

HOUSE / SENATE FINANCE COMMITTEE MINUTES - 1967-1982 2561

not having control over materials going into the work. The lack of enthusiasm for this was well known. They didn't want to bid on doing any kind of work like that. He told them to take a look at the contractor's bidding on a building. They all do a lot of subletting, and each firm has a chance to make a profit. The areas to make it are on labor and the materials he uses. The contractor can't afford to go in unless he has control over the profit and other components going to bid.

It was brought out that mechanical contractors in general rejected it, and C. R. Lewis happened to be one of them.

Mr. Thomas retracted his statement about C. R. Lewis.

Mr. Barber noticed that there was an increase in cost of \$600,000 for a sewer system in the Alakanuk school. He asked if it had been taken into account before that it had to have a sewer system.

Mr. Simpson said that it had been considered to the degree that it would satisfy the school, but Environmental Conservation said that the community water supply should also be part of the school.

Mr. Barber asked whether accessibility of a sewage system had anything to do with the location of a school, and was told that it did.

Mr. Meekins asked for a clarification of what was meant by performance request, and Mr. Dwyer said it was a contract for professional services not bid.

After further general discussion on the matter, it was decided that the Committee could get no further on it at this time.

[Departmental people left the meeting.]

Mr. Haugen said he was not satisfied with how all of the money got involved in this one issue. He suggested they give it to Mr. Baker and let him make a complete analysis of all of the monies that were involved.

Mr. Guthri said that he had spoken with Mr. Baker on this already, and that the initial thing they were going to find out was that the accounting data was poor. He said there were no adequate records.

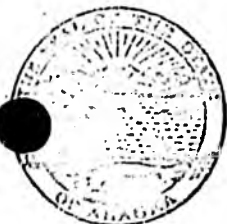
Mr. Baker stated that the recommendations that Mr. Guthri had made in his report were good and that any one or a combination would probably help them to control this sort of thing. He felt that an audit by his staff would take a long time and they probably wouldn't come up with anything more than they know now.

Mr. Guthri pointed out that they would have other bond issues coming before them. The staff had tried to point out the major areas that have made it impossible for any part of the Executive body to get a hold on this thing. Their recommendation is first of all to bring the Legislature into the process again by having them look at it again. First they have to allow the bond issue to get out. Then they should look at the thing again before they allow the money out. This would give them a second chance to defend their own projects. It would also allow the Executive branch time to come up with something definite in regard to the projects. Lastly, once they get the money, there should be a definite time period on it.

Mr. Freeman said that Mr. Haugen had suggested a sub-committee to draft up some legislation. He said they would look into that in the future.

RECESS

Meeting recessed at 3:35 P.M.



JUNEAU ALASKA

Alaska State Legislature
House

January 23, 1974

TO: Representative Haugen, Vice Chairman
House Finance Committee

FROM: Rich Guthrie
Fiscal Analyst *RG*

SUBJECT: Capital expenditures for educational facilities

The attached information is provided in response to your request for information regarding capital expenditures for educational facilities. The findings and recommendations are based upon review of information provided by the Division of Buildings, State Operated Schools, and the Department of Education.

FINDINGS

1. Ch. 195, SLA 1972 --\$16,000,000 G.O. Bonds for S.O.S. Schools.
 - a. Original intent, as stated by the Governor on May 24, 1972, and reaffirmed by Commissioner Lind on June 7, 1972, was to construct eleven secondary schools and one elementary school at specified locations. Schools of approximately 19,000 to 21,000 sq. ft. were to be constructed utilizing a high degree of standardized design. Each school was to cost approximately \$1,000,000 with the remaining \$4,000,000 to be distributed as required.
 - b. Based upon information received from Public Works, on May 25, 1973, bids totaling \$6,999,000 were let for four of the schools (Noorvik, Kiana, Alakanuk, Bethel Elementary School). The awards exceeded Department of Public Works

preliminary estimates by \$2,379,000. Architects' estimates were exceeded by \$2,047,000. It should be noted, however, that the Department of Public Works is attempting to cover the excess costs by continuing the practice of utilizing funds from other bond authorizations for these projects. For example, the Kiana School is presently utilizing \$1,250,000 from Ch. 170, SLA 1972 and \$407,000 from Ch. 195, SLA 1972. Apparently the Alakanuk School will be partially funded in the amount of \$600,000 from Ch. 202, SLA 1972, "G.O. bonds for Water Supply and Sewerage Systems."

- c. The Department of Education states that they were not permitted to analyze the bids--the 30 day bid review period was not allowed. In addition, it is felt that the bids were too high and that the contracts should not have been awarded.
- d. S.O.S. estimates that the final costs for these four schools may approach \$7,800,000. If this estimate is correct, average cost per school will approximate \$1,950,000 as compared to original intent of approximately \$1,300,000 per school. As a result, construction of four of the twelve schools may have to be cancelled.
- e. In addition to the four schools on which contracts have been awarded, funds from this chapter are being used to supplement projects originally authorized under prior bond issues. These are:

<u>ORIGINAL AUTHORIZATION/ PROJECTS</u>	<u>FUNDING FROM CH. 195, SLA 1972</u>
Ch. 250, SLA 1970	
St. Mary's	\$1,000,000
CH. 170, SLA 1970	
Mountain Village	\$ 471,000
Selawick	551,000
Aniak	268,955
Emmonak	138,000

The use of Ch. 195, SLA 1972 funds further reduces the funds available to construct the schools listed as original intent.

2. Ch. 170, SLA 1970 -- \$20,300,000 G.O. Bonds for Schools (\$9,200,000 for S.O.S.; \$11,100,000 for Regional and Area Boarding Schools).
- a. Information was requested and received from S.O.S., Public Works and Education. However, the data supplied by each does not agree. Projects listed by one agency are now shown by the other. For those two projects listed by all three agencies, the cost data is different. In summary, it appears that none of the agencies is able to account for the expenditure of funds to the satisfaction of the other two agencies.
 - b. S.O.S. listed 33 projects. Only 4 are shown as completed. On 14 projects, the complaint is made that the Division of Buildings has not yet furnished a final accounting.
 - c. Public Works listed 37 projects. Only 25 are the same as those listed by S.O.S. Supplementary funding from Ch. 195, SLA 1972 is used for 5 of the projects. 8 projects are listed as completed, and final costs exceeded estimates on 4 of these projects. Of the 25 projects that are not completed (or were cancelled), 12 have already exceeded estimates. 11 projects utilize funding from more than one bond authorization.
 - d. The Department of Education listed only two projects, since they limited their reply to those projects for district schools only.

3. Ch. 250, SLA 1970 -- \$11,918,000 G.F. for School Construction Projects.

Generally, the same types of problems are evident in this chapter as are found in Chapter 170, SLA 1970.

4. Data was also requested and is available for the following:

Ch. 94, SLA 1970 --	\$125,000 G.F. for State Libraries
Ch. 29, SLA 1970 --	\$120,000 G.F. for advance planning funds for certain school projects included in the FY 1971 capital improvement budget
Ch. 126, SLA 1970 --	\$1,155,000 G.F. for Metlakatla School
Ch. 131, SLA 1971 --	\$3,703,000 G.F. for various school facilities at Haines, Nenana, Galena, Healy, and Nome
Ch. 204, SLA 1972 --	\$355,000 G.F. for Thorne Bay and Healy school facilities
Ch. 91, SLA 1973 --	\$405,000 G.F. for school facilities at Pelican and Klawock.

RECOMMENDATIONS

Each of the agencies was requested to point out and analyze weaknesses and discrepancies in the present educational facilities capital project system. A brief summary of each memo follows:

1. Department of Education

A flow chart is furnished which outlines the basic process of how a new school building is completed from the time a community requests the school until the keys are handed over to the owner. Critical points in the process are identified and typical problems are discussed.

A discussion of reasons for the discrepancies between estimates and contract awards on Ch. 195, SLA 1972 (\$16,000,000 G.O. bonds) is presented. Major reasons given are:

- a. Lack of base date for rural school projects;
- b. Environmental Conservation requirements;
- c. Pipeline impact; and
- d. Lack of adequate review before awarding the contracts.

Recommendations are:

- a. That the State use different methods for different construction projects depending upon the particular circumstances (performance contracting, modular building, force accounting, design-build systems, fast track contract management);
- b. That Public Works receive funds for planning, land acquisition and development;
- c. That Division of Buildings be funded to expand the Plan Review Section;
- d. That capital project funds be appropriated directly to Public Works--one agency should be responsible for all fiscal control and not three as at present;
- e. That S.O.S. and/or the Department of Education develop data gathering and information retrieval systems to assist in facilities planning.

2. Department of Public Works

The following statement was included in the cover memo from Commissioner Easley:

"Due to the tremendous amount of research involved in this report and the lack of personnel and time to recheck the figures, all information should be viewed as approximate."

In addition, a billing of \$1,076.33 was received from the Division of Buildings for Planning and Design payroll charges incurred in preparing the information that was requested.

Also, a discussion of reasons for the differences between budgets and construction costs of schools since 1971 was furnished. Principal reasons are:

- a. Lack of program planning
- b. Lack of environmental guidelines
- c. "Bush" bidding problems
- d. Pipeline bidding influences
- e. Delays in decision-making
- f. Standardized design
- g. Environmental and safety requirements (OSHA)
- h. General inflation
- i. Alaksa plan - minority hire
- j. Understaffing in Division of Buildings

3. State-Operated Schools

The primary concern is over the fact that neither S.O.S. nor the Department of Education has had a real final accounting by project from the Division of Buildings. In addition, there are no provisions for preventing overcharges on authorized projects. As a result, it is impossible to determine the exact status of the various bond issues.

It is recommended that:

- a. Division of Buildings provide project accounting every 30 days, and
- b. Procedures should be developed to prevent overexpenditure on projects.

4. Audit report by the Department of Administration, State Internal Auditor entitled "Report on Examination of Department of Public Works, Division of Buildings."
This report analyzes management and accounting in the Division of Buildings. Pertinent findings and recommendations are:

FINDINGSRECOMMENDATIONS

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| a. Excess delay or vendor payments | a. Establish guidelines & procedures to assure timely payments |
| b. Duplicate project ledgers (handposted & electronic data processing) are kept resulting in inadequate, inaccurate, and unreconciled records | b. Discontinue handposted ledgers (NOTE: Div. of Buildings has resisted this attempt and former attempts to force discontinuance of handposted ledgers) |
| c. Inadequate reporting available to Division of Bldgs. from EDP Authorization/Balance Report. | c. Revision of the EDP Authorization/Balance Report format by the Dept. of Administration |
| d. Improper accounting practices including failure to reduce spending when estimated receipts are not realized, disregarding legislative intent, and charging expenditures to the wrong project or source of funds | d. Verification of all spending authorizations |
| e. Overexpenditure of legislative appropriations due to poor budget preparation and control | e. Prepare analysis of budget changes detailing differences between budget amounts requested and authorized |

FINDINGSRECOMMENDATION

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| f. Excessive charges for performance of smaller projects for other agencies | f. Develop procedures for establishing mutually agreed project cost estimates and controls to eliminate additional expenditures unless mutually agreed by both agencies. |
| g. Delayed billing to other agencies | g. Quarterly or monthly billing |
| h. "The State in many instances is not receiving an equitable return on its contracted design dollar." | h.. Structure contracts to maximize architects' responsibility |

A closing summary states:

".... many of the problems that have persisted at the Division of Buildings for a number of years still exist solely because recommendations in past reports have not been implemented or completely ignored... It is our opinion that a turn-around in attitude, which recognizes the importance of accountability, is as equally vital to the successful resolution of existing or future problems...."

5. Legislative Finance Staff Recommendations:

The staff has identified other weaknesses in the system. A brief listing of these weaknesses along with suggested recommendations is as follows:

FINDINGSRECOMMENDATION

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| a. Language in G.O. bond authorizations which states "the specific uses of the proceed. of such bonds shall be determined by the Governor" | a. Discontinue the inclusion of this language in bond bills and list specific projects and the amount authorized for each |
|--|---|

FINDINGS

- b. Inclusion of both the authorization and appropriation in the original bond legislation
- c. (See "a" and "b")
- d. Project revisions do not require legislative approval. (For example, transfer of funds between different projects and funding authorizations; deletion of projects, reduction of projects, expansion of projects, etc.)
- e. Inadequate pre-planning prior to authorization of funds
- f. Split of funding authority and accountability between S.O.S., Education and Public Works
- g. Division of Buildings has not implemented the recommendations of the State Internal Auditor
- h. Unreasonable delays in completion of projects

RECOMMENDATIONS

- b. Include only the authorization in the original legislation. Appropriate the funds in separate legislation based upon further developed plans and cost estimates
- c. Combinations of "a" and "b"
- d. Require Budget and Audit Committee approval for all project revisions
- e. Require submission of preliminary project plans prior to legislative authorization; establish a revolving planning fund in the Department of Public Works for this purpose
- f. Appropriate funds directly to Public Works with the requirement that S.O.S. and Education be consulted regarding educational design requirements
- g. That the Division of Buildings be directed by the Finance Committee to implement the recommendations; that the Division of Buildings report quarterly to Legislative Audit and the Budget and Audit Committee on steps that have been taken to implement the recommendation
- h. Submit legislation that provides for the automatic lapse of capital project authorizations as follows:

AMOUNT

Up to \$250,000
 \$250,000 to \$1,000,000
 Over \$1,000,000

LAPSE AFTER

2 years
 3 years
 4 years

FINDINGS

1. (See findings of S.O.S. and Education)

RECOMMENDATIONS

1. That the Finance Committee direct S.O.S., Public Works and Education to jointly implement the suggested recommendations and report quarterly to Legislative Audit and the Budget and Audit Committee on steps that have been taken

ATTACHMENT II

2/1/74

*not available

HB 472: \$16,300,000 G.O. Bonds for rural
SOS School Construction

PRIOR PROJECT DUPLICATION

Location	Project Description	Amount	Ref.	Prior Statute Authorization	Project Description	From dept'l records of:	Amount	
							Archiv.	Final
Delta	School addition	*	(28)	Ch.250,SLA'70	School construction	P.W., Ed., S.O.S.	#	#
Fort Yukon	Sewer lift station	50.0	(43)	Ch.170,SLA'70	Sewer & water	P.W.	#	#
Manokotak	9th Grade classroom const. (1 classroom & 1 teacher quarter)	200.0	(35)	Ch.170,SLA'70	Manokotak classroom & quarters addition	P.W. S.O.S. Educ.	230.0 225.0 #	# 271 #
Mentasta Lake	Elementary school addition (construct one elementary classroom)	135.0	(13)	Ch.170,SLA'70	Mentasta Lake Mentasta Lake addn.	P.W. S.O.S.	53.0 65.0	# #
Hinto	Elementary school addition (standard classroom)	100.0	(9)	Ch.250,SLA'70	School construction " " classrooms	P.W. Educ. S.O.S.	160.0 # #	# # #
New Stuyahok	9th Grade classroom const. (construct one classroom and 1 teacher quarter)	200.0	(36)	Ch.170,SLA'70	New Stuyahok classroom addn. classroom & qtrs.	P.W. S.O.S. Educ.	175.0 120.0 #	# # #
Red Devil	Elementary school addition (provide food svcs. area & storage area)	80.0	(19)	Ch.170,SLA'70	Red Devil kitchen	P.W. S.O.S.	# 40.0	project dropped
Sand Point	Area high school	1,775.0	(37)	Ch.195,SLA'72	Secondary school	P.W., Educ., S.C.S.	# # #	
Sleetmute	Elementary school const.	200.0	(4)	Ch.170,SLA'70	Sleetmute classroom addn.	P.W. S.O.S.	175.0 100.0	

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

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

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

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

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

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

Meeting recessed at 11:40.

After Recess
1:30 p.m.

resent:

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

APITAL
ROJECTS

Robert C. Miller, United Press Internacional, and other members of the press. Also present were Messrs. Charney and Jacobs from Budget and Management.

Chairman Freeman called the meeting back to order at 1:30 and explained that Commissioner Easley had requested time before the committee to explain some of the issues involved in the school bond matter discussed before the committee Friday, February 1.

Commissioner Easley began his comments concerning the schools in question which were part of the \$16 million bond authorization that was on the 1972 ballot. He said that the Department of Public Works was pretty concerned with moving projects ahead as speedily as possible in time for the 1974 school year. The State Board of Education met in December, 1972, and universally agreed that they wanted simple school designs and common designs, uncomplicated and without much additional expense. He said that he then met with Commissioner Lind and with architects. They discussed the possibility of bidding components separately and so saving some funds for the state by purchasing components in advance. Commissioner Easley noted that he himself had been opposed to the idea of this component bidding, preferring bidding of the whole job. They decided however to try first bidding on separate components. There was no response to the bid opening. At that point they decided to forget component bidding and proceed with lump bidding.

It was determined that the facilities would be steel frame with metal paneling. There would be some variation in floor plan but essentially the schools would be the same. Commissioner Easley explained that the system is that funds are given to the Department of Education, which then enters into a reimbursable agreement with the Department of Public Works, and Public Works then assigns an architect. Then Education gives educational specifications (organization of rooms, special needs, etcetera) and based on this the architect completes schematics. The schematics are taken to Education for approval, back to the Department of Public Works and then Public Works puts them out for bid. They were at this stage, Mr. Easley continued, when the price of steel and wood went up. At the time bids were opened, they could not get a firm quote for more than 30 days on the price of steel. They found when bids came in that they exceeded the architects estimates. Public Works then met with the Department of Education and the architects. The Department asked if the size of the schools was cut down would it still be possible to build within the financial limits. Mr. Easley's answer was that he did not think so. He noted that in fact, the price of steel has continued to escalate. He stated that given rising costs, he feels the Department of Education made the right choice in deciding to go ahead and build the facilities. Cost of these buildings is ending up at \$100 per foot. However, Mr. Easley said that he estimates at least a 25% escalation on top of that for anything during the next year. He said that building in the bush is difficult to do in the first place, but

that given escalating costs and a short season should construction be delayed, the problems are extreme.

Mr. Specking asked with the type of building Mr. Easley was referring to in these schools, how much time is saved in erection time. Mr. Easley said quite a bit. He said that the panels are easily fit and the work can be done in a season. Speaking of the schools, Mr. Easley said that the foundations are completed in all of them at all locations now. In response to Mr. Specking's questioning about educational specifications, Mr. Easley explained that they are not to be confused with architectural specifications.

To elaborate further on how educational specifications are developed, Commissioner Lind said that a visit is made to a community to discuss program curriculum and these findings are considered along with the space limitations in order to determine the most advantageous utilization of the inner space. This is what is then turned over as the educational specs. (This would include such things as open interiors for an open school concept, gymnasium space, etcetera.)

Mr. Specking asked Mr. Lind about the weight and volume of this type of construction as related to standard frame construction and Mr. Lind said he would say it is heavier but that the barge will cost the same regardless of the weight.

Mr. Warwick noted that there are six different architects involved in this school construction, and asked if Mr. Easley didn't think it would be more reasonable to utilize one architect rather than several. Mr. Easley said that if this were private business he would use a single architectural firm, but because it is public he cannot do that. They do all sit in the same room to discuss plans, however, Mr. Easley stated.

Mr. Freeman asked about proceeds from bonds. He asked if it is correct that they go to the Department of Education for school construction, and Mr. Easley said yes. He then asked how this is handled. Mr. Easley said that in this case, they were handled in groups of three. The Department of Education gave Public Works a reimbursable agreement which is an agreement that Public Works will be repaid for their expenses. The reimbursable agreement shows them the exact amount they have to spend. Then after Public Works gets architectural estimates they go over them with the Department. In this case, the bids were over and so they had to discuss that and make a decision whether to build or not.

Mr. Freeman asked if it wasn't true that the Department of Public Works has recently received adverse criticism for favoring one architect or another. Mr. Easley said yes, but that he wished to emphatically state that there is not an

architect in Alaska who has not had work with Public Works if they have wanted it.

Asked about the size of the schools in question, Mr. Easley said that the average size is about 13,000 square feet. The committee was interested in more of the specifics of the schools and so Mr. Simpson, Chief Architect of the Division of Buildings, showed them the plans for one of the schools.

The committee talked about some of the specific cost problems concerned with the schools, and Mr. Saylor asked Mr. Easley if the price of steel had really gone up enough to make such a dramatic difference in costs, to which Mr. Easley said yes. He stated that the price of steel has gone up at least 60%.

Mr. Specking asked how close Kiana and Noorvik are and he was answered six or seven miles.

Mr. Lind explained that the rationale for the schools being so close together is that they each will serve probably 75 youngsters and if they bring in Junior High School aged children, 100 youngsters.

There was questioning about the dropping of the Togiak and Napaskiak schools and Mr. Lind said that they were not in as great a need.

Mr. Freeman asked when there is not enough money, how do they decide whether to build a lesser facility or not to build at all or to go ahead with plans as they are. Commissioner Lind said that it is difficult to make a decision. When they find they do not have sufficient money they go back to the communities to try to see what would constitute an absolutely "bare bones" facility. If even that is not possible, they then go to their professional advisors to figure out what to do. In this case their professional advisor is the Department of Public Safety, Division of Buildings. When they went to them they had to make a determination whether to sacrifice schools at all the locations or to have some kind of decent program at fewer schools.

Recess: Meeting recessed at 2:20 p.m.

he saw no reason not to go ahead and tell the industry the state is going to take its royalty interest in kind so that they can then make their plans.

HB 683

Mr. Orsini was present to testify on HOUSE BILL 683 (Improvement of Alaska Statutes). Mr. Orsini had been before the committee on this bill before, and the committee had had requested that he check into two points, one being the reason for the revisor's reports to go to Legislative Council rather than to the legislature itself and the other being the possibility of having yearly revisions rather than every 10 years. Mr. Orsini said that he talked with the Director of the Legislative Affairs Agency who said that there is no reason that the revisor's recommendations have to go to the Legislative Council. This is just a way for getting the recommendations to the legislature. They could be submitted to the Rules Committee. As per the possibility of yearly revisions, the Director said that to do the revising yearly would require additional staffing. However, he told Mr. Orsini that he thought they could do this every other year without needing to increase their staff, which would mean that the statutes would be revised once every session.

Mr. Warwick moved and asked unanimous consent that HB 683 be amended by on page 1, line 19, deleting the word "ten" and inserting in its place the word "two." No objection, so ordered. Mr. Warwick moved that HB 683 amended be reported out of committee with a unanimous "do pass" recommendation. No objection, so ordered.

HB 81

Mr. Warwick moved that HCR 81 be reported out of committee with the amendments Mr. Hartig had suggested. Mr. Specking objected. He requested that the committee hold action on the bill for another day as there is a bill presently in Resources which he would like to see up in Finance before action is taken. Mr. Warwick withdrew his motion.

ALASKA
FAIR
ASSOC.

Representatives of the Alaska Fair Association were present at this time to advocate Finance Committee support of their programs. General representative for the group was Sherry Murry, President of the Board of the Alaska Fair Association, and also representing the Kodiak Fair. Other persons present were James Baker, representing the Palmer Fair, Janet Baird, representing the Tanana Valley Fair, Linda Matthews, representing the Southeast Fair (Haines), John Hale, and Dorothy Fossum, Manager of SE State Fair.

Ms. Murry said that the Association is requesting support from the committee in three areas: support for the \$3,012,000 in bond monies (HB 477); support of the matching state operational funds for \$8,000 and \$25,000 depending on type of fair; and for the capital improvements projects.

3/26/74

The representatives of the various state fairs all testified, presenting the committee with materials and photographs from past fairs. The presentations all ran along the same lines -- that the fairs have been growing considerably; that they represent a genuine and honest cross section of the people of Alaska; that they cut across generation barriers and provide a positive focus for young people; that the buildings are needed (in Haines and in Kodiak, these are particularly related to needs for young people for such things as a 4H Center; in Palmer it is utilities - water and electricity that are needed) and that the communities make excellent use of the match monies provided to them. Statistics on attendance at fairs shows considerable participation; for instance, the last Palmer fairs had a larger participation than that in Cincinnati, Ohio.

The group closed its presentation, once again enlisting the support of the committee and thanking them for their support in the past.

HB 673 HOUSE BILL NO. 673 (Establishing the Alaska Fisheries and Game Development Fund) was brought up for discussion. The committee had before it both the original bill and the Resources Committee substitute. Mr. Specking and Mr. Haugen were both primary sponsors of this bill. Mr. Specking explained that the idea behind this is to hold on to some of the money coming from non-renewable resources to help in development of renewable resources. The Committee Substitute sets a limit on the fund. There was an attorney general's opinion to the effect that this was legal. Mr. Barber wondered if it was done by someone reliable.

Mr. Saylor said that he could not support this because of the amount of money involved. After further discussion when the point was made that this is for Fisheries development (and Game development according to the committee substitute) only, Mr. Saylor said he could not support for that reason, also.

Mr. Freeman felt that perhaps a 1976 effective date would be more acceptable.

HCR 52 HOUSE CONCURRENT RESOLUTION 52 (reduced ferry fares for persons over 65) was brought up for consideration. The question of whether or not to include meals, vehicles and staterooms came up. Committee sentiment was to keep the reduction to the fare itself. The idea of having free fares was brought up and committee sentiment was generally favorable; however, they felt the resolution stood a better chance at passage if the fare was 1/2 price. There was concern that these reduced fares would be considered second class tickets. Mr. Warwick moved that on page 2, line 8, the words "on a space-available basis" be deleted. No objection, so ordered. Mr. Warwick moved that the bill be reported out as amended. and there being no objection, it was so ordered. Majority report was "do pass".

3/26/74

HB 750

HOUSE BILL 750 (Relating to municipal property taxing powers) was brought up for consideration. Mr. Warwick moved that the bill be replaced with a new committee substitute and be reported out of committee. No objection, so ordered. Majority report was "do pass" with Mr. Specking signing "no recommendation."

Recess:

There was brief discussion on scheduling of meetings and the committee recessed at 10:20.

3/26/74

In response to questioning by Mr. Specking about municipal loans, Mr. Hall said that cities borrow money on the bond route. These bonds are tax exempt to the holder. They will normally sell lower on the market. Rate will be such to give the holder the equivalent of 9%. That benefit is then passed on to the holder. If the bank has to pay taxes, however, they will have to increase the interest rate.

[Mr. Ferguson came in at this time.]

Mr. Hall noted that both of the larger banks serve smaller securities. Out of NBA, there are \$65,000 worth of municipal securities out of their \$114,000 total securities. He said that he does not know what percentage of that is Alaska securities.

Mr. Meekins asked Mr. Randolph's comments on Mr. Hall's statement that the percentage in the bill was come up with so as to, in effect, charge on the exempt income. Mr. Randolph said that he did not work with that in coming up with his percentage figures at all. He further mentioned that for years they have been trying to get information on what the banks are doing in the various smaller communities, and if this bill would get them to show taxes on each of the banks, it would certainly have accomplished something. With reference to the 600 stockholders, to whom Mr. Hall had made reference in passing, Mr. Randolph noted that the majority of stocks are held by only 10 of those 600.

Mr. Barber asked Mr. Boetsch about the sentence in his letter which Mr. Randolph had quoted, and the use of the word "comparable." He wondered about using the word "equitable." Mr. Boetsch said that he did not use the word "equitable" because it implies a value judgment. However, if one assumes that equitable means two different types of business having the same income in the same situation would be paying the same taxes, the word equitable could be used. Mr. Barber then asked about the word "fair" and here again Mr. Boetsch said that this is a value judgement, but the same reasoning would apply.

Mr. Hall here made the point that the bank is taxed on a franchise basis and cannot be compared to a regular corporation taxed on a percentage of gross receipts basis.

Messrs. Randolph, Hall and Boetsch left. Present at this time from the Associated Students of the University of Alaska were Messrs. Chip Wagoner and Bob Williams, and Ms. Carol Wolbey.

Mr. Wagoner said that ASUA are trying to secure \$600,000 GO bonds for book acquisition for the Elmer Rasmuson Library at the

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PROJECTS

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University of Alaska. He said that they have attempted to evaluate their library by a variety of different formulas -- and by all the formulas it fails to meet minimum standards. He mentioned the Clapp Jordan formula, according to which there should be 420,334 volumes in the Library. There are only 345,522 volumes. The U.S. Office of Education recommends for a school with doctoral programs a 500,000 volume minimum. There are six doctoral programs at the University of Alaska, and only 345,522. Even that figure is misleading, because many of these volumes being counted are U.S. Government documents. There are actually only between 220,000 and 250,000 volumes.

Mr. Wagoner spoke also to the inflationary costs of periodicals and books alike.

Mr. Williams mentioned that there was a supplemental request last year at the end of the session for the University of Alaska. They received \$250,000. \$70,000 was to be channeled into the library fund because they were having to cancel subscriptions due to the inflationary costs. The library, however, did not receive one dime of this money. This is one reason that the students are requesting that the acquisition money be through the vehicle of GO Bonds. They feel that perhaps the legislature can keep a better control on how the money is being spent this way than if it is a direct operating appropriation.

Ms. Wolbey stated that they have unanimous student support and considerable support from faculty, the Borough, and others involved. She presented copies of letters and resolutions in support of the proposal to the committee and they can be found in the University of Alaska budget file. She emphasized how important these books are to the University, stating that they would prefer to have books than buildings. They are not interested in seeing the University become a "playground for contractors." The students are interested in their education.

Mr. Wagoner made the point that the students will have to be competing with students from other universities for jobs, graduate school, etcetera, and it is vital that they can prepare themselves in the best way possible.

Mr. Wagoner stated that they have some suggestions for areas that they would be more willing to see cut than the library budget. He noted that the library has not been a high priority of the Board of Regents, but that it is of the students and that they feel they can do without some of those things given a higher priority by the Board. He mentioned that in the University's capital improvements budget request there are various areas that the students feel are non-essential. One is the \$300,000 for upgrading of the dormitories. Mr. Wagoner said that what they intend to do

with that money is to enlarge the dorm rooms, put down carpeting and buy better furniture in order to attract students to the dormitories. However, he said that that still will not fill the dormitories as a major reason students will not live in the dorms is that they are then forced to buy a meal ticket for \$475 and besides the fact that they can eat more cheaply on their own, they don't particularly care for the food, anyway.

Another place he said they could save money is on the \$1 million request for a warehouse. There was \$1 million lapsed from the 72 bond issue, and Commissioner Henri on February 6 recommended that this \$1 million go toward the Warehouse, also. So, if the \$1 million is approved, there will be \$2 million total for a warehouse. He said that the University does not need a \$2 million warehouse.

Another place they could save is with the request for a new dining facility in the Wood Center. A poll of the students indicated 62% opposed to this. Mr. Wagoner said that one reason they want the facility is so they can use the other one for a museum. Right now there are two facilities, the smaller of which is closed.

The ASUA representatives once again emphasized the terrific importance to a University of having a good library, and noted that even if they get this request, it will still be 1980 before they are brought up to minimum standards.

Mr. Freeman commended them on their presentation and they left at this time.

*

ADMIN. OF
JUSTICE

Mr. Jaimie Love was present at this time to present recommendations on the Administration of Justice Budget. Mr. Love has been working for the House Minority Caucus to reserach some of the criminal justice issues. His recommendations are appended hereto.

Meeting recessed at 10:00 a.m.

HCR 81
HCR 82

*Mr. Specking moved and asked unanimous consent that HCR's 81 and 82 be reported out of committee. No objection, so ordered. HCR 81 was reported out of committee with a unanimous "no pass" recommendation.. HCR 82 was reported out with individual recommendations, Messrs. Warwick, Saylor and Ferguson voting "no pass"; Mr. Meekins voting "do not pass unless amended"; and Messrs. Freeman, Use and Barber signing "without recommendation."

3/28/74

HOUSE FINANCE COMMITTEE

April 2, 1974

7:40 p.m.

Present: All members were present with the exception of Representative Meekins. Also present was Rep. Lavell Wilson.

CAPITAL PROJECTS Chairman Freeman called the meeting to order at 7:40 p.m. for the purpose of considering the capital budget. The appended pages of the budget show the changes that were made during the meeting. The following were the LEGISLATIVE INTENTS adopted during the course of the meeting.

LEG. INTENT EDUCATION
Department of Education:

Repeal of match language for the Barrow Museum (\$500,000)

Repeal of match language for ETV, Anchorage (\$556,000)

State Operated Schools:

Completion of Copper Center School take place during FY75.

DEVELOPMENT
Department of Public Works:

\$100,000 of Waters and Harbors appropriation be used for Wrangell Harbor Improvements.

TRANSPORTATION
Department of Public Works:

Out of FAA appropriation, Gulkana project be completed.

Meeting adjourned at 10:20 p.m.

1	Administration and Support	5,199,900	
2	Legislative Branch		
3	Legislative Affairs		2,442,400
4	Legislative Budget and Audit		
5	Committee		685,600
6	Legislative Audit	485,200	
7	Legislative Finance	175,400	
8	Committee Expenses	25,000	
9	Fund Source		
10	General Fund	\$ 23,377,700	
11	Federal Program Receipts	1,251,300	
12	Public Employees' Retirement Fund	352,400	
13	Teachers' Retirement System Fund	339,200	
14	Highway Working Capital Fund	12,747,500	
15	Program Receipts	38,000	
16	Interagency Receipts	3,799,300	
17	FICA Administration Fund		
18	Reserve Account	<u>45,900</u>	
19	Total Funding	\$41,951,300	
20	Operating Budget Fund Sources		
21	General Fund	\$364,039,300	
22	Federal Revenue Sharing Account	7,260,600	
23	Aviation Fuel Tax Account	1,472,100	
24	Highway Fuel Tax Account	11,076,400	
25	Federal Program Receipts	98,307,300	
26	Program Receipts	16,715,600	
27	Public Employees' Retirement Fund	352,400	
28	Teachers' Retirement System Fund	339,200	
29	Veterans' Revolving Loan Fund	414,300	

1	Agricultural Revolving Loan Fund	79,200
2	Fish and Game Fund	2,476,400
3	International Airport Revenue Fund	11,159,600
4	School Fund (cigarette tax)	2,275,000
5	Highway Working Capital Fund	12,747,500
6	FICA Administration Fund	
7	Reserve Account	45,900
8	Special Surplus Property Revolving	
9	Fund Reserve Account	192,400
10	Second Injury Fund Reserve Account	241,600
11	Sick and Disabled Fishermen's Fund	
12	Reserve Account	265,400
13	Donated Commodities Handling Fee	
	Reserve Account	39,800
15	Interagency Receipts	<u>12,302,300</u>
16	Total Funding	\$ 541,802,300

17 * Sec. 9. The following appropriation items are for capital projects
18 and are effective on the day after passage and approval of this Act or on
19 the day it becomes law without approval. The items in the allocation column
20 are legislative guidelines.

21		APPROPRIATION	
22		<u>ALLOCATIONS</u>	<u>ITEMS</u>
23	EDUCATION		
24	Department of Education		
25	Law Library Library Equipment		\$ 85,000
26	Skill Center Shop, Phase II		100,000
	Library Acquisition Fund		10,000
27	Hydaburg School		40,000
	Museum Acquisition Fund		25,000
28	Klawock School Multi-purpose Room		40,000
	Educational Broadcasting		183,000
29	TV Translators, Southcentral	\$ 15,000	
	TV Translators, Big Delta and Tok	10,000	
	TV Translator, Girdwood	5,000	
	ETV Maintenance-King Salmon, Kivalina,	50,000	
	Dillingham		

1	Barrow Radio Station	90,000 60,000	
2	Dillingham Radio Station	13,000	
3	State-Operated Schools		
4	Various Building Improvements		162,700
5	Housing Units		150,000
6	University of Alaska		
7	Library Books, U of A		300,000
8	Mobile Equipment		70,000
9	Patty Building		20,000
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HEALTH

Department of Health and Social Services

Hill-Burton Federal Funds (Federal) 2,300,000

Harborview Memorial Hospital Fire Escape 20,000

NATURAL RESOURCE MANAGEMENT AND ENVIRONMENTAL CONSERVATION
Department of Fish and Game

Predator Control for Southeast Alaska 10,000

X-Ray Spectroscopic Program 58,800

Bristol Bay Salmon Rehabilitation 600,000

Big Lake Gravel Incubator, Phase II 200,000

Humpy/Fish Creek Gravel Incubator 200,000

Studies and Investigations 191,000

 Karluk Incubation 55,000

 Kobuk/Noatak Salmon Enhancement 25,000

 Kodiak Little Kotol Outlet 10,000

 Southcentral Rainbow Stock 40,000

 Southeast Water Flow and Geothermal 61,000

Department of Natural Resources

 Merrill Field Subdivision (MFSRA) 687,000

~~Outdoor Recreation Facilities-(Federal)-~~ ~~2,900,000~~

 Port Lyons Water System 73,000

FUBLIC PROTECTION

Department of Military Affairs

 Armory Repairs 75,000

 Emergency-Operating-Center-(Federal) 590,000-

ADMINISTRATION OF JUSTICE

Alaska Court System

 Court Building Equipment 677,100

 Fairbanks Court Remodeling 730,100

1	Palmer Court Improvements		98,600
2	Glennallen Court Building		68,900
3	Delta Junction Court Building		73,900
4		DEVELOPMENT	
5	Department of Natural Resources		
6	Agricultural Loan Fund Capitalization		200,000
7	Palmer Greenhouse		50,000
8	State Fairs		125,000
9	Herrill Field Subdivision (MFSRA)		687,000
10	Department of Public Works		
11	Waters and Harbors Projects (WFT)		1,262,500
12		TRANSPORTATION	
13	Department of Public Works		
14	Bartlett Class Ferry Matching Funds		625,000
14	Knik Arm Ferry Feasibility Study		300,000
14	Yukon Ferry Matching Funds		300,000
15	Federal Aviation Funds (Federal)		29,933,000
16	Department of Highways		
17	Special Projects (Program Receipts)		13,500,000
17	Federal Highway Funds (Federal)		111,800,000
18		GENERAL GOVERNMENT	
19	Department of Public Works		
20	Building Projects		400,000
21	Fire and Extended Coverage	50,000	
22	Replace Boilers	50,000	
23	Access Improvements	75,000	
24	Roof Repairs	96,000	
25	Painting, Kodiak and Bethel	32,000	
26	Fish and Game Fire Exit	11,400	
27	Governor's Mansion	25,600	
28	Juneau Community Building	60,000	
29	Department of Highways		
	Resurrection River Road		75,000
	Point Whitedshed Road		35,000
	Moose Pass, Walkway, School Children		5,000

	Legislative Finance	10,000
1	Equipment Purchases (HWCFA)	4,300,000
2	Capital Budget Fund Sources	
3	General Fund	\$3,225,300
4	Federal Revenue Sharing Account	950,000
5	Watercraft Fuel Tax Account	1,262,500
6	Federal Program Receipts	147,523,000
7	Highway Working Capital Fund	
8	Reserve Account	4,300,000
9	Merrill Field Subdivision	
10	Reserve Account	<u>687,000</u>
11	Total Funding	\$157,947,800

12 * Sec. 10. (a) Before the actual allocation of appropriations made
13 by this Act, the commissioner of administration shall withhold sums in
14 reserve from the personal services category for state agencies according to
15 the following schedule of vacant position reduction factors:

16	<u>State Agency</u>	<u>Vacant Position Reduction Factor</u>
17	Governor	5.51%
18	Administration	12.44%
19	Law	6.33%
20	Revenue	8.67%
21	Education	12.76%
22	Health and Social Services	10.75%
23	Labor	12.44%
24	Commerce	10.80%
25	Military Affairs	5.13%
26	Natural Resources	9.42%
27	Fish and Game	10.04%
28	Public Safety	6.49%
29	Public Works	5.44%

1	Highways	5.44%
2	Automotive Equipment	5.39%
3	Economic Development	11.61%
4	Environmental Conservation	13.04%
5	State-Operated School System	6.82%
6	Community and Regional Affairs	24.23%

7 (b) The vacant position reduction factors shown in (a) of this section
8 were computed from actual records of the Department of Administration. The
9 commissioner of administration may release funds restricted by (a) of this
10 section to reflect revised vacancy factors and to allow for the payment of
11 the cost of services for appropriated positions.

12 * Sec. 11. If the amount required under applicable statutes for
13 refunds of shared taxes and revenues to eligible political subdivisions
14 exceeds the estimates appropriated by this Act, the excess is appropriated.

15 * Sec. 12. If the amount required to be paid under subsections 9(b),
16 (c) and (d) of the Alaska Native Claims Settlement Act, P.L. 92-203, exceeds
17 the estimate appropriated by this Act, the excess is appropriated.

18 * Sec. 13. If watercraft fuel tax receipts fall short of the amount
19 appropriated from that source by this Act, the amount of the shortfall is
20 appropriated from the general fund for waters and harbors projects.

21 * Sec. 14. If federal program receipts fall short of the amount
22 appropriated from that source by this Act to the Department of Education for
23 support of the boarding home program, the amount of the shortfall is appro-
24 priated from the general fund for that program.

25 * Sec. 15. Notwithstanding the provisions of sec. 8 of this Act, any
26 balance of the \$938,000 appropriation allocation for the highway maintenance
27 contingency reserve does not lapse into the general fund until August 31,
28 1975.

29 * Sec. 16. (a) Appropriation items contained in this Act may be

Rep. Specking stated that the real inequity is that those two particular banks are national banks and can move into any community. He stated that First National wants to move into Cordova which will kill any private bank there. Rep. Saylor said this is an unfair tax levy on NBA and First National.

Rep. Freeman stated that Rep. Randolph wished to see this bill reported out of the House Finance Committee so that the House will have a chance to vote on it; the Committee does not have to pass it out with a "do pass" recommendation. Rep. Barber stated that smaller banks are protected locally by bonds, etc.

Rep. Warwick then moved that HB 630 be reported out of Committee with individual recommendations; those in favor of the motion were Representatives Warwick, Specking, Freeman; opposed were Capital Saylor, Barber, Haugen, Ose, Ferguson. And so, the motion failed. Projects HB 630 was returned to the file.

FIRST
FLOOR
CAP.
BLDG.
RENO-
VATION

The Committee then requested that Jay Hogan, Director of Legislative Finance, present to the Committee proposed plans for renovating the space now occupied by the Alaska State Library on the first floor of the Capitol Building. Mr. Hogan told the Committee that the Library will be transferred to the new State Office Building, and the Legislative Affairs Agency had planned to use the vacated space for an expanded reference library. Mr. Hogan said that at this time, the Legislative Affairs plan is a waste of space. Mr. Hogan therefore asked the architect from the Division of Buildings to look at the space and devise a plan to house committee rooms and committee chairmen offices. The architect's plans were presented to the Committee; Mr. Hogan said that there will be room for six committee rooms. The total cost will be \$140,000 which will include the cost of putting in a reasonable ventilating system. Mr. Hogan said that the cost of the ventilation system will run \$100,000. Mr. Hogan said that the plans are set up now so the Committee rooms have now one window in each. This is not sufficient.

Mr. Hogan told the Committee that the Legislature will lose the second floor of the Assembly Building to the Division of Buildings next year. The Legislature must therefore take advantage of the space which will be vacated by the State Library. While the major cost will go into the ventilation system, the actual construction cost to renovate this space will be \$40,000.

Rep. Warwick said that he felt the reference library plan is indeed a waste of space at this time. He then asked Mr. Hogan how this plan to house the legislative offices on the first floor can be implemented. Mr. Hogan said that the money could be put in the Legislative Affairs Agency budget with strict statements of intent and with a copy of the plans attached. Mr. Hogan informed the Committee that Legislative Council is responsible for space during the interim, but not during the session--the Legislature is responsible for legislative space during the session. Mr. Hogan said that this can be implemented by putting it in as an amendment to the budget bill (CSHB 465) or it can be conserved as a Free Conference Committee item. Both methods would be equally effective.

Mr. Hogan said that by putting it in as an amendment to the bill, it becomes an item of backing for one house.

Regarding the size of the proposed committee rooms, Mr. Hogan stated that one is the size of the House Finance Committee; others are just as long as the HFC room, but are narrower. Mr. Hogan said he did not know what was behind the decision of the Division of Buildings taking the second floor of the Assembly Building from the Legislature next year. Rep. Orsini said that to save effort, the Division of Buildings should go into the space vacated by the Library; the Legislature can then remain in the Assembly on the second floor. Mr. Kent Dawson, Fiscal Analyst, said that the reason the Division of Buildings wanted the second floor of the Assembly Building was because they needed shop space and will therefore convert the parking garage to suit their needs.

Rep. Saylor pointed out that the Legislature's lease on the Assembly Building expires in two years. Mr. Hogan said that when the Court Building is completed, the Legislature, hopefully, will request to receive all space in the Capitol Building vacated by the courts (a portion of the third floor, and all of the fifth floor).

Mr. Hogan said that the usable amount of square feet in the Assembly is 8,000. The usable square feet on the first floor of the Capitol Building is 7,000.

Rep. Saylor stated that he wished the Finance Committee would take a positive stand in this matter and purchase the building. He said that he did not know if the Legislature had a renewable option on leasing the Assembly space. He said that during a Budget and Audit Committee meeting several months ago, he had requested that Legislative Affairs condemn the Assembly through eminent domain for the State of Alaska; Legislative Council refused to do so. Rep. Barber said that he had insisted (during Budget and Audit discussion on this matter) that there be an option to purchase in the contract, but it is not there.

Rep. Warwick said that he felt that Mr. Hogan's plan to utilize the first-floor Capitol Building space is a good one. Rep. Saylor said that he did not object to the plan, but he felt that the Legislature should pursue the plan to purchase the Assembly as well. Rep. Haugen said that the Legislature should be housed in one building; he therefore concurred with Mr. Hogan's plan.

Rep. Warwick then moved that the Committee adopt the plan to renovate the State Library space to house legislative offices as a Finance Committee amendment; there being no objection, it was so ordered.

Rep. Freeman, Chairman, instructed Mr. Hogan to prepare the proper language to be inserted in CSHB 465.

HB 738 The Committee then listened to testimony presented by Rep. J. Miller regarding HB 738, an act repealing the Alaska Business License Act and establishing the Alaska Business and Occupation Tax; and providing for an effective date.

Rep. Miller told the Committee that the proposed Committee Substitute

(Continued from bill minutes of same date, 8:35 a.m.)

[Rep. Meekins entered the Committee Room at this time. He signed all Committee Reports.]

General
Budget

Committee discussion followed regarding the state employees' pay raise, the FY 75 budget, and the impact budget.

Impact
Budget

Rep. Saylor asked how much of a reduction the Committee had made so far from the Governor's budget proposal. Rep. Freeman stated that excluding the Education program category, a reduction of \$16 million or \$17 million had been made in General Funds--down from the \$389 million. He then stated that if the state employees' pay raise is accepted by the Legislature in the form reported out by the House Finance Committee (which zeroed out all fringe benefits), the tone will be set; a determination of direction will have been made which will affect the Operating and Capital Budgets, and the Impact Budget. Rep. Freeman said that if the state employees' pay raise passes (as drafted by the HFC), there will be room with the budgets; the question of bonds will be settled last.

Rep. Saylor referred to the \$5 million appropriated for pipeline impact to communities during the Special Session. He then stated that if that \$5 million can be divided among various communities in the state, and spent by those communities as they see fit for impact areas, then the Legislature can appropriate another \$5 million which will be held for communities who must justify their need for the additional money. (for impact purposes).

Rep. Freeman told the Committee that many things listed under the Impact Budget should be under the regular Operating Budget. Much of the Impact Budget is made up of items that many people have not expectations of reducing at all even after pipeline impact. The requests are specified as necessary items caused by pipeline impact which is not true.

Rep. Freeman said he had no objection to using state money to assist municipalities where there is pipeline impact if the municipalities are not able to handle the impact themselves and if their needs (caused by the impact) are justifiable. But to follow Mr. Saylor's suggestion of dividing the impact money appropriated during the Special Session among the communities is not a good approach to the impact problem. Rep. Saylor countered that many communities will be competing against each other for the impact money.

Rep. Haugen told the Committee that he had introduced a bill relating to this issue on the local level (see HB 705) where the state can back up debt service for school bonds. He said this type of approach could easily work for Fairbanks which will have a difficult struggle with pipeline impact; this gives the state the opportunity to take care of debt service or guarantee debt service with the bonds. The borough or city can use that vehicle to build schools that are required and that they really need.

Rep. Freeman then told the Committee that under the Industrial

Incentive Act and under federal law there is a vehicle by which a corporation can, by agreement with a state or municipal government, issue revenue bonds to take care of certain facilities. The corporation can sell bonds to do the job at a lower interest rate, thereby saving a great deal of money. There are several things that can qualify under this: pollution control; schools, water, sewer, highway, local housing, etc. All are eligible for bonding. The corporations work out an agreement with the municipalities where they kick back part of the savings on a percentage basis. The Consortium (pipeline) figures they can save \$80 million by this method in the Valdez area alone. They have a formula for this method, and the community will receive 1% of the savings as an out-right gift.

Rep. Freeman said that the Administration is interested in testing this approach, but at this time, no discussion has taken place with the Valdez community. Rep. Freeman said that he felt their reaction would be favorable once informed of this possibility.

Rep. Freeman stated that this keeps communities in the state from being dependent upon the money the Legislature appropriates. This approach will allow those communities to help themselves. Although Valdez may use this approach, Rep. Freeman said he still wanted money available in case they do need it.

Rep. Meekins asked what process will be used to determine which items in the Impact Budget are really necessary and are a direct result of the pipeline impact. Rep. Freeman said the Committee would direct its attention to the Impact Budget within just a few days. Rep. Specking stated that the Legislature must address itself to the Impact Budget during this session; many items listed in that budget are, in fact, important and necessary.

Rep. Freeman concurred with Rep. Specking and said that the Legislature must make the money available, but the Legislature should also leave the money as flexible as possible. This will provide sufficient funds for covering any contingency or emergency.

Rep. Specking commented that other legislation dealing with pipeline impact must be addressed as well; the Impact Budget did not cover everything. He added that in some areas it is not a cash problem but a credit problem.

Brief discussion followed on the Committee's schedule for the Operating Budget, the Impact Budget and bond legislation.

Recess: There being no further discussion, the Committee recessed at 9:50 a.m.

AD

HOUSE FINANCE COMMITTEE

February 27, 1974

1:40 P.M.

PRESENT

All members except Mr. Ose, Mr. Ferguson, and Mr. Warwick. The following people were present from the Department of Administration: Mr. Joe Henri, Commissioner; Mr. Kellus Sewell, Administrative Officer; Ms. Darlene Levy, Personnel Officer; Mr. Richard Smith, State Internal Auditor; Mr. Myrt Charney, Director of Budget and Management; Mr. Patrick Hunt, Director of Personnel; Mr. Noah Wellman, Director of General Services/Supply; Ms. Colleen Roguska, State Archivist; (Mr. Mike Parisi, Director of Data Processing, and Mr. Mike Wheeler, Deputy Director of Data Processing, arrived a little later in the meeting.)

Data Processing
(Use of State Computer)

Chairman Freeman called the meeting back to order. He said he believed Mr. Henri had been furnished with some communications involving the Finance Committee staff and the Data Processing Service. Mr. Henri said he hadn't been.

Mr. Freeman told him to take a few minutes to read the letters.

Mr. Henri said that on the use of the State's computers, it had never been brought to his attention that they weren't cooperating in every respect with the Legislature. As far as Mr. Henri knew, the accusations were not true.

Mr. Freeman asked if it were possible that people further down the ladder might have feelings that it was their computer and that the legislative staff were interlopers. Mr. Henri said it was certainly possible, and he wanted to assure them that he would look into this and make sure it was an impossibility in the future.

Mr. Freeman asked about the bumping of state work in favor of outside private ventures.

Mr. Henri admitted there was that implication, but that they certainly wouldn't give AEL&P higher priority than the Legislature. Without looking into it to examine it, he couldn't tell them what had happened.

He said he was aware that AEL&P was on the computer. He said there was no other computer that could do the job in Juneau. That computer goes 24 hours a day, and he thought it a good idea to earn some extra income on it. He said the graveyard shift was very light. He added they certainly weren't in competition with anybody.

Mr. Saylor said they were under the impression that B.M. Behrends Bank had a small computer. Mr. Henri said that his information was that the work couldn't be done anywhere else, but he didn't claim to be an expert on computers. He said they had a regular charge

for the computer and they would be willing to lease time to anyone who wished to pay the rate.

Mr. Saylor asked what the rate was, and Mr. Henri said \$175 an hour including the operator. Mr. Saylor asked if the contract was an hourly one. Mr. Smith, the State Internal Auditor, replied that he had talked with the Data Processing people about the amount of access provided to the private sector, and they had said over the last 12 months, they have used the computer for 11 hours. He said they had pursued the subject of AEL&P, and had been told that it in no way infringed upon State operation.

Mr. Barber referred to questions 6 and 7 on page 2 of the letter from Mr. Hogan:

6. Are those programs being written in assembly language? If so, why? Isn't the Division of Data Processing now writing all of their programs in cobol language?

7. If written in assembly language, who will maintain them? Hasn't the Division only recently had to re-write the longevity bonus program from assembly to cobol language because there was no one to maintain the system in assembly language?

Mr. Henri replied they didn't have any specific language, they used the language most appropriate for the job at hand. He said they had had advice from several very competent people in major accounting firms.

[Mr. Ferguson arrived this time.]

Mr. Barber asked whether if they were discussing a program, they could tell which language it was in. He said they could tell him the language of any program on the computer or on design since a judgment was made in advance.

Mr. Barber said the inference in the letter was that they wouldn't be able to tell him. He wanted this looked into.

Mr. Henri pointed out that languages were converted from time to time. He said they had a number of people conversant in both languages.

Mr. Meekins said that 11 hours of computer time was a sizeable amount. When he was at school he used to use a computer and the amount of time he spent was about 45 minutes, and it took the computer only about 10 seconds to answer. He thought that 11 hours of computer time must be a sizeable amount of money.

Mr. Smith thought they must be talking about different things because these 11 hours were charged at \$175 an hour.

Mr. Meekins wondered what happened to the money they received since it didn't turn up in program receipts. Mr. Henri explained they would bill them and the money would just go into the Treasury. He said it wouldn't show up in the budget.

(Teachers' Retirement System)

Mr. Henri referred to the memo on the Teachers' Retirement System. He explained that the Arthur Anderson Co. was awarded a Phase I contract to advise the Department of Administration, Retirement Section, as to what it would take to redo the Teachers' Retirement. He was sure that they, as representatives of the public, had heard numerous complaints as to the Teachers' Retirement System. The Program design was very poor and it wasn't able to keep up with the huge increase in members. It was evident that the thing had to be redone, and that was why they had Arthur Anderson Co. review the System. The State entered into a Phase I contract with them for \$31,000. Then they entered into a Phase II contract with them for implementation. They said they wouldn't exceed a maximum of \$67,000. Several weeks thereafter they came back and said they couldn't possibly do it for that. They said it would cost somewhere around \$135,000. Mr. Henri had said no, since there was a contract they would have to stick to it and do it for \$67,000. They said they wouldn't do it, that they had lost enough money already. Mr. Henri finally told them that if he could get it done somewhere else for that amount of money, he would let them off the hook. He found he couldn't get it done for much less than \$135,000 by any of the Big Eight Accounting Firms.

He pointed out that when Mr. Endicott left the State to go into private practice, he had had no idea that Arthur Anderson Co. was not going to stick to its contract. After they refused to stick to the contract, Mr. Henri had talked with Mr. Gates, Chief of the Retirement Section, about letting Southeast Data take care of the matter. Mr. Gates had been lukewarm about the idea, but Mr. Henri had decided to mention it to Mr. Endicott anyway. Mr. Endicott had looked it over and had given a figure of \$66.8. Mr. Henri stressed this was not a bid thing, but a negotiated thing under the Arthur Anderson prior agreement. He didn't know if he had even written to them releasing them from the contract yet.

Mr. Barber asked if the Retirement System was done. Mr. Henri said that it was, and that it was working marvelously. He said they were now redoing the PERS System.

Mr. Saylor asked what type of computer Southeast Data had, and Mr. Henri didn't know of any computer they had. He said they did have key punching machines.

Mr. Freeman asked how many private firms or organizations were using the State's equipment. Mr. Henri said it was extremely limited, and he wasn't sure at the moment who they were.

Mr. Freeman thought they could agree that the use of the computer was important to this Committee, and that they would take offense to being bumped by an outside firm.

Mr. Henri said that he thought everybody understood where the priorities lay. He said he apologized for his Department if the Legislature was caused any inconvenience.

GENERAL
GOVERNMENT

At this time Mr. Freeman turned the Chair over to Mr. Saylor who was the Acting Chairman of the Sub-committee on General Government.

DEPARTMENT
OF ADMINIS-
TRATION

Mr. Saylor said they would be hearing testimony on the Department of Administration's Budget.

[Mr. Meekins left the meeting.]

Mr. Saylor asked Mr. Henri to give a brief overview of his Department's budget.

Mr. Henri stated that the budget in general contains about 52 new positions, 18 of which have already been approved through Revised Program by the Budget and Audit Committee. He thought a number of them were important, and apparently Budget and Audit agreed. They have also started the Office of Risk Management which is handling State insurance. They would like to add a couple more people to that office as well as a Clerk. He said that in these labor negotiations he has been involved in, there has been a great deal of concentration on safety. He has been concerned about that for a long time and has been trying to reduce the State's liability. The new Office of Risk Management has two essential functions: 1) to cut down losses and 2) to keep insurance policies current and revise them if necessary.

He went on to say that during the past year they have been successful in expanding insurance coverage, areas of risk, and limits of liability. At the same time they have dramatically reduced expenditure. With some of the savings realized, they started this Office of Risk Management. Mr. Henri said he sought their help in keeping the office going to do this job which the State needs to do. He pointed out that the Office personnel would be able to check for loop holes in policies.

He sent Mr. John George, Chief of the Office, to a meeting of State Risk Managers. It turns out that Alaska has the best program in the country today. At the end of the first day of the meeting, Mr. George was one of the panelists telling others how to do it.

Mr. Henri said that there was a need for consistent vigilance in the area of insurance. He hoped they would see fit to honor the request.

Mr. Henri said that the General Services section was in need of purchasing agents. The volume of supplies needed has increased dramatically, but they aren't able to buy by volume any more because they don't have the personnel, so they are losing money. He hoped the Committee would be favorable to giving them the people they asked for, which he thought were minimal.

Mr. Barber said they had heard complaints that purchases were delayed due to grouping of additional equipments in order to make large purchases. He agreed this would lower the purchase price, but didn't think it was very helpful to the purchaser.

Mr. Fink said they were trying to keep up with the change in volume of business, and that they would like to get things out as fast as people wanted them, but sometimes it wasn't in the best interest of the State.

Mr. Saylor noticed in the budget there was a \$123.5 increase mostly in ASHA rent. He noted that their present space was 17,300 square feet, and they would have 24,200 square feet in their new building. He wondered whether part of the increase in payment was for a portion of the parking area. Mr. Henri replied that was right. He added that the building was left over from Governor Miller's administration. At the time the bonds were funded, there was a statutory limit of 7%, and the bonds were funded at 6.999% and the actual period was 11 years. This means the whole building has to be paid off in 11 payments.

Mr. Saylor asked about the fire insurance, and was told that was something Budget and Management stuck in.

Internal
Audit

Mr. Saylor asked to hear from the Internal Audit section. Mr. Richard Smith, State Internal Auditor, was present to comment on his section.

Mr. Smith said it was a small office within the Office of the Commissioner. He has 8 Internal Auditors and one clerical person. He said they were the only executive auditors in the bunch. They don't offer direct service, but service is granted to people of the State for any function within the State for any of the programs that operate within the State. In many instances they see what needs to be done and try to implement it. They are asking for 9 positions this year which will in essence double the staff in the agency. The money will be coming from the different departments--essentially Education, Public Safety, Natural Resources, Vocational Education, Office of the Governor, Criminal Justice. They will do the programs which they feel are essential.

Mr. Smith thought he could talk about what they have done in the Office and the procedures that have been changed and the controls

offered, but it would probably just be a lot of words. He thought that something which would make a better impression would be dollars and cents because they would show this was a worthwhile program to the State. He told them about a review they had done of the Department of Natural Resources where they changed the provision for fire suppression and reduced the cost. He talked about work done for the Department of Labor where they saved the State \$250,000. He told them about an audit report on statewide administrative costs which would save the State \$400,000 when it was totally implemented. Work they did for Criminal Justice saved probably \$150,000 in federal disallowances that would have occurred. They also saved Education about \$2.25 million in federal disallowances. He said he could talk about bringing International airports into compliance with regulations. He said they had saved \$150,000 in some of the smaller agencies.

Mr. Saylor asked how many audits they did during this fiscal year, and Mr. Smith said probably 26. Mr. Saylor asked if they planned to double the effort if they doubled the staff. Mr. Smith thought they would at least double it. He said some of the audits would be smaller ones, and if they were talking about the big extensive things, it was hard to say the number.

Mr. Saylor said that in October they had come before Budget and Audit with a request which was denied, he wondered if they were going to use the extra staff to do that. Mr. Smith said they were talking about differences between the Executive Branch and the Legislative Branch, but they were not in any instances talking about work within agencies as pertained to that request.

Mr. Saylor said that in their memorandum in October they were going to be auditing federally funded programs to see that they were conducted in the way they were funded to be. He wanted to know if they were going to use the extra staff to do that. Mr. Smith said no, and added that they were talking about going into the programs to satisfy the Department of Administration.

Mr. Barber asked if there was any conflict between Internal Audit and Legislative Audit. Mr. Smith said that in his own mind he didn't feel there was a confusion, and he said they did no duplicate services.

Mr. Haugen asked if they had audited the Division of Buildings. Mr. Smith said they had audited the Division of Buildings in January of 1973 and in that instance found their set of records implorable. They weren't using the State's record keeping system. He said they did the audit, and not only offered to do the work, but in many instances set up the procedures. He said that SOS had come to them now asking what had happened recently, and they were going to check on it.

There was further discussion of particular instances, and Mr. Smith said that one way to take care of all of these problems would be if they had 18 auditors.

Mr. Saylor asked Mr. Henri what they intended to lapse this year. Mr. Henri didn't know, and added that it would be a surprise to him if they had a lapse.

Mr. Barber asked Mr. Smith whether any of their audits had an effect on the books. Mr. Smith said that in each instance they make a review they improve the books. If they find an error, they attempt to find its effect on the department and correct it.

[Mr. Henri left the meeting.]

Mr. Smith said that in an instance where they are reviewing a federal project, they will also review the State administration of that project.

Adminis-
trative
Services

Mr. Saylor said they would go on to speak about Administrative Services. Mr. Kellus Sewell, as Administrative Officer for the Department, was present to speak. Mr. Sewell said that Administrative services was the Division which provided services for the Department throughout the State.

Budget &
Management

Mr. Charney, Director of Budget and Management, said they had a hold-the-line budget. The only inflationary adjustment for this office is to offset a \$3,100 shortage in personal services from last year. That accounts for \$3,000 of the maintenance level increase. Other than that, the number one priority is for an increase in travel funds for the budget analysts. Since the inception of the Budget and Audit Committee, Budget and Management is supposed to have a representative at all of the meetings. He has had to infringe on his analyst's travel money in order for them to attend those meetings. This means agencies located outside of Juneau are not being reviewed.

Mr. Saylor said they kept hearing the complaint that after the agency submitted their budget it went to the Budget Review Committee, then to the Governor, and then to the Legislature, and until then the Agency never knew what was in it. Mr. Charney admitted that had been true until this year. This year there had been an express order from the Governor that the agencies be notified right along the line of all of the changes.

Mr. Saylor asked whether this information was sent to the Division heads or the Commissioner. Mr. Charney said it was sent to the Commissioner.

Mr. Charney said that other requests were for two new positions and a change of status of one from seasonal to permanent. He said one

of the new positions was for an associate planner to assist in hearing out the capital improvement problem they have now. This would give more control at this point. He thought that with this other position to go along with the senior planner, they could obtain control on projects that the Legislature and the Administration were seeking.

The other position is an accountant position which relates to controlling projects funded by federal program receipts. The State's accounting system has a weakness in Mr. Charney's opinion because when it was set up nothing was done to separate appropriations as to how funded. This meant an agency could spend the total budget unless there is someone watching to see that federal receipts are really coming in. This is something that hasn't been done to a large extent. Essentially, what he will do is see that accounts receivable are on the books and that revenues are there before they release the authorization to spend them.

Mr. Charney felt that the Division of Budget and Management was of service to State agencies and the Legislature.

Mr. Saylor asked why there were no inter-agency charges made. Mr. Charney replied that the State doesn't charge for any finance work or for central budget and management work, It is directly from the General Fund.

Mr. Charney said they recommended the elimination of the Budget and Management Specialist. At the time the program was instituted agencies weren't able to gather all of the federal funds available. However, now there aren't that many available, and the Agencies are able to gather those that are for themselves.

RECESS

Meeting recessed at 2:55 P.M.

AFTER RECESS
3:00 P.M.

PRESENT

Mr. Freeman, Mr. Barber, Mr. Saylor, and Mr. Haugen. Department of Administration staff was also still present.

GENERAL
GOVERNMENT

Mr. Saylor, Acting Chairman, called the meeting back to order. He said they would go into the Division of Personnel's Budget. Mr. Pat Hunt, Director of Personnel and Mr. Kent Green, Personnel Analyst IV, were present to discuss their budget.

DEPT. OF
ADMINIS-
TRATION

Division of
Personnel

Mr. Hunt explained they have been involved with collective bargaining and labor agreements for ten to eleven months. This has had a great impact, particularly in Employee Relations. The funding authorized for this function for FY 74 did not provide the expanded duties and responsibilities placed on this function in the areas of preparation for contract negotiations and contract administration. There is only one employee there, and he has to cover 4,000 people.

Furthermore, Mr. Hunt said they had to consider the anticipated impact from the pipeline where they expected to have an overabundance of people with little or no qualifications. There will be a lot of applications to handle and they expect an acute shortage of people with skills. So, in addition to the increased applications, they will have to do intensive recruiting to secure the people they will need. They are asking for a field office in the Fairbanks area so that people will have an access to the Personnel System there and problems can be handled while they are still small.

Mr. Hunt said there was no change in the Minority Training program, and that it would be held at the maintenance level until further experience indicated it should be changed.

Mr. Hunt said that in Recruitment and Examining they were asking for three new positions.

In General Training, Mr. Hunt said there was no change other than inflation, temporary help and reestablishment of a Personal Analyst III position. Reestablishment of that position will impact classification work by removing the 18% loss in time on all requests for services reported in the FY 74 analytic statement.

In Administration and Support, Mr. Hunt said they wanted to move the personnel officers from the individual departments back into the central agency. He thought this would allow them to economize and offer better service to the people.

Mr. Saylor had a question concerning Employee Relations. He said that last year they had funded approximately \$75,000 to be used in the collective bargaining effort. He wanted to know what had been done with that. Mr. Hunt replied that money was given to the Labor Relations Agency, not the Personnel Division. They have been using

it for relations, elections, and investigations. He said the Personnel Board was set up as the Labor Relations Agency.

As Mr. Freeman recalled the conversation at the time the \$75,000 was appropriated, the feeling had been that the people who bargained for the State administration were going to need help. He asked if he had misunderstood it or whether the money had been subverted in some manner.

Mr. Hunt said the request had been made for the purpose of funding the Personnel Board as the Labor Relations Agency. He added that part of the money also went to the Department of Labor because they are the Labor Relations Agency for the communities.

[Mr. Barber left the meeting.]

Mr. Hunt said he had another comment to make on Administration and Support. He said he had asked for a Deputy Director this year because it was getting to be a critical thing. He said he was spending a lot of time at the bargaining table and doing research work, and this left the Personnel System and the merit system virtually unattended.

General
Services

Mr. Saylor said they would go on to talk about General Services. Mr. Noah Wellman, Director of the Division was present to discuss the budget.

Mr. Wellman passed out copies of information showing a comparison of savings in FY 69 and FY 73. In 1969 the purchasing staff was 19 and today it is 21. Although the purchasing staff has increased by only two, the workload has increased until it is about 25% greater which has meant about 400% savings to the State. The State Supply division has approached a greater workload and has improved services in the years between 1969 and 1973. The figures for 1974 exemplify why an increase is necessary. In the first half of 1974 the savings have been \$525,000 and projecting this forward, they are sure that they will be \$1,230,000. He said that when they compared that to last year's savings of \$2,767,000, they were actually losing money.

Mr. Wellman explained that their requests were now far beyond the best interests of the State, and that they don't have the personnel to investigate these things. They are asking for two clerk typists and one purchasing agent and one specifications and standards engineer. He stressed that right now, due to the lack of an adequate staff, the state wasn't taking advantage of the full savings available.

Risk
Management

Mr. Wellman asked Mr. John George, Chief of the Office of Risk Management, to discuss the budget for that office.

Mr. George explained that the Office of Risk Management centralized the State's insurance program. It investigated the entire risk program to determine where they ought to buy insurance, where they ought to buy more or less, and made sure they got the most value for their insurance dollar. He said it was funded through Inter-agency receipts. He felt the job they have done this year has created great savings to the State. He expected it to do bigger and better things next year.

Mr. Saylor asked if they had to try and stop losses. Mr. George said they had asked the insurance companies for a copy of the computer print-out which showed the distribution of losses for the various departments. He said they sent a copy of this to the departments and made recommendations on what to do and asked for their own recommendations. He said they tried to look at the losses to determine what had caused them and then tried to prevent them from happening again.

Mr. Saylor asked about OSHA. Mr. George said that it had the responsibility for all industry in Alaska to make sure the statutes were complied with. He added that the State had to comply with OSHA requirements.

Mr. Wellman commented that because of Mr. George's help their protection cost is down \$1.5 million and they have broader coverage.

Mr. Freeman asked where the savings showed up. Mr. Wellman explained that last year they had a retrospectively rated program--rate x payroll. The estimated payroll at the beginning of the year was very low. The actual payroll at the end of the year when subject to audit would have qualified them for roughly \$700,000 in premiums to be paid. When the program was negotiated this year, they got them to allocate retroactively, thus they saved \$700,000. They are also in on it this year, so they are saving another \$700,000. He said they had purchased some additional coverage which they didn't have last year. They raised coverage to \$10 million from \$2 million. He said they had negotiated out of some of the additional charges they had to pay and were obligated to pay.

Mr. George said he was saying they didn't have to go back and budget for \$1.5 million to get out of this last years predicament.

Central
Mail Room

Mr. Wellman went on to discuss the budget for the Central Mail Room. He said that everything he had asked for was maintenance.

Mr. Charney pointed out that a postage rate increase was going into effect on Saturday, this would cause a 23.6% increase over what was shown in their budget books.

Mr. Wellman pointed out that last year \$16,500 was left out of the

budget to maintain copying machines that come under his division. He supposed they had thought that was going to be new equipment for the new building, but it hadn't been.

He went on to say there were 8 people in the mail room and they handled 34,000 pieces of mail daily. He said it was a necessary service and that the mail was for all functions of the State government.

Mr. Saylor said he didn't find an increase in budgets for other departments for CENTREX. Mr. Charney pointed out that had been budgeted last year for the initial cost, and it was up to each department to pay for maintenance. He said there wouldn't have been any great increase except for what the Public Utility Commission just allowed.

Central
Duplicat-
ing

Mr. Wellman said that the Division of Central Duplicating was funded entirely by program receipts. They are asking \$1,000 for travel to familiarize staff with the new duplicating equipment and to teach them to get the most out of the sophisticated equipment they have now. Maintenance for FY 74 was \$206,100, and they are asking for \$248,400 for FY 75. He explained that during the year they got permission for a night shift through a Revised Program. They would like to get that authorized for FY 1975.

Archives
Records

Mr. Wellman asked Ms. Colleen Roguska, State Archivist, to give a presentation on Archives and Records.

Ms. Roguska said that the present facility stores 11,000 cubic feet. If these holdings were to be transferred to the new records center it would take only four years to be at capacity. They would like to continue to hold the lowest referral records in the present facility and this would allow the new records center to service the need for eight to ten years. Additionally the old records center can store and service forms. No staff increase is anticipated.

Ms. Roguska explained that transfer of records from agency to low cost records center storage to date has realized a savings of more than one half million dollars. When their capacity is increased with the new records center, the savings realized will double in the first full year of operation. National Archives and Records Services studies demonstrate twelve times cheaper storage costs in records centers compared to agency held records.

The central microfilm service will continue to operate at the FY 74 level. No increase in personnel is anticipated. Two pieces of equipment are vital to the effective State microfilming program:

- 1) Microfilm Processor - the processor currently used belongs to public safety and will not be transferred to the new microfilm

lab in the State Office Building.

2) Rotoline Camera - this piece of equipment is needed to put on microfilm the State's vital records which are now in the form of computer printouts. These computer forms are both space consuming and cumbersome. Microfilming these records will allow storage in 2% of the space required by the computer run forms. When these records are microfilmed, the binders will be recycled for use with active records. Savings in storage space will amount to approximately 1,800 cubic feet, with additional savings in future years as the volume of State records grows.

There was some general discussion of the budget.

Data
Processing

Mr. Saylors said they would go on to discuss the Data Processing budget. Mr. Mike Parici, Director, and Mr. Mike Wheeler, Deputy Director, were present.

Mr. Parici said that under Services to Central Agencies they have a maintenance level budget decreased by \$14,400 due to the difference in actual salaries in the budget report--a 4% reduction in benefit.

Mr. Parisi said they provided key punch and computer services to operating agencies. He added that they developed, designed, and implemented programs for various agencies. They have asked for a \$25,000 increase in commodities because their actual expenditure has exceeded the budget by that amount.

He went on to say there was a decrease of \$10,600 in Administration and Support due to the 4% reduction in benefits. There was also a decrease in telephone charges.

Mr. Saylors asked how they charged, and Mr. Parisi said it was based on the number of computer hours.

Mr. Saylors asked how many record terminals there were and was told there was one, and that it was a local terminal.

Mr. Saylors asked him to explain the need for an Assistant Director in Anchorage, and Mr. Parisi said the Assistant Director would be responsible for operation of the Anchorage program and the operation staff. There are approximately 30 people there and they need to have a manager with control over them.

Mr. Wheeler said the position would be funded by Inter-agency receipts from Public Safety. Mr. Parisi added that he would still be under their supervision.

[Mr. Specking arrived.]

Telecom-
munications

Mr. Saylor asked about the Statewide Telecommunications network.

Mr. Wheeler replied that their service was doing a separate \$50,000 item to establish a statewide telecommunication network.

Mr. Parisi said that the \$50,000 for the Telecommunications network, if approved, would be to provide terminals in various remote locations.

Mr. Wheeler said they were pushing to provide a statewide telecommunications network which would consolidate five existing networks into one. It would provide all State agencies the capacity to have immediate communication with one another. They assume that Public Safety would have priority, which would mean a delay of about one minute in transmission of a message if there was conflict.

He added that they would be locked out of the Alaska Justice Information System.

Mr. Wheeler said it would be funded through Inter-agency agreements and would take money now expended for present line networks and equipment rentals. It would be \$172,900 for an initial savings of \$4,300. He said they were being conservative in cost savings estimates.

Mr. Freeman noted it said it would also be funded by the Division of Communications. He assumed Public Works and Public Safety were in agreement. Mr. Parisi said yes.

RECESS

Meeting recessed at 4:20 P.M.

AFTER RECESS
HOUSE FINANCE COMMITTEE
February 27, 1974
4:25 p.m.

Present: Representatives Freeman, Haugen, Specking, Saylor, and Ferguson (who left the meeting at 4:30 p.m.).

Also present were the following: Kent Dawson, Fiscal Analyst, Legislative Finance; Myrt Charney, Director, and Wayne Weeks, Budget Analyst, Budget & Management; Mr. William Mullin, Director, and Mr. Harry Masters, Deputy Director, Division of Finance, Department of Administration; Mr. Charles Northrup, Director, Telecommunications Office, Office of the Governor.

Acting Chairman Bud Saylor called the meeting back to order.

GEN. GOV'T The first order of business was consideration of the Division of Finance (Dept. of Administration) budget.

Dept. of
Admin.

Mr. William Mullin, Director of the Division, told the Committee that the Finance Division staff at present numbers 30 positions.

Accounting

Mr. Mullin stated that they are now requesting 2 additional positions for a total of 32.

The first position requested is an Accountant III for the Accounting Section which now has only 4 Accountants. Mr. Mullin added that when he became Director of Finance, there were only 4 Accountants at that time. The reason for their position request is due to present complexity of the system. Mr. Mullin stated that the Project Cost Accounting System is now in full operation and has been turned over to the Division of Finance. He said that the Accountants in the Division are utilized extensively to train accounting personnel of other agencies. Because this training responsibility is increasing, a new position of Accountant III is necessary.

Payroll

Mr. Mullin then told the Committee that an Accounting Clerk III position is being requested for the Payroll Accounting Section. The position is necessary to assist with increased workloads due to the bank payments and deferred compensation programs. Mr. Mullin stated that the payroll activity has doubled over the past five years. In 1969, the workload was equivalent to 10,000 warrants per person per year; today, there are 16,000 warrants per person per year. Mr. Mullin added that the Payroll section is now facing collective bargaining which will increase the burden on the section.

Rep. Saylor then noted that in the Pre-Audit element, the amount for Personal Services has decreased from \$126.1 (FY 74) to \$125.6, Maintenance level. Mr. Mullin stated that the reduction was due to a decrease in the cost of [difficulty in hearing Mr. Mullin] staff benefits and they did not anticipate as much overtime.

CORRECTION

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

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Rep. Specking then asked Mr. Mullin to explain the bank payment system. Mr. Mullin told the Committee that at present, state employees receive a warrant with their pay check. Under the bank payment system, the money will be deposited directly into the employee's bank account (optional benefit). This will mean writing fewer warrants and will prevent delays experienced through the mail system.

Rep. Specking pointed out that the bank payments system should save the Division money rather than cost more. Mr. Mullin said it would be true in that they would write fewer warrants, but as far as activity, the Division would still be paying a person to handle the system. He added that there are additional complexities in giving warrants to a bank; if an error is made, the problem of cancelling the warrant arises. Mr. Specking pointed out that such a situation can happen now with individual warrants. Mr. Mullin said that was correct.

There being no further questions on this particular budget, Mr. Mullin and Mr. Masters left the meeting.

GEN. GOV'T. The Committee then heard testimony from Dr. Charles Northrup, Director of the Office of Telecommunications, Office of the Governor.

Office of
Governor

Telecom-
munications

Dr. Northrup informed the Committee that this budget consists of a request for the ATS-F (Applications Technology Satellites) experiment. He stated that the entire FY 74 budget for ATS-F was funded by revised program through the Budget & Audit Committee, and therefore, the copies of the budget before the Committee do not reflect authorization figures for FY 74.

Dr. Northrup stated that the total FY 74 budget was \$1,143,541. The FY 75 request is for less than that amount (\$818,900). He stated that the FY 74 money engaged in design, production of materials and installation of hardware. All funding comes through federal funds. There is no request for new positions in FY 75. All positions needed are on board now and were allowed through revised program requests.

Dr. Northrup told the Committee that the satellite will be launched in April and will be available for experimentation until May of 1975 (following a 60 to 90 day check-out period). Programs will be transmitted up to the satellite and down to 19 locations in Alaska.

Dr. Northrup then distributed copies of a program summary (see Office of the Governor departmental file) to members of the Committee. He stated that there was a more comprehensive document consisting of 80 pages that could be made available to the Committee if they wished.

Dr. Northrup explained that the ATS-F is a new departure in satellite technology because it uses a different frequency and power level. It can deliver both audio and video systems to earth stations which are much smaller than those used in the past. He stated that the television terminals will cost about \$5,000 each as opposed to \$250,000 for earth stations dealt with in the past.

Dr. Northrup said that his office had just met with three consumer committees (members of which were drawn from receiving communities) to ask them to pass judgement on the programs offered by the satellite.

Rep. Freeman then asked if federal funding for this project would continue. Dr. Northrup stated that there is a definite duration for the program, which will end in late May, 1975. After that date, the satellite has been promised to India. He said his office has had correspondence with HEW in Washington, D.C. regarding the future of the earth stations; Dr. Northrup said the earth stations may remain in the state for some future commercial use.

Rep. Freeman then asked what will happen to those people working in the program once the program is completed. Dr. Northrup said no one in the program has any expectation of employment beyond June 30, 1975.

Rep. Specking then asked how receiving sites were chosen for the program. Dr. Northrup said that they were chosen originally by the Educational Broadcasting System which wished to include locations in Southcentral, Southeast, the Interior, etc. This was done in order to get three different linguistic heritages involved for the villages. Within the main geographical areas, there were arbitrary location choices.

Dr. Northrup explained that the satellite will concentrate over a very small area compared with beam-width coverage of other satellites.

There being no further questions or discussions, Rep. Saylor thanked Dr. Northrup for his presentation.

Adjourn: The meeting adjourned at 4:50 p.m.

AFTER RECESS
HOUSE FINANCE COMMITTEE
February 28, 1974
1:40 p.m.

Present: All members with the exception of Representative Warwick. Also present were the following: Kent Dawson, Fiscal Analyst for Legislative Finance; Myrt Charney, Director, and Wayne Weeks, Budget Analyst for Budget & Management; Mr. Robert Gates, Benefits Administrator for the State.

GENERAL GOV'T. Representative Freeman, Chairman, called the meeting to order and turned the chair over to Representative Saylor, Chairman of the General Government budget subcommittee.

P.E.R.S. Representative Saylor then asked Mr. Gates to present a brief overview of the Public Employees Retirement System budget.

Mr. Gates stated that the basic increase in the PERS budget is for additional staffing which had previously been authorized through revised program requests for the current year.

Mr. Gates stated that there were seven positions in the retirement office, three being in PERS and three in the Teachers' Retirement System.

Mr. Gates informed the Committee that the TRS system has undergone complete redesign, but at present, complete redesign of the PERS system has just commenced. Mr. Gates stated that the level of service rendered by his office has been inadequate and they feel that their present level of staffing can produce a type of service which the board members and participating employees have strongly suggested.

Mr. Gates said the major increase in the budget is in Personal Services which has jumped from \$89.7 to \$136.3, an increase of \$46.6. The other change is in Contractual Services which has increased by \$12.6.

Mr. Gates stated that \$20,000 will be used to conduct an annual audit to be performed by an independent CPA firm; he added that the \$20,000 figure was an estimate but was based on the fact that by entering a year's contract, a lower price will result.

Mr. Gates told the Committee that the \$12.6 increase in Contractual Services is only a net increase; there is a total increase of \$20,000. The net figure of \$12.6 is due to a reduction from a non-recurring military study.

Mr. Gates then stated that the contracting with an independent CPA firm for the annual audit is done on a regular basis throughout the country with retirement systems.

Mr. Gates then said that his office anticipated that the data on active public employees will be converted to the new system by September, 1974. He stated that he did not foresee any need arising for additional staffing in the office in the foreseeable future, even with additional employees coming into the system.

Mr. Gates stated that as of January 1, 1974, 800 employees joined the PERS system from Anchorage and Wrangell; this will not have a significant impact on the budget request as set forth.

Rep. Saylor asked Mr. Gates about last session's discussion regarding reversion to the uniform contribution rate. Mr. Gates said that legislation did not pass, but the system was able to accomplish a uniform rate within existing statutes. It was discussed with the Attorney General's office, and it was possible to implement it without passage of specific legislation.

Rep. Saylor asked whether participating local governments' contributions went up or down. Mr. Gates replied that in each instance, regardless of the level previously, their contributions went down approximately 50%.

Rep. Saylor then asked if the independent audit was paid out of the General Fund or the Retirement Fund. Mr. Gates replied that it will be funded through Retirement Fund money.

Rep. Saylor then asked if all the funds utilized in other areas were from the General Fund. Mr. Gates stated that the system itself pays.

Rep. Haugen asked about municipal employees' participation. Mr. Gates stated that each employer participates to the extent of membership in the total.

T.R.S.

Mr. Gates then provided a brief overview of the Teachers' Retirement System. He stated that the redesign of this system is virtually completed at this point; Mr. Gates said he was pleased with the redesigned system and what it has accomplished. In processing September contributions, the retirement office learned that 29% of all contributions were being made in error. He said that it is physically impossible to audit such a volume of contributions. He said that the system was designed which can mechanically accomplish the majority of auditing and which can spell out what errors have been made and what corrections can be made; the responsibility for the correction is then put back on the employer who is making the deductions. By identifying this for the employer, the retirement office is finding that the employer is able to report much more accurately and hopefully, much more promptly. Mr. Gates said theirs is one of the model systems in the country now in the retirement area.

Rep. Saylor asked when the design would be completed. Mr. Gates stated that the system is now in operation under the new design, but they are now in a stage requiring special management reports, information reports, etc.

Rep. Saylor asked if the retirement system is paying the cost of the redesign, a figure amounting to \$80,000 (\$31,000 for the first phase, and \$50,000 for the second phase). Mr. Gates said that the \$80,000 figure was too high. The \$31,000 for Phase I was not paid as such because of the termination of the contract; therefore, the total cost is \$66,221. Mr. Gates said a contract for Phase I had been made with Arthur Anderson Company for \$31,000 but no payment was made.

Rep. Saylor asked if there were any suits pending. Mr. Gates replied that there were not, to his knowledge.

In response to Rep. Meekins question regarding the operation of PERS and TRS, Mr. Gates stated that they are separately established systems with unique and different benefits. There are uniform contributions for both employer and employee. Mr. Gates explained that by statute, the Legislature approves their budget which is why they must appear before the Finance Committees.

Rep. Specking asked Mr. Gates to explain more fully the termination of contract with Arthur Anderson Company. Mr. Gates stated that Arthur Anderson performed Phase I of the contract to redesign the retirement system, essentially to the satisfaction of Mr. Gates' office. Mr. Gates said that Phase II was entered into which called for additional funds--approximately \$67,000. About two weeks after the contract had been signed, Mr. Gates was notified that a gross error had been made, and instead of \$67,000, the cost would be \$180,000. At this time, the legal counsel for the Arthur Anderson Company came to Juneau. Mr. Gates said it was his feeling, and he so recommended to the Commissioner, that continuation with that firm be abandoned immediately unless they were willing to honor the original contract. At the time of their signature, they did not realize all the work that had to be done. Mr. Gates felt that three weeks had not made that much difference, and it was his office's opinion that if they could get the contract completed on the same terms agreed to for the original amount of \$67,000, that would be the proper way to proceed. Mr. Gates said they had no course of action other than to file suit, but the data in his office was of such volume and in such a "jumble", that the main point was to get the job done. Mr. Gates then stated that their position was that they were not paying for the work being done because of the breach of contract; they then proceeded to enter into a contract to get the redesign completed.

Rep. Specking asked if the Arthur Anderson Co. was adamant about being unable to complete their work with only \$67,000. Mr. Gates

replied that that was correct. He added that the company wanted it understood that they could not fulfill the contract with that money, and they were not willing to proceed until something was done.

Mr. Gates stated that as he recalled, this occurred in mid-April of 1973 through early May. Mr. Gates said that he had approximately 8,000 records that had to be converted by September. He called an Anchorage firm which would not take on the job because it was too big and required too much time for their employees to remain in Juneau; the per diem cost would be too great. Mr. Gates then checked with another firm whose thoughts were the same. Mr. Gates was advised that any firm that must bring in analysts and programmers for an extended period of time would not complete the contract.

Mr. Gates said they contacted a local contractor who was willing to do the work; the contractor actually accomplished more than was contemplated. He then stated that having the contractor close by to enable modifications and discussion between the contractor and the retirement office helped accomplish a great deal as far as communication and understanding of the redesign process. Mr. Gates said he felt the state "got a good deal".

In response to Rep. Saylor's further questioning, Mr. Gates said they were satisfied with Phase I as completed by Arthur Anderson in that the retirement office felt the company had done a relatively thorough job; however, there were some questions that remained.

Mr. Gates said it was his impression that the firm seemed to be "delighted" to get "off the hook". When this problem occurred, Arthur Anderson was willing to talk about payment for Phase I in figures below \$10,000. Mr. Gates added that the redesign system was set back by having to reacquire a new contractor.

Rep. Freeman then asked Mr. Gates to provide the Committee with the ratio of contribution between employer and employee. Mr. Gates said that for the TRS, the employer and/or state pays 11.2% while the employee pays 7% plus an additional 1% if they choose to elect a supplemental option.

Rep. Freeman stated that when money comes from the TRS fund, you are talking about money coming from the state for teachers. Part of that money does come out of the state treasury. Mr. Gates stated that Mr. Freeman was correct, but explained that the employee puts a certain amount of his salary into the retirement fund, and the employer (the state) puts in a certain percentage as well. If the employee resigns, he may collect all his retirement funds; the money that is given to him, however, is only the amount he put into the fund, and not the percentage that the state contributed. The employer's money does not reach the employee until he retires. Mr. Gates said that analysis has been made of how many employees may leave the state's employ and withdraw all funds in their retirement; a projection has also been made with regard to how many people may also retire. A figure is then set as a

contribution to the retirement fund, paid both by the employer and the employee. Out of every 100 people employed, only 2 or possibly 20 will retire and receive benefits; the analyst takes that into consideration and then develops the rate.

Rep. Barber then asked if their payment to the fund is predicated on the actuary computation. Mr. Gates replied yes.

Rep. Specking then asked if the money is left in the fund if the employee resigns and does not apply for the money; or is there an automatic refund?

Mr. Gates stated that currently, it is automatic and requires termination and a request in writing for the refund. Following legislation passed on HB 266, there will be an automatic refund for those people with less than vested interest or \$1,000 balance, whichever is less. This will result in persons who during their first year of employment have accrued \$1,000 less in their retirement fund receiving an automatic refund upon termination. Those persons having over \$1,000 in the fund will have to come in and request the refund. Mr. Gates said that perhaps these people may intend to return to employment under the state which will create a burden of administrative paperwork to have money withdrawn and then put back again.

Mr. Gates said that in the case where an employee resigns and requests a refund, the state share remains in the fund; it actually goes into an employers' equity account. At the time of retirement, the money is transferred to the active employers' account.

The employee is not entitled to any employers' contributions until the employee goes on to retirement, Mr. Gates said.

Health
Insurance

Regarding Health Insurance, Mr. Gates stated that the volume of activity has increased sharply in this program with the addition of dental, audio-visual provisions for the state (and for other employees at a later date). This has increased servicing and inquiries to see that claims are paid promptly; therefore, the requested position is necessary. The present employee on board is unable to continue to provide proper service. Mr. Gates said this is quite a time-consuming area. In response to Rep. Barber, Mr. Gates said that the requested position is not one that was previously funded by federal funds; it was funded through revenue sharing money. Rep. Barber said he was referring to the fact that the position had originally been approved through a revised program request; he said it was the feeling of the Budget & Audit Committee on revised program federal funding that upon termination of the federal funds, the position will cease. Mr. Gates said this position does not apply to those circumstances.

Territorial
Employee
Retirement

Regarding Territorial Employee Retirement, Mr. Gates stated that currently there are only three individuals drawing benefits under this program. This is a program that has carried over for a number of years.

There being no further discussion on Territorial Employee Retirement, the Committee considered the FICA BRU.

FICA

Mr. Gates stated that the only significant change in FICA is the increasing responsibilities that the federal government is requesting of the retirement system. Mr. Gates said they just completed an audit that he received yesterday which was sent by the federal government; the audit was very complimentary but suggested that the office should be using more individual contact. Mr. Gates stated that they are now having a drive to get as many of the communities who have been improperly reporting to the office. Mr. Gates said that many have been reporting to the IRS. Mr. Gates added that this contact will add 60 more reporting districts, and on a quarterly basis, the retirement office will be able to accommodate them. Mr. Gates said this explained the request for additional funds in the areas of communications and travel.

Mr. Gates explained that this is funded from an administrative fee paid by each of the reporting employers. Mr. Gates said that their receipts have been such, that they have temporarily discontinued the fee of 1/8 of 1%; there is now a fund built up, and for one year, no fees will be charged.

There being no further questions or discussion on the retirement system budget, Mr. Gates left the meeting.

At Ease:

The Committee had a brief at ease before continuing with the Communications budget.

Comm

HOUSE FINANCE COMMITTEE

February 4, 1974

4:15 P.M.

PRESENT

All members of the Committee. Commissioner Emmitt Wilson, Department of Commerce, and the following members of his staff were present: Mr. John O'Shea, Director of Insurance; Mr. Jim McNamara, Deputy Director of Insurance; Lois Cook, Administrative Officer; and Lorraine Bear. Mr. Myrt Charney, Director of Budget and Management was also present.

PUBLIC
PROTECTION

Sub-Committee Chairman Meekins called the meeting to order, and asked Commissioner Wilson to begin testimony.

DEPARTMENT
OF COMMERCE

Division of
Insurance

Commissioner Wilson stated he would start by giving an overview of what was requested under the Division of Insurance. He said that last year the Division was authorized \$224,700 for FY 74. The breakdown was: \$179.3 in Personal Services, \$7.6 for Travel, \$33.8 in Contractual, \$3.8 for Commodities, and \$.2 for Equipment. This year the Governor has authorized them \$245,000.

The Commissioner said the \$245,000 against the \$224,000 was basically inflationary increases within the budget request. Most of that is made up in the difference of what they are now paying in rent at their present location from what they will be paying for ASHA payments when they move to the new State Office Building. They will be paying another \$19.4 in ASHA payments.

Mr. Specking asked where they were located now, and was told it was in the Golstein Building.

Ms. Cook noted it was a 12% increase.

Mr. Freeman asked whether there was anything in there on the impact budget, and the Commissioner said there wasn't for Insurance.

Mr. Warwick asked how many square feet his Department had now, and how many they were getting. Mr. Wilson replied they had approximately 10,000 square feet now, and are very cramped, particularly in the Division of Insurance. Presently, they are paying 60¢ a foot. When they move they will be getting considerably more space--13,000 square feet. That will allow them to expand.

Mr. Charney pointed out that when the ASHA bonds were sold, the term of the bonds was shortened for the new State Office Building--the term of the bonds was for 13 or 15 years. He couldn't remember off-hand which it was.

Mr. Freeman asked the total cost to amortize the building, and Mr. Charney said he would get that information for him.

Mr. Meekins asked how their budget would be effected if they were to pass No Fault Auto Insurance. Mr. Wilson replied that they had done a fiscal note on it, which had been in the neighborhood of \$18,000 minimum. In the event this were to pass, it would be a like amount plus inflation, depending on the type of No Fault that were to pass.

Mr. O'Shea went on to say that although their budget request was only up from last year because of inflation and rent increases, due to austerity concerns, the business of insurance has picked up appreciably and revenue which they are bringing in is up. They are operating quite a large business, and really should have more personnel.

Mr. Freeman asked what percentage of their overall budget was attributable to increases in rent. Ms. Cook said the Governor had allowed an 8% increase.

Mr. Specking commented that it wasn't often they got people in the Committee who were making money for the State. He thought that realistically, the Committee should be aware of the Department's needs even if they were beyond what the Governor had allowed.

The Commissioner admitted that they did have some needs in addition to what the Governor had been able to allow in his budget request. They felt a dire need for statistical clerical work for assistance in computation of a lot of the rate structures that insurance companies submit.

Mr. O'Shea noted that one of the problems they are confronted with is the converting of all of their records to a micro-film system. With their present personnel, it will take them three years to convert. In the field of investigation they don't have enough investigators to make sure that the insurance people are paying all of the proper taxes required. There simply isn't enough staff to go through all of the statements. There aren't enough people to properly research all of the insurance sales. He felt that with additional staff doing the work, they could generate more than enough money to pay for their salaries. As far as the consumer was concerned, they didn't have enough people working for them so that they could advertise their services. He thought it desirable that the public be advised on insurance.

Mr. Specking asked how many people they were talking about. Mr. O'Shea replied that they had put in for one additional employee this year on an austerity basis. In order to do

everything, 3 or 4 would not be unreasonable.

Mr. Ose asked when they would move into the new building, and was told it would be in June.

Mr. Meekins asked whether they would start paying rent in June, and was told it would start on July 1.

Mr. Meekins said they would go on to discuss Administration and Support.

[Mr. O'Shea and Mr. McNamara left at this time.]

The Commissioner stated that in 1974 they received \$209,400 for the Commissioner's Office. Of that \$170,000 was for salaries. They are now requesting \$250,700, the difference being basically ASHA rent plus fire insurance etc. The comparison is \$39.5 for the new building versus \$13.1 in the Goldstein.

Mr. Warwick asked how many square feet the administration would have. The Commissioner answered they would have considerably more than they do now because they have asked for a Conference Room.

Mr. Freeman asked about the increase in contractual. Mr. Wilson told him there was an increase of \$25.3 for ASHA, \$1.0 for insurance, and \$2.7 for an additional Mag-Card typewriter, \$2.0 for telephone services, and \$1.7 was inflationary.

After some general discussion on which departments would be moving into the new building, and how much space they would be getting, Mr. Saylor requested Mr. Charney to make a transmittal giving a list of the people moving into the new office building, showing where they are coming from, the amount of square feet they are using now and the amount of square feet they will be getting. He also wanted to know what the ASHA payments would be and in addition he asked to know about moves which other state offices were making even if they weren't into the new building.

ADJOURN

Meeting adjourned at 5:00 P.M.

HOUSE FINANCE COMMITTEE
February 5, 1974
3:31 P.M.

PRESENT

All members of the Committee except Mr. Haugen, Mr. Ose, and Mr. Ferguson. Mr. Emmitt Wilson, Commissioner of Commerce, and the following members of his staff were also present: Mr. Ray Roady, Director of Occupational Licensing; Mr. Bill Ladwig, Deputy Director of Banking; and Lois Cook, Administrative Officer.

PUBLIC
PROTECTION

Sub-Committee Chairman Meekins called the meeting back to order and said they would go on to discuss the Occupational Licensing budget. He asked Mr. Wilson to begin testimony.

DEPT. OF
COMMERCE

Mr. Wilson stated that the Division of Occupational Licensing was basically a division that administers all professional Boards. There are some 20 odd Boards that the Division has the responsibility for licensing and they do all of the administrative and budgetary services for the boards .

Occupational
Licensing

The Division is now serving 20 boards and commissions covering 20 separate licensing areas. These services are provided by 12 employees in Juneau who license and examine applicants and an investigator staff of two in Anchorage.

Mr. Ladwig stated that it required 100 board members to serve these people who become qualified and want to be evaluated based upon their qualifications. The Statutes require the Division to provide these services at least once a year or more often as required. He explained that if there was a group of people who felt eligible for licenses, to delay them from getting licenses is to deprive them of a livelihood for that length of time.

Mr. Ladwig said that the 20 boards served at the pleasure of the Governor at their own expense except for travel and per diem to wherever their services are needed.

Mr. Wilson gave a brief outline of the FY 75 request versus the FY 74 allocation. The authorized FY 74 was \$282.6, the majority of that was approved for personal services which consisted mostly of clerical type assistance which they have to provide to the various Boards. Of the rest, \$52,000 was in Travel, \$57,000 was in Contractual, \$3,500 was in commodities, and \$500 was in Equipment.

This year, they have requested \$356.6. That is basically made up of one new clerical request plus making up for the position which they transferred into the Division from another Division.

So, in fact, they have to have two positions, the one which is new, and one which was transferred in after last year's appropriation. The reason they need the additional positions is because they were given additional responsibilities in Game Guid licenses and the Opticians Board as well as Architects and Engineers.

Mr. Wilson explained that they have had the Architects and Engineers for some time, but they always funded it through contractual services, and the Legislature budgeted it a couple years ago in a way that required them to transfer from contractual services to personal services.

Thus, they had three additional boards placed upon them without any new positions appropriated for. They had been in a predicament. They didn't have sufficient money for employees, so they transferred a position from the Division of Banking which they felt they could temporarily afford to do because of a transfer and consolidation of a number of positions. The Division of Banking would need it back again in FY 75 in order to utilize a transfer up to Anchorage. He explained that they planned to move a Securities Officer up to Anchorage this year and they would need the clerical position along with that.

Mr. Wilson said that in addition to the two positions, they are requesting additional money to cover the ASHA situation. The ASHA payment difference accounts for about \$14.5 of the increase. The positions mentioned earlier account for \$20.2. The difference in budgeting in Actual versus Average in personal services accounts for an additional \$13.0. The rest is basically inflationary.

[Mr. Haugen arrived at this time.]

Mr. Meekins questioned contractual services. Mr. Ladwig said that they paid professional examination compiling people for examinations. The cost of obtaining professionally compiled examinations is carried under contractual services. He went on to say that their Division has to hire monitors and space to hold the examinations in.

Mr. Meekins asked how many people in Alaska are licensed in some form or another. Mr. Ladwig replied that they have 14,000 licensees.

Mr. Ladwig added that they are also required by the Administrative Procedure Act to promulgate regulations for these Boards.

In answer to a question from Mr. Freeman, Mr. Ladwig said that they had 14,000 licensees last year, but they expected not less

than 16,000 this year. The licenses amount to around \$1/2 million each year.

Mr. Warwick brought up the matter of the Executive Secretary which the Board of Realtors was trying to get. They had a bill in the House which was trying to make it a part of the statutes.

There was some discussion on this. Mr. Wilson said that every Board would like to have one, and that there were seven or eight other Boards with the same amount of work and just as much responsibility. He had been trying to convince them to hire an Executive Secretary within their own association.

Committee discussion followed.

RECESS

Meeting recessed at 4:10 P.M.

HOUSE FINANCE COMMITTEE
February 6, 1974
1:35 P.M.

PRESENT

All members of the Committee except Mr. Ferguson and Mr. Warwick. Mr. Gordon Zerbetz, Commissioner of the Public Utilities Commission, and Ms. Lois Cook, Administrative Officer, were also present.

PUBLIC
PROTECTION

Chairman Freeman called the meeting to order and turned it over to Mr. Meekins, Chairman of the Sub-Committee on Public Protection.

DEPT. OF
COMMERCE

Mr. Meekins asked that they run through the BRU for the Public Utilities Commission.

Public
Utilities
Commission

Ms. Cook stated that the Governor's Allocation of \$633,900 was the maintenance level with no new positions and no increased cost. She noted that they had requested a Pipeline Impact Budget of \$112,300 which was approved by the Governor. \$100,000 of that is for the Pipeline Commission. She said that two positions in the current budget were transferred to the Pipeline Impact budget by the Governor. That is why their budget request seems to show a decrease.

Mr. Zerbetz explained that the two positions included a legal secretary and a clerk typist. These positions hadn't been filled in about eight months. However, they did hire an accountant on a temporary basis because the duties of the legal secretary more or less involved accounting procedures. This person happens to be half of his auditing force over at RCA right now.

Mr. Zerbetz thought it might be a good idea if he explained three things which had happened to the Commission and the State within the three weeks following their budget submission.

First, he called their attention to the awareness they have had of the additional expenses due to the fuel crisis and energy crunch on many of the small utilities throughout the State. He predicted there would be more rate cases before the Commission than they have seen so far. The cases are going to involve small utilities that in turn involve a lot of small customers.

Secondly, a very significant rate increase has been requested by RCA-Alaska. The Commission is pitting a small staff against one of the largest corporations in the United States. However, he stressed that they were going to continue the investigation of this utility with aggression, and determine what the rate base will be. That was taking a tremendous amount of "horsepower" which he hadn't anticipated this year.

Mr. Freeman asked about the Pipeline Impact, and Mr. Zerbetz stated that the pipeline impact was on the Public Utilities Commission at the present time. The interim portion of the pipeline Communication project is starting out right now at \$6 million. The Contract is \$17 million + for the Interim System. The actual contract is now in the hands of participating oil companies and is estimated in excess of \$100 million. He explained that it was more than 170 pages right now and that the agreement on it was going to have to materialize during the next month.

Mr. Specking asked whether there was any potential for statutory change that could let the small utilities automatically pick up these additional fuel tax without going through arduous proceedings or rate hearings.

Mr. Zerbetz said they had done that already. They have provided for a fuel escalation clause, but since this has to be reviewed very carefully, they have put a 30 day "buffer" clause in there which gives them a 15 day period to go in and review it.

Mr. Specking didn't think that anything the Legislature did or didn't do would change the raising of the price of fuel. Mr. Zerbetz agreed, but said it was the Commission's responsibility to see that nothing more than the "bare bones" cost was passed on to the public.

Mr. Specking asked whether the Interim System would become a public utility. Mr. Zerbetz said that it would. That was why they had strongly urged Alyeska Pipeline Co. to make it a common carrier system. It would have been easier for them to go on industrial radio frequency, but that would have meant the State would have to put in another duplicating system. He said Alyeska would be a public utility common carrier system and this will allow RCA to tag along the rest of the common carrier trade.

The third thing to happen to them since the submission of the budget was the announcement by the Department of Defense that the A route of the White Alice was going to be shut down. The A route stretches from near Anchorage to near Ketchikan, and all the communities along the way will be affected by this. They are trying to get the Department of Defense to continue the A route so that there can be a reasonable turn down of RCA facilities. This is another rate change they are going to be faced with during the next year.

Mr. Meekins asked what utilities were under the PUC, and Mr. Zerbetz tol him it included electrical utilities telecommunication utilities, gas utilities, water & sewer utilities, and garbage utilities.

Meeting recessed at 2:15 P.M.

RECESS

HOUSE FINANCE COMMITTEE

February 6, 1974

2:16 P.M.

PRESENT

All members of the Committee except Mr. Ferguson and Mr. Warwick. Mr. Frank Adkins, Chief Inspector for the Weights and Measures Section of the Department of Commerce, and Ms. Lois Cook, Administrative Officer, were also present.

PUBLIC
PROTECTION

Sub-Committee Chairman Meekins called the meeting back to order and stated that the Weights and Measures Section's budget was under discussion.

DEPT. OF
COMMERCE

Weights &
Measures

Ms. Cook stated that the major increase in their budget request was for a mobile homes Analyst. She explained that two years ago when the Legislature passed the Mobile Homes Act, that put the regulation of inspection and plans design with the Section of Weights and Measures. To this point they have absorbed the cost, but they won't be able to do it any longer. The amount for the position is \$15,700 and this brings their total request up to \$546,700. She noted that their pipeline impact budget request was \$104,900.

Mr. Meekins asked if there were any additional scales, and was told that there weren't. Mr. Adkins explained that the one position for a motor vehicle inspector was in Valdez, and the other three would be mobile in order to cover trucking operators who did not pass through scale houses.

Mr. Meekins asked about the need for the plan and design analyst.

Mr. Adkins said that was the mobile homes analyst which Ms. Cook had referred to. Since the Mobile Home Act passed, they have kept documentation of the hours their section has had to spend and it has amounted to about 2.5 employees.

Mr. Adkins stated there were 60 to 70 manufacturers of mobile homes. These homes have to be inspected for structure, design, electrical and heating systems, etcetera. In addition, the manufacturers change models each year, so the inspections have to be performed each year.

There was general committee discussion about scales.

RECESS

Meeting recessed at 2:35 P.M.

HOUSE FINANCE COMMITTEE

February 6, 1974

2:45 P.M.

PRESENT

All members of the Committee except Mr. Ferguson and Mr. Warwick. The following people were present from the Department of Commerce: Mr. Robert Rucker, Chairman of the Transportation Commission; Mr. Ben Casey, Assistant Chairman of the Transportation Commission; Mr. Quentin DeB..., one of the Commissioners of the Commission; and Lois ..., Administrative Officer.

PUBLIC
PROTECTION

Sub-Committee Chairman Meekins called the meeting back to order and stated they would discuss the budget request for the Transportation Commission.

DEPT. OF
COMMERCE

Mr. Rucker went briefly over the budget request. He said the basic maintenance level for FY 74 is actually less than that of FY 73. They have no new positions, and just a slight 5% inflationary factor added on commodities and supplies. The reason the request is lower is that in 1973 the Legislature granted \$15,000 in addition to the maintenance level for them to be able to assist the smaller communities in the CAB bush case, so they subtracted the \$15,000 from their level for this year.

Transportation
Commission

Mr. Meekins asked if they had a pipeline impact budget, and was told that they did.

Mr. Meekins asked about the in-state travel. Mr. Rucker explained that the Commission handles all applications for motor carriers and air carriers throughout the State and holds hearings throughout the State. When they have a hearing, the Hearing Officer and a recording secretary both travel. During the past year over 200 hearings were heard.

Mr. Rucker told the Committee that they are still trying to get orders out for the past 39 hearings held. In addition, applications are just pouring in.

In answer to a question from Mr. Ose, Mr. Rucker replied that field agents were enforcement personnel which were direly needed to protect the public from unauthorized carriers that come up to Alaska without operating authority. They ususally have unauthorized equipment.

Mr. Specking asked the total impact figure, and Mr. Rucker said it was \$155,900.

Mr. Meekins asked how the Commissioners spent their time. Mr.

Rocker replied that the three commissioners probably spent 50% to 60% of their time on formal decisions and hearings, and about 30% of their time communicating with the industry.

Mr. Meekins asked if the Administrative Procedure Act mandated them to have hearings. Mr. Rocker answered that it was required if somebody protested an application.

Mr. DeBoer explained that the Commission had to advertise applications. Then there were 20 days in which to protest it. After it has been protested, the Commission looks over the protest to see if it is in the public interest, if it isn't, they can dismiss it. Otherwise they must set it for hearing. If there is no protest, they may or may not hold a hearing, depending on whether they felt it to be in the public interest or not.

He went on to say that last year they received 329 applications, and they held 198 hearings as compared to 98 the year before.

Mr. Ose asked about transfer applications, and was told that the Commission still had to inquire into the fitness and willingness of the transferee.

Mr. Specking asked if it wasn't possible that big companies would want to indirectly buy up small permits. Mr. Rocker replied that was one of the big problems before them, particularly in air matters. They have consistently found that it wasn't in the public interest for one person to own more than one permit. It is very difficult to keep the big companies from coming in under the small "guy's" permit. However, if the large company comes in, he cannot operate any more than the small one could.

Mr. Ose asked whether they filled their vacancies with local hires. Mr. Rocker stated that they normally did. However, they had authority to hire their last Hearing Officer outside the State. They had required a law school graduate and advertised within the Alaska Bar Association without any success. He thought that was the only case where they had authority to go outside the State.

General Committee discussion followed.

RECESS

Meeting recessed at 3:30 P.M.

After Recess
3:40 p.m.

Present after the recess were Lois J. Cook, Administrative Officer for the Department of Commerce, and Bill Ladwig, Deputy Director of Banking.

Mr. Meekins asked Mr. Ladwig for his comments on the Banking budget. Mr. Ladwig said that his opening comments, regarding ASHA payments, etcetera, were touched upon by Mr. Wilson in the presentation just given, and so he said that he would answer questions rather than repeat what had already been said. He did note that the Banking budget is broken down into four components: Banking and Small Loans, Securities and Land Sales, Corporations, and Administration and Support. \$358,300 was the Department request.

Mr. Meekins said that he did not expect this Division to have a pipeline impact budget, and Mr. Ladwig said that they had not submitted one, because they had felt that outside financial institutions would tend to remain out of Alaska until the conditions surrounding the Pipeline were stabilized. He said, however, that perhaps they should have prepared an impact budget, as this does not after all appear to be the case.

Mr. Meekins asked about the function of the Banking Securities and Corporations element, and Mr. Ladwig said that they perform at the state level the same thing the U.S. Commission on Securities and Exchange does on the national level.

Mr. Ladwig noted the increase in activity in the Securities and Corporations element, stating that they expect more activity in months ahead. With the advent of the pipeline and passage of the Native Land Claims Settlement, activity has greatly increased. Last year 130 new certificates of authority were filed for new corporations wanting to do business in Alaska.

Mr. Specking asked to what extent Mr. Ladwig's division is concerned with the regulatory concerns with these corporations. Mr. Ladwig said very little -- they review for compliance with Title 10 and once they are acceptable and filed, the corporation is a legal entity and Banking is merely a record-keeping, tax collecting authority.

Mr. Meekins noted in Banking and Small Loans, that there are only four positions listed to regulate all the banks in the state. Mr. Ladwig said that they have two clerical positions and two examiners, but that he, the director, and his secretary are all listed under administrative services, so in reality there

more people involved.

Mr. Meekins thanked Mr. Ladwig and Mr. Ladwig left the meeting.

Pipeline
Commission

Mr. Meekins said that the committee would next discuss the Pipeline Commission. Mr. Specking asked if the budget for the Pipeline is an impact budget or a regular budget, and Ms. Cook said it is a regular budget. Ms. Cook explained that the Commission is patterned after the Public Utilities Commission. There are thirteen positions needed in order to fully staff the Commission. During the Budget Review, however, it was agreed that under the circumstances it would not be necessary to fully staff at this time and so the Governor's figure is for three commissioners and secretarial support. Ms. Cook noted that there is \$100,000 for contractual services in the budget so that if outside expertise is needed the commissioners will be able to obtain it. Eventually, the working staff of this commission will provide this expertise.

Mr. Meekins wondered whether some of the people already on contract with the state might provide some of the needed expertise and felt this should at least be checked into. Ms. Cook said she did not think it had been -- that they had gone to the Departments but that was the extent of their looking for other ways to provide for additional input.

Mr. Specking indicated that there was substantive doubt in his mind as to what point in time such a commission would be necessary. Mr. Lind, from Budget and Management, noted that the feeling was that it would be advantageous to have something set up before the Pipeline building gets underway.

Meeting adjourned at 4:10 p.m.

HOUSE FINANCE COMMITTEE
February 11, 1974
1:40 P.M.

PRESENT All members of the Committee except Representatives Warwick, Haugen, and Meekins. Commissioner Emmitt Wilson from the Department of Commerce, and the following members of his staff were also present: Mr. James Brunette, Director of the Veterans Loan Program; and Ms. Lois Cook, Administrative Officer. Mr. Ron Lind was present representing the Division of Budget and Management.

DEVELOP-
MENT Chairman Freeman called the meeting to order and stated that they would be hearing from the Division of Veterans' Loans. He turned the Chair over to Mr. Saylor.

DEPT. OF Mr. Saylor asked Mr. Wilson to give a brief overview of the budget
COMMERCE request.

Division Mr. Wilson stated that the FY 74 authorized had been \$341,400, which
of Vet- was basically in personal services (\$260,000). \$12,000 had been in
erans' Travel, and \$63,000 in Contractual. This year the request is \$428,000
Loans which is an increase of \$86,000 over last year's authorized. However,
after the Governor reviewed it, it was felt they could only request
\$414,300. Of that personal services are \$293,000, travel is \$18,000,
and contractual is \$106,000.

[Sen. Groh arrived.]

Mr. Wilson said they had requested one new position in the Division, that of an Appraiser. It was requested in light of the fact that there are a lot of loans in the rural area. In order to get competent appraisers to expedite loans in the rural areas, it is necessary that they have an appraiser. Up until now, they have been relying on the private sector, but they have encountered difficulty in expediting loans in rural areas because the appraiser is not always able to get there. That position accounts for increases in personal services. In the rest, other than ASHA adjustment, the increases are inflationary.

Mr. Brunette pointed out that the net profit of the veterans fund has been consistent for the last five years: 1969, \$110,000; 1970, \$45,000; 1971, \$232,000; 1972, \$204,000; 1973, \$247,000. He went on to say that so far this year they have made \$157,462, and he projected that it would be \$314,000 for the full year.

Last year, they made \$9.5 million worth of loans, which Mr. Brunette thought was a fairly good sized activity. Already this year they have loaned \$7,330,000, and it looked like there would be \$12-\$13 million worth of loan activity for the year. He noted that this was taken from oil monies and their own profits, as well as other funds that feel fit to invest in Veterans' Mortgages.

Since they are involved with such a huge amount of money, it is necessary for them to spend money for protection.

Mr. Brunette said they have consistently given counseling service to veterans. They are meeting more and more demand from outlying areas. He said there was considerable delay between appropriations and hiring of authorized staff. The money doesn't come available until July 1, so they are lucky to have a person aboard by January. By that time they will have another growth pattern. The reason they asked for additional positions now was to not "get behind the eight ball". Their program can only be of service to veterans if they don't get backlogged.

Mr. Brunette told the Committee that he had annual reports which were available to them if they would like to have them.

Mr. Saylor asked how many loans they had made last year. Mr. Brunette replied that 315 loans had been approved and 400 had been inspected. At the beginning of this year, they had 11,015 loans out. So far this year they have made 212 loans and they project they will be making 400, which is 15% more than they had last year.

Mr. Saylor asked about the request for the appraisers position. He asked if it wasn't normally the obligation of the borrower to pay for the appraisal. Mr. Brunette said yes, but it was expensive--\$100 to \$1,000. He added that the appraiser would not only do new loan applications in rural areas. They had over 200 construction loans in the field. Someone has to "dog" loans to make sure they are going into the loan project. They do go out and inspect loans and they also need someone to go out into the rural areas to figure out what property values are in the area.

Mr. Wilson stated they didn't envision using the appraiser in the urban areas where appraisers were available at a normal price, only in the event where they were not.

Mr. Saylor asked if they had increased rent. Mr. Brunette replied that the increase from \$12,000 rent to \$34,800 was for the ASHA building. Other increases in Code 300 were \$12,000 for accounting to handle the additional workload, and \$6,000 for a copier needed in the Anchorage area, and inflation pretty much made up the difference.

Mr. Ose wondered why some of the loans were turned down. He asked how many were rejected. Mr. Brunette said that out of 100 applications, they reject between 15% and 20%. However, all of these people have every right to come in with new applications anytime they meet the requirements. He noted they have income limitations and loan limitations.

Mr. Ose asked whether loans were turned down mostly in rural areas, and was told no, that they make every effort to serve the rural areas.

Mr. Ose asked for a rundown of loans, and Mr. Brunette said he would supply it.

Mr. Ferguson asked if there were provisions for the National Guard. Mr. Wilson said that would have to be covered by a fiscal note in addition to anything they propose in their budget.

Sen. Groh commented they were running a little bank for select clientele. Mr. Brunette agreed. Sen. Groh continued, saying that all banks he knew of were against an in-house appraiser. He thought it might be better if the local bankers could provide the appraisal.

Mr. Wilson stated that in many cases, bank managers in rural areas were not qualified to make appraisals. He said that in most cases, lending institutions only service their immediate area. In the larger institutions, people are capable of appraising real estate. However, in the Division's case, they are servicing the whole State. The appraiser will be a cost to them, but will also be of significant value to them to properly service the rural areas.

Sen. Groh asked how they handled payments. Mr. Brunette said that payments were mailed direct to the Central Office. There is one girl who posts and two accountants in the office and except for an Administrative Officer, that is the staff.

Mr. Wilson said they were presently negotiating with a computer service in town to try and get them to assume that service. They will do it if it can be done within their budget.

Mr. Barber asked if the proposed two new positions would be coming out of the Veterans' fund, and Mr. Brunette said they would.

Mr. Wilson brought out the fact that they are bringing in more money than they are expending.

RECESS

Meeting recessed at 2:05 P.M.

HOUSE FINANCE COMMITTEE

February 11, 1974

2:06 P.M.

PRESENT All members of the Committee except Representatives Haugen, Warwick, and Meekins. Commissioner Emmitt Wilson from the Department of Commerce and the following members of his staff were also present: Mr. Pete Jeans, Director of the Division of Small Business Loans; & Ms. Lois Cook, Administrative Officer. Mr. Ron Lind was present representing Budget and Management.

DEVELOP-
MENT Acting Chairman Saylor called the meeting back to order and said they would continue with the Development Category and hear testimony regarding the Division of Small Business Loans budget.

DEPT. OF
COMMERCE Mr. Wilson gave a brief overview of the Division's budget. He asked the Committee to recall three years ago when the Small Business Revolving Loan Fund was created. Before they were able they were able to actually get it off the ground (because they didn't receive funding) two more revolving funds were placed in their Department--the Fishermen's revolving loan fund and the Tourism Revolving Loan Fund. Thus, they had created a Division called Small Business Loans to be responsible for all three.

Small
Business
Loans

Mr. Wilson said that last year they were authorized \$127,600. This year the Governor has recommended \$141,500, which is a \$27,000 increase over last year. This basically is used up in the difference in putting out their automated report. Now they report personal services from actual. Before it was on average C step. The ASHA rental makes up for part of it, and the rest is inflationary.

Mr. Wilson noted that they did request an additional loan officer and a clerk typist, but the Governor had not been able to allow them.

Mr. Jeans passed out a summary of the three loan programs. (See Attachment I, page 19). The Committee took time to review the summary.

Mr. Wilson stated that by statute the Department of Revenue must purchase all mortgages approved by the Department of Commerce.

Mr. Ose asked if the loans were guaranteed. Mr. Wilson said no, they operate under the fact that the Dept. of Revenue shall buy all mortgages that Commerce approves, and at the liability of the State. There is no guarantee involved, although some of the programs do provide for guarantees.

Mr. Ose asked the basis of their selection. Mr. Jeans said they sent applications to anyone that requested one. Mr. Wilson referred them to the handout which said that the Division received approximately 400 inquiries from which 102 applications were returned.