of the pipeline this has placed everything in limbo for so many years.

Mr. Fink asked if the state would be adequately protected if the right-of-way is given with no charge but include the following conditions: (1) information submitted to ICC be available to the state; (2) the companies agree to be subject to Public Utility Commission for rates charged non-owner companies and (3) the companies agree to be subject to Public Utility Commission determination on pipeline extensions and connections. Mr. Lipton said he thought all of these are in the conditions of leasing included in both bills. He said the line Mr. Fink suggested is not too different from their comments on the leasing bills. Mr. Lipton spoke on the difference in the Governor's bill and the Pipeline Impact Committee's bills. He said they consider high base rentals to be not in the best interest of the state. He said the Pipeline Impact Committee has a schedule of supplemental rental related to pipeline profits as these relate to equity in the pipeline. Mr. Lipton said they have "mixed feelings" about this. He said the concept of the Pipeline Impact Committee escalating is not that the state would get this money. Hopefully, the companies would not have to pay this.

Mr. Fink said he thought it was fair and reasonable for the companies not to expect to make money in the first few years. He said he thought it was reasonable for the state to say they want the money coming to them immediately and this will probably have to be irrespective

of their well head value. Mr. Lipton said not necessarily, if they work out an equalized tariff.

Mr. Lipton said they also feel that the impact of cents per barrel as a way of recovering could be devastating to a company like Standard Oil of California that is not in the pipeline. He said they would be paying with both hands. He said what they are most concerned with is to protect the state's economic interest in the value of oil produced.

Mr. Lipton said in addition to the taxing power Mr. Fink spoke about, another taxing power is the state income tax. He added that they could move to a graduated income tax. The severance tax is a lot simpler. The state would have to change the income tax and divorce it from the federal rates. He said in this way the companies would know full well what this legislature decides to do with the income tax. Discussion followed.

Mr. Hogan said in view of the "spotty" history of regulatory agencies at the federal level and at the state level this is even worse, has any thought been given to how the state could do something different than other people have done. Mr. Lipton said the state would have to use their wisdom, determination and knowledge -- if this was not used it would not be any different.

Recess: The meeting recessed at 10:00 a.m.

AFTER RECESS

10:55 a.m.

Present: All members except Mr. Fink and Mr. Hohman.
Mr. Orvil Holmes was also present.

Acting Chairman Warwick called the meeting to order and said that Mr. Holmes was representing the Retired Teachers' Association in Fairbanks and would give testimony relating to teachers retirement.

HB 538 Mr. Holmes distributed a sheet on this (page 331).
HB 540 He spoke on HOUSE BILL 538 (an act relating to to the state teachers retirement system) and HOUSE BILL 540 (an act relating to eligibility for teachers retirement).

Mr. Holmes referred to the sheet saying that HB 540 requires everybody to serve 8 years before they will receive benefits. He said this would eliminate column B and thow them into column C. The amounts would double if they have as much as 8 years to transfer in. Mr. Holms said until they take care of the "old folks" he did not feel they should have a "give away". He said it would be possible for a superintendent to come up here for 5 years and go out with a \$700 or \$800 a month pension. Mr. Wright asked if this would only apply to a small group and Mr. Holmes said yes, they were talking about a half-dozen cases. Mr. Wright said he felt superintendents were a "different breed" and the same rules should not apply. The superintendent would have a high risk and possibly a short tenure and would be entitled to anything he could get, Mr. Wright added.

Mr. Ditman asked how many teachers would be retiring after this 5 year period. Mr. Holmes said there would only be two this year.

Mr. Fink entered the meeting.

HB 539 Mr. Holmes spoke on HOUSE BILL NO. 539 (an act relating to creditable service payments for retired teachers). He suggested line 11 should be changed from "15 of which were membership service" to "16".

The committee discussed what had been presented by the actuary on the teachers retirement fund.

Mr. Fink compared his bill (HB 537) with the one introduced by Mr. Warwick. This was briefly discussed and the meeting recessed at 11:45 a.m.

Recess:

(A)	(B)	(C)	(D)	(E)	(F)	(G)
Average salary in thousands	(6) 5 yrs. in Alaska with 10 years transferred in, effective in 1971	1971 8 yrs. Ak. service only vested interest	25 yrs. creditable service--pre 1970 retirees with 1971 minimum change to \$12/mo./yr. of creditable service limited to 25 yrs.	Post 1970 retirees and proposed 2% multiplier for all pre 1970 retirees 25 yrs. cr. SV	1972 proposal, \$15/mo/each yr. of creditable service, limit 25 yrs	25 yr. column proposal from various sources minimum of \$20/mo for each year of creditable service or the 2% multiplier whichever more

\$ 5			300		375	500
6			300		375	500
7			300		375	500
8			(1) 300		375	500
9			300	375	(3) 375	500
10			313	(7) 417		500
11			375	458		500
(5) 12	300	(5) 160	375	500		500
13	325	173	405	542		542
14	350	187	438	583		583
15	375	200	469	625		625
(2) 16	400	213	500	667		667
17	425	227		708		
18	450	240		750		
19	475	253		792		
(4) 20	500	(4) 267		(4) 833		
21	525			875		
22	550			917		
23	575			958		
24	600			1000		
25	625			1042		
26	650			1083		
27	675			1125		
28	700			1167		
29	725			1208		
30	750			1250		
31	775			1292		
32	800			1333		

- (1) Limit on pre '67 retirees as base for computation in the \$7000 range at 1 1/2% X no. yrs. of creditable service.
- (2) Probability of no teacher with this high salary before 1970 with 1 1/2% formula.
- (3) Cut-off point if benefits for each yr. of cr. service above 25 yrs. not changed.
- (4) Approximate cut-off point for teachers' salary average.
- (5) Possibly the lowest 1972 average.
- (6) Applicable only for those who give membership service between ages 50 and 60.
- (7) Column (E)--Add or subtract 4%/yr. for each year your creditable service differs from 25 yrs. for your basic benefits.
- (*) Table does not reflect:
- | | |
|--|---|
| a. Cost of living adjustment--10% more if living in Alaska | f. Still possible to serve 14 years membership service for those over 50 yrs. of age and receive zero benefits. |
| b. Postretirement adjustment | g. Creditable service for more than 25 yrs. |
| c. Arrearage (if any) reduction. Annual benefits reduced by 10% of the debt) | h. Disability benefits 1/2 prior year's salary and 10% for each minor child (limit 4) |
| d. Early retirement reduction at age 55 1/2 of 1%/mo. member's age lacks 60 yrs. | i. Supplemental benefits for spouse and surviving children |
| e. 30 yrs. of creditable service and out at any age without reduction | j. Survivor benefits |

PREPARED BY: O. Holmes

AFTER RECESS
5:40 p.m.

PRESENT All members. Commissioner Noerenberg from the Department of Fish and Game and members of his staff were also present.

SB 149 Chairman Hohman referred to Committee Substitute for SENATE BILL NO. 149 amended (An Act relating to licenses and tag fees). He said that they had received a proposal for license fee increases from the Department of Fish and Game. The suggestions were in the non-resident category. These were based on CS for SB 149am and would not indicate any changes in those items which appear in SB 149, such as the area of tags. Chairman Hohman noted they recommended moderation in every area. The Commissioner agreed with that, and said they recommended no change in Polar Bear fees. He said it was very difficult to really come up with line fee schedules for species because they don't know what the federal limitation is going to be. He said there may be legalities involved by raising license fees too much. They feel these will be equitable to the non-resident hunting public.

Mr. Hohman asked for a revenue estimate on what this would bring. The Commissioner said that had not been figured yet, but they would furnish that information based on tag fee scales from the 1971 issue.

Chairman Hohman asked if the reason for their recommendation was that the non-resident public would object. The Commissioner replied that the fee differential for residents and non-residents is supposed to be 3:1 to 5:1.

ADJOURN Meeting adjourned at 5:50 p.m.

HOUSE FINANCE COMMITTEE

March 17, 1972

9:45 a.m.

Present: All members except Mr. Ditman.

HCR 45 Chairman Hohman called the meeting to order and said the committee would consider a resolution they proposed to introduce which related to the leasing of space from the Alaska State Housing Authority. This provides for a specific location for the Juneau Court Building and for the expenditure of \$400,000 for building construction.

Mr. Warwick moved and asked unanimous consent that the HOUSE CONCURRENT RESOLUTION (this later became HCR 45) pass from committee with a do pass recommendation. No objection, so ordered.

Recess: The meeting recessed at 9:55 a.m.

AFTER RECESS

5:00 p.m.

Present: All members except Mr. Ditman.

HB 713 Chairman Hohman called the meeting to order and assigned House Bill No. 713 (relating to Alaska Housing Finance Corporation) to Mr. Wright.

Discussion continued on what bills would be considered by the Committee during the forthcoming week.

Adjournment: The meeting adjourned at 5:40 p.m.

HOUSE FINANCE COMMITTEE

March 20, 1972

4:20 p.m.

PRESENT All members except Mr. Wright.

HB 102 Chairman Hohman called the meeting to order and stated that HOUSE BILL NO. 102 (An Act relating to loans for commercial fishing purposes) would be under consideration.

Mr. Fink gave all of the members copies of a draft of a Committee Substitute for HB 102. The draft suggested putting \$1 million in the revolving fund instead of \$35 million. He said they had mandatory purchases on revenue.

Mr. Ditman referred to line 16 where they were deleting the word "fishing" and inserting the word "gear". There was some discussion on what this would accomplish, and all members were in favor of it.

Mr. Fink pointed out that on the second page, the draft called for 7% interest.

Mr. Ditman asked the purpose of deleting Section B. Mr. Fink replied that he had felt it might be interpreted to mean unsecured loan.

Mr. Haugen asked how it would work in relation to company owned boats, and Mr. Fink stated that it would eliminate corporations and companies.

Mr. Hohman asked what the State got on investments now, and Mr. Fink replied that it depended on how it was looked at. He said the earning value was about 5.9%, but because of starting off with a big portfolio, they have been able to sell at net capital gains, so they have been making an effective rate of 8.6%. If they were kept until maturity, they would make 5.9%.

Mr. Fink moved that on line 4, page 2, they change the years from 20 to 15. No objection, so ordered.

Mr. Fink pointed out that on page 2, line 5 they added "or both".

Mr. Fink moved and asked unanimous consent that Committee Substitute for HB 102 be put out of committee with a Do Pass Recommendation. No objection, so ordered.

HB 103 Chairman Hohman stated that they would consider a companion bill, HOUSE BILL 103 (An Act appropriating to the Department of Admin-

istration for the purpose of making commercial fishing loans).

Mr. Fink moved that on page 1, line 10 they delete the sum of \$35,000,000 and substitute in its place "\$1,000,000". No objection, so ordered.

Mr. Fink then moved that on page 1, line 12, they delete existing effective date clause and substitute "This Act takes effect on the effective date of 'An Act relating to loans for commercial fishing purposes'." No objection, so ordered.

Mr. Fink moved and asked unanimous consent that HB 103 amended be put out of committee with a Do Pass Recommendation. No objection, so ordered.

[Mr. Wright arrived.]

HB 49

Chairman Hohman stated that HOUSE BILL NO. 49 (An Act relating to electric development loans) was under consideration.

Mr. Fink said that the members had reference materials on the bill. He passed out a proposed committee substitute for HB 49.

RECESS

Meeting recessed at 4:50 p.m.

AFTER RECESS

5:20 p.m.

PRESENT All members.

HB 49 Chairman Hohman called the meeting back to order and stated they would continue their discussion on HOUSE BILL NO. 49 (An Act relating to electric development loans).

The Committee discussed the proposed committee substitute. Mr. Ditman thought they should have Sen. Radar testify before the Committee before they acted on the bill. The other members agreed, and it was decided that Sen. Radar would be asked to testify the following afternoon.

HB 312 Chairman Hohman brought HOUSE BILL NO. 312 (An Act establishing a tourism revolving fund in the Department of Economic Development) up for consideration.

Mr. Fink passed out copies of a proposed committee substitute. He said that the substitute put the revolving fund in the Department of Commerce rather than the Department of Economic Development. He pointed out that the loans were limited to 20 years. He referred them to page 2, line 1 where "\$2,000,000 was deleted and "\$1,000,000" was inserted.

Mr. Warwick moved and asked unanimous consent that Committee Substitute for HB 312 be put out of committee with a Do Pass Recommendation. No objection, so ordered.

HB 385 Chairman Hohman stated that they would consider a companion bill, HOUSE BILL NO. 385 (An Act appropriating to the Department of Economic Development).

Mr. Warwick moved and asked unanimous consent that on page 1, line 9, they delete the sum of "\$5,000,000" and insert the sum of "\$1,000,000". No objection, so ordered.

Mr. Warwick then moved and asked unanimous consent that on page 1, line 12, they delete the existing effective date clause and substitute "This Act takes effect on the effective date of 'An Act establishing a tourism revolving fund in the Department of Commerce'." No objection, so ordered.

HB 32 Chairman Hohman stated that HOUSE BILL NO. 32 (An Act relating to pay increments for state employees) would be under discussion.

There was some discussion on the bill. They found there were about 1300 people locked in F step. Mr. Fink said they would

CORRECTION

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

AFTER RECESS
5:20 p.m.

PRESENT All members.

HB 49 Chairman Hohman called the meeting back to order and stated they would continue their discussion on HOUSE BILL NO. 49 (An Act relating to electric development loans).

The Committee discussed the proposed committee substitute. Mr. Ditman thought they should have Sen. Radar testify before the Committee before they acted on the bill. The other members agreed, and it was decided that Sen. Radar would be asked to testify the following afternoon.

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Mr. Warwick moved and asked unanimous consent that Committee Substitute for HB 312 be put out of committee with a Do Pass Recommendation. No objection, so ordered.

HB 385 Chairman Hohman stated that they would consider a companion bill, HOUSE BILL NO. 385 (An Act appropriating to the Department of Economic Development).

Mr. Warwick moved and asked unanimous consent that on page 1, line 9, they delete the sum of "\$5,000,000" and insert the sum of "\$1,000,000". No objection, so ordered.

Mr. Warwick then moved and asked unanimous consent that on page 1, line 12, they delete the existing effective date clause and substitute "This Act takes effect on the effective date of 'An Act establishing a tourism revolving fund in the Department of Commerce'." No objection, so ordered.

HB 32 Chairman Hohman stated that HOUSE BILL NO. 32 (An Act relating to pay increments for state employees) would be under discussion.

There was some discussion on the bill. They found there were about 1300 people locked in F step. Mr. Fink said they would

have to determine the average salary of a person in F¹ step.

It was decided to return HB 32 to the Subcommittee.

ADJOURN Meeting adjourned at 6:15 p.m.

AFTER RECESS

2:45 p.m.

PRESENT All members. Mr. Dodd, Chairman of the Pioneer's Board was also present.

Fairbanks Chairman Hohman called the meeting back to order and stated
Pioneer's that they would hear testimony from Mr. Dodd regarding the
Home Fairbanks Pioneer's Home.

Mr. Dodd began by saying that they had a problem with lack of space. He said they had a chance to get an addition to the Fairbanks Home with practically no expense. He explained that they could contract with ASHA to build the addition to bring the Home up to the original plan of 150 beds. Then ASHA would lease the building back to them and the federal government would pay 75% of the lease and the State would pay 25%. He emphasized this would be a financial savings to the State. He stated that the cost would be about \$2,200,000, and if the federal government was paying 75%, that would be a savings of several thousand dollars a month in cost per capita.

Mr. Dodd felt that if they could build a capacity for 87 more beds at no expense to the State and get it done this year, it would save a good many people "dying on the waiting list".

Mr. Dodd went on to say that it would cost less to finish the present Fairbanks Home than to build a new one since the ground acquisition and blue prints would be eliminated because there had not been money to build the Fairbanks Home in entirety to start with.

HCR 4 Mr. Dodd said they would like very much to have the Fairbanks Home added to HOUSE CONCURRENT RESOLUTION NO. 4 (Relating to the leasing of space from the Alaska State Housing Authority), which they would then like to see passed by the legislature.

Mr. Dodd said that the Department of Health and Social Services couldn't build the Home, but they could lease it.

Mr. Warwick asked if the agreement was peculiar to Fairbanks, or whether they could do the same to the Anchorage Home. Mr. Dodd really couldn't tell him, but added that he had consulted with Commissioner Henri on the Fairbanks Home. He went on to say that on the Fairbanks Home there would be a mortgage for a 20 year contract, and upon the date the indebtedness gets paid off, the State would get the property.

Chairman Hohman said that the Title IV money from the federal

government was contingent upon use by welfare recipients. Mr. Dodd didn't believe that was the case.

Mr. Dodd pointed out that if they got the federal money for five years, they would have saved a lot on the cost. He said they were going to have to build it anyway, and this way would save money. He said that right now nursing home care cost \$600 to \$700 a month. He stated that the Glenn Moore Nursing Home charged \$2400 a room and there were two men per room. That was a cost of \$40 per day per man. He said these were things that were having to be paid for in taxes.

Mr. Hohman referred the Committee to the document, "How to Contract for Social Services under Title IV (A) and (B) and Title XVI of the Social Security Act". He said it showed the categories which would qualify.

Mr. Dodd said there were 25 people on the waiting list to get into the Fairbanks Home. He stated that a waiting list had existed ever since the building was built. It was his feeling that the old timers were entitled to better treatment.

Mr. Hohman agreed that the facility at Fairbanks should be completed. He also thought that some consideration should go to the Anchorage facility and to the elderly people living in the bush. However, he said that in order to qualify for federal funding eligibility was determined based on categorical relationship, and he referred them to Form 65, Appendix B of the document he had just shown them.

Mr. Haugen thought it should be a General Fund appropriation. Mr. Hohman pointed out that would cost 75% more.

The Committee decided to bring in Commissioner Henri from the Department of Administration and Commissioner McGinnis from the Department of Health and Social Services to settle the question of federal participation.

HB 103
HB 385

Chairman Hohman said they would go on to discuss other matters until the Commissioners arrived. He referred them to HOUSE BILL 103 (An Act appropriating to the Department of Administration for making commercial fishing loans) and HOUSE BILL 385 (An Act appropriating to the Department of Economic Development and providing for an effective date) which they had amended and passed out the day before. He said these bills were before them again because he had found it necessary that they be made into Committee Substitutes instead of merely amended since the Department had to be changed.

Mr. Warwick moved and asked unanimous consent that Committee

Substitute for HB 103 be put out of Committee with a Do Pass Recommendation. No objection, so ordered.

Mr. Warwick moved and asked unanimous consent that Committee Substitute for HB 385 be put out of Committee with a Do Pass Recommendation. No objection, so ordered.

RECESS Meeting recessed at 3:20 p.m.

AFTER RECESS

4:10 p.m.

PRESENT All members. Mr. Dodd, Chairman of the Pioneers' Board; Mr. Henri, Commissioner of Administration; Mr. McGinnis, Commissioner of Health and Social Services; Mrs. Southwell, a member of the Governor's Commission on Aging who was from Fairbanks, were also present.

Chairman Hohman called the meeting back to order and said the question under discussion was that of satisfying the needs for old people in the State, and specifically Title IV funding and meeting the necessary obligations to ASHA for construction of the Pioneer's Home in Fairbanks. He said that one of the questions was whether the facilities would be limited to welfare recipients and the homes would have to discriminate in providing services to the people.

Mr. McGinnis stated that the question being posed was in part legal and should be researched and deliberated over. It was his understanding that while their Department is operating the Homes, the basic administration is vested with the Department of Administration. He did not see it as the role of the Department of Health and Social Services to expand the Homes. He said they had an operating contract for the homes in existence. Under the terms of the contract, the admission policy in force is contingent upon the operating agreement in effect before they began to operate. Thus the operation by the Health and Social Services would not effect the admission because they were obligated to continue the prior admission policy.

Commissioner Henri said they had gone to Seattle to talk to the Region X people in December and had asked them what would happen if they accepted federal funds to reimburse ASHA. The Region X people didn't think that the way the State operated the resident requirement would effect the federal requirement. However, he said that they couldn't get Title IV funds for the people in the homes that had the wealth. Outside of that, they would get money for the people there. He said that most of the guests didn't have funds other than the \$35 a month the legislature gave them. He said for example that out of 50 beds, there might be five people paying for it themselves, so they wouldn't get full funding for the 50 people, but would still get Title IV funds. They could get the Title IV funds in spite of the fact they have a 15 year residency requirement. Mr. Henri explained that the Region X people said that if they had empty beds and kept people out because they didn't have the 15 years residency, they would be in

trouble. He added that the waiting list was so long now that it was not a present problem although he admitted that it could become one.

Commissioner McGinnis said that Commissioner Henri had cited precisely the understanding that his Department had. He said that there was an additional facet. Since it seemed that the residency requirement would be in violation of federal requirements. He considered this a legal problem, because even though Region X said it would not constitute a problem at the present time, at any moment a citizen could make it an issue and take it to court.

The Committee had a brief discussion of other resolutions in committee which were related to ASHA (HCR 45 & 28).

Mr. Henri said that apparently they could charge the federal government for depreciation of the three Homes that they have at approximately \$300,000 a year, or \$75,000 quarterly. That would be annually for as long as Title IV lasts. In addition, if a new Pioneer's Home is built by ASHA and rented to the Department of Administration, the federal government would pay rent for those in the Home eligible for the Title IV funds.

Mr. Warwick said that rent, which is the same thing as amortization of the debt, is higher than depreciation. He thought that maybe it would be better just to put it on General Obligation bonds. Mr. Henri couldn't answer whether the depreciation was equivalent to the debt service.

Mr. Ditman asked whether if ASHA built the addition to the Fairbanks Home, the federal government would pay 75% of the rent for those eligible, or up to 75% of those eligible. Mr. Henri said that it would be 75% of the number eligible for welfare--they would get 75% of those people's expenses.

Mr. Haugen said his real concern was whether one class of people would be treated one way and another another way. Mr. Dodd said he had never heard a complaint of that nature.

Mr. Warwick asked if all of the services they had in the Pioneer's Home qualified for federal funds. Mr. McGinnis said that because of the nature of Title XVI some of their services were excluded, such as medical services. Diagnostic services are not excluded and neither is physio-therapy. He said that the things which are excluded are identifiable.

Mrs. Southwell, a member of the Governor's Council on Aging, stated that the Social Security patients do not receive

different care than the other guests. If they had differences in physical needs, they were treated as they should be. In other words, she said that all guests received equal care. She hoped they would see the need for an addition to the Fairbanks Home.

Mr. McGinnis wondered if they had considered another aspect. It was his impression that under the federal program in the qualifying of an institution for matching, there were certain services which were considered minimal services. In order to qualify for federal matching money, these services have to be available.

Mr. Wright said he'd like to see what it would take to bring them up to the minimum without cranking in the federal monies.

Mr. Henri said that actually if the funding kept up through the next fiscal year, they wouldn't have spent as much state money as they were paying this year.

Mr. McGinnis said they would develop a model as to how many State dollars would be required to bring it up to meet minimal needs to qualify for federal funds.

Mr. Haugen said he was concerned about those senior citizens entitled to \$100 a month that didn't care to be institutionalized (HB 211).

Mr. Wright said he'd like for Mr. Henri to bring them up to date on the Anchorage facility and whether it would qualify for the ASHA arrangement. (HCR 28).

Mr. McGinnis pointed out that if there was more low cost housing for elderly that the need for more space in Pioneer Homes might be down-scaled.

Mr. Fink asked if there had ever been a survey to see how many of the older people were desirous of going to a Pioneer's Home. Mr. McGinnis said that they had taken a survey of the entire populus in one area who were over 65 years of age. Most didn't want to go to nursing homes if they could do anything else.

Mr. Wright asked for a cost per guest to the state compared to nursing home costs.

Mr. McGinnis concluded by saying that both the Pioneer's Homes and low cost housing were needed, but added that low cost housing would cut down the huge scope of the need for Pioneer's Homes.

ADJOURN Meeting adjourned at 5:30 p.m.

HOUSE FINANCE COMMITTEE

March 22, 1972

9:40 a.m.

Present: All committee members. Mr. George Easley, Commissioner of the Department of Public Works, and Mr. John Benson, Director of the Division of Buildings, were also present. Mr. Joe LaRocca was also present.

Chairman Hohman called the meeting to order.

HCR 45 The subject under discussion was the Juneau Court Bldg. in relation to HCR 45 (Relating to the leasing of space from the Alaska State Housing Authority; to be constructed on the site formerly occupied by the Juneau-Douglas Community College, Juneau, Alaska at a building cost not to exceed \$4,000,000).

Representative Warwick said the committee was concerned about the court building's escalated cost from \$4,000,000 to \$8,000,000. Commissioner Easley replied that the total sale of bonds came to approximately \$8,000,000. He said they arrived at that figure immediately after the resolution passed last year and they had met with the Alaska State Housing Authority, the Court System and the Department of Administration who established the space requirements. Mr. Easley indicated that during "the first go" the cost was \$13,000,000 and they had "lopped" it down to the current cost. He added that the cost of the building was \$5.6 million dollars. The remaining costs were in land, clearing and architecture fees.

Mr. Fink asked about the cost of the land. Mr. Easley said the total is \$464,000 which includes acquisition and clearing (demolition) of the existing land.

Representative Wright asked why the space requirement was so high when there were only four or five judges. Commissioner Easley stated that the space requirement was determined by the Supreme Court with the Department of Administration, but again stressed that the Department of Public Works had cut it down considerably from what they had originally proposed.

Commissioner Easley explained the sequence of events leading to the final decision: The Department of Public Works had met with Dick Freer, Deputy Commissioner of the Department of Administration, and Supreme Court Justice Erwin in Juneau. The group cut down the space, leaving 4 courtrooms: one district court, two superior courts and one supreme court. This was based on the number of judges in Juneau. The Commissioner stated

that his department cut down the space all they could with the specifications originally given to them. He added that the criteria to design the court building required that there be enough space to ensure the adequacy of the building for 20 years. He stated that the court building will be bigger than Juneau's current needs, but will still be adequate in 1985.

Representative Fink asked who made the decision of how much space was needed? Commissioner Easley answered the Court System and the Department of Administration.

Representative Wright stated that both the Supreme Court and the Department of Administration had told him they had nothing to do with the space requirements. Commissioner Easley said that when the Department of Public Works cut back on the size of the building, it was not in concurrence with the Department of Administration or the Supreme Court.

Commissioner Easley presented the following breakdown of costs for the court building: architectural - \$341,000; site acquisition - \$464,000; paying off the old Coast Guard Building - \$300,000; estimated construction cost - \$5,603,000; clearing - \$125,000. The amount of the bond sale was \$8,280,000. Mr. Easley noted that the administrative cost for the Division of Buildings are not included in the figures just presented. The difference between these figures and the bond authorization includes the cost for development of the prospectus, sale of the bond, ASHA overhead, and construction and inspection by the Division of Buildings.

He said they have condemned the property for the building site. In the event the owners of existing dwellings will not negotiate a purchase price under eminent domain, the total cost could be quite large. He said they were having difficulty arriving at a negotiation fee with Capital Office Supply, the Methodist Church and another dwelling.

Representative Wright referred to the parking space in the new building. He questioned the cost for 140 stalls. Commissioner Easley stated that his department had cut off one complete deck of parking which resulted in a total of 106 stalls. He said the cost was \$10,000 per stall. He said the reason for the expense was due to it being underground parking, but that cost was included in the building cost and there were no current plans for expanding the parking space to a higher figure.

Commissioner Easley stated that the above estimates were, in fact, just estimates. Mr. Benson had called their Department and the following information was provided to the Committee:

ASHA overhead	\$780,000	
Site	900,000	Mr. Easley said there is a contingency in this figure.
Survey & test holes	112,000	He said this may be high.
Construction	5,603,000	He said this may vary 10% either way.
A-E	343,000	This will undoubtedly go down, Mr. Easley stated.
Program	50,000	Actual preliminary work on site selection
Space Cons.	100,000	Those who deal in court buildings.
Div. of Buildings	56,000	
Inspection	112,000	Division of Buildings
Contingencies	224,000	Mr. Easley said this is for normal contingency.
BOND	8,280,000	

In answer to Mr. Wright, Mr. Easley said there is no additional parking other than what they are discussing. Mr. Wright said it looked like the state might be furnishing parking for the downtown area.

Mr. Warwick asked about the capitalized interest. Mr. Easley replied that it was in ASHA overhead.

Representative Fink noted that the figures given to the committee by Commissioner Easley do not agree with the prospectus. The Commissioner said the figures would change constantly between now and the actual award of the building. Mr. Fink said is they show a million dollars in net capitalized interest and if it is in ASHA overhead it is not high enough. Mr. Easley said this will change based on actual construction -- all this will depend on receipt of final contract plans and a firm estimate on the building.

Mr. Easley said they are ready to go to bid on the site clearing and demolition and the only holdup is to find a location for the Department of Health and Social Services (now housed in the Coast Guard Bldg. and the Old Territorial Building).

Mr. Hohman asked about the allocation of parking spaces. Commissioner Easley stated that the Dept. of Administration determined this and he would find out who they were allocated to and provide the committee with this information.

Mr. Hohman asked for the figures of values for the three buildings on the land site. Mr. Easley stated that the Methodist Church was asking for \$225,000. He stated that the church is asking for replacement cost and pointed out that the courts are traditionally lenient in cases involving churches. He said that the amount of money the state has put in for eminent domain for the church is \$120,000.

Mr. Warwick asked about furnishing for the court building. Mr. Easley said that permanent figures such as lighting, benches, etc. were included in the estimated cost of the building. Mr. Easley had no idea how much it would cost to furnish the building.

Mr. Wright said he did not see how Mr. Easley could have agreed to this amount of space for only four judges. He compared this to the addition to the court building in Anchorage. Mr. Easley stated that the addition to the Court Building in Anchorage is sufficient to house existing requirements but will not be sufficient for any future needs, whereas Juneau's Court building will be adequate for a number of years. Representative Wright stated that the history of Juneau's population shows that the city will not double by 1985. Commissioner Easley stated that he was not responsible for the projections, just for the building.

Representative Haugen stated that he was concerned over the relocation (temporary) of Health & Social Services. The committee was concerned with the amount of money this would involve.

Representative Haugen asked the Commissioner if he knew whether or not the relocation of the Public Health Laboratory to the Bartlett Memorial Hospital was temporary or permanent. Mr. Benson said he had assumed it was permanent. Commissioner Easley stated that this issue did not involve the Dept. of Public Works.

Representative Wright stated that he did not think the relocation for Health and Social Services could be kept under \$1,000,000. \$400,000 had been given as the amount the relocation would cost.

Commissioner Easley stated that the House Finance Committee could have copies of the minutes of the meetings with the Court System and the Department of Administration relating to the court building. Chairman Hohman said he would like to receive these.

Mr. Wright asked what would happen if HCR 45 was passed and the amount of the court building was reduced to \$4,000,000. Mr. Easley said he thought they would have a breach of the bond covenant. In order to change this legally they would have to get the bond companies permission. He said there might be litigation of property owners whose property they had just condemned. He said it would be necessary to start again on the architectural work. He said they would have to pay for the work already done and if the architect wanted to litigate for the rest of the fees he could. Mr. Easley said he thought this was all that was involved. Mr. Wright asked dollar wise what would be the effect. Mr. Easley said, assuming the worst, that they have \$1,000,000 invested in this site this would give them \$3,000,000 for the smaller building. However, he added they will recover some from the sale of the property they had purchased.

Recess: The meeting recessed at 10:35 a.m.

AFTER RECESS
March 22, 1972
1:30 p.m.

Present: All members. Also present were Robert Butler, Executive Director of Alaska State Housing Authority; Ken Gain, ASHA; Wayne Johnson, ASHA Board of Directors; Eric Wohlforth, Commissioner of Revenue; Kenneth Kadow, Commissioner of Commerce; Will Condon, Assistant Attorney General; Dave Roderick, Housing Finance Corporation; Robert Gottberg, Housing Finance Corporation, and Richard Freer, Deputy Commissioner, Department of Administration.

AHFC
HB 713
Chairman Hohman called the meeting to order and stated that the Alaska Housing Finance Corporation was the subject of discussion. HOUSE BILL NO. 713 (an Act relating to the Alaska Housing Finance Corporation) was also to be considered.

Mr. Gottberg stated that there were questions put forth by the committee from an earlier meeting which he would attempt to answer now and referred to the report "Memorandum to Legislative Committee" (see file).

Mr. Gottberg proceeded to explain how they arrived at recommended income limitations. He said the AHFC made a study of what it would cost today to build an apartment building and rent it out so the developer could make a reasonable profit. He added that it was not the market they went for but instead the cost of construction. He said they were 10 per cent above the FHA market interest. AHFC took FHA figures, added 10 per cent, and adjusted it for areas with higher costs of living. The state's pay scale standard was used. While FHA recognizes three cost areas of the state, AHFC did not feel that was adequate and therefore used the salary schedule presented.

Senator Rettig entered the meeting.

Mr. Gottberg then moved on to the second question which related to the amount of money available for FHA, VA and conventional mortgages. He explained that under the financial package 10 per cent of the bonds they sold would qualify for conventional mortgages. There are \$24,000,000 worth of tax exempt bonds, so there would be \$2,400,000 for conventional mortgages. If the corporation goes well, Mr. Gottberg thought they would go to bonding in the next few years with approximately \$50,000,000. Therefore \$5,000,000 would be available for conventional mortgages.

Chairman Hohman referred back to the first question. He stated that according to Chart No. 1, a two-person family in Bethel would have to be making a family income of \$16,390 in order to qualify. Mr. Gottberg said that was correct. Chairman Hohman stated his concern was that a person could make \$17,000 in joint income and not qualify for conventional financing except on a five-year basis which puts payments at a very high rate and he still would not qualify for the conventional financing.

Mr. Gottberg stated that under the present limitation that was true, and added that this was why they want to raise the level to moderate income. Mr. Hohman asked if this same two member family in Bethel would qualify under the provisions of HB 713. Mr. Gottberg replied yes. Mr. Hohman then asked what would happen to the chart they were now referring to. Mr. Gottber answered that it would be useless. He said that currently they are 25 per cent lower in their lower income rate than in other states.

Chairman Hohman said that other states have conventional institutions which will lend money on a long term basis. He said his concern is AHFC is not addressing itself to rural housing needs.

Mr. Butler said that for the moment it is difficult to know where to start. He said he had spoken with one representative who had felt the income limitations were too strong; that people were not poor when they made \$18,000 a year. He stated that the average salary scale of a teacher is \$13,500 per year while that of an average state worker is \$12,000 per year, and neither person is poor. He said they tried to be liberal and they invite the committee's suggestions. He said they are 10 per cent above what the federal government recognizes as income limitations.

Chairman Hohman suggested the AHFC address themselves to the housing need. The chart is not needed. He said if other financing was available "then use it"; if not available, allow AHFC more flexibility and leave the chart behind. Mr. Gottberg stated that if they got moderate income, it should cover that item.

Representative Degnan asked if the rise to moderate income could not be done now under existing law. Mr. Butler said that in HB 713, page 1, subsection (b), they try to take care of that. He stated that in areas where one could not get conventional funding, perhaps the income should not be a consideration. Mr. Butler added that in the original

statute defines persons with lower income, and Mr. Butler didn't think that they addressed themselves to this in the new legislation. He said they have defined moderate income.

Mr. Gottberg stated that in addition to funds available through issuance of bonds, there is also a fund note where they can borrow from the state treasurer. He said they were presently allocated \$7,500,000 for 1973. In answer to Mr. Fink, Mr. Gottberg said they had requested \$10,000,000, and \$7,500,000 had been approved.

Mr. Fink asked how AHFC can borrow, on what terms and at what rate. Mr. Gottberg replied that the statistics vary with each program. Mr. Fink asked if he had a copy of the commitment letter from the Governor.

Mr. Hohman asked what the source of the funding was.

In answer to Mr. Fink, Commissioner Wohlforth said pursuant to the Act, the Governor makes a recommendation to the AHFC for anticipated funding notes. Mr. Wohlforth said his recommendation was that this amount be not in excess of \$7.5 million. Basically, this was the substance of the Governor's letter, and Mr. Wohlforth said a copy of this would be made available.

Representative Fink then asked if the Commissioner said what the term or rate is. Mr. Wohlforth replied no, he had not, but that the housing fund notes were not limited to a maximum term or to an interest rate.

Mr. Fink asked what AHFC anticipates and Mr. Gottberg said seven percent. Mr. Butler said they received the letter two days prior to this meeting and they will work out the rate with Commissioner Wohlforth. He thought that there would be different rates for different purposes.

Representative Fink asked if the rate would not be set by the state. Mr. Gottberg said yes, with AHFC.

(Deputy Commissioner Emmitt Wilson of the Department of Commerce and Joe LaRocca, news reporter, entered the meeting.)

Representative Fink then asked what the rate would be. Commissioner Wohlforth stated it would be a low rate and added that until the projects which are currently under design are finalized and backed into the rent schedule, it would be premature to give the rate, but he thought they would be so low they would astonish Mr. Fink.

Representative Wright stated that he was in favor of making money available for Bethel but not at six per cent if rates were going to be eight per cent in Anchorage.

Mr. Gottberg then moved on to the third question which involved an exhibit and a list of loans which AHFC had purchased to date. Mr. Gottberg stated that HFC had not purchased any loans, but had only committed to purchase \$1,408,550. It is anticipated that \$750,000 of these loans will be paid for on March 24, 1972.

Representative Fink then asked Mr. Gottberg about the picture and article in the ANchorage Times on February 16, 1972 which showed members of ASHA - AHFC and stated that they had bought three to five million dollars worth of mortgages. Representative Fink asked if the article was a news release from the AHFC office. Mr. Gottberg stated that it was a misquote on the part of the newspaper. Mr. Fink then asked if Mr. Gottberg thought the entire article was a misquote. Mr. Fink asked if Mr. Gottberg had not been bothered by the article if it wasn't true. Mr. Gottberg replied that he had not interpreted the article in the way Mr. Fink had. Representative Fink proceeded to read the entire article, after which Mr. Gottberg said AHFC was working on quite a few million dollars worth of funds at the time. Mr. Fink asked if ASHA or AHFC had put out any news releases around January or February. Mr. Gottberg replied that they had had the picture taken on January 5, 1972 but had given no official statement.

Representative Fink referred to the \$24 million worth of notes they had sold in nine months and asked if the state gave a guarantee. Mr. Gottberg said the Commissioner of Revenue guaranteed that if the bonds aren't issued, he would purchase the mortgages from the corporation. They issued \$24,000,000 in bond anticipation notes, and they wanted to use the proceeds of those notes to make permanent loans. The agreement was if they should not be able to go to bonding, the Commisisoner of Revenue would purchase the notes.

Representative Fink asked if the agreement was part of the note sale, and Mr. Gottberg answered yes. Mr. Fink stated that the Department of Revenue was therefore the guarantor of the notes but added that he thought the state could not be a guarantor.

Commissioner Wohlforth then read the Mortgage Purchase Agreement and said the agreement was with the Commissioner of Revenue to purchase mortgages under certain conditions and they can make long term commitments nine months in advance to purchase mortgages.

Mr. Fink thought they were using the credit of the state. Mr. Wohlforth said that this was not the Attorney General's

interpretation. Commissioner Wohlforth said the Attorney General said they have the power to commit to purchase mortgages in advance for the term of this agreement which expires on November 21.

Representative Fink asked where the guarantee was, and Mr. Wohlforth replied that the mortgage purchase agreement was in the record of the proceedings. Commissioner Wohlforth said it was not referred to as a guarantee but is a mortgage purchase agreement. Mr. Fink asked if it was in the part of the evidence of indebtedness; Mr. Wohlforth replied no, it is a commitment with the Department of Revenue. Mr. Wohlforth then read from the Attorney General's opinion on the mortgage purchase agreement which was valid and binding. Representative Fink then asked if the note holders would be able to enforce the agreement.

(A representative from the Attorney General's office was sent for.)

Mr. Fink requested a copy of the debt instrument and whatever agreement was made.

Mr. Wright asked what the rate was. Mr. Gottberg answered seven per cent. Mr. Fink interjected that that was the maximum rate that can be charged on FHA's and VA's. Representative Wright then asked what the maximum was on total limitation. Mr. Gottberg stated that \$49,500 was the maximum for FHA's and there is no established limitation for VA's.

Representative Fink then asked if there was any reason why the Federal National Mortgage Association didn't buy the loans listed. Mr. Gottberg said FNMA's present discount is 4 & 1/2 per cent. He added there was no reason they would buy but would not buy at this discount. These loans were made when discounts with FNMA were six per cent.

Representative Fink then stated that the banks in Anchorage until two weeks ago were making loans at 3 & 1/2 per cent discount. Mr. Gottberg said that was true, and that they were made before they reduced their rates. Representative Fink asked what rate AHFC bought today; Mr. Gottberg replied at 3 and 1/2 per cent. Mr. Fink asked how they arrived at that. Mr. Gottberg said that under the financing plan drawn it was recommended at 7 per cent with a 3 & 1/2 per cent discount. Representative Fink then asked how they were helping people at buying at 3 & 1/2 per cent if the bank's rate is the same. Mr. Gottberg then referred to the last page of his written presentation noting this was an example of how AHFC could help.

Representative Fink stated that they were then lower on 12 month commitments than FNMA but for the next 12 months there is no advantage. Mr. Gottberg said there was none to the person purchasing a house today. He said that should the discount rate exceed 3 & 1/2, the terms must be renegotiated.

Representative Fink referred to the 4 & 1/2 per cent rate of FNMA and then asked why the AHFC had only one rate. Mr. Gottberg replied for the sake of stability. He added that FNMA was not stable; the association had been as low as three and as high as twelve in the last three years.

Representative Fink stated that he felt AHFC should not charge any discount. Mr. Gottberg said that if the corporation were making all FHA loans throughout the state to all buyers within the state, then Mr. Fink was correct. He said that your lower discount could be of benefit. He gave an example of a \$31,000 house, and the people could qualify for the income limit and are charged no discount, and could turn around and resell the house for a \$1,000 profit. He said this is not meeting the true intent of the corporation.

Mr. Butler stated that after the last hearing before the committee AHFC checked with the New York bond council to see about dropping the interest rate and discount rate. He said the bond underwriters told them that if they go below 7 per cent or 3 & 1/2 per cent discount, they will not break even.

Commissioner Wohlforth stated that there was no assurance that the mortgage rates will stay at the present level. The municipal bond market average may begin to creep up. The markets don't act entirely independently from each other.

Mr. Butler stated that they have two purposes: 1) to help the consumer and 2) to make a profit for operating cost for the agency.

Mr. Gottberg said that he had been a mortgage man in Alaska for 12 years, and during that time he observed the interest rate going up and down with the discount rates; he felt that this bill is a tremendous assist for all citizens in the state. By going into these programs, AHFC will "hit the majority of the people the soonest".

Representative Fink said that the same mortgages could have been sold to FNMA. Mr. Gottberg said yes, but at a higher discount.

Mr. Fink said there was a 4 & 1/2 discount if they sold to FNMA, so people could have done the same thing without AHFC. Mr. Gottberg said they would have had to pay more for their home. Representative Fink asked why, and Mr. Gottberg answered because the builder has his own sales price. Mr. Fink again stated that FNMA buys at 4 & 1/2 per cent. Mr. Gottberg said that that was true today but that last October their discount was 8 & 1/2 per cent. Representative Fink stated that he was referring to the months of February and January of this year. Mr. Gottberg stated that FNMA's rates at that time were 6 and 7 per cent.

Mr. Gottberg said that these were commitments, not loans. Representative Fink asked if those which had been committed to purchase had actually been made. Mr. Gottberg said that some have been made. Representative Fink stated that therefore all others in the document refer to commitments. Mr. Gottberg said yes. Representative Fink then asked if AHFC agreed to the commitment discount; Mr. Gottberg said yes. Mr. Fink pointed out that they fluctuate from 4 & 1/2 to 3 per cent. Mr. Gottberg said they will be at the same rate from now on and there should be no fluctuation. The reason they had fluctuated before was because they moved into separate programs, away from the original "tandem" plan.

(Senator Rettig left the meeting.)

Representative Fink then asked if the people knew they had been "helped" by AHFC. Mr. Gottberg replied that they did not know to his knowledge.

Representative Fink then asked where the \$24 million was today. Mr. Gottberg said the money was in time certificates of deposit in various banks throughout the United States. Mr. Fink asked why they had not deposited the money in Alaskan banks. Mr. Gottberg stated that Alaskan banks took \$7.5 million. AHFC had put out the money on a bid basis. Representative Fink then asked at what rate Alaska banks are paying. Mr. Gottberg said 3 & 1/2 per cent for 60 days, and one nine month commitment was at 4.7 per cent. Mr. Fink asked for the rates of outside banks. Mr. Gottberg said that some were 4 per cent, and some 3 & 5/8 per cent, depending on the terms. Mr. Fink asked Mr. Gottberg if there was any reason they had not invested in Alaska banks. Mr. Gottberg stated that their move was based on the results of the bid; they wanted to put out the money at the highest possible yield. Mr. Fink asked for AHFC's average rate of return. Mr. Gottberg replied that he did not have that figure with him. Mr. Fink then asked for the highest rate paid and Mr. Gottberg replied that it was 4.7 per cent. Mr. Fink stated that figure was paid by an Alaska bank.

Mr. Fink asked how much of the \$24,000,000 was in Alaskan banks. Mr. Gottberg stated that \$7.5 million was in Alaskan banks, which leaves \$16.5 million in banks outside the state.

Commissioner Wohlforth stated that W. L. Condon from the Attorney General's office had entered the meeting and would answer any questions.

Representative Warwick asked what the \$24 million was costing the state. Mr. Gottberg stated 3 and 1/2% interest rate and if they will loan it out at 7%. Mr. Warwick felt this was "quite a spread". Mr. Warwick asked how they are getting 3 1/2%. Mr. Gottberg said this is short term notes with various banks throughout the U.S. Commissioner Wohlforth stated that he had a list of those banks with him if the committee wished to see them.

Representative Fink said he felt the main concern over this issue was that it should be used to do something for Alaska residents. He said if HFC has the rate spread possibility it seems they can negotiate the rate spread for enough of a profit to operate on. Mr. Fink said he wondered why HFC insisted on keeping the spread. He said he did not think this reflects any savings to the borrower in the state

Mr. Fink said the statute says the state cannot guarantee indebtedness of the corporation. He asked why this is not in conflict. Mr. Wohlforth said the proper term is mortgage purchase agreement -- not "guarantee". He stated that Revenue exercises the power to enter a mortgage purchase agreement, so they did. The state is not obligated on the note. He added that the Attorney General ruled the mortgage purchase agreement is valid.

Mr. Condon said the state had agreed to purchase FHA and VA insured mortgages from HFC. Under certain conditions the Commissioner of Revenue has the authority to enter into this type of agreement. He added that since that agreement was entered into, the note purchasers saw that there was someone who could take this off their hands, if the notes could not be refinanced or go to bonding. Mr. Fink asked if the state and the Department of Revenue are really bound to buy. Mr. Condon replied yes. In answer to Mr. Fink, Mr. Condon said the only consideration they will get

is interest off the mortgages. Mr. Fink said it seemed that the state should get some consideration since it has pledged its full faith and credit behind those notes.

Mr. Condon said the same agreement could have been entered into between the Commissioner of Revenue and the state bank that might hold mortgages.

Mr. Fink asked if anyone could sue the state on this commitment. Mr. Condon answered that he did not think so. Mr. Wohlforth asked if Mr. Fink meant if the state would renege on the agreement.

Mr. Gottberg then moved on to question 4 in his presentation. He said the finance committee had requested a copy of the rules and regulations published by HFC which had been furnished to the banks (exhibit 1 (B9)). He said that B-1 states the criteria for the conventional single family residential loans. The Board passed a loan maximum of \$40,000 at a 30 year term. The rate was 7% while the fee was 1%. He added that the income limit was set by the corporation.

Mr. Fink asked if the bond counsel also recommends a 1% fee. Mr. Gottberg said no, that the 1% fee was for the purpose of defraying costs of operating, etc. Mr. Fink said the state investment act provides there be a 1/2% of 1% fee. He said the state's investment package says the state can buy a mortgage at 1/2% of 1% in closing and servicing fee.

Mr. Butler said the Board spent a great deal of time on this subject. He stated they had finally come to the decision they were "shooting in the dark". They did not know what to charge.

Representative Fink said if they had bought \$24 million of FHA & VA mortgages at an average of 3 and 1/2% discount, how much would HFC say that is. Mr. Gottberg replied \$840,000. Mr. Fink then asked if they needed that much to operate. Mr. Gottberg said they did not need it for operating but it is a yield spread. Mr. Butler added they did not know what they are paying for the bonds.

Mr. Fink said HFC indicated that they would pay between 5.8% and 6.2%. He then said HFC got 7% on FHA and VA so HFC has a spread already; in addition to that they have \$840,000. Mr. Gottberg said no, that this goes back to part of the actual spread and does not go into

the income of the corporation. Mr. Fink said the income on mortgages would pay debt plus interest if HFC sells at 7%. He said then the mortgages would produce principle and interest. Mr. Gottberg said there was not enough of a spread to meet operating expenses and other expenses such as interest paid on a bond.

Mr. Gottberg said they must have \$840,000 to spread it out over the life of the mortgage, not immediate income. Mr. Fink asked how much it costs to operate. Mr. Gottberg said they would reduce the interest rate to the individual borrower. If the interest rate can be reduced at the time they go to bonding, that is what they will do, Mr. Gottberg added.

Mr. Fink asked if HFC sells as high as 6.2%, would they feel 3 and 1/2 discount points and 7% was a proper rate. He said if they sell bonds at 5.5% and conclude they don't need 3 and 1/2 points and 7%, will they go back to lower rates. Mr. Gottberg said yes.

Representative Fink requested the average rate of return, the list of CD's (who has them and at what terms).

In answer to Mr. Degnan, Mr. Gottberg said they are going out into the bush the first of next month. He said he is having a list prepared of the communities and they plan to set up seminars so the people will know what is available. Mr. Degnan requested a copy of this list.

Mr. Degnan said that in presenting the program, HFC will have to be more clear in how much it will cost the people. Mr. Gottberg said the total cost will be one percent. He said that in some areas they would be required reserves for taxes and insurance. He said if they can't get it, they won't have fire insurance. Mr. Degnan asked if they would still build the house in that case and Mr. Gottberg said no.

Mr. Gottberg said they will try in areas where insurance is not available to get a master type of policy. Mr. Fink said you can get insurance anywhere in the state but the rates become higher for outlying areas.

The committee then discussed FHA requirements. Mr. Hohman then asked about water and sewer facilities. Mr. Gottberg said they were not required to insure a mortgage. He said

He said homes could be built on anything, but the most necessary thing would be to have proper windows in case of fires, etc. He said they would be minimum standards as allowed by FHA. He said that there was one such home already constructed in Bethel.

Mr. Fink asked if there must be a tank or separate well. Mr. Gottberg said it depended on the circumstances of the area. He said if the sewer and water were available and they could be gotten through to the ground, then they would do it.

Mr. Fink then asked if these were new rules and regulations of FHA. He added that most people from the bush felt that FHA is not available to them. Mr. Gottberg said that most people did not know they could get FHA loans and that this was one of the reasons he had taken this job. Mr. Fink asked if there were any standards now. Mr. Gottberg said there are some recommendations that have been made and he had a list of them. He said he would give them a copy. Mr. Butler said it was written by the Chief of Remote Housing and that based on his experience he compiled the recommendations for the bush areas.

Recess: The meeting recessed at 3:30 p.m.

AFTER RECESS
4:00 p.m.

PRESENT All members. The following people were also present:
Mr. Eric Wohlforth, Commissioner of Revenue; Mr. Dick Freer, Deputy Commissioner of Administration; Mr. Ken Kadow, Commissioner of Commerce; Mr. Emmitt Wilson, Deputy Commissioner of Commerce; Mr. Bob Butler, Director of ASHA; Mr. Gottberg, Housing Finance Corp.; Mr. Dave Roderick, Housing Finance Corp.; Mr. Jack Baker, Legislative Audit; Mr. W. L. Condon, Assistant Attorney General; and Joe LaRocca, A.P.

HCR 45 Chairman Hohman called the meeting back to order and said they would continue their discussion of HOUSE CONCURRENT RESOLUTION NO. 45 (Relating to the leasing of space from the Alaska State Housing Authority; to be constructed on the site formerly occupied by the Juneau-Douglas Community College, Juneau, Alaska at a building cost not to exceed \$4,000,000).

Mr. Butler said that before they got into the discussion, he'd like to give a little background on how ASHA feels on this situation. He asked them to take a look at the memorandum he had passed around. He said that the 2nd page had a list of attachments.

Mr. Hohman pointed out that the second page also said they had never modified a trust indenture. Mr. Hohman believed that he had heard there was some modification. Mr. Butler stated that the Anchorage courthouse had gone through an entirely new bond issue and there had been no modifying one.

Mr. Fink asked if they had thought there would need to be some modification at the time. Mr. Wohlforth said that when the Anchorage Justices went down seeking more money for the Anchorage Court Building, there was some apprehension it couldn't be done without modification, but finally they were advised it could be done without modification. The additional bonds at that time were under the financing of \$3+ million last August. They had apprehended that there might have had to be consensus of the bond holders, but that legality was resolved.

Mr. Butler referred them to page 30 of the Trust Indenture which provides that 2/3 of the bondholders have to consent.

Mr. Condon said that the bonds have been sold and are owned by bondholders scattered all over the country. Whether they could convince them they wanted to change the indenture, he didn't know. He said that it was a thing now between the trustee and the State Housing Authority. The bonds are looking to that particular piece of property and building on that property and leas-

ing to the State on that particular piece of property.

Mr. Wohlforth pointed out that the Project Data Sheet attached to the Agreement of Lease described the size, square footage, etc.

Mr. Condon said that one of the things everybody was worried about is the ultimate security of the bonds. People wouldn't buy bonds unless the property had good enough title that the Bond Counsel would sign it. That made it marketable. He explained they couldn't sell bonds unless they were selling bonds to build a building on a specific piece of property with the title insured so that the title insurance would cover buying off the bonds if anything happened.

Mr. Wohlforth said that a construction project had to have a building to produce rents. The building is defined as to size in the lease and it is a fair rental value concept.

Mr. Fink said to suppose they couldn't get 2/3 of the agreement, so they would breach it. He wanted to know what measure of damage that would be to the people who have been breached.

Mr. Condon said that what they would have to do is pay off the bank of America the \$8.2 million and the full cost for 30 or 40 years interest. This could be arrived at by Sec. 11 of the trust indenture and the agreement between the State and ASHA. He said it would be fairly expensive. They would have to deposit \$8.2 million and all the interest with the Bank of America, and then if they were going to do this project, there would be no way to transfer the present fund to the new site and new set of plans, etc. They would have to start all over again because they also couldn't reduce the amount of the project.

Mr. Wohlforth said that Mr. Condon was referring to Page 32, Sec. 1202 of the indenture.

Mr. Wohlforth said they had agreed to build a certain building with fair return value. The State is not obligated to pay the bonds unless the building is built. He said that interest was funded during the construction period, so the bondholders would have to be paid interest.

Mr. Condon said the bank was in the business of enforcing these, and they wouldn't wait five days before they sued because their whole business depends on them stepping in at the slightest breach.

Mr. Fink said there would be \$4 million in the bank if the new resolution passed. Mr. Condon said that if it passed, he

believed they would have to pay off the bonds and go ahead and put together a new project, issue new bonds, and it would therefore, mean starting over from the beginning.

Mr. Wright asked if they couldn't make arrangements to transfer \$8.2 million to another project or projects on other sites. Mr. Condon said that 2/3 of the bondholders would have to agree.

Mr. Wohlforth said they would have to hire a financial advisor to circuit the country and find out where the bonds were and he assumed it would take three or four months if the advisor didn't come back and say in one month that it couldn't be done. Mr. Wohlforth said it certainly wouldn't do any harm to seek the advice of a financial authority to see what the recommendations of success would be.

Mr. Wright wanted to hear what Mr. Freer said. Mr. Freer said he didn't know what his involvement in it was. He said he represented the Department of Administration at two or three of the meetings with the architect.

Mr. Wright asked if the Department of Administration had the authority to decide on square feet, and then the Department of Public Works executed what Administration had decided upon. Mr. Freer said that it was their responsibility to see that space was provided for State agencies.

Mr. Wright asked why they needed 64,000 feet for four judges. Mr. Freer stated that the Department of Public Works was in a contractual arrangement with ASHA to contract for an architect and develop plans. He said they also had input from Judge Fort, a specialist in courthouse planning. The plans were developed by the architectural firm. He said this was the normal way of doing things. Mr. Freer said they were interested in seeing that there was an adequate courthouse. He said the Department of Administration was only responsible for the technical part of developing projects, review, and policy reports. He said however, that in the final analysis the Department of Administration does give the stamp of approval.

Mr. Wright asked where the Department of Health and Social Services would be moved to. Mr. Freer said they were still waiting for some decisions. He stated that if Juneau's court building is built, they would have to find a place for Health and Social Services. If the court building isn't built, they will leave them where they are. He said the two locations under consideration in case they have to move are the subport and the airport hanger, the latter having the lowest rate in terms of square footage cost, but Commissioner McGinnis doesn't approve that location.

Mr. Wright asked if Administration was responsible for the decision on where it would be located, and Mr. Freer said yes.

Mr. Wright said that Sen. Ray had told him it would be relocated at the subport. Mr. Freer said the Commissioner of Administration didn't feel they should be moved there.

Mr. Warwick asked how they could get the project down to \$4 million. Mr. Butler said they would have to have 2/3 consent of the bondholders.

Mr. Hohman asked how they could stop the project. Mr. Wohlforth said they had made a deal and put it under contract.

Mr. Fink said to suppose the State of Alaska wrote a letter to the trustee and said they were going to use the money they had gotten, and in addition to that the State of Alaska was going to guarantee payment of those bonds. It seemed to Mr. Fink that if the trustee agreed to it, the situation would have improved for the bondholders. His point was that he thought the trustee would say the bondholders were better off because of it--it would be the same as General Obligation bonds.

Mr. Fink explained that he wasn't suggesting to give them the money. The State would keep the authority to hold it, but if it was necessary, the State could issue a check if 2/3 of the bondholders didn't agree. Mr. Fink didn't think the trustee would sue them if they did this.

Mr. Wohlforth asked about interest on the bonds. Mr. Fink said he was talking about using the bonds. The balance would be to use in other projects.

Mr. Wohlforth said he was not saying, certainly, that some deal couldn't be worked out to cause 2/3 consensus, but that was the job of the financial advisor, and not done through the trustee. Mr. Wohlforth said the trustee was acting on the behalf of the bondholder, and he needed 2/3 consensus from them to accept such a deal. Getting the consensus would stall the project about a year.

Mr. Fink said he was assuming they build. He said they should inform the trustee, add a "sweetner", and put up State money to guarantee it. He thought the trustee would say they had a better bond. Mr. Condon said he thought the trustee would sue immediately.

Mr. Fink said that if they took revenue bonds he had and changed them to General Obligation bonds, he wouldn't sue. He'd go out and sell the bond at a profit.

Mr. Condon said the bonds were sold to bondholders with a lot of expectations on their part. He said that if they were to

change courses, he didn't think they could get anybody to go along unless they had title to the property, etc.,--everything tied down. He didn't know what would happen, nobody's ever done such a thing before. It was not expected.

Mr. Wohlforth reiterated they would have to talk to the bondholders prior to legislative action to see if it would work. If not, then they would have to be paid off. Mr. Fink said there wouldn't be that much in damages. Mr. Fink thought the person was only entitled to whatever would have been gained off the contract.

Mr. Condon stated that the trustee is the middle man in a specific trust arrangement. He is forced to enforce the trust agreement as it is and cannot agree to a change and say it is a better deal. Mr. Condon said a trust company is in business to hold to an agreement whether or not the beneficiary is getting a better or worse deal. Mr. Condon said the trust company would take them to court, no matter what they did. He doubted the Bank of America would hesitate to sue in a breach. He said the only way to modify the trust indenture was to go to 2/3 of the bondholders. He said that it could be modified in specific ways and the proposed change to new projects would require 2/3 agreement. He said they also would have to agree on the specific new projects. He said this would effect the method of financing in the future.

Mr. Wright said he thought ASHA was intolerable and that this was a public scandal. Last year, they had said they would need \$3 million and now they say \$8.2 million. Mr. Wright added that they had no assurance that it would even stay at the \$8.2 million.

Mr. Fink asked if anyone had any idea how widespread the 2/3 were. Mr. Condon said he had looked over the list and he still really didn't know. Mr. Wohlforth said a financial advisor would be the best one to give that information.

Mr. Butler spoke to Mr. Wright regarding his feeling on the Juneau Court House. Mr. Butler said that Mr. Wright's statement was not accurate. He said that in the first place, when he was the Deputy Commissioner of Commerce, he testified on the Anchorage Court House only. What happened then, was that he went up to Anchorage and took over as Director of ASHA. He said the resolution going through the legislature was for the Anchorage Court House and then during the last days of the session, Sen. Ray tacked on an amendment to include the Juneau Courthouse. He said that he had never heard of it before the day it passed the legislature. He didn't think there was one person from ASHA who had given testimony on the Juneau Court House.

Mr. Wright said that what they were concerned about was that it should be put on the ballot. He said they wanted either to clear it up or put everything on the ballot. He said there was a question as to whether it was legal going the ASHA route.

Mr. Butler said that as they had discussed last night, the legislature has the responsibility in this as they had passed the resolution. He said they could have put a limited figure into the resolution.

Mr. Freer said he didn't know anything about the \$3 million figure for the Courthouse building for Juneau.

Mr. Fink asked what the denomination of the bonds was. Mr. Wohlforth stated that the schedule attached to Document 20 lists all the bonds and all the coupons in \$5,000 amounts. Mr. Wohlforth said that the net interest cost basis was 5.6690%.

Mr. Haugen asked, assuming they were stuck with the Juneau Court House, what the annual rent would be. Mr. Freer said he would try and get that information. Mr. Wright asked if he would also get that information on the Anchorage Court House.

Mr. Hohman referred them to Lease 11, page 5, subsection b, which referred to property substitution. He read this out loud.

Mr. Wohlforth said that it was true as pointed out in Mr. Henri's letter that there are certain conditions under which a parcel may be substituted. The conditions are equal utility at no greater or lesser cost. He said that the thing which gives the bondholders the right to insist on the building is Project Data Sheet No. 1 which describes the square footage and general description of the building. Parcels can be switched, but dimensions and footage are fixed.

Mr. Ditman asked who made the arrangements for the architect. Mr. Butler replied that it was the Division of Buildings, Department of Public Works, and it was done by contract.

Mr. Ditman asked whether the contract was done in such a way as to indicate the amount of money to work within. Mr. Butler said that they had received estimates that morning on the breakdown of the \$7.2 million for construction.

Mr. Fink said that the committee had gotten the same estimates from Commissioner Easley. Mr. Fink said that Mr. Easley's position was he was told how many square feet were to be in the building. The Department of Administration said that was what they wanted. Mr. Fink said that under the law Administration contracts with ASHA and ASHA tells Public Works to build.

Mr. Freer said they were talking about a court building with approximately 60,000 square feet. He said this figure was developed by the Space Utilization Firm.

Mr. Ditman asked whether the contract specified a building of 60,000 square feet. Mr. Freer didn't know.

Mr. Warwick asked whether the first plan hadn't run around \$10 million. Mr. Freer believed that was true, and that it had been cut back.

Mr. Freer stated that the Department of Administration was responsible for seeing there was adequate space for the various agencies of the State government. He said they determined that court buildings were needed in Anchorage and Juneau. They had information developed for them which indicated they would need about 60,000 square feet in Juneau. They gave that information to the Division of Buildings. Everything else is in their hands, until they come back to Administration. Administration has to make recommendations on what comes back to them. In the final analysis, they say yes or no.

Mr. Ditman asked whether the Department of Administration recommended 140 parking spaces. Mr. Freer couldn't answer that. Mr. Warwick said "It sounds like the Mayor of Juneau snuck it into the proposal".

Mr. Ditman asked the name of the architectural firm, and Mr. Freer said it was Crittendon.

Mr. Hohman said they should either stop the thing or build it quickly because of the escalating cost factor. He said it had been their understanding when they had passed the resolution that it would cost \$3 million. The session had ended about May 11. He had a copy of the Juneau Empire from May 12 telling about the authorization of the new court building saying that it would run at about \$4 or \$5 million. He referred to the Juneau Empire dated May 14, only two days later, and Mr. Henri announced that it would be constructed for \$6 million. It grew to \$13 million before they decided to hold it as close to \$10 million as they could. That facility was to encompass 80,000 square feet of space. Now it had been cut back to \$8.2 million and 60,000 square feet. He noted that the parking had been cut back to 106 spaces.

Mr. Wright asked Mr. Wohlforth what he would do in their predicament. Mr. Wohlforth said he would get a financial advisor to prepare a deal and send him around to get consensus from 2/3 of the bondholders.

ADJOURN Meeting adjourned at 5:10 p.m.

HOUSE FINANCE COMMITTEE

March 23, 1972

8:45 a.m.

Present: All members except Mr. Wright. Commissioner Kadow and Deputy Commissioner Wilson, Department of Commerce, Mr. Butler, Mr. Gottberg, Mr. Rodericks, Mr. Gain, from ASHA; Commissioner Henri and Deputy Commissioner Freer, Department of Commerce; Mr. Condon, Department of Law; Mr. Joe LaRocca; Mr. Paul Young, Miss Nena Foust and other AMU students were also present.

HB 549 Chairman Hohman called the meeting to order and said there were students from AMU who wished to give testimony.

Mr. Paul Young stated that they were appearing on HB 549 (an act providing for tuition grants to students within institutions of higher education in Alaska). Mr. Young said they were appearing to represent themselves and the student body of AMU. He said their transportation had been paid for by the student government. He said their presentation is to show that the students are committed to higher education in Alaska and not to a state monopoly of higher education.

Mr. Young said the students at AMU are not a "bunch of rich snobs", 75% of their population of students work and have some type of financial aide; one-third of the population are Alaska Natives; and 85% of the population are Alaska residents. He said these statistics were presented to show they are talking about Alaskan residents who are seeking a form of higher education. He said the reason they are committed to AMU is because it is a good educational facility. AMU offers "things the state institution cannot", such as smaller classrooms, lower student-professor ratio and innovated programs.

Miss Foust added that AMU and Sheldon Jackson serve the need of Native students. She felt that AMU provides a small community within this institution which more closely approximates the village type community.

Mr. Wright entered the meeting.

As there were no committee questions, Mr. Hohman thanked the AMU students and said the committee

would continue with discussion of HCR 45 (relating to the leasing of space from the Alaska State Housing Authority; to be constructed on the site formerly occupied by the Juneau-Douglas Community College, Juneau, Alaska at a building cost not to exceed \$4,000,000).

Mr. Wright asked if Mr. Henri had provided the committee with their request of how they could go about accomplishing HCR 45. Mr. Henri said that Mr. Wohlforth had advised him that he was taking on this authority. Mr. Henri said he did not have the information.

Mr. Henri noted that the legislature did authorize the Juneau Court House in SCR 45 last year. He said about the same time he entered into a contract with the Space Utilization Analysis Corporation (SUA) to do a space study of the state office needs, including Juneau. He said SUA was asked to study both the Juneau and Anchorage court houses to assure that the court houses would not be over built. Mr. Henri said he detected a suspicion among the legislators that they feel the judiciary may be tempted to build beyond their needs. Mr. Henri said he wanted to get an independent source to advise the state of the needs in Juneau.

Mr. Henri said he is personally convinced that the court house is sufficient to meet the needs in Juneau, and does not have surplus.

Commissioner Wohlforth, Department of Revenue, entered the meeting.

Mr. Henri said that the first site which was proposed was the Juneau Memorial Library. A strong-minded delegation had appeared in his office and protested this because it was a memorial library and should not be disturbed. Mr. Henri said he had reviewed the Crittendon Plan done by the previous administration as to other sites. The next site, Site C, was the block between 3rd Street and 4th Street (this is the location of the Methodist Church, the Coast Guard Building and the Old Territorial Building). This selection was out of the Crittendon long range plan, Mr. Henri added. He said that land is now owned by ASHA in toto.

Mr. Henri said the legislature had been disturbed that they were under the impression that the cost of the court house would only be \$3.5 million rather than the \$8 million. He pointed out to the

committee that this \$3.5 million figure came from the legislature in the form of two identical bills for direct appropriation for the Juneau Court house. To his knowledge, there had been no survey of need to come up with this \$3.5 million figure. The need was surveyed after the passage of this and the \$8 million figure eventuated as a component of the square footage requirement. Mr. Henri said that no representation has ever been made by Administration or by the courts that it would or should cost \$3.5 million.

Mr. Warwick said they had information from reliable sources the method used by this outside firm was that they approached people in authority and asked them what the need was and whether it was reasonable or not this was the figure used. Mr. Henri said this statement was "without foundation". He added that SUA used guidelines as to what court room space should be and was not influenced by any representation in Alaska.

Mr. Degnan asked if this firm used U.S. standards or what would apply for Alaska. Mr. Henri said they addressed themselves to court house needs. He added that he did not believe the Alaska situation is any different than court room needs anywhere else.

Mr. Wright asked when the final document was delivered (SUA study). Mr. Henri said they had the preliminary report some "time in the late summer". Mr. Wright asked when the decision was made for the final square footage. Mr. Henri said he could not say exactly but it was after the preliminary report was delivered.

Mr. Wright questioned Mr. Henri asking if it was true that Mr. Henri had told he and Mr. Warwick in a conversation held in Mr. Henri's office that he had nothing to do with this, he had no part in the number of parking spaces. Mr. Wright asked if he recalled this. Mr. Henri said he did recall that they (Mr. Warwick and Mr. Wright) wanted to defeat the court house. Mr. Wright said he had given them the impression that this "just happened". Mr. Henri said that Mr. Wright was mingling what he had said in regard to HCR 4 with the court house problem. Mr. Henri said for HCR 4 they had done a meticulous square footage report in advance. This was opposed to the court house planning because they had nothing to do with it in advance.

In answer to Mr. Wright, Mr. Henri said they had used the SUA study as a maximum and there had been close negotiation with the judiciary as to whether the building as planned met their needs. Discussion followed on how this compared with the Anchorage addition.

Mr. Wright said they had originally been under the impression there would be 140 parking stalls and were later told this was 106. Mr. Wright questioned 106 parking stalls for only four judges. Mr. Henri said this parking will not be open to the general public.

Mr. Henri said he was going to initiate a plan whereby these parking spaces would be rented on a monthly fee. Mr. Fink asked who would they rent to and Mr. Henri said the first priority would be to the people in the building. The second priority would probably be state employees, he added. Mr. Fink questioned the amount and Mr. Henri said this had not been set but would probably be \$25 to \$30 a stall per month. Mr. Fink asked when this would start. Mr. Henri said this is one of the things they have planned for budget deliberation and would start some time after they "had a clear handle on what it would mean".

In answer to Mr. Fink, Mr. Henri said that the \$10,000 per stall is not a firm figure.

Mr. Warwick asked if the revenue projections included fees for parking. Mr. Henri said no because this has not been initiated.

Mr. Wohlforth reported to the committee that he was expecting a telegram regarding the list of bond holders that had been requested in yesterday's meeting.

Mr. Henri noted his experience on Juneau's parking problems. He reiterated this parking for the court house would not be for the public. He said it was his personal view that they should put in parking at all state buildings regardless of what area of the state they were talking about.

Mr. Warwick asked if the additional rent on the court would cause a significant increase in the Court's budget and Mr. Henri said yes.

In answer to Mr. Warwick, Mr. Henri said that the buildings provided in HCR 4 do not increase the budget but the court house does increase it because they do not have that space. However, when the building is paid for it will belong to the people of the state -- they will have this as an asset.

Mr. Fink asked what the reaction would be if they delayed the building for 18 months, at which time they would build on the planned property and build at a cost of \$8.2. Mr. Fink said also this would not be used strictly for courts but would meet some of the other needs of the state. Mr. Wohlforth said the interest is capitalized during the construction period for 39 months. He added that for 18 months the legislature would be faced with paying interest on a building they could not use. Mr. Fink said that the yield exceeds what they are paying. This was briefly discussed and Mr. Fink noted as long as they were earning as much as they were paying out there would be no great loss. Mr. Wohlforth stated that the construction funds invested during the construction period were of necessity invested short term. Mr. Fink said even if they assumed there would be a shortage there is still going to be a lot of expense involved in relocating the Department of Health and Social Services (now housed in the Coast Guard Building). He said if they compare the cost of moving them out and then back it will still be less than the differential cost. Mr. Wohlforth said this would be a breach of the covenant in the bond agreement. Mr. Wohlforth said he would be concerned with how the Wall Street Journal would react and the headlines that might occur. He was concerned with the unfortunate effect this would have on Alaska's ability to borrow as far as ASHA bonds and also possibly GO bonds. Mr. Fink said he did not see a problem if they merely said they agreed to build the building but would not start construction for 18 months.

Mr. Henri referred to the move of the Dept. of Health and Social Services. He said he had seen a figure of \$14,000. He noted as far as adequate space for the department he had offers "coming out of my ears". He briefly discussed the cost of rental space.

In answer to Mr. Wright, Mr. Henri said that there is a figure of \$400,000 for rental and the move of the Department of Health and Social Services; however, he said he could not justify this figure.

Mr. Wright asked what would happen if they provided both space for the Department of Public Safety as well as the courts in the court building. Mr. Henri said there are a great many other activities planned to be in this buildings such as the Public Defender, legal services on the civil side, probation officers (Division of Corrections) and the District Attorney and his staff. Mr. Wohlforth read from the lease which said "structure that houses the court system". Mr. Fink said almost every department has something to do with the court system. Mr. Warwick asked if it would be a breach if they put the Dept. of Administration in this building. Mr. Condon said no, he did not think so. Mr. Henri pointed out that the legislature desires more space in the Capitol Building and this is one of the reasons this bill for the court house came to pass.

Mr. Degnan asked if it wouldn't be wise to slow down the building in Juneau in light of the desire of a sizeable number of Alaskan residents to move the capital. Mr. Henri said he has not done any space study with the avowed idea of the capital moving. Mr. Henri said, however, everything that is being proposed this year would be needed regardless of where the capital is.

Discussion followed on the police academy in Sitka. Mr. Henri said the SUA plan has the police academy in Sitka and he could see no reason for it to change. There was more discussion on the possibility of the Kenai facility being purchased. In answer to Mr. Hohman, Mr. Henri said he believed the cost of construction for the academy was \$2 million (2 buildings at \$1 each).

HCR 4

Mr. Hohmar said the committee would like to have a breakdown on the buildings in HCR 4. This is to include schematics, cost and how the space is to be utilized.

Mr. Wright also requested a report on the square footage of the Public Safety building in the subport.

Mr. Warwick noted that the cost of the court building per square foot will be over \$100 and including the

parking it would be \$140 a square foot. Mr. Warwick noted that this is extremely high. In light of this he questioned that the other buildings proposed could go the same way. Mr. Henri said they did not make representation on how much this court building would cost. He said the estimates they are proposing in the other buildings are in every case generous, they are not conservative estimates.

Mr. Warwick said they had been told the court building would cost \$5.6 million. He asked what would happen if it came out at \$3.6 million. Mr. Fink restated this by asking if they spent \$4 million on the building and they have \$8 million what would happen to the rest.

Mr. Condon said that ASHA has agreed to provide 120,000 square feet and if they could do this for \$4 million they could take the rest of the money and build another building. Mr. Henri added that they would have to rely on the integrity of ASHA. He said their estimates have been close to the actual cost of buildings. This was briefly discussed and the meeting recessed at 10:08 a.m.

Recess:

AFTER RECESS

11:00 a.m.

PRESENT All members. Mr. Henri, Mr. Wohlforth, Mr. Butler, Mr. Gottberg, and Mr. Condon were also present.

HCR 45 Chairman Hohman called the meeting back to order and said they would continue their discussion of the Juneau Court House. He said they had received copies of memorandums written by M. Susan Golub, Senior Architect, Division of Buildings, regarding the Juneau Court and Office Building. Mr. Hogan gave each of the committee members copies.

The committee members read through the memorandums. Chairman Hohman asked if there were further questions regarding HCR 45. There were no further questions, so Chairman Hohman made a summary statement. He said he thought they all realized the Committee was concerned about what was happening. He said they felt there had been a serious breach here with respect to this building. The costs had gone from \$3.5 million to \$8.2 million and they don't feel that a project on this scale carries as high a priority as some of the other things that should be done in the State. So, they are attempting to do something about it. They are not sure of the course to follow, but are definitely of the opinion that something should be done. He didn't know if this had significance for HCR 4, the other building proposals, or not. He said they'd like to see a scaled down version of the court building proposal.

RECESS Meeting recessed at 11:05 a.m.

AFTER RECESS

11:20 a.m.

PRESENT All members. Mr. Henri, Mr. Wohlforth, Mr. Butler, Mr. Gottberg, and Mr. Condon were also present.

HB 713 Chairman Hohman called the meeting back to order and stated that they would go back into ASHA's proposal for a change to the Housing Finance Corporation's statutes. He said that HOUSE BILL NO. 713 (An Act relating to the Alaska Housing Finance Corporation) was under discussion.

Mr. Butler began by stating that even though the original legislation passed last year was model legislation, some of the things in it don't fit the situation in Alaska.

Commissioner Wohlforth said there was an outline of the bill in the Governor's transmittal letter. He said that the new section which starts on page 2 is of the most interest and it is summarized in the 3rd paragraph of the Governor's letter.

Mr. Wohlforth referred them to page 3, line 10 of the bill where AS 18.56.090 is repealed and re-enacted. The reason for this is to accomodate long-term bonds. Even though income on mortgages can plow into the state's General Fund, bondholders have to have the right to them until they reach a level of surplus that mortgages belong to the State free and clear. This is a finance device which permits long-term bond issue to come out and fund short term notes now outstanding in the amount of \$24 million.

Mr. Warwick asked when the bonds would be sold. Mr. Wohlforth said under ideal conditions it would be November or December.

Mr. Warwick asked if that meant that \$24 million would be tied up in mortgages by that date. Mr. Wohlforth said that it was obviously enough mortgages to permit long term financing at that time.

Mr. Warwick asked how much of the \$24 million needed to be tied up. Mr. Wohlforth thought it was the whole amount. Mr. Gottberg said that \$24 million was the anticipated amount. He said that the need wasn't there that they had in January and December. He pointed out that there was 236 housing for the elderly in Juneau.

Mr. Wright asked if they had considered 235 housing. Mr. Gottberg said they were servicing 235's at the present time.

Mr. Fink asked how the need had changed. Mr. Gottberg stated that right now the banks close at 3.5% rate. There's a specific need for up to 5.5% mortgages. He said construction took six months to build. The individual could have a commitment at 3.5% while there was a six-month agreement through FNMA at 5.5%.

Mr. Gottberg said that if there is a discount rate of more than 3.5% there is a need. Mr. Gottberg said they had to keep the market value of the property the same.

Mr. Fink asked if that was the purpose of the organization. Mr. Gottberg said hopefully. Mr. Fink asked what stability of the market had to do with making houses available. Mr. Gottberg said he had been incorrect in his early statement.

Mr. Fink asked Mr. Gottberg if it was true that if the market rate was 3.5% or less there was no need. Mr. Gottberg said that was correct. If they went beneath 3.5% discount, they found financing does not look feasible. They have been told this by three underwriting firms. All three have had extensive bonding of other state housing finance corporations.

Mr. Fink said they were not necessarily meeting the need then. He said that if they were going to meet the need through sale of the bonds, 3.5% didn't constitute the need.

Mr. Fink said that they didn't have to sell bonds. They could use another means. He thought that if they were trying to meet the need of the housing market, that should be the goal. He said that if 3.5% didn't meet the goal, they should find another method of financing.

Mr. Gottberg said that at a bank it was 3.5% one day and 8.5% another day.

Mr. Fink said that some people can't meet the existing standards for the State of Alaska, so they had passed the legislation last year so there would be other means for people to get housing. It seemed to Mr. Fink they were not fulfilling what they were trying to accomplish. He thought they should determine what it takes to fill the need and try to come up with another method of financing.

Mr. Wohlforth said he thought they had made some progress. He was pleased that the \$24 million notes were funded at 3.5%. He thought it was too bad they couldn't have worked

fast enough to do it at the time when discount rates were higher.

It seemed to Mr. Fink that the 3.5% need concept was like saying what is really behind it is the big discount and that makes the bankers happy. He said it seemed that they didn't want to disturb the balance they have presently. He thought the whole purpose was to disturb it.

Mr. Wohlforth said the financing plan bases 3.5% discount on the actual figure of what it takes to get a long-term bond out. He said that if they were attempting to look at the social need, they would be looking at a much more expanded way than this program. He said they hadn't made the progress they had hoped for, but they had made some. Mr. Wohlforth said that all he was saying was that two things are needed to get the actual computations that went into the 3.5% procedure over long-term rates.

Mr. Fink said that the bill contemplated two methods--going to market on bond or using state surplus funds.

Mr. Wohlforth said the state surplus funds was the \$7.5 million. He thought Mr. Fink was talking apples and oranges because 3.5% was not necessarily a relevant consideration.

Mr. Butler said it would be relevant if they could project what the rate was going to be six months from now.

Mr. Fink asked why they should get involved if the cost of bonds was so high it didn't meet the needs. Mr. Wohlforth said there was a need being met.

Mr. Butler said that they could go to 1.5% discount or no discount if they knew what the bond market was going to be. He said that this particular program was not the main thrust of the bill.

Mr. Fink said that the method they have used is convenient to the existing loaning interests in the State.

Mr. Gottberg said that the difference here is that by going to the bond market, they could bring hundreds of millions of dollars into the State. He pointed out that if they used State dollars, there were only so many dollars in the State. By going the bond route, they are providing additional

Mr. Fink asked whether they would sell bonds if the bond people said they needed 10 points discount to do it. Mr. Gottberg said no. However, he added that if private enterprise was doing it for 15, and they could do it for 10, it would accomplish something.

Mr. Butler said that Mr. Fink had been on the point estimate. He said to suppose they did this on the \$24 million and made \$840,000. He stated that one of their goals is to build up surplus to do some of the things in the original act that they can't do now because they are working strictly on loans. He explained there were other things they could do based on grants.

Mr. Fink said they were still basing need on the concept they have to go to market. He thought they should start off with a definition of need, then they should determine the method to follow to meet that need.

Mr. Gottberg said the need under the existing definition of standards proposed a general and "crystal ball" estimate on what the interest rates are going to be to get the 3.5%. Another need is for housing throughout Alaska in the low income section. He said that need was tremendous in size quantified in dollars.

Mr. Fink said that if they had lower points, more people could buy houses who can't buy them today. Mr. Gottberg said that if they had lower interest rates they could convert back to 5 points.

Mr. Gottberg showed the purpose of the \$5 million in FHA and GNMA loans made in January at 5 1/2 discount points and 6 1/2 discount points charged. He said they committed to a few loans for lower income people. He stated they didn't pay \$5 million worth of them in GNMA.

It seemed to Mr. Fink that their goals ought to be related to housing goals instead of basing what they are going to do upon what the bond consultant tells them--such as that they need 3 1/2 points.

Mr. Fink asked if a study had been done on housing needs. Mr. Ken Gain said that one was being drafted now on state-wide housing needs, and it should be done in a couple of weeks. Mr. Gain said there were a lot of needs not being met. They have to operate where there is money.

He said it wasn't a matter of who you wanted to help, but of who you could help. He said it should be less than 3.5 discount. He thought it should be no discount and less than 7% interest. Mr. Fink commented that they put \$13 million into stocks which are supposed to be relatively long-term investments. He didn't see why they couldn't just as well have put that money into long-term mortgages. He said they ought to determine where the biggest need is.

Mr. Wohlforth said that everything in the \$13 million was high grade stock that could be resolved tomorrow. He said that wasn't a long term 20 year investment and couldn't be equalized to these mortgages. He said that if there was a delay in the pipeline until 1977, then the chances are that the State will be out of money between 1979 and 1982 without expanding state service. Consequently, mortgages that they will be unable to get out of, will not help them to meet payments.

Mr. Fink said that they would be able to convert if they wanted cash. He said they could sell mortgages. Mr. Wohlforth said it was harder to sell mortgages than stocks and bonds. Mr. Fink said they could work it out with insurance companies.

Mr. Gottberg said it was much harder to get a settlement from the government than the stock market. That's why now a lot of FHA and GNMA loans are sold as securities rather than mortgages. He stated that under the existing GNMA requirements mortgages cannot be over a year old.

Mr. Fink said that some methods were easier or harder than others. He thought ASHA could accomodate if it wanted to. He wanted them to define the need in terms of what the people need, and then meet the needs.

Mr. Fink pointed out that bankers wanted higher interest rates so that they could sell more mortgages.

Mr. Haugen asked how many units of turnkey housing were in the State. Mr. Gain said that in the Native market there was a need for 6,000 units. The total need for the State is 9,000. He said that if the President's Indian Housing Program works out, the problem of need might be solved. The non-Native population might then be able to pick up 100 units a year.

Mr. Haugen asked how much a unit cost. Mr. Gain said they hadn't gone to bid, but the average was \$30,000.

RECESS

Meeting recessed at 12:05 p.m.

AFTER RECESS

1:20 p.m.

PRESENT All members. Mr. Henri, Mr. Wohlforth, Mr. Butler, Mr. Gottberg, and Mr. Condon were also present.

HB 713 Chairman Hohman called the meeting back to order and stated that they would continue discussion on HOUSE BILL NO. 713 (An Act relating to the Alaska Housing Finance Corporation).

Mr. Hohman asked if they have been involved in rent subsidation. Mr. Wohlforth said they hadn't but they have the authority on page 4, line 3 of the bill. Mr. Butler said that before they can have a subsidy program, they will have to get some surplus.

Mr. Hohman asked Mr. Butler if he had any idea of the extent of the need in this category. Mr. Butler replied that there was an extensive statewide housing study which is still to be printed and bound, and with it they will be prepared to know the needs and financing.

Mr. Warwick said he thought the reason Section 3 was repealed and reenacted was because they added "moderate" income instead of leaving it at just "lower" income. Mr. Condon said the reason it was repealed and reenacted was because they had to renumber it.

Mr. Wohlforth went over the bill pointing out changes.

Mr. Fink commented that there were two funds. Subsidies could only be taken out of the Development Fund, and there wasn't any money in it. Mr. Roderick said that they had the power though because if they came before the legislature, they could ask for a direct appropriation from the State to this fund.

Mr. Condon said that if surplus accumulated as a result of interest paid on bonds and interest on mortgages, and they have more than enough to pay costs of the corporation, they can accumulate a surplus and use that for other things.

Mr. Fink said that the bond buyers were not going to let them use money over the initial money. He stated that the reason for the two funds is so the bond houses can feel secure. Grant monies can come out of the other funds, and right now there is no money in the Development Fund. He thought the only way they would get any money in it was through a direct appropriation.

Mr. Roderick said they were able to negotiate operating expenses when they talked to council underwriters. He stated that techni-

cally, this Act could set up an agency with more power than any other State agency now existing because it has as many powers as any other Act they have seen. However, because of no appropriation, they are left to develop their own techniques of operating costs and making it work.

Mr. Hohman said there had been a conference this week on aging and the problems associated with it. He thought that maybe a rent subsidy program could direct itself to some of their needs. Mr. Gain said they would address themselves to the elderly problem through the low income housing. Mr. Butler said it would be a supplemental program because the federal government does have these programs. The problem with that is they are competing with the rest of the U.S. for available number of units for elderly. HUD has 42 units for Juneau and they have put in for 150 units for Anchorage, but that has been in a good 1 1/2 years. Mr. Butler said there were 20 elderly units in Fairbanks. Mr. Butler stated the reason it would be good if they had surplus money would be that they wouldn't have to wait two years to get what they need now. He said the only problem with HUD is that it is time consuming and they must compete with the rest of the U.S., although in effect, they are competing with the west coast.

[Mr. Wright arrives.]

Mr. Fink requested a schedule showing low and moderate income levels.

Mr. Gain said that in effect moderate income was a 15% increase over the present low income level.

Mr. Gain said that the lower income and moderate income level is what the present Board says it should be. He said, incidentally, that the Federal government in its Housing Simplification Act is going to change the definition to anybody below the median income for any particular area is eligible for low income programs. What this will mean is that 50% of the population is eligible for programs. This would mean something like 88% or 85% of the population of Alaska.

HB 375

Chairman Hohman stated that they would go on to discuss HOUSE BILL NO. 735 (An Act relating to the establishment of a program for assistance for housing and related facilities for Alaskans who are unable to finance housing).

Mr. Gain said that the Subcommittee for HB 713 in the House State Affairs Committee, where the bill was at the present time, had worked up some amendments. Mr. Gain felt that the State Affairs Committee would come out with a Committee Substitute which he thought he concurred with. He went on to give some background on the bill. He said that it went back to five years ago when there were no public housing programs that worked in rural areas in Alaska. As a result of a document by Bob Bartlett,

the Remote Housing Act allowed money to be allowed for self-help units in the bush at a maximum cost of \$7,500 to be paid back up to at least 25%. Authorization for \$10 million was made, but the federal government only appropriated \$1 million a year for two years. The third year they didn't appropriate, and the State Legislature appropriated \$1 million and in 1970 they put it on the bond issue for \$3 million for funding of the remote housing program. In 1972, the federal programs have drastically changed because of the President's Indian Housing Program where they are allowing Turnkey housing to be constructed in bush areas of Alaska. They are now in a position where they have \$2.5 million of the bond funds. He said it was impractical to go to the villages to see if anyone would like to participate in the \$7,500 self-help housing when they know the Presidential Program is available. They are in a position where they really can't spend the money under the present authorization. Mr. Gain said they had considered this for some time, and had gone back and looked at the legislation. They felt it necessary now that the legislature adopt a bill in the form of HB 735 saying this, in a broad sense, is what Alaska remote housing is. The bill is still limited to rural areas since the bond authorization said remote, there is no way of getting around it. They had then gone about seeing where the money could be used. He said there was no point in trying to use it strictly for low income housing because they couldn't see using state dollars if federal dollars would do the job. He said this took them back into the significance of the low and high income. He stated there is a point of economics where a person makes too much to qualify for federal low income programs. They refer to them as "working poor". What they want to do is make the requirement to use this money be that they make more than the maximum eligibility limits for federal programs, but less than the point where he would be able to repay a loan. They want to make the repayment on a sliding scale tied to the person's income. The repayment would be at a maximum of \$35,000 per dwelling. The sliding scale, in effect, provides that a man's income be reevaluated every year. If his income goes up, the grant will decrease, and they also feel that if he gets to a point where he is no longer eligible for this program he should no longer get subsidized interest rates.

Mr. Gain said that of the \$3 million in bond money, only \$1.5 million were sold and only \$1.5 million was appropriated. This leaves \$1 million available for the first year of the program. They are not asking at this point to have the other \$1.5 million appropriated.

Mr. Gain said that to make the administration as cheap as possible they intend to only go into villages getting housing under the Indian Housing Program because if there is already construction

going on, the cost would be more reasonable. When they are going in along with federal housing programs, there will be some type of water and sewage going in and it would be no trouble to hook up the extra ones. This will limit the program. That is why \$1 million will be adequate for the first year, and this will give the legislature time to evaluate the program. He said it would be a conservative program and would fill a hole in the present housing programs.

Mr. Warwick asked the number of federal houses expected to go up. Mr. Gain said that AFN had narrowed down to four villages and expected 100 in Barrow, 100 in Kotzebue, 40 in Gamble, and 30 in Galena. Tlinglet and Haida in Southeast Alaska already has commitments for 160 units and is working on planning for 410 units. He felt they would get 250 under construction this year. The maximum number of villages to benefit would be 15 to 18.

Mr. Warwick asked what agency they would work through. Mr. Gain said that ASHA, other than the Metla-Katla Reservation, was the only legally activated native housing authority. The money has to go through them. What they have done to further Native self-determination is to contract away all of the planning on the program to AFN and T & H.

Mr. Wright asked what it cost the recipients. Mr. Gain said 25% of their adjusted gross income.

Mr. Warwick asked why AFN didn't assume the authority they were given for housing under the bill passed last year. Mr. Gain said it got back to the thing about many of the programs Mr. Hohman asked how much planning money T & H received for 250 units. Mr. Gain said that the first part of the planning for the 160 units was at a maximum of \$15,000. For the second 250 under the Indian Housing Program, they receive \$750 per unit. That \$750 is only for actual expenses.

Mr. Butler pointed out that the planning money had always been \$400 per unit, but that it had just been changed to \$750 maximum.

Mr. Hohman referred to the Report on the Aged that they had received. It seemed to him they could direct the bond monies to get at that need. Mr. Gain replied that since the bond money was limited to the remote housing, most of the elderly people would be within the limits of eligibility for Indian Housing Program. He knew there was a big need for elderly housing in the urban areas, and they are trying to get more units for elderly. He said that there were 42 in Juneau, and they hope that will be raised to 85.

Mr. Hohman thought they should consider using the bond money

an old folks home. Mr. Gain said that when they were drafting the bill it had to fit within the bond authorization, and he didn't know whether that would qualify. Mr. Warwick said they would have to provide certain services in order to get funds. Mr. Gain said no money was available for continuous administration.

Mr. Warwick asked how many units had been built under the self-help program. Mr. Gain said 340 had been completed and 331 were still under construction. The cost will have been \$3.5 million.

Mr. Warwick asked how long the people had to continue to pay for the housing. Mr. Gain replied that it was 20 years.

Mr. Gain concluded his testimony on HB 735 by recommending that the Committee put out the House State Affairs Committee Substitute with a recommended "Do Pass".

RECESS Meeting recessed at 2:45 p.m.

AFTER RECESS
4:25 p.m.

PRESENT All members except Representatives Haugen, Degnan, and Ditman. In addition, Mr. Bob Arnold, Executive Director of the Alaska Educational Broadcasting Commission, and Mr. Frank Butte, broadcasting engineer, were also present.

HB 506 Chairman Hohman called the meeting to order and said that HOUSE BILL NO. 506 (Supplemental appropriation for the Alaska Educational Broadcasting Commission) would be under discussion.

Mr. Arnold said there were two reasons for requesting a supplemental. The first is that there are no federal funds. The legislature identified \$37,500 of the Commission's \$808,000 budget as being from federal grants, but federal grants are made to applicant stations, not the Commission. The budget forecast for such grants is in error. He said this began as an administrative error because the ex-director indicated federal funds as anticipated. Mr. Arnold said that without the \$37,500, production would be cut back. For this reason, that amount of money is requested as part of a supplemental. He said he had explained this directly to the Governor who had agreed. Mr. Arnold said that the additional \$12,000 requested in the supplemental was for the addition of a new staff member. He explained that no new stations had been contemplated, but the legislature had added two facilities which required attention and this occasioned the hire of a full-time technical person. The legislature added a radio station and a television station to the AEBC FY 72 budget, without adding to staff. To accomplish the tasks, the Commission employed Franklin W. Butte, on contract as the broadcasting engineer, and requested establishment of a new position. Since the position has not yet been approved, the rate of pay for Butte continues on a daily basis, and it appears that the Commission will need an additional \$12,000 in funds for contractual services. Mr. Arnold said that that in brief was the justification for the supplemental.

Mr. Arnold Fink asked whether they could take \$37,500 from the \$627 slated for Bethel Broadcasting. Mr. Arnold said that reducing the amount from the Bethel budget was not a good alternative, because to get Bethel Broadcasting through June 30 will still require \$627,000.

Mr. Arnold pointed out there was a \$50,000 grant to establish a Kotzebue station. Mr. Fink asked if they had started the Kotzebue station. Mr. Arnold said yes, they had applied for an FCC Construction permit. He said that was an extensive engineering task. They are also applying for a Health, Education and Welfare grant where the federal government pays for 3/4 of running an educational broadcasting station. He said \$50,000 would be adequate for Kotzebue. He stated that a Community Control Group has been started there, and they have hired a manager. The first equipment will be ordered in the next few weeks. They anticipate the permit in a few weeks.

Mr. Fink asked whether they would spend the \$50,000 this fiscal year. Mr. Arnold said yes. He added that without the federal grant it would not be enough. He said the BIA is providing the space for the Kotzebue Station.

Mr. Fink asked if another \$627,000 would go to Bethel again next year. Mr. Arnold said no. He explained that the largest part of it was for building and equipment. He said his request for operating costs for Bethel Broadcasting was \$214,000. He said he had used maintenance level components, but the Executive Branch knew how to reduce that to \$175,000. He said it wasn't enough. Mr. Arnold noted that the typical non-commercial station had an annual operating budget of \$450,000. He said that the \$214,000 he had requested didn't allow seeking of funds for new production.

Mr. Fink asked if the \$270,000 and the \$350,000 went for production. Mr. Arnold said those were funds obtained earlier.

Mr. Hohman said there was \$271,000 was Title IV money for the U. of A. He said the University is going to be producing audio-visual materials for Health and Welfare for the purpose of staff training. He said it wasn't related.

Mr. Arnold said according to the law, AEBC should provide the service, but the U. of A. has State government per diem and travel arrangements. The Commission thinks they should provide regulations that they would try to assess certain state policies through investments in state stations. He said he had asked for an Attorney General's ruling.

Mr. Arnold went on to speak about objectives. He said that production is a costly business. He thought that in the early stages, the broadcasting commission should seek to get stations on the air. He said that there were films available to public broadcasting services that were very good. The problem is that they aren't very relevant to what the people in Southwest Alaska care about. Mr. Arnold hopes Bethel can obtain production lines. He said the average cost of making a film is \$50,000 an hour. He hoped that the State would direct its educational T.V. stations to embark upon some production.

Mr. Hohman said there was an argument as far as the expense of the program. He said it didn't necessarily have to cost \$50,000 an hour. He stated they were hoping to prove with \$250,000 they that they can get it done, prepared, and in more meaningful form than the stuff from other sources.

Mr. Fink said the U. of A. has to provide things for students anyway, so why not train the students. Mr. Hohman said that they had a proposal to do it at Anchorage Community College. He said there was a \$271,000 Title IV appropriation dealing with the U. of A. and they were hoping for a sister program with ACC involving training in software production.