

HOUSE/SENATE COMMITTEE - 1967-1982  
JAMES EARL RAY

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HOUSE FINANCE COMMITTEE  
January 28, 1974  
1:30 P.M.

PRESENT: Representative Haugen, Acting Chairman; Representatives Warwick, Freeman, Saylor, Barber, Ose, Ferguson, and Specking. Mr. Joe LaRocca was also present.

Mr. Haugen called the meeting to order and stated that Mr. Hogan had an explanation of a proposed Finance Committee bill.

Mr. Hogan explained that last year when they had put together the Budget Bill, two mistakes had been made in funding. Some funds were thrown into the wrong column. \$130,000 was incorrectly included as Inter-Agency Receipts. It should have been split, with \$64,000 coming from the Teacher's Retirement System and \$66,000 from the Public Employees' Retirement System. He gave the Committee copies of a proposed bill which would make that change.

The proposed bill added \$130,000 in PERS and TRS in Section 1. In Section 2, it amended Section 6 of the Chapter and dropped \$130,000 from Inter-Agency Receipts. Section 3 went into the Appropriation Bill itself under the General Government Section, and amended the fund source.

Mr. Saylor moved and asked unanimous consent that the bill be prepared as a Finance Committee bill to be signed out the following day. There was no objection, it was so ordered.

Mr. Hogan said that Mr. Charney had requested that another bill be introduced regarding the same kind of problem. He passed out copies of Mr. Charney's letter which showed that \$386,300, the required amount for Debt Service for Pioneer Homes was placed in the federal fund total rather than the proper general fund total. However, Mr. Hogan pointed out that since they anticipated lapsing \$500,000, they obviously weren't short the \$386,300. He recommended they take no action on it, because it would be creating a slush fund.

There was some discussion on this matter, and the Committee agreed to take no action on it.

Mr. Haugen brought up the matter of meeting schedules for the next couple of days. The Committee came up with the following agenda:

JANUARY 29, 8:30 A.M.:

HB 467 (An Act making a supplemental appropriation to the Department of Health & Social Services for assistance payments.)

HB 489 (An Act making a supplemental appropriation to the Department of Health and Social Services for general relief medical.)

HB 485 (An Act making a supplemental appropriation to the Department of Public Safety.)

HB 488 (An Act making a supplemental appropriation to the Department of Commerce.)

JANUARY 29, After Session:

Discussion of status of bills in Committee.

JANUARY 29, 1:30 P.M.:

HB 490 (An Act making a supplemental appropriation to the Department of Public Works,)

JANUARY 30, 8:30 A.M.:

HB 482 (An Act making supplemental appropriations for miscellaneous claims.)

HB 486 (An Act making a supplemental appropriation to the Department of Administration, Fairbanks Pioneers Home.)

HB 487 (An Act making a supplemental appropriation to the Department of Administration, Alaska longevity bonus program.)

ADJOURN Meeting adjourned at 2:15 P.M.

HOUSE FINANCE COMMITTEE

January 29, 1974

8:30 a.m.

Present:

All members of the committee were present with the exception of Reps. Specking, Freeman, Ferguson and Saylor. Reps. Freeman, Specking, and Ferguson entered the committee later in the meeting. Also present at commencement of the meeting were Messrs. Charney and Morrison from the Budget Division of the Department of Administration, Messrs. Woldstad and Chapple from the Department of Public Safety, members of the staff and the press.

HB 485

Mr. Chapple, Commissioner of Public Safety, was present to testify on HB 485 (Supplemental Appropriation, Dept. of Public Safety - Fish and Wildlife Protection). Commissioner Chapple explained that this is a request for funds to renovate three vessels for use as patrol boats. The reason for its being a supplemental request rather than a standard budget request is in order to have use of the vessels this year rather than having to wait another year. The vessels are three T-boats that came available to the state. The marine engineering and architecture work for renovation for use as patrol vessels has already been done. There are now no patrol vessels for other than close in shore, daytime, patrolling. The principal use of these three boats will be in the crab fisheries industry, although they will also be used for salmon fisheries. It is anticipated that the boats will be in use year round. Although the boats are small, Mr. Chapple assured the committee that they are seaworthy. He explained that it is not the intention of the Department that the boats be able to run with the large crab boats, but they will be able to keep with them when they are using their gear. One advantage of the smaller size of these boats is that they will be manned by a two-man crew. They hope to have three men per boat, however, so that the boats can be in operation all the time. Protection officers will be assigned to the boats.

In response to questioning by Rep. Barber, Mr. Chapple said that the boats are 65 feet in length, with about a 17 foot beam and 5 foot draft. The boats were built as island freighters during the Korean War. Mr. Barber asked if Mr. Chapple felt the boats would be seaworthy enough for the Aleutians, and Mr. Chapple said yes, although obviously it would be necessary to proceed with caution in those waters and there would be many instances when navigation would not be possible, even for a larger boat.

In response to questioning as to where the work would be done, Mr. Chapple said that it would have to go out to bid. Mr. Specking asked who the marine engineer was who did the renovation plans, and Mr. Chapple said it was the Ben F. Jensen firm in Seattle.

Mr. Haugen asked to see the marine surveyor's report, and Mr. Chapple said that there is not one. Mr. Haugen questioned whether there was sufficient money in the supplemental to cover the complete and safe renovation of the vessels.

The committee decided to set the bill aside until they could get further specific information on renovation plans and costs.

Messrs. Chapple and Woldstad left at this time and Lois Cook and Larry Meak of the Department of Commerce entered the meeting.

HB 488

House Bill 488 (Supplemental, Dept. of Commerce- Game Licensing Board) was brought up for committee consideration. Representative Specking reported that last year, as a result of passing HB 1, the legislature changed the licensing control of guides from the Department of Fish and Game to the Department of Commerce. Through legislative oversight, monies were not provided to the Department of Commerce in order to operate this board. This supplemental is to provide those funds. Mr. Specking noted that there is an extensive backlog of work for the Board to do. They are now undertaking several large disciplinary actions. Mr. Haugen added that all this bill does is pick up expenses for an already functioning board.

Mr. Specking moved and asked unanimous consent that HB 488 be reported out of committee with a "do pass" recommendation. There being no objection, it was so ordered.

Mr. Meak and Ms. Cook left at this time. James McClean, Stan Harris, Larry Sullivan, Walt Norem, and Ray Pagenkopf, all from the Department of Health and Social Services, entered at this time.

HB 510

Rep. Warwick moved and asked unanimous consent that the committee introduce the bill discussed yesterday (An Act Relating to Amendment of the 1974 General Appropriations Act) with a "do pass" committee report. There being no objection, it was so ordered.

HB 467

House Bill 467 (Supplemental to Health and Social Services, Assistance Payments) was brought up for discussion. Mr. Pagenkopf explained that this supplemental request was brought about primarily due to the passage of HR 1, which resulted in a loss of federal funds. The federal portion of funding (formerly 50-50 with the state) is now down and in order to keep the present level of funding it is necessary to have the supplemental to replace these federal monies.

After further discussion, Mr. Specking asked if in order to continue under the Medicaid program it is necessary to maintain the same level of income as last year, and Mr. Pagenkopf said yes. The additional money is to make up the difference between January and July of this year.

Mr. Wright said from time to time there is a surplus in the AFDC budget, and asked if there is a surplus now. Mr. Harris said no.

Mr. Wright brought up the idea of funds being transferred from another division to this one in order to make up these payments. Mr. McClean said that he did not think there was a sufficient surplus anywhere in the budget to make up this requested amount. Mr. Wright suggested the Corrections budget, noting that there was over \$1 million appropriated for the Eagle River Jail which never opened, and he thought there ought to be some unused money there and wondered about the possibility of transferring some of those funds within the Department. Mr. McClean said that later in the week the Department will have revised figures on the status of their FY74 budget, but that he did not envision any surplus sufficient to cover the cost of this supplemental.

Mr. Ose suggested that the committee wait until later in the week to take further action on this bill, at which time they would have more information on the Health and Social Services budget surpluses.

Messrs. Harris and Pagenkopf left at this time. Shortly thereafter Commissioner McGinnis entered the meeting.

HB 489

House Bill 489 (Supplemental Request - GR Medical) was brought up for discussion.

Mr. Sullivan, Director of the Division of Medical Assistance, said that the history of the GR Med Program has been one of continuing rising costs. It did go down with the advent of the Medicaid program, but the 1973 budget was close to \$3 million and the budget for 74 was reduced to \$2.2 million from the Governor's requested \$2.7 million. The supplemental request would bring the 1974 operating budget back to the \$2.7 million approved last year by the Governor. Mr. Sullivan stated that even if the supplemental request is granted, the program is still going to have problems - it will still have a \$76,000 projected deficit. He said that they have not yet experienced the influx of health problems which come inevitably with the winter months, but those bills will be coming in shortly. Also they have 200 families now in the state with the pipeline requesting relief and who are not eligible for Medicaid.

Mr. Freeman asked if in the revised program any money was transferred out and Mr. Sullivan said no. Mr. Barber asked how much of the \$500,000 deficit is occasioned by the pipeline impact. Mr. Sullivan said that they really have no way of knowing whether a patient whose billing comes in is in Alaska because of the pipeline or not. They are, however, asking people now to try to gain some idea of pipeline impact, but this is not in his division but in Family and Children's Services where eligibility for relief is determined.

Mr. Sullivan was questioned about steps that were taken to live within the budget set out last year. He answered that they have put on controls and he has now told the Commissioner that without additional funds, it will be necessary to either

cut the program to an absolute emergency only function or eliminate the program altogether for the remainder of the year.

Mr. Warwick asked about the relationship between Medicaid and GR Medical, and Mr. Sullivan said there is none. He explained that General Relief Medical takes care of persons on AFDC, Aid to the Blind, Aid to the Disabled, and Old Age Assistance, who are not eligible for Medicaid.

There was considerable concern on the part of the committee as to the determination of eligibility for GR Med and what controls exist over the eligibility determinations. Mr. Sullivan explained again that the Division of Family and Children's Services interviews and determines the eligibility of persons applying for General Relief Medical Aid. When determined eligible the client is given a coupon for medical treatment. This coupon, he noted in response to continued questioning, does not allow him continuing medical treatment without reexamination of his eligibility. Rather, the coupon authorizes treatment for a particular health matter only. If other health problems arise, it is necessary to go through Family and Children's Services again and get another coupon. It is not the function of the Division of Medical Assistance, he re-emphasized, to determine or control eligibility.

Some members of the committee felt that when the budget was cut last year, one way of reducing the costs would have been to stiffen up the eligibility requirements. Mr. Ose asked if persons on food stamps were automatically eligible for GR Medical, and Mr. Barker, fiscal analyst, explained that eligibility for food stamps is much less restrictive than eligibility for medical relief; thus, persons on food stamps - which is designed as a food supplement program and not necessarily a welfare program -- are not necessarily eligible for GR Medical.

Mr. Ose requested that the committee have someone from Family and Children's Services come to testify on eligibility requirements for GR Medical, as he stated that he has known of cases where people whose incomes and situations have improved still benefit from this medical relief even though they were now able to pay for their medical care; and this he found very distressing.

Mr. Barber asked what they would do if they didn't get the supplemental, and Mr. Sullivan replied they would curtail services or shut the program down completely.

Mr. Sullivan continued to say they have already put restrictions on the program. He noted that back in September they had met with the Medical Society and the Hospital Association and told them there was a good possibility they would have to cut the program.

Mr. Barber asked whether there was any possibility of cutting the program realistically. Mr. Sullivan replied that from the point of view of fiscal management, there was a possibility, however, there was a question as to whether there was a moral responsibility to provide health care to these people.

Mr. Warwick asked how they arrived at \$492,400, and was told by Mr. Sullivan that they had felt they shouldn't ask for more than the Governor had allocated which was up to \$2.7 million.

In answer to a question from Mr. Warwick, Mr. Walt Long, Administrative Officer for the Division of Medical Assistance, said that actual expenditures as of December 31, 1973 were \$1,321,800.

Mr. Warwick asked whether theoretically the next six months would be a like sum. Mr. Sullivan said there was no way they could make an accurate projection. For example, if there was a flu epidemic, they would use more money, and if they have an easy winter, they will use less.

At the point, it was necessary for the Committee to recess for caucuses. Mr. Haugen also announced the the Department of Public Works had requested they postpone hearings on HB 490 (An Act making a supplemental appropriation to the Department of Public Works) which had been scheduled for 1:30 that afternoon, the reason being they expected to have additional supplementals within a few days. The Committee agreed to the postponement.

HB 490

RECESS

Meeting recessed at 10:30 A.M.

HOUSE FINANCE COMMITTEE  
January 30, 1974  
8:40 A.M.

PRESENT

All members of the Committee except Rep. Saylor and Rep. Warwick--Rep. Warwick arrived later. Also present were: Mr. Myrt Charney, Budget Director for the Department of Administration; Mr. Robert Gates, Benefits Administrator for the Dept. of Administration; Ms. Rose Palmquist, Longevity Bonus Program Administrator for the Dept. of Administration; Mr. Fred Boetsch, Director of Revenue Audit for the Dept. of Revenue; Mr. Tom O'Donnell from the Department of Health and Social Services; Mr. Kellus N. Sewell, Administrative Officer for the Department of Administration; and Mr. Howard Bradshaw, Administrator of Pioneer Services.

HB 487

Vice Chairman Haugen called the meeting to order and said that the first order of business would be HOUSE BILL NO. 487 (\$1,191,000 supplemental appropriation to the Department of Administration, Alaska longevity bonus program). Mr. Gates and Ms. Palmquist were present to testify.

Ms. Palmquist began stating that the request was for additional grant money for the longevity bonus program. To date they have experienced a continuing moderate increase in the number of recipients under the program. They had based their request on a quarter year system which contemplated 4,852 average recipients for the first quarter, 5,000 for the second quarter, 5,183 for the third quarter, and 5,350 for the final quarter. Using those estimates, they required a total amount of \$6,115,600. The appropriation which was allowed for the current fiscal year was \$5 million less \$75,400 which was for administrative expenses. This meant they would need \$1,191,000 in grant money to continue the program.

Mr. Barber pointed out that what she had just said did not relate to the graph on the longevity bonus which did not show the longevity bonus program to exceed the ceiling, rather it seemed to be de-escalating with a tendency to descend. Ms. Palmquist explained that more of Alaska's elderly are going on trips outside. There are between 235 and 250 who are suspended temporarily because these trips exceed 30 days absence from the State. In addition, they anticipate there will be more people becoming eligible this year than last year--in other words, completing their 25 years residency because the population of the State increased in 1949.

Mr. Barber noted that on this program the eligibility is set out by statute and that nothing can be done except estimate the amount of money needed. Ms. Palmquist agreed that was their interpretation of the original bill.

Mr. Gates said they anticipated this supplemental would provide them with enough to carry them through July 30.

Ms. Palmquist added that they were having a little difficulty staying to the 1% for administration, but admitted that they could struggle through with it.

Mr. Haugen urged the Committee to send the bill out.

Motion

Mr. Barber moved and asked unanimous consent that they pass the bill out with a "Do Pass" recommendation. There was no objection, it was so ordered.

HB 482

Mr. Haugen brought HOUSE BILL NO. 482 (Supplemental appropriation for miscellaneous claims) up for consideration. Mr. Fred Boetsch, Director of Revenue Audit, was present to testify.

Mr. Boetsch stated that the supplemental was for the amount of \$730.37, the majority of which was to pay stale dated warrants more than two years old. He said there were seven different warrants for income tax refunds which people held on to and then deposited in their banks after the warranty date. He said that sometimes people lose them and then run across them after a few years.

Mr. Ferguson thought that after three years there was no way to get reimbursement.

Mr. Boetsch said that the checks were good for three years, but people still try to cash them and sometimes the bank doesn't notice the warranty date.

[Representative Warrwick arrived at this time.]

Motion

Mr. Ose moved that the bill be passed out with a "Do Pass" Recommendation. The motion carried.

HB 486

Mr. Haugen brought HOUSE BILL NO. 486 (Supplemental Appropriation to the Department of Administration, Fairbanks Pioneers Home) up for consideration.

Mr. Sewell said that the Department of Administration would yield to the Department of Health and Social Services which they contract to for the operation of the Home.

Mr. O'Donnell, from the Department of Health and Social Services, stated that the request was in order to employ seven personnel and appropriate for contractual services and commodities in anticipation of the opening of the Fairbanks expansion. The personnel were needed in order to set up the rooms for the guests.

He said the facility would probably be ready by the middle of March, and ready for the acceptance of guests about April 1.

Mr. Barber asked how many beds there would be, and Mr. Bradshaw replied there would probably be 25 beds in the nursing wing which will be ready first.

Mr. Ose asked about the waiting list, and Mr. Bradshaw said that there was a waiting list of 50 each for the Palmer and Fairbanks homes and one of 30 for Sitka.

Mr. Warwick asked why the Palmer Pioneers' Home was taking so long, and Mr. Bradshaw told him that everything was done by the Department of Public Works who had a limited staff. They had concentrated on the Fairbanks home first and ignored Sitka and Palmer. Sitka was to go to bid today.

Mr. Ferguson asked about the Kotzebue Home, and was told they hoped to get it ready in time for this next construction season.

Mr. Warwick asked why the FY 74 budget didn't have money in it for the opening in Fairbanks. Mr. Bradshaw said that the Senate Committee had made the decision because there had been uncertainty as to whether it would be opening this year.

Mr. Barber asked about the Anchorage home, and was told that the schematics of Anchorage and Palmer had been approved and they hoped to start construction of both this spring.

Mr. Specking moved and asked unanimous consent that they send out HB 486 with a "Do Pass" recommendation. There was no objection and it was so ordered.

HB 485 Mr. Haugen brought HB 485 (Supplemental appropriation to the Department of Public Safety) up for consideration. He said this was an appropriation of \$435,000 for vessel restoration. He urged that the Committee send the bill out. The only question he had was as to who would supervise it at the shipyard.

There was some discussion of the matter, and it was decided to send a letter of intent.

Mr. Ferguson moved they pass the bill out with a "Do Pass" Recommendation along with an attached committee report saying it was their intent that the bill provide for the supervision of the vessel reconstruction by an independent person knowledgeable in marine construction and familiar with the overseeing of vessel renovation. The motion carried.

RECESS Meeting recessed at 9:35 A.M.

HOUSE FINANCE COMMITTEE

January 30, 1974

1:30 p.m.

Present: All members were present. Also present were Messrs. Easley, Lockert, and Mathisen from the Department of Public Works, Messrs. Gonder and Charney from Budget and Management, Mr. Dwayne Carlson, members of the press and staff.

HB 490

Chairman Freeman called the meeting to order, announcing that the purpose of the meeting was to discuss HOUSE BILL 490 (Supplemental - Division of Marine Transportation). He invited Commissioner Easley to give testimony on the supplemental request.

Mr. Easley said that since the budget last year, the Division of Marine Transportation has incurred several unusual and unanticipated expenses, resulting in a supplemental request of \$2,287,900. He passed out to the committee copies of a letter from Governor Egan to Senator Ziegler which increases the supplemental request by \$740,000 making a total supplemental figure of \$3,027,900. The additional \$740,000 is the money required to place the M/V Wickersham on the line from February 26 until April 30. Mr. Easley explained that reasons behind the original supplemental are: increased fuel costs, unbudgeted costs for the Wickersham beyond October 1 (the intended date of sale), cost of maintaining the Wickersham, and salary negotiations. With reference to the salary negotiations, Mr. Easley explained that the legislature did not provide monies for these negotiations, and so when the contracts expired in July and the state went to the bargaining table they intended to try postponing the negotiations. However, the union had no intention of continuing work without contract and so the budget increased per contract negotiations. Another reason for the supplemental is emergency repair to the Skagway dock, which has been in dangerous condition for some time.

Mr. Specking asked if the Department's intention is to completely rebuild the Skagway terminal, and Mr. Easley said no, that this is just an emergency measure, but that the Department has requested funds from Highways to rebuild the terminal. Mr. Specking asked if this emergency work would then have to be redone, and Mr. Easley said no, that it will complement the program plan for the new terminal.

Mr. Specking asked how much revenue will be generated by the Wickersham being on the line during the ten week period this winter. Mr. Mathisen agreed to check on figures and left the meeting to do so. He returned later with the report that \$500,000 is the estimated revenue, based on last year's figures plus a slight increase in traffic this year.

Mr. Warwick asked about the contract that was negotiated this summer. Commissioner Easley said that there were three phases to the contract: a 5 to 6% increase in pay, depending on class; an increase in vacation days bringing it comparable to classified service; and a built-in increase of Health and Welfare and Retirement benefits.

Mr. Warwick asked if the wages being paid are pretty much in line with other state employees' jobs. Mr. Easley said that they are different in that they have no merit increases and are subject to layoff. He noted that they are about 25 to 30% higher paid than personnel on the Washington State ferry system.

Mr. Warwick asked what percentage of the supplemental is attributed to the negotiations, and Commissioner Easley answered about 40 to 50%, \$1,094,000 including additional positions. Mr. Warwick asked what positions he was referring to, and Mr. Easley said that there were additional oilers in the engine room, additional watchmen, head matrons - positions that came into being because of the negotiations. Asked if he felt they were necessary positions, Mr. Easley said yes, that with the increase in use of the ferry it was reasonable that more personnel be added.

Mr. Warwick asked what portion of the figures given were due to the Wickersham sale not going through, and Mr. Easley noted that several items that the buyer would have picked up -- dry docking, repairs, inspection, now must be paid by the state.

Mr. Warwick asked why there had been no earnest money on the sale and Mr. Charney said that under the terms of the sale, there was no earnest money contract because the buyer supposedly had all his money lined up and was to have made the total payment on the day the sale closed. When the buyer failed to come up with the money on that day the agreement could have been null and void, but since the state had no other similar offers, they held on. Mr. Charney further explained that it is not a practice of the type of sales agreement used to demand earnest money; rather, the matter is handled as a gentlemen's agreement. Mr. Warwick asked if the state is planning to sue and Mr. Easley said yes, that suit for around \$1 million was filed against the buyer the same day that he failed to consummate the sale. He was not immediately served, in the hopes that the money would come through. Asked how likely recovery of the money is, Mr. Easley said that he felt chances were slim.

Mr. Warwick asked if the state has considered contracting out the ferry system. Mr. Easley said that at one time the entire steward's department was subcontracted and that they have actually found it cheaper for the state to handle it itself.

Mr. Freeman asked what happens if the legislature approves the supplemental and then the Wickersham is sold. Mr. Easley stated that the Governor's letter says in the event the Wickersham is sold, additional monies appropriated will be returned to the General Fund.

Mr. Mathisen brought in a letter from Standard Oil, dated January 25, stating that the price per barrel for fuel oil has just increased by another \$4.00. Mr. Easley stated that when budgeting was done last year, it was based on a \$5.03 per barrel cost. The supplemental is based on an \$8.57 per barrel cost. Now that supplemental request is already outdated, with this new \$4.00 increase.

Mr. Haugen asked if there weren't bids sent out for fuel oil. Mr. Easley said that Standard Oil wouldn't even bid this year,

and that there was a firm contract with Tesoro, but that they have received notification from Tesoro that they are going to break that contract because they cannot deliver the oil at the contracted price.

In response to questioning by Mr. Freeman, Mr. Easley said that the cost per day of keeping the Wickersham in drydock now is \$2,000. The cost per day of running the Wickersham is \$9,000. Anticipated revenues for the 10 week period are \$500,000, or \$50,000 per week, a little over \$7,000 per day. Mr. Freeman noted that costs of maintaining the vessel in drydock and operating her are then about the same and Mr. Easley said yes.

The subject of a broker's fee for sale of the Wickersham was brought up. Mr. Charney said that originally there was a broker's fee in the budget, but it was taken out, the idea being that if the vessel was sold, the additional monies for drydock would have been saved and the broker's fee would have been taken from that money.

Mr. Warwick asked about the Jones Act Waiver and Mr. Easley said that it is in effect for three years or until completion of the new vessel, whichever is first. The vessel will be completed first.

Mr. Warwick asked when the last time rates on the ferries increased, and Mr. Easley said this summer they went up about 8%.

Mr. Ose asked how much need there is for the Wickersham to be put back on the line, and Mr. Easley said he felt there is dire need,, as the Malaspina is now carrying capacity loads out of Seattle and leaving vehicles behind, and it will go into drydock this spring. The Matanuska, which is scheduled to replace it, is a smaller vessel and will carry a smaller load.

Asked about the impact the fuel shortage will have on ferry travel, Mr. Easley said he did not anticipate a major impact, although he felt there might be a change in the kind of traffic, i.e., fewer pleasure vehicles, camping trailers, etcetera. This will not be a problem, however, as there are vans which would be eager to use the ferry system but are now unable to due to the van limitation being currently in effect. Grandfather rights determine which vans may use the system, and usually it is mail and perishable commodities which are carried on the ferry.

Mr. Warwick noted that the revised estimates on ferry revenues show a decrease rather than an increase and Mr. Easley said that those do not reflect the recent months when the increase has occurred. He noted that the increase over last year is in the Seattle run and that the Prince Rupert run has not notably increased. Mr. Warwick requested an updating of ferry revenues.

Mr. Saylor moved and asked unanimous consent that HB 490 be reported out of committee with a committee substitute allowing the Governor's suggested increase and the increase due to the latest fuel increase. (Mr. Haugen noted that fuel costs are going to continue increasing and that the state will just have to come in with supplementals if necessary to keep operations going.) Mr. Warwick said that he would prefer holding action on the bill until Administration has come in with a revised supplemental request. Mr. Saylor withdrew his motion.

Chairman Freeman adjourned the meeting at 3:00 and the members went into informal session.

HOUSE FINANCE COMMITTEE

January 31, 1974

1:45 P.M.

PRESENT All members of the Committee except Mr. Ferguson. Commissioner Easley, and members of his staff were present from the Department of Public Works. Mr. Joe LaRocca was present from the press.

HB 490

Chairman Freeman called the meeting to order and said the Department of Public Works had more information to present on HOUSE BILL NO. 490 (\$2,287,900 supplemental appropriation to the Department of Public Works, Marine Transportation).

Commissioner Easley noted that they had copies before them of the estimated costs of the Wickersham operation for ten weeks as well as the increase in revenue if the Wickersham is operating to Seattle for ten weeks. (See Bill File).

Extra manning required to keep the Wickersham in class and in preparing her for a possible February 26, 1974 sailing will have used any possible savings in maintenance that will occur during the requested ten week operational period. Should this request be denied it will be necessary to revise the Wickersham Sales and Maintenance figure in the supplemental budget upward to reflect these expenditures.

Mr. Easley also gave the Committee copies of their Revenue Projections Summary FY 73-79. (See Bill File)

Mr. Warwick stated that yesterday the Commissioner had talked about the contract negotiated between ferry workers and the State. He asked that he be provided with copies of the contract. Mr. Easley had copies of it with him which he distributed to the Committee. (See Bill File).

There was some discussion on the possibility of tying in the Southeast Ferry System with Seward and using the Wickersham.

There was also discussion regarding the hardships involved in getting another waiver for the Wickersham from Congress.

Mr. Freeman stated they would take HB 490 up for consideration again the following morning.

RECESS

Meeting recessed at 2:05 P.M.

HOUSE FINANCE COMMITTEE

February 1, 1974

8:40 a.m.

Present: All members were present with the exception of Mr. Warwick, who entered the meeting late.

HB 490 Chairman Freeman called the meeting to order at 8:40. HOUSE BILL 490 (Supplemental - Marine Transportation) was brought up for consideration. Mr. Saylor moved and asked unanimous consent that HB 490 be reported out of committee with individual recommendations and with an attached amendment increasing the figure from \$2,287,900 to \$3,085,000. There being no objection, vote was called for and the bill was reported out of committee with the amendment and a majority "Do Pass" report. Not concurring was Mr. Ferguson who voted "No recommendation."

There was a brief discussion on the sale of the Wickersham, and Mr. Freeman said that after talking with the Governor, it is obvious that he very firmly supports the sale of the vessel.

HB 507 HOUSE BILL 507 (Repealing special appropriation for extraordinary public service expenditures) was brought up for consideration. Mr. Freeman explained that this is to recover the \$5 million that was approved by the Legislature during the special session to assist municipalities in meeting extraordinary expenses incurred because of the pipeline impact. Mr. Haugen asked if this will mean no impact funds will be available before July 1, and Mr. Hogan, finance director, said that the Governor's \$10 million municipal aid bill can be passed with an immediate effective date so that money would be available on signing into law. A motion was made to report the bill out of committee; and there being no objection, the bill was reported out with a majority report of "do pass", Messrs. Ferguson and Specking voting "no recommendation." (Note: Action on this bill was later rescinded, see page 17).

HB 449 HOUSE BILL 449 (Administrative leave for employees engaged in collective bargaining) was brought up for consideration. Mr. Freeman explained that this will allow the representatives of the public employees association involved in collective bargaining to take administrative leave rather than annual leave or leave without pay. It is limited to six people on a team.

Mr. Saylor expressed concern about there being no time limitation on the number of days of negotiation. He also wondered how many years the contracts would be for - whether negotiations would be yearly or every two or three years. Mr. Ose suggested legislating a certain time limitation.

Mr. Warwick entered the meeting at this time.

Mr. Specking expressed concern over the term "bargaining" and wondered if it was definitive enough. He thought that it might possibly be extended to longer periods of time than just time at the bargaining table. Mr. Ose was afraid that "bargaining" might be more "lobbying" and he did not feel administrative

leave should be available for lobbying purposes.

The committee decided to talk with Mr. Rich Urion, sponsor of the bill, and Mr. Ferguson left the meeting to ask Mr. Urion to come up.

In Mr. Ferguson's absence, the Chairman made the following bill assignments: HB 461 - Warwick; HB 484 - Specking; HB 504 - Barber.

Mr. Ferguson returned with Mr. Urion. Mr. Saylor's repeated his concern about the possibility of this leave extending for lengthy periods of time, and Mr. Urion said that originally he had thought to include in the legislation a time limit on the administrative leave but that he had realized this would give the administration additional leverage against the public employees as the public employee representatives might be inclined to feel pressure about reaching an agreement if their time were running out; this, he felt would be unfair.

Mr. Specking reiterated his concerns about the term "bargaining" and the possibility of its being taken to include more than actual bargaining time. He wondered about the lapses between bargaining at the table and whether or not people would return to their home towns during the interim. Mr. Urion said that people based in Juneau (or wherever the bargaining was taking place) would return to their jobs during lapses between bargaining but that representatives from other towns could not be realistically expected to do so. He stated that one must assume both sides in the arbitration will be seriously attempting to come to an agreement.

In response to questioning, Mr. Urion noted that the Public Employees Association is not a mandatory union, and that if it were they might perhaps be able to afford professional bargainers, but as it is, that is not feasible. Mr. Barber noted that he remembered passing an appropriation for \$75,000 for training of a negotiating team, but that he has not heard of any follow-up.

There was some further discussion, and then Mr. Urion left the meeting.

HB 507

Mr. Warwick moved and asked unanimous consent that the committee rescind their action on HB 507. Mr. Saylor's objected and asked Mr. Warwick's reasoning. Mr. Warwick said that he thought it would be at least 6 weeks before the Governor's bill providing \$10 million in municipal aid for pipeline impacted communities would be signed into law and he felt money should be available before that. Mr. Barber said that his understanding was that the bill had been passed in the first place to placate those people pushing for impact legislation and that the Governor did not intend using those monies. Mr. Warwick disagreed, stating that at least he himself had supported it so that this money would be available and not as a placating measure. Mr. Saylor's agreed with Mr. Barber. After further discussion, in which it was again noted that the Governor has no intention of using any of the \$5 million, Mr. Specking stated that, regardless of what reasons the legislation was passed for, he could see no harm in leaving the measure on the books until there is some further provision made. Question was called for, and on vote Mr. Warwick's motion to rescind committee action on HB 507 was carried, 7-1, Mr. Saylor's voting "no."  
Meeting recessed at 9:50 a.m.

After Recess

4:00 p.m.

Present:

All members were present with the exception of Messrs. Specking and Ferguson. Also present was Mr. William C. Fackler, Deputy Commissioner of the Department of Natural Resources.

HB 461

Chairman Freeman called the meeting back to order, announcing that HOUSE BILL 461 (Amending AS 38.05.183, oil and gas royalty) would be discussed. He turned the meeting over to Mr. Warwick, subcommittee for HB 461.

Mr. Warwick asked Mr. Fackler his Department's position on HB 461. Mr. Fackler said that they have no objection to the bill. He stated that there are three bills relating to oil and gas royalty sales (SB 309 and HB 279 as well as HB 461.)

Mr. Warwick asked Mr. Fackler if he thinks it is advisable to require legislative approval before entering into a royalty contract and Mr. Fackler said that he felt that would be fairly cumbersome.

Mr. Fackler noted that SB 309 is an Administration bill which forms the Alaska Royalty Oil and Gas Advisory Board to advise the Department of Natural Resources as to whether royalty oil and gas should be sold, how much for and in what way. He noted that there are a variety of ways in which the oil could be sold, including with a stipulation that it be used for an oil industry in the state.

Asked again about his reaction to HB 461, Mr. Fackler said that the Department sees nothing wrong with the provisions in this bill -- that they are really contained within SB 309, and the provisions in the two bills could be combined. There followed a discussion on SB 309, and Mr. Fackler read some of the provisions of that bill. As the statutes now stand, the Commissioner of Natural Resources himself can make the decisions which the Board under SB 309 would make.

Asked about oil usage in the state, Mr. Fackler said that presently it is 25 to 30,000 barrels per day, which does not count bonded fuel or military. TESORO produces about 22,000 barrels per day, but some of that is residual (around 6,000 barrels).

Asked how much of the oil is refined in the state, Mr. Fackler said around 20,000 total is refined here. A certain amount of Alaska oil is shipped out because there is no market for it in Alaska (residual oil). Asked how much of the Alaska oil goes for gasoline, Mr. Fackler answered not much. TESORO makes a naptha, SOCAL makes none. He reiterated that only residual oil is shipped out of the state.

Mr. Barber stated that it was his understanding Bunker C could no longer be used in heating plants, and Mr. Fackler said that power plants have had to switch off from high sulfur oils for ecological reasons.

Mr. Fackler was asked if there is any change anticipated in the price of oil in Cook Inlet in view of escalating oil prices all over, and he said yes, that there is some increase taking place now.

Mr. Freeman asked the status of SB 309 and Mr. Fackler said that it is in the Resources Committee. Mr. Freeman asked about the price tag on that bill and Mr. Fackler said that it should not be too much since the members of the board will all be already paid state people and the only one paid position will be that of the Executive Director.

Mr. Warwick asked what the state is selling oil for and Mr. Fackler said that the prices are in flux but that the last price he remembers was \$4.61 for crude oil sold to TESORO. Mr. Warwick noted that TESORO has been increasing its prices around the state, and he asked Mr. Fackler if he felt these increases were justified. Mr. Fackler seemed to think so. In response to questioning about the price we get for our oil, Mr. Fackler said that by the end of the year the state should get around \$7.00. He noted that for a time the Cost of Living Council would not permit the increase in cost of "old oil."

Mr. Warwick asked if the wellhead values are going up and Mr. Fackler said yes. Mr. Warwick asked what they are now and Mr. Fackler said that he would check. Mr. Warwick asked if revised revenue estimates have been made for the current fiscal year based on increased prices, and Mr. Fackler said yes but he was not sure what they were. (Mr. Barker said that the estimates are increased 22%)

Mr. Warwick asked Mr. Fackler about the proposals the Governor has received for utilization of the state's crude oil, and Mr. Fackler said that they are confidential so he didn't think he should say anything about them. He said, however, that this is the sort of thing that the Board would examine should it be formed.

Mr. Warwick asked if it is correct that residual oil is not used in the state and Mr. Fackler said yes, that there is nowhere in the state equipped to use it. Mr. Warwick asked what it would take to equip a utility to use it and Mr. Fackler said that he did not know.

Mr. Warwick asked if the state is presently exporting all of its royalty gas, and Mr. Fackler said some is used in Anchorage, some exported to Japan. Mr. Warwick asked how long it would take to break the contract with Japan if the state decided to utilize all its royalty gas. Mr. Fackler said six months notice would be necessary. However, he said that there is

plenty of uncommitted gas presently available. He said that Pacific Lighting wants all of the gas it can get to take to California. Mr. Warwick asked why it is not being committed to Pacific Lighting and Mr. Fackler said that it is difficult to make commitments when the prices are in such a state of flux. Asked about the cost of the Pacific Lighting plant should it be built, Mr. Fackler said that he would guess between \$80 and \$100 thousand.

Adjourned: Meeting adjourned at 4:40 p.m.

HOUSE FINANCE COMMITTEE  
February 4, 1974  
8:40 a.m.

Present: All members were present.

Chairman Freeman called the meeting to order at 8:40 a.m. He passed out a list of budget sub-committee assignments and discussed with the committee the general format for budget review, noting that it is his intention that the House budget be ready to be sent down by March 22.

There followed a brief discussion on the committee room rules, and Mr. Freeman invited the members to make suggestions known all along the way, noting that he will reserve for the Chair the right to entertain motions and to recognize speakers but that he otherwise is interested in operating as democratic a committee as possible.

Mr. Freeman then brought up the subject of the Governor's impact "mini-budget" and there followed a brief discussion of the Governor's impact approach. Mr. Haugen said that he will want to see Administration over to discuss the "mini-budget."

Mr. La Rocca came in at this time.

Mr. Freeman noted that in looking over the budget and the percentage increases, he feels the Governor's statement about his percentage increase is misleading. It does not, for example, include the pay increase which will be forthcoming and which will mean the increase is 16.5%. It also does not include the impact legislation and Mr. Freeman said that he himself will be satisfied at the least with the \$10 million Municipal Assistance and \$1.4 million for advanced planning, and if only that is added that will mean a 19.6% increase.

Meeting recessed at 9:30 a.m.

After Recess

9:40 a.m.

Present: All members were present with the exception of Messrs. Specking and Ferguson. Also present was Mr. Sewill from the Department of Administration and Representative Mike Miller.

Chairman Freeman called the meeting back to order and announced that the committee would now be discussing HOUSE BILL NO. 449

(Administrative Leave for Employees Engaged in Collective Bargaining).

A fiscal note on HB 449 was distributed to the committee. Mr. Sewill said that this applies just to the bargaining unit that has just terminated its activities here this past week. He said that the bill assumes an average of 15 days per person per bargaining time, six persons on the team, at an average pay range 18C. In response to questioning as to whether this would include travel, Mr. Sewill said hopefully it will cover travel expenses. He emphasized that it is very difficult to come up with a projection on future figures as there are so many variables involved.

Mr. Meekins asked what conditions for administrative leave are at this time, and Mr. Sewill said that currently it has to be at the direction of the Governor.

Mr. Freeman asked if this is talking about any new money, and Mr. Sewill said no -- these are the monies the people would be getting if they had stayed on their jobs so it does not have a financial impact in that sense. It just means they are not doing the work that they are being paid for, Mr. Saylor noted.

Mr. Haugen expressed concern over possible misuse of this measure and over the possibility of necessary state work not being completed in the absence of persons doing the bargaining.

Mr. Barber asked how many days of bargaining are anticipated and Mr. Sewill said an average of 15 is what they assumed in making up their fiscal note. Mr. Barber asked then if it will never extend more than 15 days and Mr. Sewill said he could not say that -- this is just an average figure they picked. It could be shorter or longer.

Mr. Barber asked Mr. Sewill if he felt that the people doing the bargaining could leave their jobs for that period of time without hindering the jobs. Mr. Sewill said that he thought that was not necessarily true, but that in fact it might sometimes be necessary to replace someone. Mr. Barber noted that then, in fact, there may be an additional cost to the state if it is in fact necessary to replace some of these people while they are at the bargaining table.

Mr. Specking came in at this time.

In response to questioning by Mr. Meekins, Mr. Miller said that the Alaska Public Employees Association has chosen to do their own bargaining - they have a paid executive secretary, and they have a lawyer, but that the rest of their bargaining team are state employees who would be covered by this legislation. (The secretary and attorney would not be.) Should the union or any other employees union like this elect to have only paid professionals to do their bargaining, they would not be covered.

One of the last items settled in the recent Administration-state employee arbitration was this matter of administrative

leave for the employees involved in the arbitration. The question was again raised and Mr. Sewill reiterated that this administrative leave refers only to state employees involved in arbitration.

Mr. Warwick asked Mr. Sewill if he had any reservations about this bill. Mr. Sewill was reluctant to respond to this question, feeling that he was an Administration representative and unwilling to commit the Commissioner to a particular viewpoint that might not be accurate. After some prodding by the committee, Mr. Sewill phoned Commissioner Henri to get his views, and there was a five minute recess at 11:00 a.m.

After Recess

11:05 a.m.

Chairman Freeman called the meeting back to order. He asked Mr. Sewill what Mr. Henri's opinion about the bill was. Mr. Sewill said that Administration supports the bill insofar as provision for the bargainers this year is concerned but that as far as making it continuing legislation, Administration's position is that it should be left as a negotiable item.

There was some confusion in the committee as to the effect that passage of this bill would have. Mr. Miller explained, in response to questioning by Mr. Warwick, that when a pay increase agreement has been reached by the negotiating team, it still requires legislative approval; but that when the contract is up, it must be renegotiated. This bill would not leave the matter of administrative leave up to negotiation each time the contracts are renewed. Rather, it makes the provision for administrative leave for collective bargaining a matter of law which will continue unless at some time it is repealed. Mr. Miller continued that he sees this bill as an attempt to correct an oversight in the basic negotiation bill passed two years ago. He said that it sounds like the Commissioner is interested in keeping this question a matter of negotiation each year. He stated that he disagrees with that position. Mr. Miller continued, explaining that he felt this gave an unfair advantage to the Administration bargaining team, since it puts an additional pressure on the employee team. Administrative leave should be part of the ground rules, he again emphasized. Mr. Meekins expressed the feeling that if the administrative leave matter is left as a negotiable item, then the bargainers will have difficulty ignoring their own self-interest and it may become too much of a bargaining point.

Mr. Specking said that he does not feel it is unreasonable to think that the group seeking benefits for themselves should carry their own costs. He feels that the union of state employees should take care of its bargainers like other unions.

Mr. Freeman said that he thinks that legislating the matter of administrative leave will take away an administrative bargaining

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tool, but said that he is uncertain as to whether that is a positive or a negative factor to be considered. He noted that the other half of the bargaining, the Administration side, will still be getting paid although they also are not performing their regular state duties while bargaining.

Mr. Haugen noted that the people bargaining have been using up all their own leave, and that this is an attempt to restate their leave time. He raised a question as to why so many people are needed for bargaining, stating that his experience with unions has been to have one paid professional go in to bargain for the points the union has voted on. He noted that the teachers just have one bargainer/lobbyist.

Mr. Meekins said that that makes good sense, and he briefly went into the history of labor unions. He said that he would anticipate the state employees within the next few years having a paid professional bargainer. This bill will just take care of the employees doing the bargaining until that time.

Mr. Warwick said that he feels if administrative leave is left as a negotiable item, that the weapon of time will be used against the public employees. Mr. Specking reiterated that he felt it would be reasonable that these people be compensated by their own union as in other unions.

In response to questioning by Mr. Saylor, Mr. Miller said that the Association represents all the members in the bargaining unit, whether they are dues-paying members of the association or not. Membership in the association is not mandatory, and he stated that the 4,000 employees figure that Mr. Saylor mentioned referred to a potential membership but that the membership is only around half of that. (Mr. Meekin's recollection was about 1952 members)

Mr. Saylor moved and asked unanimous consent that HB 449 be reported out of committee. No objection, so ordered. The majority report on the bill was Do Pass; not concurring was Mr. Haugen who had no recommendation.

Meeting recessed at 11:40.

After Recess  
1:30 p.m.

Present:

All members were present. Also present were Commissioner Easley of the Department of Public Works, Commissioner Lind of the Department of Education, John Benson, Director of the Division of Buildings, Penelope C. Starr of Arthur D. Little, Inc., Bob Dwyre, Deputy Commissioner, Department of Public Works, William D. Fromm, Director of Regional Schools, Everett M. Simpson, Chief Architect, Division of Buildings,

CAPITAL  
PROJECTS

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HOUSE FINANCE COMMITTEE

February 5, 1974

8:40 A.M.

PRESENT

All members except Mr. Haugen and Mr. Ferguson.

Chairman Freeman called the meeting to order and asked if there was anyone desiring to schedule any bills for discussion in the near future.

HB 4            Mr. Warwick asked that HOUSE BILL NO. 4 (An Act providing  
SB 69           for state chartered credit unions) and SENATE BILL NO. 69  
                 (An Act providing for year-round school programs within local  
HB 19           school districts) and HOUSE BILL NO. 19 (An Act providing  
                 incentives for continuous year-round school programs within  
                 local school districts) be brought up.

Mr. Freeman scheduled SB 69 and HB 19 for 8:30 A.M. on February 6, and HB 4 for 8:30 A.M. on February 8.

HB 171          Mr. Saylor asked that HOUSE BILL NO. 171 (An Act relating to  
HB 172          the Alaska Income Tax) and HOUSE BILL NO. 172 (An Act relating  
                 to the computation of taxable income under the Alaska net in-  
                 come tax) be brought up for discussion.

Mr. Freeman scheduled HB 171 and 172 for the morning of February 8 also.

Mr. Barber asked if they couldn't have a regular day for making up schedules, and Mr. Freeman said they would try and do it on Saturdays.

RECESS

Meeting recessed at 9:00 A.M.

HOUSE FINANCE COMMITTEE  
Wednesday, February 6, 1974  
8:45 a.m.

Present: All members were present with the exception of Messrs. Haugen, Warwick and Saylor. Also present were Budget and Management personnel, Commissioner Lind and Bob Thomas from Department of Education and press.

SB 69

Commissioner Freeman called the meeting to order. He announced that the Commissioner and Mr. Thomas were present to discuss SENATE BILL 69 (An Act relating to year-round school programs within local school districts) with the committee.

Commissioner Lind said that they have provided testimony on this bill for several years. He stated that they certainly support the effort on the part of school districts to reschedule their schools if it is a way for them to get better service from the school and particularly to cut down their debt service by rescheduling. He stated that there is nothing in the law now which would prevent someone from rescheduling. The Department's concern with this bill is with the last paragraph which concerns computation of the average daily membership and with the assumption made in the fiscal note on this bill -- that assumption being that youngsters will be going to school longer. He said that if they want another forty days the foundation support will increase 25%. Mr. Lind said that several school districts are considering rescheduling their school year and he feels that they deserve some planning and scheduling prior to this kind of a change. He stated that whether this should be voluntary or mandatory is a difficult question. Anchorage is now facing this problem and has done a survey of people. The sentiment still rests with summer months as preferable for vacation time for children.

Continuing, Mr. Lind said that the Department feels rescheduling is a good idea -- for debt service, for equipment usage, program improvement and program flexibility. Mr. Meekins asked if a school was on a year-round program if students would still be going to school only 9 months, and Mr. Lind said yes, and that they could go longer. Mr. Meekins asked if this is being done elsewhere in the country, and Mr. Lind said yes.

Mr. Thomas said that although summer is listed as the preferred time for vacation, it is a fact that many parents due to their working situations and vacation schedules have to work through the summer, end up taking their vacations outside of the state in the winter, often around Christmas, and then their children miss a week or two of school.

Mr. Meekins asked how year-round scheduling would cut down on debt service, and Mr. Lind said that if 20% more students can be accommodated through rescheduling, some school construction will not be necessary. Mr. Meekins asked how year-round scheduling

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would increase program flexibility and Mr. Lind said that it breaks up the typical semester blocks, increases program selection because as a result of shorter time there has to be a higher degree of individualized instruction and there will be a wider range of offerings. Mr. Meekins asked about the sequential type of courses, wondering if that wouldn't create problems and Mr. Lind said yes, but that there are considerable problems after a summer break, too.

Mr. Saylor entered the meeting.

In response to questioning by Mr. Meekins, Mr. Thomas said that there would be a fuel savings inasmuch as a district might be considering building an entire new facility (as the Juneau district is now considering building another high school) but with rescheduling would not need to and so there would be a fuel savings since there would not be another school in operation during the school year.

Mr. Specking said that the districts he is familiar with would not benefit from rescheduling. Mr. Lind said that this would probably only be of use to Anchorage, Fairbanks, Juneau and Ketchikan. He said that the Anchorage school district has hired someone to determine what kind of support there is for this kind of program. The question is not just whether or not the idea of rescheduling is appealing, but it is rather if rescheduling is preferable to constructing new schools or double shifting.

Mr. Thomas noted that another benefit of rescheduling is that it gives teachers the option of teaching longer than nine months if they wish. He said that there is a question as to whether or not a district would have to completely reschedule, and he said that apparently it is not necessary. There is one district in which seven of thirteen schools are rescheduled in one of the other states. He stated that he will pull together a summary of the way in which rescheduling has worked in some of the districts that have tried it.

Mr. Haugen entered the meeting.

Mr. Ose said that as far as enrollment, there will be a minimal enrollment in the summer months. Mr. Lind said that this is the reason they realize this can only work in the larger schools. If there are not four groups of 25 each for each of the lower grades then the flexibility of rescheduling is lost.

Mr. Ose asked if this would then encourage earlier graduation. Mr. Lind said it would not necessarily. It would depend on how the youngster decided to complete his program. Mr. Ose

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said that they did a survey on this in the Valley and that when people were asked if they would prefer taking their vacations in the winter, which having their children out of school at that time would enable them to do, several said that they would -- but when asked how often they would choose to do this, most said just once. Mr. Ose also mentioned that school buses could be a problem, and wondered whether that had been figured into the fiscal note.

Mr. Ose, examining some of the points that had been raised in favor of the rescheduling, said that he did not find them convincing. He said, with reference to the point that this would give teachers the option of year-round teaching, that it is his experience (having been both a teacher and principal) that those teachers who have really extended themselves to the youngsters and have really worked at their teaching are in need of the three months summer break -- whereas those teachers who are not seriously working with the students and are more concerned with the money are by in large the teachers who would choose to work a full year and he felt this was certainly not a positive situation.

Furthermore, Mr. Ose said that it has been his experience in teaching summer school that it is very often extended day care -- parents will choose to have their children in school for longer periods of time simply to "get them out of their hair." He felt that the kinds of experiences children have in the summer particularly in a state like Alaska where so many months of the year are not conducive to outdoor activities, are invaluable to a child's development. He wondered if the youngsters had been polled on their reaction to a year-round school program, since they are the ones most affected. Mr. Lind said that he assumes the students have been polled but he has not heard of any of the results.

Mr. Freeman asked from a fiscal standpoint, how does this rescheduling stand in the Department's list of priorities. Mr. Lind said that it is not very high.

Mr. Thomas stated here that the fiscal note was drawn on the assumption that districts would run longer than 180 days. Mr. Saylor asked if the fiscal note were for 180 days it would be lower and Mr. Thomas said no. He went on to say that theoretically there is no cost - this could be absorbed in the regular foundation program.

Mr. Saylor asked what the highest priority in Education is. Mr. Lind said it is to provide secondary education to youngsters in rural areas. Mr. Saylor asked about the cost of boarding schools as compared with building schools. Mr. Lind said that

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taking the Bethel facility as an example, he would estimate a cost there of \$4,000 per student boarding and another \$2,000 for instructional cost. Cost of building and education he felt was closer to \$2500 to \$3,000. Mr. Saylor's questioned that, based on current school construction costs the committee has been looking at. Mr. Lind said that those costs had tacked onto them the cost of a water and sewer project for the community. Mr. Thomas stated that given a 20 year life for the school, the cost per pupil in the village is around \$1,000. Mr. Guthrie, fiscal analyst, here noted that if you consider the bonded debt it is closer to \$5,000.

Mr. Freeman asked the Commissioner again about the cost element of rescheduling. If the schools are run on a 180 day basis, he asked if there would be additional cost. Mr. Lind said that this is what the districts are trying to analyze now.

Mr. Freeman asked if under the present system it is permissible for districts to take the step to reschedule their schools. Mr. Lind said that it is. In response to further questioning as to the merits of this bill, Mr. Lind said that he felt that ultimately through rescheduling there could be a savings to the state.

Meeting recessed at 9:30 a.m.

HOUSE FINANCE COMMITTEE

February 8, 1974

8:30 a.m.

All members with the exception of Representatives Meekins and Ferguson. Representative Specking entered the meeting at 8:45 a.m. Also present: Mr. Milt Barker, House Fiscal Analyst; Mr. Fred Boetsch, Director, Audit Division, Department of Revenue; Mr. Peter L. Kline, CPA, Schmitz & Kline, Juneau (entered the meeting at 8:55 a.m.); Mr. Joe LaRocca of the press.

HB 4 Chairman Freeman called the meeting to order. He informed the Committee that Representative Warwick had requested that consideration of HOUSE BILL 4 (An act providing for state chartered credit unions) be deferred until such time as those people who would present testimony on the bill were available to appear before the Committee.

HB 171 The Committee then moved on to consideration of HOUSE BILL  
HB 172 171 (An act relating to the Alaska income tax) and HOUSE  
BILL 172 (An act relating to computation of taxable income under the Alaska net income tax).

Representative Saylor informed the Committee that he had contacted the local CPA Society members who had told Mr. Saylor that they had no strong feelings on HB 171. The CPA Society then contacted the Anchorage Chapter and informed that branch of the bill hearing. It was learned that they were "pretty much in agreement with the bill itself", but might possibly have a representative present at the hearing. Representative Saylor stated that the Office of the Governor was also contacted which notified him that they would allow the Department of Revenue to present its comments to the Committee on HB 171.

Supplemental information prepared by the Department of Revenue regarding HB 171 and HB 172 was distributed to the Committee members by Mr. Boetsch (see bill files for copies).

Mr. Boetsch called the Committee's attention to the information distributed concerning HB 171: a memorandum from Mr. Boetsch to Commissioner Stevenson dated 2/7/74 consisting of updated research on HB 171; a memorandum from Mr. Boetsch to Acting Commissioner Stevenson dated 2/27/73 consisting of an analysis of HB 171 following introduction of the bill; a table showing the effect of the new rate schedule on tax liability; proposed amendments to HB 171.

Mr. Boetsch referred to the table showing the effect of the new rate schedule on tax liability. He stated that the table reflects a slight decrease due to the department's attempt to simplify the computation; when taking 16% of the federal tables, the result is rounded off to the nearest 1/2 or whole percent thus causing a slight variation between the current law and the department's proposal.

Mr. Boetsch stated that calculating liability involved looking at 1963 federal rates and taking 16% of that figure. Because people fail to use the 1963 tables or fail to calculate the 16%, the Department of Revenue has devised this new table to simplify calculation of liability for Alaskans.

Mr. Boetsch stated that the amendments are the result of changes since the bill was introduced last year and represents further refinements to the bill from research developed since 1973.

Mr. Boetsch said many of the amendments were designed to prevent ambiguity; provisions were clarified. He cited as an example the clarification of provisions of proportioning income for people and businesses working inside and outside of the state. Many people are confused over the regulations.

Mr. Boetsch stated that another change is to provide equity for the Alaska taxpayer who is subject to double taxation. He explained that (for instance) an Alaskan resident--who has interest income from the state of Oregon arising from a note on the sale of property in Oregon--would be taxed by Alaska and Oregon. The proposed amendment would allow the taxpayer credit if he must pay a tax outside the state.

Mr. Boetsch told the Committee that Alaska is the only state without the credit mechanism which would provide relief to the taxpayer. Credit mechanisms work only for residents of the state.

Representative Warwick asked how a state can enforce an individual to pay a tax when no longer a resident of that state. Mr. Boetsch stated that it is possible to enforce the requirement by filing a lien on the individual's property or sue him in Alaskan courts. He added that every state has a reciprocal agreement with other states regarding suits of this nature.

Representative Freeman asked Mr. Boetsch if this new law would allow the state to collect additional revenue. Mr. Boetsch stated that most provisions were designed to simplify tax calculation, to clarify ambiguous areas in the law

and provide equity in double taxation. He said that the new rate schedule would provide a decrease for some people (those in the lower and middle income brackets) which would cost the state \$300,000 or \$400,000 per year. Other provisions, however, would provide a gain in revenues. Mr. Boetsch stated that the Department of Revenue had no "hard statistics" on those revenue gains.

Representative Freeman asked if there would be objection to the proposal from persons having a strong bias against it on a consumer level. Mr. Boetsch stated that because most individual taxpayers in the lower and middle income brackets will get a slight decrease in their taxes, there should not be much objection.

Representative Specking said he wished to hear from someone outside of government who would be knowledgeable in this matter. Representative Saylor told Mr. Specking that the CPA Society had been contacted; apparently they had chosen not to send a representative to attend the meeting. Representative Saylor added that the CPA society had said they had no strong objections to the bill and that they would contact the Anchorage office to inform them of the hearing.

Representative Ose asked Mr. Boetsch what effect this proposal might have for corporations. Mr. Boetsch replied that it would result in a simplification of tax calculations for corporations as well.

(Mr. Peter L. Kline, CPA, entered the meeting. Mr. Kline attended the meeting as an interested observer and was not representing the CPA Society.)

Mr. Boetsch referred Mr. Ose to Page 7 of HB 171 (the original bill), Section (e), Line 9. He explained that this section specifies a normal tax equal to 5.4% of taxable income and a surtax which is equal to 4% of taxable income. This is simply providing the corporations with a state calculation (18% of the 1963 federal rates); prior to this section, it was necessary for the taxpayer to compute 18% of the federal table himself.

Representative Warwick requested that Mr. Boetsch give the Committee a brief explanation on all proposed amendments.

Mr. Boetsch stated that he would take the Committee through all portions of the bill.

He said that Section 1 of HB 171 (Pages 1, 2, and part of 3), Subsection (a), sets up a new rate schedule for "singles" (every resident, nonresident and part-year resident individual and fiduciary of the state). Subsection (b) deals with joint returns for married persons; Subsection (c) deals with heads of households. Mr. Boetsch stated that there is no projection for the number of persons filing returns as heads of households because the number is minimal; most people file single or joint returns.

In Subsection (d) (Page 7 of the bill), Mr. Boetsch pointed out that through the publication of Alaska income tax liability for resident taxpayers by the Department of Revenue, taxpayers who wish to take standard deductions can refer directly to the published table.

Page 7, Subsection (e), Line 9, refers to corporations as previously discussed in the meeting.

Mr. Boetsch then referred to the first amendment proposed which concerns Subsection (f) (in Section 1, Page 7, Line 18 of the bill). All of this subsection would be deleted by the amendment because this subsection actually became law during the last legislative session under SENATE BILL 2, "An act to provide for the filing of consolidated corporation income tax returns; and providing for an effective date". Therefore, Subsection (f) is no longer necessary.

Referring to Section 2 of the bill (Page 7, Line 28), Mr. Boetsch pointed out that the subtitles of the 1954 Internal Revenue Code as amended are adopted by reference as a part of this chapter (AS 43.20). Mr. Boetsch explained that the code has been changed many times over the years, and it was unclear whether new sections had been adopted by the state. To avoid confusion, administrative provisions are being picked up intact.

Referring to Subsection (b) of Section 2 (Page 8), Mr. Boetsch stated that in dealing with the penalty tax, the state charges 18% of the federal rate (6%); therefore, the resulting tax is 1.2% and once rounded off, 1%.

Representative Warwick stated that he did not recall filing a copy of his federal return with the state. Mr. Boetsch stated that it is not required unless the Department of Revenue requests it. Representative Warwick countered that the letter from Mr. Crosley stated that the federal return copies are required to be filed with the state. Mr. Boetsch repeated that they were required only if the department requested as such. Mr. Boetsch added that the Department of Revenue would provide their own forms in such a case.

(Mr. LaRocca re-entered the meeting at 9:10 a.m.)

Mr. Boetsch was asked whether more clarifying language could be added to the bill if Committee members felt it necessary. Mr. Boetsch replied that it was no problem at all; Mr. John Messenger of the Attorney General's Office was unable to attend the meeting, but he would be willing to meet at a later time to help make any revisions in the bill language.

Mr. Boetsch then referred to Section 4 of HB 171. He stated that once again, the words "Collector of Internal Revenue" had been changed to "United States Internal Revenue Service". He also pointed out to the Committee that on Line 7 "20 days" had been changed to "60 days". Mr. Boetsch explained that this was done at the request of the CPA Society which felt that a longer period of time was necessary for the filing of notification of any alteration or modification of a taxpayer's federal income tax return. Mr. Boetsch stated that in some cases, the tax

\* accountants are not even notified by the taxpayer. He added that the 60 day period commences on the date of the recomputation or modification of the federal income tax return. Notice of such change to the taxpayer is done by the Revenue Service; the taxpayer can either agree or disagree with the notice, but still must provide notification to the Department of Revenue. The effect of this provision is to insure that the state receives notification of any adjustments. Representative Barber pointed out that any adjustment should be filed with the department, whether the change be "up" or "down".

Representative Warwick asked if there was any objection to this provision stating that notification does not have to take place until the modification or computation is final. Mr. Boetsch replied that such a change would be objectionable because if the case (assuming the taxpayer is dissatisfied with the modification) goes to court, the Department of Revenue could be waiting for as long as three years before finding out a change in the taxpayer's federal return is even proposed. Once the department receives notification that the modification is opposed, it allows the department time to keep the statute open until the courts (whether federal or state) make their decision.

\* Mr. LaRocca left the meeting at 9:15 a.m.

# **CORRECTION**

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

Mr. Boetsch referred to Subsection (c) (in Section 2, Page 8, Line 9) which deals with personal holding companies. Another conversion of rates is involved with the state taxing a rate of 12.6% of the 70% federal rate.

(Mr. LaRocca left the meeting at 9:05 a.m.)

In response to Representative Specking, Mr. Boetsch stated that personal holding companies are, for example, corporations set up having large amounts of income from rents where individuals are primary owners; they are taxed under federal provisions of 70% to avoid using the device as a tax shelter.

Subsection (d), Page 8, Line 12, was then considered. Mr. Boetsch stated that where credit is allowed under the Internal Revenue Code is also allowed in computing Alaska income tax, it is limited to 16% of the amount of the credit determined for federal income tax purposes for individuals and 18% for corporations. Presently, Mr. Boetsch said, the taxpayer would arrive at a federal tax and take off the credit and apply 16% on the net figure. Under the conversion, he would come to the Alaska tax before the credits and apply the 16% to the credits. The net effect will be that he pays 16% of what the tax liability will be.

Mr. Boetsch moved on to Section 3 of HB 171 (Page 8, Line 16). He stated that this section provides for the filing of returns, and the basic changes under this section simply change the words "Collector of Internal Revenue" to "United States Internal Revenue Service". He explained that there is no longer a collector of Internal Revenue, and the change prevents any legal problems which might result from reference to an agency no longer in existence.

Representative Warwick then referred to a letter directed to the Committee from Mr. Britton Crosley, President of the Alaska Society of CPA's (dated 3/24/73). Mr. Warwick asked Mr. Boetsch if he was familiar with the letter. Mr. Boetsch replied that he was.

Representative Warwick then pointed out that Mr. Crosley stated in his letter that the requirement of filing a copy of all federal returns with the Department of Revenue has not been complied with and is unreasonable. Mr. Boetsch said that the filing with the Department of Revenue is an additional enforcement technique to determine what the individual has filed with federal revenue service and state revenue service. Mr. Boetsch said that this technique is "handy" in the case of corporations which have affiliates outside the state.

Representative Warwick stated that he did not recall filing a copy of his federal return with the state. Mr. Boetsch stated that it is not required unless the Department of Revenue requests it. Representative Warwick countered that the letter from Mr. Crosley stated that the federal return copies are required to be filed with the state. Mr. Boetsch repeated that they were required only if the department requested as such. Mr. Boetsch added that the Department of Revenue would provide their own forms in such a case.

(Mr. LaRocca re-entered the meeting at 9:10 a.m.)

Mr. Boetsch was asked whether more clarifying language could be added to the bill if Committee members felt it necessary. Mr. Boetsch replied that it was no problem at all; Mr. John Messenger of the Attorney General's Office was unable to attend the meeting, but he would be willing to meet at a later time to help make any revisions in the bill language.

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\* Mr. LaRocca left the meeting at 9:15 a.m.

Representative Warwick then asked Mr. Boetsch if "you are opposed to what this letter (referring to Mr. Crosley's letter) says regarding the final determination". Mr. Boetsch replied that he was opposed because the effect of this law would then be "nil".

Mr. Boetsch then referred to Section 5 of HB 171, Page 9, Lines 13 - 14 (Taxable Income of Resident; Deductions; Exemptions). The amendment would change "derived from sources within the state with the following modifications:" to "as defined in Section 63 of the Internal Revenue Code with the following modifications:". Mr. Boetsch also pointed out that further down in the bill (Page 16, Lines 5 & 6), Subsections (b), (c), and (e), are repealed from the law 43.20.030.

Mr. Specking asked if this bill would have any effect on the "oldtimers' bonus." Mr. Boetsch stated that it was exempt in that legislation from Alaska's taxes, therefore, the Department of Revenue has not done anything with it in this bill at all.

Representative Warwick asked Mr. Boetsch if legislators' per diem was taxable under Alaska's statutes. Mr. Boetsch stated that per diem up to \$36 per day was not taxable. Representative Specking stated that Mr. Boetsch's statement was not correct; Mr. Specking had checked into the matter and found that per diem was taxable. Mr. Boetsch then said that federal law exempts per diem up to \$36 per day. Representative Warwick stated that the IRS made every legislator account for all per diem and the \$4,000 for expenses. Mr. Warwick added that almost all legislators have tax adjustments. He told Mr. Boetsch that they were not penalized but had to account for "the whole thing". He then asked Mr. Boetsch if the \$35 per diem and \$4,000 is taxable under state law.

Mr. Boetsch stated that he could not speak for the IRS in present audit functions, but regulations say that \$35 per diem does not have to be accounted for; anything above that amount must be itemized.

Representative Warwick stated that Juneau legislators receive \$35 per day whether they are away from home or not, and because of that, the other legislators must account for the whole thing. Mr. Warwick then asked what the state's position is in this matter. Mr. Boetsch stated that under the present statute, a person would have only 20 days to inform the state of any modification in his federal income tax return; the proposed amendment will increase that to 60 days. Mr. Warwick then asked why legislators should notify the state if \$35 per diem and the \$4,000 were not taxable under state law. Mr. Boetsch said that "if you get \$35/day for 100 days, you don't have to report that to IRS". He stated that if the legislators wanted to claim deductions for expenses greater than \$35, they must account for those.

Representative Specking suggested that the Committee provide language protecting \$35 per diem from taxation by the state. He stated that the Committee could do that at this time in this bill.

was, to some extent, aimed at the nonresident. He then said that the state has been in contact with two fishing associations in the Seattle area, and those associations had given the state names of people not having filed in Alaska.

Mr. Boetsch stated that now the state will pro-rate a non-resident's income based on the percentage of that income from Alaska; prior to this time the pro-ration was based upon how many months the person was actually in Alaska.

Paragraph (2) of this section is consistent with the system of pro-ration mentioned above; paragraph (3) refers to a non-resident or part-year resident who itemizes deductions and is allowed a deduction for those items deductible under the Internal Revenue Code in the proportion provided in (b) of the bill.

Subsection (b) spells out the pro-ration.

Representative Haugen then addressed Mr. Kline; he stated that he hoped Mr. Kline, or another private CPA could attend the next meeting regarding this bill. Mr. Haugen also hoped that the Federal Auditor could appear before the Committee. He stated that he is concerned about the co-op tax as found in Metlakatla and Kake. Mr. Boetsch said that the Federal Auditor is not located in Juneau.

Chairman Freeman announced a change in the meeting schedules for the following week: HB 157 (relating to state aid to local governments) would be postponed until February 13 at 8:30 a.m. Further consideration of HB 171 would take place on February 12, Tuesday, at 8:30 a.m.

Chairman Freeman reminded the members of the 2:00 meeting that afternoon in #106 of the Assembly regarding the Judicial Council report.

There being no further business at this time, the meeting recessed at 9:45 a.m.

HOUSE FINANCE COMMITTEE

Tuesday, February 12

8:40 a.m.

Present: All members were present with the exception of Messrs. Haugen, Warwick, and Saylor. (Mr. Saylor entered the meeting later.) Also present were Mr. Frederick P. Boetsch, Director of the Audit Division, Department of Revenue, and Mr. Peter Kline, CPA.

HB 171

Chairman Freeman called the meeting to order at 8:40. He explained that the purpose of the meeting was to continue discussion on House Bills 171 and 172. He requested Mr. Boetsch to pick up where they had left off Friday in the discussion on HOUSE BILL 171 (Relating to Alaska Income Tax).

Mr. Boetsch reminded the committee that they had been going through the bill page by page and through the amendment proposed by the Department of Revenue. He stated that the amendments basically are oriented towards clearing up some areas which are ambiguous.

On page 11 of the bill, between lines 25 and 26, there is a proposed amendment which is aimed at clearing up the question of deductions allowed from gross income under the Internal Revenue Code. This relates more specifically to moving expenses, travel expenses, sick leave. He stated that the Department has been allowing moving expenses as a deduction when it is moving to the state, but has taken the position that if a person is leaving the state, that is not an expense which should be deductible from Alaska income tax. This amendment would make this clear. Mr. Specking asked if the federal government allows moving expenses, and Mr. Boetsch said yes, but that a person has to be in a new place 39 weeks after moving.

The next suggested amendment is on page 12, lines 2 to 4, proposing the deletion of paragraph (2) and insertion of a new paragraph to read "(2) income of whatever nature from a business, trade or profession having a business situs in the state and compensation for services rendered in the state." The change here is the addition of "income of whatever nature" - another clarifying statement. There is a problem with some multi-state corporations claiming some of their income is non-business income and therefore not apportionable to the states in which they do business. Primarily this income is of intangible nature and applies to dividends, interest, rents and royalties. This way the state has authority to make sure that this kind of income is covered. Mr. Specking wondered if simply saying "all" or "any" income might not be stronger language and Mr. Boetsch said that he did not know why the Dept. of Law had used the wording they did but he felt either would be sufficient.

The next proposed amendment is to delete paragraph (5) which will be unnecessary if the change proposed on page 9, which

covers the income derived from sources within the state as defined in Section 63 of the Internal Revenue Code.

The amendment proposed on page 13, lines 3 - 14, is to delete subsection (c) and add a new section. This is at the recommendation of the Attorney General's Office which said that there should be a separate section of statute dealing with payment of officers and directors of corporations earning 50% or more of their income in the state. According to this section, those officers and directors must report and pay Alaskan income tax or, if they do not do so, the corporation cannot claim them as a deduction in their state income tax. This applies as long as 50% or more of the corporation's income is in the state -- and regardless of whether or not any personal services of said director or officers are performed in the state.

Mr. Saylor entered the meeting at this time.

Chairman Freeman turned the direction of the meeting over to Mr. Saylor.

In response to questioning by Mr. Specking on the success ratio of collections in this area, Mr. Boetsch explained that now according to the statutes they are legal in not paying this income tax -- the statutes now read that unless services are performed in the state they cannot be taxed.

The next amendment proposed deals with income from sources in the state of nonresident partners. (This would come on page 13, between lines 14 and 15.) He explained that the main problem here has been largely due to joint ventures formed by corporations but in which the joint ventures themselves are treated as partnerships. The thrust of the three paragraphs under this new Sec. 43.020.051 is that there can be no distortion of income sources through use of the partnership relationship.

The next amendment relates to credit for taxes paid another state, Mr. Boetsch continued. He explained that this will clarify an area in the statutes where there has been some ambiguity due to the fact that several sections in Title 20 of our statutes talk about allocation and apportionment and at the same time Title 19 talks about allocation and apportionment also, and so there are two areas of statute trying to deal with the same problem. The Department thinks that it would be wise to repeal that part of Title 20 so that there is not any conflict.

Mr. Boetsch said that Sec. 43.20.071 tries to deal with a particular problem that the state has come up against with just about any freight service but it is a unique problem to Alaska. This amendment includes provisions that the property factor of water transportation shall be determined on a days spent in ports basis; payroll factor shall be determined on a days spent in ports basis; sales factor shall be determined on a days spent in ports basis;

and the property, payroll and sales factor shall be determined by a ratio which the number of days spent in ports inside the state bears to the total number of days spent in ports inside and outside.

Mr. Barber asked if days in port would include days in dry dock and was answered no. Mr. Barber asked if ferry personnel are 100% state taxed and Mr. Boetsch said yes. However, if they are not Alaska residents living in Alaska they do not come under the 100% state tax. In response to further committee questioning, Mr. Boetsch said that Alaska residents would pay the complete tax. Non-residents would pay a percentage based on the number of days in Alaska waters. Non-residents spending no time in Alaska would not pay any Alaska state income tax. This was his understanding and he agreed to furnish further information on this to the committee. Mr. Specking wondered if ferry employees could be required by law to be Alaska residents, and Mr. Boetsch said that he thought that would violate the federal inter-state commerce law.

Taking a further look at the original bill itself, Mr. Boetsch referred to line 17 of page 13, where the word "allow" is deleted and replaced with "require." He explained that the reason for this is that they have found in cases where companies have financial difficulties that there may be problems with quarterly collections and so they want the ability to require a company to pay on a monthly basis. Mr. Ose asked why they don't want the wording to be "shall require" rather than "may require" and Mr. Boetsch said that they want this to be an option and do not wish it to be an absolute.

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In Section 9 there is little/change from the existing statute but are certain important changes. In Paragraph (a), it is provided that amounts of income and particulars set out and disclosed in a report or return can be divulged or made known in court only in a proceeding involving collection of these taxes and not just any court proceeding.

The next section provides that neither the original tax return nor a copy of it is admissible in evidence in court unless offered by the taxpayer filing the return or by the state in action to which the state is a party for the purpose of enforcing a tax imposed by this title or as otherwise authorized by the Internal Revenue Code.

Section (e) line 17 allows the commissioner of revenue to share information with the Multistate Tax Commission information contained in tax returns, reports, and related schedules and

and documents filed pursuant to an audit or investigation made by the Department. The thrust here is that this is solely for tax purposes, which has not been the case in the past and is a bone of contention. This removes the ambiguity.

Mr. Boetsch went on the Section 10, which he explained is an addition to the penalty statutes and simply says that penalties will be collected in the same manner as taxes. This will make for more consistent handling of penalties.

Section 11 is the addition of a section of definitions to further clear up any ambiguities that might be caused by misunderstanding of definitions.

Mr. Specking asked what is meant by a "natural person" and Mr. Boetsch said that is a word distinguishing between human beings and corporations which are also referred to as persons, legally.

The amendments on page 16, the deletion of Secs. 12 and 13 and insertion of Secs. 14 - 17 are merely renumbering of those sections and changing of the dates from last year to this year.

There being no further questions of Mr. Boetsch with reference to HB 171, Mr. Peter Kline, a Juneau CPA, was requested to testify on the bill also.

Mr. Kline said that he has contacted CPA's in Anchorage as to their feelings about this bill. He said that primarily the purpose of this bill is a housekeeping measure for the Department of Revenue and that there is very little impact on the profession. There is however one exception to this.

This exception is on page 12, where the bills defines income from sources in the state. The objection relates directly to non-residents, in subsection (3) which reads "income from stocks, bonds, notes, bank deposits and other intangible personal property having a business or taxable situs in the state." This basically means that savings accounts and similar accounts of non-residents will be taxed by Alaska and Mr. Kline said that he feels that this will drive a significant amount of money out of the state. He mentioned that he has seen a lot of people retire and move out of Juneau but leaving their money here. He said that if this relates to a state also with an income tax, Alaska income would also be taxable to a resident of that state. The computation of this, he said, would be horrendous.

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Mr. Boetsch was asked to comment on the point raised by Mr. Kline and Mr. Boetsch said that he feels this is a question that should be for the legislature to make a policy decision on what they want to do.

Mr. Freeman asked what kind of money is being talked about, and Mr. Kline said that he has no idea. In response to questioning by Mr. Specking, Mr. Kline said that this would include individuals as well as businesses.

HB 172

Mr. Kline was asked to comment on HOUSE BILL 172 (Relating to computation of taxable income under the Alaska net income tax). Mr. Kline said that what he thinks the real intent here is primarily to do with the pipeline. He said that he feels it will have quite a bit of impact on some of the smaller industries of the state. He noted that around 1968 the U.S. Congress repealed investment credit except allowing the first \$20,000 of qualified investment and he would like to see HB 172 amended so that the first \$50,000 of qualified investment is exempted.

Mr. Boetsch was asked for his comments on HB 172. He said that the bill repeals the investment credit law. To Mr. Kline's proposed amendment, Mr. Boetsch said that that would have to be a policy decision of the legislature. The primary thrust of this bill, he continued, is aimed at protecting the state revenues. Provisions of the bill will act as a sort of "circuit breaker," he said.

Mr. Specking asked what has to be done to provide amount of the investment credit Mr. Kline was talking about, and he requested Mr. Boetsch to come with a suitable amendment to do that.

Mr. Saylor, at the suggestion of the Chairman, requested the staff to prepare a committee substitute on HB 171 incorporating all the amendments Mr. Boetsch had mentioned but excluding the provision to which Mr. Kline had objected.

Meeting recessed at 9:50.

HOUSE FINANCE COMMITTEE

February 13, 1974

8:35 A.M.

PRESENT All members of the Committee except Representatives Warwick and Haugen. Mr. Ray Preston from the Attorney General's Office was also present. A Budget and Management employee was also present.

HB 504 Chairman Freeman called the meeting to order and said that HOUSE BILL NO. 504 (An Act making a \$67,900 supplemental appropriation to Office of the Governor for State Energy Office) would be taken up for discussion. The bill had been assigned to Mr. Barber, so he asked Mr. Barber to conduct the meeting.

Mr. Barber explained that the bill was a supplemental appropriation of \$67,900 to the Office of the Governor from the 1st of February to June 30 for creation of an emergency State Energy Office to be composed of a Coordinator, an Assistant Coordinator, and a secretary in three of the major cities in the State. He noted that the Committee had copies of the fiscal note on the Bill. He asked Mr. Ray Preston to fill them in on the spaces in connection with the bill.

Mr. Preston explained that for the past 3 to 3 1/2 months he has been working with the Governor's Office on this recent energy crisis and fuel shortage problem. The Energy Petroleum Allocation Act and the regulations promulgated under it have designated to each state a specific role in administration. In order to do this, it is necessary to have more staffing, a State office capable of administering each of the regulations established by the Program. The State has been delegated the responsibility of operating a "set aside" in each of the five program areas established by the federal program. There are different areas for each of the different fuels. This State has set aside in the amount of 4% of the petroleum in the State for a period of one month. The purpose is to meet the immediate short term needs that should arise. People will contact the State Office and fill out a form designating their needs and it is the responsibility of the State Office to determine whether or not an individual person or business is to be allowed part of the State set aside. He stressed that the set aside begins and ends each month.

Mr. Preston stated that the federal energy outfits had talked to the Governor about establishing a Deputy Regional Administrator in Alaska. That means the Deputy of the federal energy office would have the responsibility for making decisions that would otherwise be made in Seattle.

The staffing for the federal side of the program will consist of 6 persons. (Mr. Preston noted that might recently have been raised to 8.) The breakdown would be 2-3 in Anchorage, 2 in Fairbanks, and 1 in Juneau. The Governor responded to that by suggesting

that the State would have 6 persons as well to administer these programs. The breakdown would be the same as the federal--2-3 in Anchorage, 2 in Fairbanks, and 1 in Juneau.

Mr. Preston said that to head up the State side of the force a range 21 position was calculated. Personally, he thought that entirely too low. On the federal side the Regional Deputy was to receive a salary of \$35,000 taking into consideration the cost of living adjustment made for federal employees. He thought whoever headed up the State side of this Office must be a competent, "thick-skulled" individual with qualifications which exceed that which they could obtain from a range 21 employee.

Mr. Saylor looked over the fiscal note, and commented that it showed the breakdown in placement of positions as 2 in Anchorage, 2 in Fairbanks, and 2 in Juneau. Mr. Preston had not seen the fiscal note.

Mr. Saylor thought it sounded like three independent coordinators. Mr. Preston said one person would head up the whole state function, and probably would be located in Anchorage.

According to the fiscal note, Mr. Saylor said there would be 8 people: 3 range 21's--one in each location, 2 range 16's, and 3 range 10's. The head person would make 9.

Mr. Preston replied that the additional people in the note were probably secretaries, not originally brought in when the Governor was talking about matching the number of employees with the federal.

Mr. Saylor thought it looked like each office would be operated individually. Mr. Preston said there had to be an individual in charge of all of the state set aside, because there was a single amount set aside each month and chipped away at. There had to be a coordinator to know how much was left and how much could be used.

Mr. Darber asked whether, to the best of his knowledge, there had been a person designated as coordinator yet. Mr. Preston said there hadn't been one hired.

Mr. Preston went on to say that right now the State has a set aside in the amount of 3% of all the gasoline to be sold for this month. Shortages have already occurred.

Mr. Barber asked what the six positions would consist of, and Mr. Preston said persons who have functions to receive and move on these applications.

Mr. Specking commented that he was categorically opposed to the concept that we have to match number of dollars to federal number of dollars and number of employees to federal employees. He noted that the Governor had established this office on January 24. He

wondered why the Governor hadn't come in with a change of funds and gone to Budget and Audit. He then asked how many applications for this set aside were on hand now. Mr. Preston explained that up until now the problems have been taken care of informally. Forms are not yet available.

Mr. Specking asked when they were talking about funding this. Mr. Preston answered it was necessary to do it as soon as possible. He said that given the nature of the current fuel shortage and particularly what is happening with gaspoline, the wave will be coming to Alaska. He couldn't tell them how soon, but it could hit anytime.

Mr. Specking asked the role of Standard Oil in the new regulatory agency they are talking about. Mr. Preston said they would mainly be called upon to mandatorily distribute fuel to their dealers. They will have to go by what they were supplying in 1972 except with residuals which will go by 1973.

There was some discussion, which Mr. Specking summed up by saying the new agency would be consumer versus dealer rather than dealer versus wholesaler.

Mr. Preston said that was right. For example, a new home owner who couldn't get fuel from any supplier would be able to go to the State office and they would order the dealer to give fuel.

Mr. Freeman agreed that logically somebody was going to have to head up the Agency. He wondered if it could be in-house.

There was some discussion of this. It was thought that it would probably be someone in-house, probably in the Governor's Office or the Department of Law. It was decided that they should find out.

Mr. Freeman asked Mr. Barber to do some checking on the matter and report back to them.

RECESS

Meeting recessed at 9:12 A.M.

HOUSE FINANCE COMMITTEE

February 14, 1974

8:35 a.m.

Present: Chairman Oral Freeman, Representatives Barber, Specking, Ose, and Saylor. Representative Meekins entered the meeting at 9:05 a.m.; Representative Ferguson entered the meeting at 9:12 a.m. Also present were Milt Barker, House Fiscal Analyst, Kent Dawson, Fiscal Analyst, J. H. Hogan, Director, Legislative Finance; Mr. Wayne Weeks and Mr. Ron Lind, Division of Budget and Management; Mr. Ray Preston, Office of the Attorney General; Representative Orsini. Speaker of the House, Tom Fink, entered the meeting at 9:20 a.m. Mr. Josh Wright was also present.

Chairman Freeman called the meeting to order and stated that although a quorum was not present at this time to take official action, testimony would be presented on three pieces of legislation to those Committee members present.

HB 504

The first order of business was further testimony regarding HOUSE BILL 504, An Act making a supplemental appropriation to the Office of the Governor in the amount of \$67,900 to finance state energy office activities for the fiscal year ending June 30, 1974.

Mr. Ray Preston from the Office of the Attorney General appeared before the Committee to present further testimony on HB 504.

Representative Barber referred to yesterday's discussion on the bill (see bill minutes 2/13/74, 8:30 a.m.) and asked Mr. Preston if the question of the Coordinator for the State Energy Office had been resolved. Mr. Preston stated that one person would be in charge of all the state "set aside"; it would be a difficult responsibility deciding who would and would not receive fuel, and Mr. Preston said he suggested that the person coordinating the effort should be on a Director's level and located in Anchorage. He stressed that this program will be fairly complicated to administer and will therefore require the abilities of a competent individual.

Representative Barber again asked what individual would head the effort, what his title and salary will be, and the location of the position. Mr. Preston stated that there appeared to be a "missing person" here; whether that is true or not would be for the Committee to decide. Representative Barber pointed out that the Fiscal Note on the bill did not designate any position which would oversee the program.

Representative Freeman pointed out that they had their opportunity to request an additional position to coordinate this effort. He added that someone already on the Board will most likely have the final authority.

Mr. Dawson informed the Committee that he had spoken with Mr. Bob Ditman, Executive Aide to the Governor, who had told Mr. Dawson that the Governor's Executive Director would be designated to oversee the energy office.

Representative Specking stated that bureaucracy was the result of government not being able to absorb anything new; he said it was evident in this situation where everyone is so pushed to the limit of their responsibilities that any new concept cannot be taken care of in-house.

There being no further questions put to Mr. Preston, Representative Barber thanked him for appearing before the Committee. Mr. Preston left the meeting.

HB 453

The next order of business was consideration of HOUSE BILL 453, "An act relating to legislative per diem; and providing for an effective date."

Representative Orsini was present to testify on the bill. He told the Committee in lieu of subsistence (collecting bills for hotels, meals, etc. and being reimbursed for same), the state offers employees per diem while out of town on business. Mr. Orsini then stated that Juneau legislators receive per diem during legislative sessions although they remain in their area of permanent residence. Such a fact changes the concept of per diem to the concept of "pay" or salary.

Mr. Orsini stated that at present, supposedly, per diem is given to legislators by the Legislative Affairs Agency to prevent enumeration of expenses while traveling; if a legislator is on official business within 35 miles of where he lives, presumably he will not have any overnight or extra restaurant costs; therefore, \$15/day (being an "arbitrary figure") is reasonable for legislators who permanently reside within 35 miles of the capital city.

Representative Orsini then informed the committee that the Internal Revenue Service has decided that because of the situation where all legislators receive \$35/day, the \$35/day will be considered income instead of per diem. Mr. Orsini said this results in having to enumerate all expenses and raises the cost for all items for which legislators have purchased but for which they may not have a receipt.

Representative Orsini then informed the Committee that he had spoken with Mr. McVay, Chief of the Anchorage Office of IRS. Mr. McVay had told Mr. Orsini that an employee need not report per diem up to \$36/day. The 35 mile limit outside of the capital city before collecting per diem would satisfy the IRS that the money is indeed per diem and not salary. This would benefit all legislators except those from the Juneau area.

Representative Orsini then stated that many constituents in Anchorage and other parts of the state feel that legislators are making too much money. He then said that legislators are in a better position if they adopt this bill and the IRS and agencies consider the money involved per diem expense.

Representative Orsini stated that he felt there wasn't much chance of seeing the bill passed from the Senate Finance Committee, but he thought he might have a chance to see the bill get through the House. He added that he had not heard any arguments against it.

Representative Specking said that the IRS is enforcing a provision in a manner contrary to what the law says based on what three people do. Mr. Specking said it is not necessary to change anything in existing statutes except the IRS's attitude of interpreting that the law must be changed because of the three legislators residing in Juneau. He said the IRS can make a change without this bill; the bulk of legislators meet the criteria in existing statutes.

Representative Orsini said he had explained the situation to IRS; it was learned during the interim (from discussion between Henri and Roddy) that the \$35/day per diem would be considered income and put on the W-2 forms because the people who break the rule nullify the rule; the money will not be considered per diem because all legislators are receiving it. Mr. Orsini said the wording in this bill is the wording required (according to IRS) to change the statutes.

Representative Specking said it was his understanding that the \$35 per diem was automatic and no record keeping of expenses was required, but the language in the bill does not state that the IRS would allow a maximum of \$35 with no record keeping. Mr. Specking said it appears that the IRS has never been very positive about stating that the rest of the legislators have the right to spend \$35/day without record keeping. Representative Orsini noted that a portion of the bill language could be construed as discriminatory against legislators if the ruling is not applied to all state employees; it could, therefore, be challenged due to inconsistent treatment of state employees. Representative Specking agreed. He added that this concept has been proposed only because three people do not fit into the criteria. Representative Barber stated that Budget and Audit

Committee per diem is put in a travel statement. It might therefore be possible for all legislators to put in a book-keeping claim in a similar manner.

Representative Orsini said that if they allow \$35/day to businessmen who don't have to itemize, then it is inconsistent with what is permitted to legislators if this bill is passed.

Mr. Josh Wright stated that state employees travel for only short periods of time; legislators travel for a three or four month period. He said that although itemizing may not be necessary now, an audit can arise when the individual must present something to account for substantial spending.

(Representative Meekins entered the meeting.)

Representative Freeman stated that this bill will remain in Committee until five people can vote on it, but he had no objection to reporting it out at that time. Representative Specking agreed.

Representative Barber questioned whether \$15/day is adequate for a legislator within the 35 mile radius of his residence. He stated that there are many business expenses that \$15 may not cover. Representative Orsini stated that the question is what is a reasonable average, and is that per diem or legislative expense?

Mr. Hogan showed a state employees' travel voucher to the Committee members. He stated that Budget and Audit Committee members are also required to complete similar vouchers for travel. Mr. Hogan then stated that the IRS is concerned about legislators returning to their districts during the legislative session; there is no certification of attendance during legislative days. Legislative Affairs would have to take better steps in their record keeping, and this would mean legislators being checked in and out. Unless this were done, the IRS would have an argument; record keeping would have to improve.

(Representative Ferguson entered the meeting.)

Representative Specking stated that if the bill were passed, the Committee would be doing exactly the same thing that the IRS is doing--taking punitive action against three legislators. Mr. Specking added that this would take away the Juneau legislators' options of itemizing their per diem. Representative Ose pointed out that many legislators return home on weekends and are collecting per diem on personal business. Those trips must be justified.

Representative Orsini pointed out that from his understanding, all legislators will be required to account for every penny. The intent of this bill is to stop at least a portion of that--mainly per diem accounting. Regarding trips home, Mr. Orsini

stated that legislators will get only \$15/day per diem; to prevent a bookkeeping hassle, Legislative Affairs will still present a \$35/day per diem to the individual, but the individual would return a \$20/day check to the Legislative Affairs Agency at the end of the month. When accounting to IRS, the legislators' cancelled checks can be presented. Mr. Orsini stated that this would be easier bookkeeping than accounting for every "hamburger" bought in Juneau. Mr. Orsini added that he had heard reference to this bill as taking punitive action against Juneau legislators; Mr. Orsini said that because of the three Juneau legislators, the present situation was punitive against all other legislators who would now be forced to account for everything.

Representative Ose then informed the Committee that he would have several materials from the Department of Revenue to present to the Committee at a later time, but he had been informed by the department that the legislators did not have to "worry" about the \$35/day per diem; it was the \$4,000 in expenses.

Representative Barber pointed out that those legislators who wish to return home during the legislative session and maintain apartments or hotel rooms by the month or duration of the session in Juneau are still paying out room rent whether in Juneau or not.

Representative Specking concurred with Mr. Ose in that the government was concerned about the \$4,000 in expenses rather than \$35/day per diem. Representative Barber stated that the government was concerned over both per diem and expenses.

There being no further discussion on HB 453, Chairman Freeman told Mr. Orsini that the Committee would take the bill under advisement at a later time.

Representative Orsini left the meeting.

HB 4

Speaker of the House, Tom Fink, then appeared before the Committee to discuss HOUSE BILL 4, "An act providing for state chartered credit unions."

Representative Fink told the Committee that Mr. Samples from the Alaska Federal Credit Union (union credit manager), wished to present testimony on the bill when it came up for consideration in Committee. Mr. Fink stated that they were concerned over language of the bill. He then referred to page 3, Lines 4 and 5; he said the credit union is concerned with the words "but are not limited to" and hopes they will be deleted from the bill. Mr. Fink explained that those words could result in a large and aggressive credit union "eating up everybody else". He stated that Elmendorf credit union has offices in Anchorage, Denver, and Okinawa; the business is second to only two other institutions in the state--National Bank of Alaska and First National Bank. Mr. Fink said that other credit unions in the

state feel that Elmendorf should be limited to military only. Mr. Fink then stated that if Alaska needs another state credit union law, he would like to see limitations on size. He added that Elmendorf is a tremendous institution which pays no (or next to no) taxes; space, heating and lighting are free.

Mr. Fink told Mr. Freeman that he did not think the state needed additional credit union laws, but more remote areas of the state may want them--they do not want to file for a federal credit union. Mr. Fink said he objected to non-profit organizations competing with profit-making organizations; the former do not pay any taxes. He then said that the Elmendorf Credit Union manages to be in existence now through federal charter. He added that all credit unions in the state are federal including the State Employees' Credit Union.

Mr. Fink explained that non-profit making credit unions were started in religious and farm co-ops where adequate credit facilities were not available. There is no overhead, and all profits are paid out in dividends--therefore, no profit or tax. Mr. Fink stated that when there is \$70,000,000 on deposit and advertising, many times these credit unions have more money than banks.

Representative Specking asked if the Elmendorf Credit Union is involved in the home financing business. Mr. Fink replied that in Anchorage they were. He added that this type of credit union is designed to create credit where commercial institutions didn't exist; he thought that they served a useful purpose in those areas, but when they reached the size of the Elmendorf Credit Union and did not pay taxes, then it becomes unfair competition.

Mr. Fink told the Committee that in order to join the Elmendorf Credit Union, it is necessary to be in the service or work on the base. He added that the ECU has reasonably good management and pays good interest.

Mr. Fink again stressed that an institution such as the ECU is appropriate where no other vehicle is available; but when they reach the size of the ECU, they should be treated as a commercial institution.

Representative Meekins asked Mr. Fink what the purpose of this bill is. Mr. Fink replied that some people feel the state needs a facility for state credit unions like state banks, etc. He said that many credit union managers now believe that this bill will permit Elmendorf Credit Union to take over other credit unions.

Representative Specking asked why it was necessary to have this law when a federal law already exists. Representative Ferguson stated that the House passed a similar bill in 1972 which did not pass the Senate. He told Mr. Specking that the federal

provision does not cover as much as the state provision. Mr. Fink stated that he presumed this would be a broader law; he said credit union managers say that this gives them full trust powers which they do not have under federal law.

There being no further discussion, Mr. Fink left the meeting.

Representative Freeman noted that Representative Warwick chaired the subcommittee on HB 4. He then stated that due to Mr. Warwick's absence for the remainder of the week, Representative Ferguson could arrange for the appropriate people to testify before the Committee on this bill, if he so wished. Mr. Ferguson stated that he would contact the witnesses to schedule hearings from one and-a-half weeks from now.

February 19 (Tuesday) was scheduled to consider further HB 171 and HB 172. Representative Saylor stated that he had asked Mr. Hogan to arrive at some new methods concerning revenue sharing. He said he would like to have the Committee members review the different approaches and discuss them on February 20, Wednesday morning.

Chairman Freeman stated that he understood that there will be Impact Committee bills introduced regarding their approach to the Impact Budget as far as revenue sharing is concerned. He said that when those bills are referred to the Committee, Representative Saylor can take up Mr. Hogan's ideas at that time.

Chairman Freeman announced the meeting of the House and Senate Finance Committees with the School Board Association superintendents in the Governor's Conference Room at 1:30.

Recess

There being no further business at this time, the Committee recessed at 9:45 a.m.

HOUSE FINANCE COMMITTEE

February 15, 1974

8:30 a.m.

Present: All members were present with the exception of Reps. Warwick, Haugen and Ferguson. Reps. Meekins and Ose were not in attendance at a major portion of the meeting due to subcommittee work but they did enter the meeting when a quorum was required. Also present were Reps. M. Miller and Banfield, Rod Pegues of the Attorney General's Office, and Mr. Fackler of the Department of Natural Resources.

HJR 74

Chairman Freeman called the meeting to order at 8:30. He explained that the purpose of the meeting was to discuss and hear testimony on HOUSE JOINT RESOLUTION NO. 74 (Supporting S. 1622 and HR 7121).

Representative Banfield introduced Mr. Pegues, of the Attorney General's Office, explaining that he was formerly the Assistant National Park Director for this region. She showed the committee members copies of a map showing the land being proposed as a national park.

She explained that the reason that this resolution has come to Finance is that the Speaker has some concerns that this will prevent the Yukon Taiya project for ever going in. She asked Mr. Pegues to present his views on the proposal.

Mr. Pegues said that the legislation provides for establishment of this area of land (Chilkoot Pass) as a national park. There is nothing in the act which prohibits the Yukon-Taiya project. Park planners and the power people went over the plans together to determine how the park could be planned so that there would be no conflict. The only area of conflict had to do with a place called Canyon ~~Sea~~ which the Power people had anticipated using to materials and they have decided not to and have found another location.

Mr. Freeman said that it is his understanding that once a park is established it is almost impossible to build a road. Mr. Pegues said that a road is being built up the west White Pass. The route is being located now by state highway planning with the park service planners working with them. Chilkoot Pass is not a feasible path for a road anyway and of course, he noted, there is no need for more than one road.

Mr. Freeman asked about transmission lines and Mr. Pegues said there is no conflict there.

Mr. Freeman asked if there is anything in the bill that makes either Mr. Miller or Mrs. Banfield hesitate as far as Yukon-Taiya. They both answered no.

Mr. Miller noted that the people of Skagway -- who of course are very supportive of Yukon-Taiya -- are also behind this action,

and do not see it as a threat to this project. Mrs. Banfield added that the people of Haines feel the same. She said that she sees no way that this national park could stop the building of the dam.

Mrs. Banfield stated that another concern raised by the Speaker was that he is reluctant to see any more land tied up in national parks. She noted, however, that this is a relatively small amount of land and furthermore, is not land anyone would ever live on. In addition, she emphasized the historic value of this area and expressed the feeling that it would be a great loss to the state should it "go to pieces."

Mr. Freeman indicated that he shares the Speaker's concern over vast quantities of Alaskan land being turned over to national parks, particularly if it is not at the request and desire of Alaskans. However, he felt more positive about this if in fact it is supported by the local people.

The Chairman asked Mr Fackler for his position on this. He said that the Department has no objection.

Mrs. Banfield noted that she tends to agree also on not turning over a lot of land to parks, but she feels this is very important and worthwhile.

Mr. Miller said that the state will not be giving up any land. This is land which is only tentatively approved, and if it becomes a national park, the state will get to select an equal amount of acreage elsewhere in the state.

Messrs. Fackler and Miller and Mrs. Banfield left at this time. Mr. Ose and Mr. Meekins came into the meeting to vote on the bill.

Mr. Barber moved and asked unanimous consent that HJR 74 be reported out of committee with a "do pass" recommendation. There being no objection, it was so ordered.

Meeting recessed at 9:00 a.m.

HOUSE FINANCE COMMITTEE

February 18, 1974

8:30 a.m.

Present: All members were present with the exception of Rep. Ferguson, who entered the meeting shortly after it began. Also present at the meeting were Mr. Dwayne Carlson, lobbyist for the Alaska State Federation of Labor, Mr. Dalby, Director of the Employment Security Division, Mr. Finley, Assistant Director, and the press.

SB 357am Chairman Freeman called the meeting to order at 8:30 a.m. He said that Mr. Meekins had requested that SENATE BILL 357am (Extended unemployment compensation) be brought up for discussion and asked Mr. Meekins for his comments.

Mr. Meekins said that the reason for hurrying this bill through is that there is apparently a time limit. The bill has already passed the Senate. It extends the deadline for receiving unemployment insurance and allows for pick up of some federal funds.

Mr. Barker, fiscal analyst, was asked for his comments. He stated that the extended unemployment insurance benefits will be financed 50% by the federal government. The Department has estimated that there will be about 1000 people who will be eligible for these extended benefits. Most of this will be paid from the Unemployment Insurance fund, which is employer-employee financed. The only general fund impact will be because of the University of Alaska, Harborview, and API's benefits being carried by the state.

Dept. of Labor personnel came in at this time.

After introductions were made, Mr. Finley began his explanation of the bill. He said that there is federal legislation, PL93-253, which removes the 120% restriction on extended benefits for a certain period of time. It is, however, necessary for the state to remove the restriction from its statutes in order to be eligible for these monies. He explained that doing so will enable the state to "trigger in" to these monies from January 1, 1974, to March 31, 1974. This will allow payment through the first week in April (finishing out the week beginning March 31). No payments will be made after that time unless the federal government extends again. If they do so -- and there is talk of such an extension -- it will be necessary again for the state to follow suit if they wish utilization of these benefits. The total cost of the program is \$352,000, with the federal government picking up 1/2 of that. Mr. Finley explained that to determine benefits they take a 13 week moving average and two previous year's salary and average them and this must be 20% more than they were getting two years ago.

Mr. Specking asked how much would be spent in general fund and

Mr. Finley said that \$2500 will come out of the general fund to pay claimants against API, University of Alaska, and Harborview. Mr. Specking asked why they are different and Mr. Finley said it is because of federal legislation passed in 1972 (PL91-373) making special reimbursement or tax rate for state universities and hospitals. The Governor chose the reimbursement of the fund.

Mr. Saylor asked what the cost will be if the bill is not passed, and Mr. Finley said that there will be none, as the people will not be eligible for unemployment insurance. He explained that these are people who have exhausted their benefits and are not eligible for any further benefits during this time.

Mr. Carlson was invited to testify. He said that the Federation of Labor is very strongly supportive of this bill, particularly as amended by the Senate (making the date retroactive). He said Fairbanks is the area primarily affected, with their large unemployment.

He stated that the Federation opposed the 120% when it was passed, because they felt that Alaska would never trigger in. Normally the state runs about 11% unemployment and was caught at a high point when the 120% was set. This will give a change to give people some support. He emphasized that the money the state portion of this will come from is the Unemployment Fund, which was set up for paying people out of work and which can bear the additional draw for these extended benefits.

Mr. Freeman asked if anything is changed permanently and he was answered no.

In response to questioning by Mr. Warwick, Mr. Finley said that there is legislation in the mill to remove the 120% from the federal books.

Mr. Warwick asked for a further explanation of extended benefits. Mr. Finley explained that claimants can receive 13 weeks of their legal benefits. They could not receive more than 39 weeks total. If an individual has a 26 week entitlement he could receive 13 weeks additional, making the 39 week maximum. An individual cannot receive more than 50% of his entitlement under extended benefits.

Asked who would be eligible for the retroactive extended benefits, Mr. Finley said anyone who has exhausted his benefits. However, he noted, claims cannot be backdated. He said that the Department of Labor supports this legislation.

Mr. Meekins moved and asked unanimous consent that SB 357am be reported out of committee with a "do pass" recommendation. There being no objection, it was so ordered.

Recess: Chairman Freeman, after some discussion on scheduling of meetings, recessed the meeting at 9:05 a.m.

HOUSE FINANCE COMMITTEE

February 18, 1974

1:40 P.M.

PRESENT All members of the Committee except Representative Meekins.

HB 461 Chairman Freeman called the meeting to order and stated he had been requested to bring HOUSE BILL NO. 461 (An Act relating to the state's royalty in oil and gas) up for discussion. There being no objections, he did so.

Mr. Warwick moved and asked unanimous consent that they report the bill out of committee. Mr. Specking objected for the purposes of discussion.

Mr. Specking wasn't sure the language made sense. He thought that what they were really talking about was a resolution that before they enter into a contract to dispose of crude oil, they make certain the State has the right of first refusal of the finished product that came out of that crude. He thought that was the intent, but wasn't sure the wording was adequate.

Chairman Freeman called an at ease at 1:43 P.M. so they could locate Mr. Hartig, the sponsor of the Bill, and have him testify.

Mr. Hartig arrived at 2:00 and explained that the purpose of the bill was to assure there are adequate reserves of oil and gas in the State to supply domestic and industrial needs. It wasn't his intent that the State of Alaska be put in a position that they would have to supply need by royalty oil, only as a last resort. In the case of oil and gas under contracts and Title 38, they can take in-kind or accept value. There is a problem with natural gas because the gas companies have to make long term contracts and will come to the State and ask them to commit gas for 20 to 25 years. Before the State enters into this contract, they must be assured there is sufficient reserve gas to supply domestic and industrial needs, and this reserve must be readily available.

He went on to say that what they were asking is that the State, before entering into a contract like that for royalty oil or gas, that he be assured that reserves are available (not all committed). To go one step further, if one industry had committed oil or gas to be sold in the lower 48, then the State would accept oil in kind to satisfy that need.

Mr. Hartig said the bill would take off the political pressure that will be placed on whoever is in charge of granting those contracts.

Mr. Warwick asked what would happen if it were determined there were insufficient reserves to meet immediate needs.

Mr. Hartig said the State would then enter into a contract with a clause that gives them the opportunity to phase off on this if they should need it for industrial or increased domestic needs.

Mr. Warwick asked if it would prohibit us from selling our oil to Tesoro right now (except for the fact there is an existing contract). He wondered if that would be desirable since Tesoro sells products in Alaska.

Mr. Hartig replied that in that contract the problem had been the State had wanted to establish a refinery in Alaska and the Industry wasn't willing to supply that oil. Should the state decide they want to establish a refinery in Fairbanks, and the industry is not willing to take that on, the State will have the right to take their oil in kind.

Mr. Warwick wanted to know how this would work. He wondered if it meant rather than selling to Tesoro they would contract with them to refine it and give the finished product to the State. Mr. Hartig said no. He explained that if someone came to the State saying they wanted to establish a refinery in Fairbanks, it would have to be favorable to the State. He didn't want to see the State forced to have to establish it using royalty in kind just because someone wanted to establish a refinery. If it is in the best interests of the State to do it, it is one thing, but if the State is forced to take it at a lower price that is another thing.

Mr. Specking thought they were talking about two different things. He said Mr. Hartig's bill did exactly what he was telling them, but what Mr. Specking was wondering about was whether or not he sought to protect supplies of refined oil and gas for industry and consumer use. Mr. Hartig said NO. He said they couldn't do that under the new Federal Energy Office regulations. Refined products are controlled by the Federal Government. If the State were to pass a resolution concerning that, the Federal Government would get on top of them. The only control the State has is over royalty oil and gas as to taking it in kind.

It appeared to Mr. Specking this would apply more to gas than oil. Mr. Hartig said that was right.

Mr. Hartig went on to say that the House Resources Committee passed the bill out with unanimous consent. He said they had had testimony from the Department of Natural Resources who said they were happy with it. He said it really took political pressure off of the Governor or whoever would be negotiating the contracts.

He said there had been talk that it should be done only with the permission of the Legislature, but he didn't think that was the place for it, because it would tend to become political in nature again.

Mr. Specking wanted to know how the Bill would protect them if there were insufficient reserves available to supply the State's needs.

Mr. Hartig thought he could best explain by using an example. For instance, if Anchorage Natural Gas hasn't made long term contracts sufficient for the needs of that area, then the State would put pressure on them to make sure that they did. If they didn't, the State would make them supply first to local and industrial needs and take it in kind.

Mr. Barber was concerned that it didn't say that such a determination be subject to review in any number of years. He thought it contemplated one determination at the time of the letting of the contract, and no future determinations.

Mr. Hartig said that Paragraph (e) says there would be sufficient reserves of oil and gas ready to supply the State's long-range needs. It was his intention that would realize it. He said that if he were the one to draft the contract under this law, he would be sure to put in an escape clause.

Mr. Barber felt the Commissioner should determine the current status of the State of Alaska's oil and gas. Mr. Hartig asked him if he thought Paragraph (f) didn't do that. Mr. Barber didn't think it did. He felt it should say the Commissioner should annually determine it. Mr. Hartig agreed that might be appropriate.

Chairman Freeman said they would take the bill up for consideration again the next morning. Mr. Hartig left.

At 2:20 P.M. the Committee went into discussion of the budget. (See budget minutes, General Government Category).

HOUSE FINANCE COMMITTEE  
February 19, 1974  
8:30 a.m.

Present: All members were present with the exception of Reps. Meekins and Ferguson. Also present were Mr. La Rocca, Mr. Fred Boetsch from Department of Revenue, Mr. John Messenger from the Dept. of Law, Mr. Coffman from Alaska Federal Savings and Loan, and Mr. Tom Wilson, lobbyist for Marathon Oil.

Chairman Freeman called the meeting to order at 8:30, and explained that the committee would begin by going over House Bills 171 and 172. He turned the meeting over to Mr. Saylor, subcommittee chairman for those two bills.

HB 171

Mr. Saylor said that the proposed Committee Substitute for House Bill 171 (Act relating to the Alaska Income Tax) was a result of the Department of Revenue requesting certain specific changes in the original legislation. These changes discussed in earlier meetings, are incorporated in the committee substitute. He invited Mr. Boetsch to testify.

Mr. Boetsch said that the last time he had testified before the committee on this bill Mr. Kline, a CPA, had expressed some concern over the taxing of non-resident bank accounts in the state, fearing that those monies would be withdrawn if the people had to pay taxes on it. Therefore, the committee had considered totally deleting section 3 on page 12, which provides for taxation of income from stocks, bonds, notes, bank deposits and other intangible personal property. However, Mr. Messenger, of the Attorney General's Office, said that although it would take care of Mr. Kline's concern, that of protecting bank accounts for non-residents, it would also have a negative effect in that it might be a vehicle for corporations to get out of paying taxes on interest income from accounts receivable notes, stock dividends, etc. Therefore, another amendment was proposed, which would exempt nonresidents with bank accounts and not doing business in the state but which would insure that out-of-state corporations were not exempted.

Mr. Boetsch continued, referring to the proposed committee substitute which had been drawn up, and stated that they wish now to reinsert item 3 as it appeared in the original bill, and to then redo sec. b on line 16 so that it reads "For purposes of this section, income is from a source having a taxable or business situs in the state if derived from:" and then changing the tenses of the list that follows, and in item 7 deleting the period and adding "; however, the receipt of income derived solely from interest earned on property in the state does not alone establish a taxable or business situs in the state."

Mr. Ferguson entered the meeting.

Mr. Saylor moved and asked unanimous consent that HB 171 be replaced with CS HB 171 (incorporating the most recent amendments proposed by the Dept. of Revenue along with those incorporated in the committee substitute earlier proposed) and be reported out of committee. There being no objection, it was so ordered. Majority report was "do pass"; Mr. Ferguson signed "no recommendation."

HB 172 HOUSE BILL 172 (Act relating to computation of taxable income under the Alaska net income tax) was brought up for discussion. Mr. Saylor explained that the committee substitute which he had distributed to the committee retains the \$50,000 investment tax credit which Mr. Kline, speaking before the committee last week, had felt should be included and was not in the original bill. This bill also provides a retroactive date to January 1, 1974.

Mr. Boetsch said that he did not have too much to say about this bill and stated that the revenue effects of this bill will be minimal. Mr. Warwick asked if he knew just what the monetary effect will be and Mr. Boetsch said no, that he really would be unable to calculate that.

Mr. Saylor moved and asked unanimous consent that HB 172 be replaced with CS HB 172 and be reported out of committee. No objection, so ordered. Majority report was "do pass," with Messrs. Meekins and Ferguson voting "no recommendation."

HB 504 HOUSE BILL NO. 504 (Approp. to Office of Governor for State Energy Office) was brought up for consideration. Mr. Barber explained that this bill was requested by the Governor incidental to creation of the Energy Office and provides its funding for the remainder of this fiscal year. He said that earlier going through the bill they found that there was no director or coordinator and so the bill was returned to be redone. Now they have a new fiscal note and have the office set up with a director and three coordinators.

Mr. Ray Preston from the Attorney General's Office came down to discuss this bill. He said that they have now restructured so that there will be a director at range 26 and three coordinators at range 21. There will be two one-man offices, one in Juneau and one in Fairbanks, with one secretary each; and one two-man office, in Anchorage, with one secretary. He said that the restructuring has raised the cost slightly -- an additional \$200 making a figure of \$68,100. He said that the staff size is what is necessary to carry on a minimal operation.

He stated that if Congress gives the president the power to implement mandatory gasoline rationing, or assuming that before the end of the fiscal year we go to some kind of gasoline rationing

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program this will probably be the office to administer it.

Mr. Barber asked Mr. Preston if he feels that a range 26 for Director and a range 21 for Coordinator are high enough to attract qualified personnel and Mr. Preston said that he thinks so.

Mr. Warwick asked if 5 months is how long the bill will be for, and Mr. Preston said that actually it will now be only a little over four months. Mr. Warwick asked if they anticipate these positions being filled in March and Mr. Preston said yes, their timetable is to have this office functional by March 1.

Mr. Warwick asked what a "set aside" program is, and Mr. Preston said that this is when a certain percentage of the oil is set aside, there being different percentage amounts for different types of oil. The purpose of the "set-aside" is for use by the state in distributing to people making application for emergency and hardship assistance. He mentioned that there is no set aside for aviation fuel now but that the federal government is taking a look at that.

Mr. Meekins entered the meeting.

There was some discussion on just how serious the fuel shortage is, and the opinion was expressed that should Middle Eastern Oil be readily made available again there would be no problem. Mr. Preston said that they have been informed that that is not the case. He mentioned that demands are being put on domestic refiners, too, which will create serious problems with heating fuel. He stated that TESORO has been ordered to supply the military with 50,000 gallons of jet fuel. Mr. Warwick asked if they are aware of how important fuel needs in this state are, particularly in the winter. He asked if the state has taken a position on this demand, and Mr. Preston said that the Governor has sent a telegram. Mr. Warwick asked if the congressional delegation was informed of this and Mr. Preston said not to his knowledge.

Mr. Barber moved and asked unanimous consent that HB 504 be amended from the \$67,900 figure to \$54,500 (\$54,500 being approximately 4/5 of the amended Governor's figure of \$68,100) and reported out of committee. No objection, so ordered. Majority report was "do pass" with Mr. Specking voting "no recommendation."

HB 461

HB 461 (Amending AS 38.05.183-state's royalty in oil and gas) was also reported out of committee with a unanimous "do pass" recommendation.

Meeting recessed at 9:45.

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HOUSE FINANCE COMMITTEE

February 20, 1974

3:20 P.M.

PRESENT

All members of the Committee except Mr. Specking and Mr. Ferguson. Commissioner George Easley from the Department of Public Works was also present.

HB 425

Mr. Freeman explained that Mr. Barber had requested that Mr. Easley testify on HOUSE BILL NO. 425 (An Act making a special appropriation to the Department of Highways for preliminary engineering and design of the Knik Arm crossing). He turned the Chair over to Mr. Barber.

Mr. Barber asked Mr. Easley if it was conceivable that construction would become impossible very shortly. Mr. Easley emphasized that it would. He said there were two things catching up with them. The first was the labor market which was going to go out of sight. The other problem will be the shortage of construction materials.

Mr. Barber explained that HB 425 was a bill making an appropriation to Highways for preliminary engineering design for Knik Arm Crossing preparatory to design and engineering of a bridge crossing. The theory is to progress as rapidly as they can under the circumstances. He admitted they were short of funds, but he didn't want to let something go past them when they could be putting it to good advantage. He asked Mr. Easley's opinion.

Mr. Easley said the appropriation as such was a Dept. of Highways appropriation, however, it was a matter that had been close to his heart for a long time. He had no idea how the Governor felt about it. He said the idea of the Knik Arm crossing dated back 25 years. It used to be thought of as a causeway. In 1963 or 1964, the Dept. of Highways Engineer, a man named Smith, did a complete study of it. That was the first indication that it wouldn't be a causeway, but a bridge. Three years ago a feasibility study for the bridge was authorized. It indicated the total project would cost \$140 million for the most economical crossing. HB 425, as he understands it, provides for completion of engineering and publication of plans and contract specifications. It would then permit a technical cost estimate and ultimate advertising of the contract. The big problem is \$140,000,000 which has escalated probably 10% since the date of that report.

Mr. Easley said that one advantage of the bridge would be that it would cut travel time between Anchorage and Fairbanks by cutting out some 70 miles of driving.

He said that in the event funds should become available, the pro-

ject would have to be built in stages. He said it wasn't reasonable to spend the entire \$80 million in one year. It should be a long-range project.

HB 293

Mr. Specking asked if he would also testify on HOUSE BILL 293 (A Special Appropriation to the Department of Public Works for a feasibility study of ferry service across Knik Arm).

Mr. Easley said that construction of that bridge would take a good number of years if it was going to be done. In contrast, a ferry service could be initiated in three years. The great advantage of the ferry system is it would provide for ultimate development of State lands that exist there. He said Knik Arms was only two miles across, but 75 miles to get around it. In the event the ferry service was determined to be practical, he said it could later be extended to go across Turnagain Arm to the South.

Mr. Easley pointed out that the study would have to work out some very basic kinds of problem such as the ice problem before the ferry could be built.

He said part of the feasibility study would be a detailed cost analysis on the ferry. It would be difficult to make a decision now because they would have to know the travel demand. They do know it would have to be able to navigate 15 knot currents.

Mr. Barber commented that the ferry would be mainly a work type model of vessel--mostly a car ferry. Mr. Easley said it would be less than a ten minute crossing, so there would be no need to have any of the extras, like a coffee shop. People could just sit in their cars and then drive off.

Mr. Freeman asked if \$840,000 was a realistic figure for Knik Arms, and what kind of figure would be realistic for the Tongass Narrows Bridge in Ketchikan. He noticed that there is a bill for \$500,000 in the Senate, but said that he feels that must be very high comparing it to the Knik Arms figure. Mr. Easley said that he did not know, but that he thought that sounded like a high figure too.

Referring to the Knik Arms bridge, Mr. Warwick asked how long it would take to construct it, and Mr. Easley answered at least three seasons and probably four. Mr. Saylor noted that then they were talking about \$225 million rather than \$140 million, and Mr. Easley said that was probably so.

Mr. Warwick asked if this had to come out of Highway funds. Mr. Easley said that Anchorage has tried to fund this from other sources but they have been totally unsuccessful. They have tried the Corps of Engineers and the Bureau of Reclamation. The idea of a Tidal Electric Plant is not feasible because of tidal conditions and the fact that they would not allow for efficient power utilization--there would be a great deal of waste at certain times.

Mr. Warwick wondered if it might be possible to get special money from Congress. He asked if the Congressional delegation has been pursuing this, and Mr. Easley said that he didn't think so.

Mr. Barber asked if there has ever been an economic feasibility study indicating the various effects that the Knik Arm Bridge would have. Mr. Easley said not as such, as far as he is aware. Highways did a study but it was not a complex one and did not go into detailed needs and advantages.

Mr. Barber remarked that in the time he has lived in Anchorage the whole upper inlet has filled with mud. It is only a question of time, he feels, until the whole end of Knik Arms will fill towards Anchorage.

RECESS

Meeting recessed at 3:50 P.M.

HOUSE FINANCE COMMITTEE  
February 21, 1974  
Thursday  
8:35 a.m.

Present: All members with the exception of Representative Ferguson. Also present were the following: Milt Barker, House Fiscal Analyst; Kent Dawson, Fiscal Analyst; Representative Wilson; Lieutenant Governor H. A. "Red" Boucher; Mr. Larry Jones, Clerk Typist, Lieutenant Governor's Office; Representative McVeigh.

HB 480 Chairman Freeman called the meeting to order and stated that the first order of business on the agenda was consideration of HOUSE BILL 480, an act making a supplemental appropriation to the Office of the Governor, Lieutenant Governor for the fiscal year ending June 30, 1974--\$39,100.

Rep. Freeman announced that the Chairman of Legislative Council would appear later during the meeting to present testimony on this bill.

Lt. Governor Red Boucher then explained to the Committee that the \$39,100 was broken down as follows:

Administrative Code:	
Print FY 74 AAC Registers	\$20,000.00
Reprint 250 AAC sets	5,900.00
Coordinate continued update	7,500.00
Initiative Petitions - Verification	
Clerk III (3 months)	1,945.00
Two Clerical Aides (3 months)	3,749.00
	<u>\$39,094.00</u>

Mr. Boucher explained to the Committee that by law, the Alaska Administrative Code is the responsibility of the Lieutenant Governor's Office. In 1966, the legislature had instructed the Legislative Affairs Agency to bring the Administrative Code up to date and to put it in a more usable format. Mr. Boucher stated that the Alaska Administrative Code is one of the most important documents of the state; it consists of all regulations concerning all state agencies. The Administrative Code is reviewed during court cases, etc., to ensure that all departments are carrying through with their regulations.

Mr. Boucher presented one volume of the two-volume Administrative Code to the Committee. He stated that previous to the July, 1973 printing of these two volumes, the Administrative Code was spread throughout 45 volumes with no index. He added that the old volumes were not kept up-to-date; the new system would provide a quarterly system of updating, and the index to the two new volumes facilitates location of the regulations in the

## Administrative Code.

Mr. Boucher stated that now, his office does not have any money to print any updated changes for the code. He added that a certain amount of money carried over had enabled his office to hire, on a contractual basis, an Assistant to help with the printing of the Administrative Code. He stressed the importance of obtaining an Administrative Assistant (who could oversee all facets of printing and updating the code) in his office. He explained that the amount of money listed in this request would help provide for an Administrative Assistant through the end of this fiscal year. The person hired would be working on a contractual basis. Mr. Boucher told the Committee that his request for an Administrative Assistant in his office budget had been turned down three years in a row. He pointed out that the Lt. Governor's Office, being the second highest office in the state, should be able to hire an Administrative Assistant. He stated that as it is now, Mr. Jones, his Clerk Typist, is handling the Administrative Code business.

Mr. Boucher explained that regarding the printing of the Administrative Code and its updating changes, Division of Supply had received bids from the Book Publishing Company and MICHE; the Book Publishing Company prints 250 copies of the Administrative Code. One hundred of the copies come to the Lt. Governor's Office for distribution to state agencies, libraries, etc., free of charge. The remaining copies are sold to private individuals by the company. The state is not reimbursed for the sale of the copies to private buyers; the transaction is between the publishing company and the buyer only.

Mr. Boucher stated that the contract to print the Alaska Administrative Code was finalized with the Book Publishing Company on January 8, 1973. In addition to the initial reprint of the Code, this contract provided for printing the quarterly "registers" at \$27.00 per page and a possible second reprint of 250 sets at a cost to the state of \$5,900; he then stated that there are no more copies available for the public to purchase.

Mr. Saylor asked if the charge was the same price each quarter on the quarterly updates. Mr. Jones replied that they were charged by the page. Mr. Boucher pointed out that it is difficult to determine how many changes will be required during the first year; it was, therefore, hard to estimate a cost for page printing.

Mr. Boucher said the overseeing of this project should be accomplished by an Administrative Assistant on a contractual basis. He told Rep. Saylor that to some degree, travel is involved with this position to help coordinate the project in Washington. He stated that up until this time, Mr. Boucher's budget was used to fund that travel.