

HOUSE/SENATE FINANCE COMMITTEE MINUTES - 1967-1982 2555

HOUSE FINANCE COMMITTEE

April 16, 1974

8:30 a.m.

Present: All members were present with the exception of Representatives Freeman, Ferguson and Meekins. Also present was Rep. Wilson.

SB 379 Vice-chairman Ernie Haugen called the meeting to order in the absence of the Chairman. SENATE BILL 379 (Upland Game Bird Release Program) was brought up for consideration. Mr. Warwick said that Fish and Game didn't want this and so came up with an exhorbitant fiscal note. Mr. Specking moved and asked unanimous consent that the bill be reported out of committee. No objection, so ordered. He then moved that the bill be reported out with a unanimous "do pass" recommendation. No objection, so ordered.

Meeting recessed at 8:50 a.m.

After Recess

3:35 p.m.

All members were present with the exception of Reps. Freeman, Ose and Ferguson. Also present were Reps. Urion and Randolph, Mr. Chuck Hohman, Vice President of Coast Mortgage Company, Mr. Mick Dyer, President of Homebuilders Association of Alaska, Mr. Bob Swatch and Mr. Joe Sheffield, both in the building business, Mr. Mark Jensen, representing Associated General Contractors, Mr. Mike Coletta, and Commissioner Emmet Wilson of the Department of Commerce.

Acting Chairman Haugen called the meeting back to order, explaining that the purpose of the meeting was to hear testimony on HOUSE BILL 497 (Interest rates charged in the state). However, first HOUSE BILL 738 (Repealing the Alaska Business License Act and establishing the Alaska Business and Occupation Tax) was brought up for consideration. Motion was made to replace the bill with the 2nd Finance Committee substitute and report it out of committee. No objection, so ordered. Committee report for the committee substitute was "do pass". Not concurring was Mr. Meekins, signing "no recommendation."

Mr. Haugen then invited those persons present to testify on HB 497 to do so.

Mr. Chuck Hohman stated that HB 497 is an act which his industry considers fair, equitable, and which they feel will accomplish what needs to be accomplished for the development of the housing industry in the state. He expressed his very strong support for the Commerce Committee substitute to this bill. He feels this must

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be done now if they are to provide needed monies for the 1974 season. He said that mortgage companies will still be able to make a profit, although it will be more marginal, without this legislation; the small builders will be unable to get the money they need. Therefore he urged passage of the Commerce Committee Substitute for the bill.

Mr. Mick Dyer, President of Homebuilders Association of Alaska, testified also in favor of the Commerce Committee Substitute. He mentioned that larger homebuilders can get outside financing. This is not as realistic a possibility for the smaller homebuilder. Without change in the law, the interest rate will make it impossible for local institutions to loan the smaller builder money for interim financing. He said that they need the usury rate to be competitive.

Bob Squatch, another builder, testified as to the need for this legislation for the small builder. He emphasized the importance to the state as well as to the builder. Mr. Sheffield, yet another builder, testified, too, in favor of the Commerce Committee Substitute.

Mr. Mark Jensen, representing the Associated General Contractors, pointed out that present legislation will expire in April unless there is renewal. He emphasized the importance of a money supply for the general contractors. He reminded the members of a meeting some years ago with a wide cross-section of investment experts, during which the observation was made that to the knowledge of all those present, no state has ever been able to legislate cheap money. Keeping that in mind, various states have had various ceilings applied -- but they do not go up to that ceiling. He said that the only thing you do when you put a ceiling on a usury act in a state is that you penalize people from getting money. He felt this is the worst thing that the state could do at this time when the flow of money into the state is so important. He said that without any ceiling, the money would find its own level.

Mr. Wilson, Commissioner of Commerce, next testified. The Commissioner said that in the past most of the legislatures have been concerned about interest rates affecting small consumer-borrowers. In reality, the usury act does not play that significant a part in the borrowing of most individuals. Most people, he said, do not understand that the usury rate only pertains to commercial and mortgage borrowings and not that of the consumer. It only will affect the average consumer when he is financing a home. It does, however, affect the small businessman on a day to day basis. He gave his endorsement to the Commerce Committee Substitute for the bill.

Mike Coletta, Chairman of the Anchorage Chamber of Commerce, said that the Chamber has adopted the same position as the Department of Commerce. He said that where the usury statute has run into

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problems is that for some unknown reason the majority of the legislators contact the average person instead of the small businessman in regard to this matter. He said that he feels that perhaps the name of the usury statute should be changed to the commercial lending act. He felt this would avoid the confusion that seems so rampant. He endorsed the Commerce Committee substitute.

Meeting adjourned at 5:08 p.m.

HOUSE FINANCE COMMITTEE

April 17, 1974

8:30 A.M.

- PRESENT All members except Mr. Ferguson, Mr. Meekins, and Mr. Freeman. (Mr. Meekins and Mr. Freeman arrived later in the meeting.)
- Vice Chairman Haugen called the meeting to order. He said the first order of business was three resolutions they were under pressure to get out of Committee. These included HCR 75 (Boundaries of Chugach State Park), HCR 88 (U. of A. - Aquatic Resources Curriculum Development) and HCR 89 (U. of A. - Feasibility Study of Establishing a School of Forestry and Mining).
- HCR 75 Mr. Specking said that in HCR 75 they were basically trying to achieve removal of Girdwood City areas that were included in the boundaries of Chugach Park. He said they were unable to complete funding on their airport until that gets resolved.
- Mr. Specking moved and asked unanimous consent that HCR 75 be passed from Committee. There was no objection, and it was so ordered. The Resolution went out with a "Do Pass" Recommendation.
- HCR 88 Mr. Haugen asked if there was any objection to HCR 88 and 89 being
89 passed from the Committee. There was no objection, and the Resolutions went out with "Do Pass" recommendations.
- HCR 13 Mr. Haugen then asked if there was any objection to passing out HCR 13 (Emergency hospital facilities in Alaska). There was no objection, and the Resolution was passed from Committee with a "Do Pass" recommendation.
- Retirement At this time Mr. Haugen brought the Retirement Bills up for discussion.
Bills Mr. Bob Gates, Benefits Administrator, Retirement and Insurance, arrived at this time.
- HB 221 Mr. Gates said that HOUSE BILL NO. 221 (An Act relating to the coverage of correctional officers under the PERS) is the same as SENATE BILL NO. 89 (Coverage of correctional officers under Public Employees' Retirement Service). HB 221 is to extend the definition of Peace Officers and Fire Men to Correctional Officers and Correctional Superintendents. Mr. Gate said they have generally opposed such a move in the past. He explained that the original concept of establishing peace officers and firemen coverage was to take care of those individuals who were obviously faced with daily hazardous duty, and usually didn't do the work for a long period of time. He said there were rather substantial benefits involved when they granted this type of coverage. They estimate an additional .19% on pay. Translated to dollars this would be \$218,500 for FY 75 to cover an estimated 213 positions.

447

Mr. Gates went on to speak about HOUSE BILL NO. 447 (Retirement Benefits for certain Public Employees). He said this covers probation and correction officers and covers an estimated total of 276 positions at a cost of \$287,500. Mr. Gates said that they are opposed to this also. He told the Committee that there was a letter with the fiscal note from the Actuary which sets out the entire philosophy of hazardous duty.

SB 76

Mr. Gates said that SENATE BILL NO. 76 (including emergency service employees under benefits for policemen, firemen in Public Employees System) is another one relating to the inclusion of emergency service personnel. Mr. Gates said they have had a difficult time arriving at a fiscal note cost on this because it isn't clear how broad it would be. He said that the Borough of Anchorage took over ambulance operation from the City of Anchorage. At the present time there are no emergency service employees being employed by the State. However, he said that emergency service employees could in the future be expanded to include quite a number of different people. If the bill passes, the cost for the 15 people would be born by the Borough of Anchorage, but he said they would like to see a better definition of emergency service persons if this bill is desired.

SB 121

Mr. Gates next discussed SENATE BILL NO. 121 (Definition of Peace Officer and Fireman for purposes of Public Employees Retirement System). This Bill relates to inclusion of Fish and Game personnel. There are an estimated 214 positions on the amended version of this bill. He said they would have trouble with the positions because it was left up to the Commissioner to designate who is and who isn't included, and they believe this could lead to some substantial cost in the future. They thought it would be better to have a definition which would define who they were talking about instead of leaving it up to future interpretation.

Mr. Specking asked about the 214 people, and was told these were people filling positions that the Division of Personnel within the Department of Fish and Game have advised the Retirement Section are in their opinion qualified to fit under the Statute if this bill were to pass.

[Mr. Meekins arrived at this time.]

HB 238

Mr. Gates went on to speak about HOUSE BILL NO. 238 (To include honorable wartime military service in computing retirement benefits for state employees). This provides for the crediting of up to five years of military service to an employee without it being employment connected. Currently the Statutes provide that when an employee leaves State employment to go into the military service and returns to state employment within 90 days after discharge, his service time is credited. The intent of this bill is to permit other people who had served honorably with up to five years of active military service to be credited with that time after they had vested time in the System. From the information gathered, the actuary arrived at the cost for several different approaches under consideration at the time. As the bill is presently drafted, the increase in employer contribution would be .41% or \$475,500 for FY 75. The .41% would be a constant unless actuarial experience determined otherwise. The potential people to be included is more of a

percentage. They polled 4200+ employees and got an initial return in excess of 2100 answers out of which 1461 had service. They didn't study those already retired, however the actuary can assume they would be little different from active employees, so it would not change the numbers much.

Mr. Saylor asked if it would significantly reduce the cost if they cut the 5 years to 2 or 3 years. Mr. Gates said he didn't have figures exactly like that. He did say that out of the responses, the average period of time served was 3.25 years, so if they cut it down to below the average there would be a reduction.

Mr. Gates referred them to the letter from the actuary that was with the fiscal note. It showed that the time this service is granted would have a significant effect. For example, if it were granted immediately, it would be 1% of the pay. After 5 years it would be .41% and after ten years it would be .20% and after 10 to 15 years it would be .03% and after 20 years it would be .01%.

Mr. Joe Briones, Director of V.F.W., wanted to know what the cost would be for those eligible to retire next year, if the bill passed.

Mr. Gates replied that wasn't considered in the study. He said that next year's cost did not mean anything more than one year's cost. They are putting into the statute that everybody with five years of military service would automatically be included. He explained that they fund on a pre-funded basis which takes into consideration the total liability incurred in the System. As he recalls there are 559 people who would immediately create liability to the system if they assume the average of 3.25 years. Those are the ones with vesting. This was not looking at those already in retirement. That would be determined once they questioned those individuals.

Mr. Briones thought that if they retired then their positions would be vacant and this would give those in the lower grades an opportunity to come up so there would be potential savings on the cost of employment.

SB 342 Mr. Gates went on to discuss SENATE BILL NO. 342 (Teachers' Retirement) This bill is merely corrective legislation to clarify the intent of Senate Bill No. 101 which passed last year. Due to order of passage, the reviser of the Statutes recommended this bill be introduced in order to definitely clarify the intent. That is, that normal retirement in TRS is 25 years. This was accomplished, but as he recalls, there was a question that another piece of legislation passed which repealed the specific portion of the statute that SB 101 referred to. Mr. Gates said they could recommend passage of SB 342. There is no cost, and it is just to clarify intent of the legislation.

Mr. Ose moved and asked unanimous consent that they pass out SB 342. There was no objection, and it was so ordered. The Bill went out with a "Do Pass" recommendation.

Mr. Gates also recommended SENATE BILL NO. 353 (Teachers' leave of absence) which is not yet in Finance. At the present time it is in the House HESS Committee. It is a Bill which basically removes a date in the ability to purchase service by a teacher on authorized leave with pay. He recalled that the current statute provides that people can purchase service prior to July 1, 1971. They are recommending that the language "prior to July 1, 1971" be removed. This will assist them and clear up issues regarding what happens to those following 1971. He said they currently permit it to be done under the statute. The teacher bears the cost, so there is no State cost to do this. He pointed out that the PERS presently allows this. He said they also endorsed SB 353 in what he believed was the amended form.

[Mr. Freeman arrived.]

Mr. Barber asked Mr. Gates what his recommendation was on HOUSE BILL NO. 238 (To include honorable wartime military service in computing retirement benefits for state employees).

Mr. Gates said that from a strictly over-all concept of retirement, his recommendation would be to grant it, but he added that granting in the initial vesting period was not serving the employer with the concept of retirement. He said the purpose is to attract longer term employees. He thought that by extending it beyond the vesting time, the impact would be on so few people that it wouldn't make a great deal of difference.

Mr. Barber asked whether there would be any change between the 5-year restriction and the 10-year restriction. Mr. Gates replied that it was difficult to say.

Mr. Barber wondered whether the 10-year interval would effect those immediately ready to retire. Mr. Gates said it may effect the number of people who would take retirement. He thought it would depend on the individual and how much service he had.

Mr. Saylor knew that State government historically employs numbers of people retired out of military service. These people, in many instances are close to the 50 year age bracket, and what he could see happening under the present bill was that a person could work 5 years, credit 5 years, be 55 years of age, and draw a substantial retirement from the federal government plus 10 year retirement from the State.

Mr. Gates said there would be a reduction if the employee were receiving military payment on the 5 years he would be bringing in. He said they haven't run up against that problem, but that was a part of the statute that attention should be given to. He added that military service typically adjusts retirement benefits every quarter to allow for cost of living, and the State could get into the boat of having to adjust every quarter in order to compute it right.

Mr. Saylor asked that Mr. Gates provide them with language in writing that would clear the statute of the problem.

518

Mr. Gates then spoke in favor of HOUSE BILL NO. 518 (Cost-of-living escalator Index for public retirement pensions). The intent of HB 518 is to provide post pension retirement adjustment annually equal to the change that has occurred in the Consumer Price Index. This is a very meaningful and important approach for people already on retirement and those anticipating it. It is a funding requirement and it is mandatory that it be paid. He said their mandatory has looked into the provision and the maximum estimate is an average of 3% annually. To provide future in both retirement systems, the cost (an annual cost-of-living of 3% and an annual increase in covered payroll) would amount to \$5,910,000 for FY 75. Each year it essentially increases by 5% on percentage of payroll. In Mr. Gates' estimation, a cost of living feature, if funded, is the most valuable benefit they could have in a retirement system. He pointed out that Social Security has recently requested a similar approach, although he believes they have maximum limitations on it.

Mr. Warwick asked whether the Federal Retirement System has a cost-of-living index attached to it. Mr. Gates said yes, and that it is done on a quarterly adjustment basis.

Mr. Saylor asked how many people were presently covered. Mr. Gates guessed it was somewhere around 925 people, and growing rather rapidly.

HB 652

Mr. Gates said that HOUSE BILL NO. 652 (Teachers Post Retirement Pension Adjustment) was a different approach to what they had just been discussing. It was a mandatory increase to provide it for teachers only. It removes the present 1.5% restriction and makes it measured using the same Consumers Price Index. The cost of this is \$2,758,500 for FY 75, but the concept is the same (he was referring to the Committee Substitute because the original bill was no the same).

HB 661

Mr. Gates went on to speak about HOUSE BILL NO. 661 (Occupational death benefits under the public employees retirement system). This bill was introduced at the Governor's request. Basically, it is to take care of inequities that currently exist in the case of occupational death. A single person does not enjoy the same benefits as does a married person. He felt that with the amendment they had requested, it would be a fair and equitable approach.

Mr. Haugen asked that the Committee be provided with that amendment.

Mr. Gates added that there was negligible cost because of the infrequency of it happening.

SB 275

Mr. Bob Van Haut, of NEA, spoke in favor of SENATE BILL NO. 275 (Compensation for members of Professional Teaching Practices Commission). He said it wouldn't cost the State anything since the District would take care of it. He added that it was not even a significant amount that the District would have to pay. He said there was one case right here in Juneau where a member of the Commission was not being paid for by the school District. The District said it was up to the State to take care of it. He said they feel that the teachers should be able to serve without penalty as well as administrators.

497

At this time the Committee considered HOUSE BILL NO. 497 (relating to interest rates charged in the State). A majority of the members of the Committee recommended it be replaced with Commerce Committee Substitute for HB 497 and be reported out without recommendation. So, the Bill was passed out of Committee with such a recommendation.

RECESS Meeting recessed at 9:45 A.M.

HOUSE FINANCE COMMITTEE

April 18, 1974

7:50 P.M.

PRESENT All members of the Committee. Representatives Wilson and Gardiner were also in attendance. Mr. Stan Friese, Superintendent of State-operated Schools, and members of his staff were present.

Chairman Freeman called the meeting to order and said that they had scheduled hearings on bond bills for this time. However, he had a few other items he wanted them to consider before they went into bond bills.

HB 855 The first item was HOUSE BILL NO. 855 (Supplemental appropriation to the Legislative Affairs Agency). Mr. Freeman explained that it was an appropriation in the amount of \$74,500. It was needed because they would run out of money for staff on Saturday, the 90th day.

Mr. Haugen moved and asked unanimous consent that HB 855 be passed out of committee with a "Do Pass" recommendation. There was no objection, it was so ordered.

HB 769 Mr. Freeman then brought up HOUSE BILL NO. 769 (An Act relating to the development of agriculture on state lands under the Alaska Land Act). It was Mr. Freeman's understanding that it didn't have that much fiscal ramification.

Mr. Warwick explained that there was a group in Fairbanks that wants to plan a large number of acres but they don't want to purchase the land, they want to lease it from the State. Mr. Warwick said that apparently they had talked with Joe Keenan, who says it is necessary to have this piece of legislation in order to do it. He had no objection to it. He also had a letter from Dr. Wood, who was advocating it. This group feels that should they get a refinery plan in Fairbanks, they may also get a fertilizer plant, and in order to do that, they need a certain amount of land under cultivation.

Mr. Saylor said this was the plan Mr. Randolph had talked to them about the other day.

Mr. Specking said he was opposed to the measure in view of the fact it prevents the distribution of use of agricultural land into small tracts and serves the type of agriculture he doesn't think Alaska is ready for.

Mr. Freeman assumed that it wouldn't be mandatory for the State to lease the land, and that they would only do it when the need was justified.

There was some discussion on the pros and cons of agriculture as a big business.

Mr. Haugen moved that they pass the bill out with individual recommendations. There were 5 in favor of the motion, and the bill went out with a majority voting "without recommendation".

HB 682

Mr. Freeman then brought HOUSE BILL NO. 682 (Relating to the conveyance of public recreational sites) up for consideration.

Mr. Specking moved they send it out with a "Do Pass" recommendation.

Mr. Freeman explained that in the Territorial Days, the tidelands belonged to the United States, but with Statehood, the State got the title to the tidelands. The municipalities then got title to tidelands with the provision that the title would be conveyed to legal occupants of the land. That did not apply outside the City limits. Some municipalities have been conveyed title to areas outside the City limits which don't necessarily convey title to tidelands.

Mr. Saylor asked if mineral rights got transferred with the tidelands, and Mr. Freeman said no, that they remained with the State.

Mr. Warwick noted that they didn't get tidelands with borough land, and Mr. Freeman explained that when the law was written there were no boroughs.

The question was called on Mr. Speckings' motion. There was no objection it was so ordered.

SB 400

Mr. Freeman then brought up three bills which were before them dealing with Workmen's Compensation. These were SENATE BILL NO. 400 (Workmen's Compensation benefits), SENATE BILL NO. 396 (Rates of compensation paid under Alaska Workmen's Compensation Act), and SENATE BILL NO. 217 (Death benefits under Workmen's Compensation).

SB 396

SB 217

Mr. Warwick asked that somebody be brought in to explain these bills. Mr. Haugen and Mr. Specking also desired that someone come in to testify.

Mr. Freeman asked Mr. Haugen to take it upon himself, as Vice Chairman, to set up a meeting on this.

Bond
Bills

At this time Mr. Freeman said they would go into bond bills. He noted that Mr. Friese from SOS and members of his staff were present, and assumed they wanted to talk about SOS bonds.

Mr. Haugen said that they had asked for cost and status of the \$16 million bush bond issue of 1972, and had received this information. Mr. Rich Guthrie passed out copies of this information to the Committee.

Mr. Haugen said it showed total cost and current status of completion. He said part were general fund and the rest were ASHA bonds. The sheet they had been furnished with provided all of the information they had requested. (See Attachment I).

HB 472

Mr. Haugen said that Mr. Ferguson had asked for time to go over the latest bill on this. Mr. Ferguson said he felt the information was quite thorough. The bill they were concerning themselves with was HOUSE BILL NO. 472 (GOB: State-operated school construction).

Mr. Specking stated that with regard to the SOS bond bill, he was essentially displeased with the manner in which the administration had put things which they need to have in the way of maintenance into the bond bill instead of in the regular budget where they should have been. He said it had the effect of reducing the budget request.

Mr. Ferguson asked Mr. Guthrie to pass out revised work draft copies of a Committee Substitute for HB 472.

Mr. Guthrie passed out the CS Draft and a Draft of a Committee Report which expressed what had happened. The CS has some significant changes from what the Governor's bill was. The Committee took a few minutes to go over the drafts.

Mr. Specking said that if the Committee was willing, he would like to put two classrooms on for Whittier at a cost of \$400,000.

Mr. Ferguson moved they pass out the Committee Substitute for SOS Schools.

Mr. Ose objected for the purposes of discussion. He wanted to see Whittier included.

Mr. Specking explained that the school was being held in the basement of a building which the City says they can no longer have. This is what brought the thing to a head. 21 students are concerned.

Mr. Ferguson brought up the Chapter 195 overruns for 1972. Mr. Guthrie said that the administration did not include a request to back up overruns of Chapter 195. He estimated that out of the 12 schools originally anticipated, only 8 would be constructed. He said it would be another \$3 million each for the additional 4 schools. He said the administration did not want to construct those schools because they are in BIA areas.

Mr. Friese said that Togiak and Sand Point were with SOS. The other three were BIA schools.

Senator Hohman asked which three schools the Governor didn't support. Mr. Friese said they were Kwigillingok, Nunapitchuk, and Kipnuk.

Mr. Freeman said he assumed from the fact that the Governor's list did not have those on it indicated he didn't support them.

Mr. Ferguson amended his motion so that the Committee Substitute included \$400,000 for Whittier. The question was called, and 6 were in favor, so the motion carried. The Committee Substitute went out with a "Do Pass" recommendation.

471 Mr. Freeman brought up HOUSE BILL NO. 471 (GOB in the amount of \$37,300,000 for the purpose of paying the cost of highway, ferry and local service road and trail construction).

Mr. Saylor moved that the pass the Bill out with a "Do Pass" recommendation. The motion carried, with Mr. Meekins voting "No Recommendation."

HB 473 Mr. Freeman brought HOUSE BILL NO. 473 (GOB in the amount of \$2,100,000 for the purpose of paying the cost of communications facilities) up for consideration.

Mr. Saylor moved that they pass HB 473 out with a "Do Pass" recommendation. There was no objection, it was so ordered.

HB 475 Mr. Freeman then brought HOUSE BILL NO. 475 (GOF: fish and game facilities) and HOUSE BILL NO. 476 (GOB: acquiring fisheries protection vessel) up for discussion. Mr. Haugen said he would get the information on these by 9:00 the following morning.

Mr. Freeman asked if it was the wish of the majority of the Committee to pass University bond bills out at any time. Six were in favor of doing it. Mr. Freeman asked if they were satisfied they could get the Senate Bill out of Committee. Mr. Warwick said they were.

SB 287 Mr. Meekins moved they report SENATE BILL NO. 287 (GOB: fire protection facilities) out with individual recommendations. There was no objection it was so ordered. The bill went out with a "Do Pass" recommendation.

OURN Meeting adjourned at 9:45 P.M.

ATTACHMENT I

4/18/74

RURAL SCHOOL PROJECTS UNDER CONSTRUCTION

LOCATION	ED. FAC. DESCIP.	TOTAL SCH COST	PRIMARY SOURCE OF FUNDS	AMOUNT	SECONDARY SOURCE	AMOUNT	OTHER FAC	FUND SOU.	AMOUNT	TEACHER HOUSING	FUND SOURCE FOR TEA HOU	TOTAL COST FOR SITE	COMPLETION DATE	CURRENT STATUS
Alakanuk	High Sch	2,191,000	CH195/SLA72	2,191,000	NONE	-0-	VW&SF	VSWA	624,000	1 Trailer 2 Units	GF 15,000 ASHA200,000	3,030,000	12/ 5/74	12% complete
Aniak	High Sch	765,400	CH170/SLA70	496,445	CH195/SLA72	268,955	NONE	-0-	-0-	-0-	-0-	765,400	7/31/74	5% complete
Bethel	Prim Sch	2,274,600	CH195/SLA72	2,274,600	NONE	-0-	NONE	-0-	-0-	-0-	-0-	2,274,600	12/ 5/74	16% complete
Emmonak	High Sch	1,575,500	CH190/SLA70	1,437,500	CH195/SLA72	135,000	NONE	NA	-0-	2 Trailers 1 Unit	GF 30,000 ASHA100,000	1,705,500	12/ 5/74	6% complete
Kiana	High Sch	1,657,000	CH170/SLA70	1,250,000	CH195/SLA72	407,000	NONE	NA	-0-	2 Trailers 1 Unit	GF 30,000 ASHA100,000	1,787,000	12/ 5/74	42% complete
Mt. Village	High Sch	1,908,000	CH170/SLA70	1,437,500	CH195/SLA72	471,000	NONE	NA	-0-	1 Trailer 2 Units	GF 15,000 ASHA200,000	2,133,000	12/ 5/74	7% complete
Noorvik	High Sch	1,632,500	CH195/SLA72	1,632,500	NONE	-0-	NONE	NA	-0-	3 Trailers	GF 45,000	1,677,500	12/ 5/74	34% complete
Nulato	Elem & High Sch	1,634,000	CH250/SLA70	1,634,000	NONE	-0-	VW&SF	VSWA	728,000	1 Unit	ASHA100,000	2,462,000	8/ 1/74	20% complete
St. Mary's	Elem & High Sch	2,100,000	CH250/SLA70	1,100,000	CH195/SLA72	1,000,000	NONE	NA	-0-	-0-	-0-	2,100,000	12/ 4/74	6% complete
Selawik	High Sch	1,826,000	CH170/SLA70	1,275,000	CH195/SLA72	551,000	VW&SF	VSWA	832,000	1 Trailer 2 Units	GF 15,000 ASHA200,000	2,873,000	12/ 5/74	23% complete

VW&SF - Village Water & Sewer Facility
 VSWA - Village Safe Water Act
 NA - Non-applicable
 * - Funds for Teacher Housing and Source of funding
 is in Alaska State-Operated Schools request this session.

HOUSE FINANCE COMMITTEE

April 19, 1974

9:00 a.m.

Present:

Committee members Haugen, Barber, Meekins, Ferguson, and Specking. Also present were the following: Rep. R. Eliason; Mr. VanHout, NEA; Mr. John Cook, Director of Workmen's Compensation, Department of Labor.

Vice-Chairman Haugen called the meeting to order. The purpose of the meeting was to hear testimony on three Senate bills in Committee.

SB 396

Mr. Cook told the Committee that SB 396, relating to the rates of compensation paid under the Alaska Workmen's Compensation Act, increases the rate of compensation for permanent total disabled persons. He said that currently, the rate is \$175 a week maximum for temporary disability, and 65% of the average weekly wage for the permanent total disability (\$113.75). Mr. Cook said that the Department of Labor feels there should be no difference between the temporary and permanent disability rate.

Mr. Cook said that if the individual has been employed 27 weeks prior to the accident, the average wage at that time is used; otherwise, they take the best year of three year's earnings and divide by 52 weeks.

Mr. Cook told the Committee that there are very few permanent total disabilities in the state. In 1972 there were only three, and the rate would be \$40 a week for each of those cases.

He then said that the only impact on the General Fund would occur if there is an increase in premium rates.

If an individual without much work experience is disabled on a new job and has not yet received any money in salary, the Board may determine a wage level for the individual (through comparison with other employees, etc.). He added that sometimes, cases are "missed" or have not been brought to their attention, but the individual should receive workmen's compensation at the usual rate.

Representative Specking then moved that the Committee report out SB 396. All members present voted unanimously to do so. The Committee Report was signed as follows: (recommending it do pass) Representatives Haugen, Meekins, Specking, Barber, Ferguson.

CSSB 217(am) Discussion on CSSB 217am, an act relating to death benefits under workmen's compensation, followed. Mr. Cook said that with this bill (for the 1973 cases that are being paid for)

would cost \$8,000 and \$1 million would be collected.

CSSB 217(am) Representative Specking asked if a fiscal note had been prepared for CSSB 217(am). Mr. Cook said that while he did not know how figures were arrived at by the National Council, the increase in rates to the employer are 10.1%. Representative Eliason told the Committee that the Committee on Labor and Management had passed out this bill only two days ago; at that time they heard testimony from the Chamber of Commerce, the Loggers Association and Fisheries. Rep. Eliason said they did not oppose the bill. The figure at that time was 10.1% increase in cost to the employer.

Mr. VanHout then told the Committee that they compute rates for the expected life of the widow and/or beneficiaries, therefore the total cost is accumulated cost through a certain year, and not an annual cost.

Representative Meekins asked if they pay compensation based on need, or is it an insurance program. Mr. Cook said if the individual is eligible, they will receive compensation.

Representative Meekins then asked if a husband who is not a dependent in the family unit survives his wife, does he receive the death benefits. Mr. Cook replied that he would not receive death benefits.

SB 400(am)

The Committee then discussed SB 400(am), an act relating to workmen's compensation benefits. Mr. Cook said that the state will pick up the increased cost in this matter where benefits for temporary and permanent disability shall be calculated under this chapter according to currently existing benefit rates regardless of the benefit rates in existence at the time of the injury, unless the calculation would cause a decrease in the actual benefits receivable.

Mr. Cook said that they now have people getting \$62.55 per week when the current rate is \$113.65 a week. The difference between the amounts would be paid to those presently receiving \$62.55, but the amount would not be retroactive. Mr. Cook had figured that this bill, prior to the Senate amendment which struck the benefits, the cost would have been \$388,000; however, since the time of the amendment, the cost is reduced to \$219,000.

Brief discussion followed.

Rep. Meekins then moved to report out SB 400(am); the Committee members present voted unanimously to do so, and the Committee Report was signed as follow: (recommending that SB 400(am) do pass) Representatives Haugen, Meekins, Specking, Barber, Ferguson.

CSSB 217(am)

The Committee then decided to report out CSSB 217(am). The Committee Report was signed as follows: (Recommending that CSSB 217(am) do pass) Representatives Meekins, Haugen, Barber,

Specking, Ferguson.

ecess:

There being no further discussion at this time, the Committee recessed at 9:40 a.m.

HOUSE FINANCE COMMITTEE

April 20, 1974

8:45 a.m.

Present: Committee members Haugen, Saylor, Specking, Warwick, and Barber.

HB 705 The Committee reported out HB 705, relating to home rule city bonded indebtedness incurred for school construction.

The Committee Report was signed as follows: (recommending that HB 705 be replaced with the House Finance Committee Substitute and that the Committee Substitute for HB 705 do pass) Haugen, Saylor, Specking. Representatives Warwick and Barber signed "no rec". (See bill file for Committee Report explaining differences between original bill and Committee Substitute.)

Recess: The Committee recessed in order the Committee conferees could attend Free Conference.

AFTER RECESS

April 20

1974

6:00 p.m.

Present: All members with the exception of Representative Ferguson, Meekins.

SB 525 Representative Warwick moved and asked unanimous consent that SB 525, Supplemental appropriation to the Department of Administration for pay increases and benefits for professional staff of the University of Alaska (\$1,813,100), be reported out of Committee. There being no objection, it was so ordered.

The Committee Report was signed as follows: (Recommending that SB 525 do pass) Representatives Freeman, Warwick, Haugen, Saylor, Ose, Specking, Barber.

The Committee had a brief at ease.

Representatives Meekins and Ferguson entered the meeting.

CSSB 283 (Fin) Discussion followed on CSSB 283(Finance), G.O. Bonds in the amount of \$33,448,000 for paying the cost of capital improvements for the University of Alaska.

Representative Saylor told the Committee that he wanted to see the following deleted from the bill: Fort Yukon Extension Center, \$500,000; Kodiak Agricultural Research Center \$500,000; Bethel Kuskokwim Community College, Phase II \$500,000; Fairbanks Dormitory Upgrade \$300,000, and the Anchorage Food Center.

He then told the Committee that he wished to amend into the bill \$2 million for the Patty Building (addition to the gym) and put the Anchorage Sports Complex back to \$9.5 million.

Representative Freeman, Chairman, told the Committee that there

will be time April 22, Monday, to discuss the bond bills further.

He then announced that the Free Conference Committee on the budget would be meeting at 9:00 a.m., Sunday, the following day.

Adjourn: There being no further discussion, the meeting adjourned at 6:30 p.m.

HOUSE FINANCE COMMITTEE

April 21, 1974

2:35 p.m.

Present: All members were present with the exception of Mr. Saylor. Also present were Representatives Gardiner, Bowman, Miller and Degnan, members of the press and staff, and Commissioner Campbell of the Department of Highways.

CSHB 310

Acting Chairman Ernie Haugen called the meeting to order. He explained that there is a Senate amendment to COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 310 (Designated use of trails, bridle paths and foot paths) to which the House is being requested to concur and Commissioner Campbell was present for questioning should the committee need clarification on this. Mr. Haugen read the amendment.

Commissioner Campbell said that he did not know about the legality of this, but he noted that this would make the appropriation a continuing one as he read it. He emphasized that this is general fund money, not Highways money. Every year that there is a federal Highways Program appropriation, the legislature will be locked into a \$350,000 to \$800,000 general fund appropriation going into Natural Resources for Parks and Recreation (this amount based on current level of expenditure). This would not require legislative appropriation, the way the Commissioner read it.

Mr. Barber asked if there was already individual legislation in having to do with bridle paths, and Mr. Campbell said yes.

Mr. Meekins asked if this would be in addition to what Highways already is doing, and Commissioner Campbell said yes, that under Local Service Roads and Trails there is additional money that could go into bridle paths, etcetera.

Mr. Specking asked Mr. Campbell if other than the question of legality this legislation would cause him any problem, and he replied no.

Mr. Meekins asked for Rep. M. Miller's views. Mr. Miller said that this would not be a continuing appropriation. There is no way one legislature can bind another legislature. What this means is that the agencies would have to plan for this amount, and then the legislature would fund a certain percent of that, like they do with revenue sharing.

Mr. Specking said that he reads it that it will have to be appropriated annually.

Mr. Miller said that every year every dime has to be appropriated.

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Mr. Meekins said that it is his understanding that because of the law the agencies will have to budget for this, but the finance committees can determine whether or not to fund it.

Mr. Bowman stated that this legislation originally came about for bridle paths because in Anchorage there were none as such and riders were being run off the paths by the snowmachines and motorcycles.

Mr. Warwick asked Mr. Hogan what would happen if the legislature did not appropriate money annually. Mr. Hogan said nothing would happen. Mr. Warwick asked if that would be breaking the law or if by not appropriating money the legislature would be in effect changing the law. Mr. Hogan said that they would be overriding the statute.

Mr. Meekins asked if it isn't true that everything is subject to appropriation annually. Mr. Hogan said that according to the language in the amendment, appropriation would be mandatory. He said that the phrase "subject to appropriation" could be added.

Mr. Freeman asked about the legislation now on the books. Mr. Hogan said that it gives a maximum but not a minimum and it says "may" rather than "shall."

Mr. Specking suggesting retaining use of the word "may." Mr. Meekins objected, stating that the legislation now says "may" and nothing is being spent for these paths. He felt that the language needs to be stronger than that.

Mr. Ose suggested putting a date on the bill. Mr. Freeman observed that this matter is only before the House for concurrence or lack of such, at the present time.

Mr. Warwick said that in a way the bill is meaningless since it is subject to appropriation anyway. Mr. Miller said that when the language is "may" as it is now, the agencies do nothing. There was even \$20,000 appropriated and nothing was done -- the money lapsed. He felt with "shall" language, the agencies would not be so lackadasical. He again compared this to shared revenues.

Mr. Barber, reading the amendment, said that it seemed to him that the legislature was being tied in to a minimum of 3/8%. Mr. Meekins said no, that the agencies would be compelled to budget at least 3/8% but the legislature would not be. Mr. Miller repeated that there is no way a future legislature can be bound by this one.

Mr. Warwick read the revenue sharing language, which uses the

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uses the word "shall" and specifies amount -- and yet only a percentage of that is appropriated annually.

Mr. Specking noted that the legislature does feel compelled by the language, however, to do something each year.

Mr. Warwick questioned whether Highways or Natural Resources is a better place for this appropriation to go. Mr. Campbell said that he feels it belongs in Natural Resources. Highways can apply for grants when appropriate.

Mr. Campbell further noted that he feels the real problem as far as bridle paths versus snowmachines and motorcycles is in enforcement. He sees it as a policing problem that will exist even if more bridle paths are created.

Mr. Bowman remarked again that the committee should consider this seriously as there is quite a need, particularly around the urban areas, for these trails; and he further remarked that he thinks they should be made now, before there is no land available.

Meeting adjourned at 2:55 p.m.

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GEN

BUD

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

AUDIT DIVISION
POUCH W — ALASKA OFFICE BUILDING

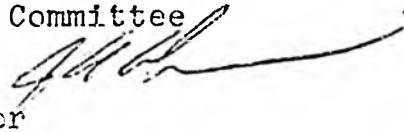
FINANCE DIVISION
POUCH WF — STATE CAPITOL

JUNEAU 99801

MEMORANDUM

TO: All Members
House Finance Committee

DATE: February 21, 1974

FROM: John Andrews 
EDP Coordinator
Legislative Finance Division

SUBJ: Computerized Budget System

I. HOW THE COMPUTERIZED BUDGET SYSTEM WORKS

- A. We have a computer tape file that contains all of the information on budget forms "4-A" for every component in the operating budget, plus three blank columns for use by the House and Senate Finance Committees, and the Free Conference Committee on the Budget.
- B. Detail and summary reports can be written from this file.
- C. The dollar amounts in this file are normally added or changed as follows:
 1. New or corrected amounts are written by hand on a facsimile of the budget form 4-A, called the "Component Operating Expenditures Work Sheet".
 2. From these worksheets, cards are punched, and the computer cards are, in turn, used to update the budget tape file.
 3. From the updated file, new, revised reports can be written.
- D. Temporary changes to the budget tape file can also be made in mass by devising a general formula that applies to all budget components and by writing a simple computer program to update every budget component in the same way.

II. WHAT A "FORMULA" CAN DO FOR THE COMMITTEES

- A. By letting the "formula" handle those programs that change little from year to year, the Committees would have more time to focus their attention on substantial issues.

- B. By standardizing and considerably shortening the computer file update process, the staff will have more time to become familiar with agency or category program details, and more time to be of assistance to the Committees.
- C. Of course, these benefits will accrue in proportion to the worth of the formula that is chosen.

III. WHAT MAKES A GOOD FORMULA

- A. Assuming that the Committees seek a funding level below the Governor's budget, a good formula would approximate, as closely as possible, a "true maintenance" or "bare bones" budget, relative to the Governor's recommended figures.
- B. Also, since the main idea is to save time, a good formula would require only a few adjustments to rationalize the figures the formula generates. No general formula will handle all the cases, but a good formula would handle most of them.

IV. FORMULA RECOMMENDED BY THE STAFF

- A. Personal Services -- pick the minimum of the following three amounts:
 - 1. FY 74 Authorized less 4% for change in personnel benefits, plus or minus any Revised Programs.
 - 2. FY 75 Maintenance.
 - 3. FY 75 Governor's recommendation.
- B. Travel, Contractual Services, and Commodities--- pick the minimum of the following three amounts:
 - 1. FY 74 Authorized, plus or minus any Revised Programs, plus 5% for inflation.
 - 2. FY 75 Maintenance.
 - 3. FY 75 Governor's recommendation.
- C. Equipment, and Grants -- pick the minimum of the following three amounts:
 - 1. FY 74 Authorized, plus or minus any Revised Programs. (No inflation factor.)
 - 2. FY 75 Maintenance.
 - 3. FY 75 Governor's recommendation.

- D. Land, and Miscellaneous -- set to zero.
- E. Funding -- use the Governor's recommended funding for all fund types other than "General Funds -- Other". Set "General Funds -- Other" so that the funding balances the line-item expenditures.
- F. Number of positions and man-months -- match with choice made on personal services.

V. SHORTCOMING OF SUGGESTED FORMULA

- A. There are several situations where the results of the suggested formula will require particular scrutiny. Among these are:
 - 1. Departmental or program reorganizations -- suppose an agency wants to open a field office. The Governor's budget would then have travel decreasing and personal services increasing, relative to FY 74 Authorized. The formula would grant neither travel nor new position costs.
 - 2. New programs in Governor's budget -- if FY 74 Authorized is zero, the formula will result in zero as well.
 - 3. Employee reclassifications and step increases -- the formula will deny them all.
 - 4. Supplemental appropriations during FY 74 -- if a program needed extra funds in FY 74, the formula would not be aware of it, and the results will be correspondingly short of "maintenance". (Supplementals will be included in "revisions" column as they become law.)
 - 5. Periodic increases and decreases in required funding levels -- in some instances (e.g. Commercial Fisheries), the funding level rises and falls in cycles. The formula would not recognize this.
 - 6. New non-GF funding for program expansions -- the formula would retain the funds and deny the program expansion.
- B. All of these shortcomings can be overcome, and probably with less effort than would be required to build the subcommittee recommendations from scratch. The following are some suggestions:
 - 1. Above all, the formula is not iron clad. It is nothing more than a worksheet from which to begin evaluating programs on their merits.

2. The staff can be of considerable help in identifying particular trouble areas and inconsistencies the formula might produce.

VI. SUGGESTED USE OF "COMPONENT OPERATING EXPENDITURES WORKSHEET"

- A. As a first step, the formula could fill in amounts in the House column of the computer file and a first-draft report could be written.
- B. The staff could then scan this first-draft report for inconsistencies and illogical results produced by the formula, corrections could be made to the figures, and a second-draft report could be written.
- C. The second draft could have an identical set of figures copied into the "FCC" column of the worksheets, for use by the subcommittees.
- D. The subcommittees could update the "FCC" amounts to reflect their own recommendation, and a third draft report could be written for the committee as a whole. Using this "two-column" system, the committee members could see both the "fine-tuned" formula results and the subcommittee recommendations.
- E. The decisions of the committee as a whole could then replace the formula figures in the "House" column, and the "FCC" column would be erased.

HOUSE FINANCE COMMITTEE

January 23, 1974

1:10 p.m.

Present: All members were present. Also present were Senator Groh, Representative Wilson, members of the staff, press and public.

GENERAL
BUDGET

Acting-Chairman Haugen called the meeting to order at 1:10 and explained that the purpose of the meeting was to examine the unexpended capital improvement and residual bond monies. Mr. Kent Dawson passed out a memorandum (see General Budget file) which included a list of longstanding capital projects. Mr. Dawson said that he was interested in determining the committee's feelings about the way in which these unexpended monies are handled and whether or not the committee is interested in taking action to alter present procedures for expenditure of residual funds. He noted that there are times when monies which are not expended and not forced to lapse, are used for projects other than those for which they were intended, and that the legislature does not presently have a say so in this. How often this happens he did not know, but it is certain that it occurs sometimes.

The idea of lapsing these monies or applying them toward the bond indebtedness was mentioned. Mr. Warwick said that he is interested in knowing why the projects have not been carried out, and Mr. Dawson stated reasons, outlined in his memo, why some of the projects might not be carried out.

The committee requested that they be provided with a list of ASHA projects, also. (This was brought up again later in the meeting before Mr. Charney, and he stated that despite his attempts to get this information, ASHA has not provided it. He was directed to try again and if he is unsuccessful the committee will contact ASHA directly.)

Mr. Haugen spoke of his concern about residual funds and his feeling that the legislature should make a determination about how they are used. This seemed to be the consensus of the committee. Mr. Dawson said that one way of dealing with the problem would be to change the wording in the appropriations so that the Budget and Audit Committee would take a look at reallocations and projects throughout the year.

When projects are not carried out due to lack of sufficient funds for completion, it was noted that this is sometimes due to erroneous estimates in the first place, and sometimes due to the fact that the legislature will list several projects to be done at one total amount, without having broken down a realistic cost per project.

After further discussion on this matter, Mr. Rich Guthrie presented charts and a memorandum to the committee presenting some specific examples of capital projects for educational facilities, and pointing up the conflicting records of the various agencies involved in the projects. (Copy of memo and charts in General Budget file) Mr. Guthrie summarized the memo, and after general discussion, in which the committee's impression that they wish there to be some legislative control in these funds, seemed to be affirmed, the committee recessed at 2:10.

2:15 p.m.

Mr. Haugen called the meeting back to order. Mr. Myrt Charney, Budget Director for the Department of Administration, was present at this time.

Mr. Charney stated that there will be a report on the status of the capital improvement projects available this week. However, the report (which is part of the yearly report prepared by the Dept. of Administration for the legislature) does not include those projects which have not been begun. The committee directed Mr. Charney to provide them with a report on those projects also, including the reasons why they have not been carried out. Mr. Charney agreed to have this information within two weeks.

There followed some discussion on various capital projects which have not been completed and on the reallocation of monies from one project to another.

Senator Groh noted that there is \$60,000,000 unexpended which has not lapsed (this does not include Highways monies). He suggested the possibility of a lapse schedule based on the size of a project (i.e., after 2 years, a project of \$250,000 or less would lapse, \$250,000 to \$500,000, three years -- and so forth.)

Mr. Charney emphasized that airport projects, like highway projects, have special problems due in large part to federal matching monies, right-of-way provisions, etcetera, so that although he was favorably disposed toward the Senator's suggestion, he would not be in the case of airport projects.

After lengthy discussion, the committee decided that when they have all the information before them on the various capital projects and their status, they want to have a meeting with the people from the Division of Buildings to determine where some of the accounting problems on capital projects lie. They decided at the same time they would like to have Department of Education and SOS personnel present so that the conflicting reports on the status and cost of certain educational facilities can be examined.

The meeting was adjourned at 3:10 p.m.

JOINT SENATE/HOUSE FINANCE COMMITTEES

February 7, 1974

9:00 a.m.

Present:

Senators Groh, Ray, Poland, Butrovich, Sackett (Senate Finance Committee); Representatives Freeman, Haugen, Specking, Warwick, Barber, Saylor, Meekins, Ose (House Finance Committee); Other interested legislators: Senator T. Miller, Senator Silides, Senator Thomas.

Commissioner of Revenue Stevenson, Deputy Commissioner of Revenue Larry Eppenbach; Lee Prussia, Jr. and Gene Evanskaas, Bank of America; Ivan T. Nelson, Vice President, and Bill Nichols, both of Loomis & Kennedy, Inc.; Dick Alexander, Department of Revenue.

Joe LaRocca, news reporter; Elaine Mitchell, Alaska Educational Broadcasting; Mary Pat Murphy, Associated Press; Keh Roberts, free-lance photographer.

State
Investments

Senator Groh called the meeting to order and announced that Commissioner of Revenue Stevenson and Deputy Commissioner Eppenbach were present. The purpose of the meeting is to hear reports from the State administration, Bank of America representatives and investment counselors Loomis & Kennedy, Inc. concerning Alaska's investment policies.

Mr. Eppenbach announced that copies of the following reports have been handed out to each committee member:

1. General Fund Projections
2. A monthly investment report
3. List of policy comments, indexed by a statement of accounts

General Fund Projections. The key assumption contained in this report is that following 1975, the operating portion of the budget will increase 8% a year. Primarily this is inflation growth. It also assumes that the North Slope pipeline will begin to produce oil by June 1977.

Mr. Eppenbach reviewed the contents of the General Fund Projections Report, which include:

1. Chart displaying impact of various FY 1975 budgets
2. Summary of Expected Revenues
3. Chart displaying liquidity impact
4. Liquidity Analysis
5. General Fund Projections

Representative Warwick noted that the report projects \$150 million in additional revenues. Where are we getting that? Mr. Eppenbach replied that there are a number of options available. How that need is satisfied, is up to the Legislature.

Mr. Warwick questioned whether \$150 million is an arbitrary figure. Mr. Eppenbach replied that the amount is not arbitrary; however, the source is.

Senator Ray asked how Mr. Eppenbach anticipated that the administration will provide additional monies to run the State. Mr. Eppenbach replied that he is not personally familiar with the latest plans of the administration with respect to that. He said it is of immense concern to the administration, and they are examining many options. He felt that it is a problem of all Alaskans, and no one can delegate away that responsibility. Senator Ray replied that he understood Mr. Eppenbach's statement to mean that this is a joint responsibility of the administration and the Legislature.

Mr. Eppenbach then offered explanations of the charts contained in this report. (See Revenue file).

Senator Groh noted that if you add up the figures on Run 04, it appears we will be at least at \$450 million-- between \$450 and \$500 million; Run 07 was projected on a \$450 million budget with \$150 million more in additional revenue. He stated that, exclusive of the options Mr. Eppenbach has discussed--additional North Slope lease sales-- we obviously have to mortgage something if we are going to get additional money. He asked whether the administration will propose a substantial tax increase to cure the deficit problem. Mr. Eppenbach stated that he is not aware of the final decision in that respect. He is aware that a number of tax measures are being reviewed at this time; however, he did not know which measures may be introduced.

Representative Warwick asked if Mr. Eppenbach could tell us which measures are being proposed. Mr. Eppenbach said he could not at this time.

Representative Warwick asked what was built into these projections as far as oil and gas? In oil, a price increase is indicated. What about gas? Mr. Eppenbach replied that a 30 cent per m.c.f. increase is projected.

Representative Freeman referred to Run 04, Interest Rate on Bonds. Are the Governor's new bond proposals cranked in here? Mr. Eppenbach said "no, not every new bond." He said they have stuck with an assumption made several years ago, that there would be about \$100 million more each year.

Representative Freeman remarked that if we had no bonds for that year, we would reduce some of this, but would still have a substantial debt service burden.

Answering Representative Barber's question, Mr. Eppenbach said gas revenue was cranked into this. Representative Barber wanted to know if it is indicated where gas comes in, or is it called "oil"? Mr. Eppenbach replied that it was combined under the term "gas and oil." He said gas is assumed to flow in FY 1979-80. This is found on the projection sheet beginning about 1980. Representative Barber felt it should have been indicated more clearly.

Representative Warwick noted that it appears we will be relying 70 to 80% on oil and gas revenues. What will happen when the reserves start to deplete? Mr. Eppenbach replied that, in his view, we should start a multi-purpose reserve fund at the time the oil starts to flow. Mr. Warwick asked if he had run these projections further than 1985? Mr. Eppenbach said the petroleum revenue has been projected over the life of the Prudhoe oil field. He felt the value of projections is questionable when you attempt to project beyond a 3-4 year period.

Representative Warwick noted that the least optimistic of all the runs shows that in 1983 we will have a surplus of \$3.2 billion. Mr. Eppenbach said that assumes the operating budget will increase 8% a year, which he felt was reasonable. He said he must admit that following the "crunch" period, he can see the budget going up greater.

In response to Representative Warwick's question, Mr. Eppenbach replied that he felt we will need a 15-20% increase (as the budget grows larger) to eat up the surplus.

Senator Groh suggested that the finance committees meet with the Governor at an early date to resolve what we will do when we "run out of dough." It seemed to him that the longer the decision is delayed, the worse it will be. We should resolve whether (and how) we are going to take care of it this year.

Semi-Annual Investment Report Supplement. Mr. Eppenbach explained that this report is prepared every six months. The first page displays the balance in our various investment accounts at the end of 1973, compared with the end of 1972. Technically speaking, the value of the General Fund can only be determined once a year; however, every month a cash approximation of it is made.

Senator Groh questioned whether the loan and mortgage programs, such as State Veterans' loans, AHFC, etc. are listed at matured values. Is this what the debt is in these various programs? Mr. Eppenbach said these are the cost values.

Mr. Lee Prussia, Jr., Vice President of Bank of America, presented some background information concerning the bank's involvement in the management of the State's account since 1969. He stated that by the end of September 1969, they had invested about \$900 million on behalf of the State. About \$100 million went into Alaskan bank deposits and the balance was under Bank of America's active management, along with the State administration. Since then, they have maintained a very active

management account. Mr. Prussia said over the life of the account, the yield that has been produced runs to a level of about 7-1/2%. They have also realized a capital gain of about one-quarter of one per cent. He felt that this is a good investment record considering the types of investments they are limited to (U.S. government securities and bank deposits).

Mr. Prussia commented that the relationship between the State and the bank has changed significantly over this period of time. He said the capabilities of the Office of the Commissioner (Revenue) have increased enormously. He felt that Alaska has a first-class investment staff.

Mr. Prussia stated that the strategy has been one of managing for maximum return. They have emphasized liquidity very strongly.

Mr. Gene Evanskaas, Bank of America, distributed a report from the Bank of America. He noted that the weighted average yield to maturity on account is 7.6%. Since their last meeting with the Investment Committee, this has somewhat increased. In December, 1973, it was 7.49%. They show the weighted average life of the account at three years and two months (page 4). He stated that page 5 will give an idea of the present value of the account. A historical perspective of the account is presented on page 7.

The meeting recessed at 10:00 a.m.

AFTER RECESS
10:30 a.m.

Mr. Prussia presented some remarks concerning the Bank's outlook for the economy. Their present forecast is that the economy will slow up this year. However, they felt the nation will be able to avoid a recession, but will come very close to one. The longer the energy crisis is prolonged, the more likelihood of having an actual recession. This is not very good in relation to 6% last year. However, Mr. Prussia said, they expect the inflation spiral to be worse this year. Last year's price increases at the consumer level were 6-1/2%. It is now running about 8 to 9%. They expect 7-1/2-8% for the year 1974 as a whole.

He noted that various sectors of the economy are expected to show weaknesses in the consumer sector, particularly the automobile industry.

Mr. Prussia reported that they expect the sale of consumer durables to be down somewhat. Housing will be off about 20% from last year. The rest (about 50%) will continue to grow (food, clothing, services, etc.).

Mr. Prussia felt investment opportunities will be very strong, limited by ability to satisfy demands in this area. He said we are in the beginning phase of a prolonged investment boom in the United States. The federal government is expected to become a bigger demander in the economy. State and local governments will be increasing expenditures at a good rate in the period ahead.

Regarding inflation, last year the rate of inflation was just under 3-1/2% (1972). The 1973 rate was between 6-1/2-7%. Inflation rate for 1974 will increase somewhat further, but will moderate slightly in the latter part of the year. Mr. Prussia predicted that most of the price control measures will be dismantled this year.

Mr. Prussia recommended that some part of Alaska's funds ought to be invested in equities that provide an inflationary hedge.

Mr. Prussia felt the stock market had just been through a difficult period. They are optimistic about the stock and bond market. Long-term bond rates may descend a little in the next few months, but will be moving up again. He felt Alaska's account has been managed with a very important eye to liquidity--a very strong short-term position. He felt this is a good market strategy, and they will continue to recommend it. With declining interest rates, Alaska can realize some capital gains or minimize some losses. This will put Alaska in a good position to meet its cash flow requirements through 1977. Alaska will then be able to take advantage of the opportunities that will arise in a later period.

Senator Groh noted that assuming a budget of \$450 million and a deficit of \$200 million, the \$900 million will be gone in two years. He asked how this would affect Alaska's ability to finance in the future. Mr. Prussia stated that during the period prior to 1969 the State's credit standing was not very good, because of the character of the economy. It was rated a "weak B AA on the investment scale. Since the oil lease sale and the good management of the State, the rating is a "strong" B AA. He felt with continued good

management by the State and the continued responsible attitude on the part of the legislature and administration the bond rating should be picking up. He added that in the near future it could become a "goldplated" rating.

Senator Butrovich said they must realize that along with the \$900 million, they also are exhausting the earnings, which is 25% of the principal.

Senator Groh noted that initially they received about \$18 million into the stock account. He said they are down about \$4.3 million, for various reasons, including a slumping stock market. He asked if Mr. Prussia was recommending that they stay in the stock market?

Mr. Prussia stated that they felt at least some part should be devoted to equity investments. The market has been off, as a whole, 20% or more since 1973. He felt they are nearing the end of that prolonged period and was optimistic about equity investments in the future.

Representative Warwick said it seemed to him that investing in equities is far more risky than investing in bonds. He asked if, coupled with the political risks, Mr. Prussia did not feel it was foolish to invest governmental funds in the stock market? Mr. Warwick asked what Mr. Prussia's projections for the future were based on. Mr. Prussia replied that they think that all the factors which produced a bear market are at an end. The future of the market looks better for this type of investment. Even in a bear market, the key to success is portfolio selection.

Mr. Warwick stated that this is about the same thing Mr. Kennedy told the committees last year. He asked if Mr. Prussia felt they should ignore what happened last year and stick with the market. Mr. Prussia replied that they should balance the investments. To make an \$18 million investment in equities is not an imprudent investment; however, if they put one-half or three-quarters of our total funds in equities, he would not recommend it.

Mr. Warwick asked if Mr. Prussia considered the stock market a long-term or short-term investment. Mr. Prussia replied that in Alaska's case, it would be a long-term investment. Mr. Warwick asked what is the State doing in long-term investments when Mr. Prussia recommended sticking with short-term, Mr. Eppenbach had indicated the State should stay with short-term and the Governor says stay with short-term. Mr. Warwick asked if there was not a higher degree of risk in equities--having to

liquidate them in a certain period of time, rather than in the stock market? Mr. Eppenbach replied yes; however, the real question is "what kind of risk are we accepting in the future." He said they are not going to allow the stock investment account to invest in risky companies. Mr. Eppenbach stated that over the last year they have seen a rotten market -- every indicator shows that the market will get better.

Representative Specking commented that Mr. Eppenbach had this same outlook at the time the State went into the equity market. He did not feel that the results were consistent with Mr. Eppenbach's optimism.

Representative Barber asked how soon they could anticipate the proposal or program to carry the State over the interim period when it will be low on funds. Mr. Prussia stated that they could come up with it in 4 to 6 weeks.

Senator Thomas asked if Mr. Prussia thought that taxing oil or gas might be one of their recommendations. Mr. Prussia replied yes, it should be on the list. He said he would rather not make any firm statements on this now.

Representative Freeman stated that last year when Mr. Kennedy appeared before the committee and talked about equity investments he had been asked if the State could expect to make money when the Dow Jones averages were down. Mr. Kennedy had advised that there is no connection between the Dow average and whether they make money. Mr. Freeman asked if Mr. Prussia agreed with this. Mr. Prussia felt that this was an oversimplification. He said it is a question of what has happened to equities as a whole. Mr. Prussia said that all factors have changed: inflation, long-term investment outlook, etc. All these factors should impact favorably on the stock market.

Representative Freeman asked whether Mr. Prussia felt the State was making the right selections. Mr. Prussia said portfolios should be appraised and reappraised continually. Basically he felt the State has a well selected portfolio. However, new factors are always coming into play -- it should be a constant reappraisal process.

Representative Haugen wanted to know what Alaska provides per capita for social services as compared to other states. He felt the State provides a lot of services for people that are also provided by the federal government.

Senator Groh thanked Mr. Prussia for his presentation. He then introduced Mr. Ivan Nelson, portfolio manager of Loomis and Kennedy, Inc. Senator Groh stated that Loomis and Kennedy has had full control of the State's stock investment account since June 1, 1973. Prior to that it was managed by four Alaskan banks and Loomis and Kennedy acted as investment counsel to the banks.

Mr. Nelson presented the committees with a report which covered two areas -- the outlook for the security market and a review of the portfolio.

Mr. Nelson said the economy late in 1973 began to show definite "withdrawal signs" and they expect this trend of economic slack to continue into 1974. He said they are not certain whether the slow down in business will be determined a recession in the actual sense; however, they are certain that the rate of economic growth will slow down. He said they expect the rate of inflation will be very high and unemployment will rise. They feel corporate profits will be off somewhat more than the Bank of America's projection.

Mr. Nelson said on the long term interest rate they are in agreement with Bank of America that there will be an intermediate peak in the second quarter of this year. At the end of the year the long term interest rates will be moving back up again.

Mr. Nelson said the heaviest hit areas will be the automobile industry and the construction (home building) industry.

Mr. Nelson said they are not "wildly bullish" about 1974 but they do feel they can be constructive. Security selection is important. As the stock market is going down there are securities that are going up. Mr. Nelson said the direction of the market is primarily the deterrent on whether you make money or you don't.

Mr. Nelson then spoke on the portfolio analysis. He said the North Slope equity portion is down about 4.9% (from June 1 to December 31, 1973). During that

same period the major index was down over 8% and the unweighted New York index was down 15%. He pointed out that they are doing better than the major indexes. However, Mr. Nelson said he realized that a "minus is still a minus" and their objective is to avoid these types of things in the future.

Mr. Nelson then explained the portfolio analysis in more detail.

Representative Freeman said that last year he had been skeptical and this year he was even more so in view of the fact that they had lost another \$2 million. He said that "everybody gets on a loser once in a while." Mr. Freeman said he would like some assurance that they would not hear this same story next year.

Mr. Nelson said this is an investment determination that everybody has to make. He said in the last few years the stock market has not been good but if you took the last 10 years and you had long term bonds as compared to the stock market it would be considerably better to have been in the stock market.

Mr. Nelson said that what has happened is that they have had a "shifting of gears in the economy." He said he thought the results of the last 7 months are indicative of the fact that this portfolio will be "turned around." He felt that the adjustment has fairly well run its course.

Mr. Freeman asked if based on Mr. Nelson's expertise he felt the State would be in a better position next year. Mr. Nelson answered yes.

Representative Barber asked if Mr. Nelson believed they would make more money in stocks as compared to bonds. Mr. Nelson answered yes. In answer to Mr. Barber, Mr. Nelson said as of January 1, 1976 it is very likely the portfolio will be terminated (even if there is a bull market). He added that he felt the chief short-term risk had fairly well run its course.

Mr. Warwick said that he had hoped Mr. Kennedy would return this year. (Mr. Kennedy had briefed the finance committees last year). Mr. Warwick said he hoped that next year Mr. Nelson would arrange to return.

Mr. Warwick said he would like to talk about probabilities. He asked what the State could earn in the bond market.

Mr. Eppenbach said their target would be 8%. Mr. Warwick asked about the probability of earning more than 8% (in the stock market). Mr. Nelson answered that he had confidence they would earn more, adding he thought the probability was 75%. Mr. Warwick asked about the probability of losing money (in the stock market). Mr. Nelson answered 40%. Mr. Warwick asked about the probability of losing money (in the stock market). Mr. Nelson answered 40%. Mr. Warwick asked what the probability is they will exceed by 50% the probable earnings of the bond market. Mr. Nelson said he thought "that would be higher than 50%."

Mr. Nelson said that he thought people who talk to investment counselors tend to believe they are "wedded to equities, common stock and that is not so." He said they made a dramatic shift in the portfolio in October. He added that you did not always have to be fully invested.

In answer to Representative Warwick, Mr. Nelson said if they were talking about number games and probabilities, he thought the probability of the equity market in 1974 would be well above 50% (that it would do better than the bond market). Mr. Warwick asked if Mr. Nelson would have made this same statement last year. Mr. Nelson said he would not have been as optimistic last year.

Senator Groh said the report indicated the stock investment account on December 31, 1974 was 18.6 million. The account on December 31, 1973 indicated a decrease of \$2.5 million. Senator Groh said the Loomis & Kennedy portfolio indicated a total of \$13.7 million (or a loss of another \$2.3 million). Senator Groh said if the State sold now the total loss would be \$4.9 million. Mr. Eppenbach stated yes, but that is the loss from the highest possible cost value.

After a brief discussion, the committee adjourned at 11:45 a.m.

SENATE/HOUSE FINANCE COMMITTEES

February 11, 1974

9:05 a.m.

Present: Senator Groh, Senator T. Miller; Representatives Ose, Freeman, Barber, Specking, Ferguson and Meekins.

From the Department of Revenue, Commissioner Stevenson, Larry Eppenbach, Phil Wall, Fred Boetsch, Dick Alexander, Larry Carroll, and Ralph Kimlinger.

Mary Pat Murphy, AP, and Joe LaRocca, news reporter, were also present.

DEPT. OF
REVENUE

Senator Groh called the meeting to order and stated the purpose of the hearing was a report from the Department of Revenue concerning revenue projections.

Copies had been distributed to all finance committee members. Commissioner Stevenson told the committees that he would go through each schedule and if there were questions he would be glad to answer them.

Relative Ranking of Net Taxes and License Fees Collected
by the Department of Revenue During the Fiscal Year 7/1/72
to 6/30/73.

Commissioner Stevenson explained that this schedule did not include the new property tax.

Representative Specking asked where the State stood regarding the federal suit on corporate income tax on the Sitka Pulp Mill. Mr. Boetsch stated that he was not aware that this situation had reached the suit stage. Mr. Boetsch said their policy with federal audits has been to wait until they get the report before making an assessment. Representative Specking asked if there are additional taxes that have not been collected. Mr. Boetsch said there is a possibility of this -- depending on the results of the federal audit which has not been received yet.

Cumulative Summary of Revenue Collected 7/1/72 through
6/30/73

Senator Groh asked if the Department was proposing any measures involving tax reform adjustment. Commissioner

Stevenson said that legislation had been introduced last year regarding income tax laws in general. Another bill was the elimination of investment credit. In answer to Senator Groh, Mr. Boetsch stated that House Finance has been hearing testimony on the revision of individual income tax. He said this revision in the rate schedule would result in a slight decrease in the lower and middle brackets and a slight increase in the higher brackets.

Senator Groh asked if there were increases in other areas. Commissioner Stevenson said there was a proposal last year on the motor fuel tax but there were problems on this that exist today that did not exist a year ago. There was also a proposal to increase the cigarette tax which passed the House last year.

Senator T. Miller asked if these weren't "nickel and dime" taxes in terms of the large gap in the State's projected spending and income. Commissioner Stevenson agreed. He said there are studies presently going on in regards to natural gas tax and severance taxes (such as taxes on timber).

Cumulative Summary of Revenue Collected 7/1/73 through 1/31/74

Commissioner Stevenson said this schedule was prepared in November and would have to be readjusted. The revised estimates appear on page 53 of the Revenue Source book.

Unrestricted Revenue FY 1972-73 - No questions on this schedule.

State of Alaska Bank Deposits as of December 31, 1973

Representative Meekins asked what unrestricted revenues meant. Senator Groh said funds that were earmarked prior to statehood could continue to be earmarked. The unrestricted revenues are not earmarked for any particular fund.

All-State List of Excise Taxes on Alcoholic Beverages

In answer to Senator Groh, Commissioner Stevenson said this schedule indicates flat taxes per gallon.

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Alaska is the second highest state on tax rate per gallon for hard liquor. Alaska is the seventh highest on beer tax.

All-State Cigarette Tax Rates and Taxation of Tobacco Products

Commissioner Stevenson said 7 states have a lower cigarette tax rate than Alaska. 28 states including Alaska do not have a tax on tobacco products (cigars, etc.) Senator Groh said if the cigarette tax rate is raised from 8¢ to 12¢, how much additional revenue would this produce? Commissioner Stevenson said about \$1.9 to \$2 million.

All-State Motor Fuel Tax Rates

Representative Specking asked the rationale for no tax on liquid petroleum gas. Commissioner Stevenson said the rationale was "an environmental set-up might be a better deal." Senator Groh said he did not think there was any rationale for no tax.

Representative Barber questioned whether or not a tax could be imposed on the tankers going to Japan. Senator Groh stated that he did not think the State could tax these exports -- it has to be a retail tax rather than a wholesale tax. Mr. Homer Burrell, Director of the Division of Oil and Gas, stated that in his opinion it is illegal for the State to tax these tankers -- this would be preempted by federal law.

Senator Ray entered the meeting.

Commercial Fishing Licenses Receipts, Calendar Year 1973

Mr. Kimlinger explained this schedule. He stated that the number of commercial fishing licenses has increased because of the limited entry. Representative Specking has what this increase is. Mr. Kimlinger said he did not have the actual percentages with him. There has been a marked increase in troll line and various gear types.

Sport Fish and Game Receipts, Calendar Year 1973

Mr. Kimlinger stated that with the advent of the limited

gas supply, there has been some speculations these figures might be a little high. He said they did not know what to expect as far as non-resident licenses. Representative Specking stated that he has not had any decrease in the number of inquiries. He added that most of the non-residents did not come to Alaska by automobile.

Gross Commercial and Sport Fishing and Hunting License Receipts 1964-1973

Senator Ray noted that there were 6,658 25¢ licenses indicated on the schedule. Commissioner Stevenson stated in order to get a 25¢ license there is a family income limitation of less than \$3,600 per year. The applicant has to sign an affidavit indicating their family income is less than \$3,600. Senator Ray noted the number of 25¢ licenses had increased (in 1966 \$1,166 in revenue and in 1973 \$1,664). Senator Ray added there were approximately 700 more people (receiving 25¢ licenses) in 1973 as compared to 1965. Representative Specking said some of these "families" are probably adult single males and females. Senator Ray said the applicant would have to be in Alaska for a one year period. Senator Ray added that he was not opposed to the "normal Alaskan in dire need" receiving these licenses but he would question whether a person should have a subsistence license and be allowed to catch and sell fish. Representative Specking agreed there were some "real ambiguities" in the program. In answer to Representative Meekins, Mr. Kimlinger said there had been a study done on this in 1970 or 1971 that could be made available to the legislators.

Motor Vehicle Registration by Area 1962-1973 Calendar Years
Motor Vehicle Registration by Type of Vehicle 1947-1973
Calendar Years

Mr. Phil Wall explained the two schedules. Senator Groh said he had heard estimates that there were about 10,000 snow machines. He questioned why there were only 5,000 registered. Mr. Wall said the problem had been the lack of compliance. In answer to Representative Meekins, Mr. Wall said the only place they have received complaints has been from the Anchorage area. More than half of those who registered, registered with complaint.

Representative Specking questioned whether the number of licensed cars should be greater. He said he felt there

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were vehicles with out-of-state licenses that should be licensed in Alaska. He wondered whether the people living in Alaska were aware of the requirement of licensing after they have worked in Alaska for 10 days. Mr. Wall said this has been a problem. They are working on a program which they will begin at Tok. They propose to put a decal on the tourist vehicles. The military has agreed to place decals on their vehicles. This will enable the Department of Public Safety to readily spot tourist and military vehicles and should help with enforcement of the 10-day requirement. Representative Specking suggested that an educational program would also help. Employers could emphasize the requirement to new employees.

Representative Meekins asked how they could improve the snow mobile licensing. Mr. Wall said he felt at the State level this would be very difficult. In the rural areas snow vehicles have replaced the dog teams. Senator Groh suggested that the snow mobiles could be licensed at the time the dealer sells the machines. Senator Ray questioned whether this would be just in view of the fact the snow mobiles cannot be used on the highways. Representative Freeman stated that he sells snow mobiles and was not aware of the licensing requirement. Representative Meekins added that licensing would help in proving ownership.

Senator Ray referred to Mr. Wall's comments on placing decals on vehicles at Tok. He suggested this should also be done at Haines. This was briefly discussed and the meeting recessed at 10:00 a.m.

Recess:

After Recess
10:45 a.m.

Present: All members of the House Finance Committee were present with the exception of Reps. Warwick and Haugen. All members of the Senate Finance Committee were present with the exception of Senators Palmer and Sackett. The same persons testifying at the commencement of this meeting were present after recess, along with members of the press, interested persons, and Senators Miller and Rettig.

Chairman Groh called the meeting back to order at 10:45. Mr. Stevenson introduced Mr. Homer L. Burrell, Director of the Division of Oil and Gas, and the Acting Petroleum Engineer, Mr. Hoyle Hamilton.

Mr. Stevenson referred to page 54 of the Revenue Source Book which gives revenue projections from income, excise and other direct taxes, and asked Mr. Burrell to explain the oil and gas tax figures to the committee, which had wondered when the revised estimate figures had been submitted. Mr. Burrell said that these are the numbers that were submitted in November. He directed the committee's attention to a chart on the wall which was a graph representing production (in millions of barrels) versus time (in months and years). Mr. Hamilton explained that production is now slightly over 6 million barrels per month. They are estimating a decline in production of approximately 11% per year until the time when Prudhoe Bay begins producing (projected for July, 1977). At that time they anticipate a substantial increase carrying on until 1979 at which time they estimate production at 2 million barrels per day, which will be the pipeline's capacity.

Asked about projection accuracy, Mr. Burrell said that they have had within 1% accuracy in estimating production. However, the oil pricing situation is extremely volatile at this time and projections are extremely difficult to make. Prices are going anywhere from \$5 to over \$20 depending on who is buying and from whom. Mr. Burrell continued, stating that they have made some assumptions in making their forecasts. They have assumed that price controls will go off of oil. The Cost of Living Phase 4 expires in April but oil is under a new law which expires February 28, 1975. There have been various proposals to Congress which would keep controls on the price of oil -- should any of these proposals carry, the estimates will be inaccurate. The Department in its projections has made the assumption that the free market is going to control the price of oil, he reiterated.

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Senator Miller asked what they are now estimating as the wellhead value at the Slope when production begins. Mr. Hamilton said that their forecast estimate is based on \$3.78 for today, and assuming that the price will escalate \$1 per barrel each year for the next four years and thereafter, 50¢ per year. Thus, by 1978 the estimate would be for a wellhead price of around \$7 per barrel.

Senator Miller asked Mr. Burrell if he feels that their approach to these estimates is fairly conservative, noting that it has been the policy of the state to take a more conservative approach to their projections. Mr. Burrell said that assuming the free market situation, it is a realistic estimate, he feels. Senator Miller asked what they would have estimated a year ago, and Mr. Burrell said probably about half of their estimate now. He noted that there have been two price increases in the month of December. He found the estimate for the price per barrel when Prudhoe is in production; it is \$6.89 per barrel.

Mr. Burrell read an excerpt from the Oil Daily of February 6, which stated that Union Oil has just posted for Signal Hill, 26 gravity crude oil free of price control, a price of \$9.45 per barrel.

Senator Groh spoke of the \$2 hundred million deficit facing the state and asked if there are any plans for conducting a lease sale this year. Mr. Burrell said that he doesn't know of any planned for this fiscal year. He said that there are a lot of considerations that go into an oil and gas lease sale. For instance, there are some exploratory wells drilling in the North Slope now -- what will they find? Who owns the land? He spoke of offshore land which is now in contention. The federal government has said that they will enjoin the sale if the state attempts to sell it. Also, he mentioned, the U.S. Army Corps of Engineers is required by law to make an environmental impact statement before there can be a lease statement. This would be about 3 years away from now. Another question is should the state lease those lands when people wouldn't even know if they will be able to drill them or not. There is a question of strategy, too; and he cautioned that by a forced sale value is discounted.

Senator Groh expressed considerable concern again over the financial condition of the state and stated that he felt it is important that the state examine now it's alternatives and if these alternatives require planning in advance perhaps it is time to begin these plans; for example, getting the Army Corps of Engineers to make preparations for doing their environmental impact study of the land in question.

Eppenbach was looking at is Run 4, which projects the \$450 million budget this year, and said that he feels it is unrealistic to anticipate only an 8% budget increase in 1976. Senator Rettig asked Mr. Eppenbach how the supplementals figure into these calculations, and Mr. Eppenbach said that they do not -- the \$450 million would be inclusive of all supplementals. Senator Rettig indicated that he, too, feels that Run 4 is unrealistic. Asked about the 8% increase, Mr. Eppenbach said that the 8% would not provide for a substantial increase in the budget, but would allow for normal growth. He said that he was building in a 4 to 5% increase rate for inflation and 2 to 3% increase for essential items.

Senator Groh felt that considering this year's 30% increase that an 8% increase is most unrealistic. He noted that if we figure on another 30% increase, the state will run into deficit considerably sooner than Mr. Eppenbach predicted. There was considerable discussion on this matter, and Senator Ray reminded the committee that the Governor can "red line" any part of the budget he wants to and so he has considerable control. He felt they were overlooking the fact that as Governor Mr. Egan would have considered the options that are available.

Senator Rettig asked Mr. Eppenbach how he expects the "gap to be bridged" between now and the time the pipeline opens. Mr. Eppenbach said that he thinks a balanced solution is needed. It was his contention that any single solution is unrealistic. One component of a balanced solution is the additional bonus sale spoken of -- but that timing of that and amounts of revenue that could be expected are information not made available to him.

Senator Butrovich asked if there is any chance, because of the "energy crunch", that the federal government might hold Alaska sales where the state still gets its 90% on the filing, and Mr. Eppenbach said yes, but that is only 50¢ an acre. Senator Butrovich said that he was aware of that but that it would mean rapid activity.

Mr. Burrell said that part of the problem in Alaska right now is the unavailability of land. The state has deed to lands tied up, offshore lands, lands for selection by natives; and just not too much land available for drilling right now. Mr. Hamilton noted that the federal government could not lease the Gulf of Alaska today if they wanted to. He noted that Nixon has directed the Army Corps of Engineers to proceed with an environmental impact study of that area, but it has not been done yet. They were given a year to do this. There is some question as to whether or not technology is sufficient to deal with some of the difficult climatic conditions in that area.

Mr. Freeman asked if it is correct that Mr. Eppenbach's function to the state is essentially that of a banker and Mr. Eppenbach said yes. Mr. Freeman, noting that of course a good banker

seeing that materials are provided as needed. Mr. Burrell said that he does think that that is a possibility, and that he thought that pressure from the federal government to get this moving will override the normally expected delays. Mr. Freeman asked if then a more optimistic production date couldn't be set, and Mr. Burrell said that he did not think it would be realistic to think in terms of anything before July 1977.

Senator Rettig asked what general fund surplus Mr. Stevenson calculates at the end of FY 76. Mr. Stevenson said that this is a question Mr. Eppenbach could better answer, and as he was not present at this time, Senator Rettig held his question until he returned to the room.

Senator Lewis asked what measures the federal government would take to hasten pipeline construction. Mr. Burrell emphasized that he was saying "could" take, not necessarily "would" take. He said that essentially what they could do is to speed up delivery of raw materials by making this a priority. He said that he thinks the biggest problem is going to be the Valdez Terminal and getting enough iron for that.

Senator Lewis asked what is being done now, and Mr. Burrell said that they are moving as fast as they can in light of the fact that they don't have all their permits yet.

In response to continued questioning by Senator Rettig, Mr. Burrell stated again that assuming this high priority is placed on getting materials to the state, the normal delays will be offset, but that the earliest projection for completion of pipeline construction is July, 1977.

Returning to the lease sale discussed earlier, Mr. Meekins asked if the jurisdictional dispute is being litigated now or is it still up in the air, and Mr. Burrell said it is still up in the air. Mr. Meekins then asked if establishment of the Pipeline Commission will necessarily have an impact on the time it takes to complete construction and Mr. Burrell said that he did not think so.

Mr. Eppenbach returned to the committee room and Sen. Rettig's question about the general fund surplus was posed to him. Mr. Eppenbach said that assuming a \$459 million budget for FY 75 there would be a \$55 million deficit in FY 77. He said that it is difficult to focus on a particular month for the deficit taking effect; he would say these forecasts are made as of the end of the fiscal year, but in fact the months of greatest impact may appear at the beginning of the year when the past year's bills hit. This forecast was mechanically made for the end of FY 77. Senator Groh explained that what Mr.

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does not gamble too much, asked Mr. Eppenbach if speaking as the state's banker, if the legislature or the governor handle the budget in a manner such that in order to make it balance it is necessary to have a lease sale, would this be his recommendation. Mr. Eppenbach said that he feels to put oneself in the position of having to count on any one alternative is imprudent. He said that the state has several alternatives. One of these alternatives, though he was not saying that this was his recommendation, is debt financing. This would require very careful planning, however.

Senator Ray reiterated his contention that the Governor is the person to speak to about financial alternatives at this point.

Senator Rettig asked if short term borrowing by the state to "bridge the gap" is acceptable under Alaska's constitution. Mr. Stevenson said yes, that provision had been made at the time of the earthquake. Senator Groh asked if the administration needs any additional legal authority in case they should decide to choose the option of debt financing and wondered if that would require a vote of the people. Mr. Eppenbach said that he thought they should amend the statute because the intent of what was provided before was for intra-year borrowing and this would be longer term. He said it would not have to go to a vote of the people.

Mr. Meekins requested that budget projections be run off on the basis of a yearly budget increase of 10, 15, and 20%.

Adjourned: Meeting adjourned at 11:55.

HOUSE FINANCE COMMITTEE MINUTES

GENERAL BUDGET EXCERPT

Meeting of 2/21/74; (see bill minutes, P. 73)

General discussion then followed regarding the effective date of the bill, and the possibility of the legislature making additional appropriations to the fund.

Rep. Specking told the Committee that he would check further into the legal points of this proposed legislation and report back to the Committee.

GENERAL
BUDGET

Rep. Freeman then called the Committee's attention to Rep. Haugen's request that the staff obtain a list of lapsed funds. Rep. Meekins requested that the lists include information from two and three years back.

Rep. Specking then asked if it were possible and might be valuable to have a complete summary of all unfilled positions. Rep. Barber wondered if unfilled positions aren't arbitrarily dropped. Mr. Barker replied that that was not necessarily so, and the Data Processing Coordinator was presently working on a list of unfilled positions.

Rep. Freeman then informed that Committee that the Data Processing people were ready to try more runs and wondered whether the Committee had any assumptions to run through on the run. Mr. Freeman said he had suggested Revised Programs.

Rep. Barber then asked if there was any computer control over the transfer of positions. Mr. Barker replied that he did not believe it possible to identify positions transferred. Rep. Barber said it could be competently handled if put in early enough.

HB 600

The next order of business was consideration of HB 600, an act making a special appropriation to the Office of the Governor (\$50,000) for the purpose of disseminating outside of Alaska written materials, advertising in media of all kinds and carrying out any other appropriate programs designed to give citizens throughout the United States a true picture of the employments possibilities in Alaska, especially as they relate to the trans-Alaska pipeline.

Rep. Meekins, sponsor of the bill, told the Committee that the appropriation bill he drafted is to save money. He said that a film could be made showing employment possibilities on the pipeline to discourage people that may wish to move to Alaska for that purpose. Mr. Meekins stated that many people in the rest of the nation are being laid off from jobs; this will result in an increase of people coming into the state seeking employment. This could result in a drain on social services, law and order; there would be an overcrowding of schools, etc.

Rep. Meekins told the Committee that persons enlisted to fend off those moving to the state by stationing themselves at airports are ineffective.

He then said that this would concern a \$150,000 appropriation.

HOUSE FINANCE COMMITTEE

April 3, 1974

8:35 A.M.

PRESENT All members of the Committee.

Operating Chairman Freeman called the meeting to order and stated they had several
Budget items to finalize with regard to the short form budget.

General Mr. Warwick brought their attention to the General Government Category,
Govern- where the total would be \$444.1 for property tax. This was agreed on.
ment

Social Mr. Warwick then went on to Social Services. He said there was some
Services sentiment for restoring the Board of Child Advocacy. Mr. Ferguson
moved they restore the funding. Mr. Warwick objected. The question was
called, and the motion carried.

Mr. Warwick went on to page 68 of the Social Services Short Form to
Food Stamp Eligibility. He was concerned that there were too many eli-
gibility workers. Mr. Haugen moved and asked unanimous consent that
they cut the eligibility workers to 81 positions. Mr. Ferguson asked
that one position be in Kotzebue. Mr. Haugen said he would have no
objection to that. The question was called, and the motion carried.
The new total for Food Stamps was \$1370.3.

Mr. Warwick then referred them to page 59 of the Social Services cate-
gory for Alcantra. Mr. Warwick moved that they accept the Governor's
figure. Mr. Freeman objected. There was no discussion. The question
was called. There were four in favor, and the motion failed. Mr. Say-
lors moved the figure zero. The question was called, and there were
five in favor, so the motion carried.

Mr. Warwick went on to Program Services on page 50. Mr. Warwick asked
Mr. Barker for a breakout on the allocation of Title IV and XVI monies.
Mr. Freeman noted this would take a little work, and suggested they
come back to it. The Committee agreed.

Mr. Saylor said that on the same page, he would like to see intent
that the Youth Center be transferred to Mat-Su for use in construction
of a high school in Wassilla. Mr. Ose objected to that.

Mr. Meekins moved that they reconsider the vote on Alcantra. Mr. Free-
man said the motion was out of order.

Adminis- Mr. Warwick went on to Administration of Justice. He said there were
tration some items not closed out. He moved that they accept the Governor's
of Jus- figure for the Judicial Council. There was no objection, it was so or-
tice dered.

Mr. Warwick said that Mr. Berrier had some information he wanted to
give them on the Court System Budget. The Committee agreed to hear
from him.

Senator Miller asked Mr. Stevenson for more detail about two of the possible approaches to increasing revenue which the Administration had brought up last year and which Mr. Stevenson had earlier mentioned, those being a. increase in the highway fuel tax and a timber severance tax. Mr. Stevenson said that considering the increased fuel costs, the former suggestion was probably unrealistic right now. The timber severance tax idea is based on the fact that for a number of years there has been no severance tax on timber, and this does seem a potential revenue source. Senator Miller requested more information on this and Mr. Stevenson agreed to provide it.

Rep. Freeman, referring again to the possibility of a lease sale, asked whether the state will be in a position of making less if this is a forced sale, and Mr. Hamilton said that any time there is a forced sale it is likely to be discounted.

Senator Rettig asked what the possibilities of a future lease sale on the North Slope are and Mr. Burrell said that there are some problems; the state does not have patent or even tentative approval on certain lands south of Prudhoe Bay that would otherwise be potential sites for lease. There is high potential there for both oil and gas, he stated, but the lands are under federal lease at this time, by in large, with some lands under private lease. These leases will expire soon, and when those leases expire the state could hold a lease sale.

Senator Groh asked how much land is available for lease near Prudhoe, and Mr. Burrell said that there are millions of acres, both offshore and on-shore. There are exploratory wells drilling today. Senator Butrovich asked how many exploratory wells are being drilled and Mr. Burrell said three.

Mr. Freeman asked Mr. Burrell how comfortable he is with the July, 1977, date for pipeline production. Mr. Burrell said that that is the date Aleyska is saying they will have it done. He said that under ordinary circumstances, those primarily being that construction in Alaska is nearly always delayed due to difficulty getting materials, weather difficulties, transportation problems, etcetera, he would add another year or so onto a projection like that. However, he felt that this is a matter of high enough priority that "all stops will be pulled" and money spent faster than would normally be good practice in order that this goal be met.

Mr. Freeman asked if it is not, in fact, a possibility that as a matter of national policy, the need for Alaskan oil might be so great that the federal government might offer assistance in

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Mr. Berrier said that on pages 124, 126, and 128 an across the Board 3-4% vacancy had been taken out. He referred to his memorandum to them which pointed out that their experience hasn't shown that much vacancy. He said they didn't anticipate anywhere near that much this year. He stated that if the money wasn't appropriated, they couldn't spend it, and they might end up \$150,000 short. He requested that this be reconsidered, and said that was their most urgent request.

Mr. Berrier said that in the Short Form, page 124, they were requesting 612.6 for the Supreme Court; and on page 126, they were requesting 4232.2 for personal services.

Mr. Warwick mentioned that a substantial increase in the budget was due to an increase in rent. Mr. Berrier said yes. He added that originally it had been 900,000. Now, it is down to 610,000 because building was deferred.

[Mr. Berrier left the meeting at this time.]

Mr. Warwick moved that on page 128, line item 400 be increased by \$70,000, that contractual services be increased to \$281.1 and that on page 126 contractual services be \$3432.1. There was no objection, it was so ordered.

Natural Resources Mr. Barber referred them to Natural Resources, page 46 of the Short Form, Fire Suppression. Mr. Warwick moved 228.7 to fund the positions, while leaving other figures as they were. This would make for a new total of \$1806.4. There was no objection, it was so ordered.

Educ- tion Mr. Warwick went on to the Education Category. Mr. Haugen moved they accept the figure for the Council of the Arts. The question was called, and there were five in favor.

Mr. Ferguson brought up ARTTC. He asked Mr. Guthrie to explain how they might be able to use federal funds for this. Mr. Guthrie said he had a phone call into Region X in Seattle to find out whether it was possible to transfer funds from ARTTC to the U. of A. He also was trying to find out whether these funds would be available for other students. Mr. Guthrie said they could go ahead and take the federal funds out of ARTTC and put it under the University, and if it wasn't received then it wouldn't be expendable.

Capital Budget Mr. Freeman brought up a request from Mr. McGill to maintain the King Salmon and Dillingham T.V. station at \$50,000. He wanted this included in the Capital Budget. Mr. Ferguson said he had talked to Mr. McGill about ETV, and it could be done for approximately \$15,000 per community. He said that he would like to see Kivalina get \$15,000 of this money. Mr. Ferguson moved \$50,000 for maintenance of the King Salmon, Dillingham, and Kivalina ETV stations. There was no objection, it was so ordered.

Mr. Freeman said he also would like to see \$40,000 to do engineering for a Hydaberg high school. He so moved. There was no objection, it was so ordered.

RECESS Meeting recessed at 9:35 A.M.

HOUSE FINANCE COMMITTEE

April 4, 1974

3:45 p.m.

Present: All members. Also present were the following: Milt Barker, House Finance Committee Fiscal Analyst; Jay Hogan, Director, Legislative Finance; Rep. L. Wilson; Rep. Orsini.

Members of the press in attendance: Robert Miller, Mary Pat Murphy, John Greely, Andy Williams.

CSHB 465
General
Budget

Representative Freeman, Chairman, called the meeting to order. The purpose of the meeting was full Committee final consideration of the FY 75 State budget.

Representative Freeman presented the following concept to the Committee members:

Operating & Capital Budgets in General Funds:	\$372,700,000
Municipal Assistance, Direct Appropriation for Pipeline Impact:	5,000,000
(Fairbanks - \$2,000,000)	
(Anchorage - \$1,700,000)	
(Valdez - \$1,100,000)	
(Big Delta - \$200,000)	
State Employees:	27,000,000
Grants to be disbursed by Governor and Budget & Audit Committee:	<u>10,000,000</u>
	\$414,700,000

Representative Freeman told the Committee that he felt that all the items listed above should be brought together under one bill (the Finance Committee Substitute for HB 465, an act appropriating for the operating and capital expenses of State government; and providing for an effective date). He stated that he had instructed the Finance staff to begin running (data processing) and printing this concept in case the Finance Committee decided to accept the above approach. Rep. Freeman said that the leadership expected the bill to come down this afternoon at 5:00. Although the bill cannot be completed by that time, the first page of the Committee Substitute can be read across the floor.

Regarding the direct appropriations to Fairbanks, Anchorage, Valdez, and Big Delta for municipal services' pipeline impact,

Rep. Freeman stated that he had spoken with the City Manager and other representatives of Valdez. Rep. Freeman said he asked them what they felt Valdez would need for pipeline impact; their reply was \$1.5 million. Rep. Freeman explained the direct appropriations concept to them; they were pleased to learn that Valdez would receive \$1.1 million under this approach. Rep. Freeman said he did not know how the other three communities would respond to the concept.

Rep. Freeman then told the Committee that the Governor's Impact Budget totalled \$16.2 million in General Funds. He then said that during discussion with Administration, it was learned that the figure was simply an estimate; they do not really know how much money will be needed or for what purpose. Rep. Freeman felt that the money should be allocated when and where the needs actually arise. He had, therefore, allocated \$10 million to the Office of the Governor with legislative intent that the money will be disbursed through the Governor and Budget and Audit Committee channels. This will provide a control over the funds and result in prudent allocation.

Regarding the FY 75 allocation for the state employees' pay increase, Rep. Freeman told the Committee that Mr. Hogan had felt that the amount could be cut down from \$30 million to \$27 million. Mr. Hogan explained that the \$27 million breakdown of General Funds required for FY 75 covers the state employees' pay increase and benefits as proposed by the Governor and the Tri-Trades settlement (which includes judges and professors' salaries).

Rep. Meekins asked if anything had been done with vacancies. Mr. Hogan said, "No". Rep. Meekins asked if this will cover the judges. Mr. Hogan said that the vacancy amount would cover those positions. He added that of the major agencies, the conservative estimate for vacancy is 10% which will be \$2.7 million. He told the Committee that the University of Alaska is included in the FY 75 budget but not in the supplemental; but enough money will be available to cover the judges' salary increase and others.

Rep. Barber asked Rep. Freeman if the Senate Finance Committee had concurred in this approach of including the impact budget in this particular bill. Rep. Freeman said he had discussed the matter with Senators Groh and Ray. Sen. Groh had no objection, particularly, while Senator Ray had doubts over the municipal services' direct appropriations for pipeline impact.

Rep. Freeman told the Committee that the approach he had outlined is mainly a vehicle to bring down to the House; it is a starting point. He said that he cannot, in good conscience,

have the budget (which could go as high as \$500 million) go down from Committee much higher than \$420 million; to do otherwise would show a lack of effort on the Committee's part to reduce State spending.

Rep. Freeman then stated that he had talked to all the members on an individual basis regarding this budgetary approach, and he felt that it was prudent due to the time element involved, to instruct Mr. Hogan and the Finance staff to begin printing the bill as outlined above in case the Committee did approve the concept.

Rep. Meekins said that he might object to the figures involved with municipal services' direct appropriations because he had not yet looked into the matter as yet; he said that regarding the \$10 million for impact which will be channeled through the Budget and Audit Committee, had had been advised since talking with the Committee Chairman that there may be some trouble in that area.

Rep. Fergusn then said that the City of Barrow is not listed anywhere as a recipient of pipeline impact appropriations; the community and borough realize there will be impact, and Rep. Ferguson will have figures shortly which will represent the amount Barrow needs to cope with the impact.

Rep. Freeman said that he did not expect that when the budget is considered by the House of Representatives that the figures outlined previously will remain unchanged. He is simply concerned that the concept is accepted. He said that he felt it beneficial to have the entire budget package laid out before all the legislators as is done in this approach.

Rep. Barber voiced his concern over the fact that the City and Borough of Fairbanks and Anchorage had not been split up as recipients of impact money. Rep. Freeman said his concept could be amended to include Rep. Barber's idea. Rep. Warwick then pointed out that one first class city has been overlooked--North Pole. He added that he had no objection to the concept just presented to the Committee, but he did question the amounts involved. He stated that the impact amount of \$10 million would be eaten up by the foundation unit which would leave \$3 million only for other branches of government.

Rep. Meekins asked where the \$5 million was located (the amount appropriated for impact during the 1973 Special Session). Rep. Freeman said that it was appropriated; the Legislature can repeal the law as Rep. Freeman proposes. Rep. Freeman said that no one can really project exact impact figures for the Alaskan communities.

Rep. Ose stated that the Committee had a hearing scheduled the following week regarding Alcantra; he said this might mean a change in the budget; therefore, how can they pass out the budget bill at this time. Rep. Freeman said that the budget will still be here Monday; besides, bills that pass after the budget is written, are then written into the budget (bills that require funding). Rep. Warwick then said that if Monday's testimony on Alcantra proves that Alcantra is a necessary institution, Rep. Warwick will not vote for the budget bill if Alcantra is not included.

Rep. Barber then said he did not know what the reasoning was behind limiting the impact budget to \$10 million as long as the Governor and the Budget and Audit Committee had control over the money. The sum could be increased in order to assure everyone that they will be taken care of, but the entire amount may not necessarily be spent unless the community can show justification. Rep. Barber said there is no justification for too small a figure.

Rep. Freeman said that when \$5 million was appropriated during the Special Session (to be disbursed by the Governor and Budget and Audit) for municipal assistance, the Governor did not feel that the municipalities needed too much assistance; therefore, no money was allocated. Rep. Freeman said it does no good to put \$50 million in municipality assistance for direct appropriation if no money goes out to the municipalities. But when the Governor's people are involved (hiring more judges, district attorneys, etc.), there will be more concern and consideration shown to pass Revised Programs.

Rep. Haugen then moved that the Committee report out CSHB 465 with individual recommendations. Rep. Ferguson objected for the purpose of discussion. Rep. Ferguson said that he had no objection to reporting out the bill if the Committee reported it out with Rep. Saylor's concept (see below).

Rep. Saylor then moved to amend the budget document as it relates to grants, the impact budget, and the total as follows:

Fairbanks North Star Borough	\$1.0
City of Fairbanks	.6
City of North Pole	.4
City of Anchorage	1.0
Anchorage Borough	.7
Valdez	1.1
Big Delta	.2
North Slope Borough	.2
City of Barrow	.1
	<u>\$5.3</u>

Increase the impact budget from \$10.0 million to \$11.0 million	11.0
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One additional \$1.0 million in grants for disbursement by the Governor and the Budget & Audit Comm. upon need	<u>1.0</u>
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The above combined with \$372.7 million for operating & capital budgets in GF and \$27 million for state employees	GRAND TOTAL = \$417 million
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Rep. Saylor moved and asked unanimous consent that the above amendment be accepted by the Committee; there being no objection, it was so ordered. The Committee then voted on Rep. Haugen's previous motion to report out CSHB 465 (as amended above) with individual recommendations; no objection, so ordered, and CSHB 465 was reported out.

There being no further discussion at this time, the Committee
Journ: adjourned at 4:35 p.m.

ED

JOINT SENATE/HOUSE FINANCE COMMITTEE

1:30 p.m.

sent: Senators Groh, Poland, Butrovich, Palmer (Senate Finance Committee); Representatives Freeman, Specking, Barber, Ose, Meekins, Saylor (House Finance Committee)

Mary Pat Murphy, Associated Press, Joe LaRocca, news reporter

EDUCATION

SCHOOL
BOARD
ASSOCIATION

Deputy Commissioner of Education Robert Thomas; Sue Greene, President of Alaska Association of School Boards; Herm Hutchins, President of Alaska School Superintendent's Association; William Overstreet, Executive Secretary, Association of Alaska School Boards; John Coffee, Superintendent of Schools, Juneau; Presidents of various School Boards: Dolly Farnsworth, Kenai; Evelyn Munsen, Bristol Bay; Marvin Davis, Kluock; Dave Wood, Fairbanks; Marilyn Freymueller, Juneau; Joe Montgomery, Anchorage.

Senator Groh called the meeting to order and introduced members of the finance committees.

Sue Greene, President of Alaska Association of School Boards, listed the following as being critical concerns of the Association:

1. The Association urged support for the bill which would form a central bonding bank. They felt it would benefit the State as well as the school districts. It would save some money for the State in this manner: When the school districts cannot sell bonds, they typically come to the Legislature, who then appropriates the money and builds a school. At that point, the interest is a high rate, based on the money market at that time. If there was a central bonding bank, the State could get a better interest rate.

2. The Association considers the Foundation Act itself to be top priority. They are requesting a \$2,000 per instructional unit increase in foundation funds. The total increase for the program would be \$7-1/2 million. She noted that all school districts are being hit with increased costs for fuel, supplies, equipment, etc. Also, they expect the APEA negotiations to have an effect on local school districts in terms of negotiations. She said they have focused on the Foundation Program because of the fact that it benefits all districts.

3. Pipeline Impact. The Association is very concerned about what is going to happen to school districts that are going to be hit hard during the pipeline construction period. The cities they see as facing the most critical problems are Fairbanks, Glenallen, and Valdez.

Dave Wood, President of the Fairbanks School Board, stated that Fairbanks is already experiencing some problems because of the pipeline. He said last week the Fairbanks school district enrolled 44 students that are directly pipeline-related from the oil companies. Mr. Wood stated that at this point, the school district is impacted with just their normal growth, particularly at the secondary level. He said they will be faced with double-shifting at the secondary level even if they had no pipeline impact.

Mr. Wood told the legislators that Fairbanks has a junior high school that has been condemned twice, and they will be forced to ask for another extension to use it again next fall. He said Fairbanks has passed a bond issue for a new school; however, the earliest possible completion date will be the Fall of 1975. He said their school business office has projected 3500 new students in Fairbanks this Fall--half again what they already have. He stated that ALEYESKA officials have told them they think those figures are conservative. He said they simply do not have room for students without double-shifting. He believed they will have to ask for 100% support for any "impact" students in the area. Mr. Wood testified that Fairbanks has prepared the school budget based on their normal growth rate (not pipeline impact), so if they get 3500 new students they will not have money to put them in the system. He said they would need about \$1600 per student if they had a double-shift. To acquire mobile units, they would need \$1800 per student. He said they have asked for these mobile units in outlying areas to make a modular elementary school in two areas. They expect the first increase this spring to be at the secondary level, based on the theory that the foremen and supervisors who will be coming up to work on the pipeline will be older people with older children. Mr. Wood pointed out, in connection with the mobile units, that the State could retain title to the units, and when Fairbanks initiates a building program for the permanent population, the State could use these units elsewhere. He said they are reluctant to initiate a permanent building program at this point, as they do not know what the permanent population will be.

Herm Hutchins, Superintendent of Schools, Valdez, said they are looking at planning for what is going to happen after one pipeline is built. He said they expect around 1000 students in Valdez. Presently they have 28 teachers on their staff and are expecting 32 new staff members in addition to that. He stated that the biggest problem is that Valdez has a limited tax base at this time; thus, they have a bonding problem.

Sue Greene remarked that Glennallen has an interesting problem which relates to transportation. They have so many students who must travel such far distances that some of them are on the road 4 hours a day. This makes double-shifting out of the question.

Mrs. Greene pointed out that there is an inter-relationship between what they are saying about SB 324, raising the instructional units, and pipeline impact. She said last year, it was calculated that \$20,250 would bring the Foundation Act support up to the level of support intended when the Act was initiated. They are asking the legislature to bring it up to last year's level; but in addition, are saying that it still will not be enough because of inflation, etc.

Mrs. Green said the Association had some questions about the Governor's budget. How was the \$7 million arrived at--through estimates from the districts or from other sources?

How many students are implied overall? Is it adequate? She said they have already heard from the school boards and are concerned whether or not the budget will be adequate to meet the forthcoming crises.

4. Another critical area is the Community Schools incentive bill (CSHB 48). The Association feels strongly that this has benefits for many areas of the State. They are convinced that it is a benefit that passage of this bill could address.

Mrs. Greene listed the following bills as being those the Association felt deserved support:

SB 48 - Computation of instructional units as basis for state aid for elementary school education under public school foundation program.

SCR 5 - changing reimbursement of transportation to cover reimbursement for transporting kindergarten children.

HB 292 - supports concept of foundation act to include pre-school education.

HB 592 - relates to allowing exceptional children to be included in education programs from the age of three.

SB 306 - supports increase in instructional units for those districts with over 3,000 elementary school students.

Senator Groh pointed out that the Governor's \$50 million budget has a built-in deficit of \$200 million. At the rate we are going, the North Slope oil money will be gone in two years. He said we are going to have a "lag" when we are going to be out of money unless we get some additional sources of revenue. He stated that the Legislature has consistently supported education. This year, the operating budget for education is proposed at \$220 million, of which \$105 million is for the Foundation program. The Governor is proposing a budget of approximately \$450 million for the whole State.

Representative Specking said he believed that probably Valdez faces the biggest problem of any city in Alaska. It is unable to absorb the problems because of its size and location. He asked Mr. Hutchins to comment on whether or not he feels that the Valdez school district could get by in the "interim" period before the impact provisions are passed. Mr. Hutchins replied that he felt they could handle it.

Representative Meekins asked Mr. Wood if Fairbanks has considered double-shifting and/or a year-round school program. Mr. Wood replied that they have studied the year-round school concept a great deal. They feel it will take 18 months to 2 years before they can educate the community and get the concept across. He felt it would be impossible to start it this Fall. They will

probably initiate it on a voluntary basis at first--possibly in the Fall of 1976. He said this could absorb about 30% of the load, but it would not completely provide all the help they need.

Representative Ose asked if Fairbanks was bonded to capacity. Mr. Wood said he did not think they were "bonded to capacity yet." In answer to Representative Ose, Mr. Wood said they are at a critical point with their junior highs and high schools. Even without the impact (and until their new high school is built) the administration was going to recommend double-shifting next year.

Mrs. Greene stated that there were two things that should be considered regarding year-round schools as a means of meeting the potential impact. One approach is a mandated attendance plan. This means that a district would dictate who would attend school on what dates. Mrs. Greene continued that in Anchorage the School Board has come to the point of considering a mandated attendance plan as opposed to double-shifting. The Anchorage School Board has indicated they would like to take this to the public by means of a vote. Mrs. Greene said that what is being discussed in some areas is a voluntary attendance plan; and while this is more palatable to the public, it would not meet most needs for year-round schools.

Mrs. Greene then referred to Senate Bill 69 (an act relating to year-round school programs within local school districts). She said they were concerned about the amendment (average daily membership being determined by 180 days). This would mean that foundation support would be available for a given student up to 180 days. After the 180 days, local districts would have to supplement or charge tuition. This would go against the educational purposes of providing time for a student with problems. They could not encourage him to attend an extra session for the purposes of keeping him caught up. It would also preclude any efforts toward accelerating any of the advanced students.

Senator Groh spoke briefly on central bonding banks. He asked how they contemplated this would function. Senator Groh asked if the State would have to approve the projects. Mrs. Green said the Association's interest in this is directed primarily toward the smaller districts that have difficulty in bonding.

Mr. Overstreet stated that if the State is going to do the bonding then the State would have to evaluate the projects. He said it seemed to him that this would be a double savings--Currently, if a small district cannot sell bonds, it comes to the Legislature and asks for a direct appropriation. The central bonding bank would provide a means for smaller districts to bond their projects.

Representative Freeman said he is having a problem with the word "impact." He said he thought there is a tendency for everyone "to get into the act." Representative Freeman said he hoped people with problems caused by "impact" would present

statistics and evidence to the Finance Committees to assure that these cases would not be "rip-offs." Mr. Freeman said he felt they had to fair with everybody involved. He referred to the central bonding bank, saying he would be a lot more inclined to make loans to communities in need if he had some assurance that the communities would pay the money back.

Mrs. Greene said that most of the school districts are budgeting for the next year on the basis of their normal rate of growth, with the hope that what can be identified as "impact" can be pinpointed. She said it is "an unbelievably painful experience" to be faced with the legal obligations to educate students. She said they do not want to under-estimate the potential crises during this pipeline period. She pointed out that some students will be getting the bulk of their education during the pipeline construction period.

Representative Specking said, with the passage of the ad valorem tax, the Legislature "stripped the communities of solving their own problems." A discussion on this followed.

Representative Barber asked if any thought had been given to a procedure or formula for evaluating impact. Mrs. Greene said she did not think they had addressed this specifically. Mr. Wood said, in Fairbanks, they have established, as closely as possible, what their normal growth rate would be. Their business office is doing a study on what the cost would be for any additional students.

Representative Freeman spoke on the pulp mill in Ketchikan, saying that at the time it was built, it had a large impact on their community, but it eventually had a very good economical impact.

Senator Butrovich pointed out that Aleyeska is the largest private enterprise in the country, and he did not think a comparison could be drawn with the pulp mill in Ketchikan.

Mrs. Greene said that the districts are not planning to construct for the impact. She said to do this would be a big gamble, and they are looking at alternatives.

Senator Groh thanked the associations for their appearance, and the meeting adjourned at 2:50 p.m.

JOINT SENATE & HOUSE FINANCE COMMITTEES

March 12, 1974

Tuesday

1:40 p.m.

Present: Senate Finance Committee members: Senators Butrovich, Groh, Palmer, Poland, Lewis.

House Finance Committee members: Representatives Freeman, Saylor, Haugen, Specking, Ose, Meekins, Warwick, Ferguson.

University of Alaska representatives: Dr. Robert W. Hiatt, President; Dr. Earl H. Beistline, Provost, Northern Region; Dr. Charles O. Ferguson, Provost, Southeastern Regional Center; Dr. Lewis E. Haines, Provost, Southcentral Regional Center; Mr. Max Hullinger, Vice President, Finance & Comptroller;

Members of the Legislature: Senator George Hohman; Senator Jalmar Kerttula.

Department of Administration, Budget & Management Division: Robert E. Jacobs, Budget Analyst; Myrton Charney, Director.

Also present were: Mr. Armen Sarafian, Project Director for Higher Education; Dr. Joshua Wright, Education Consultant.

Members of the press: Mr. Bob Miller, UPI; Ms. Elaine Mitchell, Educational Broadcasting; and Mr. Joe LaRocca.

Representative Oral Freeman called the meeting to order at 1:40 p.m.

EDUCATION

U of A

Dr. Robert W. Hiatt, President of the University of Alaska, told the Committees that he appreciated their response in allowing the university this opportunity to express their thoughts and concepts relating to the budget over the next few years. President Hiatt stated that he did not wish to go into any specific detail at this time but would do so later with the Education program category subcommittees; he would like to take this opportunity, however, to indicate his views on university statewide development.

President Hiatt distributed copies of his testimony to members of the Finance Committees (see U of A budget file for "Testimony on Aspects of the University of Alaska, Budget Request for FY 75").

President Hiatt told the Committees that he is aware of the financial "pinch" the state will be in until pipeline construction is completed and the oil is flowing. Because of this fact, the University of Alaska has not requested, to any considerable

extent, any new programs; the budget is already \$4.5 million below the maintenance level which was approved by the Board of Regents.

President Hiatt stated that the growth pattern in Alaska will vary drastically from that in other states within the next few years; therefore, any comparison of the education system here will have to be done with careful interpretation. Considerable growth, due to the pipeline construction, is anticipated in the Anchorage and Fairbanks areas. The Southcentral region is experiencing rapid growth in all units of education, particularly in Anchorage at both the community and senior colleges. President Hiatt said the community college there will continue to experience a rapid growth due to the fact that it will be providing training for people working on the pipeline or on subsidiary projects.

President Hiatt said that although the Anchorage senior college is really just getting underway, the growth rate is quite rapid. The programs there will have to be broadened in scope to permit the institution to develop into a more fully functioning university; during this attempt, however, they must keep the statewide educational system in view so that programs in one institution will not necessarily duplicate those in another unless there is justification for duplication.

President Hiatt stated that the Kenai Peninsula Community College is a "booming" institution due to the oil operation impact; the worker population in that area increased by nearly 4,000 between 1965 and 1967.

President Hiatt told the Committees that the Kodiak Community College will continue to develop at a slower but steady rate. He stated that at an institution such as Kodiak, programs are related to the needs of the people in those geographic areas. President Hiatt said that one highly successful program was a fisheries technical workshop in which 1200 fishermen were registered.

President Hiatt then said that the Kuskokwim Community College is still an experimental effort. The population there is inadequate to support a comprehensive community college, but the university would like to see if this particular institution might work as a regional facility, and thus develop regional programs for the 50 communities surrounding the facility. President Hiatt said that the facility is growing and has penetrated a new market although there will be limitations in a community of that sort.

President Hiatt then presented a brief overview of the Fairbanks campus. He said that there is a drop of 12% in student credit hours produced this year (the guideline used to determine the

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rate of instructional operation). President Hiatt said he could not explain the reduction, because it could be due to a number of factors such as the increasing popularity of community colleges, the lifting of the draft, etc.

President Hiatt then said that this year's drop will not necessarily be the future trend. In the past, the University's long range population trend has always been upward.

Despite advertisement to the contrary (discouraging people from entering Alaska for employment opportunities with pipeline construction), many "student-types" will come to the state. President Hiatt said that they will not be employed right away which will cause an increase in student enrollment at the University's Fairbanks campus. Relocated families will then come in to offset aberrant unemployed university-enrolled students.

President Hiatt stated that 60% of the students enrolled at the Fairbanks campus come from the North Star Borough. Any increase in the population in that borough which is inevitable because of the pipeline will increase the university's student population. Because of that factor, President Hiatt said that this year's drop does not mean very much; the University of Alaska anticipates a 10% increase this next year as a conservative estimate only.

President Hiatt told the Committees that for the Fairbanks campus, they had originally projected 77,000 credit hours in teaching output; the campus actually produced 67,000 this year.

President Hiatt said there are budgeting problems which are caused by a fluctuating enrollment. He stated that hiring of faculty takes place in the "lower 48", particularly for the Fairbanks campus, because full-time instructors are more readily available outside the state. The faculty, therefore, is stabilized one year in advance; if enrollment is down, the university must wait until the next year to reduce the faculty. President Hiatt said he froze all faculty appointments some time ago on the Fairbanks campus. As faculty members leave, they are not replaced unless the program is indispensable and requires replacement.

Using the credit hour production as an index must be used with caution. President Hiatt said that many aspects must be taken into consideration: the faculty must be qualified in relation to the level of instruction; a determination must be made as to whether the instructional area is a high-cost or low-cost area; and in terms of program development, is the institution

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mature, or is it in the early stages of development? Fairbanks maintains 57 programs leading to a baccalaureate degree as compared to Anchorage which has only 20 programs which lead to a baccalaureate degree.

Because there are many types of campuses in the statewide system, the University of Alaska cannot expect to meet the cost effective index in the smaller institutions as it can in Anchorage. President Hiatt stated that in a state such as Alaska, it must be decided whether or not to subsidize higher education (post-secondary) in the rural areas.

President Hiatt said that it had become obvious to him that with regard to the Fairbanks campus, there were too many options for the number of students enrolled. Because the Fairbanks campus was the only campus in the state for many years, the University of Alaska tried to meet the demands required; this resulted in 57 programs leading to degrees. President Hiatt said that only 20% to 25% of that figure is really needed. A thorough examination is now being made of student "turnout" in these major areas and how many students were graduating in these areas. Once the study is completed, programs that seem unnecessary will be pared down.

President Hiatt added that it must be determined which programs are needed for Alaska; although there may be a very small enrollment in some courses, the course may be indispensable.

President Hiatt then stated that by the time of the University's next budget preparation, they will have class sizes optimized and programs narrowed with a concomitant decrease in personnel. He said they hoped that if they do have a decrease in personnel, those people can be put in another part of the system (in Anchorage or Juneau, etc.), otherwise those people may have to seek jobs in other states.

President Hiatt then remarked that there is no other substitute for selective elimination of programs and courses. He requested that the Legislature allow him time to complete this task. He stated that he cannot "destroy the campus" in order to make the system immediately more cost effective. The task will take a few months to complete, and the new system will not really be cost effective until the University goes through another budget cycle.

President Hiatt then told the Committees about the University's request for a Community College in Fairbanks. This request was cut out of the budget, but a bill has been introduced to develop such a facility. He stated that the facility was necessary for that area; 20% of the total graduates from high schools in the Fairbanks area attend the University in Fairbanks. The remaining 80% consists of those attending other schools (10%) and those who terminate their education upon high school graduation (70%). President Hiatt pointed out that many high school

graduates wait anywhere from two to fifteen years to decide whether or not to continue their education. Some are discouraged because their grade point averages from high school don't meet the requirements of universities, but a community college facility which will accommodate all ages and programs would allow these people a chance to further their education, build up their gpa, and then continue in a senior college if they so wish.

President Hiatt said that a community college facility in Fairbanks could begin with relatively few funds. A director and program heads will be needed, and those people cannot be obtained from the main complex due to the difference in orientation in another type of education, but they can be taken from other community colleges; part-time instructors can also be employed in a community college. Classroom facilities and adult career facilities will be used in conjunction with the school district.

President Hiatt told the Committees that he would like to comment on the pay package which the Governor sent down to the Legislature as a result of the collective bargaining process. He said that the pay package included the University classified staff on the same basis as the rest of the state employees; the University's professional staff was included in the pay package as far as the salary increases, but they were excluded from the retroactive provision. President Hiatt then stated that during a meeting in Anchorage one week ago, it was requested that President Hiatt ask the Finance Committees to provide equal treatment for all state employees under the retroactive provision.

President Hiatt also wanted to point out that the pay package will amount to 15% for the average University professional employee which is 2/3 of the Board of Regents' goal to bring the salary average up to the level of other professional staffs in the nation. He added that the Division of Budget & Management had come within 1% of the University's own salary study when the Division had completed the administration's salary study; therefore, President Hiatt said the University has a firm recommendation to accept the pay package and include the professional staff in the retroactive pay raise.

Recess: There being no further discussion at this time, the Committees recessed at 2:20 p.m.

JOINT HOUSE AND SENATE FINANCE COMMITTEE
Wednesday, March 13, 1974
1:30 p.m.

Senator Groh, Representatives Freeman, Ferguson, Haugen, and Warwick were present. Also present were Dr. Frederick, Executive Director, Alaska Historical Commission, and Commission members, Evangeline Atwood, Emily Ivanoff Brown, and Bob DeArmond, Alaska Historical Society President Bill Jorgenson, representation from Budget and Management, and members of the staff, press and public.

EDUCATION

OFFICE OF
GOVERNOR

Alaska
Historical
Commission

Chairman Groh called the meeting to order at 1:30, explaining that the purpose of the meeting was to hear the budget review for the Alaska Historical Commission. By way of introduction, he noted that the Commission was created by the 1972 legislature. The 1973 budget was \$11,900. The 1974 budget was \$37,400 plus an additional \$5,000 making the actual for 1974 \$42,400. Their maintenance level request is \$37,900; the request they made, \$88,500; and the Governor's Allowance, \$66,900. This allows one permanent full time position and one permanent part time position.

The Chairman then introduced Dr. Frederick, Executive Director of the Commission. Dr. Frederick introduced the commission members who were present along with Mr. Jorgenson, President of the Alaska Historical Society.

Dr. Frederick said that the Commission requested a hearing before the joint committees this year because they felt their budget needed some explanation inasmuch as they are requesting a 75% increase in a year when the Governor has requested all programs be held to a maintenance level, for obvious reasons. The commission wanted to explain that this increased request comes in large part for two reasons. One is that the Governor has approved a reclassification of the position of Executive Director from a Step 21 to a Step 26. The other is that the Governor has also approved a Contractual Services element designed to initiate the commission's research and publication program. It is the commission's intent if this is approved now by the legislature to take the \$15,000 in Contractual Services and to get matching funds from the National Endowment for Humanities and the Rockefeller-Ford Foundations, as they are interested in specific projects the Commission would be interested in. Thus they hope that this \$15,000 will act as seed money and will substantially increase the funds that they have to work with.

Dr. Frederick referred to a publication, The Alaska History News, which he passed out to the committee, which contains a list of the Commission's priority projects. This was prepared in December. Yesterday the Commission met and reaffirmed their commitment to these priorities plus an additional one which is not mentioned in

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the News. That is a Historical Dictionary of Alaskan Political Personalities. This is already in progress and will include 1,000 biographies.

The other priorities include:

Ricks' Bibliography -- This bibliography will update Wickersham's, bringing it up to the early 1960's.

Encyclopedia Alaskana -- This will be a compendium and will be a means by which current research can be made readily available.

Statewide Study for Publication Plan -- This will be a comprehensive plan for publication of Alaska's past. The project would be coordinated with the national foundations, utilizing the contractual services seed money as the state's share.

[Representatives Ose, Saylor, Meekins and Specking entered the meeting at this time.]

Dr. Frederick continued, stating that the 6th Session of the Legislature had passed a resolution relating to the poor condition of state of Alaska history in the schools. He said that out of that concern by the legislature, the administration and the Historical Society came the push toward improvement of Alaska's historiography, partially in the creation of the commission. The commission's burden and responsibility is to stimulate, coordinate and sponsor research on Alaska's past. It is their feeling that this statewide study will fit right into the National Endowment's policy toward multi-volume sets. A few years ago National Endowment had said that they could not commit themselves to a multi-volume work, but could only go one volume at a time. Their position has now switched and they are very favorably inclined toward this type of multi-volume work.

Mr. Saylor asked about a bill that he has in involving a historical record of pipeline activity, and he wondered what Dr. Frederick's response to that is. Dr. Frederick said that he is certain that the pipeline, native land claims, and many other current topics would be of merit for historical documentation, and he would expect that the commission feels the same. They are, however, working on priorities now as they see them. He mentioned that a few years ago the Bureau of Land Management employed a man who is now the Air Force historian. He had 55 thousand cards on the pipeline. However, his work ceased when pipeline activity ceased, and he is now employed with the Air Force and his work has not been continued.

[Mr. Wright entered the meeting.]

Mr. Saylor said that he feels the pipeline is going to develop into the largest project that has ever been undertaken in the world, and he

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feels that having a record of this for future generations will be important. He has, however, discussed the matter with a couple of the oil companies and believes that the funding for this may come through them.

Mr. Frederick said that he thinks one of the short points of Alaska's historiography is in the business field, and that histories of the businesses in Alaska is an area that could very much use research and study.

Senator Groh made mention of the fact that one of the things in the legislature that they have come to watch out for is possible areas of overlap between programs. From that standpoint, he asked Dr. Frederick what the relationship between the Historical Commission and the Bicentennial Commission is.

Dr. Frederick said that the Bicentennial Commission was created in the same year as the Historical Commission. He said that a main difference is that that commission is directed toward a particular celebration, and that perhaps had the Historical Commission been established earlier, the Bicentennial Commission would have been established as a subcommittee of the Historical Commission. The two commissions do work in cooperation with each other, transferring projects to the other when it seems more appropriate. As far as funding goes, there is considerably more federal money going into the Bicentennial Commission and so their administrative budget alone is around \$50,000.

[Senator Poland entered the meeting.]
Mr. Specking asked for more information about Ricks' Bibliography. Dr. Frederick referred the question to Mr. DeArmond. Mr. DeArmond said that Mr. Ricks was a probation officer in Los Angeles for years, but that Alaska was his "real love" and that in 1963 he came to Alaska as a probation officer and was later the first curator of the Anchorage Historical Museum. He started where Wickersham left off, and compiled voluminous notes on index cards which were then typed up in rough manuscript form. Being multilingual, Mr. Ricks was able to discover references on Alaska in different languages that had been previously overlooked. In addition, he went into a couple large Catholic university libraries finding references that were heretofore unknown except in those archives. Thus his work provides an invaluable addition to the bibliography of Alaskan works. The bibliography is updated to the early 1960's. Mr. DeArmond mentioned that there are three of the typewritten rough manuscripts -- one is at the University of Alaska, one is at the Consortium in Anchorage, and one at the Historical Library in Juneau. He emphasized that the volumes are rough and require editing and reworking in order to be of greater usefulness.

Mr. Specking mentioned that the Hudson Bay Archives are now in Canada and so more accessible. Mr. DeArmond said that although they are in Canada they are not too much more accessible than when they were in London. However, a professor in Ashland, Oregon, has obtained permission

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to put them on microfilm so they will be available on microfilm in Ashland.

Dr. Frederick stated that the Commission does feel as if they have accomplished something since May. The Commission came on board in February, and the office was started in May. He noted that in 1973 the commission was alive only a couple months and tried to use their money for equipment as wisely as possible. However, they feel they suffered from the 1974 appropriation and had they not had a lower appropriation then, there would not be such a large percentage increase requested for next year. What they have accomplished this year is that they received a grant, through the Alaska Division of Parks, from the National Park Service, Office of the Keeper of Historic Places. This grant of \$11,100 made possible a two volume set, now in draft form, of Alaska's heritage resources. The first volume is a historic background. The second is a compilation of 3,000 prehistoric and historic sites in Alaska in two lists -- one is a thematic list and the other an address list by quadrangles. This is to be submitted when approved to the National Park Service and will be the basis for continuing grants on an approximately 4.19 to 1 federal/state ratio. He mentioned that this relates to Historic Preservation, but this is an interest-wise relationship and not, he noted, an administrative one. The work was primarily carried out by 35 undergraduate students in Alaska.

Mr. DeArmond noted, with reference to the dictionary of political figures that had been earlier mentioned as a commission priority, that it would be prepared without cost to the commission and will be published through private grant to the commission.

Speaking of the upgrading of the Executive Director position, Mrs. Atwood noted that Dr. Frederick is really serving as a courtesy at the salary provided and that should the salary not be increased commensurate with the kind of expertise that they feel the commission needs and that a person, such as Dr. Frederick but not necessarily being him, could afford to work at, there would be little point in having a commission. The members feel very strongly that this increase is important.

Mr. Jorgenson stated at this point that the Historical Society fully endorses the efforts of the Commission and commends their work.

There being no further questions, Chairman Groh thanked those testifying and adjourned the meeting at 2:15 p.m.

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EDUCATION STATE- OPERATED SCHOOLS All members were present with the exception of Representatives Freeman, Meekins and Barber. Also present from State Operated Schools were Mr. Stanley Friese, Superintendent, Mr. George White, Associate Superintendent of Administrative Services, Ron Wesley, SOS budget officer, Omar Marshal, Director of Plant Facilities, Carol Borg, and other involved persons. Present, too, was Mr. Jacobs of Budget and Management.

Subcommittee Chairman Saylor called the meeting back to order at 2:15 and requested Mr. Friese to make an opening statement about his budget.

Mr. Friese said that one big factor affecting the budget this year has been the close cooperation and good working relationship among the parties involved. He feels that they have developed an accurate formula and accurate enrollment projections, which will be reflected in a more realistic budget.

Mr. Friese discussed the importance of accurate enrollment projections and a correct formula. With either inaccurate projections or the wrong formula, they can find themselves faced with inadequate custodial and clerical support. This happened in the past year and will affect the coming budget. By way of example he mentioned that according to formula, Birch Creek requires only 1 1/2 hours custodial work per day -- but the custodian with all of the many tasks he has to accomplish cannot do the work in less than 3 1/2 hours per day. The new formula will take care of this.

Mr. Friese mentioned that there has been a drop in military enrollment. They experienced a drop this year that created a significant problem for them. They had understood that if the military enrollment increased they could come back with a supplemental, but also assumed that by the same token if the enrollment dropped then they were under obligation to try to reduce the number of teachers. When they found last year that there had been a significant decrease in enrollment, and that this was continuing to reduce, they attempted to terminate a number of teachers. There was an injunction against SOS by the District 1 Education Association and SOS has now requested a decision as to whether or not it is legal to reduce the number of teachers if enrollment decreases significantly. Next year they have decided to employ on the conservative side which means that they may not start with a sufficient number of teachers and if they need to hire more teachers, many of the best teachers will no longer be available, but at least they will not be faced with the same problem as last year.

Mr. Friese said that their significant increases in enrollment for next year are due in part to the opening of seven new area high schools. There is also a change in the Boarding Home Program as the area high schools are opening up, and due to these two factors they are anticipating 800 additional students. This will have an effect on the foundation program.

Mr. Friese said that they are directly involved in a correspondence program now and they feel unsatisfied with the correspondence program as it has been operating and so want to direct themselves toward improvement of the program. They are planning a larger emphasis on inservice and curriculum development which they have had no emphasis on in the past. Adult education is another field which they feel holds a great deal of promise and want to go into more.

He said a challenge faced by SOS is increasing the output of their students. They know that their students are not achieving as much as they should. Increased emphasis on in-service training and curriculum development should help. He noted that there has been no plan for secondary education in Alaska, and this has been quite a problem. There are numerous questions involved: what will happen to regional high schools? what is the future of area high schools? what will become of the boarding home program? These are all questions that should be answered by a state plan for secondary education -- but there is no plan.

A program that Mr. Friese feels has been very successful is the bilingual education program. He noted that it needs considerable expansion, however.

Decentralization will be a major item through the year, and they will be dividing roles and functions of the central and regional offices in attempts at decentralization without overlapping.

[Chuck Degnan entered the meeting.]

Mr. Specking referred to the draft of a policy manual prepared for the SOS schools, and he said that he questioned how much flexibility the superintendents were being given under the decentralization when the manual was so very specific. Mr. Friese said that one reason it seems so extensive is that it is in draft form now -- its final form will be smaller and less cumbersome. He said that he feels one of their major problems up until now has been that their policy manual has been nothing much more than by-laws, and there has been no guidance or continuity offered. This way he feels that there will be no misunderstandings on what the general policies are.

Mr. Specking asked how this policy manual was produced, and Mr. Friese said that it came out of their Administrative Services fund.

Mr. Haugen said that he understands that regional dormitories are now unoccupied and wanted to know what the story is on that. Mr. Friese said that the Bethel dormitory is under contract with one of the native corporations and they are running it the way they feel it is better run -- they have made more of a cottage system with people from the villages operating it. The Beltz dormitory is unoccupied. He reiterated that he feels that it is really important that a long range plan be developed so that a determination is made on how these facilities

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will be used. He noted that by changing the function of the dorm in Bethel some of the problems have been corrected. He felt that this should develop into a technical, vocational school rather than a school for everyone.

In response to questioning about the Kodiak dormitory, Mr. Friese said that it is being operated by the Kodiak school district.

Mr. Haugen inquired as to how the arrangement in Bethel was made with a private corporation. Mr. Friese first noted that this program is not through SOS but is through the Department of Education. Funds for operation of the dormitory were budgeted and then they contracted with the Corporation. The corporation was able to get significant Johnson O'Malley funds which has contributed to a successful program this year.

Mr. Haugen was concerned about what happened to the boarding home students the dormitories were built for, and asked if there hadn't been a need for these dorms. Mr. Friese said yes, there had been need and that where the need exists they are still being used. Also, additional boarding home students are sent to Fairbanks and Anchorage. In response to further questioning, Mr. Friese said that they have planned to build dormitories for 1,000 students in Anchorage and Fairbanks but will not be doing so as they have found the program not a successful one. Mr. Haugen said that if programs keep being attempted and then given up, bond issues for construction of school facilities are going to get harder to pass. People are going to want the state to have some kind of plan in mind. Mr. Friese said that that has been precisely his feeling -- some kind of long range plan is necessary.

[Reps. Barber and Meekins entered the meeting.]

Mr. Friese proposed a Governor's Committee of 1975 to develop some long range plans for the next 25 years. He said that until there is such a plan they are "running in circles," and that all the agencies involved in education need to have a part in development of the plan. He said that SOS is planning for decentralization but without a plan there are conflicts with other agencies who want more rapid decentralization, according to their plan, which upsets the plans SOS has worked out.

Mr. Saylor asked when the seven area schools are coming on line and if they are staggered, does the budget take that into consideration. Mr. White said that some are not scheduled to open until December, but at the request of the various communities SOS has been working to go ahead and begin school in those communities on a shift basis or whatever is necessary until the buildings are completed. If they don't do this, they will get into a lot of problems - students starting school elsewhere and coming back for Christmas and then

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refusing to return to school.

Mr. Warwick asked how many state boarding home students there are, and Mr. Friese said 1300. Mr. Warwick asked about the dorm facilities, and Mr. Friese said that the capacity at Bethel is 190, but it has never been filled to capacity; at Beltz it is 165; and at Kodiak, 150. Mr. Warwick asked which of these dormitories are operating, and Mr. Friese said that Bethel has 160 students, Beltz is not operating as a dormitory, and the enrollment at Kodiak is way down -- about 90, many of whom are Kodiak borough students.

There was further discussion on the Bethel dorm, and Mr. Friese was asked what the advantages of the native corporation running the dorm are. Mr. Friese answered that there has been criticism of the Department of Education for the way they have been running the program in the past. Now that the native leaders are taking care of it themselves, there really does seem to be marked improvement. They have brought people in from the villages to act as "parents" in the cottages. In addition, they are receiving additional Johnson O'Malley funds with which they are expanding their program -- i.e. in the recreational field. Mr. Haugen asked if these funds were not available to SOS, and Mr. Friese stated that it was not SOS but the Department of Education who was running the program and he did not know whether Education had tried for additional Johnson O'Malley funds or not.

Mr. Friese was asked if he is happy with the management of the boarding home in Bethel, and he repeated that it is not one of SOS's programs. He did say that he has always felt that it should be, but it is not. Mr. Warwick asked why it is not transferred into SOS, and Mr. Friese said that he does not know why. In response to further questioning, Mr. Friese said that they had worked for almost 2 years on the transfer and it was about to happen but then there was a threatened loss of Johnson O'Malley monies and they felt that was poor timing.

Mr. Haugen asked, in response to Mr. Friese's comment that Beltz is no operating as a dormitory, what it is operating as. Mr. Friese said that it is being used for teacher housing. Mr. White explained that there are 14 teachers apartments and there are some students living there. He was asked if students had ever lived in the dormitory and he answered yes -- 180 children at its peak. Mr. Warwick asked why there aren't any now, and Mr. White said because of the tremendous objection to dormitories coming from the parents and children. Mr. Warwick asked if the boarding homes are supplanting the dormitories and Mr. White said yes.

Mr. Warwick asked about the dormitory in Kodiak. Mr. White said that is it not full. Originally it was built for students from the Aleutian and Bristol Bay area. The children refused to come. Last year there were only around 20 students so the Department contracted with the

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Kodiak Borough school district and the borough is using it essentially for children in the smaller communities in the borough, plus the small number of children still coming in for school. Mr. Haugen asked what the borough is paying for this, and Mr. White said that he did not know as this is with the Department of Education and not SOS. Mr. Friese said that he thinks it is very minimal.

Mr. Haugen asked if the Bethel school system is under District 1 or SOS, and Mr. Friese said SOS.

There being no further questions on Mr. Friese's opening statement, Mr. Saylor asked that the committee begin going through the Budget Request Units for SOS. The committee went through, page by page, and the minutes include only those BRU's on which there were questions.

On page 35 of the short form, Rural SOS - Building Operations, Mr. Saylor said that with reference to the seven area high schools, he has been told that of the new schools being constructed now will not have utilities hooked up in time for the opening of the schools -- the generators have not been ordered, no provisions have been made with AVEC for power, no housing has been arranged for teachers. Mr. Marshall, Director of Plant Facilities for SOS, stated that until last week this was true. They have been in the process this week of insuring that they would have arrangements with AVEC. Mr. Saylor asked if the generators have been ordered, and Mr. Marshall said that he does not think so, as far as AVEC is concerned.

Mr. Specking asked if SOS is signing contracts with AVEC at increased rates, and Mr. Marshall said yes.

In response to questioning by Mr. Haugen, Mr. Ron Wesley, SOS budget officer, said that their situation is this: they have presently 19 sites. There will be 23 in 1975. The budget request was based on the current contract with AVEC. The reason for the increase is due to the new area high schools and that accounts for the new sites. The new AVEC contract has not yet been signed and so increases can only be estimated based on that; the agreement with the Department of Administration also provides for additional changes in the rate structure itself, which obviously will affect these figures. Mr. Bob Jacobs of Budget and Management, clarified the issue stating that the Governor's budget includes the rate of 2835 (up from last year's 2400) and includes all 23 sites. There is a proposed contract amendment in the Governor's Office at this time and he said that he expects that there will be a recommendation for an additional \$200,000, figuring on three additional area high schools and a 10% fuel adjustment clause.

Mr. Haugen asked Mr. Marshall if he has any idea of the cost of the generators being installed, and he said roughly \$30,000. Mr. Haugen wondered taking that cost plus \$2800 a month to run, if the state couldn't do this more cheaply itself. Mr. Marshall said that they have made an

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analysis of the AVEC operations, and in some cases it would be cheaper for the state to do it themselves and in some cases considerably more expensive. Overall it appears that the cost of generation is very close to the AVEC rate of \$2400. Mr. Saylor asked if these rates are variable depending on the size of the school, and Mr. Marshall said no, that there is a flat rate, across the board. Mr. Haugen wondered about how the rate compared with private rates, and Mr. Marshall said that they are not the same -- the rate being paid by SOS is higher than, for instance, that of private homes. This rate was negotiated a few years ago. Mr. Haugen asked how much more the SOS rate is than the consumer rate, but Mr. Marshall did not know except to say that it is considerably more. Mr. Specking made the point that the schools obviously are subsidizing the private consumers.

On page 37 of the short form, Rural SOS - Administration and Support, Mr. Saylor said that figures would indicate the military enrollment makes up about 47% of SOS. Information on administrative functions presented to the subcommittee indicate that 18 to 20% of administration is tied to the military. Mr. Saylor wondered if perhaps that percentage could be increased so that should military schools be taken out of SOS and given to local districts, per pending legislation, the administrative costs could be reduced by more than 20%. Mr. Friese said that he realizes it looks that way but that it would be impossible for them to cut back 50% on administration. It is his feeling that if the military were to be removed from SOS, rather than beginning a cutback process he would like to see SOS built up from "scratch." In this way a realistic, viable program could be developed.

Committee recessed at 3:15 p.m.

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AFTER RECESS
3:25 p.m.
March 14, 1974

Present: All members of the Committee. Also present were: Dr. Josh Wright, Education Consultant; Rich Guthrie, Fiscal Analyst; Bob Jacobs, Budget & Management Budget Analyst; Rep. L. Wilson; Stan Friese, Superintendent of State-Operated Schools; George White, Associate Superintendent; Ron Wesley, Budget Officer, SOS.

Rep. Saylor, Chairman of the budget subcommittee on education, called the meeting back to order; the Committee resumed its consideration of the State-Operated Schools budget.

EDUCATION The Committee went through the budget by budget request unit. Rep. Specking noted that on Page 88, under Inservice Training and Staff Development that the SOS System had requested \$20,000 but were allowed nothing. Rep. Saylor told the Committee that this had been switched to the Administration & Support budget.

STATE-
Operated
Schools

Under Central Office, Instructional Media, Rep. Specking noted the request for a librarian and graphic artist. He asked why they were included in the central office. Mr. Friese told the Committee that a large part of the Percy operation is media development; SOS has programs such as bilingual education and must develop their own materials; these positions will aid in that development.

Rep. Specking then asked if there is funding in the budget for every item that teachers negotiated for. Mr. Friese replied that that was correct. Ms. Carol Ward from the Teachers Association, District I, told the Committee that to her knowledge, all items for which teachers negotiated are funded in the budget.

Rep. Specking noted that some items which should be under the Capital Budget might be brought up at this time. Mr. Saylor said that all capital budget items would be discussed at a later time. Rep. Barber then asked if this is the final meeting with SOS representatives on the operating budget before the full Committee. Mr. Saylor replied that Mr. Barber was correct.

Rep. Wilson then asked where "Student Travel" was located in the budget. Mr. Wesley stated that on Page 748 of the Governor's budget under Basic Instruction, student activity travel was listed as \$37,200 and teacher duty travel as \$75,000, coming to a total of \$112,200 for rural schools. On Page 1052, \$27,600 was listed for student activity travel for the military schools.

Rep. Ferguson referred to page 48, Exceptional Children and asked SOS to explain the \$117.0 request. Mr. Wesley stated

that the funding comes from two sources: federal funds through the Department of Education and the General Fund portion. Mr. Wesley said that the federal grant portion is \$117,000 less than the currently available information indicated that it will be for the next year. Mr. Wesley said that he believed that they are requesting another \$117,000 and he believed it has been forwarded to Legislative Finance.

Recess: There being no further questions, the Committee recessed at 3:40 p.m.