

HOUSE/SENATE FINANCE COMMITTEE MINUTES - 1967-1982 2568

to the nineteen fisheries they will license. A distressed area is when the number of fishing units exceeds the optimum number they have figured for the area.

SB 87

They estimate that between 7,200 and 7,400 permits will be issued, including a "fudge" factor for those people who would suffer undue hardship if denied a permit. They do not know how these people rank, but have a general impression that very few people who are serious constant fishermen will be excluded under this program.

If the bill is not approved, since the money is not in their budget, they would terminate all the contracts, and pay for the work performed to date.

Mr. Adasiak noted the "possibility" that the deadline could be extended under an emergency regulation if it becomes evident that the present deadline cannot be met. The contractors would probably extend their contracts without any or very little additional cost.

The Chairman asked how it was that no one anticipated these problems, and was told that they could not complete forms and applications until the Commission finished public hearings the end of september; the regulations weren't final until November 18; there were problem with proof, and the applications didn't get in the mail until December 9. At that time they knew there would be problems, and their initial response was the training sessions during November and December.

He said if they waited for all the court time to be finished it would not be until the end of February, as Mr. Gruening said "too little too late." Mr. Adasiak stated that even if the deadline was extended there would still be need for contracts to provide application assistance. The Commission feels it is necessary to try meeting the deadline to move on to issuing the permits. If a person has more then 20 points he automatically is issued a permit so they have to know how many people are in that category in order to determine the permits issued to the others.

Rep. Anderson admitted that the question before the Committee was both touchy and critical and that Limited Entry had been notified that the situation could develop. He didn't know how many people in his area would be hurt and made a plea for the bill to help the people most affected.

Rep. Duncan made a motion that the Bill be reported out of Committee. He commented that he was not happy about the expenditure but would be hurting the wrong people by not grant-

The motion passed unanimously and was reported out with a "do pass" recommendation, after brief discussion. The meeting was recessed at 2:30 p.m.

AFTER RECESS

2:50 p.m.

Chairman Malone called the meeting back to order, and announced that the committee would consider HOUSE BILL 77 (Supplemental - University of Alaska).

HB 77

Ms. Itta said that she understood that HB 77 is in payment of a judgment, which Mr. Malone said is true. He asked to have Fran Ulmer, legislative liaison in the Governor's Office, phoned and requested to come to explain the bill further. Ms. Ulmer was summoned.

When Ms. Ulmer entered the committee meeting, the Chair requested her to explain the supplemental. She said that in a suit for a cost overrun, Modern Construction succeeded in getting the court to award the amount plus interest. The University of Alaska was the defendant in this case.

Mr. Malone asked about the words "impact damages" on line 13 of the bill. Ms. Ulmer said that to her knowledge that was not specifically legal wording, and she did not know to what the words referred specifically.

Mr. Haugen explained that impact damages are the result of the owner of the project imposing problems on the contractor that would delay his construction schedule. Mr. Haugen said that he felt there wasn't much of an argument here. The state went to court, lost, appealed, and lost. It's a bill that must be paid and he felt there was no point in delaying the issue and having to pay still more interest.

Ms. Buchholdt wondered if the supplemental could then be taken off the University's budget for FY 76. Mr. Malone said this could be done although he really didn't know what the relationship between this supplemental and the University programs would be. Ms. Buchholdt's concern was that supplementals are diminishing the amount of money that can be appropriated for next year's budget, and that if the legislature keeps "plugging up the holes" there will be nothing left to appropriate.

There was brief discussion on the fact that the University engages its own contractors and does not go through the Division of Buildings, and the consensus seemed to be that this is a matter the committee would like to pursue further. Mr. Guthrie said that Dick Holden from the University would be down and would be available to discuss this with the committee if they wish.

2/5/75

Mr. Malone asked who was liable in the suit, the state or the University of Alaska. Mr. Cowper said that the party being sued was the University, but it is a state-created corporation.

Mr. Malone said that he understands from Senator Butrovich that this is really working a hardship on the contractor. Apparently most of his working capital has been tied up in this project.

Mr. Haugen moved and asked unanimous consent that the bill be reported out of committee. No objection, so ordered. MOTION  
The bill was reported out with a unanimous "do pass" recommendation.

Mr. Malone assigned a subcommittee of Representatives Itta and Buchholdt to write a committee report to accompany the bill.

The committee had a short discussion about their policy toward supplementals. Mr. Malone commented that there is not a great deal that they can do "after the fact" but they can work on doing something before.

As far as the University taking care of all its own construction projects rather than working through Buildings, Mr. Haugen said that the Legislative Council has quite a lot of information on that.

Chairman Malone asked for the subcommittee's report on HOUSE BILL 109 (Supplemental - Chugiak-Eagle River Borough). Ms. Buchholdt said that during the Finance Committee meeting on this bill, the question arose as to whether the proper vehicle existed to moved out this bill. The subcommittee found that the Chairman of Community and Regional Affairs had talked with lawyers who said that the bill could be moved the way it is with no problem. HB 100 although relative to HB 109 is not necessary. Mr. Elliott, Director of Legislative Affairs, said that he understood the vehicle to already be present, and so did CRA staff member Jack Chenowit . Now the problem is what the committee wishes to do. She said that there are four different bills that will be coming in as a part of a whole package relating to the Chugiak-Eagle River Borough.

HB 109

Mr. Cowper did not agree with the interpretation of the law by Messrs. Elliott and Chenowith. It seemed to him the maximum grant had been given already. Mr. Gruening, however, pointed out that the language in 29.18.180(a) speaks of a minimum but not of a maximum. Mr. Cowper wondered if there is some way

2/5/75

the borough can borrow money. He expressed his concern about the legislation increasing the transitional grants from \$25,000 to \$75,000 and said he felt uneasy about making that large a sum available to any organizing borough. He said that he thought it would be much better to make a special appropriation to this borough than to increase the transitional grants.

Mr. Malone wondered how the borough is going to get the balance of the money they need and Mr. Cowper said that they are talking about borrowing money from the state. Since two members of the committee were absent during the meeting of February 4, there followed a discussion and brief summation of the points brought up during that meeting.

Mr. Malone, addressing himself to the question of whether the vehicle existed for making an appropriation to the borough, said that a bill passed carries the force of law, and there needs be no special provision made. Thus he did not feel the committee needs to come in with a committee substitute; however, that is up to the committee, he emphasized.

Reference was made to the preliminary budget outline that Mayor Jordan had distributed in the earlier meeting. Mr. Cowper commented that he thought it was worthless. Ms. Buchholdt mentioned that there are expenses that were not included when Mr. Jordan was listing coming expenses to the committee.

After further discussion, Mr. Malone requested the subcommittee to further study this with special attention to the following matters:

1. Pending legislation on the subject
2. Possibility of loan to fund immediate needs
3. Whether authority exists to lend without special legislation
4. If legislation is required, what form that might take
5. What the immediate needs amount to
6. Recommendation of what action subcommittee feels appropriate
7. Consideration of possible impact on formation of future municipalities

Mr. Malone requested the subcommittee to report back to the committee on Tuesday or Wednesday of the week beginning February 10.

Mr. Gruening suggested that the subcommittee contact the sponsors of the bill.

2/5/75

Mr. Ron Lind of Budget and Management was present at this time to discuss HOUSE BILL 76 (Supplemental - International Airport Facilities). Mr. Lind explained briefly that the reason for this supplemental is that in drafting the bill last year, accompanying legislation appropriating the revenue bond authorization was inadvertently not submitted. He said that what probably happened is that in the drafting process, someone probably looked to old statutes and did not notice the footnote which says that there is temporary legislation, not reproduced in the statutes, to accompany all such bond measures to make the specific appropriations.

Mr. Guy asked if a new legislature is responsible for the actions of an old legislature, and Mr. Malone said no.

Mr. Haugen asked if the bonds have been sold, and Mr. Lind said yes. Mr. Haugen said that then he didn't see there being much recourse, since if the funds are not appropriated, some provision will have to be made to pay back those who bought the bonds.

Ms. Buchholdt wondered whether in writing the actual capital expenditure and referring to the architect for their input it is necessary for the state to cater to the 8 to 10% that they demand. Mr. Malone, adding to that question, asked what kind of in-house design capacity Public Works has, or do they contract for everything.

Mr. Lind said that basically, the Division of Building has only enough people to review the plans submitted by architects and to be sure that contracts are fulfilled. He said that the state would have difficulty hiring very many architects of high capability. If the 8 to 10% Ms. Buchholdt spoke of were not offered, high capability people would have no reason to work for the state.

Mr. Malone asked if the state or the Department of Public Works has investigated the possibility of limited fee contractors, and Mr. Lind said that he did not know.

~~Representative Buchholdt~~ suggested that perhaps the state could hire architects the way the federal government hires consultants. She felt that more of the state's budget goes into this sort of thing than is really necessary.

In response to further questioning, Mr. Lind said that it would be possible to pass a statute stating that the state could not pay more than a 6% limit but there are other statutes according to which the state is required to pay the full cost of care, which is different. In addition, he reiterated the point he had made earlier, that he didn't know how many

people would bid if there were a 6% ceiling.

Mr. Guy asked what effect failing to appropriate these monies would have on federal funds, and Mr. Lind said that basically, the federal funds can only be used for projects actually tied to the runway. The projects being referred to in HB 76 are terminal and parking facilities.

Ms. Buchholdt expressed her concern about the parking study, stating that not only did she find \$50,000 quite a bit of money for a study, but further that she believed in mass transit and felt that it would show more foresight to look at something besides a parking facility to further encourage driving to the airport.

The discussion continued, with the idea of breaking out the expenses to be covered under the bill and omitting the parking study. Mr. Lind noted that with increasing costs, it looks as if some of the project originally intended for this amount will be dropped.

Mr. Naughton moved and asked unanimous consent that HB 76 be reported out of committee. There was discussion on the possibility of including legislative intent with the bill to the effect that the parking study would not be included, but the committee decided against that. There being no further discussion, motion was called for and on vote, motion carried unanimously. There was a unanimous "Do Pass" committee vote. MOTION

The Chairman made announcements of future meetings, and the meeting adjourned at 4:00. ADJOURNED

HOUSE FINANCE COMMITTEE  
Thursday, February 6, 1975  
9:10 a.m.

All members were present except Mr. Haugen; Mr. Naughton arrived later.

PRESENT

The meeting was called to consider a letter drafted to accompany HB 77 out of Committee. Approval of the letter was expressed by Mr. Guy and Mr. Gruening.

HB 77

Mr. Gruening moved to adopt the majority report on HB 77.

Several members did not like to see a cost overrun from the University of Alaska coming into the Committee and felt that more careful planning and management was one way the overrun could have been avoided, and that if there were changes during the construction period they should have done something at the time. Mr. Duncan wanted time to read the back up material that had just been handed out before making a decision.

Mr. Duncan was of the opinion that if there were to write a letter admonishing the University of Alaska perhaps they should also do it to the State of Alaska for the overrun on the airports. The Committee should perhaps accompany all overruns with a reprimand.

Mr. Naughton pointed out that there was a difference in the control of Public Works and the University. The University says the Committee has no say about the use of money that is taken from the State of Alaska and given to them. The Chairman said that they lapsed about 19 million dollars last year but there was no appropriation for cost overrun. Mr. Duncan countered that there was control over Public Works but they were still coming back for a supplemental appropriation and should be told they will be looked at very hard. Mr. Gruening agreed with making it a policy to reprimand. Ms. Buchholdt suggested that Mr. Duncan draft a accompaniment to HB 76 only in stronger language.

Mr. Duncan moved to amend the main motion that this report not accompany the reporting out of the bill but that the Committee draft a letter to the University of Alaska advising that the House Finance Committee was concerned, and would delve into the cost overrun in depth when they appeared before the Committee. He felt they should have a chance to reply before a report appears in the Journal. After brief discussion the roll was called. The amendment to the motion failed with a vote of five against three for, Messrs. Duncan, Cowper and Malone for the amendment.

Mr. Duncan made a motion to defer action on the first motion until they could see if Mr. Holden could be reached to appear.

It was understood from Mr. Guthrie that he was in town for another meeting and might be reached.

HB 77

Ms. Itta objected. Mr. Cowper spoke in favor of the motion; he said the Committee should be sure of what it was talking about; that the text of the decision fairly well explained what the cost overrun was but not why.

The roll was called with 7 in favor, 1 vote against, one member absent. The motion to defer action carried. Mr. Guthrie was asked to locate Mr. Holden, who is in charge of construction and construction systems for the University.

Mr. Naughton was assigned to carry House Bill 103 on the floor and Chairman Malone will carry Senate Bill 47.

HB 103  
SB 47

Consideration of a letter drafted by Mr. Gruening to accompany Senate Bill 87 was taken up. Mr. Cowper expressed the desire to ad a blunt statement to the end to say that the Commercial Entry Commission has asked for money because their forms are too complicated and we object but will grant it because of the impact on the people involved.

Because of lack of time, it was decided to reconsider this letter during the afternoon meeting, along with subdivision of the Justice and Public Protection, and General Government and Development subcommittees, as well as hear what Mr. Holden had to say about the University of Alaska cost overrun.

The meeting was recessed at 9:50 a.m.

RECESS

AFTER RECESS  
1:15 p.m.

All members were present except Mr. Guy. Others present were Representative Kathryn Ostrosky, staff and press. Mr. Holden arrived later.

PRESENT

Rich Guthrie, Fiscal Analyst gave the Committee a brief background on Mr. Holden: He worked as an architect in Fairbanks but became concerned that the State was getting taken so he quit his job, took a cut in pay with the sole purpose of getting more for the State's money. Mr. Guthrie briefly covered the new system Mr. Holden has developed for construction systems on the University campus.

Mr. Holden arrived and was asked to explain what the reason for the cost overrun had been and to explain how it had occurred. He replied that the cost overrun had happened under the old construction system and were partly due to a change order, after which the contractor wrote on the bottom that he "reserved his rights". Then he sued for 1.2

million dollars because he lost profit. It was finally settled by arbitration for \$393,000 plus costs. He mentioned another incident in which they were sued for 2.6 million dollars because the building was designed too hard to build. After these and similar experiences they developed techniques based on performance--they classified tasks people should perform, and have not had a claim on a "systems" building. They are paying less in fees because the architect can work faster. \$750,000 was spent in learning how to do this, but management and planning are now having more success.

On Wood Center they had a bid of 3.3 million; it ended up costing 3.5 million and 140,000 for furniture. Their bond issue was for 4 million. These revenue bonds are backed by student fees. The bill was passed in 1969, and bought by the Legislature in 1970. Mr. Holden did not know the current status of the consolidated fees fund, but they had to keep \$300,000 in it at all times.

The function and use of Wood Center is mainly recreational room for students and teachers. There is a food service operation, bowling alley, meeting rooms and banquet rooms. In introducing the "systems" program, he made some political mistakes, the contractors were scared and he could have avoided some flak by talking with them first but probably would still have met resistance. The pre-bid session had very good attendance, and the contractors are making money with the system. There has been no particular response by the user group--they are getting the usual product but getting better more reliable performance.

The square foot cost is about the same; the big buildings may save a little, but the main worry is not the "first cost", or the initial cost of building. Mr. Holden outlined in detail his "Life Cycle Costing" or utilization analysis. This takes into account the initial cost for building the structure, plus the maintenance and operation for the life of the building, plus the cost of persons employed inside the building. With this the Legislature can see what the impact to the State budget is in the long run. If one looks at only the first cost, it is not an accurate picture.

In answer to Rep. Gruening, he said that every square foot on the University, including rental space, lease space was listed on the computer inventory. Existing space was always looked at before plans to erect a new structure were begun, though it often cost more to remodel.

The user factor enters the picture three times during the time of planning, designing and building. On one building about 240 hours of user time was involved, with untold arguments.

Mr. Holden mentioned one problem; that the project manager is only paid \$23,000, and he has to have para-legal knowledge, and know about structure and finance. Two other positions of the same caliber paid \$38,000 and \$50,000 for the same job.

HB 77

The Chairman requested a narrative project outline of a recently completed project, with descriptive steps throughout the entire process; what happened at each step through the building project and what happened in the end. Mr. Holden will submit this report in the next two to three weeks.

After a brief discussion, it was decided by the Committee that the letter drafted to accompany HB 77 out of Committee would not be sent.

Another draft of a letter on Senate Bill 87. Mr. Cowper proposed an addition to Mr. Gruening's letter. There was no objection and Mr. Malone said he would prepare a new draft of the combined letters and re-submit it to the Committee.

SB 87

Mr. Gruening suggested that if the deadline was extended the Commission should consider an interim permit. He felt the extension was necessary.

The meeting was recessed at 2:45 p.m.

RECESS

AFTER RECESS  
2:50 p.m.

Chairman Malone called the meeting back to order, and announced that HOUSE BILL 82 (Supplemental - Department of Administration, longevity increases) was before the committee for discussion. Director of Budget and Management Kent Dawson and Deputy Director Ron Lind were present at this time.

HB 82

Mr. Haugen asked when the APEA contract presently being negotiated will be signed. Mr. Dawson said that he did not know, but that he would guess a couple weeks. Mr. Haugen thought that the committee should hold off action on this bill until they see what the new contract is.

Mr. Lind said that this supplemental is for court-ordered payment of retroactive longevity bonuses in the supervisory unit. This does not relate to the present negotiations.

Mr. Malone referred to his memorandum sent to Budget and Management which had asked for a fair estimate of the amount of interest due on the longevity increment, how many people will be receiving payments, how many still work for the state, and how many are involved in each agency. He had before him Mr. Lind's reply to that memorandum, which indicated that the total estimated interest due as of February 1, 1975, is \$65,467. That amount plus any additional interest until time of payment, must be added to the \$482,000.

Mr. Duncan asked if the \$482,000 principal figure is correct. Mr. Lind said the figure will be fine, if the committee changes the \$490,600 figure which was in the original bill. He said that it is possible that there will be some adjustments, for some additional employees to turn up, but that it has been two or three months and he felt the agencies have had sufficient time to report their personnel. Mr. Dawson said that they are willing to "hang their hats" on this figure, stating that should any adjustments be necessary, the Department should be able to handle it. He also apologized for the change from the original bill, stating that an error had been made in the original computation.

In response to questioning by Mr. Naughton, Mr. Lind explained the breakdown given in his memorandum of February 5. There are, in addition to the 394 employees still working for the state, 47 persons who have retired and should have received the additional increment while they were working.

Mr. Lind also mentioned that there will be some minor adjustment in retirement for those people.

Mr. Naughton asked about the 20 persons terminated. Mr. Dawson, by way of explaining that question and the other personnel groups, stated that what had happened in this matter was that there were a number of employees who the state administration said did not qualify for the longevity increments. The matter went to court, and the court said they did qualify. Therefore, all of those people are due payment. This includes not only those presently employed by the state, but also those retired, those terminated, and the estates of those deceased.

Mr. Naughton noted that 203 of the employees involved are Department of Highways personnel, and, noting the large number of federal programs in Highways, he wondered if perhaps that Department couldn't come up with some of the funds. Mr. Lind said that the majority of the 203 employees are maintenance employees who are not paid under the construction fund. The few people who would be in the construction program would be engineering types, and there is a very high turnover there. In addition, the federal government has terminated most of these projects, and so the accounts would have to be opened by special audits.

Mr. Duncan suggested that the committee propose a committee substitute in which they would break out the principal and interest. Mr. Malone said that the thing to keep in mind is that the interest changes daily. Mr. Duncan said that then the committee could appropriate a little bit over what the interest would be figured for now, adding interest for however long they anticipate it taking for payments to be made. Mr. Lind noted that should the bill be passed immediately, it will take a certain amount of time for the payments to be made. At this point, it would take a couple weeks because the rolls are not made up. They expect that to be done by February 20. After that, it will take about a week unless passage of the legislation coincides with the monthly payroll, in which case it will take a couple weeks.

The committee discussed amending the bill to change the figure \$490,600 to the corrected figure of \$482,000.

Mr. Haugen moved the bill out of committee. Mr. Naughton objected for purposes of discussing the proposed amendment. Mr. Haugen withdrew his motion. After brief discussion, Mr. Naughton moved that the bill be amended on line 10, to read \$482,000 rather than \$490,600. No objection, so ordered.

MOTION

Mr. Naughton proposed changing the language on the 8% interest. After discussion, he agreed that it was unnecessary.

The committee decided to handle the amendment in the form of a committee substitute. Mr. Naughton moved that the Finance Committee Substitute for HB 82 be reported out of committee. No objection, so ordered. The bill was reported out of committee replaced by a Finance committee substitute with a unanimous "do pass" recommendation.

MOTION

The question of procedure on subcommittees was raised and the meeting formally adjourned at 3:30 p.m. to go into informal discussion.

ADJOURN

SUBCOMMITTEE  
HOUSE FINANCE COMMITTEE  
Wednesday, February 5, 1975  
8:30 a.m.

HB 109

This meeting of the Special Subcommittee to hear HB 109 was Chaired by Representative Buchholdt. Other members present were Messrs. Haugen, Cowper, and Guy. Presenting information on HB 109 were Mr. Lee B. Jordan, Chugiak-Eagle River Borough and Mr. Norman J. LeVesque, Greater Anchorage Area Borough. Representative Ramona Kelley arrived later.

This Subcommittee met to hear further information on HB 109, "An Act making a supplemental appropriation to the Department of Community and Regional Affairs for the Eagle River-Chugiak Borough; and providing for an effective date." (\$50,000).

Mr. Jordan said his budget is broken down into three priorities: The first included salaries, equipment and supplies and the superintendent and was approximately \$90,500; the second category contained items necessary but not critical; and the third had items that they could get along without.

HB 109 asks for an additional \$50,000 making a total of \$75,000; the difference of \$15,500 would have to be raised through individual donations or bonds. Various residents have contributed about \$4,000 to help in the defense.

Mr. Haugen was in favor of the Bill, but said that if they needed additional funding over \$75,000 from the state, would like to see it done on a loan basis, so that irregardless of the law suit, they would still have an obligation to the State. Mr. LeVesque said that there could be a provision that if the law suit reversed, that the area would still be part of the Anchorage Borough and the Service Area would still be liable for the cost.

Mr. Jordan felt the court decision would be made before very much of the money was spent, and if an adverse decision did come down from the Supreme Court the money on hand would lapse.

Mr. Jordan elaborated on the total legislative thrust they were after: The transitional grant available to all Boroughs should be increased from \$25,000 to \$75,000. They have other costs around \$60,000 that are a direct result of the legislation itself. The other costs are

2/5/75

organizational. The thrust could be an appropriation and then an additional appropriation to meet costs that will arise from legislation. In one case the money is given, in one case it is reimbursed. There could be a provision to make it possible to borrow an additional cost of approximately \$100,000. The amount of money being asked for is \$110,000 and the ability to borrow the remainder.

There was a brief discussion of other Boroughs wanting to split away from existing ones. The North Pole Borough was named as wanting to separate from the Fairbanks-North Star Borough, but Mr. Cowper didn't think this was in the next year. Ms. Buchholdt said she could see the trend developing.

Mr. Haugen commented that "hasty legislation comes back to haunt you." He felt the State was obligated to correct its mistakes; it is too bad the legislation was passed last year. He is in favor of increasing the \$25,000 to \$75,000, with the additional money on a loan basis.

Mr. LeVesque hoped that if there was any provision for a loan, that it be for a time period of more than one year; preferably four years.

Representative Kelley reviewed the four bills pertaining to the Eagle River-Chugiak Borough: (1) The \$50,000 appropriation; (2) for organizational costs; (3) \$25,000 for a Methodology Study; and (4) \$100,000 to cover the cost for applying the method. The \$100,000 would not be introduced until the study had been done and they knew how much they would need.

Mr. LeVesque said a primary concern is the splitting of the assets and liabilities. The study would provide the State with methodology which could be used in the future.

Ms. Kelley pointed out that there is no vehicle for actually receiving the money if the bill is passed.

The Subcommittee meeting was adjourned at 9:00 a.m.

ADJOURN

HOUSE FINANCE COMMITTEE  
Monday, February 10, 1975  
1:30 p.m.

All members were present except Messrs. Guy, Haugen, and Naughton. Others present were Leland T. Dalby, Director Employment Security Division, Robert Anderson, Department of Labor, Dwayne Carlson, Employment Security Division, Senator Patrick Rodey, and staff.

PRESENT

This meeting was to consider Sponsor Substitute Senate Bill 36, "An Act relating to extended unemployment compensation".

SSSB 36

Senator Patrick Rodey, the prime sponsor of the Bill briefly told the Committee that this was a "housekeeping" bill; that unemployment compensation benefits have been increased from time to time as more money is available and needs legislation to take advantage of it. Four million dollars is now available for extended unemployment compensation that is desperately needed. The cost to the State will be around \$900,000 to get 4.0 million. He mentioned the "on" and "off" triggers in relation to unemployment figures.

Mr. Robert Anderson, urged passage of this Bill. The cost estimate is \$998,000 to come from the regular unemployment trust fund. The actual cost to the State will be about \$10,500, to cover workers at the University of Alaska, State hospitals who are on a reimbursable basis; this amount from the General Fund. This extension will enable a person to collect benefits for a total of fifty-two weeks.

Mr. Carlson explained this Bill will benefit those workers who have been unemployed and have exhausted their benefits, but who through no fault of their own are still unemployed.

Chairman Malone inquired about the urgency of time in regard to the Bill. Mr. Anderson explained that the "on" period would trigger January 1, and the first compensation-able week would end January 25. They are three weeks past that, and would like to get the claims rolling; however they have not taken any claims in anticipation of the passing of this Bill. Mr. Dalby pointed out that it is almost an impossible task to go back and pick up the people who were eligible.

The Chairman said he would like to report the Bill out, or if the Committee did not want to at this point he would appoint a subcommittee to look into it further.

Mr. Gruening asked about similar bills introduced last session and Senator Rodey said there was a bill approved last year to take up two changes in the federal unemployment law, and there will be possible additional bills as the policy is changed and provides us with additional money.

SSSB 36

Ms. Itta moved to move SSSB 36 out of Committee; there was no further discussion; no objection and it was so ordered. The bill was moved out of Committee with a unanimous "Do Pass" recommendation.

MOTION

The next item taken up by the Committee was a hearing on the Human Rights Commission. Making the presentation were Ms. Lisa Rudd, Human Rights Commissioner and Neil Thomas, Executive Director of the Commission. Others present at this time were Senators John Rader and John Butrovich; Representatives Willard Bowman, Bill Parker, Charles Parr, and Tim Wallis; Sumner Putman and Betty Ramage, House State Affairs; Peggy Shaft, House Rules; Joe Sonneman, Politalk; Elain Mitchell, Alaska Public Radio; and Robert Van Haute, NEA Alaska. Several staff members were also present.

HUMAN  
RIGHTS  
COMM.

PRESENT

The meeting was turned over to Rep. Buchholdt, Vice Chairman of the House Finance Committee.

Lisa Rudd was introduced and told the Committee that she had been appointed last February for a five year term, but had also served from 1967 to 1970 and had been familiar with the actions of the Commission since 1963. There is a great deal of confusion in the public mind as to whether the Commission is to function as an educational agency, a community involvement agency, or to resolve complaints of people who feel they have been discriminated against. The Commission primarily receives and resolves complaints of discrimination by the citizens of Alaska.

The Commission gave Mr. Thomas directions to: immediately try to cut down on case backlog on a crash basis; to train investigative staff to be able to handle cases; to possibly change regulations to give a more legal tenor to the hiring of professional hearing examiners; to give any recommendations for streamlining the operation and administration of the Agency. The first thing he did was get an internal audit of the books.

Rep. Bowman expressed concern about the influx of outsiders and the Commission's consideration of what this impact will be and their plans for working in this area to ease social frictions; also if they anticipated working with Chuck Champion's office and Alyeska. He said there are tense situations developing and camp life has to be looked into.

AFTER RECESS

1:35 p.m.

All members were present with the exception of Mr. Guy.

PRESENT

Chairman Malone called the meeting back to order. HOUSE  
BILL 80 (Supplemental - Supervisory Unit Employees) was  
before the committee at this time.

HB 80

Mr. Malone expressed the feeling that before handling all  
the pay increase legislation, he would like to get a clear  
picture of what the impact on the state budget is going to  
be.

He referred to Ron Lind's letter of February 5 addressing  
itself to some of the committee's concerns about HB 80.  
Committee sentiment seemed to be that the letter was not  
really clear and they would like to discuss it with Mr. Lind  
in person.

Committee recessed at 2:00 to go into Joint Session on the  
Floor. The Chairman announced that they would reconvene  
following adjournment of the Joint Session.

RECESS

AFTER RECESS

3:11 p.m.

All members were present with the exception of Messrs. Guy  
and Haugen. Also present was Ron Lind of Budget and Manage-  
ment, and legislative staff.

Chairman Malone called the meeting back to order. HB 80  
was still before the committee.

HB 80

Mr. Malone asked Mr. Lind to clarify some of the points  
in his February 5 letter.

Mr. Lind said that in figuring the costs per the negotia-  
tions, after having added filled and vacant positions to  
come up with the \$1,798,465, figure, he subtracted the  
Special Funding and Bond Funds to come up with \$1,039,161.  
He stated that the \$594,000 includes 75 vacant positions  
and so the \$1,039,000 figure includes only 66 vacant posi-  
tions. He said that the 75 vacant positions in the bond  
funded area do not require funding through this bill.

(These figures are found in the bill file for  
HB 80, page entitled "Caluculated Costs Supervisory  
Negotiations)

2/11/75

Explaining the points in his memorandum further, Mr. Lind said that the entire state budget is based on the idea of full funding and a clause is put in the appropriation bill each year restricting a certain percentage of the personal services to insure that these monies are not used for other purposes.

Mr. Naughton asked Mr. Barker, fiscal analyst, for more clarification. Mr. Barker said that in theory that is correct. The House has historically subscribed to this theory of full funding with a percentage amount held back which will not be given to the department unless vacancy level is lower than anticipated. However, he said that the Senate has not necessarily subscribed to that and has reduced the personal services appropriations by an arbitrary vacancy and turnover factor.

Mr. Lind said that because he knew there was extra funding because of vacancy, he did not cost out the minor costs involved in this bill.

(Mr. Haugen came in.)

Mr. Malone asked about point 2 in Mr. Lind's memorandum giving items that should be considered before a 10% reduction (approximately the 66 vacancies under discussion) is made. Mr. Lind said that basically that comment ("A reduction of the estimated cost would understate the budget impact) is a continuation of the first point, which explains the vacancy restrictions. He said that it is the Division of Budget and Management's feeling that a request for a supplemental should be based on the same premise as the original budget.

In response to a series of questions by Mr. Malone, Mr. Lind stated that actually they are attempting to cover some additional costs through this supplemental. Last year the legislature funded the general government employees' pay increase at 90%, because they knew there were vacancies in the state. Since that time, there was a 4% cost of living increase which was not funded and there will be another cost of living increase in February. Since the general government employees' increase was not 100% funded, they can't fall back on that to make up the cost of living increases. Therefore, they are asking for 100% funding for the supervisory employees' pay increase with the idea that some of the vacancy money can be used to help alleviate the situation caused by these other increases. He emphasized that this money will and can only be used for personal services, because spending has been tightened up to prevent transfer of funds out of personal services and into the other line items. Exceptions to this are if a position is

deleted or someone is hired under contract rather than out of personal services.

HB 80

In response to questioning by Mr. Barker, Mr. Lind said that they are now considering coming in with a supplemental to bring their present 80% funding (90% less cost of living increases and some minor items have brought the level of funding down considerably) up to 90%.

Mr. Haugen asked if it is correct that the cost of living increases do not require legislative appropriation. Mr. Lind said yes, but that is because the legislature itself passed specific legislation last year.

Mr. Haugen asked what the cost of living increase in February will be. Mr. Lind said that they will not know until around February 20, but it will probably be between 4 and 6%. Mr. Haugen asked what will happen if they don't have enough to pay the cost of living increase. Mr. Lind said that he would assume they would start paying it and then come in with a supplemental.

Mr. Malone asked if the budget for FY 76 includes the cost of living allowances. Mr. Lind said that it contains increases through the August cost of living increase. It does not include the supervisory employees' increase, the community college supplemental, the February cost of living increase or the general government increase, cost for neither of the last two having been determined yet.

Mr. Lind said that the 15% increases not involving cost of living should amount to approximately \$2.3 million general fund in 1976, so there will eventually be an amendment to the budget requested. Mr. Gruening asked if this will come in as a supplemental, and Mr. Lind said no since this is for the 76 budget; changes to the 75 budget will come in as supplementals, however.

Meeting adjourned at 3:40 p.m.

ADJOURN

HOUSE FINANCE COMMITTEE  
Wednesday, February 12, 1975  
9:05 a.m.

All members were present with the exception of Messrs. Naughton and Gruening. Also present were Dr. Armen Sarafian of McLean Associates, Dr. Robert W. Hiatt, President of the University of Alaska, Dr. Don Dafoe and Mr. Max Hullinger from the University of Alaska, Senators Chance and Poland, other interested legislators, citizens, staff and press.

PRESENT  
  
INTERIM  
COMMITTEE  
ON  
HIGHER  
EDUCATION

Chairman Malone called the meeting to order. He said that the meeting was to discuss the work of the Legislative Interim Committee on Higher Education. He invited Senator Chance to comment.

Senator Chance said that four years ago the Legislature created the Special Education Subcommittee on Higher Education to work with the University of Alaska, Alaska Methodist University, and Sheldon Jackson. The subcommittee contracted with McLean Associates as advisors. She said that Dr. McLean, who was their main contact, met an untimely death a few months ago, but that Dr. Sarafian completed his work and was present to testify before the committee.

Dr. Sarafian said that in reviewing the reports of the last four years they felt that great strides in higher education in Alaska have been made. Significant this year was the \$39 million bond issue. He said that there were some negative things - AMU finding it could not financially continue and announcing that it will be closing its doors. He mentioned that there are negotiations between AMU and the University of Alaska about the AMU properties. The University of Alaska assessment has been done, and the AMU assessor has just come in with an assessment but he hadn't heard what it was yet so didn't know the difference between the two. He said that there are some things going on in higher education in Alaska that are really significant. He mentioned the consortiums functioning at Sheldon Jackson, AMU and the University of Alaska in Anchorage, noting with interest how well people have been able to share facilities. The community colleges throughout the state seem to be advancing, and he especially mentioned the Tanana Valley Community College and the community input on that. He said that more developing of higher education in the rural areas is needed, and referred to a report by Lisa Rudd for the Alaska Federation of Natives, Inc., entitled Higher Education and Adult Education Needs in Rural Alaska. He felt the report was an excellent and very valuable study of

2/12/75

the situation in rural areas of the state. The University of Alaska is working with the native corporations at this time to try and fill some of those needs. He said that the delivery system for education throughout the state is being examined, and he spoke of facilities at Bethel and the University of Alaska that could be used more effectively.

He mentioned that there are two bills that he considers urgent - SENATE BILL 161 (Act relating to the regulation of postsecondary education institutions) and SENATE BILL 162 (Act revising the Community College Act).

SB 161

SB 162

He said that there is a good deal of fraudulent activity in education, and that Alaska is particularly vulnerable to that.

Referring to AMU's closing, Dr. Sarafian said that there is a professional committee between the University of Alaska at Anchorage and AMU examining the factors involved - including handling of students and faculty from AMU.

Senator Chance asked what the status of the negotiations between AMU and the University of Alaska on the property is. Dr. Hiatt, President of the University of Alaska, said that the University of Alaska had an appraisal made, and was given a \$19 million figure for properties, land and improvements.

(Mr. Malone left at this time and Ms. Buchholdt assumed the chair.)

In response to questioning by Mr. Cowper, Dr. Hiatt said that AMU felt that the \$19 million appraisal was too low and are having their own appraisal made. He suspected that eventually a third appraisal will have to be made.

Mr. Cowper asked for more information about the land dispute between the two universities. Dr. Hiatt said that there is a question, and he was not sure he should be discussing it. It goes back to the original land grant and other land patents involved. Senator Steven's staff is looking into this, but the University hasn't gotten a report back.

Dr. Sarafian said that the Attorney General was asked for an opinion. It was nothing too definitive, however.

Mr. Haugen asked when AMU is tentatively scheduled to close, and Dr. Sarafian said that they had announced a June 30, 1975, closing. However, he has talked with them lately and they are going to have a serious cash flow problem because their enrollment did not reach their expectations. It appears they may need \$1 million in order to keep themselves balanced.

Mr. Haugen asked what is going to happen to the nursing program. Dr. Hiatt said that the facilities transfer is being handled by teams of the Board of Regents of the University and the Trustees of AMU. They have been working on the transfer of students, programs, and staff. In general, they have decided to transfer everything they possibly can. They have many programs at AMU that will be quite easy to transfer. They do have a number of work/study (cooperative) programs which the University of Alaska does not have much of but will try to at least keep up for the students presently in those programs. They had heard from AMU that only about 30 faculty members wished to transfer to the U of A, but they have found that of about 60 faculty members only a couple do not want to transfer. There will be some problem with this because of the differences in teacher/student ratios between the two institutions (U of A, 1 to 15, AMU, 1 to 5 or 6). He said that he recommended to the administration of AMU that if they are planning to set up an educational foundation for funds from the sale of property, that they might subsidize the University's program until their students are through.

Senator Chance asked if the transfer will create a problem in maintaining accreditation for the nurses training program. Dr. Sarafian said that the Anchorage Community College now has a licensed nursing program. It is just for an associate degree whereas the AMU program leads to a baccalaureate. It will be easy for the University to absorb the nursing program. He said that the University will have to look carefully at the type of thing that AMU was doing where nurses had the opportunity to get field and work experience out in the villages. How this is handled will be more significant than the question of accreditation and transfers.

Senator Chance asked if there will be no gap in accreditation, then. Dr. Sarafian said he saw no reason for their being one.

Senator Chance asked how many students they are discussing in this AMU transfer. Dr. Sarafian said that they budgeted for about 500, but their enrollment this fall was 423 and is 380 presently.

Senator Chance asked what the division between upper and lower division students is, trying to get an idea of how many students would be being absorbed into the U of A system so as to be able to determine their impact. Dr. Sarafian did not know.

Mr. Cowper asked about the impact of the Pipeline on U of A student body male/female ratio. Dr. Dafoe said that actually, in Anchorage this year they had some decline in females. He said that where the impact of the pipeline is felt is with the faculty.

Asked if there was still an increase in enrollment in the past fall semester, Dr. Hiatt said yes. In the spring, also, their projections have proven quite accurate. Anchorage showed quite a precipitous drop, and he supposed ~~that~~ was because of people going to work due to inflation.

Mr. Guthrie said that it had been his impression that there were no formal negotiations on the property sale, and he thought that testimony in the meeting was contradicting that. Dr. Hiatt said that he did not know if they would be called "formal" or not, but there have been several meetings between the trustee groups.

Dr. Sarafian said that on December 18, the subcommittee met and mapped out a process which involved the first step of getting an appraisal. Once appraisals have been made, negotiations can really begin.

Mr. Guthrie thought that one thing the legislature might concern itself with is whether there will be tangible results from these negotiations in time for the legislature to look at them before the session ends. He felt it would be imperative for decisions on purchase and sale to be made early enough that the legislature will have ample time to figure out finances.

Ms. Itta, referring to the University Without Walls in Barrow, told Dr. Sarafian that she would very much appreciate it if his firm worked in close coordination with the people concerned in taking a look at this. Dr. Sarafian said of course they would do so. He mentioned that one question raised over that college is the question of whether or not "public university" will imply the University of Alaska.

Meeting recessed at 9:56 a.m.

RECESS

AFTER RECESS  
11:05 a.m.

Chairman Malone called the meeting back to order with all members present with the exception of Reps. Buchholdt & Gruening who entered later. Also present at this time was Mr. Mark Ertischek, an attorney with the Department of Law. PRESENT

Purpose of the meeting was for discussion of HOUSE BILL 80 (Supplemental - Supervisory Unit Employees). Mr. Malone told Mr. Ertischek that the committee was concerned about how much the statutes are subject to change in the course of negotiations -- what is the scope of negotiations in changing the law. HB 80

Mr. Ertischek said that the whole area is complicated. He said he could not give a definite answer that would hold in any conflict. In general terms, however, AS 23.40.070-23.40.260 seems to have provided by rather clear implication that clauses in a negotiated settlement can supersede statutes. He said that a number of clauses in that act lead him to make that conclusion - under AS 23.40.070, the wording "requiring public employers to negotiate with and enter into written agreements with employee organizations on matters of wages, hours, and other terms and conditions of employment;" for example. He further stated that the only limit in the Public Employee Relations Act is in AS 23.40.070 reading "(3) maintaining merit-system principles among public employees." That was the only limiting statement in the bill.

Mr. Ertischek said that this bill in its substantive provisions is largely taken from the National Labor Relations Act. That has been extensively litigated over the past 50 years. He said that Alaska's act was passed in 1972 and that certainly any law before that would certainly be considered to have been repealed by implication. He said that where there is a specific conflict as to limitation and limitation is in an existing statute, he would say that that limitation would be considered to be repealed.

(Ms. Buchholdt entered the meeting.)

There is another potential source of problems, Mr. Ertischek continued, and that is potential future statutes. There the question becomes different. The rule is that when there is conflict between statutes, it is considered that the later statutes repeal the former. That is only when there is a very direct conflict, however.

Mr. Ertischek remarked that this still leaves one area untouched:

what about when an agreement is entered into under the law and is in force, but then a specific statute is overturned, against that agreement. Here Mr. Ertischek said that the law often distinguishes between legal rights and remedies. The legislature can limit remedies or change them. The state would be limited from "tearing up" a contract, however. (That is to say, the state could not limit a right.) A substantive obligation under a contract could not be altered by the legislature. However, specific legislation preventing future agreements of that kind could be passed. He noted that there is also a limit on the life of a contract under the Act. HB 80

Mr. Malone asked if it is correct then that the legislature could repeal the collective bargaining act if they wished as long as they did not alter present contracts and waited until they expired, and Mr. Ertischek said yes.

There was discussion about the question of state obligation under contracts. Mr. Ertischek said that there is a constitutional prohibition against the state's being obligated. Mr. Naughton asked what the effect of that constitutional provision is on the language of the bill saying that the wages are not earned until the legislature appropriates them. Mr. Ertischek said that the legislature cannot be required to appropriate any particular amount. On the other hand, he noted that with regard to something like the accumulation of leave, that is a valid clause and a bill could not be passed to delete that clause.

In response to continued questioning by Mr. Naughton, Mr. Ertischek said that in his opinion the legislature could not be required to appropriate any specific amount of money, regardless of the contract signed. What would happen is that there would be no remedy for the legal rights of those people being paid. The contract would read that the certain amount was to be paid but the state administration could not be forced to pay that if the legislature did not appropriate it. He said that this is a legal inconsistency, but it is not uncommon. There are many times when there are legal rights with no remedy.

In response to questioning by Mr. Duncan, Mr. Ertischek said that the law provides that bargaining must be done in good faith and an agreement entered into. There is also a provision in the statutes (23.40.210) which says "Upon the completion of negotiations between an organization and a public employer, if a settlement is reached, the employer shall reduce it to writing in the form of an agreement." He stated, though, that even though this agreement is in writing, it is clear that the Department of Administration is not free to carry out every element of the agreement.

Mr. Ertischek was asked if in agreements not involving money if the Administration could go ahead without the legislature's ratification, and he answered yes.

HB 80

Ms. Buchholdt asked if it is correct that in any kind of judgment before the state, the legislature does not have to appropriate money if it does not want to. Mr. Ertischek said that the problem has never been specifically dealt with in the State of Alaska. It has been dealt with in federal law and it was decided that the federal government cannot be forced to appropriate funds.

(Mr. Gruening entered the meeting.)

He said that there have been cases where municipalities have been ordered by courts to come up with funds but he said that to his knowledge there has been no case where a state has been so required. He said that there are differences between cities and state governments and state governments are historically viewed as analagous to the federal government, and so could not be forced. The matter has never been decided in Alaska, and he said he could only point to decisions of the Supreme Court to buttress his opinion.

Mr. Haugen asked if it is clear that the legislature has to appropriate the money before it is spent, and Mr. Ertischek said yes, there is no question. Mr. Haugen said that then the legislature can decide that perhaps the administration did not bargain in good faith. Mr. Ertischek said that they could decide that.

Mr. Malone asked if the legislature thought there was not good faith, would they then bring suit. Mr. Ertischek said no, they would just fail to appropriate the funds.

Mr. Ertischek said that some problems arise from the fact that the National Labor Relations Act (on which the Alaska act is based) is geared to bargaining in the private sector.

Mr. Rhodes raised a question about the recent Tri-Trades agreement stipulating that any temporary employee serving more than 120 days is deemed a permanent employee. Mr. Ertischek did not know about that, and without looking into it did not feel qualified to make a definite statement. However, he said that it seems to him that such a provision might impose some limitations on the merit principle and so would be in violation of AS 23.40.70(3).

In response to questioning by Mr. Duncan, Mr. Ertischek read from Article XVIII of the supervisory agreement which states

that "If there is any conflict between the terms of this Agreement and any personnel memoranda or rules of the merit system, the terms of this Agreement shall supersede those memoranda or rules in their application to the bargaining unit." Mr. Duncan felt that this was in conflict with 23.40.070(3). HB 80

Mr. Ertischek said that there could be potential conflict. It would depend on the subject as to whether there was conflict with merit principles. Not every question dealt with is a specific merit system principle.

Mr. Rhodes asked if the legislature could enact a statute stipulating that a wage increase for FY 76-77 could not exceed 15%. Mr. Ertischek said that they could amend the Public Employees Bargaining Act and limit the agreement.

Meeting recessed at 11:42 a.m.

RECESS

AFTER RECESS  
3:30 p.m.

All members were present with the exception of Reps. Buchholdt Haugen, and Cowper. Also present were members of the staff.

PRESENT

Chairman Malone called the meeting to order for the purpose of again considering HB 80. There was brief discussion of the pipeline delay and its impact on the state financial picture. Mr. Malone briefly left the room and in his absence Mr. Naughton assumed the chair.

Following Mr. Malone's return to the committee room, he resumed the chair and committee began discussion on HOUSE BILL 80 (Supplemental - Supervisory Unit Employees).

HB 80

Mr. Gruening suggested taking the 10% vacancy factor out, since he felt that according to Mr. Lind's letter this wouldn't hurt them. Mr. Duncan said that he understood the testimony to be that the Senate last year had done this, and that taking 10% out of the supplemental would be a further reduction.

Mr. Hogan was asked to clear this up. He said that in the setting of Senate figures on some of its budgets they take out a certain amount for Vacancy and Turnover -- not consistently, but fairly consistently. Mr. Lind said that part of their full funding of this bill would go to cover some of those changes, according to Mr. Hogan. He further explained that in HB 80 they are trying to cover shortages from the original appropriation of last year, shortages from the August cost of living increase, and from this particular contract. It would have been cleaner to have split out each part of this.

Mr. Naughton said that as he read Mr. Lind's letter, he felt it said they got caught having to back up the 141 vacant positions, and are admitting that they asked for more money than they need. He read the letter to say that the legislature could reduce the figure by 10% to account for the vacancies. Mr. Naughton MOVED that the 10% figure be subtracted from the totals. There was discussion on the motion. Mr. Duncan was still unsure about the 10% and didn't want to see them shorted if this was money that they needed. Mr. Malone read the section of Mr. Lind's memo stating that "The total request and the funding from each source could be reduced by 10% to account for these vacancies."

MOTION

In response to questioning by Mr. Duncan, Mr. Hogan said that they honestly do not know how much money they are going to need for salaries plus all of the increases. The reason they don't know is that at the end of the year they know what people will need added from the generalized salary increase -- they will start "feeding" that into the budgets as people run out of their present funding. They are, in a very real sense, "operating blind". That is why they have difficulty coming up with information. For example, it has been three or four months since he has gotten the operating balance for his own relatively small agency. They might get along with 90% funding -- but they cannot say.

HB 80

Mr. Gruening asked if they have calculated the cost of living increase in any of their figures. Mr. Hogan said that that's on top of the cost of living. HB 80 addresses itself to the supervisory increase. Any cost of living increase coming out now will be on top of that. He mentioned that they may come in with an amended budget request for the new increases before the session ends.

(Mr. Haugen entered the meeting.)

Question was called on Mr. Naughton's motion to cut the figure and funding sources by 10%. No objection, so ordered.

Mr. Naughton moved to report the bill, with a committee substitute giving the figure as \$1,510,830, out of committee. Objection was heard. There was discussion on the political tactics of keeping this bill in committee or reporting it out. Some members questioned the wisdom of passing this bill while negotiations for a new general government contract are going on. It was mentioned that the bill could be held in Rules. After further discussion of the strategies involved, Mr. Naughton withdrew his motion.

MOTION

MOTION  
WITHDRAWN

Mr. Guy said that he would like an opinion from the Attorney General's Office on Article XVIII of the Agreement, referred to in this morning's meeting.

Mr. Malone said that perhaps the committee would be wise to bring in some of the negotiators for management and discuss this with them.

Final committee decision was to table this bill at present. Meeting adjourned at 4:30 p.m.

ADJOURNED

HOUSE FINANCE COMMITTEE  
Thursday, February 13, 1975  
8:40 a.m.

All members were present except Mr. Cowper; Mr. Gruening arrived later. Also present were Rep. Terry Gardiner, and Ken Grieser, Acting Deputy Director of Finance, Department of Education; Mr. Robert Van Haute arrived later to represent NEA.

PRESENT

This meeting was to consider House Bill 67, "An Act relating to the computation of state aid under the public school foundation program."

HB 67

Rep. Terry Gardiner was introduced, being the prime sponsor of the Bill, and pointed out the main feature; that any school district's money would be based on the daily average enrollment figure after the first nine weeks, and if their enrollment dropped during the balance of the year, their money would not be adjusted downward. He specifically mentioned Craig where this problem was called to his attention. This Bill will protect the small school districts against unforeseen drops in enrollment; for example a small school who has enlarged enrollment because of people here on the pipeline, and who might have a large number of them drop out mid-year. He added that in Fairbanks it takes 23 students to generate one unit, but a small district needs only 3 or 4.

Mr. Ken Grieser was introduced and said that the Department of Education supported HB 67. He pointed out that very few districts would be affected by this bill, and some years it would have no fiscal affect at all; most districts have a general tendency to increase enrollment. It is to help the small towns and villages where even a small drop in enrollment would mean a lose of money.

Ms. Buchholdt expressed concern that this might increase the educationals "gap" between the large school districts and the smaller ones. Chairman Malone said that the basic program is now weighted in favor of smaller schools because the per-student cost is higher, and to adjust the "gap" the original program would have to be changed.

(Mr. Gruening arrived at 9:00 a.m.).

Mr. Grieser said the size of the change would be around what they estimated in the fiscal note, but that the cost would be rather insignificant in most cases and in some years there would be no need for this at all. There is a real need for this Bill. In answer to the Chairman's question, he said there would be no additional accounting or administrative burden because of the Bill.

(Mr. Van Haute arrived at 9:05 a.m.).

Mr. Grieser again emphasized that this Bill will give schools the assurance they will start out the year with so much money and will end up with so much money for their operating budget. The money in most cases won't amount to much but means a lot to a small community.

HB 67

Mr. Van Haute of NEA had only to say that he felt it was a desirable bill which provides stability for the small communities and that he urged the Committee to give it a "do pass" recommendation.

Mr. Haugen moved to report House Bill 67 out of Committee, there was no further discussion; no objection, and it was so ordered. The committee moved HB 67 out of Committee with a unanimous "do pass" recommendation.

MOTION

The Chairman asked Ms. Itta to carry HB 67 on the floor and advised her to give special attention to the ramifications of the fiscal note.

Chairman Malone made the following announcements:

1:30 to 3:00 p.m., the Senate Committee on Revenue and Taxation is meeting with Mr. Lipton of Levy and Associates. He remarked that it would be good if one or two members could attend.

2:00 p.m., this Committee will meet on the Chugiak-Eagle River Borough question and will hear the subcommittee report.

7:00 p.m., the Finance subcommittee on revenue will be meeting with Mr. Lipton.

These above meetings are all scheduled for today.

The meeting was adjourned at 9:15 a.m.

HOUSE FINANCE COMMITTEE  
Thursday, February 13, 1975  
2:05 p.m.

All members were present except Ms. Itta, and Messrs Haugen and Gruening. Others present were Dick Alexander Treasurer, Department of Revenue; Jack Chenowith of the Department of Community and Regional Affairs; Stu Hall of Legislative Affairs; Sumner Putman, House Majority; Senator Ed Willis; Representatives Ramona Kelley, Sam Cotton, and Bob Bradley; Mike Ford of Senator Willis' staff; Cheryl Probst of the Anchorage Times, and staff.

PRESENT

This meeting was called to consider further House Bill 100 and House Bill 109 relating to the Chugiak-Eagle River Borough and to hear the subcommittee report on this.

HB 100  
HB 109

Ms Buchholdt reported that she had a Committee Substitute for HB 109 appropriating \$50,000 from the General Fund, and granting a loan of \$250,000 through the Department of Revenue which could be a proper vehicle for legislation. Mr. Cowper had copies of two proposed senate bills introduced by Community and Regional Affairs (CRA); one which amends 29.18.180 in a minor way to take care of this situation, and one which adds a new Section 29.18.185 which will allow the Commissioner of Revenue, upon recommendation of the CRA to authorize a loan to defray transition costs upon terms set by the Department of Revenue. He had met informally with some of the Eagle River people and Senator Rodey to try and come to some kind of agreement.

Mr. Alexander said he wasn't sure of the procedure for a loan but according to the statutes the loan can only be made from surplus funds which means for one year only. He would prefer that legislation be passed to get around this, and recommends \$250,000 at 5 1/2% interest for five years. If the loan is granted before July 1, the Greater Anchorage Area Borough (GAAB) should co-sign. The Commissioner can set any other conditions.

Mr. Naughton reconfirmed that they needed money to crank up the system; and remarked that there would have been no problem if they had not bargained away their taxation powers. He asked about getting money from Anchorage against the money collected from their area. Mr. Chenowith said all cash from the time of incorporation was tied up in division of the assets and liabilities. Some portion would come back to Eagle River area but they must wait until the Boundary Commission finished the division.

Chairman Malone read Article 9, Section 10 on interim borrowing: A Borough may borrow money from any fiscal year in anticipation of revenue, but all debts shall be paid in the next fiscal year.

Mr. Chenowith said there was no objection to a loan, only great concern about the time frame in which the loan was applicable. If it was for five years, they would pay back \$55-60,000 a year, but if it had to be paid back in one year, it would mean a payment of \$250-270,000, which would mean a high mill rate. Ms. Buchholdt asked if the people in the area were aware of increasing mill rate and that payments would have to be made? Sen. Willis stated that they had tried to indicate prior to voting that separation would result in higher taxes--there was no question that the mill rate would be higher. But during this interim period they were facing horrendous problems especially in the schools and general government services to be taken over on July 1. Anchorage has quit planning and buying supplies for the schools, the new borough has to negotiate teacher contracts; planning and zoning responsibility has to be assumed. Ms. Kelley said the public was aware the mill rate would go up, but did not think the average person realized transitional costs would be over \$25,000; they just assumed they would pick up services on July 1. The division of assets and liabilities could be held up for years, and under the injunction they cannot go to a bank for a loan.

HB 100  
HB 109

Mr. Naughton entertained the notion that it would be easier to go back to being one unit. Sen. Willis said he could not believe they would go back together again--too many things had transpired.

Mr. Hall was introduced, as a specialist in state and local government. He said the \$250,000 at 5 1/2% for five years raises a point under Title 29. The provision in the statutes allows for revenue anticipation loans but not for more than one year. The Chairman posed the question: Can a state make a loan for a period of more than one year without changing the statutes and still be within the confines of the Constitution?

There was discussion surrounding 29.58.010 "Borrowing in Anticipation of Revenue". A municipality of the state which is authorized to incur indebtedness may borrow money in a fiscal year to meet appropriations for that fiscal year in anticipation of the collection of taxes and estimated revenues for the fiscal year and may issue its revenue anticipation notes as evidence of the borrowing." Mr. Hall didn't know if this potential constitutional problem had been brought to Senator Rodey's attention.

The Chairman asked the people who had this area in their bailiwick, that since the constitutionality of the borough was in the courts, and the powers had been enjoined until that was settled, had they considered the possibility of the borough being dissolved? What would happen then? Rep. Cotton answered that all the elections would be null and void and it would go back to the situation before the vote took place--there would be no borough. It would require remedial legislation.

Ms. Kelley said a real problem was the bond issue already passed; they could face taxpayer suits. Rep. Bradley pointed out that so many things had happened: the people passed it; they signed up to run for offices; the reapportionment; the bonds issued. He said the Justices have a very interesting decision to make on the constitutionality of the new borough, but he did not think they would find it unconstitutional. Sen. Willis said if the courts did not sustain the new borough, it would go back as a service area of the GAAB. There would be two service areas responsible for the loan.

HB 100  
HB 109

The Chairman asked how the court could order them not to function without asking GAAB to continue functioning for them? Rep. Cotton said as far as Anchorage was concerned the new borough was a viable entity. Mr. Cowper suggested that the court order might be changed to order that the GAAB continue functioning as if the change had not taken place; that it be handled by an interim order since it is the interim order that's keeping them from functioning now. Mr. Chenowith said it was not an injunction but a stipulation, ruled on by one justice in order to set the January 20 oral arguments. Mr. Cowper suggested they could get an injunction of that order by filing a motion of what they wanted and why.

Mr. Chenowith remarked that the committee substitutes were fine, that the bills were sound, but still questioned the term of the loan. The Chairman emphasized that he did not want to send another bill out that would raise the same kind of questions; he wanted to have the answers first. Mr. Naughton remarked that the legislation was not being halted but mullied. If the Committee let the borough borrow beyond the constitutional limits it could be enjoined after the Committee went home, which would be worse than waiting a little longer now.

A recess was called at 3:00 while Mr. Hall studied Section 9, Ch 145, Sla 74, and copies of the stipulation were obtained.

RECESS

AFTER RECESS  
3:08 p.m.

Mr. Naughton observed that more questions had been raised than they had answers for, and that they had already seen what mishandling a piece of legislation does. He stated that the Committee had better make very sure that whatever they do, they do correctly.

Mr. Cotton said that the new borough was to assume powers no later than July 1. They are required to assume three powers as a second class borough: Planning and Zoning, taxation and assessment and education. They had determined that if the mill rate was raised from 8 to 13 this would allow them to keep other services such as library, animal

control, fire, health, sewer. The Chairman asked Senator Willis if the new borough does did not assume powers by July 1, wouldn't the GAAB have to continue doing so? Mr. Chenowith said the borough must assume the three mandatory powers of a second class borough; on June 30, if the new borough has done nothing the responsibility of the GAAB lapses. The GAAB will be able to assist the new officials of the new system, though their responsibility ceases as of July 1; this has nothing to do with hard feelings.

HB 100  
HB 109

Ms. Kelley wondered what would happen to education if Chugiak borough did not take over by July 1, and Anchorage did nothing, especially since education is mandatory. Mr. Chenowith said it would be regarded as a school district; payments would go to the district, the school and the amount levied to carry the indebtedness. Mr. Bradley asked if they would be able to spend the money even if they received funds. Mr. Chenowith did not feel the stipulation would extend past June 30, but if the court still has said nothing, it would be best to go back to court and try to lift or amend the stipulation.

Mr. Cowper read the stipulation and remarked that technically it didn't amount to a "hill of beans" without a court order. As a practical matter did not keep them from borrowing money. Mr. Cotton said the could not borrow money because they could not tax. If they did borrow money there would be the question raised that they had violated the stipulation. Mr. Cowper maintained they should argue the question on whether or not they could borrow and receive funds during this interim period.

Mr. Hall said they could get some money collected from the area reimbursed from the GAAB, if it was spent in a certain manner, but under the stipulation they cannot perform their functions. Under Section 9, paragraph c, the GAAB will continue to perform those powers until the Eagle River-Chugiak Borough files a written notice of intention to assume power and officials of those two boroughs will arrange for orderly transfer; this seems to say to Anchorage that they will perform those functions. The Legislature tried to insure continuity of government. It might be possible to get the parties to agree to modification of the stipulation.

Senator Willis suggested it would be a good idea to get the attorneys representing both sides to come down and try to figure out what everyone means.

The Committee recessed at 3:30 p.m.

RECESS

AFTER RECESS  
3:45 p.m.

The Chairman stated that unless there was objection from the Committee he would refer the matter back to the subcommittee chaired by Ms. Buchholdt and ask them to try and resolve the questions and present it tomorrow afternoon for further consideration. There was no objection. It was so ordered.

The Chairman also suggested that Representatives Cotton, Bradley and Kelley and Senator Willis work with the sub-committee' and if they could not make a decision, to make recommendations.

HB 100  
HB 109

Chairman Malone announced the following meetings:

7:00 p.m. February 13, a meeting of the Revenue Resources Subcommittee.

9:00 a.m., February 14, House Finance Committee meeting on HB 41, state park entrance fees.

The meeting was adjourned at 3:50 p.m.

ADJOURN

HOUSE FINANCE COMMITTEE  
Thursday, February 13, 1975  
7:15 p.m.

All members of the House Finance Committee were present with the exception of Representatives Buchholdt, Guy, and Gruening who entered the meeting late. Also present were Mr. Lipton, representative of Walter Levy and Associates; Senate President Chancy Croft; Toni Croft; Sharon Naughton; Doug Schoenberg; Tim Bradner, representative for British Petroleum. About midway through the meeting, Representative Ramona Kelley, former legislator Russ Meekins, and some legislative staff members entered the room. Legislative Finance personnel were present, also.

PRESENT

*OIL and  
Gas*

Chairman Malone called the meeting to order at 7:15. He announced that the meeting would be conducted in an informal manner. He opened with the comment that the state is facing financial deficit before the North Slope Pipeline starts up. With the current level of spending there is a need to raise \$400 million before the summer of 1977, if the Pipeline is to start up at that time. Should the Pipeline be delayed further, as recent information indicates, there will be a need for still more money raised. There are a number of different options open to the state, including major and minor sales of options on future state production of oil and gas; lease sales; and different kinds of taxation. He remarked that the state has not been able to isolate any industry or group in the state who has as much money as the oil companies, so it is that industry to which the state is looking to try to raise the needed funds. Mr. Malone asked Mr. Lipton if he was familiar with the Administration's proposals.

Mr. Lipton said that he was familiar in general with the proposals: the option of lease sale with uncertain date and doubly uncertain bonus income; the possibility of sale in advance of what would in the future be the royalty oil and gas to which the state would be entitled; tax on oil in place; and increases in other taxes.

Summarizing quickly the way his firm has analyzed the alternatives, Mr. Lipton said that first and highest among the options he would place a lease sale. He qualified that, however. He said that he would not say that if the state was not already contemplating a lease sale with a specific area in mind. He would not recommend under pressure putting up for sale the "birthright of your children" for whatever amount the state

could get. However, since the state already has in review a specific lease sale in an area that is attractive, he would put such a sale at the "top of the list". He noted that since the Pipeline is designed with a 200 million barrels per day capacity, the industry and the state would benefit from its carrying that much. Full capacity movement through the Pipeline will cut the cost of transportation of the oil considerably. For example, he said that 1.6 million barrels per day would probably knock 75¢ per barrel off the cost of transportation. The state has 20% interest right in that, which would amount to 15¢ per barrel. 200 million barrels per day would probably knock off about \$1.25 - or 25¢ for the state.

Mr. Haugen asked if the reason for that is that they pay the severance tax on cost after transportation, and Mr. Lipton said yes.

Mr. Lipton continued, stating that the feeling is that Beaufort has high prospects; thus, it makes sense for this to be the state's number one item. He mentioned that, of course, there is no way of knowing just what the income from that will be.

Mr. Haugen referred to Mr. Lipton's testimony at an earlier meeting today to the effect that even some of the companies currently on the Slope are probably capital short, and he wondered if Mr. Lipton was expecting new companies to come into the field. Mr. Lipton said yes, he would expect new companies to be bidding, but he did not want to be positive about that.

Going on, Mr. Lipton said that another alternative is the option of selling what will be the state's entitlement to royalty oil and gas if they take royalty in kind (1/8 of oil and 1/8 of gas produced). He stated that the companies who might be most interested in buying the royalty oil would not necessarily be the same companies who are the producers. In fact, at least two of the biggest producers in Prudhoe, Sohio and Atlantic Richfield, will have a surplus (they will have more oil out of Prudhoe Bay than they can use in their refineries). Therefore they may be very cautious about the price they pay now just to hold on to the royalty oil. Companies who have no position in Prudhoe, however, and might be in a position by 1980 or 1982 of buying from Sohio and Atlantic Richfield, might be considerably more interested in bidding on this royalty oil. So, if you look at companies who are prospective bidders, it is a larger number of companies than are presently in the field.

However, Mr. Lipton said that there is a big problem in the sale of royalty oil, and it is twofold. First, anything sold today at a profit will not be delivered until the future. This means that the companies will pay less for it today than they would in the future. He noted that of course money means more to the state now than in the future, because of our anticipated shortfall. However, he said that how much more depends on what percentage per year will be lost. Someone who is discounting from the future to the present pays a high interest rate. If the state's rate is 5%, the industry's will be 10%. If the percent per year is 10% and it will take them 5 years to get the oil, that is over 50% -- so even if everyone knew oil was worth \$10 per barrel, they would not pay more than \$5.

In addition, no one really knows what the oil will be worth in 1980 or 1982. It is true that if you sell the oil or the option for the oil, it will not be at a prearranged price. It will be at some discount of what the market price will be. If the price is high, that will imply shortages and the companies ought to be bidding now. If it is low, it means there is a lot of oil and they shouldn't be bidding. Uncertainty about price hurts the state. The person selling or buying under pressure gets hurt. In time, when the state has control of its royalty oil, it will be in a position of exercising different options. If, however, the state sells under pressure, it will be for whatever they can get.

Mr. Malone asked if Mr. Lipton was saying that the state would be better off to borrow if they could do it. Mr. Lipton said absolutely. If the state could cover this deficit by borrowing against future revenues, that is the best possible thing they could do. The problem is the state's constitutional limitation on borrowing.

The third and most important objection to the sale of royalty oil is giving up the state's control over that oil (and gas); plus the subsequent validation of the jurisdiction of the Alaska Pipeline Commission.

(Mr. Gruening entered the meeting.)

Elaborating on that point, Mr. Lipton said that the legislature has always had in mind that the state's control over royalty oil and gas and the ability to dispose of it as a state in ways that are of top advantage to the state is of tremendous importance. There are many different options, but as long as

the state holds the option of taking royalty oil, decisions can be made as to how to use it to serve developmental (by which he meant developmental in a broad sense) purposes of the state.

There is another reason, and probably the most important reason, for having control of royalty oil according to Mr. Lipton. This goes back to debates of two or three years ago. From the beginning, it has been stated that the higher the transportation cost of the Pipeline, the lower the wellhead value will be. The lower the wellhead, the lower the severance tax and royalty income. So, the state wants to be sure that the cost of transportation on the Pipeline is no higher than it has to be. To insure that it is not higher than necessary, the state has established a regulatory body - the Alaska Pipeline Commission -- and has given to this commission the authority to supervise tariffs on the Pipeline under certain conditions. To the extent that the oil is taken from Prudhoe and ends up in Los Angeles, jurisdiction is with the Interstate Commerce Commission. However, according to the rule, movement of oil within the state validates the authority of the Alaska Pipeline Commission. The authority depends to a considerable extent on movement of oil in intrastate commerce. Since major operators are obviously thinking in terms of moving oil out of the state to their own refineries below, it is important for the state to have the royalty oil kept in the state, so that the jurisdiction of the Commission is validated. If control of the royalty oil is lost, the authority of the Pipeline Commission will be seriously undermined.

(Representatives Buchholdt and Guy entered the meeting.)

Mr. Lipton commented about royalty gas. This poses different problems than the oil. Oil is sold in so many barrels per day of production, and can be sold on a short or long term basis. Gas is different. Gas is sold not in units of gas per day, but in so many trillion cubic feet of gas reserves. If you go the route of selling royalty gas, you give up the state's use of that gas and the control over taking liquids from the gas for other products.

Mr. Lipton strongly stated that it is his firm's position that sale in advance of royalty oil and gas is a very poor solution.

Another proposal for dealing with the deficit is a reserve tax, which Mr. Lipton said was discussed during the last legislature. He said that the reserve tax would be a bad tax. He

went on to explain some of the reasons why he views this as a bad tax. He felt that there are other ways to get more money from the industry if the additional money has to come from them. He said that the tax is impossible to administer. A tax on oil and gas in place before oil and gas is produced requires that the state estimate oil production. This assessment would prove to be extremely difficult. If you know how much is produced, you still do not know how long it will take until the field has been worked -- and this makes a tremendous difference in terms of value of the reserves. Value is significantly higher for reserves produced early and fast than for reserves produced slowly and late. Too, he stated that a man would be "either a hero or a fool" to try to figure what oil will sell for in the future, there are so many variables involved (i.e., U.S. government policy on foreign and domestic oil). Speaking of the terrific possible fluctuation in oil prices, he mentioned the current price control on domestic oil, keeping it around \$5 whereas foreign oil is coming in at \$12 plus -- yet five years ago foreign oil was selling at less than \$2. U.S. oil price depends to a large extent on government policy -- which is not easy to forecast.

HOUSE BILL 102 (Relating to oil and gas exploration, production and pipeline transportation property tax) is the bill relating to this reserve tax. Referring to Sec. 5, adding a new subsection to AS 43.56.060, Mr. Lipton read: HB 102

(g) The full and true value of property taxable under this chapter is the estimated price which the property would bring in an open market and under the then prevailing market conditions in a sale between a willing seller and a willing buyer both conversant with the property and with prevailing general price levels. In determining this value the assessor shall take into account the discounted value of the expected future net income from the production of proven reserves under the property.

He stressed to the committee that evaluating the property as described above is not the same thing as assessing land. As far as the idea of "willing seller and buyer" this is not really that situation. In purchasing leases, the company who is successful is the one who pays less for that lease than the value of the oil in place -- it is not a question of a fair market price.

Mr. Lipton further stated that he doesn't think the real intent of this bill is to require the tax assessor to come up with a valuation. The bill is directed to the fact that

there has to be an assessment in order to come up with a mill rate, and the mill rate will be set in order to come up with a fixed number of millions of dollars.

If the purpose of this tax is that the state needs to and should get more income out of the oil companies, the way to do this is not through this cumbersome, ineffectual, difficult to administer tax.

However, if, as Mr. Lipton said he suspects, the intention is not to raise money, but to advance money from the future to the present, then he strongly urged that the state give the companies a credit against their future severance tax liability for all the payments they must make in the interim period on the basis of the assessed value of the reserves.

Mr. Malone asked if he was suggesting, then, reducing the companies' future tax liability, and Mr. Lipton said yes.

Evaluating the three major options at this point, then, Mr. Lipton said that the lease sale is best; the royalty sale would be worst. If in between the state must go to a form of taxation, and must accept a poor form of taxation, then he urged that there be an offset to the companies.

Mr. Malone listed the various taxes in this state to which the oil companies are subject, and asked Mr. Lipton if there were taxes the state has overlooked.

Mr. Lipton said that he did not think so. There is, however, question as to how adequate the state severance tax structure is. He mentioned increase of the tax when oil production goes up by quantum amounts. The state schedule goes up to a maximum of 8% on wells of highest production capacity. At the time that was established, that was reasonable. At that time, Louisiana did not have a percentage severance tax. They now have -- and are taxing at the rate of 12 1/2%. He said that he was not saying that would be right or wrong for Alaska, but was saying that there are changing values. He mentioned that Alaska has a relatively low severance tax on natural gas. However, a large percentage of the gas is consumed in Alaska and increasing the tax would hit the householders of Kenai and Anchorage. However, there will be a time when the bulk is not consumed by Alaska, and at that time the state may wish to consider changing the tax.

He repeated that the severance tax will have to be extensively reviewed.

More important than review of the severance tax structure.  
Mr. Lipton said, is very careful review of the Alaska State  
corporate income tax structure. He said that it is a very  
poor vehicle for taxation of profits from oil and gas produc-  
tion in the state.

Mr. Malone asked why. Mr. Lipton said that it does not identify profits as successfully as it should. Under the state income tax, there are no definitions as to how the state divides income generated by oil and gas production, how it divides taxable income, what is allowed and disallowed. Even something as distinct and identifiable as the Pipeline operation is not identifiable. A company cannot be identified as a taxpayer in the state of Alaska or even the U.S. because they are subsidiaries of parent companies. Not only does the income flow outside the regime of the state, but goes into parent companies. If the state is going to have any kind of real handle on this so that the state has the ability to determine the state's due, the provisions must be amended so that taxing authorities have legal rights to define and identify income, and define and identify state regulations. He said that this is not easy, but that some degree of reform is essential if "at the end of the day" the state is to have the devices to achieve distribution of profitability of a company and share of profits for the state.

He said that he did not feel it is lack of tax vehicles that the state suffers from, but that the ones the state has are serving it poorly. He noted that personally, he does not really feel that this serves the industry well, either. A reasonable approach to taxation works to the benefit of everyone.

Chairman Malone recessed the meeting at 8:05.

RECESS

AFTER RECESS  
8:20 p.m.

Mr. Naughton asked what weight was given to consideration of environmental situations, like Katchemak Bay. Mr. Lipton said that he could not say anything informative on that - his firm has given it no consideration as that is really not one of their areas of expertise.

Mr. Naughton referred to the Pipeline Terminal, which was sold in fee simple, and wondered if the fact that the people owning the terminal would be capable of closing it to anyone but the consortium would have a negative impact on a lease sale up at the north end of the line.

Mr. Lipton said that he didn't feel there was any way they are going to close the terminal. If they ever tried, he thought they would be brought before the Justice Department, even if not by the state. He didn't believe there was any way that they could use their ownership of the terminal in such a way as to tie up a common carrier.

Mr. Naughton asked if, judging by the population of potential customers for the Beaufort lease sale, Mr. Lipton thought the state would be getting as much as they could out of the sale. Mr. Lipton said that in so far as the Beaufort area is an exciting area for the industry, he expected it to be the same as Prudhoe. The biggest interest, however, will be from companies not already in Prudhoe. Expectations for the area are high for companies in the oil exploration business. Of course, there are always logistics problems and limitations, he said.

Mr. Malone noted that not long ago the federal government held some lease sales in the Gulf of Mexico and they were not successful. Mr. Lipton said that that had to do with the evaluation of the prospects. They have at other times gotten fantastic bidding for off-shore leases in attractive areas.

Mr. Naughton asked about the relationship of the lease sale prospects and the institution of the reserve tax.

Mr. Lipton said that the first question is, will it keep people from bidding up in Beaufort. He said that he did not think so. The next question then is will it affect the way they bid. He stated that obviously a company looking at a lease sale is looking at what they will face if they are successful. The difficult question is just how much this would be taken into account. If there is a lot of competition in a lease sale, the negative factor of taxation tends to be weakened. He said that if this becomes a permanent tax and is on the books for quite a while, there would be a lot of areas of dubious geologic prospect that companies might turn their backs on. It is bound to have an influence, but if it is really attractive he said that he would not guess it to make too much of a discount on bids. He repeated, however, that he still thinks it is a bad tax.

Mr. Gruening asked him if he was just discussing the tax without credit, and Mr. Lipton said yes -- it would not be as bad with credit.

Mr. Gruening asked Mr. Lipton if he felt the credit provision would be significant, and Mr. Lipton said yes. It would be a positive factor in what would otherwise be a bad tax, and he

strongly urged the credit provision if the legislature feels it must institute the tax.

Mr. Haugen wondered about instituting the tax after the lease sale. Mr. Lipton said that he didn't know if that was practical, but if it was he thought that would be a good move. He didn't know if the state could afford to delay, and wasn't sure if it is to be instituted if they could put it off until after this session. However, if it could be done it would be the best thing to do -- and after the lease sale the picture of state financial needs might be different.

Mr. Naughton asked if the lease sale was first, if that might not complicate beginning the reserve tax. Mr. Lipton said that he is considering this as a temporary tax, and that there may not be reserves established in Beaufort before the tax would be off. He is considering this an interim tax.

Mr. Naughton asked what the time from lease sale to establishment of proven reserves would be. Mr. Lipton said that he didn't know -- there was bound to be some time span. What he felt was bad is that the tax will really "come back to haunt you" -- there are problems about the leaseholders at better areas paying a proportionate amount. In addition, the longer the tax is on the books, the more discoveries come under it, the more difficult the whole problem of assessment and taxation would become.

Mr. Gruening wondered if "proven reserves" would have to be defined in the bill. Mr. Lipton said that the bill would not have to define that. That would be defined elsewhere in the statutes. He stated that there may be proven reserves, but they would not necessarily be commercial reserves. Whether the oil is recoverable depends on the economics of the situation. This, he felt, is a bad basis for taxation.

Mr. Gruening asked, assuming the state can go ahead with a lease sale, if there would be any advantage to triggering the tax on reserves on whether or not the lease sale produced a certain amount. Mr. Lipton said that that would be a big advantage to the oil company.

In response to questioning by Mr. Haugen, Mr. Lipton said that he did not know any other example of ad valorem assessment of oil in place prior to production of oil on any significant scale.

Mr. Cowper asked Mr. Lipton what he saw as the trend in oil prices in the next few years.

Mr. Lipton said that he can list some of the variables, but that he was reluctant to forecast. One variable is the political price (he mentioned the price of foreign oil coming out of the middle east being \$1.70 in 1970, \$3.65 in 1973, and now being \$10.50). Another variable is the relationship between the United States and foreign oil prices -- how the U.S. energy policy will be administered to relate U.S. and foreign oil prices.

He said that he thought a prudent man would take the price in between, and then that price ought to be somewhere in the range of \$8 to \$10. He would say that as a basis for judgment, with nothing else to go on, he would say \$8 to \$10 in the lower states would be an approximate price for value of oil. In Alaska, transportation and terminaling costs will be the biggest variable.

There was brief discussion on other energy alternatives. Mr. Lipton did not feel that any of them threaten continued need for oil.

Mr. Gruening inquired about the proposed accelerated OCS leasing program, and wondered if that will have a negative effect on the Beaufort sale. Mr. Lipton did not think so.

Senator Croft asked, then, if there is any pressure on the state to try to "beat the federal government to the jump" and Mr. Lipton said no. He said that it is almost an impossible game to see who can lease first. Actually, he said that he felt it is reasonable to lease in areas reasonably contiguous -- just as the federal government tries to lease together and not spread out.

Senator Croft asked to the extent that the Beaufort Sea sale involves land containing if not proven oil and gas reserves, at least high potential, if Mr. Lipton would recommend that the state consider other leasing methods rather than competitive sale. Mr. Lipton said that he did not know enough about the geologic prospects. Under other circumstances the state might want to look at other methods, but the present situation seems almost to demand that the state be tied to "front end" bonus.

Senator Croft asked if the state commits itself to a lease sale as a means of financing the deficit, is the state then committed to accept one of the bids. Mr. Lipton said he saw no reason for the state to accept a bid lower than they feel it is worth. He noted that the federal government does not -- but neither do they tell the profit value before bidding.

Senator Croft asked about the economic consequences the State might reasonably expect from the taxing of oil in place, wondering what the impact of the credit provision would be.

Mr. Lipton said that he couldn't quantify the effect on the state. He said that if he gave the most reasoned answer, it would be completely unresponsive to the question. His answer is that no type of bad taxation ever does good for the state. This goes for any form of taxation. If the tax is evaluated as a means of taxing operations and prospective profitability of the oil industry, then it does not serve the state well to enact a bad tax. He said that the state will never know to what extent this has been negative, but the effects will carry forward.

Senator Croft said that he still did not understand the adverse effects of the tax from an economic policy point of view.

Mr. Lipton said that he called it a bad tax because of how it will operate. It is bad from the standpoint that it is impossible to administer in a predictable and equitable fashion. If it is in effect for a long time, it will involve the whole question of equitable assessment. It will be taxing unknown reserves produced at an unknown rate and for an unknown period of time generating revenues. He said that he could not identify in advance or retrospect either the adverse effects to the state. However, he reiterated his conviction that if the tax is instituted, the state will suffer for it. Whatever flow of revenues the state could get could better be handled through other means of taxation.

Mr. Rhodes said that then Mr. Lipton is saying that with the three unknowns - price, time, rate - there is an unknown risk of early shutdown of fields. Mr. Lipton said that that is really not the point. Those unknowns might result in certain resources never being looked for, however.

In response to questioning by Mr. Gruening about the inequity of the tax, Mr. Lipton said that there is only one reservoir of oil in place being taxed, and an identifiable group of taxpayers who will be paying. That is one problem. How is proper assessment of oil and gas in place determined, and how do you assess those fields not being produced -- what will be the criteria and the schedule of assessment. These are all questions. He said it becomes a problem of equity among the taxpayers.

Mr. Cowper asked more about the effect of the proposed tax on the lease sale. Mr. Lipton said that he would have to assume that the fact of the possibility of this tax will be taken into account by the companies. He did not believe that for that reason they are going to take away from the lease sale. How much that will affect the sale will depend

on the attractiveness of the area. If they know the oil is there, they would be afraid of risking losing a valuable lease by discounting the bids too much. How much will depend on competition, and that will depend on how the industry evaluates the prospects.

Mr. Malone introduced former legislator Russ Meekins. Mr. Meekins, referring to Mr. Lipton's discussion of the adverse effects on the state of the reserve tax, said that it seems to him one of the things the state would think about is if the tax on oil in place is in effect, that will affect profitability, and they might not invest the same amount on a bonus sale they would anyway, and to that extent it would be negative. One of the things that the state does know because of the energy crisis is that prices can be pushed. He said that the President and his advisors think it would take a \$3 barrel increase before the demand would decrease. Some countries (like Japan) would be willing to pay even more. He thought that adding the tax would not amount to a great increase per barrel of oil to the industry. They would then just increase their prices. Therefore he did not feel that the increase due to the tax would affect investments.

Mr. Lipton said that he would agree that whatever taxes there are would color the expectations of the industry and how they are going to invest, but the oil industry "has a high threshold of pain". He said that he did not feel the reserve tax would "swing the balance". His argument against it was based on other factors.

However, Mr. Lipton stated that one cannot look at the \$500 million in taxes, which will be principally paid by three oil companies over a period of time, and assume that that cost will be borne by increasing consumer cost. He is not saying that he thinks this tax distributed over Alaska production is going to so raise the tax as to discourage investment -- but the reason for this is not that the price will be put off on the consumer. Alaska oil cannot be sold at any price because oil is in demand. North Slope oil is not that unique. First, the government will not allow the distinction between different oil because the country is still operating under price controls. The companies themselves will have to absorb this cost.

Mr. Malone said that it seems to him that if there was an ad valorem tax on the value of the Prudhoe reserves by taxing the value of future production, that what the state would be doing is attaching and taking profits "downstream" from the oil companies, so the extent to which they pay additional tax they have to recover out of their operating

revenues. Mr. Lipton agreed -- it would come out of the operating costs or the profits.

In response to further comment by Mr. Malone, Mr. Lipton said that he would assume there is not much question in anyone's mind that a reserve tax will be borne by the profits of the companies having properties in Prudhoe. Part of it will be borne by the state.

Mr. Malone said that some of it will be borne by the consumer, also, through an increase in prices.

Mr. Lipton said that the companies cannot sell higher out of Prudhoe. This will come out of their profits -- they will be making less profits. He said that Mr. Malone was making the point that if there is a marginal supply of oil, then increased costs will have to be paid by the consumer. However, he said that one cannot assume that the incremental barrel of oil is going to be Prudhoe Bay crude. Operation is still in a competitive environment.

Mr. Meekins said that he thought there is information concerning a lot of things about oil companies and if the assumption is made that they are only making normal profits and then increase their costs while their competitors' costs do not increase, then that would discourage their investments. However, as long as they are making significant profits, they will not be discouraged.

Mr. Haugen asked if the price is frozen now, and Mr. Lipton said yes but the President has announced it will be lifted on April 1. Mr. Haugen then asked if it isn't true that new oil can find its own level, and Mr. Lipton said yes and that in California it is \$11.50.

Mr. Haugen felt then that that is all the more reason for the lease sale. The state could get the bonus money, which is what it needs now. Mr. Lipton agreed and said that the environment is favorable now.

Mr. Haugen wondered if enough new oil is discovered, if there will be a surplus and the price will go down. Mr. Lipton said that the U.S. does not have a surplus of oil. Mr. Haugen asked then if new oil finding its own level is incentive for U.S. exploration, independent of the frozen oil price, and Mr. Lipton said yes.

Meeting adjourned at 9:40 p.m.

ADJOURNE

HOUSE FINANCE COMMITTEE  
Friday, February 14, 1975  
9:08 a.m.

All members were present except Mr. Gruening. Others present were Representative Ted Smith, George Hall, Deputy Director of Parks and Recreation, Jeff Morrison from Budget and Management and Staff representative.

PRESENT

This meeting was to consider House Bill 41: "An Act relating to entrance fees for the use of state parks and recreation areas."

HB 41

Rep. Ted Smith was introduced, being the prime sponsor of HB 41. He said philosophically this was a good Bill. The state parks are not equally distributed throughout the State with costs born from General Fund appropriations. The approach is that those who use the parks should pay a little more for the privilege. This Bill should recover about half of the cost at a minimum. They will adopt a sticker system for all vehicles since development of the parks for vehicles is the greatest cost, and maintenance is vehicle oriented. The application will be to motorized vehicles and campers. With the number of vehicles from outside and inside the State the revenue projection is substantial. The Resource Committee amended the bill to change the effective date from January 1, 1976 to July 1, 1975 to run by fiscal year. In order to gear up that soon they will have to use supplies on hand but it would be possible.

Mr. Cowper mentioned a small State Park in Fairbanks that many small groups use for picnics on a once-a-year basis. Would there be any objection to amending this Bill to allow a recognized group to apply to the Department for some sort of a permit. This was one of the objections raised last year to the collection of fees.

Mr. Smith said that Fairbanks would be most impacted because of the limited recreational areas. He had proposed a regulation which would take care of that: The fee would be waived for the day any group applied for use. He doesn't feel its much of a problem. The bulk of the recreational land in that area is State land, so most people would have a sticker anyway.

In answer to Ms. Itta, he said the State Park system included about 100 waysides which were about 100 acres; 5 recreational areas that were under 640 acres and people oriented; and 3 State Parks that wer over 640 acres and more for scenic preservation. To Mr. Duncan he said that the personnel and activities were designed to accommodate the program last year and their activities in relation to entrance fees were along with their regular duties.

2/14/75

George Hall, Deputy Director of Parks and Recreation, testified on behalf of HB 41. He said they would have to use 1974 stickers because of the amended date, but they hoped to pick up and go on the way it was designed last year. He feels it should be a calendar year sticker because otherwise the tourist might be stuck with purchase of two permits for one summer season; he wondered about going from July 1, 1975 to January 1, 1977. He pointed out a couple of examples where it would be difficult to collect for stickers because they were on the highway right-of-way -- Halibut Point and Old Sitka in Sitka and Totem Bight in Ketchikan. He felt the revenue was understated. The money came in very rapidly last year and reversing it was not an easy task. They thought they had covered all the hurtles and it was a wrench to back out of the program. They had a survey of visitors and others about whether they would approve of a fee, and Fairbanks people were in favor of a fee system. They got opposition from the Mirror Lake operation. Under a fee system the Mirror Lake concessions would be included under their rental services. Mr. Hall said where there were good facilities and good maintenance the people were receptive to the fee system, and he felt they could do a better job under this plan. The survey was requested by Commissioner Herbert. Mr. Smith was requested to supply a copy of this survey report.

Mr. Duncan asked if they had considered having a different fee for residents and non-residents, but Mr. Smith said that because of the extensive federal funding, they cannot charge a different rate.

Mr. Smith told Mr. Naughton that snow machines had been included originally, but the reactions from public hearings lead them to believe it would be unfair to residents of Alaska who had several pieces of equipment such as car, trailer or camper and snow machines and would have to purchase a sticker for all pieces.

Mr. Naughton asked how this would effect the wayside at Abercrombie in Kodiak. Mr. Hall said that persons driving in would be contacted by someone there to buy a sticker; they probably will be working it through the Fish and Game employees. Mr. Naughton said that if Halibut Point and Old Sitka were exempt why not Abercrombie, but was told that Abercrombie was actually a drive-all-the-way-in sort of place and the other waysides were part of the highway right-of-way. Mr. Naughton said that the idea that outsiders would pay for Abercrombie did not apply in Kodiak because of the transportation of vehicles to the area. Mr. Hall said that if the Bill had a provision for regulatory exceptions this could be taken care of.

Mr. Smith left at 9:32 a.m.

Ms. Itta asked how many parks are federally funded, and was told by Mr. Hall that the federal funding had to do with the developments within the parks, and that a very large share, possibly thirty or more out of fifty have some

federal funding.

HB 41

The question of policing or enforcing the purchase of the stickers was brought up by Mr. Gruening. Mr. Hall said the stickers would be on the windshield and the ranger or maintenance personnel would simply check the window. They would give one month's notice of the system. There is no penalty involved; they are asked to buy a sticker. Ms. Buchholdt said if the fee is not mandatory to pay, a lot of people would not wish to and how accurate were his revenue projections in that case. Mr. Gruening found in the Statutes the Chapter covering this provision, that a person who violates this is guilty of a misdemeanor that is punishable by a fine of \$1,000 or imprisonment of six months or both. Mr. Hall said that people had a choice of buying a sticker or leaving. He feels that they should provide visitor services not policing.

The reason for stopping for program last year was asked for, and Mr. Hall said Comm. Herbert felt it hadn't been advertised enough; the money was to go back to the General Fund, and he felt it should go toward park maintenance; there were some critics of the system. He thought complaints were very limited. The Commissioner had some kind of pressure applied and it became a major issue and they closed out, in fact the Commissioner issued the emergency regulation himself.

Ms. Buchholdt mentioned charging residents a lower fee than non-residents, but Mr. Haugen talked about the vandalism that happened in his area, that he knew it was done by kids and older people, weekend drivers, etc.

Chairman Malone suggested assigning this Bill to the subcommittee on Natural Resources and asking them to consider possible amendments. There was no objection. He advised them to take into account the survey made prior to regulatory investigation of the fee and suggested they needed to know the political ramifications that caused the problem before.

Ms. Buchholdt reported on the subcommittee's recommendation on HB 100 and HB 109: that the \$50,000 grant should be considered; and that Eagle River-Chugiak could possibly borrow directly from the Department of Revenue. The administration in Anchorage was willing to co-sign a loan and would push the co-signing at the next Assembly meeting on February 24.

HB 100  
HB 109

The Chairman announced that the minutes would be released to the public on request and that he would ask for corrections or amendments at the afternoon meeting, on the minutes through February 11, 1975.

This afternoon (February 14, 1975) they will be discussing HB 79 and HB 81.

The meeting was adjourned at 9:50 a.m.

ADJOURN

HOUSE FINANCE COMMITTEE  
Friday, February 14, 1975  
1:34 p.m.

All members were present. Others present at this time were Bob Schroeder, Department of Law; C. A. Weberg, Deputy Commissioner of Public Safety; Pat Wellington, Assistant to the Commissioner of Public Safety, and Judy Crondahl, Division of Budget and Management of the University of Alaska, and staff members.

PRESENT

This meeting was to consider House Bill 79, "An Act making a supplemental appropriation to the University of Alaska for Fairbanks campus security."

HB 79

Mr. Weberg spoke in behalf of the bill. He said that last fall the University of Alaska approached the Department of Public Safety in regard to placing a trooper on a full time basis. They reached an agreement last October and do presently have a trooper. The cost from the time of his hire to the fiscal year end was \$20,000 salary, and a vehicle cost of \$6,500, a one time purchase. The total FY75 cost is \$30,000. He corrected his statement to say that the contract was signed in the third week in October with the trooper on campus as of November 1, 1974.

In response to questions from Mr. Cowper, he related that there are twenty troopers in Fairbanks covering a large area. It takes between 5 and 6 troopers to provide one on the road 24 hours of the day. The University felt they needed more from the Troopers so they wanted one on campus. It was worked the same as when Ed Rhodes was there 3-4 years ago.

Mr. Gruening requested a copy of the contract. Mr. Weberg also said they had had a number of contracts of a similar nature in various boroughs and cities, but this is the only one at the present time.

Mr. Wellington talked about the purpose of the contract and gave the background. He said the University of Alaska had major problems at the time, and at that time they could not provide additional service. The proposal was accepted that they would have to provide funds for additional trooper. A couple serious crimes, one a co-ed murder, caused the University to feel that it could not cope, with the student police force it had. The Department did investigate the crimes in the normal course of business. Some of the problems were related to the temporary students housed in the dormitories--they had no control of them. There were also problems with co-ed dormitories, and a number of other problems on a daily basis. He thought possibly their attitude wasn't very good; they didn't want the uniforms on campus.

2/14/75

Mr. Haugen told the Committee that the Security Director Martin Underwood was a professional, and wondered why they didn't have the capabilities to handle the campus problems. Mr. Wellington answered that 90% of his staff were students who go to college and are mostly nightwatchmen; even the dispatcher and people who handle fire equipment. They are not trained to detect and investigate crimes. Mr. Underwood has a full time security director and fire director. He said the trooper was living on campus; that the contract is cancellable within 30 days, and in that case the trooper would be absorbed back into the regular ranks, and the money would go back to the General Fund.

The Chairman asked how it was the University of Alaska determined that they couldn't pay for this out of their budget. Ms. Crondahl told him they could not determine whether the University had funds since the administration and legislature have never investigated the University's books. They hired their own independent auditor to do their books each year. The assumption was that it was not budgeted for and therefore the funds were not there. They would have to audit the books otherwise to see for sure. The legislature has never challenged the independent auditor.

Up to now the State Troopers were to bill the University in January, April, July and October and were not to exceed the \$26,500 the first year plus vehicle cost of \$6,500, and \$30,000 the second year.

(Mr. Naughton arrived 1:50 p.m.)

Chairman Malone expressed the opinion that they were hearing from the wrong people. He suggested they hold this Bill until they contact representatives from the University to testify. There was no objection and the meeting was adjourned at 1:52 p.m.

ADJOURN

HOUSE FINANCE COMMITTEE  
Wednesday, February 19, 1975  
1:30 p.m.

All members were present with the exception of Mr. Duncan who entered shortly after the meeting began. Also present were Robert F. Schroeder, legal administrator of the Department of Law, John Messenger, an attorney with the Department of Law, members of the press and Waco Shelley, lobbyist for Mobil Oil Corporation.

Chairman Malone called the meeting to order, announcing that the committee had before it for discussion HOUSE BILL 81 (Supplemental, Department of Law). He requested Mr. Schroeder to make comments on the bill.

HB 81

Mr. Schroeder explained that the two attorneys who are chiefly handling the major case involved in this supplemental request are in Anchorage, but that Mr. Messenger had some knowledge of the case, and so he asked Mr. Messenger to explain the case briefly.

Mr. Messenger said that the one case is the Cook Inlet pricing case. Basically it is a dispute between the state and eleven oil companies in the Cook Inlet area. The dispute centers around the price of oil upon which both royalties and taxes are to be calculated, and whether certain deductions from this price are allowable in computing the state's royalty and taxes. It covers a period of time from around 1965 on.

Mr. Schroeder said that because of the number of companies involved, preparation for the case is going to involve a great deal of travel, taking depositions, gathering documents, etc. The case does involve a substantial amount of money in terms of state revenues for this period of time.

(Mr. Duncan entered the meeting.)

Mr. Cowper asked what the status of the case is, and if it is in federal court. Mr. Messenger said that there are two cases being dealt with here. Mr. Cowper asked about the wording in the bill stating "and for specialized legal services." stating that he did not know what is meant by that.

Mr. Schroeder said that there are two elements in the bill. One is \$107,900 to carry out the discovery of the Cook Inlet pricing case. In addition there is \$12,400 which Budget and Management suggested be taken care of in this bill, also. This amount is from a prior year's bill. The department does

not have the authorization to pay a prior year's bill out of a current appropriation. This bill was for another Cook Inlet case -- the case between the state and the federal government. The case is over a jurisdictional dispute and the state has so far won in both the state court and the 9th Circuit Court. The Department of Law has not been handling that case. It is contracted out to an independent law firm, and the \$12,400 is their bill.

Mr. Cowper asked how long the pricing case has been pending, and Mr. Messenger said that it goes back to around 1971. Mr. Cowper questioned the case's being around that long without the discovery having been done. Mr. Messenger said that there has been discovery but there is additional discovery needed outside the state and even outside of the country. This will involve considerable travel expense.

Mr. Schroeder noted that the attorneys handling this case are in the Anchorage office. Mr. Cowper asked who they are, and Mr. Schroeder said Will Condon and Tom Williams. Mr. Cowper asked if there are any "outside" attorneys involved and Mr. Schroeder said no.

Mr. Gruening asked if it is correct, then, that except for the \$12,400 for the services rendered in the Cook Inlet jurisdictional case, the bulk of this appropriation is for the Cook Inlet pricing case. Mr. Schroeder said yes.

Mr. Duncan asked if this case has been computed into this year's budget, and Mr. Schroeder said no.

Mr. Cowper asked how much money is involved in this case. Mr. Schroeder said that he has heard between \$7 and \$12 million, but he was uncertain about that amount as he was unsure in what context it was being used.

Mr. Cowper asked if the Department of Law has a kind of reserve fund for this sort of thing, and Mr. Schroeder said no. What they do have is a Professional Fees and Services line item under Contractual Services. He said he thought that was running around \$100,000 for this year's total. Mr. Duncan wondered how their spending is in that area -- overspent or underspent. Mr. Schroeder said that they are holding close to breaking even. They are at the point now where they are having to curtail certain activities.

Mr. Gruening asked if they are hoping to get a decision that will solve some of the ambiguities in the law; in other words is this case a question of money or of interpretation of the law. What is the issue? Mr. Messenger said that this involves

computation of both past and future revenues to the state from oil production. It deals not only with interpretation of the tax statute, but also the language of the leases as to pricing and value of the royalty and allowance of certain deductions.

HB 81

Mr. Gruening asked if these same questions will arise with Prudhoe Bay, and Mr. Messenger said yes.

Mr. Naughton asked who the oil companies involved are, and Mr. Messenger said: Atlantic Richfield, Socal, Mobil, Texaco, Superior, Marathon, Union, Aramaco, Phillips, Skelly, and Shell.

In response to questioning by Ms. Buchholdt, Mr. Schroeder said that the reason for this somewhat irregular approach is that there are some items really out of their control. They are not sure if the case will be cleared up by the end of FY 75. Therefore they do not want to tie the appropriation to the fiscal year. The trial is scheduled for late May or June of 1975, but it is likely that it will be postponed until July or August.

Mr. Malone wondered if this might better have been called a special appropriation rather than a supplemental appropriation. He asked about the language on line 12 reading "specialized legal services" and Mr. Schroeder said that he does not know why that language is there. As far as he is concerned, it is not necessary. He is only interested in the appropriation. He said that he thought that was language Budget and Management had drawn up.

Mr. Cowper asked about the 80 weeks of travel necessary for the case according to the backup, even though the case is scheduled for this summer. Mr. Schroeder explained that that is attorney weeks - not meaning for only one attorney. He said he thought that there may be several persons doing the necessary travel. He also said that he thinks it may be more like 40 weeks.

Ms. Buchholdt questioned the equipment item in the request. Mr. Schroeder said that they have trouble getting anything from surplus property. When the project is over they will either surplus the property or move it to another project if they have expanded.

Mr. Guy asked about the deductions in question under this case. Mr. Messenger said that they are the transportation expenses from platform to shore and certain other cleaning and dehydrating expenses of the oil. Mr. Guy also asked about the pricing, and Mr. Messenger said that he does not know what the price or value being talked about is; there has been a range of prices used

during the past 10 years and there is question over which of those prices should be used.

HB 81

In response to questioning by Mr. Malone, Mr. Schroeder again stated that although they hope for the soonest possible resolution of this case, they have no way of knowing when it will be over and they do not want the appropriation tied to a fiscal year. They are looking at the amount of money needed for this project as a unit, and not as amount needed per year.

Mr. Haugen asked more about the \$12,400 bill. Mr. Schroeder said that the reason they have this bill now is that they did not receive Baker and Batts in time for last year.

There was question about the presently unencumbered balance in the Department for FY 75. There was a five minute recess while Mr. Schroeder went to get the information.

RECESS

AFTER RECESS

2:10 p.m.

Chairman Malone called the meeting back to order. Mr. Schroeder referred to page 95 of last year's Free Conference Committee General Government Report which spelled out the legal services appropriation for 1975, with \$1,320,000 from the General Fund and \$647,800 in Interagency receipts. The \$647,800 figure is reimbursement by the agencies, mainly Highways, and cannot be used for operating costs. Of the \$1,320,000, the Department has a balance of:

Personal Services	\$406,770
Travel	22,607
Contractual	53,510
Commodities	12,436
Equipment	-0-
Small Claims	52
Total	\$495,350

There was question about code 300, Contractual, where Mr. Duncan noted additional monies than the \$53,510. Mr. Schroeder explained that the additional money is the inter-agency money.

After further general discussion, in which Mr. Messenger noted that although he could not predict the outcome of either of the two cases being discussed, they are both very important cases to the state, the committee turned to discussion with Mr. Champion.

REVENUE RESOURCES SUBCOMMITTEE  
HOUSE FINANCE COMMITTEE  
Wednesday, February 19, 1975  
2:35 p.m.

This was a Revenue Resource Subcommittee meeting, but all members of the Finance Committee were present. Also present were Chuck Champion of the Pipeline Coordinator's Office, Waco Shelley, lobbyist for Mobile Oil Corporation, John Greeley, Associated Press, and staff members.

PRESENT

The subcommittee meeting was called to hear Mr. Champion's views on whether or not there would be a delay in the construction of the pipeline and if so, the impact to revenue.

Mr. Cowper, Chairman of the subcommittee, requested a copy of the Pete Marwick Study which Mr. Champion said he could get through his office from Alyeska. He remarked that it would be difficult to break down the total capital investment and total operating costs because some expenditures have not been made. He said that although this should show every expenditure that will reflect in the ultimate tariff, they would try to include every cost they could: the Manhattan Project; all of the environmental impact statement cost, every cost they can throw into it.

On request, Mr. Champion said he would talk to Alyeska tomorrow and get an estimate of time; he will supply a status as of now and a quarterly up-date of the basic units of cost.

There was discussion about the delay caused by poor telephone service in and out of Fairbanks. Morris-Knutsen said it was causing them a lot of delay in their part of the line. Mr. Cowper asked about invoking the defense procurement act to get equipment up there; Mr. Champion answered that Alyeska should take care of that problem; that they had backup radio communications, teletype and other equipment they felt might solve the problem.

Ms. Buchholdt said she had talked to bankers last December in the Anchorage area about the possibility that the pipeline would not get done in time and that it would end up like the TVA; Mr. Champion replied that Alyeska was doing everything in their power to prevent federal takeover of the pipeline; they will spend whatever it takes to build the pipeline. He felt that a federal takeover would be an economic disaster for the State of Alaska.

He further answered Ms. Buchholdt that he understood that SOHIO was having the most trouble getting financing because of all the delays incurred to date, but he didn't know for sure. SOHIO was a relatively small company in the context of the consortium, but as 33% owner of the pipeline must come up with 1/3 of the money. Their trouble with financing has not been reflected in terms of any sort of delay so far.

The owners have come up with the money on a weekly basis, but the problems that have been reported on the pipeline are causing problems with getting money. As the costs keep escalating, funding could become a major problem. Mr. Champion suggested getting an assessment of the personal real property that will be available or exist in the area could be a source of tax revenue.

Ms. Buchholdt asked about the social and economic impacts because the report the Committee had didn't go into them. Mr. Champion said the social and economic impacts are not within the purview of his office.

Mr. Cowper asked about the potential problems with Valdez in terms of delay. Mr. Champion said it is the shortest time frame, and if they can get deliveries of equipment through defense priorities it will be completed on time. There is no slack time in their schedule at all. and any delay in the equipment delivery could cause delay in the pipeline. In response to further questions of Mr. Cowper, he said the structural steel for the tanks is no problem, but the steel for the docks is super tight because Japan doesn't come under the defense procurement act. He doesn't know if the State Department will have to step in to expedite this; they don't have any leverage and it might be dangerous to set a precedent.

Mr. Cowper asked if there were problems of duplication of paperwork, or did Mr. Champion think those problems were behind us now? Mr. Champion replied that the pipeline project cannot be bureaucratically administered. His office has 24 people and has been extremely effective in controls. The federal people number 135 and are still growing. They are finding things wrong to justify their existence. Because of the nit-picking Alyeska almost gets out of construction and back into design. They have been so busy discussing they have forgotten they are there to build a pipeline. Alyeska has not forgotten but the environmental people have. The federal government is not concerned with the environment in the State of Alaska. Their thrust is to build the pipeline, but just by their own weight of over-management they are getting the opposite result they wanted to achieve.

In answer to Mr. Gruening, Mr. Champion related that Alyeska had a welding standard that was unacceptable to the State of Alaska; they had to fight Alyeska and are still fighting the federal people because they would not accept -20° F for the welding. To have -20°F would be sheer folly. Alyeska has changed their criteria and are equipping to meet -50°F standards, which will insure safety and integrity of the pipeline. If the federal people don't meet that standard on their land they will definitely have problems. Once oil is in and flowing at 145°F there will be no problems.

Ms. Itta asked about the archeological finds along the path of the pipeline, and Mr. Champion told her that North of the

Yukon the University of Alaska had a contract to take care of these findings and South of the Yukon the Alaska Methodist University had a contract. In his opinion Alyeska has done a fine job with these contracts. If they find significant dig Alyeska will reroute the pipeline, but the artifacts are dug up and removed. Concerning the report on caribou migration patterns; he said the structure they tested the caribou on was a bridge trestle, and the results were inconclusive. Ms. Itta requested him to find out how much was spent on the study. He further stated that they didn't know what the caribou will do, but if their migration was significantly disrupted Alyeska would take whatever steps necessary to remedy the situation, and would bear the cost. There will be some fish killed and some siltration of waterways but they have authority over right of way leases to force Alyeska to correct any migrational problems created. Fish and Game are very involved; there is a joint Fish and Wildlife team that are concerned with fish passage on every river crossing and with the wildlife. Every special refrigerated mode burial increases the risk and hazard and questions the integrity of the pipeline.

Mr. Champion explained that the ice has strength in compression but not in sheer, and they will use the same technique on the bridge crossing the Yukon that was used in Cook Inlet; the current strength and ice is basically equivalent to Cook Inlet.

Mr. Duncan pointed out that they have talked about a delay in terms of 3, 6, 9, and 12 months, but because of start up in winter month not being possible, wouldn't a delay automatically mean 12 months. Mr. Champion said that the hydrottest was the critical factor and could not be done in the winter, but could be done as late as November, 1977 if they begin in January. They cannot predict and neither can Alyeska; only warn of possible costs.

In answer to Ms. Itta's question, Mr. Champion said that the Congressional enabling legislation precluded all environmental law suits. However, about 5% of the pipeline crosses private land and some land owners feel the price Alyeska and the Government offered was insufficient. In those cases where it is not possible to reroute the pipeline they condemn the property, then the courts decide the value. There are maybe half a dozen law suits on the entire pipeline.

Mr. Cowper noted that the pipeline was to be completed October, 1976, but that did not include the start up, the hydrottest, supervisory control work; he asked when Mr. Champion thought it would be completed. Mr. Champion said that with the two winters of construction, plus the hydrottest and startup it would probably take them into the fall of 1977. If Alyeska can put it together and if there are not undue constraints put on them they could have it completed on time. There are a number of items over which they have no control: Delivery of equipment; the Japanese steel fabricators; weather; severe winters; labor strikes -- there is an agreement which precludes strikes so they hold daily meetings which results in the same thing; natural disasters -- a vessel sinking or barge tipping over.

There was delay resulting from the failure of suppliers to get camp modules up there. There are management problems. He gave the example of a bridge to be finished in October 1974 which was still not finished.

There was discussion of the sewage disposal system; Mr. Guy asked if there were systems that could be used by the villages and Mr. Champion said that actual plants were on site but not in operation that could be useful in villages. He described the various methods of disposing of the waste they were now using.

Further discussion of the cost of delay in relation to loss of income and royalties. Overall capital costs exclusive of equipment is \$80,000,000 per month. Mr. Naughton asked what affect on the ultimate revenues would be; how much dimishment would result. Mr. Champion said the Division of Oil and Gas have a breakdown on the source of their 36.9 cost per incremental dollar and he will send a copy to the Committee.

Mr. Champion said he wasn't sure about the question of special order 24" drill units for installing above ground supports; it might have been a strike in the steel industry. He did know of one little company in the midwest that shut down and that the part they produced was integral to many companies products and it even caused General Motors trouble.

He further talked about the slack time built into the contract; that they had used the five to seven months built into the contract. They think they will be able to make up the lost time and break even.

In response to Mr. Naughton's question about investigators for the local hire problems, he related that they had gone before the Budget and Audit Committee to get an appropriation for the funds. They were told that in order to do this they had to have a memo of understanding from the Human Rights Commission and the Commissioner of Labor which they got. Now there is a new Human Rights Director and a new Commissioner of Labor and there is disagreement over the original memorandum, that their office would do the field documentation. Alyeska would like to get out of the committment they made. He suggested a direct appropriation to the Human Rights Commission might be best.

Again, he responded, he does not address the social implications except short-fall of income. In regard to environmental concerns they have to walk a very fine line and see that the pipeline is completed in a timely manner with adequate environmental safeguards.

The meeting was recessed at 3:48 p.m.

HOUSE FINANCE COMMITTEE  
Wednesday, February 19, 1975

AFTER RECESS  
3:50 p.m.

All members were present at this time except Mr. Haugen.  
Art Peterson, Department of Law arrived later in the meeting.

PRESENT

At this time, the discussion of House Bill 81 was resumed. The Chairman made several comments; about the fact that this Bill concerned two different cases and the specified amounts of money that the Committee should focus attention on where it was going and what purpose. He had talked with Mr. Schroeder about the reasonableness of lapsing funds for FY 76. He questioned whether it was a supplemental or special appropriation; only the \$12,350 appeared to be a supplemental.

HB 81

Mr. Naughton suggested a committee substitute might be in order because of so many things needing changed. Here, it was felt that Art Peterson should be contacted since he drafted the Bill for Budget and Management.

Mr. Gruening wondered if they planned to get the 80 depositions before the trial. Mr. Cowper felt they should spend the money first then ask for a supplemental appropriation, then they would know how much they need; he felt they didn't need this amount of money. The Chairman said it was a good practice to encourage them to come before they spend the money since they can't do anything much after the fact.

Mr. Peterson arrived at 3:58 p.m., and said he didn't draft the Bill, but did review it. In response to questions from the Committee members he said the money was just for these two cases; the open-ended of not having the money lapse he assumed to be because of the different problems that usually arise in persuing these cases; he pointed out that since the amount was specified it wasn't completely open-ended; they cannot assume that the case will be wrapped up by the end of the fiscal year. In the drafting manual a supplemental appropriation is an item that had been budgeted for in prior years, and to the extent that this had been budgeted before and was in the existing budget, this was a supplemental appropriation. There was further discussion on this point.

Mr. Naughton pointed out that some billings resulting from 1973 were difficult to pay up next budget, and asked if there will be difficulty this year; Mr. Peterson said that a general appropriation bill has certain limitations, but if this is specifically allocated to those billings, there should be no difficulty in applying it to that purpose, that the back up material would leave a trail of legislative intent. He did not know how hard they tried to get a bill from the lawyers, in answer to Ms. Buchholdt's questioning the management factor.

Mr. Peterson left at 4:10 p.m.

HB 81

The Chairman asked for direction from the Committee; he felt there was no justification per se on the amount of the pricing case and believed they should get more information and would like to appoint a special committee to get it.

Mr. Cowper asked if there was any way of isolating this appropriation. The \$12,350 had to be paid, but if they get the \$107,900 and don't need it what happened to it? He thought they should keep special account of the money spent and the money should be lapsed.

Mr. Duncan commented that it was too early to pass out this Bill. Mr. Gruening suggested formulating a letter at this time asking them to come back with material and the Chairman emphasized that all the questions they wanted answered should be asked. Mr. Guy was interested in the relative importance of these lawsuits to the State.

Without objection Chairman Malone appointed Mr. Duncan and Mr. Gruening to the subcommittee to get the information on the justification of the \$107,900 for the Cook Inlet Pricing case. He would like to have the information by next Wednesday, February 26, and the letter should be sent to the Attorney General's Office.

There were no corrections or additions to the minutes of the Committee meetings through February 14, 1975, and they were approved as written.

Chairman Malone announced that Jay Hogan, Director of Legislative Finance would meet with them about the jargon and terms that apply to budget, and points of possible confusion. at 1:30 p.m.

The House Finance Committee will meet at 8:30 a.m. tomorrow morning, February 20, 1975.

Mr. Cowper said the Revenue Resources Subcommittee would meet with Mr. Charles Elder, of Alyeska today at 1:00 p.m.

The meeting was adjourned at 4:17 p.m.

ADJOURN

HOUSE FINANCE COMMITTEE  
Thursday, February 20, 1975  
8:32 a.m.

This was a joint Senate and House Finance Committee Meeting. All members of the House Finance Committee were present; Messrs. Gruening and Naughton arriving later. Senator Sackett was present from the Senate Finance Committee. Others attending were Senators Terry Miller and John Huber, and Representative Tom Fink. Also present was Sterling Gallagher, Commissioner of Revenue, and Cheryl Probst of the Anchorage Times.

PRESENT

This meeting was a confirmation hearing of Sterling Gallagher, as Commissioner of Revenue.

Mr. Gallagher sees his job as a very large responsibility in seeking new sources of revenues, and what is good for the State in the short and long run. They have been short sighted in the past and now are on the point of running out of funds; they need to establish on-going programs with on-going funds. He would like to develop expertise in the petroleum area and some sort of intelligence in the area of tax evasion. In answer to Mr. Duncan he said the last would be directed toward individuals and corporations; the real estate area. They now have a listing of all corporations on their newly installed data retrieval system, and only 40% of those paid taxes. With this type of list they can see where to investigate. Ms. Buchholdt asked about people who earn money here and take it outside; but he said that taxes were withheld from their paychecks. There is a problem in the exemptions claimed on the W-4 form and they hope to have a bill to control that more.

Rep. Fink asked about the sale of part of the portfolio, and Mr. Gallagher told him that if there wasn't enough revenue, by next March they will be selling some at that time. He talked about a full housing program for Alaska Housing Finance and selling veterans loans to them if they need to do so.

Mr. Gruening arrived at 8:40 a.m.

The Chairman asked about any major changes in investment or policies toward investment of State surplus funds; the sale of stock was one change. There were some bad policy decisions in the past as to how much money should be in credit unions, since they are not a very liquid instrument. A bank is a liquidity instrument, but a credit union is different and a 10% deposit that was withdrawn could break some credit unions.

Mr. Gallagher referred Chairman Malone to the Pipeline Commission on his question of how much has been spent on pipeline construction and what was likely to be spend by completion. He said they offered assistance to Mr. Warner and were meeting next month with Alyeska on cost controls. He told Mr. Cowper that an audit being done should be out "momentarily".

Senators Terry Miller and John Sackett arrived 8:45 a.m.

Mr. Gallagher said he had no feelings one way or another on State chartered credit unions with all Alaska members; that there were none in existence now.

On the subject of petroleum expertise, he felt sure there were many Alaska residents with backgrounds in other areas who could readily be trained in petroleum. They would train or hire the best people they could find.

Answering further questions from Rep. Fink, he said they had sold part of the bonds as of January, at that time they down about 7 million dollars after a two year investment. If they had been left, about 4.5 million would have been earned so it's about a 50% loss. He said that a bill had been introduced with a hearing on it yesterday, and a full hearing on it this Friday in regard to the Alaska Municipal Bond Bank Authority. The Chairman asked if the buyers of the bonds rate them against full faith and credit, and was told that the moral makeup clause in each State was different, but with Alaska being an "A-1" rated state and with a funded reserve behind them, the bonds would also be "A" rated.

Mr. Gruening asked about taxing oil and gas reserves in place and if the administration intended to have an act to do this by the end of the session; Mr. Gallagher said a bill would be submitted in the near future, and it was the administration's position they would like the bill passed because the State will be running out of money by March or April of the coming fiscal year. He estimated that money could come in about July but they would try to shorten that time span.

He outlined generally the monetary needs of the State: By March they would need about 70 million dollars, and by November 250-300 million, so they needed to have the lease sale by June, which will allow them to get through the fiscal year just barely.

Mr. Naughton arrived 8:55 a.m.

Mr. Gruening asked about the advantages or disadvantages of waiting for the Beaufort Sea Lease sale, but was told that the time was drawn very thin and it would have to come out of the legislature fast if they were to wait. Chairman Malone said they were currently doing the environmental impact statement, and was told that that would preclude environmental suit's delay; the suits could still come up but they would have the answers to their questions.

Mr. Cowper asked if the environmental suit problem would affect only the production, not the lease sale itself, and about the time table built in; Mr. Gallagher said they would probably try both. He further stated that good seismic work is done in February through April; then they need sixty days to analyze the results, another month to get the money. He also said that it would tie their hands in the future to sell oil and gas options and they didn't want to do it unless they had to.

Mr. Cowper related a rumor that the oil companies were requesting that the Beaufort Sea lease sale be held in 1976 and wanted to know the reason for that. Mr. Gallagher told him there is excess capacity in the pipeline, so the more the date is put off, the more the capacity is filled up. It is to our advantage to put it off as long as possible because of the common carrier aspects.

In response to Rep. Fink, he said that the Veterans are growing rapidly; there are 10-11 million dollars in applications outstanding, and they are growing at a rate of 4 million dollars a month now. By the end of the year we could have 70 million in veterans' loans. They are having trouble processing them. It appeared to Mr. Fink that they had not been keeping the money from the loans in the State, but Mr. Gallagher told him that four years ago there were only 15-20 million in the State and now there was 100 million.

Ms. Itta asked about the office established in Seattle in 1974, and what the auditors there are doing; Mr. Gallagher related that there were 1200 warrants outstanding in the lower forty-eight, and their job was to chase them down. They handle all mailing of tax bills in the lower forty-eight, plus doing audits of Washington based firms who work in Alaska. Also one girl does the motor vehicle licenses since many people are picking up licenses in Seattle before they come here. There are 7 or 8 people; the office manager is Alaskan, the others were hired locally.

Answering Sen. Huber, he said they have looked into the area of overall tax collection, but not specifically the excise tax on liquor, and have not gone into any improvements. It is a weak area at this time.

Chairman Malone asked if the questions had been corrected in the Department of Revenue and Motor Vehicle Registration, and was told that the accounts will be kept track of. Their main trouble was that they had been underfunded and their volume went up 30-40%; the manager started doing work himself and it got completely away from him; controls are back into the system.

The Chairman also said that Mr. Lipton had suggested they look at revising income tax structures so that there were other ways to tax. Mr. Gallagher reported that they were looking into new ways and spending time up-grading research capabilities. With the new computer they will have a data base from which to work. They got the first run off yesterday on corporate tax returns.

To Ms. Buchholdt he answered that they did not intend to borrow at this time using revenue anticipation notes, because the constitution prohibits borrowing beyond intra-fiscal year. It would take until November, and the money is needed before that so it is not high in their options. He further told the Chairman that the State could borrow 400 million dollars without damaging their credit for interim financing, but the problem is the constitutional prohibition.

His 400 million figure was based on conversation with bankers and a general feeling. If the constitution were amended they would have a notice and a note sale. One way they could borrow without going to the constitution is to set up an agency and finance it. Mr. Gallagher said notes sold would be tax free; they can only borrow at 5% and the money market has a tendency to go over 5%; they will have a bill done to either raise the limit or take it off. He mentioned that several cities, not states, borrow money by issuing anticipation notes.

Mr. Huber asked if taxing oil and gas in place would take the edge off delays, but Mr. Gallagher said a big benefit to the State would be control of the price of the pipeline, and taxing reserves would not do that. Raising property taxes or transportation taxes would better solve problems. The pipeline is the only big tool we have. Mr. Huber said that as production increased the tax on reserves could be phased out then any delay in construction would not matter.

Ms. Buchholdt asked Mr. Gallagher if he would favor the State underwriting areas that don't have enough tax base to run their own government. He replied that in Alaska, local tax effort is very poor -- we are number 36 out of 50 states in that. When state and local government are added, we are number 50 out of 50. Alaska pays 90% of school costs; only Hawaii is higher, compared with New Hampshire at 8% and Washington at 40%. Local boroughs are getting a lot of local support.

Representative Rhode suggested having a State-wide tax until a fund was build up, then discontinuing it. Mr. Gallagher said there was a gross receipts tax bill on the books; he said some cities already have high sales tax, and this additional tax would get a lot of political yells.

Chairman Malone suggested a property tax on the pipeline might expedite construction, although Alyeska members were doing everything they could to get the pipeline built; would this put a break on costs? Mr. Gallagher said if they could make a larger profit they might speed things up, but we have to give them some encouragement.

Mr. Gallagher stated that he planned to stay in the office all four years.

The meeting was adjourned at 9:32 a.m.

ADJOURN

HOUSE FINANCE COMMITTEE  
Tuesday, February 25, 1975  
8:37 a.m.

All members were present except Rep. Gruening; Ms. Itta arrived later. Also attending were Rep. Mike Hershberger, William Sacheck, Director of Parks, and Phil Holdsworth, former Commissioner of Natural Resources, Dee Frankfourth, Peter Scholes, interested citizens, and staff.

PRESENT

House Bill 4 was the first item discussed. Rep. Mike Hershberger, the prime sponsor gave the background on HB 4, "An Act making a special appropriation (\$75,000) for the purchase of real property within Potter Point State Game Refuge." Mr. Hershberger said last year \$50,000 was called for, this year they were asking for \$75,000 and next year would probably be \$100,000. There is matching money from the Pitman-Robertson fund on a 3 to 1 basis, that will be left there if it is not appropriated. This purchase is to clean up several small tracts of land that lie within the boundaries of the refuge. There was a meeting of a home owners group plus interested public last October, and the home owners back the idea of Potter's Marsh though they object to the rifle range adjacent to it. Though there are a number of people who live there for the express purpose of hunting; most people were in favor of putting Potter's Marsh under management that will allow limited hunting. This is an old bill he is running through by request. There is \$2.5 million in the Pitman-Robertson fund. Mr. Haugen requested the Chairman to check on this figure. There will be no addition to staffing; the management is in effect now.

HB 4

Mr. Hershberger said the greatest value of the land is probably that every school child in Anchorage has been there one time or another on a field trip to observe the nesting. He pointed out the area and its relationship to the Anchorage area on a map for the Committee. There are a few pieces of private land not worth very much because the earthquake dropped the area and its under water now. The plan includes an observation tower. There is limited hunting to keep the pressure off the waterfowl. They will purchase as much property as the money they get will buy. The Chairman remarked that there are 745 acres of private land in the area.

Potter Point State Game Refuge was declared a refuge in 1972 or 1973; there was no acquisition, just a declaration. Mr. Hershberger further stated that there was talk of turning adjacent property into riding and ski trails. The money is derived from taxes on fishing goods, hunting tickets, licenses, etc.

Mr. Haugen said he thought there was a great deal of value in this plan; that the funds should be taken advantage of. He asked if the number of geese had increased, and was told that there were about 300 more nesting geese as a direct result of making water holes and draining water that would not ordinarily be there.

Mr. Hershberger said it was practically an adjunct to the education of children in Alaska; that few cities had anything like this almost within their boundaries.

HB 4

(Ms. Itta arrived 8:50 a.m.)

Mr. Haugen stated that if he could be assured that Fish and Game had the money he would be in favor of passing the bill out. It was pointed out that the bill directs Fish and Game to gain funds from Pitman-Robertson for land acquisition only. Jim Rhode supplied a list of the names of individuals and their acreage and addresses. Bob Grogan said he will bring the Committee a complete status of all Fish and Game funds including all available federal money.

House Bill 8 creating Palmer Hay Flats Game Refuge and House Bill 9 creating Goose Bay State Game Refuge were then taken up. Mr. Hershberger related that the big hang-up here was the legal description of land which included a small piece selected for Mat-Su Borough recreation. He said that people get upset about putting land into the "bank"; that these lands will be used to hunt on, but under a management program applied by Fish and Game that will keep them in a hunting status probably forever. An organization associated with Ducks Unlimited has worked over three years to gain these areas, and are wholly in support if the right of access to hunting is guaranteed. All lands inside the proposed areas are State land, and there will be no fences so homesteaders on adjacent property will have free movement. They are just setting aside a shooting area. If the Mat-Su Borough wants the recreation area to be included within the boundaries, they will be; if they don't, they won't.

HB 8  
HB 9

Mr. Phil Holdsworth, a member of the State Joint Planning Commission said that his main concern is with three other bills that will be coming before the Committee; however it is the same concern with the general lack of planning prior to the creation of these things. He said that to get power to residents, they cannot cross Knick Arm; they will have to go around, and both areas lie in the path of a power line. There will be a problem if something doesn't allow the construction of a power line. He stated that under the law, at the suggestion of the Legislature, the Department of Natural Resources could hold these lands until there is a better plan for the use.

Chairman Malone asked if there was any other way to install the line then a surface transmission line around the arm, but Mr. Holdsworth said that underground, across the tidal flats or around, the same problem was getting across the land.

Mr. Haugen remarked that he could see both sides of this problem, but thought a transmission line could be accommodated without having a substantial detrimental affect on the land. Mr. Hershberger stated that this would make a case for Chugiak Electric Assn., and others; that if the area is not set aside now, it's likely never to be; he felt it was a case of people wanting electricity at a cheaper rate and no duck hunting, or

electricity at a higher rate with some hunting. Mr. Holdsworth suggested that the language in the act could be changed to make it clear that these sort of things could be put in. Mr. Hershberger said that it would have to go through public hearings and would get the whole town up again; traditionally and historically, all these lands have ever been used for is hunting; the setting aside of lands will actually eliminate damage to private lands due to trespassing.

HB 8  
HB 9

Ms. Buchholdt asked if the Planning Commission was dealing with this particular kind of planning now; Mr. Holdsworth told her that all work on D-2 lands is completed and recommendations as to easements and corridors. They are now reviewing State land use planning: what is it, how is it being conducted, is it satisfactory -- to make recommendations to the State. They cannot introduce bills, only make recommendations.

There was discussion of the aesthetic side of a power line crossing the swamp area; the danger to flying fowl. Mr. Hershberger said he didn't represent a majority because he didn't see why the lines could not go over the swamp; that it would not harm the swamp except aesthetically. He again said that if we didn't make areas like these, we would be planned out of them. There are anywhere from 300,000 to 500,000 water fowl through the area.

Mr. Naughton requested to see a report on the status of land within the boundaries.

In answer to Ms. Buchholdt, Mr. Hershberger said there is no provision for funds; they are not required, but if there was eventually property to be acquired these same Pitman-Robertson funds would be used.

The Chairman pointed out that in the footnote of the fiscal note, the Fish and Game Department does not see any impact to the operating budget in the "foreseeable future," but at some time it might be desirable to develop access to the area. The intention is to leave it presently as it is.

Representative Keith Specking gave a broad background on House Bill 141 "an Act expanding the Caines Head State Recreation Area." He said his original bill established the Caines Head State Recreation Area, and this Bill would expand it to include an additional 4,000 acres. It is a heavily fortified area built in World War II; some military development. It provided an opportunity to set aside and make into a recreation area a sea-type of fortification. It retains the historical development of gunning placement during WW II. There are existing paths and roadways. The Division of Parks has developed an extensive plan for improvement and making it more useful to the public. He has made no attempt to get further money; he didn't feel the time was ready for it. The area does have some access problems and the proposal is to develop it by building a small pier for access by boat. If the land requested is added, the State would gain additional federal money based on the additional land.

HB 141

Mr. Phil Holdsworth, speaking for Mr. William Sacheck, Director of Parks who left at 9:00 a.m., said that the fiscal note shows no requirements. This Bill is merely adding some higher land for climbing. There will be no staff or development.

Mr. Specking reported there was no private land in the addition. In the original bill, they do not have the right of eminent domain, but he couldn't recall if the provision was writtin into this bill. It should be checked to see if there are private lands, and if there are they should be protected and not subject to taking.

Ms. Itta asked about the future development of the area, and was told that they were principlly talking about old roads being fixed; perhaps cleaning up the bunkers; maybe providing toilets.

The Chairman noted that additional information on House Bills 8, 9 and 141 was needed, as to the status of lands; to what extent private lands were included; and some idea of existing land uses if there are any other then in its natural state. The staff will round up this information and the Committee will take it up for final consideration when it is available.

Mr. Specking said he was sure he had a copy of the big development plan pertaining particularly to the first phase, and would be glad to get it to them.

There were no amendments or corrections to the regular minutes through February 19, and the Budget minutes through February 11.

Chairman Malone announced that the Committee will meet at 2:00 p.m. on HB 26, and HB 146. (February 25.)

Mr. Cowper said Fred Boetsch would address a joint committee meeting on Revenue Sources, at 3:30 p.m.

The meeting was adjourned at 9:50 a.m.

ADJOURN

AFTER RECESS  
2:00 p.m.

All members were present with the exception of Reps. Gruening, Naughton, and Cowper.

PRESENT

Chairman Malone called the meeting back to order. and announced that the committee now had before it HOUSE BILL 146 (Special Appropriation - Natural Resources, Alaska Royalty Oil and Gas Development).

HB 146

It was noted that as of February 20, no one had been appointed to the Royalty Oil and Gas Development Board. Mr. Haugen said that he would assume that the Governor intends to appoint someone and he felt that the House might just as well pass this out and send it over to the Senate.

Mr. Haugen moved and asked unanimous consent that HB 146 be released from this committee. There being no objection, it was so ordered.

MOTION

There was brief discussion on the bill, Mr. Haugen stating that the states needs to have this board set up before the time to make decisions on selling royalty oil and gas.

There being no further discussion, HB 146 was reported out of committee with a unanimous "Do Pass" recommendation.

HOUSE BILL 26 (authorizing the creation of regional electrical authorities) was next brought before the committee for discussion. Mr. Duncan being one of the prime sponsors of the bill, Mr. Malone requested that he give the committee a statement on the bill, its purpose and its financial impact.

HB 26

Mr. Duncan said that the bill authorizes and establishes regional electrical authorities. Regional housing authorities are already set up. This will give the capability of issuing bonds and notes. He said that there is no real fiscal impact. The last section on page 11 indicates that credit of the state is not to be pledged in any way.

(Mr. Gruening entered the meeting.)

Mr. Malone asked what the effect of the Commerce amendment is. Mr. Duncan said that that amendment was proposed by the Alaska Electrical Rural Cooperative Association. It just says that if they want to establish electrical authority

inside the boundaries where AVEC already is working they would have to have their permission. This amendment is on page 2, line 15, of the bill and it says they may operate within corporate limits of a municipality or the service area of a certificated rural electrical cooperative only with the consent of that coop or municipality. Mr. Duncan said that the Alaska Rural Electrical Cooperative had proposed this language because they were worried about overlapping.

Mr. Duncan said that the bill would provide the authority to issue bonds or notes and also hopefully to get federal funds, working on the same basis as the Alaska Housing Authority.

(Mr. Naughton entered the meeting.)

Mr. Duncan continued that this would give bonding capability and provide management and maintenance experts, which the villages do not have now.

Ms. Buchholdt wondered about AVEC's feeling, since they are providing electricity to a lot of the regions already. Mr. Duncan said that they anticipate the authorities and AVEC working "side-by-side", not in conflict with each other.

Ms. Itta said that that was her concern - the relationship between these authorities and AVEC. She said that in her district, there are village who have had problems with AVEC. She said there are outrageous costs and spoke of one of the schools being severely burdened by these costs.

Mr. Duncan said that there is no real relationship between the two. All this bill does is give native corporations the right to form authorities and go in where needed to provide electrical facilities.

Ms. Itta asked if there was any feeling expressed by AVEC about this. Mr. Duncan said that they were asked to testify before Commerce and did not make any testimony. He said that, personally, he thinks if AVEC was asked they would be against this. AVEC has not solved the rural electrification problem, however.

Ms. Itta asked if any of the regional corporations were present. Mr. Duncan said none were present to testify, although Tlingit-Haida was represented there. Commissioner Motley of the Department of Commerce had testified before the Commerce Committee, Mr. Duncan added, and had no objection to the bill.

Mr. Haugen said that AVEC would probably be concerned about

having someone usurp their customers. Mr. Duncan said that the language protects existing utilities.

Mr. Gruening asked if a village itself could become an authority under this bill and Mr. Duncan said no.

Mr. Haugen said that he supports the bill but thinks it has some difficulties. He thought that Bob Loescher of Tlingit-Haida should be asked to testify.

Ms. Itta said that she would hope that there would be cooperation with the native corporations in this.

The comment was made that the native associations could not form an authority without the consent of AVEC where AVEC was operating. Mr. Malone made the point that that is only true if the Commerce Committee amendment to that effect is adopted.

Mr. Guy inquired about page 4, section 15, and asked if that language means that the authority can just "walk in and take whatever they want" without there being a vote and Mr. Duncan said that these are provisions normally given in similar cases. Mr. Malone said, though, that the answer to Mr. Guy's question is yes.

Mr. Malone wanted some background on this bill. He asked if the bill were to become law now, what would happen. He wanted to know if anyone would organize immediately.

Mr. Duncan said yes, that Tlingit-Haida would organize. They are ready to go. This problem has come to them because they are putting housing in Southeastern communities, but are having nothing but problems because of electrical fluctuations. They have an electrical engineer and staff who have analyzed the problem and have found that there is equipment sitting that is not being used and there is equipment being used which should not be used, and third, they don't have any expertise. This legislation would give that expertise to an authority such as Tlingit-Haida, so that they could hire on a management team, maintenance personnel, and provide required services. He said that he thought they could be ready to move this summer. He said that they have been working in Washington D.C. to get money lined up and he thinks they have some pretty firm commitments.

Mr. Malone assigned the bill for further study to Reps. Duncan and Guy, and asked that they specifically

Subcommittee  
assignment

check into who the Commerce Committee notified and what response they got; and if it is Tlingit-Haida who is primarily interested, find out when they would be available to testify.

Ms. Farnan, in response to questioning by the chair, said that the Rural Electrification Agency is a federal agency and they fund AVEC. The Alaska Rural Electrical Cooperative association is different from AVEC.

Mr. Malone said that the bill will be brought up again as soon as it is possible and after additional people are contacted to testify.

After brief discussion on scheduling, the meeting was adjourned at 2:58 p.m.

ADJOURNMENT

JOINT MEETING OF THE  
HOUSE FINANCE SUBCOMMITTEE ON REVENUE SOURCES  
AND THE SENATE SPECIAL COMMITTEE ON REVENUE & TAXATION

Tuesday, February 25, 1975  
3:30 p.m.

Members present at this joint meeting were Steve Cowper, chairman of the House Subcommittee; Representatives Haugen, Gruening, Itta and Guy; Senator Huber, Chairman of the Special Senate Committee; Sterling Gallagher, Commissioner of the Department of Revenue; Messrs. Fred Boetsch and Myron W. Klein of the Department of Revenue; John Messenger of the Department of Law; Al Anderson, representing Alaska Wood Products, Inc.; Don Dickey, Alaska State Chamber of Commerce; Don Magnusson, Alaska Retail Association; W. W. Hopkins, Alaska Oil and Gas Association; D. H. Rainey, EPNG; Norman Gorsuch, Alyeska Pipeline; Waco Shelley, Mobil Oil Corporation; J. K. Humphreys, Legislative Affairs; members of the staff and press. Senator Joe Orsini was also present.

PRESENT

Chairman Cowper called the meeting to order at 3:40. He explained that the purpose of the meeting is to allow Commissioner Gallagher and Mr. Boetsch to go over the Governor's proposed tax package and to discuss the bills and their ramifications for revenue projections. He turned the meeting over to Mr. Boetsch at this point.

*Proposed  
tax bills*

Mr. Boetsch said that there are a number of things being talked about. One is the corporate taxes in general and how they work, especially the income tax. He said that they are going to give a quick and simplified view of how the corporate income tax works with respect to Alaska and how the Multi-State Tax Compact works. He distributed the first of the Governor's packages of bills to the committee, and said that these primarily are in the nature of income tax reform and deal with specific corporate tax provisions. In addition, there are a couple other minor bills dealing with administrative procedures for all tax types to consolidate those procedures and a bill to change the business license tax filing date to conform with federal income tax filing.

First, he said that he would talk about the corporate income tax. Alaska's net income tax is basically related to the federal tax in that it is a tax on 18% of the federal tax that would be payable by 1963 federal rates on taxable income as defined in the Internal Revenue Code on sources within the state. However, he said that it is difficult

to define "sources within the state" especially when other states and even countries are involved.

In 1959 there were a couple Supreme Court decisions and complaints to Congress involving the multiplicity of taxes. Congressional reaction to that problem was P.L. 86-272, which placed jurisdictional limits on states and local governments as to ability to tax interstate businesses. The Willis subcommittee was formed to study the problem of interstate taxation and suggest other legislation. As a reaction to that, states decided to get organized because the pending problem was that the whole area of taxation was going to be superseded by federal legislation and the state's authority would be taken over by the federal government. Since this was very much an area of states' revenues and touched on the very heart of state sovereignty, the states responded by getting together in 1965 and 1966 and developed the Multi-State Tax Compact. Several states joined right away and at the present time there are 22 regular member states and 15 associate member states. The purpose of the Compact is to meet the industry objection of multiple taxation, duplication of tax, lack of uniformity of law and administrative procedures, and in general pertained to interstate commerce. The states worked to come up with a uniform method of spreading of income and determining how the state taxes could be levied among themselves. The present status is that there have been bills introduced since 1966 in Congress to eliminate the Compact and establish instead a federal system which would determine how the states could tax interstate corporations. There are bills in Congress at the present time that would seek to do this. Many of them the states feel are very restrictive as to the way in which corporate income could be calculated, the way in which related corporations could be combined and jurisdictions determined. Another problem is that presently the Compact is facing suit in U.S. Steel versus the Tax Commission and the commissioners. (This is in New York.) The thrust of that suit is that the Compact is unconstitutional because it violates the authority of Congress to regulate interstate commerce and violates the provision that no compact within states is valid without Congressional consent. The case has not gone to trial. Basically, the same thing was tested in state court in Washington and the state won. Mr. Boetsch said that there is a vital "tug-of-war" going on between industry, states, and the federal Congress.

Discussing how the Multi-State Compact works with respect to corporate income tax, Mr. Boetsch said that the members have adopted a uniform law. He said that there are

several methods that could be used to determine corporate income tax.

One method of calculation is separate accounting. This was the method for calculating the income in the state. He passed out an illustration of how this has been working (attached to these minutes). He said that the figures were taken off the actual tax returns.

Example 1 shows the allocation method. A problem here is that allocation of expenses is subject to disagreement. By this method, the corporation in this example paid no tax to the state.

Example 2 shows calculation of taxes for the same corporation by the apportionment method after the state audited their books and told them that separate accounting was not applicable for Alaska per the Multi-State Compact. Apportionment method takes all income of a group of related corporations. Property, payroll, and sales figures are taken and used as factors to determine how much of the total net income is applicable to each jurisdiction in which the corporation does business. Those three elements (property, payroll, and sales) become numerators in a factor the denominator of which is the total, worldwide. Then they divide by three in order to get the average fraction and that percentage is applied to the total worldwide apportionable income. That corporate tax rate is applied to come up with the Alaska income tax. That is a simplified version of how this operates.

To compare this with the local businessman, doing business just within the state, they drew up a third example of a similar corporation operating in Alaska with similar income costs and expenses. The tax due is the same as under apportionment for the worldwide corporation. This illustrates that the apportionment formula comes out with a proper amount of net income applicable to that group of corporations.

Senator Orsini asked if oil in the ground counts as property in the apportionment formula. Mr. Boetsch said that potential value of oil reserves is not included. What they may have paid for that property would be considered property along with any development costs.

Mr. Boetsch said that there are two problems with any law. The first is to get the right law, and the second is to enforce it. Because many of the states have just gotten interested in the last 10 years in enforcing corporate

tax laws and because the Compact is new, taxation has been a "file as you please" kind of proposition, and separate accounting has been common. Thus, an important aspect of taxation now is enforcement of the Compact through audits. In the last two years the state has developed a field audit program in the state which has addressed itself to the problems under the Multi-State Compact. They have been putting corporations on notice that this method (apportionment) is the proper method of filing.

Mr. Boetsch said that there are other methods that might be used. The state has, he repeated, used separate accounting and has come up with different calculation methods. There are problems in making calculations, he said -- suppose the corporation does not sell in the state; how are expenses allocated; how is gross income determined. Mr. Boetsch said that he asked John Messenger of the Department of Law to look into some of these factors and the idea of "in lieu of sales" figures in calculating net inc tax. He turned the meeting over to Mr. Messenger at this point.

Mr. Messenger began a lengthy overview of the situation, mentioning along the way that the main obstacles with regard to taxing the multi-state or multi-national corporations' net income are (1) the due process clause which says the corporation or multi-state business has to have a certain minimum contact with the state before the state can tax; and (2) the commerce clause stating that the state has the right to tax net income of multi-state or national businesses as long as it does not place a burden on interstate commerce. He said that in the absence of Congressional action the court will still look at state taxation and income to see if this has placed a burden on that commerce.

Referring to the idea of placing a value on the oil before leaving the state for taxation purposes, Mr. Messenger said that he thought there would be problems created. A major problem would be that all expenses related to the activity (not only trucking but all expenses) would then be deductible. He said, too, that like separate accounting this would make it difficult to really identify the net income of the state.

Mr. Messenger continued elaborating on a variety of related subjects, but in the interest of time Mr. Cowper requested that he prepare a written statement to the Committee on the legal questions involved in the Governor's package.

Mr. Boetsch introduced Mr. Klein, the field audit coordinator in the Department of Revenue. He referred to the last page of the illustration on the taxing methods and noted that one can see from that some of the problems involved in trying to audit under the separate accounting method.

[Mr. Duncan entered the meeting.]

Mr. Boetsch said that he would go through the bills in the Governor's package, explaining them one by one. (Copies of all these proposed bill in the REVENUE subject file.) The first of these is entitled "An Act relating to the Alaska net income tax deductions and credits; and providing for an effective date". He said that this is addressed to the net income tax and is introduced to bring up for discussion state policy with respect to certain kinds of tax breaks. Specifically, it addresses the question in Sec. 1(a) of foreign tax credit. It eliminates foreign tax credit allowed as to federal taxes under Internal Revenue Code sec. 33. He said that they have already come out with an administrative ruling that federal tax credits are not applicable, but because of the state's "piggy-back" system, that provision in the federal code is referred to by reference in the state code; and so this is a matter of having specific legislative action on this particular credit; they felt it should be specifically stricken from the code for state tax purposes. That credit is designed at the federal level to prevent duplicate taxation of the same income (since corporations may be paying taxes in other countries). However, this is not applicable to state taxes because the state is not taxing foreign income but just the income earned within Alaska by the formula approach.

Part b of the bill applies to the investment credit. Mr. Boetsch said that the investment credit under the federal credit has been an "on again, off again" provision in the federal tax code as part of fiscal policies to stimulate or destimulate the economy. At the state level use of the tax as a fiscal policy technique (1) does not apply and (2) is so negligible as to have almost no effect because primarily state taxes are to raise revenues. Another consideration, however, is that in a state like Alaska where the future holds potential development on a very large scale and that development will require large "front end" expenditure by the state for schools, roads, etcetera, it is a real policy question as to such a credit being appropriate. He said that this is being brought up for the legislature to make the policy decision whether or

# **CORRECTION**

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

Mr. Boetsch introduced Mr. Klein, the field audit coordinator in the Department of Revenue. He referred to the last page of the illustration on the taxing methods and noted that one can see from that some of the problems involved in trying to audit under the separate accounting method.

[Mr. Duncan entered the meeting.]

Mr. Boetsch said that he would go through the bills in the Governor's package, explaining them one by one. (Copies of all these proposed bill in the REVENUE subject file.) The first of these is entitled "An Act relating to the Alaska net income tax deductions and credits; and providing for an effective date". He said that this is addressed to the net income tax and is introduced to bring up for discussion state policy with respect to certain kinds of tax breaks. Specifically, it addresses the question in Sec. 1(a) of foreign tax credit. It eliminates foreign tax credit allowed as to federal taxes under Internal Revenue Code sec. 33. He said that they have already come out with an administrative ruling that federal tax credits are not applicable, but because of the state's "piggy-back" system, that provision in the federal code is referred to by reference in the state code; and so this is a matter of having specific legislative action on this particular credit; they felt it should be specifically stricken from the code for state tax purposes. That credit is designed at the federal level to prevent duplicate taxation of the same income (since corporations may be paying taxes in other countries). However, this is not applicable to state taxes because the state is not taxing foreign income but just the income earned within Alaska by the formula approach.

Part b of the bill applies to the investment credit. Mr. Boetsch said that the investment credit under the federal credit has been an "on again, off again" provision in the federal tax code as part of fiscal policies to stimulate or destimulate the economy. At the state level use of the tax as a fiscal policy technique (1) does not apply and (2) is so negligible as to have almost no effect because primarily state taxes are to raise revenues. Another consideration, however, is that in a state like Alaska where the future holds potential development on a very large scale and that development will require large "front end" expenditure by the state for schools, roads, etcetera, it is a real policy question as to such a credit being appropriate. He said that this is being brought up for the legislature to make the policy decision whether or

not special tax breaks should be allowed to those making substantial investments but causing impact on the state budget, too.

(c) of the bill states that the tax exemption for domestic international sales corporations cannot be applied as credit on Alaska income tax. Alaska is a state whose natural resources could be subject to export and he said that they feel this is another question of policy that should be addressed.

(d) addresses itself to the question of the so-called percentage depletion -- this is with respect to the oil production. The same basic arguments apply -- it is a policy question of whether the state really needs to stimulate further development and whether "giving up" a portion of income in the form of taxes is a price the state is willing to pay.

Mr. Boetsch said that that is the fundamental or substantive corporate tax measure. It is a start. He said that he thinks there are a number of other areas in not only the corporate tax structure that need a closer look. Provisions in these bills are some of the obvious ones they were able to come up with. There are undoubtedly others they have not yet taken a look at, he said. He spoke of the need to implement the study the legislature authorized in House Resolution 78 of last year. As a first step in that, the Department of Revenue proposes putting the corporate tax files on a computer readable data base so that information is available for analysis and further study. He said that they think they can get that program off the ground for as little as \$10,000 for the programming and some of the keypunching necessary to get the information from their files now.

Senator Huber, referring to the talk about computerizing the corporate tax incomes, asked if at the present time the corporate tax incomes are protected as much from public scrutiny as individual, and Mr. Boetsch said yes. Senator Huber asked if there is any difference in the basic law governing this, and Mr. Boetsch said no. Both are covered under the same law in state statutes and the federal internal revenue code.

Mr. Cowper said that they are talking about this as being corporations, but asked if this would not also apply to individuals in the business, and Mr. Boetsch said yes. The main thrust will be towards corporations because that is where the primary benefit in terms of dollars is. Investment