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SENATE FINANCE COMMITTEE

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SENATE FINANCE COMMITTEE
January 28, 1974
10:35 a.m.

Present: Senators Groh, Palmer, Ray, Poland and Butrovich (Senate Finance Committee); Senators Hohman, Kerttula, K. Miller, Rader, and Hensley; Senate President T. Miller; Representatives Haugen, Warwick, Ferguson, Laktonen.

Lloyd Hodson, General Manager, Alaska Village Electric Corp.; Charles W. Fitch, Director WAE, REA; Thomas B. Heath, REA Field Engineer; David H. Askegaard, Assistant Administrator, REA; Adrian A. Simonson, REA Operations Field Representative; Linda Beach, Senator Stevens' office; Eugene Geffee, Kiana; Richard Nash, Lower Kalskag; Lester Wilde, Mountain Village; Vincent Beans, Mountain Village; Stanley J. Peters, Holy Cross; George Turnmire, Angoon, and Daniel Johnson, Angoon.

Elaine Mitchell, Alaska Educational Broadcasting; Mary Pat Murphy, Associated Press; Julie Chase, Empire; and Joe LaRocca, news reporter.

AVEC

Senator Groh called the meeting to order and introduced the people in attendance.

Lloyd Hodson, General Manager of AVEC (Alaska Village Electric Corporation) related the financial difficulties that AVEC has been experiencing. He stated that AVEC is located in 48 villages throughout Alaska and serves about 13,500 people. Since the last rate change negotiated with BIA and the State in 1971, several things have happened which affect their operating costs:

Environmental Protection impact is starting to be felt. In 1974 an act will go into effect that requires that all fuel tanks must be diked.

The fuel crises and rising prices of fuel.

Increased costs of transportation.

Impact of new area high schools.

Overall inflation.

Mr. Hodson said when the program started, they were looking at a peak load of from 20-40 kilowatt hours. There has been a steady increase because of the demands of schools. They are now looking at 250 - 300 kilowatt hours and in some cases as high as 500 kilowatt hours. Estimated cost for one 500 kilowatt per hour unit will run at least $70,000. In addition they must put in more fuel tanks, larger transformers, etc.

Mr. Hodson stated that they have had a rapid increase in needs for capital. They requested a new loan from Rural Electric Association. REA has told them that in order to get a loan they must have a firm guaranteed revenue for the program. Therefore, AVEC will need to have a new contract with S.O.S. and the BIA. Their current rate to S.O.S. (1971) is $2,400 per month per unit. They are asking for a rate of $2,835. Mr. Hodson said they were requesting a resolution of intent from the Senate and the House to guarantee revenues in order to obtain a loan from REA.

Mr. Hodson added that they have a high turnover in personnel due to their low salaries and per diem.

Mr. Hodson stated that the main contributing factor for the increase in load is construction of new area high schools and new water and sewer systems going in under the auspices of Environmental Conservation.

Senator Ray wanted to know the amount of State support already given to AVEC. He said he understood that welfare recipients in the villages are allowed a certain amount of their payments to pay for electricity. Mr. Hodson answered that the bills are paid directly by the consumers. Senator Ray reiterated his question: Isn't there an allowance by the Dept. of Health and Social Services to welfare recipients for utility payments.

Daniel Johnson, board member of AVEC from Angoon, replied yes. The State provides allocations for the utility. BIA also provides this, but this is something all of the villages are trying to get out of--for the State and BIA to pay for it. They want to be on their own, but cannot do it with increased rates which would be imposed on them.

Senator T. Miller asked if a welfare recipient in a village would be treated any differently than a welfare recipient in Anchorage or Fairbanks. Senator T. Miller asked if AVEC was regulated by APUC and Mr. Hodson answered yes.

Senator Groh stated that there are 23 sites supported by the State. The State is paying $28,800 for these sites. Mr. Hodson's proposal would be to increase that annual amount from $2,400 for each of the sites to $2,835 (per month). Mr. Hodson said Senator Groh's statement was correct; however, AVEC only supplies 20 sites. They have requested S.O.S. to sign up for three additional villages but it would be impossible to put in the three additional villages for next year.

Senator Palmer asked how they choose the villages to participate in this program. Mr. Hodson said in 1968 and 1969 they took a general survey to try to determine which villages were interested. He stated that the applications far exceeded the availability. He said the basic rules that have been established are on the size of the villages (125 to 500 population) and the interest of the village. The villages are chosen by the Board of Director. Mr. Hodson added that "there are 12 specific conditions for an REA loan and the village must comply with these conditions."

Senator Ray asked if there had been any problem in the collection of fees within the village. Mr. Hodson said they have a 3/4th of 1% reserve. Their collection experience has been relatively good. When they do have an occasional problem they put special attention on the village. Mr. Hodson said he was convinced the payment records in the villages have been good enough to depend on their payments. He was sure the reserve of 3/4th of 1% would be quite adequate. Senator Ray said that many of the program's critics had stated the people in the villages are not paying their own way. Senator Ray said from AVEC's collection experience this criticism is untrue. Mr. Hodson, agreeing with Senator Ray, said "this is absolutely correct."

Senator Butrovich asked if the reason there is a financial problem is because there are not enough consumers. Mr. Hodson said that in a typical electrical facility there is a commercial load which represents 30-40% of total revenue. AVEC's revenue structure is approximately 60% from the State and BIA; 25-30% from residential customers and approximately 10% from other sources. Mr. Hodson said that AVEC has a very different blend of consumers.

Senator Palmer referred to the 25-30% for individual consumers. He asked how much they would estimate were original State funds (referring to Senator Ray's remarks on welfare recipients). Mr. Hodson said he would have no way of knowing this -- they bill the consumers directly.

Senator Kerttula asked what AVEC's gross annual income is. Mr. Hodson said their revenue is going to be about $2 million this year. Senator Groh pointed out that $662,000 was approved in last year's budget request. He said this indicated approximately 30% of their income came from the State. Senator Groh said that Mr. Hodson had indicated 30% of their load is not attributable to the State and some of the legislators are bothered by this. Mr. Hodson said 30% of their income is from the State. He said they expect a combination of the State and BIA revenue to run about 60%.

Senator Groh asked that AVEC provide the Senate Finance Committee with the amount received from the State during the last three or four years and the total revenue for this same period.

Senator Butrovich asked what percentage of the operating cost is local as far as labor is concerned and what is not local. Mr. Johnson said in Angoon they pay their operators $250 a month. He said in a major black-out they have to get an operator from the central office.

Senator Butrovich said he wanted to find out out much money was spent on people travelling.

Mr. Richard Nash, Lower Kalskag, told the committee what a good job the General Manager was doing. He requested more state support.

Senator Butrovich restated his question. Mr. Hodson said the program is broken into several phases. For operational and maintenance, they try to have the local operators do as much as they can. He added that there are certain times when they must send an outside mechanic in. For major overhauls mechanics are sent in from the outside.

Senator T. Miller asked how much the State is paying for an average kilowatt hour. Mr. Hodson said right now S.O.S. is paying the highest rate of any class. But they are looking at a situation where this will no longer be true -- in eighteen months when these new schools are added the revenues and consumption will be close in balance.

Senator Groh asked Mr. Hodson if he would provide the committee with AVEC's current profit and loss statement. Mr. Hodson said they would have a year-end financial report within about three weeks. Senator Groh also asked for figures indicating what the travel and per diem costs were for the last year.

Representative Warwick asked for a clarification of rates. Mr. Hodson said the standard rate structure would be:

> 20¢ a kilowatt hour for the first 75 kilowatt hours,
> 15¢ a kilowatt hour for the next 225 kilowatt hours,
> 12¢ a kilowatt hour for 300 - 1,000 kilowatt hours,
> 9¢ a kilowatt hour for over 1,000 kilowatt hours

Mr. Hodson said the rate structure would be modified due to a combination of inflation and fuel prices.

Mr. Hodson stated that at 2:00 p.m. today they would meet with representatives from the BIA and REA to explore the problems AVEC faces. He acknowledged that the State and BIA both pay more per kilowatt hour due to the guaranteed minimum. He pointed out that the generating capacity they are required to supply is caused to a large extent by the requirements of the schools. Whether or not they use all their generation capacity is not applicable here--they still must cover their investment.

In answer to Representative Warwick, Senator Groh said they are currently paying $2,400 per school per month -- AVEC is asking for an increase to $2,835 per unit per month.

Senator Hensley asked if, with the increase in rates, would REA allow AVEC the loan they are requesting for expansion and new construction? Mr. Hodson replied yes, they indicated if AVEC negotiates with the State and BIA successfully, they would take this into account and they would be able to enter into and receive a new loan.

In answer to Senator Groh, Mr. Hodson stated the amount of the loan would be $3.6 million. Senator Hensley asked if that amount would cover acquiring generation for the new schools. Mr. Hodson replied that it would provide for all "known" area schools and would accommodate the new Environmental Conservation program that they are aware of at this time.

Senator Ray asked if AVEC had made any formal presentation to any individual native corporation to get the needed money. Mr. Hodson replied that he understands the intention of the Native Claims Settlement was to not take over any existing program. The people who use the power are the State and BIA schools; therefore, they are asking for support from this area. He said they have not approached any regional corporations because they are not using any power.

Senator Ray stated that it is his understanding that several of the Native corporations have expressed a feeling that rather than let AVEC go under, there would be some effort on their part to supply the difference between what AVEC is getting nowand what they will need to float the loan or refinance the whole program. The corporations would then deal with REA.

Mr. Turnmire remarked that the native corporations are not building schools -- the State is.

Senator Palmer pointed out that the State is paying far more than the required rate structure for school electricity and that this would more than make up for the request of $120,000.

Mr. Hodson said if this is not negotiated they would have to go to a flat rate structure of 24¢ a kilowatt hour. He did not feel there could be any kind of economic development with that kind of rate structure.

Mr. David Askegaard, Assistant Administrator of REA, explained that REA's situation is that they are limited in what they can do by law. They are now allowed to make any loans unless they see a feasible situation, i.e., they must see that there will be money to repay the costs. Mr. Askegaard pointed out that in 1972 the residents averaged almost 20¢ per kilowatt hours. He said this is not cheap power for anybody. He said they want to help these communities but in order to provide funding they must be assured the revenues will come in.

Senator Groh stated that he appreciated the appearance of the group and he was confident the Legislature would address this problem this year.

Adjourn: The meeting adjourned at 11:35 a.m.

SENATE FINANCE COMMITTEE
January 29, 1974
10:55 a.m.

Present: Senators Groh, Lewis, Palmer, Sackett, Ray, Poland, Butrovich.

Mary Pat Murphy, Associated Press; Ken Roberts, free lance photographer; Jim Olmsted, Joe LaRocca, news reporter.

Senator Groh called the meeting to order and announced that this is a procedural meeting to discuss committee assignments and budget forms.

Senator Ray requested a 5-minute executive session at this time to discuss finances of the State. Senator Groh said he will arrange for the executive session at the conclusion of this meeting, as there are some matters he would like to bring before the committee now.

Senator Groh reminded the committee that he had previously requested that they indicate which of the bills before the committee they were particularly interested in. He said he'd like to have their responses as quickly as possible. He stated that to the extent that he gets their preferences for sub-committee assignments, and to the extent the short forms are prepared, we could get started on the short forms immediately.

Senator Groh asked Director of Legislative Finance Jay Hogan to advise the committee of what Mr. Hogan had explained to him about computerization of the budget. Mr. Hogan reported that basically, the administration has automated Forms 4 and 4A of the budget, and we have written a program to pick information off that. This will allow the committee the opportunity to establish different overall procedures for approaching the budget if the committee desires. For instance, we could ask the computer to pull $5 million out of the General Fund budget (or put it in) and the computer would come up with the correct figures very quickly. You can see what comes out of this and work from there on a case-by-case basis. The computer could make the first run for you.

Senator Groh said as he understands it, we could plug in 10% in a travel budget and the computer would analyze that budget and give the correct figures. He said he felt this might have some value. Although he is not advocating that approach, he believed the committee should be aware that it is available.

Senator Ray said he could not see much value in adding 10% across the board. It would still come down to individual evaluation of each BRU and each element within the category.

Senator Palmer asked Rich Guthrie to furnish the committee with a list of last year's committee assignments.

Senator Groh announced that all Finance Committee staff positions have been filled. We have a telephone operator, pages and secretaries. He stated that Senator Ray and he, after extensive negotiation with the Attorney General, acquired one additional office. Mr. Hogan was also involved in those negotiations.

Senator Groh suggested that committee members might consider withdrawing bills in the committee they have sponsored which duplicate other bills that have already passed, so as to avoid cluttering the files.

Senator Groh said so far he has received responses concerning sub-committee assignments from Senators Palmer and Butrovich, and he would appreciate receiving the others.

Chairman Groh asked whether there were any procedural or other matters that committee members would like to bring forward at this time.

Senator Ray moved for an executive session at this time. Senator Poland seconded. There was no objection and the Senate Finance Committee entered executive session at 11:05 a.m.

11:48 a.m. Chairman Groh reconvened the meeting in public session.

Senator Groh announced that there was a discussion during executive session concerning maximum amounts of State budgets and philosophy concerning this. However, no decision was reached by the committee; therefore, there will be no public action.

Senator Groh asked if there were any other matters to come before the committee.

Senator Ray expressed appreciation to members of the press and other interested persons who attended the meeting. He apologized for the length of the executive session which he felt was necessary.

Senator Groh announced that there will be a Senate Finance Committee meeting tomorrow after adjournment. The committee will take up whatever bills are before it at that time.

Adjourn: The meeting adjourned at 11:51 a.m.

SENATE FINANCE COMMITTEE
January 31, 1974
10:35 a.m.

Present: All committee members.

Elaine Mitchell, Alaska Educational Broadcasting; and Mary Pat Murphy, Associated Press, were also present.

SUB-COMMITTEE ASSIGNMENTS

Senator Groh called the meeting to order and two hand-outs were distributed regarding Sub-Committee Assignments and a schedule indicating dates when Sub-Committee Recommendations were due.

The Sub-Committee Assignments are:

ADMINISTRATION OF JUSTICE --	Ray (Chairman), Butrovich, and Lewis
DEVELOPMENT --	Sackett (Chairman), Poland, and Ray
PUBLIC PROTECTION --	Palmer (Chairman), Lewis, and Sackett
NATURAL RESOURCES --	Butrovich (Chairman), Palmer, and Poland
GENERAL GOVERNMENT --	Poland (Chairman), Butrovich, Ray, and Sackett
TRANSPORTATION --	Groh (Chairman), Lewis and Palmer
HEALTH & SOCIAL SERVICES --	Ray (Chairman), Butrovich, and Groh
EDUCATION (Dept. of Educ.) --	Lewis (Chairman), Groh, and Sackett
EDUCATION (Univ. of Alaska & S.O.S.)	Groh (Chairman), Palmer, and Poland

Senator Groh explained that each member was on four sub-committees and he had expanded the number of members to three members (because the categories have become so long and difficult). General Government has four sub-committee members because so much interest had been expressed in this particular category.

Senator Groh stated that the short forms were available on four categories -- Administration of Justice, Development, Public Protection and Natural Resources.

Senator Groh told the committee members that Senator Ray's "blue books" would be available to committee members. Senator Ray added that in personal services in the "blue books" base salaries indicate just the salary schedule, less benefits. The total salary indicates the salary and benefits.

Senator Groh also suggested that committee members might wish to consult the standing committee chairmen on their category (i.e., Senator Ziegler who heads the Judiciary Committee might have input for the Administration of Justice category).

Adjourn: The meeting adjourned at 10:50 a.m.

JOINT SENATE/HOUSE FINANCE COMMITTEES
February 7, 1974
9:00 a.m.

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

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

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

State Investments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Mr. Lee Prussia, Jr., Vice President of Bank of America, presented some background information concerning the bank's involvement in the management of the State's account since 1969. He stated that by the end of September 1969, they had invested about $900 million on behalf of the State. About $100 million went into Alaskan bank deposits and the balance was under Bank of America's active management, along with the State administration. Since then, they have maintained a very active management account. Mr. Prussia said over the life of the account, the yield that has been produced runs to a level of about 7-1/2%. They have also realized a capital gain of about one-quarter of one per cent. He felt that this is a good investment record considering the types of investments they are limited to (U.S. government securities and bank deposits).

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

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

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

The meeting recessed at 10:00 a.m.

AFTER RECESS
10:30 a.m.

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

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

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

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

Regarding inflation, last year the rate of inflation was just under 3-1/2% (192). The 1973 rate was between 6-1/2-7%. Inflation rate for 1974 will increase somewhat further, but will moderate slightly in the latter part of the year. Mr. Prussia predicted that most of the price control measures will be dismantled this year.

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

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

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

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

Senator Groh noted that initially they received about $18 million into the stock account. He said they are down about $4.3 million, for various reasons, including a slumping stock market. He asked if Mr. Prussia was recommending that they stay in the stock market? Mr. Prussia stated that they felt at least some part should be devoted to equity investments. The market has been off, as a whole, 20% or more since 1973. He felt they are nearing the end of that prolonged period and was optimistic about equity investments in the future.

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

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

Mr. Warwick asked if Mr. Prussia considered the stock market a long-term or short-term investment. Mr. Prussia replied that in Alaska's case, it would be a long-term investment. Mr. Warwick asked what is the State doing in long-term investments when Mr. Prussia recommended sticking with short-term, Mr. Eppenbach had indicated the State should stay with short-term and the Governor says stay with short-term. Mr. Warwick asked if there was not a higher degree of risk in equities--having to liquidate them in a certain period of time, rather than in the stock market? Mr. Eppenbach replied yes; however, the real question is "what kind of risk are we accepting in the future." He said they are not going to allow the stock investment account to invest in risky companies. Mr. Eppenbach stated that over the last year they have seen a rotten market -- every indicator shows that the market will get better.

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

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

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

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

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

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

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

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

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

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

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

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

Mr. Nelson then spoke on the portfolio analysis. He said the North Slope equity portion is down about 4.9% (from June 1 to December 31, 1973). During that same period the major index was down over 8% and the unweighted New York index was down 15%. He pointed out that they are doing better than the major indexes. However, Mr. Nelson said he realized that a "minus is still a minus" and their objective is to avoid these types of things in the future.

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

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

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

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

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

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

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

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

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

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

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

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

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

AFTER RECESS
2:10 p. m.

Present: Senators Groh, Sackett, Poland and Butrovich.

Jack Carruthers, Student Financial Aid Administrator, Department of Education; and Mary Pat Murphy, AP, were also present.

HB 342 Senator Groh called the meeting to order and said the committee would consider HOUSE BILL 342 (an Act making a supplemental appropriation to the scholarship revolving loan fund in the Dept. of Education).

Senator Groh requested that Mr. Carruthers tell the committee how the program is operating. Mr. Carruthers stated that they have 1,888 awards totalling $2,947,000. Mr. Carruthers said they had 517 names on the waiting list but had had some cancellations. At this moment they have 289 students requesting loans. Mr. Carruthers said they had been discouraging people who have filed for loans. $400,000 would take care of the present people who are on their waiting list.

Mr. Carruthers said that an average loan is about $2,000 per year. Senator Groh asked if any of the students had started repaying their loans. Mr. Carruthers answered there are a few students who have started repayment. 1971-72 was the first year and students who were seniors at that time have started repayment. Mr. Carruthers said they are estimating $84,600 for repayments for the current fiscal year.

Mr. Carruthers said because of the shortage of staff he had not been able to follow the students as closely as they should. Students should be contacted at least twice a year to see what their status is -- the agency is now only contacting students once every 12-14 months.

In answer to Senator Groh, Mr. Carruthers said the interest on loans starts when the person ceases to be a full time student. The interest is "5% simple," Mr. Carruthers added.

Senator Groh asked if $400,000 would take care of the present applicants. Mr. Carruthers said yes, based on the fact that a lot of people have not applied because of the rumors that there was a limit on the number of loans.

Mr. Carruthers said that his budget request is $3,320,000 and this should fund the same number of loans as this year. Mr. Carruthers said he had requested two new positions but had been allowed only one.

Senator Groh asked if Mr. Carruthers would suggest any changes in the program. Mr. Carruthers answered that it would depend on what the Legislature wanted. He added that the program had been "working quite nicely the way it is." Senator Groh asked if the program should be modified to introduce any requirement of need. Mr. Carruthers said this has been a big national issue. He said with this philosophy there is the possibility of squeezing out the middle class.

Senator Groh asked if this was the most liberal program in the country. Mr. Carruthers answered yes. Senator Groh asked if it would be the most liberal with the forgiveness clause deleted. Mr. Carruthers said it would "be damn close to it."

Senator Sackett said this is a loan program and it is the State's responsibility to see that the loans are repaid.

Senator Butrovich requested a detailed repayment schedule.

Senator Butrovich suggested holding the bill in committee in order to give other committee members a chance to review it. There was no objection and the bill was returned to file.

Adjourn: The meeting adjourned at 2:35 p.m.

SENATE FINANCE COMMITTEE
February 8, 1974
10:25 a.m.

Present: Senators Groh, Lewis, Butrovich and Poland

Joe LaRocca, news reporter

Sub-Committee Assignments & Committee Schedule

Senator Groh called the meeting to order. He stated that he has passed out to committee members a revised list of sub-committee assignments and a committee schedule. New sub-committee assignments are:

ADMINISTRATION OF JUSTICE --	Ray (Chairman), Butrovich, and Lewis
DEVELOPMENT --	Sackett (Chairman), Poland, and Ray
PUBLIC PROTECTION --	Palmer (Chairman), Lewis, and Sackett
NATURAL RESOURCES --	Palmer (Chairman), Butrovich, and Poland
GENERAL GOVERNMENT --	Poland (Chairman), Butrovich, Ray, and Sackett
TRANSPORTATION --	Groh (Chairman), Lewis, and Palmer
HEALTH & SOCIAL SERVICES --	Ray (Chairman), Butrovich, and Groh
EDUCATION -- (Dept. of Education)	Palmer (Chairman), Groh, and Sackett
EDUCATION -- (Univ. of Alaska & S.O.S.)	Groh (Chairman), Lewis, and Poland

Senator Groh announced that the House Finance Committee has scheduled "overview hearings" with various departments, commencing next Monday. He said these hearings will be considered as joint committee hearings. He urged sub-committee chairmen to consider attending these hearings to get the overview information, if they so desired. Senator Groh said he recognized that calling heads of departments in and having them testify for their needs really does not serve very much toward the committee making a resolution of what a budget should be. He stated that the Senate Finance Committee could also bring commissioners over here on a selective basis if it so desired. He asked for members' comments on their preferences.

Senator Butrovich said his personal feeling is that there is not much value in listening to administration people telling their stories until he has first had a chance to review their requests. He said he would just as soon skip the first go-around.

Senator Groh stated that there is some disadvantage in having the House committee hear them and then having us hear them; and he did not think a double overview proceeding is really going to accomplish anything. He felt the Senate Finance Committee should review the "red" books and then call in people.

Senator Lewis echoed Mr. Butrovich's view. He said he doesn't really get much out of somebody sitting at the end of a table answering questions--we must first digest the red books.

Executive Session

Senator Lewis moved that the committee go into executive session to discuss the financial interests of the State. There being no objection, the Senate Finance Committee entered executive session at 10:33 a.m.

Adjourn:

Senator Groh reconvened the meeting. There being no further business to come before the committee, the meeting adjourned at 10:55 a.m.

JOINT SENATE/HOUSE FINANCE COMMITTEES
February 8, 1974
2:00 p.m.

Present: Senators Groh, Poland, Butrovich (Senate Finance Committee); Representatives Freeman, Warwick, Haugen, Barber, Meekins, Saylors, Specking, Ose, Ferguson (House Finance Committee); Other interested Legislators: Senators T. Miller, Pete Meland, Lowell Thomas, Jr.; Representatives Fink, Banfield, Silides, McVeigh, Guy and Malone.

Judicial Council: Jay Rabinowitz (Chief Justice), Kenneth Brady, Eugene Wiles, Mike Stepovich, Mike Holmes, Lew Williams; Bob Hicks, Executive Director, Alaska Judicial Council.

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

Chief Justice Rabinowitz called the meeting to order and introduced members of the Judicial Council, and Executive Director of the AJC, Bob Hicks.

Judicial Council Presentation

Mr. Hicks reported on studies the Judicial Council is presently involved in. One such report is a study of the Public Defender Agency. This is being duplicated at this time, and draft copies will be available to committee chairmen today. Another study is one which Senator Groh had requested about a year ago, entitled the "Fee Structure of the Alaska Court System."

Another study presently being done by the Council concerns Judicial Districting in Alaska. Mr. Hicks stated that the Council has just about received approval of two LEAA grants for studies it will make on the bail process and sentencing process in Alaska. The Council will also undertake a study of outside prison facilities--what we are receiving for our money when we send prisoners outside the State.

Council co-chairman Mike Stepovich reported that the Judicial Council unanimously agrees with the "Judicial Compensation Position Paper" published by the Alaska Court System, except, the Council recommends that judicial salaries be increased as follows:

Supreme Court	$ 60,000
Superior Court	45,000
District Court	35,000

He noted that judges have not had a raise since 1970, except for District Court judges who had a raise in 1972. He said the Council felt that judges must have prestige in the community and good life habits.

Council member Kenneth Brady stated that many people in the construction industry are more highly paid than judges in Alaska. He felt we should give judges something in the area of what a good lawyer in Anchorage, Fairbanks or Juneau makes.

In answer to Representative Freeman's question, Chief Justice Rabinowitz said present judicial salaries are:

Supreme Court	$36,000
Superior Court	$33,000
District Court	$27,500

Mr. Stepovich said the Council thought the salaries recommended in the report published by the Alaska Court System were too low. The Court System's recommendation was:

Supreme Court Justices	$45,000
Superior Court Judges	$40,000
District Court Judges	$33,500

Council member Mike Holmes pointed out that although the Chief Justice is on the Judicial Council, he did not vote or take part in the discussion on salaries. The Judicial Council is an independent body interested in the administration of justice--it is not part of the court system. He said the Council's feeling on salaries was that in order to attract and keep good judges, we must pay them adequately.

Senator Groh stated that there have been discussions in the Legislature concerning the actual value of the existing retirement program in the judicial system. They are constantly advised by various members of the Legislature and others that the real value of that retirement is extremely substantial. Is there any way the Council or court system can advise of the net worth of the retirement system? Mike Stepovich said it is estimated to be worth $10 - $12,000 a year; however, judges do not get that money until they reach a certain age. It does not help them with day-to-day living.

Rick Berrier, Budget Officer, Alaska Court System, stated that Judge Fitzgerald has asked him to prepare a statement on that. He will see that it is submitted to the Legislature. Mr. Berrier pointed out that the value of the retirement system, when it is discounted over twenty years, will decrease substantially.

In answer to Representative Freeman's question, Chief Justice Rabinowitz stated that there are presently five Supreme Court Justices, sixteen Superior Court Judges and sixteen District Court judges.

Senator Meland asked what has been accomplished in the last two years as far as salaries of magistrates. Are they still working for $3 an hour? He remarked that magistrates do take the place of District Court judges many times as fill-ins.

Chief Justice Rabinowitz replied that they are doing their best to upgrade the position of magistrates. The pay scale in many locations has been raised; and in some instances, they have recommended elimination of some positions where there is no business. He said the Legislature should be receiving a report within two weeks showing past magistrates salaries and a recommended pay scale.

In answer to Senator Meland's question concerning size of salary increases, Mr. Berrier said the Kenai magistrate, who is one of the busiest in the State, makes $21,000. The majority of full-time magistrates make about $15,500. He noted that the majority of the request in the operating budget for next year relates to magistrates in smaller communities. He said in their present budget request, a majority have been upgraded from $3500 to $5000 a year. These are part-time positions.

Senator Groh cited figures from the Administration of Justice budget. He commented that we are all aware that there has been a breakdown in the administration of justice system, at least in the Anchorage area right now. The question becomes, "where is the problem and what efforts can be made to resolve the issue." He stated that the bulk of bills introduced in the Legislatuare attempts to address that issue. He wanted to know "when do we sit down and see where the breakdown is?"

Chief Justice Rabinowitz replied that at the Supreme Court Conference, several justices felt that he, as Chief Justice, ought to call all the agencies together to see what we are going to do to improve the situation. One Justice thought he should go to Anchorage to solve the jurisdictional dispute. He said he did not think it is his position to try to solve that kind of political dispute. He said he is willing to cooperate on levels other than that. He noted that the court system is going to have an annual review of their rules and will be doing these things on their own. He did not see himself in the role of calling together executive agencies, however.

Senator Groh asked, would Chief Justice Rabinowitz be willing to cooperate and participate? Chief Justice Rabinowitz stated that he would be willing.

Kenneth Brady stated that everybody in Alaska agrees that we need to do something about the law and order situation. Everybody blames the court system, when as a matter of fact, the judges are only interpreting the law, not making it. He felt we ought to take a look at amending the Constitution to where it says that punishment is a deterrent to crime. He also suggested that we work towards providing a speedy trail for people arrested, and not let them out of jail until they have been tried. He said one of the problems in Anchorage is that repeaters are let out on bail and promptly commit other crimes.

Senator Butrovich remarked that one of the reasons that the Public Safety Commissioner resigned was because when offenders were tried they merely received a "slap on the wrist."

Mr. Brady said, in his opinion, the laws are written to defend the criminals, and that is what the people of Alaska object to. He said we should face up to it--repeaters should not have rights.

Lew Williams, Council member, stated that they had quite a discussion in a Council meeting concerning the Public Defender Agency. This is just one area where there has been criticism of the entire justice system. He said their study is one that is long overdue. However, up until this year, they were never allocated any funds to do anything. He said we have been accumulating problems for 13 years, and finally are getting into them. He said the Public Defender report will give us some concrete recommendations on what we can all do to make it work. However, we should not assume that this (breakdown in justice) is a prevalent thing, just because the rape of a six-year old girl was publicized.

Senator Groh noted that out of the whole Administration of Justice budget, we are spending $12 million to reform offenders. He said he is not sure the reform is really working.

Council member Eugene Wiles, addressing himself to Senator Groh's point, stated that the Alaska Judicial Council is the agency that can coordinate the differences between the different aspects of the judicial system. He said they met with the Parole Board and other agencies that are a part of this system in trying to coordinate their efforts. He felt Mr. Hicks has done an excellent job in that regard.

Mr. Hicks explained that before they begin a job, they first see what other agencies are doing in a certain area. He said he spent some time working with the Criminal Justice Planning Agencies to coordinate efforts and define roles. They have worked out a relationship whereby Criminal Justice Planning is doing more or less planning functions. The Judicial Council can do the kind of data collection and background work necessary in the context of criminal justice planning. He said they do not want to get into wasting their money or duplicating efforts of other agencies doing their own studies. They have defined the Council's study role as being that of doing interagency studies, studies on request; or doing a study for an agency where a conflict might exist.

Representative Haugen stated that it seems to him that about five studies are underway by the Council at the present time. He did not think these studies are going to come out in time. He said people are really disgusted, and they are not willing to spend more money--they want results soon. Concerning correctional holding facilities, Representative Haugen said he knew of one holding institution in Alaska that the Finance Committee funded last year, and they haven't even hired a watchman yet. He said people are generally blaming everybody down the line. Crime is increasing and things are not getting better.

Mr. Brady mentioned that during the next election, one of the Council's work projects is to rate the judges up for election; and if they do not measure up, they will publish the fact in the newspapers.

Chief Justice Rabinowitz stated that the Judicial Council voted to approve these studies long before the Legislature convened. In no way is the Council telling the Legislature to hold up on any particular bill before it. He said today they are reporting to legislators on what the Judicial Council is doing with the money that was budgeted for it. He said he will report on specific statistics when he makes his "State of the Judiciary" message before the Legislature (i.e., how many people were arrested for certain crimes, how many on probation, average sentences, etc.)

Representative Barber said we are tired of studies. He felt that people of the Judge's intelligence must form in their minds some reason in back of all this harrassment of the court system. He said he failed to see how people of their competency can see this continuing cycle parade before them and not have some idea of what is wrong with our system. He said there is something wrong with our system, and the answer should come from those who work in the system.

Chief Justice Rabinowitz said they may be better able to determine where the breakdown is when all the statistics are compiled and reviewed. This should be done in about two weeks. Until then, he did not feel he could make a judgment in that regard.

Senator T. Miller commended the Chief Justice's attitude in that respect. He said he did not think in the past the Council has functioned as the Constitution intended, but it sounds as if they are beginning to. He said we do have a major public concern, aggravated by the fear of the pipeline impact. He said he would hate to see the Council rush in before they have the data. However, he felt the Legislature will act anyway, because the public is demanding it. Senator Miller said, if possible, he would like the Council to include in its report a report on the plea bargaining practice in Alaska--how extensive is it, particularly in the major crime category. Also, how much is court congestion contributing to this? Chief Justice Rabinowitz replied that one of the studies the Judicial Council is doing with LEAA funds is on the entire subject of plea bargaining.

Representative Banfield stated that several jurists have told her that one of the reasons they are unable to convict more people is because of faulty police work and poor work on the part of the prosecuting attorneys. She wanted to know if these two areas will be covered in the Council's report. Chief Justice Rabinowitz replied that he did not think they are in the scope of the studies he mentioned. Mr. Hicks said the report will try to identify why a case was dismissed, or a plea changed, and try to identify whether it was because of lack of evidence, manpower shortage, etc. However, he did not know how extensively they can do this, as they are working through information in the files.

Representative Ose asked the Chief Justice thought that the Public Defender's office, which is intended for indigents, is being abused. The Chief Justice replied that the Judicial Council's report acknowledges that there is abuse; however the agency does not have time or the expertise to screen people. The report recommends that applicants for the Public Defender's services be subjected to an oath before a judge, attesting to the fact that he cannot afford counsel. Representative Ose remarked that if this abuse is corrected, there will not be a need for more public defenders.

Mr. Brady said his view on public defenders is that we should eliminate them and go back to the original system of court-appointed lawyers.

Representative Silides stated that we are talking about a vicious circle. He hoped something is done that will break that cycle. He said the same thing has happened at this table--we are going around and around and passing the buck.

Council member Lew Williams stated that the Council has found that some of the attorneys being hired to replace the public defender have not been too consistent in their charges. Fees for outside attorneys are taking up to 18% of the public defender budget. He said the Council is recommending that that responsibility be put on the court system and that part of the defender's budget transferred. In addition, they are recommending some kind of uniform standard fee scale.

Responding to Senator Groh's question, Chief Justice Rabinowitz stated that the Judicial Council reviewed the Operating Budget, the Capital Budget, and the Pipeline Impact Budget of the Alaska Court System--no other component of the criminal justice system's budgets were reviewed.

Representative Meekins asked if the Judicial Council is a Constitutionally-authorized body. Chief Justice Rabinowitz replied "yes.". He said one of their duties is to nominate judicial vacancies appointments to the Governor. Another duty is to make recommendations and studies for improvement of the judicial system in Alaska. These recommendations are suppose to go to the Legislature and the Supreme Court.

Representative Meekins commented that, until recently, the second duty was not performed. Chief Justice Rabinowitz acknowledged that that was correct. Up until recently, they never had funds for an executive director or any staff support.

Representative Meekins wanted to know if there had been any studies done before (funding) or have they been done by other agencies? Chief Justice Rabinowitz replied that they have done some, but no real detailed studies, except for sentencing jurisdiction.

Representative Haugen asked how much Federal money the Council is receiving from LEAA. Mr. Hicks replied that they have applied for three grants, totaling $66,000, for: (1) sentencing examination; (2) bail; and (3) criminal justice standards, including prosecution, defense, and the court system.

Representative Meekins asked if the Council has any recommendations for gathering of statistics. If the Legislature is going to make decisions on the Council's recommendations, they must have some sort of retrieval system. Chief Justice Rabinowitz replied that the court system is doing that. They ordered it over eight months ago.

Representative Ose asked if Chief Justice Rabinowitz had looked into the new Eagle River correctional home. It seems the prisoners have many privileges, such as private rooms, honeymoon privileges, etc.

An unidentified man in the audience asked if the Council should not investigate crime at the top. What about people who are committing crimes by redistributing stolen goods? He stated that two weeks ago in the Anchorage News, it was stated that some high officials were actually involved in that time of crime.

Adjournment — The meeting was adjourned at 3:20 p.m.

SENATE/HOUSE FINANCE COMMITTEES
February 11, 1974
9:05 a.m.

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

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

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

DEPT. OF REVENUE

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

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

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

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

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

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

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

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

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

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

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

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

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

State of Alaska Bank Deposits as of December 31, 1973

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

All-State List of Excise Taxes on Alcoholic Beverages

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