

HOUSE / SENATE FINANCE COMMITTEE MINUTES - 1967-1982 2544

Mr. Stevenson discussed with the committee the difference in the liquor tax in comparison to the cigarette tax.

Mr. Saylor suggested increasing the excise tax on beer. Mr. Stevenson said that what they saw last year was a decrease in consumption of hard liquor while the consumption of wine and beer went up.

Mr. Hillstrand thought the committee should make up its mind on HB 56 and asked for a motion to that effect.

Mr. Specking moved that the bill be amended to change the tax from 4 cents to 5 cents a pack and to include in the definition of cigarettes the "little" cigars. Objection was heard.

Mr. Warwick objected to any moves to increase taxes of any kind at this point as being premature. He said if taxes are to be raised, it should be after a reevaluation of the whole state tax structure and not just a few taxes.

Mr. Ose stated the same objection and asked that the bill be held in abeyance.

Mr. Specking stated that the state is spending more money than what is being brought in -- he thought this was a dire need. We are unwilling to pay for what we are getting, and shouldn't gamble on speculation of oil in 1976.

Mr. Barber also stated that we are going to have to consider increasing all taxes or none.

Mr. Warwick stated that he thought it was ridiculous to increase the tax just because it is lower than other states.

After discussion, Mr. Hillstrand again stated the motion, "Shall the bill be amended to raise '4¢' to '5¢' and include 'little cigars' in the definition of cigarettes?" No objection so ordered.

Mr. Saylor moved and asked unanimous consent that the bill be amended to levy a 25% tax on the wholesale value of all additional tobacco products. There being no objection, it was so ordered.

Mr. Hillstrand said that the bill would be returned to the file, with these amendments perfected, until such time as the subcommittee determines the fiscal status of the state will be seriously questioned by the most average person and we choose to do something about it.

Mr. Stevenson departed the meeting at 3:15 p.m.

The committee went into a discussion of the Juneau Court House. (See budget minutes)

HOUSE BILL 56

CIGARETTE TAX *	Actual FY 72	Estimated FY 73	FY 74	FY 75	FY 76	FY 77	FY 78
Growth Rate: Revenue Source Book assumptions			10%	10%	10%	4%	4%
Existing Tax:							
3¢ General Fund	1,209.2	1,224.8	1,347.3	1,482.0	1,630.2	1,695.4	1,763.2
5¢ School Fund	<u>2,015.3</u>	<u>2,041.9</u>	<u>2,246.1</u>	<u>2,470.7</u>	<u>2,717.7</u>	<u>2,826.5</u>	<u>2,939.6</u>
Total 8¢ GF & SF	<u>3,224.5</u>	<u>3,266.7</u>	<u>3,593.4</u>	<u>3,952.7</u>	<u>4,347.9</u>	<u>4,521.9</u>	<u>4,702.8</u>
HOUSE BILL 56							
4¢ General Fund			1,796.4	1,976.0	2,173.5	2,260.5	2,350.9
Total 7¢ General Fund			3,143.7	3,458.0	3,803.7	3,955.9	4,141.1
Total 12¢ GF & SF			5,389.8	5,928.7	6,521.4	6,782.4	7,053.7
Growth Rate: TAPS delayed one year			4%	10%	10%	10%	4%
Existing Tax:							
3¢ General Fund	1,209.2	1,224.8	1,273.8	1,401.2	1,541.3	1,695.4	1,763.2
5¢ School Fund	<u>2,015.3</u>	<u>2,041.9</u>	<u>2,123.6</u>	<u>2,336.0</u>	<u>2,569.6</u>	<u>2,826.5</u>	<u>2,939.6</u>
Total 8¢ GF & SF	<u>3,224.5</u>	<u>3,266.7</u>	<u>3,397.4</u>	<u>3,737.2</u>	<u>4,110.9</u>	<u>4,521.9</u>	<u>4,702.8</u>
HB 56							
4¢ General Fund			1,698.4	1,868.2	2,055.0	2,260.5	2,350.9
Total 7¢ General Fund			2,972.2	3,269.4	3,596.3	3,955.9	4,141.1
Total 12¢ GF & SF			5,095.8	5,605.4	6,165.9	6,782.4	7,053.7

\*Revenue Codes 102-103; pp. 2, 52 & 70 in the Revenue Sources book.

CALIFORNIA May 15, 1968	TMA GUIDE TO TOBACCO TAXES	CALIFORNIA May 15, 1968
----------------------------	----------------------------	----------------------------

CALIFORNIA

PRODUCTS  
TAXED

Cigarettes (includes little cigars), since 1959 (Cigarette Tax Law, 1961, Revenue and Taxation Code, Part 13 of Division 2, as amended to date).

PRODUCTS  
SUBJECT

A tax is imposed upon the distribution of cigarettes (Sec. 30101).

✓ "Cigarette" means "any roll for smoking, made wholly or in part of tobacco, irrespective of size or shape and irrespective of whether the tobacco is flavored, adulterated or mixed with any other ingredient, where such roll has a wrapper or cover made of paper or any other material, except where such wrapper is wholly or in the greater part made of tobacco and such roll weighs over three pounds per thousand." (Sec. 30003).

✓ Little cigars are considered cigarettes. Cigarette tax regulations provide that "if a roll for smoking has a wrapper made of homogenized tobacco or natural leaf tobacco and the roll is a cigarette-size so that it weighs three pounds or less per thousand, such roll is a cigarette under the law..." (Regs., Art. 1, Sec. 4005, 9/13/61).

"Distribution" includes:

- (a) The sale of untaxed cigarettes in this state.
- (b) The use or consumption of untaxed cigarettes in this state.
- (c) The placing in this state of untaxed cigarettes in a vending machine or in retail stock for the purpose of selling the cigarettes to consumers (Sec. 30008).

EXEMPT SALES

Exempt are sales of cigarettes to:

- (a) United States Army, Air Force, Navy, Marine Corps or Coast Guard, exchanges and commissaries and Navy or Coast Guard ships' stores, or
- (b) the United States Veterans Administration (Sec. 30102).
- (c) The distribution of cigarettes that are non-tax-paid under Chapter 52 of the Internal Revenue Act of 1954 as amended, and cigarettes under internal revenue bond or customs control; (Sec.30102.5)
- (d) licensed distributors by manufacturers, (Sec. 30103)
- (e) common carriers, by distributors, engaged in interstate or foreign passenger service, or to a person authorized to sell cigarettes on the facilities of such carrier (such carrier or person must pay an equivalent tax when selling the cigarette) (Sec. 30104);
- (f) sales or gifts of federally tax-free cigarettes when delivered directly from manufacturer under Internal Revenue Bond to a veterans' home of the State or hospital or domiciliary facility of the U.S. Veterans Administration for gratuitous issue to veterans receiving hospitalization or domiciliary care (Sec. 30105.5);
- (g) donations of cigarettes as samples in packets of five or less cigarettes (Sec. 30105).

CONNECTICUT

**PRODUCTS TAXED** Cigarettes, since 1935 (includes little cigars, since 1965) (Cigarette Tax Law, Chapter 214, Secs. 12-285--12.330 as amended).

**PRODUCTS SUBJECT** A tax is imposed on all cigarettes held in the state by any person for sale (Sec. 12-296).

✓ "Cigarette" means and includes "any roll for smoking made wholly or in part of tobacco irrespective of size or shape and irrespective of whether the tobacco is flavored, adulterated or mixed with any other material, except where such wrapper is wholly or in the greater part made of tobacco and such roll weighs over three pounds per thousand, provided, if any roll for smoking has a wrapper made of homogenized tobacco or natural leaf tobacco, and the roll is a cigarette size so that it weighs three pounds or less per thousand, such roll is a cigarette and subject to the tax imposed by part I and part II of this chapter." (Sec. 12-285) Note: This definition includes little cigars (Tax Administrator's Notice, 7/14/65).

"Sale" or "Sell" includes or applies to gifts, exchanges and barter (Sec. 12-285).

**EXEMPT SALES** Sales to state institutions for consumption by inmates or patients (Sec. 12-297).

**RATES** Equivalent tax per standard pack of 20: 21¢ (effective 8/23/71)  
Statutory rate:  
Ten and one-half mills per cigarette. (Sec. 12-296)

**PRICE BASE** Not relevant.

**DISCOUNT** As compensation for affixing tax indicia, licensed distributors are allowed a 1.0 percent discount on the face value of indicia purchased (Sec. 12-298). This computes to a monetary discount of \$1.26 on standard cases of 600 packages of cigarettes. Licensed dealers receive no discount, purchasing indicia at face value.

**SALES TAX RELATIONSHIP** Connecticut imposes a 6.5 percent sales and use tax on gross receipts deriving from retail sales. Cigarettes are exempt from the tax but all other tobacco products are subject.

The sales and use tax is collected according to the following bracket schedule.

OKLAHOMA

PRODUCTS  
TAXED

Cigarettes, since 1935 (Oklahoma Statutes of 1965 (Supplement), Title 68, Article III).

Large cigars, little cigars, smoking and chewing tobacco since 1941 (Oklahoma Statutes of 1965 (Supplement), Title 68, Article IV).

PRODUCTS  
SUBJECT

A tax is levied upon the sale, use, gift, barter, exchange, possession or consumption of cigarettes in the State (Secs. 302, 303).

✓ "Cigarette" means "and includes all rolled tobacco or any substitute therefore, wrapped in paper or any substitute therefore and weighing not to exceed three (3) pounds per thousand (1,000) cigarettes." (Sec. 301 (a)).

"Sale" and/or "Sales" means "sales, barter, exchanges, and every other manner, method and form of transferring the ownership of personal property from one person to another and is also declared to be the use or consumption in this State in the first instance of cigarettes received from without the State or of any other cigarettes upon which the tax has not been paid. The term 'first sale' shall mean and include the first sale or distribution of cigarettes in intrastate commerce or the first use or consumption of cigarettes within this state." (Sec. 301 (g)).

A tax is levied upon the sale, barter, or exchange of tobacco products, or the having possession of tobacco products for consumption (Sec. 404).

"Tobacco Products" means "any cigars, cheroots, stogies, smoking tobacco (including granulated, plug cut, crimp cut, ready rubbed and other kinds and forms of tobacco suitable for smoking in a pipe or cigarette), chewing tobacco (including cavendish, twist, plug, scrap, and any other kinds and forms of tobacco suitable for chewing), however prepared; and shall include any other articles or products made of tobacco or any substitute therefor." (Sec. 401 (G)).

"Cigars" means "and includes any roll of tobacco for smoking, irrespective of size or shape and irrespective of the tobacco being flavored, adulterated or mixed with any other ingredients, where such roll has a wrapper made chiefly of tobacco." (Sec. 401 (k)).

"Sale", "Barter", and "Exchange" are not defined.

EXEMPT SALES

Cigarettes

Cigarettes sold to veterans' hospitals and state operated domiciliary homes for veterans for distribution or sale, and all sales to the United States are exempt (Sec. 321).

Cigars, Smoking and Chewing Tobacco

Tobacco products sold to governmental agencies (Sec. 405), Veterans' hospitals (Sec. 419), the State Board of Affairs for free distribution



## Budget Statement FY 73

Each month approximately 35 cigarette tax returns are submitted to this division. The return is checked for mathematical errors and to arrive at the correct number of taxable cigarettes. The computation of tax due and discount is verified and the original return is checked and submitted to the cashier's office. The 35 returns are supported by a monthly average of 3,000 invoices. These are audited for errors and 10 to 15 adjustments are made each month. A cigarette tax ledger is maintained which contains all the information on the return, taxpayers' names, date return received, gross number of cigarettes, other credits, military credits, net taxable cigarettes, commission and net tax. These figures must be in balance before posting is considered complete. From these figures a statistical report is compiled for the Tobacco Tax Council and the Tobacco Merchants Association. A collection report is submitted monthly to the Director for his information and budget and revenue estimating. Cigarette licenses are issued to all distributors, Direct-buying retailers and vending machine operators. There are approximately 90 licenses issued yearly. Field trips are made for license enforcement and audit of company records. Twenty-five pieces of incoming correspondence and 20 pieces of outgoing correspondence are handled monthly. The cigarette tax contributed \$2,967,461 to the Treasury in FY 71.

## Budget Statement FY 74

Cigarette Tax contributed \$3,224,492 to Treasury in FY 1972 and ranked 10th in all taxes collected. Each month approximately 35 cigarette tax returns are submitted. A cigarette tax ledger is maintained which contains all the information on the return pertaining to the taxpayer. From these figures a statistical report is compiled for the Tobacco Tax Council and the Tobacco Merchants Association. A collection report is submitted monthly to the Director for his information and budget and revenue estimating. Approximately 75 cigarette licenses are issued yearly to all distributors, Direct-buying retailers and vending machine operators. Field trips are made for license enforcement and audit of company records. Audits are also made against manufacturers computer print-out reports that show all cigarettes shipped into Alaska.

Other duties pertaining to Cigarette Excise Tax include a complete and up to date knowledge of the statutes and regulations relating to administering and enforcement. Current copies of these laws and regulations are made available to the taxpayer and are updated as the laws are amended. During the legislative session any House or Senate Bills introduced affecting cigarette taxes are researched by the Research Analyst to ascertain the effect they would have on Treasury, cost of administration, and possible problems that could result if the bills were enacted.

DEPT. OF REVENUE  
RECEIVED  
FEB 21 1972  
JUNEAU, ALASKA  
FILE

ASSOCIATED TOBACCO MANUFACTURERS, INC.

910 17TH STREET, N. W., WASHINGTON, D. C. 20006 (202) 296-3750

(AFFILIATED WITH THE GROCERY MANUFACTURERS OF AMERICA, INC.)

February 18, 1972

The Honorable William A. Egan  
The Governor of Alaska  
Juneau, Alaska 99801

Dear Governor Egan:

This association is greatly concerned over the prospect of a new State tax on manufactured tobacco (smoking tobacco, chewing tobacco, and snuff), as proposed by H4.

The tax currently proposed on such tobacco products would be a punitive levy on a great many citizens in the State who wage a daily fight against the ever increasing cost of living, hitting hardest at the pocketbooks of those least able to afford it - the working folks and low-income groups.

Not too long ago the U. S. Department of Agriculture and the U. S Department of Health, Education, and Welfare released statistics which we believe are still valid. These show that less than 8 percent of the male population of this country (18 years of age and over) uses smoking tobacco regularly and that 27 percent of these consumers are 65 years of age and over. Significantly, a large percentage of such consumers are retired because of age or physical disability and live on very modest pensions. Chewing tobacco and snuff users no doubt follow these patterns. Therefore, manufactured tobacco must be judged primarily a poor man's tobacco with a small number of users.

Because of these reasons, the cost to consumers must be held to the lowest figure possible. The manufacturers have strived to do this in the face of increased costs of materials, labor, production, and marketing of manufactured tobacco by improving methods of production, packaging, and distribution and by passing on to the consumer the benefits of such improved efficiency. However, because of the continuing increases in costs and because of the failure of sales of manufactured tobacco to keep pace with the increase in population, this segment of the tobacco industry has been in a distressed condition for many years. It has taken superhuman efforts by producers of such tobacco to stay in business and provide quality merchandise to low income consumers at a price such consumers can afford to pay. Indeed, many producers have not fared as well and have gone out of business. According to official Government sources, manufactured tobacco was produced in 1,540 factories in 1920, whereas in 1971, fewer than 70 factories reported production of smoking tobacco, chewing tobacco, and snuff.

If this tax is imposed, reduced sales will result which will hurt not only the producers but, more important from your point of view, also the wholesale tobacco distributors and tobacco retailers in your State. And there will be problems for the State, as well.



The tax will surely encourage bootlegging from lower taxing jurisdictions or from States which do not impose such a tax. Under the "Jenkins Act" (15 USC 375-377), the States are accorded Federal assistance in enforcing their tax on cigarettes. This Act, however, does not apply to other tobacco products and the State will have to go it alone. Experience has shown that a State which taxes manufactured tobacco is confronted also with administrative and enforcement costs entirely disproportionate to the revenue derived by the State from such tax.

Seven States realized these situations and concluded that their tax on manufactured tobacco was unworkable and repealed their tax (Virginia, Alaska, Maine, Massachusetts, New Mexico, New York, and Michigan).

New York repealed the tax on manufactured tobacco (and cigars) which had been on the books for two years. The repeal was advocated by the Governor of the State on the basis of information supplied by the Governor's Tax Structure Study Committee. The Committee found that the tax was unfair to independent retail cigar and tobacco merchants because it placed them at a competitive disadvantage with cigar and tobacco vendors in neighboring States. Authorities found the tax to be unsound because of the difficulties of administration and enforcement and because of the loss of business. There was evidence of rather widespread evasion of the tax. This was consistent with the New York City jobbers' and retailers' report of a 30 percent decline in the volume of cigar business and a 25 percent decline in the volume of smoking tobacco business. Throughout the rest of the State dealers reported a 10 percent to 15 percent decline in cigar business. Studies indicated that this tax resulted in a loss of from 20 percent to 30 percent of the dollar sales of the tobacco products in the State.

Michigan also found this type of tax to be unfair and unsound. The Department of Revenue Division reported that the cost of administering such a tax was higher than expected, that there was much opposition from the trade, and that the tax almost put Michigan's only cigar manufacturer out of business. A survey made in this State indicated that its tobacco tax attempt caused a 19 percent loss in dollar sales of tobacco products. The State legislature felt that the cost of administration and the problems inherent in such a tax did not warrant keeping this tax in effect and repealed it.

The Congress of the United States recognized manufactured tobacco as the poor man's tobacco and the declining state of this segment of industry and repealed the Federal tax on manufactured tobacco effective January 1, 1966.

We appeal to your sense of fairness to examine this matter carefully. We hope you will reach the conclusion that because this proposed tax would be detrimental to so many people, and would present so many difficulties for the little revenue it would produce, you will work against its enactment.

We appeal to you to defeat the proposal to tax the poor man's tobacco.

Very truly yours,

*Charles J. ...* 1/29/73

TOBACCO PRODUCTS TAX

The State of Utah imposes an 8c per pack cigarette tax. It also imposes a 25% of wholesale price tax on tobacco products.

Information obtained from the Utah State Tax Commission discloses tax collections as follows:

<u>Fiscal Year Ended June 30, 1972</u>	<u>Collections</u>
Cigarette Tax (8c per pack)	\$6,057,000
Tobacco Products (25% of wholesale price)	223,404
<u>Fiscal Year Ended June 30, 1971</u>	<u>Collections</u>
Cigarette Tax (8c per pack)	\$5,500,000
Tobacco Products (25% wholesale price)	214,000

The State Tax Commission estimated Utah's population in 1972 to be approximately 1,100,000. Utah's experience on the tobacco products tax for the past six years indicates that tobacco products tax collections amounted to between 3 and 4% of that received on the cigarette tax.

The Utah State Legislature which convened in January 1973 is considering a bill to tax small cigars the same as cigarettes and take small cigars out of the tobacco products category.

CIGARETTE TAX

CODES 102-103

<u>Fiscal Year Ending</u>	<u>Net Collections</u>	<u>\$ Increase Over Prior Fiscal Year</u>	<u>% Increase Over Prior Fiscal Year</u>	<u>% of Estimate Realized</u>
6-30-72	\$ 3,224,492.53	\$ 257,030.68	8.66	98.02
6-30-71	2,967,461.85	256,205.61	9.45	95.85
6-30-70	2,711,256.24	81,019.13	3.08	99.13
6-30-69	2,630,237.11	108,168.84	4.29	103.83
6-30-68	2,522,068.27	74,429.05	3.04	99.74
6-30-67	2,447,639.22	Base Year	Base Year	91.06

STATE CIGARETTE TAX RATES & TAXATION OF TOBACCO PRODUCTS  
AND DISCOUNTS ALLOWED WHOLESALERS FOR COLLECTION OR AFFIXING  
INDICIA AS OF NOVEMBER 1, 1972

STATE	CIGARETTE TAX PER PACK OF 20	DISCOUNT RATE FOR WHOLESALERS	MONETARY DISCOUNT ON CASE 600 PACKS	TOBACCO PRODUCTS TAX ON CIGARS, etc.
Alabama	12 ¢	7.5 %	\$ 5.40	Yes
Alaska	8 ¢	1.0 %	0.48	No
Arizona	10 ¢	1.5 %	0.90	Yes
Arkansas	17.75 ¢	3.8 %	2.907-4.047	Yes
California	10 ¢	0.85 %	0.51	No
Colorado	5 ¢	6.0 %	1.80	No
Connecticut	21 ¢	1.0-1.125%	1.08-1.26	No
Delaware	14 ¢	3.5-3/10 of 1¢ pack	1.80-2.31	Yes
Dist. of Columbia	4 ¢	6.0 %	1.44	No
Florida	17 ¢	2.0-2.9 %	1.80-2.61	No
Georgia	12 ¢	3.0 %	1.44-2.16	Yes
Hawaii	8 ¢	-0-	-0-	Yes
Idaho	9 ¢	5.0 %	2.70	Yes
Illinois	12 ¢	0.67-1.67 %	0.48-1.20	No
Indiana	6 ¢	4.0 %	1.44	No
Iowa	13 ¢	3.0- 3.50 %	2.10-2.34	Yes
Kansas	11 ¢	3.25-3.75 %	2.145-2.475	Yes
Kentucky	3 ¢	6.0 %	1.08	No
Louisiana	11 ¢	6.0 %	3.96	Yes
Maine	14 ¢	2.25 %	1.62-1.89	No
Maryland	6 ¢	5.0 %	1.80	No
Massachusetts	16 ¢	1.67 %	1.60	No
Michigan	11 ¢	1.0 %	0.66	No
Minnesota	18 ¢	1.5-2.5 %	1.62-2.70	Yes
Mississippi	11 ¢*	8.0 %	5.28	Yes
Missouri	9 ¢	2.0 %	1.08	No
Montana	12 ¢	3.0 %	2.16	Yes
Nebraska	13 ¢	5.0 %	2.40-3.90	No
Nevada	10 ¢	4.0 %	2.40	No
New Hampshire	11 ¢	3.5 %	1.89-2.31	Yes
New Jersey	19 ¢	1.46 %	1.54	No
New Mexico	12 ¢	2.0-4.0 %	1.44-2.88	No
New York	15 ¢	0.98-1.16%	0.882-1.044	No
North Carolina	2 ¢	7/24¢ a stamp	1.75	No
North Dakota	11 ¢	3.0 %	1.98	Yes
Ohio	15 ¢	3.0-3.11 %	1.80-2.80	No
Oklahoma	13 ¢	4.0 %	3.12	Yes
Oregon	9 ¢	1.67 mills (pack)	1.00	No
Pennsylvania	18 ¢	3.0 %	3.24	No
Rhode Island	13 ¢	2.0 %	1.56	Yes
South Carolina	6 ¢	2.0 %	1.50	Yes
South Dakota	12 ¢	3.5 %	2.52	No
Tennessee	13 ¢	1.75-2.75 %	1.365-2.145	Yes
Texas	18.5 ¢	2.25-2.75 %	2.0925-3.0525	Yes
Utah	8 ¢	4.0 %	1.92	Yes
Vermont	12 ¢	3.2 %	2.304	Yes
Virginia	2.5 ¢	5.0 %	0.75	No
Washington	16 ¢	1.682 on 11¢	1.11	Yes
West Virginia	12 ¢	4.0	2.88	No
Wisconsin	16 ¢	2.1-2.4 %	2.016	No
Wyoming	8 ¢	6.0 %	2.88	No

\*Effective July 1, 1973

SUMMARY OF PRECEDING TABLE OF CIGARETTE TAX RATES, ETC.

CIGARETTE TAXES BY RATES -- NOVEMBER 1, 1972

<u>TAX RATE</u>	<u>NO. OF STATES</u>
2.0 ¢	1
2.5 ¢	1
3.0 ¢	1
4.0 ¢	1
5.0 ¢	1
6.0 ¢	3
8.0 ¢	4 (including Alaska)
9.0 ¢	3
10.0 ¢	3
11.0 ¢	6
12.0 ¢	8
13.0 ¢	5
14.0 ¢	2
15.0 ¢	2
16.0 ¢	3
17.0 ¢	1
17.75¢	1
18.0 ¢	2
18.5 ¢	1
19.0 ¢	1
21.0 ¢	<u>1</u>
	51

GENERAL INFORMATION

- 8 States have lower cigarette tax rates than does Alaska
- 3 States have the same cigarette tax rate as does Alaska
- 39 States have higher cigarette tax rates than does Alaska
- 23 States have a tax on tobacco products (cigars, etc.)
- 28 States including Alaska do not have a tax on tobacco products (cigars, etc.)

SOURCE OF STATISTICS

Federation of Tax Administrators

CIGARETTE TAX  
CODE 102-103

<u>Code</u>	<u>Item</u>	<u>Estimate</u> <u>1973-74</u>	<u>Estimate</u> <u>1974-75</u>	<u>Estimate</u> <u>1975-76</u>	<u>Estimate</u> <u>1976-77</u>	<u>Estimate</u> <u>1977-78</u>
102	Cigarette Tax 3¢ General Fund	\$1,447,300	\$1,592,100	\$1,751,300	\$1,821,300	\$1,894,200
103	Cigarette Tax 5¢ School Fund	<u>2,246,100</u>	<u>2,470,700</u>	<u>2,717,700</u>	<u>2,826,500</u>	<u>2,943,500</u>
	<b>Total Tax</b>	<u>\$3,693,400</u>	<u>\$4,062,800</u>	<u>\$4,469,000</u>	<u>\$4,647,800</u>	<u>\$4,837,700</u>
	Value 4¢ additional tax	\$1,846,700	\$2,031,400	\$2,234,500	\$2,323,900	\$2,418,850
	Value Floor Stock Tax	82,900	-0-	-0-	-0-	-0-
	<b>Total Additional Revenue</b>	<u>\$1,929,600</u>	<u>\$2,031,400</u>	<u>\$2,234,500</u>	<u>\$2,323,900</u>	<u>\$2,418,850</u>

AFTER RECESS

4:45 p.m.

Present: All members.

HB 76 The committee had been discussing the Juneau Court Building (see budget minutes) and then went into a discussion on ASHA.

Mr. Hogan spoke on HOUSE BILL 76 (an Act relating to the Alaska State Housing Authority). This bill would wipe out ASHA's authority to build public buildings. Mr. Hogan said if this legislation does not pass, then the committee might wish to consider changing the statutes to reflect that the authorization of projects should be approved by a bill as opposed to a resolution.

Mr. Ferguson said it was his understanding that HB 76 had passed from the State Affairs Committee today (Jan. 29).

The Chairman appointed Messrs. Saylor, Freeman and Specking as a committee to determine "the possibility of continuing ASHA."

The Chairman advised the committee members to start working on their budget materials.

HB 54 Mr. Freeman asked the status of HOUSE BILL 54 (Special appropriation to the Lt. Governor for the Special Congressional Election). The Chairman explained that this had passed from the Committee and then he had recalled the bill. He said the committee was in agreement that they would wait until after the election and find out the actual costs of the election.

Mr. Freeman questioned whether the Lt. Governor could proceed with the election without the supplemental. Mr. Haugen pointed out that the Governor has a contingency fund. He said the election would be held. This was briefly discussed.

HB 10 Mr. Saylor said that HOUSE BILL 10 (an Act establishing the general revenue fund) and HOUSE JOINT RESOLUTION 3  
HJR 3 (amending the Constitution to provide for a general revenue fund) would be withdrawn. He said that Mr. Orsini was in the process of drafting new legislation.

HB 18 Mr. Saylor moved that HOUSE BILL NO. 18 (an Act relating to legislation and ballot measures authorizing the issuance of general obligation bonds) be passed from committee with a "do pass" recommendation. Mr. Warwick objected. Mr. Warwick said although this idea has merit

he could foresee problems. He said these problem areas might be in local service roads, the Highway Trust Fund, water and sewage bonds. Mr. Warwick said if the legislature had been required to reappropriate the money it would have caused serious delay in a lot of projects.

Mr. Saylor said the problem had been brought about by the fact that the intent of the legislature had not been followed. He said the question was how much direction does the legislature want to give the administration. Mr. Saylor said because the legislators are elected by the people he felt the legislature should give this direction. He added that the only problem area that he could see would be the Highway Trust Fund.

Mr. Barber said he agreed with Mr. Warwick and felt this was a poor piece of legislation. Mr. Specking said he agreed with Mr Barber. He added that the legislature has this power. Mr. Freeman said that he had some reservations about this legislation. He said he thought the question was is there a guarantee that the legislature would exercise its prerogative.

Mr. Saylor withdrew his previous motion. Mr. Saylor moved that the bill be passed from committee. Mr. Barber objected. The motion carried 7 to 2. So HB 18 passed from committee with 5 "do not pass" recommendations (Messrs. Ose, Ferguson, Barber, Warwick and Specking); 3 "do pass" recommendations (Messrs. Hillstrand, Saylor and Freeman) and 1 "no recommendation" vote (Mr. Haugen).

Adjourn: The meeting adjourned at 5:20 p.m.

HOUSE FINANCE COMMITTEE

January 30, 1973

8:35 a.m.

PRESENT: All members; Senator Ron Rettig; Mr. Harry Lucas of the First National Bank of Anchorage; Mr. Richard Hall of the National Bank of Alaska; and Mr. Larry Carroll, Chief, Miscellaneous Tax Section, Department of Revenue.

HB 57 Chairman Hillstrand called the meeting to order and stated that the committee was meeting to consider HOUSE BILL 57 ("An Act relating to the Alaska business license tax on national banks and state banks, trust companies and savings and loan associations; and providing for an effective date.") Members from the banking industry were present to testify on the bill, and Chairman Hillstrand turned the meeting over to the bill sub-committee chairman, Representative Warwick, after stating that the bill had been amended in the State Affairs Committee, changing the rate from 6% to 8%.

Representative Warwick stated that the committee had met the week previous on this bill and that, at that time, Mr. Lucas had indicated he would like more time to arrange for the appearance of other witnesses before the committee. Mr. Lucas introduced Mr. Richard Hall of the National Bank of Alaska, stating the position of that bank was the same as the position of the First National Bank.

Mr. Hall thanked the committee for the opportunity of appearing before them and stated that much of his testimony would be "hereditary"--i.e., based on the bill introduced last year on the same subject.

Mr. Hall stated that the banking industry disagrees with the state's position because it feels it is not based upon an accurate analysis of taxes assessed in other states. He said that you would have to, in effect, calculate the base in each state to see what the tax is in each state. The real question is how banks are treated in relation to other corporations in the state. He stated that banks have had preferential treatment in the past in order to make them solvent and to protect the depositors' money, but that the trend is changing. Just recently banks have been required to pay personal property and real estate taxes. He said there are 4 separate options under federal law on how to tax banks, and the state is only allowed to use one. The State of Alaska elected to use the franchise tax--the 2% looked attractive to the state. Since that time, corporate income taxes have been increased, but banking taxes have not.

Mr. Hall said he does not disagree with the fact that an increase in the tax on banks is due, but the industry is looking for an equality premise so it is the same as other corporate taxes in the state; he stated further that banks should pay the same amount as a corporation, based on their profits, but not twice that amount.

Mr. Hall read from the prepared testimony attached, commenting that the problem for the State of Alaska is to assess a tax against corporations from outside the state doing business here; this forces people to borrow from banks who charge a lower interest rate (outside banks).

After reading the attached presentation, Mr. Hall went to the blackboard to illustrate how his bank would be taxed if it were taxed the same as an ordinary business in Alaska. The income the bank would be taxed on would be as follows:

Net income to be reported by NBA	\$ 1,721,366
Tax Exempts	2,411,503
Non-taxable loan interest	115,983
Total Taxable Income	<u>\$ 4,248,852</u>

Mr. Hall stated that the federal government does not tax banks on tax exempts or non-taxable loan interest. Under existing law, \$85,000 would be the tax to the state of Alaska. If the bank were to be taxed the same as a corporation, the tax would be on:

Ordinary income	\$ 982,000
Capital gains	739,000
	<u>\$ 1,721,000</u>

Using a tax rate of 52% and 25% on capital gains, you come up with a total tax of \$125,000 which is considerably more than the banks are paying now, and the banks agree they are due for an increase.

Mr. Hall stated that the banks are not paying a gross receipts tax; the gross receipts would be \$20,416,586. Under that tax, it would add an additional \$50,000 for a total of approximately \$175,000, if the banks were taxed as an ordinary business. Mr. Hall said if the tax on banks were increased to 4%, it would put the banks on an equality with a normal business in the state.

Representative Warwick asked what the federal tax rate was. Senator Rettig answered that it was 52%. Representative Warwick asked if the tax exempt income for federal purposes was roughly 2%; Mr Hall stated it was. Representative

Warwick asked if the percentage would be the same for other banks in the state. Mr. Hall said he couldn't say, but that the normal bank would have assets and liabilities as follows:

<u>Assets</u>		<u>Liabilities</u>	
Cash	10%	Deposits	90%
Loans	60%	Capital	10%
Real Estate	5%		
Securities	25%		

Representative Warwick asked what Mr. Hall would think of exempting interest from political subdivisions. Mr. Hall said this would have merit to the seller of bonds in Alaska; bonds in Alaska are normally sold. He stated that if the Legislature were intending to make the State of Alaska exempt to the Alaska taxpayer, he frankly didn't think it would improve this market that much. The capacity of Alaska banks to absorb those bonds is going to be reached very soon.

Representative Warwick asked if Mr. Hall was familiar with the 4 alternatives that the state had to choose from in taxing banks. Mr. Hall said that Mr. Carroll could answer that question better than he could.

Representative Barber asked if it would increase or decrease state revenues if state municipals were made more attractive to banks in Alaska. Mr. Hall said it would decrease state revenues; Alaskan banks would buy until the capacity is reached, and it would be a very big housekeeping job to keep track of what would be taxable and what would not be. He stated that you have to go to the national market on these bonds because the capacity is limited.

Representative Ferguson asked if Mr. Hall was advocating that the percentage be doubled; Mr. Hall said he was, from 2% to 4%. Representative Specking asked if he advocated that rather than going to corporate taxation. Mr. Hall said the industry would prefer the corporate method, but that would mean the banks would not make as many loans, but would increase their tax exempt income. He would prefer to go under the corporate method and end up with more net profit, but he didn't think the state would go along with that. He stated that if you changed the whole tax structure, you would also affect the savings and loan associations.

Representative Barber asked if there would be a possibility of the banks changing their policies and techniques based on a change in the taxing method. Mr. Hall said the bank would try to give the best return to their stockholders, but didn't think it would change their investment policy.

Mr. Hall stated that this bill calls for a 1973 impact on the banks. He said that if you get hit with \$100 thousand additional taxes in one year, it "shoots" your budgets and operations for that year. He suggested that the bill become effective mid year or in increments in 1974.

Representative Freeman asked what effect exempting municipals would have on the interest rate. Mr. Hall said that if you look back on competitive bidding, you would not find the Alaska banks being major bidders. He cited a case of a few years back where the First National Bank picked up \$8.3 million, and that was the largest amount he could recall. He stated the Alaska banks buy small city bonds and hold them.

Representative Hillstrand stated he was very much interested in hearing the admission that the banks had received preferential treatment in the past, and he said he presumed that the logic here was that we have FDIC now and can proceed to tax the banks like any other corporation doing business in Alaska. He asked Mr. Hall if he could suggest how to tax the outside banks doing business in Alaska.

Mr. Hall stated he was really not prepared to do that, although one way would be to allow the Alaska banks to serve the demands of the state better. He stated that Alaska banks are limited in their service to Alaskan borrowers. When the customer of an Alaska bank has to borrow outside, he has to take 20% of the amount of his loan out of the Alaska bank to be used as collateral. Also, he stated that Alaskan banks are low in return in capital because of the limitations on their earnings. Alaska banks plow their earnings back into capital and surplus in order to increase the size of the loans they can make to large borrowers. He said that First National can now loan \$1.5 million, and the National Bank of Alaska is attempting to plow enough back to make a \$2 million loan.

Representative Hillstrand asked if, in relation to limitation of earnings, it would help if the state modified the usury laws so that a bank would in effect be "renting" its money. Mr. Hall said that it would expand the banks earnings and allow them to make more loans. Mr. Hall said the need of the interest bill is to make money available to Alaska borrowers. The 8% deprives him of money. The bank would be a benefactor, but the real key is that the money will flow back to the Alaska borrower.

Chairman Hillstrand stated that Mr. Hall had mentioned the \$125,000,000 deficit; he asked Mr. Hall for his opinion on the deficit. Mr. Hall said he would rather not answer that question.

Representative Freeman asked if there were anyway to funnel the state's money through Alaskan banks (as opposed to investing as is currently done) that would benefit the banks and the people of Alaska. Mr. Hall stated that the state put \$100 million in the Alaskan banks at 6 1/4 percent interest for 5 years. These notes start to mature in 1974. This was a good return to the state at that time. Since that time it has become expensive to the banks because the economy dropped off and it can only be loaned at 8%. On top of that, the banks were required to pledge 100% on U. S. Government notes, 75% on agency notes (such as FHA), or 50% on Alaska municipal bonds. Being a national bank, Mr. Hall said, they have to put 16% on deposit with FDIC at zero percent interest, so there is a deficit of 16% if they pledged U. S. Government notes. The bank had 9% loanable funds if they used agency notes, and 34% if they loaned on Alaska municipal bonds, and that is why the banks bought Alaska municipal bonds so heavily with that money. Mr. Hall said this is basically still the situation, but the state had agreed to buy loans--100% on insured loans and 125% on conventional loans.

Mr. Hall said these state funds did not create any tremendous loan market. He said the Alaska banks could do the same thing with Alaskan funds that the Bank America is doing; they invest \$500 million on a daily basis, but the state might not be as happy with the Alaska banks as they are with the current situation because you would be much closer. He stated that the state is solving problems by going into direct loan programs; the commercial banks are looking toward the pipeline, and can't put their money out on long term loans. He stated that for the state to change its investment policy would be a serious move, and it wouldn't really help. It would have to be a better system than the last one. Mr. Hall described two other programs initiated by the state, one which was not successful since it was not in operation long enough, and one which is in operation now.

AT EASE The Chairman called an "at ease" to discuss a letter regarding the Juneau Court and Office Building.

AFTER  
AT EASE Chairman Hillstrand called the meeting back to order. Representative Warwick asked how Mr. Hall would suggest taxing outside banks. Mr. Hall stated that to do so would hurt the market.

Mr. Carroll asked to make a few comments on Mr. Hall's presentation. He defended the charts furnished the committee of income taxed on banks in other states, saying they were prepared directly from the statutes. He also said that

HB 57

Mr. Hall had shown figures of federal taxable income and attempted to equate this to corporations other than banks; he stated that other corporations would not have tax exempt income to write off, so their taxes would be even higher than indicated. He said it was unfair to equate banks with other corporations unless you take this item into account.

Chairman Hillstrand said that Mr. Hall had suggested that he would be amenable to a 4% rate and that, presumably, he was opposed to a 6% or 8% rate. The whole thrust of the measure, Chairman Hillstrand continued, is to equalize between non-financial corporations and financial corporations. He asked Mr. Carroll if it was his determination that to be equal, the rate should be 8% as State Affairs had concluded or 6% as the Governor had proposed. Mr. Carroll stated that he felt the rate should be closer to 10% on the basis of equality because you have to consider non-taxable income. In answer to a question from Representative Saylor, Mr. Carroll stated that non-financial institutions do not have non-taxable type holdings.

RECESS

A recess was called at 9:58 a.m.

To \_\_\_\_\_ Date \_\_\_\_\_ Time \_\_\_\_\_

From \_\_\_\_\_

## Subject:

As we have pointed out in previous discussions, a simple comparison of rate is not accurate until you know the base upon which that rate is assessed. In Carroll's testimony he states that 16 of the 28 states use franchise excise taxes, 16 include interest on U.S. and municipal bond interest in determining the tax base. What Carroll failed to mention in his analysis is that there are other exclusions from the tax base. For instance, in Attachment 2 of Carroll's presentation, in which a graph showing tax rates is presented, the following information is not considered: federal income tax is excluded from the tax base in the states of Alabama, Hawaii, Kansas, Missouri, North Dakota, South Dakota and Wisconsin. In Hawaii, 50% of the long term capital gains are excluded from the tax base. In Kansas, income from U.S. bonds is excluded, In Maryland, interest from state and municipal bonds is excluded. In Minnesota, interest on U.S. government bonds is excluded, plus interest received on bonds from Minnesota political subdivisions. North Dakota also excludes interest received from North Dakota political subdivisions. South Dakota excludes income from capital gains. (The foregoing information was developed from the Commerce Clearing House State Tax Reporter and summarized on the enclosure, Comparison of Bank Taxation Based on Income By States. The tax rate is misleading when you look at rate without making a detailed, accurate assessment of the tax base upon which the rate is assessed.

It can also be very misleading to look at the income tax or excise tax on banks without looking at the total tax burden that a bank contributes in its particular state. Another question which can be raised is the treatment afforded non-financial corporations doing business in each state. It very well could be that the state of California, for instance, could be taxing non-financial institutions at a much higher rate than the state of Alaska taxes non-financial institutions. What I'm saying here is this tax is discriminatory and is punitive toward banks and no consideration is given to the tax burden of the other corporations doing business in the state of Alaska.

The banking industry is being singled out and an unfair discriminatory tax levy is being assessed against us. To accurately analyse and compare the tax burden of banks in Alaska, a complete study must be made of the total tax impact on the banks in the various states. I do not have the information nor the time to adequately research it. It is very possible that banks in other states pay little or no personal property taxes or they could be exempt from real property taxes. This study, to be valid, must also include a comparison of the tax burden of the banking industry in relation to competing industries and other businesses.

Outside banks are given preferential treatment, because they are not taxed in any way on the income generated within Alaska, nor are they subject to Alaska's punitive usury law.

Banks should be taxed at the same rate as other corporations doing business in Alaska. Warren Fields has made some analysis regarding the tax the

bank would pay if we were taxed the same as an ordinary business form in Alaska. In making this calculation, we have not made any deduction from our income for the interest received on U.S. government obligations, which technically, are not subject to a state net income tax but we have left that income in our base in order to arrive at equality with the ordinary business firm. Our tax under this method would be \$125,187, of which we must add the gross receipts tax (from which we are currently exempt) of approximately \$51,000, for a state tax liability of \$176,378 on our 1972 income. Our tax at the 2% rate is \$84,977; at the 6% rate it is \$245,300. If we were taxed at a 4% rate, our tax would be \$170,000, which is comparable to what we would be paying if we were taxed the same as a non-financial corporation doing business in the state. The 4% license fee tax is a fair and equitable one and makes it comparable to the tax we would pay as a non-financial institution. There is no justification to tax us at a higher rate than other firms doing business in Alaska.

As national banks we no longer enjoy the privilege of certain tax exemptions, i.e., real and personal property taxes, sales taxes, We pay all the same taxes as other firms domiciled in Alaska and our tax rate should be equal. the 4% brings us to equality, and this is the position we should take.

Further supporting the 100% increase (2% to 4%) is Carroll's testimony relating to historical notes. He states that in 1950 the bank tax was 2% and other corporations were paying 10% of their federal income tax rates. Since then the corporate rate has risen to 18% of the federal tax rate, an increase of 80% ( $18 - 10 = 8 \frac{8}{10} = 80\%$ ). If the corporate tax is increased 80%, then a 100% raise to banks is fair and equitable. To increase the bank rate by 200% or 300% is certainly singling out the bank industry.

Carroll also contends that the impact of this increase in taxation is diminished because it is tax deductible on our federal tax return. State taxes are deductible for all corporations, and all of our other expenses are tax deductible. This does not mean we should endorse the higher unfair tax rate, just because Uncle Sam pay the bill

When you have had a chance to review this memorandum and the information available, please advise me.

HOUSE FINANCE COMMITTEE

January 31, 1973

8:40 p. m.

Present: All members except Mr. Ferguson.

Chairman Hillstrand called the meeting to order.

The Chairman appointed Mr. Haugen to perform a special study of the cost of the Assembly Building.

HB 54 The Chairman spoke briefly on the status of HOUSE BILL 54 (Special appropriation to Lt. Governor for the Special Congressional election). The committee agreed to send a letter to the new Chairman of the Budget and Audit Committee requesting information from an audit which would help the Finance Committee determine the unencumbered balance in the Lt. Governor's Office.

HB 61 Mr. Haugen reported on HOUSE BILL 61 (Supplemental to Administration, Labor Relations Agency). Mr. Haugen explained that legislation on the Labor Relations Agency had been passed last year but had not been funded.

Mr. Haugen read the Attorney General's letter on the legislation that had been passed last year (Chapter 113, SLA 1972). See attached for this letter.

Mr. Haugen said that he had discussed HB 61 with Mr. Hunt, Director of the Division of Personnel, and that Mr. Hunt indicated the cost could be higher than the requested supplemental of \$55,600.

The Chairman said that the legislature had passed a bill and failed to appropriate the funds. He said he thought they should find out if the legislature intended that it not be funded.

Mr. Warwick noted that this piece of legislation went through last year in a hurry and did not come through the Finance Committee. He added that the Finance Committee had changed this on the floor.

Mr. Specking said that he had told the state employees in his district that in no way would the legislature be bound by this legislation -- the legislature is the final authority on what is negotiated.

Mr. Ferguson arrived at 8:55 a.m.

Mr. Saylor asked if Mr. Haugen's request to the Attorney General asked about the constitutionality of the legislation. Mr. Vernon said the letter had requested this but the Attorney General's reply did not really say whether or not it was unconstitutional.

Mr. Haugen pointed out that the Division of Personnel has already expended money to implement this act. He said they have had numerous meetings where groups have petitioned for bargaining rights with the state.

Mr. Specking reminded the committee of the Annual Salary Survey and said that through this survey they are trying to determine what the increases will be. He said that this labor relations legislation is completely in another area.

Mr. Warwick said if the committee decides not to fund the bill then he felt they should repeal the legislation. This was briefly discussed. Mr. Saylor said that he would not be willing to repeal this unless the Attorney General said it was unconstitutional. The committee decided to have Mr. Hunt appear before the committee at 1:30 p.m. and the bill was returned to file.

HB 62

Mr. Barber moved and asked unanimous consent that HOUSE BILL NO. 62 (Supplemental appropriation to Public Works, Marine Transportation) be passed from committee. Mr. Hillstrand objected.

Mr. Barber reviewed the supplemental. He said the only question on this supplemental had been answered by a letter from Commissioner Henri, Dept. of Administration, to Commissioner Easley, Dept. of Public Works, which explained the \$145,300 reduction made by the Budget Review Committee (see bill file for letter). Mr. Barber said the rest of this is due and payable

Mr. Warwick said that he thought the committee should consider the wages being paid to some of the employees working on vessels. Mr. Freeman said he realized that Commissioner Easley had indicated the high salary paid (in excess of \$200 a day) put pointed out that the Commissioner had also said that without the engineers they don't sail.

Mr. Haugen pointed out the problems regarding the retroactive contributions to the Marine Engineers Pension fund. The committee decided to write a committee report which would explain the problems of this agreement (see Journal for a copy of this report).

Mr. Hillstrand withdrew his objection. The bill was passed from committee with 5 "do pass" recommendations (Messrs. Barber, Ose, Specking, Freeman and Haugen); 2 "do not pass" recommendations (Messrs. Hillstrand and Ferguson); and 2 "no recommendation" votes (Messrs. Saylor and Warwick). Mr. Hillstrand instructed the staff to hold the bill until the committee report was complete.

HB 57      The committee briefly discussed HOUSE BILL NO. 57 (Business license tax on banks, trust companies and savings and loan associations). Mr. Warwick said he felt they would have to tax all the banks at the same rate. He said he did not think this tax should be retroactive. He suggested they make this effective January 1, 1974. Mr. Hillstrand suggested it could take effect when the law becomes effective. Mr. Warwick felt this could cause some problems. The committee decided to request that Mr. Carroll, Chief of the Misc. Tax Section of the Dept. of Revenue, appear before the Committee at approximately 3:30 p.m. today.

Recess:    The committee recessed at 9:50 a.m.

# STATE OF ALASKA

WILLIAM A. EGAN, GOVERNOR

## DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

POUCH K — STATE CAPITOL  
JUNEAU 99801

January 24, 1973

The Honorable E. J. Haugen  
Alaska State Representative  
Alaska State Legislature  
Juneau, Alaska

Dear Mr. Haugen:

In your letter of this same date you have asked whether the grant of the right of collective bargaining for public employees provided for in Chapter 113, SLA 1972 constitutes a restriction, in violation of the Constitution of the State of Alaska, on the Legislature's prerogative with regard to the appropriation of state funds.

Your attention is invited to AS 24.40.215, enacted also in Chapter 113, SLA 1972, which provides:

"The monetary terms of any agreement entered into under the Public Employment Relations Act are subject to funding through legislative appropriation."

Under this provision, the terms of a collective bargaining agreement constitute an agreement by the negotiating public agency that the agency will see that the terms of the agreement are referred for legislative action when legislative action, including appropriation, is required.

The power of legislative review is superior to the contract and incorporated in the enabling Act, as to provisions requiring the expenditure of funds. There is no action for breach of contract arising only from the failure of the Legislature to appropriate the full amount required to fund the agreement. Legislative authority over appropriations is unimpaired by the adoption of Chapter 113, SLA 1972.

I hope this answers the questions you have raised to your satisfaction.

Sincerely,

  
John E. Havelock  
Attorney General

JEH:jt

1/31/73

AFTER RECESS  
January 31, 1973  
1:40 P.M.

Present: All members, with the exception of Representative Ose.  
Patrick L. Hunt, Director, Division of Personnel. News reporter.

HB 62

Chairman Hillstrand called the meeting to order and stated the purpose of the meeting was to draft a committee report to reflect the committee's thinking on HOUSE BILL NO. 62 (An Act making a supplemental appropriation to the Department of Public Works, Marine Transportation.)

Representative Haugen said the committee felt it was necessary that their concern be relayed to the legislature and placed in the Journal because of ever increasing costs of the ferry system. Rep. Hillstrand said Mr. Hunt was present at the meeting to discuss wage negotiations by the Labor Relations Board as unions now have the state in their pocket as far as the marine transportation system, and special concern was felt by the committee on the subject of the retroactive contributions to the engineers' pension fund. The system is reaching the point of diminishing returns and the question could be asked if the system should be terminated, continued Rep. Hillstrand. It may reach the proportions where everyone will want to get rid of it, which doesn't really serve the welfare of the people. In negotiating the new contract, our people should be equipped with some sort of a tool from the Finance Committee saying costs are too high and can not increase at the current rate. Sometimes engineers may make as much as \$200 to \$250 per day, including all benefits, and Rep. Hillstrand said the state's representative, who will negotiate new contracts shortly, should be equipped to tell the union that these increases must be stopped.

Rep. Hillstrand asked the committee if basically the report should state:

1. Costs are increasing at a great rate. It could very well cause the public to reject an otherwise wonderful program;
2. Mr. Easley, or another representative, could use this statement as an instrument of strength in subsequent negotiations.

Rep. Warwick agreed, and said the committee should call to the public's attention that wages are high to anyone working on these vessels and the committee wishes to give some backing and help to those negotiating the new contract. Rep. Warwick also noted that he has requested additional information as to whether the contract is unreasonable, and will evaluate same when it is received.

Rep. Saylor asked Mr. Hunt if it was a normal practice for the departments to negotiate labor contracts, and Mr. Hunt said it was not. Marine Transportation was specifically authorized to negotiate for their crew, but this has now been changed due to the new Labor Relations Board. In answer to a question from Rep. Specking, Mr. Hunt said now all employees will come under negotiations with unions as Marine Transportation does.

Rep. Saylor then asked about the union representing the engineers and their authority in others areas. Mr. Hunt replied he was only familiar with their authority in this area and in the State of Washington.

Rep. Hillstrand said the pension fund for the engineers is increasing each year, with the people contributing to the fund decreasing. Alaska, as taxpayers, are contributing to the retirement of people having no relationship with Alaska. The committee is attempting to find an answer to this problem, continued Rep. Hillstrand, and asked Mr. Hunt for his suggestions. Mr. Hunt stated he was involved in the negotiations up to a point this year when they began to deteriorate. After this point, he was no longer involved. The state is now talking with a number of trade organizations whose basic history is not different from this union (the one representing the engineers), and this problem could occur in other areas as the state goes into the union concept.

The committee discussed how best to present this to the legislature. Rep. Freeman said the approach bothered him a little as the committee was only advised on engineers' salaries, and that was an estimate. 90% of the people on the ferry system may earn less than others in the state, and he would hate to create an impression that everybody who works on the ferry is grossly overpaid. Rep. Hillstrand said the committee is not going to pick out any craft or calling. We want to convince ourselves that the cost of this public facility is reaching proportions so high that the public will reject it, which we don't want them to do, continued Rep. Hillstrand. We want to emphasize intra-Alaska travel. During the summer season we want to benefit from tourist money. To avoid reaching the proportions where it will be spoiled, we want to get our opinion across. The new contract will be negotiated shortly - the engineers now cost the state as much as \$200 per day - and the committee should write a memo instructing our negotiator to drive the union down in their demands. Alaska is contributing more now to the pension fund than it can ever dream of recovering. We want to operate the system for the benefit of all Alaskans.

Rep. Ferguson moved the committee write a letter to incorporate

the committee's ideas. No objection, so ordered.

Rep. Barber asked if it wouldn't be better to run the statistics from the beginning of the ferry system, as eventually these figures will be requested. Rep. Hillstrand said some figures are immediately available and some are not. Rep. Barber said his investigation showed the fault was with Budget & Management this year, and by changing and omitting items the errors occurred. Perhaps this was the problem in previous years.

Rep. Saylor read from the Salary Survey book that as of July 1, 1972, the average hourly rate was \$7.60, but this average included 8 classes of different jobs. With so many job classifications, there was no way to determine the exact cost of engineers. He also noted the comparison figures for the past five years. In July 1, 1968, average wages were \$5.57, compared to July 1, 1972 of \$7.60, for a 36.5% increase. Rep. Hillstrand stated this was one problem with program budgeting -- putting all people in one category. Rep. Warwick said he was advised by the Division of Marine Transportation that the wage figures he needed could be obtained from the budget book. He added there was no need to hold up the committee report while he computed wages.

Recess:

The meeting recessed at 2:15 P.M.

AFTER RECESS  
2:40 P.M.

PRESENT: All members present. Larry Carroll, Chief, Miscellaneous Tax Section, Department of Revenue. News reporter.

HB 57 Chairman Hillstrand called the meeting to order and stated the purpose of the meeting was to hear testimony from Mr. Carroll on HOUSE BILL NO. 57 (An Act relating to the Alaska business license tax on national banks and state banks, trust cos. and savings and loan associations).

Rep. Hillstrand briefly noted the varying percentage figures requested to increase the tax, and asked Mr. Carroll for the figure which would most likely make the taxpayers equal under the business tax. Mr. Carroll said the corporate income tax on all corporations other than banks is 9.36% on their net income. In addition, these corporations pay a gross receipts tax of 1/2 of 1% up to \$20,000 and 1/4 of 1% on all income over \$20,000, plus \$400. This, in Mr. Carroll's opinion, brings the figure closer to 10% in order to equalize bank taxes with other corporations, not 4% as proposed by the banks. Mr. Carroll demonstrated the comparisons on the black board for a non-financial corporation earning \$1.7 million and a financial institution earning the same. The non-financial corporation would pay approximately \$175,000 in taxes, while the bank would pay approximately \$34,000. To be comparable, the business license tax on banks should be between 8% to 10%, according to Mr. Carroll. An 8% tax on a \$20 million operation would bring bank taxes up to about \$176,000.

Rep. Hillstrand asked if a \$20 million corporation lost \$1.7 million, taxes would still be billed, to which Mr. Carroll said they would be. This would not happen to a bank as their taxes are computed on a net profit, and they would be absolutely void of taxes if not operating on a profit basis.

Rep. Freeman corrected some of the figures Mr. Carroll had written on the board, and said Mr. Hall had used the same base figures but his conclusions were that 4% would be a more equitable figure. Mr. Carroll said Mr. Hall did not include deductible items in his computations.

Rep. Warwick asked why the state allows banks to exclude municipal income, and questioned if it wouldn't be simpler to drop this as an exclusion and tax at the corporate rate. Mr. Carroll replied the federal government says the state can not tax federal receipts and Alaska's income tax law is the same. To be equitable, the state does not tax state or municipals.

Rep. Hillstrand asked if the banks would be discouraged from buying state and local issues if they were not exempted. Mr. Carroll replied it was his opinion that they would continue to buy them. He added that every dollar paid in state tax is a deductible item from the federal return, so the banks would save half of what they pay in state taxes on federal taxes.

Rep. Ose asked if this would hinder Alaska banks with those outside the state. Mr. Carroll said he did not think so, as he did not believe the secondary market would be affected.

Rep. Ferguson asked the effect of raising bank taxes to 4% and lowering non-financial corporate taxes. Mr. Carroll replied the state would have to cut into the corporate structure heavily to make it equitable and there would be a substantial cut in income to the state. In order to be equitable, corporate income taxes would have to be cut about 50%, and Mr. Carroll stated this would be quite a sum of money after the pipeline is approved.

The committee discussed various alternatives. Rep. Hillstrand then asked if the state considered taxing credit unions, to which Mr. Carroll replied credit unions could be treated as other organizations. Generally, however, the credit union is on a non-profit status and as such does not pay taxes. Rep. Hillstrand said the legislature has decreed that money may come from all sources, and if a credit union reaches the proportion of a true bank then they could be taxed. Mr. Carroll said they would be happy to collect the tax, but he did not believe credit unions had reached this point.

Rep. Warwick questioned the effective date of the bill and asked if banks operate on a calendar or fiscal year basis. Mr. Carroll replied the state taxes banks on a calendar year basis, and they convert their income to this basis. Taxes are paid once a year, as is the gross business tax. Rep. Hillstrand noted the committee does not generally approve any retroactive obligations, and asked for suggestions. Mr. Carroll replied the bill could be effective January 1, 1973, and taxes would not be payable until next year. Rep. Hillstrand asked if the banks could not reconstruct their calendar year if the bill was effective July 1, 1973, and Mr. Carroll said it would place quite a burden on the banks and the state to compute taxes for 6 months at one rate and 6 months at another rate. He would prefer to see an effective date of January 1, 1973, with taxes based on the 1973 calendar year and paid by April of 1974.

Mr. Carroll added that 60% of the money collected is refunded to the cities and communities where the tax is collected.

Adjourned: The meeting adjourned at 3:10 P.M.

HOUSE FINANCE COMMITTEE  
February 1, 1973  
8:45 a.m.

Present: All members.

HB 62 Chairman Hillstrand called the meeting to order. He told the committee that the committee report for HOUSE BILL NO. 62 (Supplemental appropriation to the Department of Public Works, Marine Transportation) was being rewritten.

Chairman Hillstrand told the committee that there is a proposed rules change to the Uniform Rules which will make it clear that finance referral is necessary on all bills that have financial impact. After a brief discussion, the committee agreed to this change, and the Chairman requested that a memo be prepared indicating approval by the Finance Committee.

The committee then discussed a proposed cut-off date for revisions and changes to the budget. (See the budget minutes for this discussion.)

Mr. Allen Shattuck, Shattuck and Grummett Insurance Company, and Mr. Donald Koch, Division of Insurance, entered the meeting.

HB 66 Chairman Hillstrand said that Mr. Koch and Mr. Shattuck were present to discuss HOUSE BILL NO. 66 (an Act making supplemental appropriation to the Department of Military Affairs). Chairman Hillstrand turned the discussion over to Mr. Specking, subcommittee chairman for the bill.

Mr. Specking requested that Mr. Koch give his thoughts on this legislation.

Mr. Koch stated that he had discussed this matter with Mr. Chuck Adams and would tell the committee all that he had been able to learn on this legislation.

Chairman Hillstrand stated that part of the supplemental is for workmens' compensation and liability for the National Guard and the committee would like to know if this request is justified.

Mr. Koch stated that this deals with National Guard exposure. He said when the insurance policy with ALPAC (Alaska Pacific Assurance Co.) was written it was without consideration of National Guard

exposure. There was no intention to provide coverage for the National Guard since they had coverage through a federal program. Mr. Koch said that claims had been submitted to the carrier for National Guard injuries but no premiums were received for the exposure. \$60,000 is requested in the supplemental for coverage for the National Guardsmen retroactive to fiscal year 1971.

Mr. Specking said he could not believe the carrier would pay claims without collecting premiums. Mr. Koch said that ALPAC is a "rare bird" in the insurance field -- they have one of the lowest rates of controversial claims. Mr. Koch said ALPAC makes it a practice to stay out of court. He said as a result ALPAC's rates are lower because they stay out of court and do not have to pay attorney fees.

Mr. Barber said this was similar to no-fault insurance. Mr. Koch said yes, workmens' comp could be a model to use for no-fault.

Mr. Specking asked if it was normal practice for an insurance company to pay claims without checking to see if they were providing coverage. Mr. Koch said no, it is not. He said initially ALPAC did not pay the claims.

Mr. Barber asked if the state was legally obligated to pay these amounts. Mr. Koch said yes, in his opinion, because the claims have been paid.

Mr. Ose asked what would happen if the state did not pay this. Mr. Koch said he thought the carrier would have a legal case although he did not know if they would pursue it.

Mr. Koch said that a problem that the committee should consider is whether or not there has been a legal determination as to whether the National Guard is a state function. He added that there may be a statute that says it is a federal function.

In answer to Mr. Ferguson, Mr. Koch said it was his understanding that National Guard exposure had not been negotiated. Mr. Koch said that the workmens' compensation policy covers all exposure of injured persons covered on this policy. He said when the policy was written it was indicated that the National Guard would not be a state function since it was

covered under some federal system. He said the policy had been written without National Guard exposure.

Mr. Koch said that personally he would pay this; however, he pointed out that this would set a precedent -- the state would be accepting the National Guard as a state function.

Mr. Saylor asked the date and amounts of claims paid. Mr. Shattuck read these to the committee (see attached). Mr. Shattuck pointed out that this information had been picked up from a computer and it was questionable if all the claims had been picked up.

Mr. Saylor said that from the amount of claims versus the amount of premium this would have been a low risk area. Mr. Koch said yes, this would be known as a "sweeper." He added that there would have been a refund on this but it would have been a limited refund.

Mr. Freeman summed up what Mr. Koch had told the committee. In answer to Mr. Freeman, Mr. Koch said that although other organizations were in the specs the National Guard was not.

Mr. Warwick pointed out that they were discussing two policies -- workmens' comp and comprehensive liability. He asked if premiums were not paid on workmen's comp then why did the carrier pay the claims.

Mr. Warwick asked if there were any claims paid under the liability. Mr. Shattuck said there are two claims pending (shown on attached). Mr. Shattuck then explained that there have been differences in the opinions submitted by various attorney generals of the state as to whether or not the National Guard is a state function.

Mr. Warwick asked how far back the state is liable. Mr. Shattuck said that he did not know. He added that as far as this existing policy is concerned they are talking about two years.

Mr. Warwick asked about the exclusion endorsement. Mr. Koch said that the state's policy covered all state operations except those excluded. The National

Guard was not excluded because at the time the policy was written it was felt that it was not necessary to exclude it.

Mr. Warwick pointed out that there had been a case where the state had paid \$250,000 to a National Guardsman. Mr. Shattuck explained there had been 8 or 10 different AG opinions. He explained that the case Mr. Warwick referred to was in 1966 or 1967 and the decision to exclude the National Guard had been made by Floyd Guertin (who was the Commissioner of Administration during this time). Mr. Warwick noted the Commissioner had made a costly error.

The Chairman requested Mr. Koch to devote the efforts of his office to developing the pros and cons of this request. He said if this is a state liability he thought the committee would like to get rid of it. If it is not the state's responsibility, then a determination on this should be made. The Chairman thanked Mr. Shattuck and Mr. Koch and they left the meeting.

Recess: The committee recessed at 9:45 a.m.

AFTER RECESS  
10:50 a. m.

Present: All members. A professor and two students from Sheldon Jackson College were also present.

Chairman Hillstrand introduced the gentlemen from Sheldon Jackson College.

HB 137 The Chairman requested that Mr. Warwick make his presentation on HOUSE BILL NO. 137 (an Act making a supplemental appropriation to the Dept. of Education for state-operated school student travel).

Mr. Warwick explained that this supplement is to fund student travel for extra-curricular activity. He said that last year S.O.S. wanted an increase in student travel. He said this was zeroed out by the legislature. S.O.S. chose to interpret that all student travel was zeroed out. Mr. Warwick said this was not the intent. He said Mr. Friese, Director, State-Operated Schools, maintains that there is no money for these activities.

In answer to Mr. Barber, Mr. Warwick said he had reviewed the Budget and Audit Committee minutes.

As a result of a Budget and Audit Committee meeting a letter had been written to Mr. Friese stating that the Committee felt that the specific line item "Extracurricular travel \$50,000" had been deleted, but the feeling of the Free Conference Committee was that this travel should not be broken out in this manner and that adequate funds existed within Code 200 for this program as in the past.

Mr. Warwick said that Mr. Friese has chosen not to expend this. He said although the Finance Committee could dispute this with Mr. Friese he felt the important things was that the students get the funds for these activities. He questioned whether or not there would be a manner to mandate that the funds be dispersed.

The Chairman asked Mr. Barber, a member of the Budget and Audit Committee, his impression of what the Budget and Audit Committee determined. Mr. Barber said the Committee felt that the budget as passed was not to be construed to prohibit the use of funds for travel for extra-curricular activities.

Mr. Ose noted that there is much confusion in the S.O.S. budget and that his subcommittee would be working on this budget later in the day. He suggested it might be helpful to hear from S.O.S. on this matter.

Mr. Warwick pointed out that he had an obligation to advise his constituents at the earliest possible time. He said he wanted to let the people concerned know what the Finance Committee had decided by the next day. The bill was returned to file pending further discussion with S.O.S.

Recess: At 11:00 a.m. the committee went into a discussion on the Juneau Court House.

\*ALPAC JNU

9077 .98 Rate

ALPAC ANCH AHG

1-24-73 12:25

ATTN CARL

RE AK NATL GUARD CLAIMS

LIABILITY OPEN

ELER RESERVES 19-\$20,000.00 ALLOC-\$1,500.00

MEISER RESERVES 20-\$1,000.00 ALLOC-\$250.00

LIABILITY CLOSED NONE

W C OPEN NONE

W C CLOSED

EMNN, JOHN H.	12-15-71	PAID	\$290.28
BODEK, DENNIS	7-27-71		26R0 26.40
BODEK, DENNIS	5-24-71		205.00
BOOSHU, WILBUR	9-11-70		13.00
FREY, --MARGARET	6-28-71	6-11-71	49.00
HAMPLIN, DONALD	8-25-70		275.00
MONCORUK, HOWARD	12-15-70		27.25
SEIDLER, FRANK	7-7-71		39.99
SEIDLER, FRANK	4-17-72		15.00
SEIDLER, FRANK	9-29-70		25.00
SPONHOLZ, RANDY	8-18-72		51.00
LAGOD, RICHARD	8-24-70		67.50

THATS ALL WE COULD FIND JAN

ALPAC ANCH AHG

*Statute of Limitations*

*BI 2 yrs*

*PD 6 yrs*

*Comp - 3 yrs from date  
claimant becomes aware  
of disability or defect*

HOUSE FINANCE COMMITTEE

February 2, 1973

8:40 a.m.

PRESENT: All members except Representative Ferguson.

HB 62 Chairman Hillstrand called the meeting to order and asked the committee for comments on the Committee Report on HOUSE BILL 62 ("An Act making a supplemental appropriation to the Department of Public Works, marine transportation; and providing for an effective date.")

The committee made one change in the body of the report, and Chairman Hillstrand signed the report, and the bill was passed from committee (see page 74 of the House Finance Committee Minutes).

HB 7 Representative Freeman stated he had a question regarding procedure in his handling of HOUSE BILL 7 ("An Act appropriating to the Department of Highways; and providing for an effective date.") He stated he had heard that the sponsors wanted to gather further information on the bill, which they have done, and they are now ready to testify on the matter. However, Representative Freeman had communicated with the Commissioner of Highways, asking for pertinent comments and further information. He said the Commissioner had not responded, and he did not know if it was all that important that he respond. He asked if he should let it go that the Commissioner of Highways doesn't want to respond, or would the burden be on the sponsor of the legislation. Chairman Hillstrand stated that no one was "pushing" Mr. Freeman on the matter, but that the burden was on the sub-committee.

HB 14 Representative Barber stated he had a problem on HOUSE BILL 14 ("An Act relating to fishing, hunting, and trapping licenses; and providing for an effective date.") He said he understood that the bill had been amended to age 65, but he had no information on the amendment in his bill folder. He also said he felt that the committee procedures lacked in that the committee members did not know when the bills were in committee.

Chairman Hillstrand stated that Representative Barber should acquire a fiscal note for age 60 and age 65. The staff was instructed that all amendments being offered by other committees to bills in House Finance should be placed in the members' bill files.

RECESS The committee recessed and took up matters pertaining to the budget at 9:00 a.m.

AFTER RECESS

3:07 p.m.

Present: All members except Representative Ferguson. Mr. Stan Friese, Bob Nelson, State-Operated Schools; Mr. Bud Shy, C.P.A.; Mr. Robert Dwyre, Mr. Bill Race; Department of Public Works; and Bob Jacobs, Budget and Management, and Mr. Josh Wright were also present.

HB 65 Chairman Hillstrand called the meeting to order and said the committee would consider HOUSE BILL NO. 65 (an Act making supplemental appropriations to the Alaska State-Operated Schools System). He turned the meeting over to Representative Ose who is the subcommittee chairman on this bill.

Mr. Ose requested that Mr. Friese explain the first section of the legislation (which appropriates \$661,600 to S.O.S.). Mr. Friese said that S.O.S. had overexpended last year. He said that the \$661,600 is for obligations to the Division of Buildings and the University of Alaska. This contractual agreement with the University of Alaska was for a rural teachers training program.

Mr. Friese told the committee that the problem S.O.S. faces has an historical background. They have not been able to receive an accurate updating of figures on expenditures. He said during S.O.S.'s initial year of operation there was no financial basis on which to accurately determine the amount of funds needed for operation. (S.O.S. had originally been an agency under the Department of Education.) Mr. Friese said in previous years when there had been a deficit it was possible for the Administration to fund the deficit through sources available to the Department of Education. It has not been possible to do this since S.O.S. has become a separate operation.

Mr. Friese said that one of the recommendations for S.O.S. to improve their accounting records was to work closer with the computers dealing with accurate records on their expenditures. He said he believed that they are developing this process.

Mr. Friese said that they have recognized that they are going to be short and will have to face up to their financial obligations.

Mr. Ose asked what would happen if the supplemental is not funded. Mr. Friese said there would be no other source of funds. He added that the contractual arrangement with the University is for work that has already been done. Mr. Ose said then this is an obligation and there are no other alternatives. Mr. Friese said this is correct.

Mr. Specking asked when Mr. Friese came "on-board" and Mr. Friese answered August 4, 1971.

Mr. Freeman asked if Mr. Friese was telling the committee that he did not know how much money they are spending. Mr. Friese said that their information retrieval system is so far behind that they overexpended.

Mr. Warwick asked what is being done to insure that this overexpending will not happen again. Mr. Friese said that 90% of their problem is that they do not have an adequate staff and adequate procedures in their business office to operate S.O.S. He said they have been looking for a Budget Director and have been unable to obtain this position. Mr. Friese said that Mr. Nelson, who is the comptroller, will be leaving in three days and his replacement has not been hired.

Mr. Friese explained that when S.O.S. became a school district there were unpaid warrants which were packed in a box and mailed to Juneau. He said the basic operation had to be set up to finance a school district of this size.

Mr. Warwick asked what needs to be done to correct this undesirable situation. Mr. Friese said they should have been able to establish a position for Budget Officer during their first year of operation and had not been able to do this. Mr. Friese said that there had not been enough positions transferred from the Department of Education. He said S.O.S. had gone through a year without being able to establish permanent employees. Mr. Nelson added that in their business office they had had about 100% turnover.

Mr. Warwick asked if they felt they could hire a fiscal officer who can get a handle on their problems. Mr. Friese said this is very difficult -- they are looking for a person trained in school finance. He said that good school finance men were hard to find in all regions of the country.

Mr. Freeman and Mr. Haugen left the meeting.

Mr. Nelson said that there was a difference between this supplemental and the first supplemental in 1972. He said in 1972 they did not know where they stood. He said now they do and they are saying that this is the amount they need to continue operations.

Mr. Nelson said that their major problem is getting accounting data from the Department of Administration. The information they are getting is "late and slow." Mr. Warwick asked if they could see the "light" in this problem with Administration. Mr. Nelson said they feel they are in the same situation as the other departments.

The Chairman asked how many people there are in S.O.S. incurring obligations against the S.O.S. account. Mr. Nelson said they have two certifying officers.

The Chairman said it seemed that what they needed was a person who could add and subtract. He said he did not feel there was any guarantee that they were out only \$619,000. Mr. Nelson said that this figure has been adjusted since the original run. He said they assume it is an accurate figure from the information they are getting from Data Processing.

The Chairman said if they do come up with this amount then all expenditures for the program ending June 30, 1972 have been made. Mr. Friese answered yes.

Mr. Nelson explained the schedules that had been provided (see bill file).

Senator Groh entered the meeting.

Mr. Saylors said he did not feel the Chairman's question regarding persons authorized to spend money had been clearly answered. Mr. Nelson said they have two purchasing officers and requests are channeled through these two people. He added that larger purchases go through the Division of Supply. He said after the purchases are made the invoices have to be signed by the certifying officer.

Mr. Saylors then asked about the time lag for purchases to show up on the computer run. After a brief explanation, Mr. Saylors noted that there is a 30 day (or at the most 6 week) time lag.

Senator Groh left the meeting.

Mr. Saylor asked if S.O.S. utilizes the state's recruiting system. Mr. Friese said yes. Mr. Friese said they have been unable to get the Budget Officer position classified because the Department of Administration will not certify that funds are available for it. Mr. Saylor asked about the salary for this position. Mr. Nelson answered it is about \$18,000 a year. Mr. Specking asked about the cost of contractual services (S.O.S. is currently contracting with a C.P.A. firm). Mr. Friese said this is approximately the same cost.

Mr. Friese said that it is very crucial that the Budget Officer understand school problems.

In answer to the Chairman, Mr. Nelson said that the regional superintendents are authorized to purchase minor amounts up to \$100.

Mr. Ose asked about the amount due the Division of Buildings. Mr. Nelson said that in June, 1972 they received a billing from the Division of Buildings for \$1,200,000. They paid \$712,000 with the feeling S.O.S. could not pay the rest, he added.

The Chairman asked if it was customary for the Division of Buildings to wait a year before billing an agency. Mr. Dwyre said no. Mr. Dwyre said this billing is an accumulation and not all for one particular building. He said the information is submitted to S.O.S. on an individual basis. He said this is for various buildings being constructed for S.O.S. He said change orders would be submitted and approved by S.O.S. just as they are for other agencies. Mr. Nelson pointed out that S.O.S. is protesting the amount owed to the Division of Buildings. He said that they agreed they would spend no more than \$1,200,000 and they were billed for \$1,300,000. A brief discussion followed.

Recess: The meeting recessed at 4:12 p.m.

AFTER RECESS

4:25 p.m.

PRESENT: All members except Representative Ferguson; Mr. Stan Friese and Mr. Bob Nelson, State-Operated Schools; Deputy Commissioner of Public Works, Robert Dwyre; Bill Race, Division of Buildings; and Bob Jacobs, Division of Budget and Management

HB 65 Chairman Hillstrand stated that the committee would continue its discussion of HOUSE BILL 65 ("An Act making a supplemental appropriation to the Alaska State-Operated School System; and providing for an effective date." He turned the meeting back to Representative Ose, sub-committee chairman on this bill.

Representative Ose, addressing Mr. Dwyre, asked how and why the freeze-up at the Bethel School occurred. Mr. Dwyre stated that the report from the maintenance personnel transmitted to Bethel on the project had only been received on January 28, and he said it would be difficult to give a full report for that reason. Mr. Ose stated that there was nothing in the supplemental request pertaining to the Bethel freeze-up. He asked who would pay the costs involved.

Mr. Dwyre stated that from the information that the department had received to date, he did not feel that they were in a very good position to bill the contractor, especially since the job is only partially finished and the contractor has not been fully paid. He said that, at the request of SOS, the department had violated one of its policies in allowing them to occupy the building before it was completely finished, and the contractor may claim that any one of the number of things which caused the freeze-up are the fault of the department or SOS. Mr. Dwyre said he felt the department would be ill-advised to take the matter to court, but if they find anything that can be assigned to the contractor or the designer, they will take the matter to court.

Representative Ose asked if it was not the responsibility of the Department of Public Works to determine when occupancy takes place. Mr. Dwyre said it was, but that it is not a consistent thing that the department can enforce it because of the desires of the owner agency--particularly in the case of schools. Representative Ose asked when the building would have been completely finished. Mr. Dwyre said it would be finished about now (February 1). Representative Ose stated that since SOS did not start the school year with the building, would it not have been to the advantage of SOS to wait to occupy the building until it had been completed. Mr. Dwyre thought that it would have been.

Representative Ose asked what the cost of the freeze-up was going to be. Mr. Race stated that the contract was let on a time and materials basis, not to exceed \$20,000, and that Division of Building officials were computing the time and materials now to determine the cost. He said that the Public Health water system froze up or it would have been done sooner. He explained that everything in the area started freezing up and, once started, there was no way of stopping it. Representative Ose asked again what the cost of the freeze-up was. Mr. Race stated it is still being computed. He said further that the department is trying to figure out exactly what went wrong. He said that SOS had requested maintenance people there and were turned down and so they were shorthanded. The Department of Public Works has one man in Bethel, but he cannot spend full time on the school; he said there was also some evidence from the reports that there had been vandalism at the school. Some manhole covers were knocked off, allowing cold air into the system. Mr. Race said the contractor was Walsh and Co., and Mr. Race administered the contract.

Representative Ose stated that he did not see how this type of thing could happen in a new building. Mr. Dwyre stated that, as Mr. Race had pointed out, there was possibly a deficiency in the training and capability of the maintenance people that could have contributed to the situation. The freeze-up took place during Christmas vacation and there was very little supervision of the building during that time. Representative Ose said it appeared that the personnel did not seem to be doing their job. Mr. Dwyre said that the department always looks at these cases from the standpoint that if they take the contractor to court, they are going to beat him. It is always more difficult if you have an occupied building, since the contractor is not responsible for the maintenance of the building.

Representative Ose asked who was responsible for the maintenance of the building. Mr. Dwyre replied that SOS was responsible. Representative Ose asked how this type of person was employed.

Mr. Friese stated that this was the first time this criticism had come up, and that he felt SOS had the most qualified maintenance people at the Bethel School--they were definitely the best that they could hire. He said that more sophisticated equipment makes the maintenance more difficult.

Representative Ose asked who would pay the bill for the work. Mr. Dwyre stated that unless the cause could be attributed directly to the contractor, and it does not appear that will be the case, SOS will pay the cost.

Representative Ose asked why SOS would pay the cost. Mr. Dwyre stated that the Department of Public Works is a service agency; they provided the building for SOS and they are in beneficial occupancy of the building. The Department of Public Works is the contracting officer for the state and, if they determine it is the department's fault, they will pay the cost. Mr. Friese said SOS is not involved in the construction of the school until the department turns the keys over to them.

Representative Specking asked Mr. Race if, in his opinion, he felt that vandalism had contributed to the freeze-up. Mr. Race said he felt that it had. Representative Specking asked Mr. Race if he knew when it had occurred; he asked if it had occurred while the building was in use as a school. Mr. Race said it had.

Representative Saylor asked if SOS had to sign a release before occupying the building. Mr. Race said that, in effect, they did. The procedure is to send the contractor a letter. Representative Saylor asked if there was a definition of "beneficial occupancy" that Mr. Race could give the committee. Mr. Race said that if the deficiencies are minor in nature, the department would allow occupancy if everything is functioning.

Representative Saylor asked if the utilities were outside; Mr. Race stated that some were outside and some were under the building; the building is on frozen pilings, so the access is under the building. Representative Saylor asked where the wooden manhole covers were located. Mr. Race said they are away from the building in an area not in the normal pathway of the school children. He said the cover could have been left off by the contractor, the maintenance man or removed by the school children, but it was not off at the time of the inspection.

Representative Specking asked what the completion date on the contract was. Mr. Race said it was the end of August; Mr. Specking asked if the contractor was being penalized for finishing late. Mr. Race said he was not, there are enough change orders and strikes involved that the department had reason to grant him time extensions.

Representative Haugen asked where the freeze-up was first noticed. Mr. Race said he thought it was inside the building, and he described the sprinkler system problems. Representative Haugen asked if there was someone on duty 24 hours per day; Mr. Dwyre stated that there is at this time. Representative Haugen asked if the water circulates in the piling. Mr. Race said you cannot circulate the water in the fire line. Representative Haugen stated that there would be standing water in the fire line.

Chairman Hillstrand asked if Mr. Race had been to Bethel often in connection with the construction of the building. Mr. Race said he had been there last during the final inspection; he had not been present at the last inspection that had taken place in connection

with the acceptance of the gymnasium. Chairman Hillstrand asked him if he was repeating what he was told when he spoke in connection with the freeze-up. Mr. Race said he was. He stated that he felt there would be more of this type of thing because it is going to require more experienced maintenance men due to the more sophisticated schools being constructed and the sprinkler systems. Mr. Race explained further than the system is dry under the floor and in the ceiling now.

Mr. Race left the meeting at 5:00 p.m.

Addressing Mr. Friese, Representative Ose stated that the sub-committee believed that there were two reasons for the supplemental request: (1) inaccurate budget management; and (2) mismanagement. He asked Mr. Friese if he agreed with that statement.

Mr. Friese stated that he did not agree with that statement. He said you would have to go back to their original budget request where SOS attempted to spell out to the best of their ability the cost for running SOS. One obvious blow was when the request in contractual services was reduced to \$4.5 million; he said there was no way that SOS could exist on that appropriation in contractual services. He said that SOS should have come back the next day and explained that they had to have \$5.9 million, but all they could do was transfer from commodities and travel and equipment codes.

Representative Ose asked Mr. Friese what the projected and actual enrollment figures were. Mr. Friese said the projected enrollment for rural schools was 8,505 and the actual enrollment was 7,688; the projected enrollment for on-base schools was 10,200, and the actual enrollment was 9,981. Mr. Friese said SOS employed 15 less teachers in the on-base schools than programmed for, and he realized that this should have resulted in substantial savings. He said there was either an error made in the projected request for personal services, or the salary increase was not projected properly. He said pupil projections are based on information from village teachers which is summarized by regional superintendents and forwarded to the main office where it is finalized. He stated that the pupil-teacher ratio is one teacher for 8 to 24 students.

Representative Ose asked how many teachers were hired during the school year. Mr. Friese stated that SOS had not added any to the projected requirement.

Representative Ose asked Mr. Friese what the procedures were for purchasing equipment and commodities and when it took place. Mr. Friese stated that the people in the field would be filling out their order books for the following school year right now based on their current inventory and projected enrollment; the orders then go to the Regional Superintendents who finalize them and then send them in to the main office in Anchorage.

Representative Ose asked if Mr. Friese felt sure there was a need for all of the materials ordered. Mr. Friese stated that they must

rely on the principals' recommendations since he is a few hundred miles away from the main office.

Representative Ose asked when the principals started preparing their budgets. Mr. Friese stated that these materials would be received by SOS during the next few weeks for FY 75 and will be finalized during the summer. It will be reviewed during the first week of September

Representative Ose asked if Mr. Friese felt that it was possible for a principal in September to give an adequate or accurate accord of his basic needs. Mr. Friese stated that right now they will fill out their order books for the following school year. The orders have to be placed in March for delivery the following September.

Representative Ose asked how often textbooks were changed in the SOS district. Mr. Friese said there is no set time; he said SOS purchases from a list developed by the state textbook committee. Representative Ose asked if the textbooks were ever changed because of a change in personnel. Mr. Friese said they were. Representative Ose said he felt it was an overexpenditure when a new set of textbooks would be dropped for this reason. Mr. Friese explained that this would be only an isolated incident and is not the procedure in the district.

Representative Ose asked if there was a handbook or guide on purchasing procedures available for teachers. Mr. Friese said that SOS has a procedures manual; it is currently being updated.

Representative Ose stated that in transferring funds between codes, SOS had eliminated travel funds. Mr. Friese said they had cut travel funds. Representative Ose asked if there were any way that SOS could come up with \$11.5 to return to the travel code immediately. Mr. Friese said they could, as it was included in the supplemental. Representative Ose stated that he was not speaking of the supplemental; he wanted to know if they could put the money back in travel, and he said he would like to have a commitment from Mr. Friese that it would be done immediately. Representative Ose stated he felt it would be very beneficial if he could make the commitment. Mr. Nelson said the funds could be taken from another program. Representative Ose asked if they would specify that the money was for extra-curricular travel. Mr. Friese said they could.

Representative Barber asked if the position of SOS had changed on extra-curricular travel when it received a letter from the Budget and Audit Committee on the subject. Mr. Friese said it did, but funds were not available by that time. Representative Barber said that the letter stated that the funds were available, and SOS was free to use them. Mr. Friese stated that the SOS budget was overexpended; they had instituted a freeze and there were no funds for the travel.

Representative Ose stated that Mr. Friese had made a commitment to the committee to put the \$11.5 in extra-curricular travel; Mr. Friese said that with no basis for his answer, he could not say yes or no. Representative Ose said he was not concerned where the cuts were made. Mr. Nelson said they would have to cut maintenance and travel.

Representative Specking stated he would like to follow up a little on the freeze-up at Bethel School. He said he felt that something must be wrong if there is vandalism going on. He asked how this could occur.

Mr. Friese stated that you cannot relate any of the problems in Bethel to schools in other areas; he mentioned that there are alcoholism, drug abuse and VD problems in Bethel. He said the high school problems at Bethel are very difficult.

Chairman Hillstrand asked him to describe the difficulties. Mr. Friese stated that the students are away from home 9 months of the year and it is upsetting to them. He said that Bethel is probably the last of the large dormitory schools that will be built. It compounds the problems of social adjustments they have never had to make to be away from home; this is in addition to regular teenage problems. They also have serious learning problems. The students have to be handled as adults on one hand, and children on the other. Alaska will not move ahead with the dormitory program because of the difficulties.

Representative Specking stated that it seemed to him that there was no way the situation could get better. Mr. Friese stated he had never heard any reports before about destroying the school; he said they had had reports that the freeze-up was caused by a construction problem, a maintenance problem and now the students. Mr. Friese asked that the committee consider allowing Mr. John Paul Jones of SOS to testify on the problems at bush schools; his job is to coordinate the schools with the communities.

ADJOURN-  
MENT

Representative Ose asked that the committee meeting be adjourned until 9:00 a.m., Saturday, February 3. It was so ordered.

HOUSE FINANCE COMMITTEE  
February 3, 1973  
9:15 A.M.

PRESENT: All members with the exception of Representatives Saylor and Warwick. Josh Wright; Stanley H. Friese, Superintendent, State Operated Schools.

HB 65 Chairman Hillstrand called the meeting to order and turned the meeting over to Rep. Ose for information on HOUSE BILL NO. 65 (An Act making supplemental appropriations to the Alaska State-Operated School System).

Rep. Ose asked Mr. Friese for an outline of the basic need for the supplemental. Mr. Friese said he did not have any detailed material ready for the meeting, as he thought it would be called for next week. He said it would be unfortunate to delay the meeting, but all he had available was general information.

Rep. Ferguson asked the general problems. Mr. Friese replied contractual services was the biggest problem, as SOS has obligations for fuel, rent, leasing of quarters, etc., where projections were not sufficient to cover actual expenses. The budget was reduced and the agency does not have the funds to pay the bills. He repeated that he did not know this meeting was scheduled, and asked if he could call Bob Nelson, who had more detailed information.

Rep. Hillstrand requested general remarks by the superintendent while the committee waited for Bob Nelson. Mr. Friese stated the first problem is in business services. State Operated Schools has never had enough staff, and Mr. Friese said Bob Nelson is an excellent man but he is sick and tired of all the catch-up work in accounting. Mr. Nelson is resigning and his last day is Monday, February 5. Other responsibilities have been shifted, and a replacement will be needed for another employee who has been fired. At this time the agency has received approval to get a budget officer, but one is difficult to find in Alaska, and Mr. Friese felt recruiting should be done outside the state. There are a large number of school administrators trained at USC, and a qualified individual should be found. If a budget officer and a replacement for Bob Nelson are hired, Mr. Friese said the accounts will be in better order. A part-time teacher at the U of A has been put under contract to help through the next six months. He is a CPA and is under contract to help with the budget. Mr. Friese believed the budget is not a complicated process and the agency should be able to get by until further help is recruited.

The second point which Mr. Friese wished to make was that SOS has

not over-spent their budget this year, and they will not over-spend. Historically, SOS has over-spent their budget, but Mr. Friese did not believe any errors have been made this year on PTR. 169 on-base students dropped this year and the number of teachers has dropped to 469; rural schools have come up by about 140 students and teachers have increased to 191-1/2. 80% of the budget is in Personal Services. When an agreement was made in 1969 with the teachers, the Board gave away all powers of policy-making, which Mr. Friese said was a mistake. The new Board, specifically assigned this responsibility, will do a better job. There is now a new contract with the teachers and only salary and fringe benefits are negotiable, not all items as in prior years. SOS has progressively become lower and lower in pupil/teacher ratio. From 1971 to 1972, including special education teachers, on-base PTR was 20.7 and this year it is 20.9. In rural schools, the agreement states no more than 20 students with each teacher, and this year PTR was 15.9. This low PTR makes the cost of rural education very high. Mr. Friese gave examples of PTR at various rural schools.

Mr. Jacobs, Budget Analyst, Budget & Management, and Mr. Robert G. Dwyre, Deputy Commissioner, Dept. of Public Works, joined the meeting at 9:45 A.M.

Mr. Friese continued giving examples of rural school enrollment: at Cold Bay the closing enrollment last year was 21 and it opened this year with 17, with two high school students. There are two teachers there, but this can't continue. Every legislator will have a school in his district where cuts in teacher staff will occur, but the costs are running too high. Mr. Friese said there are law suits pending from villages stating high school teachers must be provided, but they cannot and will not be provided. Regional superintendents have a responsibility to keep within their budget, but thus far they have not assumed this role. Mr. Friese added they can't be held responsible if they are not provided with the information, and Commissioner Henri of the Dept. of Administration has stated SOS will be provided with accurate, up-to-date accounting figures. Mr. Friese concluded by saying these are the biggest problems relating to the budget in his opinion.

Rep. Ose asked if a good high school education is provided. Mr. Friese replied no, but it seems that the students are better off in their own communities than if assigned to a boarding school. If the human side of the picture is not looked at, the students probably would receive a better academic education at a boarding school, but most parents and students prefer to receive their education at home. Mr. Friese added that some students receive an excellent education through the correspondence studies; it all depended on the individual.

The committee discussed teachers' ability and qualifications. Mr. Friese noted that sometimes it was impossible to find qualified

HB 65 teachers to serve in isolated areas, and, contrary to what was said at yesterday's meeting, teachers should be recruited from outside the state. A teacher is not necessarily qualified just because he is an Alaskan resident, and this policy can present a real danger to quality education. Mr. Friese also stated that teachers should be rotated every three years from rural schools, and gave examples of problems occurring when a teacher became too involved in local arguments and politics.

Mr. Bob Nelson, Comptroller, State Operated Schools, arrived at the meeting at 10:05 A.M.

Rep. Ferguson asked what would happen if SOS did not receive the requested funding, to which Mr. Friese replied serious cut-backs would occur. It costs about \$500,000 per week to operate schools, and schools may be closed early as everything has been frozen except bare necessities.

Rep. Hillstrand noted there is nothing wrong with contracting for services, and it is often more economical than keeping a permanent employee. Personal Services is the area where the budget should be cut, and Rep. Hillstrand asked the percentage of Personal Services attributable to teachers only. Mr. Nelson replied that including bi-lingual teachers and teacher aides, 77% of the Personal Services category is in instructor employment. This includes principals.

Rep. Hillstrand stated that in negotiations between the Board and teachers, teachers may become involved in contract writing. He asked if teachers could not include policy decisions in a contract. Mr. Friese said it might be possible if a master contract was drawn, but SOS uses a single page contract now that does not include policies. The effect that they are starting with a very simple contract gives SOS the advantage.

Rep. Ose returned to the question of PTR, and asked if two teachers in a small community are not usually man and wife. Mr. Friese said this was true, but if the community is reduced to one teacher the couple will both be transferred and a single teacher put in their place.

Rep. Ose asked for a percentage breakdown of how the budget is distributed, which Mr. Friese said he would provide for both last year and this year.

Mr. Wright requested enrollment figures, and Mr. Friese provided him with a copy of this report. Mr. Wright said projections last year were different, and asked Mr. Friese to explain the increase in teachers. Mr. Friese replied there are now 491.5 teachers, compared to 487.5 for last year, or an increase of four teachers. Mr. Wright then noted that enrollment projections from last year are off 2,000 students. He said students have

decreased, while the number of teachers has increased, and asked Mr. Friese to explain. Mr. Friese replied a teacher is required in a rural area if there are eight students, and many areas have a PTR of from 8/1 to 11/1. If the budget is reduced significantly, regional superintendents must be told they have X amount of dollars and they must allocate it accordingly. But by statutory requirements, a teacher must be provided for eight or more students. The committee discussed this problem.

In answer to another question from Mr. Wright, Mr. Friese said special education teachers are provided through the budget, where they are either approved or taken out. Mr. Wright then asked about teachers at Elmendorf, and Mr. Friese said a number will be dropped this year. More than 63 so far have transferred to Anchorage. In order to drop teachers not needed to maintain a proper PTR, the last one hired is the first one fired, continued Mr. Friese. Attrition rate last year was approximately 100 new teachers. It has been near the 50% mark, but now is down this year to 13%. The problem is that SOS does not know how many will be returning until late in the year, sometimes not until August. The agency stays on the conservative side in employment. In answer to another question from Mr. Wright, Mr. Friese said substitute pools are available.

Rep. Saylor joined the meeting at 10:40 A.M.

Replying to a question from Rep. Ose, Mr. Friese said special education teachers can be transferred, with the agency paying the moving expenses. A program could be run without these people, but it is not necessarily quality education, he continued. Where no special education teachers are provided, the regular teacher attempts to teach the subject.

Teacher aides are a vital part of the program, relieving the teacher of many clerical duties, according to Mr. Friese. Rep. Ose disagreed with the concept of teacher aides, but Mr. Friese argued they do a variety of jobs.

Rep. Hillstrand noted that Mr. Dwyre was present to provide information on the bills due to the Division of Buildings by SOS. Mr. Dwyre stated he was in error yesterday in his assumption that part of the money was for school construction. All of this is for school maintenance. During 1972 maintenance was the responsibility of the Division of Buildings, although now it has been turned over to SOS. The budget, as submitted, was substantially higher than what was approved. This should not have been disregarded, but someone should have pointed out at the time that the budget was not sufficient to maintain building maintenance throughout the system, continued Mr. Dwyre. The period covered was from July 1, 1971, through June 30, 1972, and Rep. Hillstrand asked why the billing was so late. Mr. Dwyre

said to the best of his knowledge billings were submitted quarterly. Mr. Nelson added SOS is requesting the same level for the current budget, but because of budget problems last year maintenance has been reduced. Rep. Hillstrand noted that contractual services is the largest item on the supplemental request. Mr. Friese said this year the plan is for SOS to take over maintenance completely so two different agencies are not involved.

The committee recessed at 11:05 A.M.

AFTER RECESS  
11:25 A.M.

Chairman Hillstrand called the meeting to order and asked Rep. Ose to proceed. Rep. Ose returned to the problem of maintenance and Mr. Dwyre said the Division of Buildings is still responsible for maintenance of the school buildings, and they are in the process of transferring this function to SOS. The Division of Buildings bills on a quarterly basis, although the bills from the districts come in on an irregular basis, sometimes monthly, sometimes quarterly.

Rep. Ose asked if a project ledger was kept for work to be done and work being done, to which Mr. Dwyre replied yes. If special maintenance is required, or a major repair, the entire cost is kept in a ledger, charged to the particular building where the work is being done. It is a major administrative function, continued Mr. Dwyre, as travel of maintenance people must be scheduled as advantageously as possible. Mr. Friese added that the Director of Maintenance for SOS is a good employee, and will take care of as much maintenance as possible. However, major repairs require maintenance men to be called from Anchorage and sent into the districts.

Mr. Nelson returned to the question of late billing from the Div. of Buildings, and said prior to this year the policy was for the Div. of Buildings to submit one bill per year, at the end of the year, usually staying within the budget. This year SOS has initiated an agreement to appropriate the funds as projects are done. Funds are now encumbered, continued Mr. Nelson, whereas there was no such control in previous years. As far as actual costs, Mr. Nelson said SOS has not received a billing from the Division of Buildings, but funds are set aside for payment.

Rep. Ose asked Mr. Dwyre why there was a delay in billing, to which Mr. Dwyre replied the Anchorage office sends a report, at least quarterly, to the Div. of Buildings' accountant in Juneau. There is possibly some confusion as to whether SOS is doing the maintenance or the Div. of Buildings is doing it, added Mr. Dwyre. The committee discussed the problem of delayed billing for maintenance.

Rep. Barber asked the closing date of the books each year, both for the Div. of Buildings and the SOS maintenance. Mr. Nelson replied that both agencies operate under the state accounting system, based on a June 30 fiscal year closing. All prior year costs must be recorded by August 31, but SOS, because of a change in the accounting system, was a couple of months late. Rep. Barber asked for confirmation that this was not a lapsed expenditure, and Mr. Nelson said SOS shows it on their books as being due. Encumbrances can be paid up to one year after the books are closed, continued Mr. Nelson, and after one year the bills must be referred to the legislature for payment.

Rep. Ose questioned the cut in the FY 72 budget. Mr. Dwyre said he would like to explore and clarify the entire situation and send a memo to the committee after his investigation. The entire situation was confusing, and Mr. Dwyre would prepare explanatory material for the committee. Rep. Hillstrand said this would be appreciated.

Mr. Jacobs noted funds have been appropriated for the actual money spent, and the Div. of Buildings is carrying the account on their books. Action on the bill will not mean any funds going out of the treasury, but will, in effect, "legalize" the transaction. It will be a paper transaction to cover expenditures already made, continued Mr. Jacobs, and not another penny will come from the state treasury.

The witnesses were asked if they wished to present any further information. Mr. Friese stated accounting showed a discrepancy between what was requested by the department and what was granted. One poor use of funds would be to eliminate travel funds, which would reduce the Regional Superintendents to the level of a secretary. Mr. Friese said these superintendents should be brought into the office to work on policy and assume responsibility for policy development. SOS is now working with the American Association of School Boards to bring experts in to work on policy development. March 1 is the deadline for contracts, and SOS must act as though they will be in business for another year or two, continued Mr. Friese. He did not favor moving the division back to the Dept. of Education, and he will continue working for more local control. The military seems to feel this is the best direction in which to move. Returning to the subject of policy development, Mr. Friese said the American Association of School Boards is the best group doing this type of work, and SOS has requested \$20,000 for policy development. If not granted, someone from another area must be brought in and asked to work on policy development.

Rep. Ose questioned Mr. Friese's reaction to the sub-committee's written comments (see bill file). Mr. Friese replied he has been the loudest critic in many of the problem areas mentioned. Poor enrollment figures and inadequate accounting methods are

HB 65 easy enough to criticize, but difficult to correct, continued Mr. Friese.

Rep. Hillstrand requested a copy of Mr. Friese's reorganization plan for SOS, which Mr. Friese will provide. Rep. Hillstrand then asked if the finance and maintenance men report directly to Mr. Friese. Mr. Friese said they do not, but report to George White, who had to be in Colorado this week for a funeral. Mr. Friese said he did not feel the above-mentioned men should report directly to him, as he now has access to information they provide, but another man should be responsible for their day-to-day activities. He continued by saying SOS has complex problems, and the staff has always been inadequate. The Anchorage district has about four people to one for SOS. If Mr. Friese could not rely on George White, he would have to give up as Superintendent. The staff has worked every Saturday, Sunday, and many nights for the last four or five months, continued Mr. Friese, because they don't have enough people to do the job. Mr. Friese concluded by saying all they can do is their best and attempt to attack as many problems as possible.

At Rep. Ose's suggestion, the sub-committee scheduled another meeting with Mr. Friese for 2:00 in the afternoon. Rep. Ose will report their recommendations to the full committee early next week.

Adjourned: The meeting adjourned at 12:30 P.M.

AFTER RECESS

2:02 p.m.

PRESENT: All members except Chairman Hillstrand and Representative Saylor; Bob Nelson, Stan Friese and Lionel Wright, State-Operated Schools; and Bob Jacobs of the Division of Budget and Management.

HB 65 Vice Chairman Haugen called the meeting to order and turned it over to Representative Ose, subcommittee chairman on HOUSE BILL 65 ("An Act making a supplemental appropriation to the Alaska State-Operated School System; and providing for an effective date.") Representative Ose circulated copies of the committee report on the bill prepared by the sub-committee.

Representative Barber asked if it was possible for the committee to authorize an expenditure in '73 to cover an over-expenditure made in '72. Representative Ose said the situation was caused by their billing process--billings sometimes do not arrive for 6 months. Mr. Guthrie said that it can be done; the agency goes back and opens up the books.

Representative Warwick asked what would happen if the sum for the Division of Buildings were not appropriated. Mr. Friese said the alternative was some type of internal transfer from one department to the other necessitating an additional expenditure from the General Fund.

Mr. Nelson stated that SOS had contracted with the Division of Buildings for this maintenance for \$1.2 million, and the Division of Buildings expended the money in good faith, although they had over-expended by \$100,000. SOS paid them \$712,000 when they discovered they could not pay all of their vendors and still pay the Division of Buildings.

Joe LaRocca entered the meeting at 2:15 p.m.

Bob Jacobs explained that the Division of Buildings had been appropriated the \$1.2 million in inter-agency receipts. An agency can expend against anticipated receipts, and if they are late in coming, the agency spends general fund monies until they arrive. So, there is a receivable on the books of the Division of Buildings which is not their fault; the money should be appropriated to SOS and transferred to the Division of Buildings. You cannot, Mr. Jacobs said, require an agency to wait until these type of receipts are received or government would stop.

Representative Warwick commented that the Division of Buildings would, in that case, owe this money to the General Fund.

Representative Freeman stated that the Division of Buildings had spent an extra \$100,000 that SOS didn't request. The contention of the committee report is that the Division of Buildings should have to justify the \$100,000 they over-expended.

Representative Barber stated that he felt it was advisable that the Division of Buildings "take it on the chin" and receive an audit exception, rather than trying to make everyone on the House floor understand the situation. Representative Barber stated he didn't understand it.

Representative Ose asked Mr. Friese to explain how this situation had occurred. Mr. Friese said that it had occurred due to poor budget control and that SOS kept paying their vendors until only the Division of Buildings and the University of Alaska were left. Representative Barber said that Mr. Friese should enumerate all the deficiencies that caused the situation.

Representative Warwick disagreed, stating that he felt the committee report explained the situation substantially. Mr. Guthrie explained that the Division of Buildings had illegally borrowed from the General Fund; not to appropriate the money would leave them in an illegal state.

Representative Ose stated that there would be a letter of intent stating that there should be no reoccurrence of of this type of thing.

Representative Specking stated he was not in favor of, by implication, saying that the committee would approve a supplemental request by the Division of Buildings to cover the \$100,000 they overexpended, and the report did recommend that they put in for a supplemental.

Representative Ose said it put the "monkey on the back" of the Division of Buildings; he said he didn't believe they would come in for a supplemental.

Mr. Jacobs stated that the \$30,800 would be transmitted to the University of Alaska, regardless of whether an appropriation was made since it had to be treated like a regular contract.

Mr. Jacobs said he would like to make one more pitch before the committee for the additional \$100,000 for the contract with the Division of Buildings. He said in July there was an agreement of \$1.7 million between S.O.S. and the Division of Buildings. S.O.S. found out they were short and notified the Division of Bldgs. in December. Then in March S.O.S. again notified the Division of Bldgs. they would have only \$1.2 million. He said the end of the year is June 30th and the March notification was "awfully short notice" for the Division of Buildings to make up \$400,000 worth of expenditures (especially when much of this was for on-going salaries). He said Budget and Management felt that S.O.S. did not give the Division of Buildings sufficient time and they felt it would be logical to add in the extra \$100,000. Mr. Jacobs said this decision had been made at the administration level.

Mr. Warwick asked if Mr. Jacob's presentation was accurate. Mr. Friese said yes.

Vice Chairman Haugen said the decision on this would be up to the subcommittee.

After a brief discussion, the committee decided that their recommendation should be presented in the form of an amendment to the bill.

Mr. Ose moved and asked unanimous consent that HOUSE BILL NO. 65 (as amended) be passed from committee. No objection, so ordered. The committee also agreed to the committee report that had been prepared explaining the committee's recommendation. (See bill file for this report.) HB 65 as amended passed from committee with 6 "do pass" recommendations (Messrs. Warwick, Freeman, Haugen, Specking, Ferguson and Ose) and 1 "no recommendation" vote.

Adjourn: The meeting adjourned at 2:50 p.m.

HOUSE FINANCE COMMITTEE

February 6, 1973

8:40 a. m.

Present: All members except Mr. Saylor and Mr. Ferguson.

HB 65 Chairman Hillstrand called the meeting to order and reviewed the action that had been taken on HOUSE BILL 65 on February 5.

Mr. Freeman expressed concern over the last paragraph on page 1 of the committee report. He stated that he felt this encourages the Division of Buildings to come back for a supplemental. Mr. Ose said that the feeling of the subcommittee is that they wanted to pressure the Division into coming before the committee to explain out they operate. Mr. Ose said they felt that this places the "burden of proof" on the Division of Buildings.

The Chairman noted that the request for the Division of Buildings is for the fiscal year which has passed. Mr. Warwick said that what they will be doing is paying back the General Fund. The Chairman asked how the committee could be guaranteed that this will happen. Mr. Warwick said the Division of Buildings was about \$500,000 short and they took this out of the General Fund based on the premise they would get the funding from S.O.S. and then S.O.S. did not have the funds. Mr. Freeman said he could not see any legal justification for taking the money from the General Fund. Mr. Barber said what the committee is doing is "legalizing an illegal act."

Mr. Vernon said the committee had heard testimony from Mr. Jacobs of Budget and Management that this is common practice -- they are expending on the basis of anticipated funds. He said the cash flow situation requires this.

The Chairman said that he would sign the bill and hold it and the committee report for one more day. The committee agreed to this.

Mr. Ferguson entered the meeting.

HB 57

The committee then considered HOUSE BILL NO. 57 (an Act relating to the Alaska business license tax on national banks and state banks, trust companies, and savings and loan associations).

Mr. Warwick said he had given this bill a lot of consideration and felt that an 8% tax is a fair tax. He said most corporations probably tax between 9% and 9.36%.

Mr. Freeman said he felt with this much of an increase they had either been "awful lax in the past or awful tough at this stage of the game." He pointed out that an 8% tax is a 400% increase.

The Chairman asked how many members favored the 8% tax. Five members voted in favor of the 8% tax.

The Chairman asked for a vote for a 10% tax but only one committee member voted for this. The Chairman requested that the record show that five members voted yes for an 8% tax.

After a brief discussion, the committee decided to meet tomorrow morning, February 7, at 8:30 a.m. on HB 66, HB 14 and HB 115.

Recess: The committee recessed at 9:30 a.m.

HOUSE FINANCE COMMITTEE

February 7, 1973

8:40 a.m.

PRESENT: All members except Representative Saylor. Also present were Mr. John O'Shea, Director of the Division of Insurance, Department of Commerce, and Don Koch, Rate Analyst, Division of Insurance.

HB 66 Chairman Hillstrand called the meeting to order, announcing the committee would consider HOUSE BILL 66 ("An Act making supplemental appropriations to the Department of Military Affairs; and providing for an effective date.") He turned the meeting over to the sub-committee chairman on the bill, Representative Specking.

Representative Specking stated that the principle area of question that the committee had was whether the state was responsible for insurance coverage for the National Guard and, based on Attorney General's opinions and a letter from General Elmore, it seemed that this is an area of proper liability in the state. The question now before the committee, Representative Specking stated, is whether we want to pay the insurance premiums for the period of July 1, 1971 through July 1, 1973. Representative Specking said the committee was endeavoring to make up its mind if there was a substantial risk for that period and what the status was of that coverage and the payments that were made. One question which had been asked of Mr. Koch was that he determine if the agent paid the company for this coverage.

Mr. Koch stated that the agent has not paid the company for the premiums in question as far as National Guard exposure.

That being the case, Mr. Specking stated, the question is did we have insurance for that period. Mr. Koch stated that there was no question but that there was coverage for that period. He described the research that he had done to determine to his satisfaction that there is a liability for the National Guard exposure. He then examined the policy contracts to see that they provided coverage even though there were no premiums paid on the policy for this exposure. For the period July 1, 1970 through this Fiscal Year, there is exposure to the carrier even though the premium hasn't been paid.

Mr. Koch stated that, basically, the contract says that the premiums are estimated premiums in the policy. If exposure is found to exist after expiration, the company has the right to determine what the payroll was and make a charge.

Mr. Koch said that the only question was on the 70-71 premium; he had been unable to determine if the statute of limitations had run on this. If it had, there would be no liability; however, as far as the July 1, 1971 to July 1, 1973 premiums were concerned, there is no question that there is liability on that portion.

Mr. Koch stated that there were claims made, but nothing was done with them, and he did not know the exact dates of any losses. Mr. Koch stated he did have a letter from the Assistant Attorney General, Norman Gorsuch, which also states there is a liability.

Representative Warwick stated that he did not understand how this situation had evolved; he asked if after Alaska became a state, was the situation just ignored. Mr. Koch said the question first came up in the mid '60's. Prior to that, the question was ignored; he did not know who paid the claims. Representative Warwick asked who would have been sued. Mr. Koch stated that there was a 1961 Attorney General's opinion as to the status of technicians which contended that the Federal Government had liability as to National Guard technicians. He said that the gist of Administration's file was that this was a Federal operation and there was no state exposure. Mr. Koch didn't know of any losses at that time.

Representative Helen Fischer entered the meeting at 9:00 a.m.

Mr. Koch stated that the state could submit a claim to the carrier and the carrier would not necessarily know if it was a National Guard claim, as the claim forms do not necessarily require that information. There have only been 2 or 3 National Guard claims since 1970, so it is conceivable that there were none previously.

Representative Warwick asked if the state itself had paid any claims; Mr. Koch said the state had not, but the carrier had.

Representative Specking asked Mr. Koch if he had researched the payroll figure or had accepted it as correct as presented by the insurance company. Mr. Koch said he had not researched it and, in view of the legal opinions, there was some question that some of the payroll should be excluded. He said it would normally be the function of the Department of Administration to determine if the payroll was correct.

Chairman Hillstrand asked Mr. Specking if there was anything in the file that would reflect a certification of the bill as a true and correct charge, that payment has not been made, and that payment should be made by either the Department of Administration or the Division of Insurance. Chairman

HB 66

Hillstrand also asked if the payrolls upon which the premiums were based were checked, since General Elmore had thought that it was a federal responsibility and had written to the Pentagon on the matter. Chairman Hillstrand asked if General Elmore had had a reply.

Mr. Koch said he had had a reply and, basically, it concurred with the information given to Mr. Doogan.

Representative Specking stated there was no certification as described by Chairman Hillstrand in the bill file.

Representative Barber asked if in the payrolls of the National Guard there were increments of Federal service for which the state should not pay insurance premiums.

Mr. Koch stated that there seemed to be a trend of thought that there might be dual coverage in many cases. Representative Barber asked if it was legal to make dual payments. Mr. Koch said there was no statute to bar this except in property damage; persons can receive payment from several areas in cases of liability. The only time there would be a federal obligation would be when the Guard was federalized. There is some liability on the part of the Federal Government for certain National Guard members but they are not excluded because they are eligible to collect full benefits under the state policy.

Representative Specking said the committee really needed additional information in the form of a report from the Department of Administration with some type of certification of this payroll amount to see if this is, in fact, a realistic figure. Representative Specking recommended that the committee have the Division of Supply Director, Mr. Bradley, supply the committee with that information before further action is taken. Chairman Hillstrand stated that the bill would be held until the desired report was received.

The witnesses left the meeting at 9:02 a.m.

HB 65

The committee discussed briefly the committee report on HOUSE BILL 65 ("An Act making a supplemental appropriation to the Alaska State-operated School System; and providing for an effective date.") The committee had determined to pass the bill out with an amendment rather than utilizing the committee substitute prepared. Seven members signed the report with a "do pass with attached amendment" recommendation; one member signed "no recommendation".

HB 57

HOUSE BILL 57 ("An Act relating to the Alaska business license tax on national banks, trust companies and savings and loan associations; and providing for an effective date")

HB 57 was passed from committee with five members signing the committee report "do pass with attached Commerce Committee amendment"; two members signing the report "no recommendation"; and one member signing the report "do not pass as amended."

HB 14 The committee considered HOUSE BILL 14 (an act relating to fishing, hunting, and trapping licenses). This bill states that a sport fishing, hunting or trapping license is not required of a resident who is 60 years of age or more as long as he remains a resident. The bill deletes language from the statutes which states that the person has to have been a resident for 30 consecutive years or more.

Mr. Barber read information on this bill which had been provided by the Department of Revenue regarding loss of revenue pertaining to this bill (see bill file). Mr. Barber noted that there is a Resources Committee amendment which would require that the resident be 65 years of age rather than 60.

Mrs. Fischer, sponsor of the bill, told the committee that she was in accord with the amendment to go back to 65 years of age. She stated that the legislation that had been passed last year had been changed in the Senate and HB 14 was an attempt to restate the original legislation.

Mr. Warwick stated that persons who are only 60 received free licenses last year and if they change the age requirement to 65 then they will not be eligible. Mrs. Fischer pointed out that there was only one person in the Anchorage area who qualified for this. She said this information had been obtained from the Fish and Game Licensing agency in Anchorage.

Joe LaRocca entered the meeting.

Mrs. Fischer noted the small difference in revenue which would not be received if the age requirement was 60 rather than 65 years of age. She suggested that this small amount should not make much difference in their efforts to assist the senior citizens of Alaska.

The committee then discussed whether it was necessary to add a one year residency clause (the bill stated "as long as he remains a resident").

Mr. Ferguson said he thought they should include a one year residency requirement. Mr. Specking said that he had read court decisions in detail regarding residency requirements and things that the court had struck down relate to voting and not other residency requirements. Mr. Specking said he did not feel it was necessary to include the one

year clause. He said that this is already clearly defined. Mrs. Fischer said the only reason she could see for including the one year clause would be for the Fish and Game Licensing section. This would be the only portion they would receive and it might be good to include it for their use.

Mr. Warwick read from the statutes defining resident. He said it was not necessary to include this in the bill as resident is already clearly defined in the statutes.

After a brief discussion, Mr. Specking moved and asked unanimous consent that HOUSE BILL 14 be passed from committee with a unanimous do pass recommendation without the Resources Committee amendment. All members present signed "do pass without Resource Committee amendment" except Mr. Ferguson who signed "do pass if amended".

The Chairman then discussed a letter he had written to the Speaker concerning fisheries resources. He appointed Messrs. Haugen, Freeman and Barber to a subcommittee on this. Mr. Specking was also added to the subcommittee.

HB 115 Mr. Barber then gave a brief presentation on HOUSE BILL NO. 115 (an Act relating to the Legislative Budget and Audit Committee). Mr. Barber stated this bill provides for termination of members after two consecutive absences unless they were excused at a previous meeting. He said since the preparation of this bill the Speaker has indicated that he would terminate members as soon as their absenteeism becomes noted. After a brief discussion, the committee decided to defer action on this until the next meeting of the newly appointed Budget and Audit Committee.

Recess. The meeting recessed at 9:45 a.m.

AFTER RECESS  
2:15 P. M.

Present: All members with the exception of Representatives Ose, Ferguson and Saylor.

HB 63 Chairman Hillstrand called the meeting to order and reported it would be best to defer action on HOUSE BILL NO. 63 (An Act making a supplemental appropriation to the Department of Administration for the teachers' retirement system) until Rep. Ose was present.

HB 76 HOUSE BILL NO. 76 (An Act relating to the Alaska State Housing Authority) was brought before the committee by Rep. Hillstrand, who requested opinions from the committee. After a brief discussion, Rep. Hillstrand said he would write a report expressing the opinions of the committee and no further action would be taken until the report is presented to the committee.

BUDGET INFORMATION The status of budgets was discussed and the following will be ready for preliminary discussions next week: Health & Social Services (Rep. Haugen), Public Protection (Rep. Specking), and Health (Rep. Freeman).

HCR 21 Rep. Ferguson distributed copies of his report on the following resolutions: HOUSE CONCURRENT RESOLUTION NO. 21 (Requesting a feasibility study of the construction of a road either from Sitka to Warm Springs Bay or from Sitka to Rodman Bay);  
HCR 24 HOUSE CONCURRENT RESOLUTION NO. 24 (Relating to the Birchwood  
HCR 28 Loop Road); and HOUSE CONCURRENT RESOLUTION NO. 28 (Relating to the highway between Chugiak and Palmer). (See bill files for reports.) The committee agreed with Rep. Ferguson's recommendation that no action be taken by the Finance Committee on these resolutions.

Adjourned: The meeting adjourned at 2:55 P.M.

HOUSE FINANCE COMMITTEE  
February 8, 1973  
2:05 P.M.

Present: All members. Dr. Marshall L. Lind, Commissioner; William D. Thomson, Special Assistant, Department of Education.

HB 192 Chairman Hillstrand called the meeting to order and asked for information on HOUSE BILL NO. 192 (An Act relating to public education in the unorganized borough).

Dr. Lind stated he wished to express concern at the department level regarding SOS with respect to their responsibility to all the youngsters in the state. The department has been working with the Health, Education & Welfare committee in the House to see if there is a way to maximize the benefits to all the youngsters within the parameters of the existing money. Legislation was introduced to establish education service areas, which would totally decentralize what is now the State Operated School structure.

The department looked at groupings based on geography and ethnic background and came up with a plan consisting of several options. Wherever possible, payroll and ordering of supplies would be handled by existing independent districts, and there is a pattern throughout the state where this could be accomplished. Kodiak runs a similar program for their area, and from all indications they are successful.

Military bases could be handled either by taking the bases near Anchorage and organizing them to contract for services through the Anchorage Borough, or creating a separate educational service area for the two military bases. They would not, however, have the latitude to call for increased taxation. The two base schools, with one budget, would not go through the state budgeting and personnel systems, but would be an autonomous organization.

Dr. Lind said 874 funds are still a question, and the department had a man in Washington investigating the problem. Possibly General Fund money will be required to such an extent that military schools could not be provided. A plan for funding state-operated schools was distributed to the committee (see attached).

Looking toward logical groupings of facilities, continued Dr. Lind, an educational service area would be defined, a board elected, and the district would do their own hiring and purchasing. There would be a foundation support formula distribution of funds for all schools, and some kind of equity established between unorganized boroughs and organized boroughs. The foundation support program would distribute funds so programs could be conducted at a good level at no additional cost to the state.

The advantage is if this kind of educational service area can be put together and student population can be increased at some small existing districts, economies could be realized. Some are now too small for a specialized program, but with the sharing of services all youngsters could benefit. Rural area people are looking for more of a voice in their programs, and one board could serve five, six or ten small communities. Dr. Line gave examples of areas within the state which could be combined, and stated St. Mary's has put together their own school system and has done an excellent job.

Returning to the problem of 874 funds, Dr. Lind said the 3B section has been removed and his best estimate was that the state lost \$1.2 million. Their real concern, however, is how the 3A's are to be handled. It is proposed to package the 3A 874 funding along with Title I money for special education revenue sharing, and the department does not know how this will be distributed. It is easier to get a handle on on-base schools, as this would be almost totally funded by 874, but if funded through revenue sharing it will possibly be inadequate. Dr. Lind said the department may need either some General Fund money or funds from the Department of Defense for on-base schools.

Rep. Hillstrand questioned the efficiencies of the proposed program. Dr. Lind replied as follows:

1. Assuming the total money spent remains the same, the money will be distributed state-wide instead of to one central state agency. For example, if additional book-keepers are needed throughout the state in the educational service areas, their salaries will go to the rural districts.
2. Decision-making at the local level will result in a more intelligent use of funds.
3. In-service training can be provided more economically by bringing teachers into workshops and training sessions at the educational service area center. This actually will give more total service for the money.

Dr. Lind continued by saying that as far as department additions, certainly there would have to be somebody to provide technical assistance needed in the various regions of the state and this function belongs to the Department of Education. The department would retain fiscal control, but many of the costs are fixed; for example, 70% of the budget goes toward teachers' salaries, another percentage toward utilities, maintenance, etc.

New school construction was questioned, to which Dr. Lind said twelve unit schools have been planned, eight scheduled for completion next summer. Standardized construction and design methods are used to save approximately 15-20%. The schedule

of construction under the \$16 million bond issue will be coordinated with the educational service areas, and also take into consideration future transferring of BIA schools into the system. Dr. Lind used Bethel as an example, and said this would serve as a center to all the small surrounding communities.

Dr. Lind would like to see the legislation go through as soon as possible in order to make a July 1 effective date. The educational districts must be set up, although all don't have to be operating under this new system. A standard accounting manual is being prepared and standard accounting forms will be distributed to the separate districts in order to be comparable throughout the state.

The educational service area board will have the same power as the independent area boards and will be responsible for everything. Their budget will be determined on the basis of foundation support for the area, but they will have their own accounting system and responsibility. SOS employees will not be displaced, but will go with the operation, and the boards will be responsible for recruiting and hiring. The Department of Education will review the budget submitted by the local areas and check their monthly reports to see if they are keeping within their budget, and Dr. Lind believed dollars will be more easily identifiable with the smaller units. Schools will have to close early if they run out of money, as they are asking for local control and must pay the penalty if they mismanage funds.

Rep. Barber asked about the bilingual education program, to which Dr. Lind replied it is an excellent program and the community response shows it to be working quite well. Rep. Barber asked that Dr. Lind look into this program and submit a written report on same.

Mr. Thomson gave a brief report on construction costs and said \$1,050,000 is proposed for each school, which includes all equipment.

Dormitories were discussed, and Dr. Lind said all dormitory construction has been cut. Four more were planned, but fiscally this program is not the way to go. Also citizens are beginning to protest and want a facility in their community, without the youngsters going away from home, continued Dr. Lind. In the long run, the state should save about \$4,000 per year for every student now housed under the dormitory program. Bethel will retain their facility for education purposes and the dormitory and boarding home programs will be phased out.

SOS is not necessarily in favor of the legislation, but Dr. Lind said there was a public meeting scheduled in Anchorage to discuss the proposal. Rep. Hillstrand requested a report on the meeting.

Mr. Thomson reported on the frustrations of regional superintendents, as he formerly held this position. He said he knew the problems, but could not solve them as regional superintendents are now involved in red tape and have no authority. They are high-priced clerks, as funds are controlled in Anchorage or Juneau, and he would like to see the system operating under district rule.

Adjourned: The meeting adjourned at 4:10 P.M.

A PLAN FOR FUNDING STATE-OPERATED RURAL  
SCHOOLS

This plan encompasses four factors, namely; 1) basic need; 2) supplemental State and Federal programs; 3) Regional and Statewide services; and 4) major capital improvements and new construction.

1. Basic Need. Basic need would be determined in an analogous manner to what is now being used to determine State Foundation support for district schools. This would provide a method whereby each service area would be funded on a formula. The basic need formula to be developed in the following manner:

(a) Use the formula that now exists in AS 14.17.041 except to add one instructional unit to each separate attendance center with an ADM of 50 or below.

(b) Apply a cost of living differential by geographical area as determined by the Division of Personnel for State employee salaries under AS 39.27.020.

2. Supplemental Federal and State Programs. Categorical State and Federal programs would be handled on a project basis as is now being done for the district schools. This would permit each service area to meet their unique priorities.

3. Regional and Statewide Services. There should be a system of regional and Statewide support services; administration, instructional and managerial provided. These services would also be available to district schools. District schools and service areas can elect to provide services over and above those provided by the Department appropriation from the Legislature. These services would encompass and exceed those now provided by the State-Operated

schools and the Department of Education.

4. Major Capital Improvements and New Construction. Major capital improvements and new construction would continue to be administered by the State.

A. Cost Estimates

* 1. Basic Need-----	\$21,000,000	1]
2. Supplemental Federal and State Programs-----	\$ 3,000,000	2]
3. Regional and Statewide Services-----	<u>\$ 2,000,000</u>	3]
4. Total Operational Cost-----	\$26,000,000	

C. Financial Resources

The estimated financial resources to fund the foregoing programs include:

1. a) Public Law 874-----	\$11,000,000
b) Fish & Wildlife-----	\$ 300,000

(This assumes 100% funding and maintenance of the preferential rate.)

2. Categorical Federal Funds-----	\$ 1,800,000
3. State General Fund Appropriation-----	<u>\$12,900,000</u>
4. Total-----	\$26,000,000

1] Includes Nome-Beltz Regional High School

2] Includes \$1,300,000 State funds for Bilingual under Ch. 172, SLA 1972

3] Includes pupil transportation costs and PERCY--excludes ARTTC

\* Includes Adak and Greeley @ \$2,133,187 with \$1,200,000 est. 874 receipts.

HOUSE FINANCE COMMITTEE

February 9, 1973

11:45 a.m.

PRESENT: All members except Representative Ferguson.

HB 66 Representative Specking moved and asked unanimous consent that HOUSE BILL 66 ("An Act making supplemental appropriations to the Department of Military Affairs; and providing for an effective date") be passed from committee with a "do pass with attached amendment" recommendation and that a committee report be written to reflect the reasons for the amendment.

Chairman Hillstrand asked the committee if it felt a committee substitute should be prepared on the bill. The committee discussed this and the insurance premium payments. Representative Saylor stated that before he would be willing to vote to approve payment of the \$60,000 insurance premium, he would like to see facts and figures on all state employees, on all premiums and claims as a group.

Representative Warwick stated that he felt the projection of what would be needed for the reenlistment bonus was incorrect; he said that only \$8,000 would be needed for the rest of the fiscal year.

Representative Freeman asked that the bill be held in abeyance; Chairman Hillstrand stated that the bill would be held until Wednesday (February 14, 1973). Representative Specking withdrew his motion.

ADJOURN-  
MENT

The meeting was adjourned at 12:10 p.m.

HOUSE FINANCE COMMITTEE

February 12, 1973

2:05 p.m.

Present: All members. Representatives Guy, Chance and Laktoken; Mr. Gates, Department of Administration; and Joe LaRocca, news reporter, were also present.

HB 65 Chairman Hillstrand called the meeting to order and said that HOUSE BILL NO. 65 (a supplemental to S.O.S.) had been returned to Finance for further consideration. The Chairman directed Mr. Ose to re-group his subcommittee and approach consideration of the measure as though it was new and not considered before this moment. He said Mr. Ose is to consult all persons interested and report back to the committee at his convenience.

Mr. Haugen reported on meetings held on Saturday with the Department of Fish and Game.

HB 63 Mr. Ose said that he was ready to report on HOUSE BILL NO. 63 (an Act making a supplemental appropriation to the Dept. of Administration for the teachers' retirement system). Mr. Ose introduced Mr. Gates from the Benefits Section of the Department of Administration and asked that he explain the legislation.

Mr. Gates said this is a request for an additional appropriation of \$524,200. This is intended to provide sufficient monies to enable the State to make required matching contributions for the teachers' retirement system. Mr. Gates explained the calculations that had been used noting that there is a need for the actual figure of \$525,598 and suggesting that this amount be granted.

Representative Chance left the meeting.

After a brief discussion, Mr. Warwick noted that the 9.82% is firm. The state and local school districts contribute this amount. He said this supplemental is for FY 73 and they already know 4.91% is the rate. He questioned why they were not using this rate instead of the 5%. Mr. Gates said they are doing this plus adding in a factor for arrearage.

Mr. Warwick asked when they came up with the 4.91% figure. Mr. Gates said he believed this was learned in mid-June. Mr. Warwick noted the two retirement bills that had passed last year. He felt that these bills had not been considered and the rate should be

substantially higher than 4.91%. Mr. Gates said this is an actuary rate. He said improved data assumptions can be made that will cause a lower rate. Mr. Warwick asked if the 4.91% rate was compiled without consideration of SB 290. Mr. Gates said no it was not, it was costed out prior to that legislation. However, Mr. Gates said he assumed the growth rate does include this.

The Chairman asked the total amount of the teachers' retirement fund. Mr. Gates said he believed this is \$65 million. Mr. Gates said the administrative cost is "something less than 1/2 of 1%." He said he would have to check this to be sure.

In answer to the Chairman, Mr. Gates said in the case of S.O.S. the state is contributing the entire 9.82% for teachers' retirement.

The Chairman read from Sec. 14.25.180 which explains the powers of the Commissioner of Revenue in regard to the investment fund. He pointed out that the state makes up on the losses and asked why the state should not share in the benefits.

Mr. Gates said that his interpretation of arrearages in the statutes in no way affects the insufficiency of the fund. He added that the fund is reviewed periodically by actuaries by law and they take existing factors at that time and develop a rate which does correct any improper funding.

The Chairman asked what would happen if the legislature does not pass this measure. Mr. Gates said in arrearages they would be in violation of the statutes.

There was a brief discussion on the ratio of contributions. The committee requested Mr. Gates provide a report on this showing percentages for the past three years.

Mr. Specking asked if Mr. Gates considers arrearages to be when the fund makes a "bad deal." Mr. Gates said in his opinion that is not an arrearage. He said this is a fluctuating figure. He said they have no way to estimate this because they do not know what new teachers will be coming in and what service they will be bringing in. Mr. Saylor said when a teacher retires and stays in Alaska they receive an additional 10%. Mr. Gates said this was true and they have approximately 30 to 40% who do remain in Alaska.

Mr. Freeman asked if there is a statutory requirement that part of the fund be invested in equity markets. Mr. Gates said no, but a decision has been made nationwide that there is an increasingly bigger percentage of retirement fund investment in this area. Mr. Gates said he was not saying this is true of Alaska's fund but it has been true over the past few years. He said it is strictly a question of judgment on the part of the people responsible. Mr. Freeman asked who makes the decision on this particular fund. Mr. Gates answered the Dept. of Revenue.

Mr. Specking asked if the state keeps a separate portfolio and Mr. Gates said yes. Mr. Gates said he did not know the exact figures but the retirement fund is doing much better than some of the other areas.

A discussion then followed on calculating yield. Mr. Warwick asked how they compute this. Mr. Gates said they project all of the assets. He said last year the total fund was in the neighborhood of 5.82 or 5.92%. Mr. Gates said the actuary is trying to get new evaluation rates complete for the teachers and employees. He said if it was convenient with the committee the actuary would give testimony during the second week in March.

The Chairman said what the committee is searching for is a way out of the apparent inequity between the contributors.

Mr. Gates said that on Juneau 30th a rate was established with a number of assumptions, one assumption being an earning on the assets. Whether it is achieved or not will have no effect on this year's match, he added. The Chairman said that last year there was \$3 million worth of monies needed for funding. Five or six months later they find it is short by \$500,000 and the committee would like to know why. Mr. Gates said that investment earning rates like cost of benefits are spread over a number of years.

Mr. Gates noted that he had not been consulted during last year's Free Conference Committee concerning this portion of the budget.

The Chairman asked what would happen if this was not funded. Mr. Gates said that the state has a statutory obligation that would not be paid.

Mr. Gates said if the payroll is less the money would lapse -- it cannot be used for any other purpose.

The Chairman referred to the administration cost. He asked if the 1/2 of 1% included Mr. Gates' salary. Mr. Gates answered yes. He said that his salary is split among the various programs. Mr. Gates said he could not be specific in the amount of administrative cost but thought it was somewhere in the neighborhood of \$300,000 a year.

Mr. Ferguson asked if the fund would have enough money if every teacher retired. Mr. Gates said under those circumstances it would probably not work out. He said in their assumption they take a factor of turnover and they know that everyone will not retire at the same time.

The Chairman spoke on time certificates. He asked Mr. Gates if he would have any objection to deletion of legislation relating to investment in corporate bonds and preferred and common stock. Mr. Gates said he would object very strongly. He said that he had worked with the Department of Revenue and had studied this in detail. Mr. Gates said he was speaking for himself and felt there was no reason for suggesting an investment in time certificates of deposits. He said the earnings are less. He pointed out that the entire retirement fund is probably earning in excess of 6 to 6 1/4%. He added that it was his feeling that the funds should be invested where maximum return could be achieved with a minimum amount of risk. Mr. Gates said that last year he had felt very strongly about getting permission to buy SBA loans. This provides a strong social benefit and also a tremendous yield. The Chairman said what he used time certificates for was the rate of income that would be guaranteed as compared to the 5%. The Chairman asked if Mr. Gates felt that the rate of return to the fund could be just as good without those equities. Mr. Gates answered no. Discussion followed.

Mr. Warwick asked if the need for this supplemental was because of underfunding from FY 72. Mr. Gates said yes.

Mr. Gates said despite a continuing effort to estimate what this match will ultimately be it has historically been a very difficult figure to arrive at. He said he felt they have tried to pinpoint their estimates too close. It is their responsibility to see refunds are returned on a timely basis.

Adjourn: Mr. Warwick then presented his report on a meeting with Senator Stevens and the committee adjourned at 4:25 p.m.

HOUSE FINANCE COMMITTEE

February 13, 1973

8:40 a.m.

PRESENT: All members.

Chairman Hillstrand called the meeting to order, and stated that the committee would update the status of bills in the committee and the status of special assignments.

HB 125 Chairman Hillstrand asked Representative Saylor for a report on HB 125 ("An Act making a special appropriation to the Alaska State Museum, Office of the Governor; and providing for an effective date"). Representative Saylor stated he was attempting to locate individuals who could assemble the Pullen collection; Chairman Hillstrand suggested that Representative Saylor contact Harvey Goodale, an Anchorage area artist.

DRUG ABUSE REPORT and AVENUES of FEDERAL FUNDING REPORT Chairman Hillstrand asked Representative Ferguson the status of the two special reports which were assigned to him. Representative Ferguson stated that he should have the information on "Avenues of Federal Funding" available in a few more days. On the matter of the "Drug Abuse" report, he stated he had been working with Representative Beirne and that Governor Egan had requested \$250 thousand for the drug abuse program; Representatives Beirne and Ferguson intend to ascertain what use the Governor has in mind for these funds and then make recommendations to the Legislature.

LOST RIVER Chairman Hillstrand asked Representative Warwick for a status report on the "Lost River" project. Representative Warwick read a memorandum on this subject prepared by Milton Barker, Fiscal Analyst, Legislative Finance Division. Representative Warwick stated that the comprehensive plan for the city would be ready in May.

Representative Saylor asked if there was any legislative control over this project. Chairman Hillstrand stated that there would be if state funds were involved; he was not sure there were any state monies in the project. Representative Warwick said that, indirectly, the state did contribute to the project since various state personnel (Byron Mallott, Commissioner of the Department of Community and Regional Affairs, and Emmitt Wilson, Deputy Commissioner of the Department of Commerce) are working on the project.

LOST  
RIVER

Representative Barber asked how much money was requested for the project last session that was turned down by the Legislature. Representative Warwick replied that \$10 million had been requested to build a dock for the area (also supposed to service Nome). Representative Specking noted that it would be impossible to build a road between Lost River and Nome.

Chairman Hillstrand referred to the status of bills:

- HB 7 House Bill 7 ("An Act appropriating to the Department of Highways; and providing for an effective date") is being held in abeyance;
- SSHB 10 Sponsor's Substitute for House Bill 10 ("An Act establishing the general revenue fund; providing for its administration; and providing for an effective date") is being held in abeyance;
- HB 27 House Bill ("An Act providing for the issuance of general obligation bonds in the amount of \$2,400,000 . . . for a Yukon River ferry"), Representative Barber reported that the Governor is proposing to build a bridge over the Yukon River.
- HB 41 Representative Barber stated that he was ready on HOUSE BILL 41 ("An Act appropriating to the Department of Public Works; and providing for an effective date") if the committee desired to discuss it.

Joe LaRocca entered the meeting at 9:07 a.m.

Representative Barber discussed the Fiscal Note on House Bill 41 (see bill file). He said his only question was how much federal money would be available for the construction of the ferry. The cost of operation would go up 50% per year the first two years of operation, and the General Fund expenditure would begin in 1975, Representative Barber stated.

Representative Specking asked how much federal highway money could be used for the construction of the ferry. Representative Håugen stated that it is possible to use highway monies for ferry construction under the same percentage basis as for roads. He noted that a saving could be made if the ferry were built at this time since a similar ferry was being built, and the shipbuilder would give the state some reduction.

Representative Håugen described the Prince of Wales island area, stating that there are four communities on the island which need the service of a ferry. He said the original

ferry bond issue was to include construction of this ferry, but there were not adequate funds.

Representative Freeman drew a map of Prince of Wales Island and the surrounding area on the blackboard and explained to the committee the isolation of the people in this area. He said they felt "betrayed" since the bond issue was supposed to provide them with ferry service. An added benefit of a ferry for this area, in addition to connecting the communities of Prince of Wales Island, is that during the peak season, the ferry could operate between Prince Rupert and Ketchikan thereby making more room for travelers going farther north. Representative Freeman stated that some tourists are afraid to get off the ferries at Ketchikan since they have so much trouble getting back on; this ferry would relieve that situation, also.

Representative Specking asked what the picture would be in the winter months. Representative Haugen stated that he felt this ferry would show revenues over expenses.

Representative Specking stated that the new ship being built was underfunded by \$500,000 for equipment.

Chairman Hillstrand stated that the committee should keep in mind the question of priorities, and that related costs on the bill should be developed.

Representative Haugen stated that a new sawmill was to be built on the island which would bring in 100 new families.

Chairman Hillstrand asked about utilizing the CHILKAT in this area; Representative Haugen stated that it costs more to run the CHILKAT than any other ferry in the system.

Chairman Hillstrand suggested that the M/V TUSTUMENA be moved from the Southcentral system to Southeast to handle the need for a ferry in the Prince of Wales area, and the committee discussed this possibility.

Representative Freeman stated that the ferry system is supposed to be a highway system; the committee discussed the differences in costs of construction and maintenance of the two systems. Representative Specking stated that a ferry link was needed between Haines and Seward; Chairman Hillstrand pointed out that there are roads covering this area.

Representative Haugen stated he would get the figures on usage and revenues on the TUSTUMENA for the committee, and the bill was returned to the file pending receipt of this information.

The committee continued updating the status of bills in committee:

- HB 52 HOUSE BILL 52 ("An Act establishing a state building land  
HB 53 acquisition and advance planning fund; and providing for an effective date") and HOUSE BILL 53 ("An Act making a special appropriation to the state building land acquisition and advance planning fund; and providing for an effective date") are still under consideration by the subcommittees.
- HB 56 HOUSE BILL 56 ("An Act increasing the tax on cigarettes; and providing for an effective date") will be held, and all taxing measures will be considered together.
- HB 60 HOUSE BILL 60 ("An Act making a supplemental appropriation to the Dept. of Public Works, division of communications; and providing for an effective date") is being held pending receipt of information requested from the department.

The committee discussed sponsorship of a bill that would repeal that portion of the statutes permitting investment of state monies in corporate stocks and bonds.

Representative Freeman stated that Senator Ziegler, who was Chairman of the Investment Committee after the \$900 million oil bonus sale, felt very strongly that this type of investment was correct, and he would be happy to appear before the committee and discuss it with them.

Chairman Hillstrand stated that he, personally, was convinced it was not proper to invest funds in this manner.

It was the consensus of the committee to introduce a bill which would repeal the statute permitting investment of surplus retirement fund monies, with the request to the Speaker that the bill be referred back to Finance. At that time hearings could be held on the matter.

RECESS The meeting was recessed at 9:55 a.m.

AFTER RECESS  
4:00 P.M.

Present: All members. John Carter, Executive Secretary, Alaska Public Employees Association.

HB 61 Chairman Hillstrand called the meeting to order and asked Mr. Carter the wishes of state employees as far as employment advantages and their reaction to the union situation, the salary survey, and comments made by various members of the administration.

Mr. Carter said the three major things that employees are interested in this year are: 1. Salary increase; 2. Dental insurance; and 3. Unemployment insurance.

Unemployment insurance has always been important to state employees, continued Mr. Carter, especially to the 1,500 temporary employees and 500 seasonal employees. APEA supports the program on a reimbursable basis, and believes the state can buy it cheaper on this basis. Other states have the program on a reimbursable basis, as does the federal government.

Both the salary increase and dental insurance are important to state employees, but Mr. Carter said the salary increase is No. 1. From 1971 to the present, state employees have received a 5% increase, compared to 16.7% for federal employees, 20.4% for California state employees, 12% Idaho, 16% Oregon, and 8% for Washington state employees. Anchorage Borough employees have received 8.45%, Anchorage City employees 11.6%, total manufacturing employees have received 11.4%, all of which do not include anticipated increases this year. Employees of the Marine Transportation system have received 14.78% increase, not including this year.

Regarding the salary survey, Mr. Carter said he believed there were some weaknesses in the survey and the recommendation inequitable. APEA has not critiqued the survey this year as they did last year, as Mr. Carter said he feels certain state employees deserve a larger increase than the state can afford.

The Senate has introduced legislation that would decrease contributions to the retirement fund by the employee. APEA would prefer that both the employees' and the state's contribution remain the same, but the retirement fund is healthy and the administration wishes to reduce their share. If anything is to be reduced, APEA has requested that the reduction be made from the employees' contributions.

Another problem area is the proposed transfer of the State-Operated School system back to the Department of Education. Non-certified employees will be "at the mercy of the transfer"