

HOUSE / SENATE FINANCE COMMITTEE MINUTES - 1967-1982 2571

HOUSE FINANCE COMMITTEE  
Tuesday, April 1, 1975  
8:45 a.m.

All members were present; Ms. Itta and Messrs. Cowper, Naughton, PRESENT  
Gruening and Haugen arrived later. Also attending the  
meeting was Representative Willard Bowman.

The meeting was called to order to first consider House Bill HB 257  
258, creating the Gas Pipeline Impact Committee, and House Bill HB 258  
257, making a special appropriation of \$150,000 to the Gas Pipe-  
line Impact Committee. Mr. Bowman is the prime sponsor of both  
pieces of legislation.

Mr. Bowman stated that the purpose of HB 258 is to allow the  
Legislature to "get a handle" on the gas pipeline in the same  
manner as the oil package in 1971-72. In this case there would  
be lay-members in addition to Legislators. The oil package was  
developed by an interim committee headed by Senator Chance with  
various departments and was finally passed in 1972. The  
Governor has appointed a committee to look into the gas pipeline,  
but it seemed to Mr. Bowman it was only for policy and had nothing  
to do with possible legislation. He felt it was a cleaner way to  
have the interim committee set up in this manner; that creating  
this committee was already late.

House Bill 257 appropriates the money for the function. The only  
background used for the amount was that used by the 1971-72 pipe-  
line committee which was \$75,000. The total spend was \$71,274,  
and Mr. Bowman had all the facts relative to what they did; he  
listed the members of that committee: Elke Kallab, Greg Erickson,  
Joseph Witherspoon, Reginald Alleyne, Gary Widman.

Mr. Malone asked what effect this would have on the various con-  
siderations flying around for sale of major and minor gas options.  
Mr. Bowman replied that is why consultants who deal with gas  
should be retained; the Legislature has no idea of what twenty  
trillion cubic feet of gas is or how we get our share; or what to  
do with our share; what formula should be used in the case of  
other pipelines. He didn't know about gas and doesn't know of  
anyone who does.

Mr. Bowman suggested striking the section on compensation of  
\$100 a day; he felt it was bad in light of what happened on the  
Governor's Committee, and thought many people would be willing  
to serve with travel and per diem provided. It was the feeling  
of Mr. Cowper that lay members should receive some kind of  
compensation if they were going to be asked to spend a lot of  
time and effort on this committee; also that at least one person  
should be on the staff for the duration. Mr. Bowman said that  
the oil committee had two men they considered permanent.

The Chairman commented that from what he had seen, regarding the  
Executive Branch of government and the gathering of information,  
he thought it would useful to have some independent viewpoints.  
Mr. Bowman felt this type of committee would be an almost per-  
manent type with each Legislature; the OCS will become very

important and care should be taken to collect every dollar possible from the Federal government. Mr. Cowper clarified that the real study was around what the State policy should be on the gas pipeline. Mr. Bowman added that next year some type of legislation might be suggested as reinforcement to the present legislation; perhaps the passage of a gas pipeline authority which would be reinforcement to the extent the State would be in part ownership.

HB 257  
HB 258

After further discussion on the compensation of the lay-members of the committee, and examples of what Dr. Rogers and Rich Listowski had been paid previously;

Mr. Cowper moved to amend the Bill to strike the balance of Sec. 31.30.050 after the word "members". There was no objection and it was so ordered.

MOTION  
Carried

Mr. Duncan, referring to (6) on page 2, remarked that so many times committees are established and the Legislature never knows what they are doing or have accomplished; would this committee make reports to the Legislature? Mr. Bowman reported that the last committee held hearings before, after and during the 1971 and especially the 1972 session. By then there were about 100 lobbyists in town.

Mr. Guy moved to report out of Committee, a Finance Committee Substitute for HB 258, as amended, with individual recommendations. There was no objection and it was so ordered.

MOTION  
Carried

The discussion turned to HB 257, with Mr. Bowman saying the intention was to lapse any remaining funds when the Committee ended January 1, 1977. The \$150,000 was just a "grab-all" figure, and he has no idea what this committee might spend; this was just a nice round figure. It was the belief of Mr. Bowman that the money would go back to the General Fund, not Legislative Council.

(Mr. Cowper and Mr. Gruening entered the meeting).

Mr. Bowman said most of the work of this Committee would be done between now and the end of the next Legislative year. He told Mr. Guy that equipment purchased by the previous committee had probably gone back into the maze of Legislative Affairs, but they should know where it was.

After a brief discussion of the \$150,000 figure, with Mr. Malone of the opinion that even the same consultants hired for the previous committee couldn't be hired for the same wage, and Mr. Bowman agreeing;

Mr. Cowper moved to report HB 257 out of Committee; there was no objection and it was so ordered.

MOTION  
Carried

Mr. Bowman thanked the Committee for their hospitality adding that he hoped they hadn't signed the Bill out with the idea they would be on the Committee.

(Mr. Naughton entered the meeting).

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At this time the Committee took under consideration House Bill 212, relating to the Alaska income tax. Mr. Arthur H. Snowden II, Administrative Director of Courts was present to answer any questions pertaining to this Bill.

HB 212

PRESENT

The Chairman reminded the Committee that he had assigned this bill to a subcommittee composed of Mr. Gruening and himself, and neither had had time to look into the questions, so in the future questions would be referred to the staff.

Mr. Duncan thought HB 212 was a good bill; Mr. Malone agreed. There had been the question pertaining to what entities do business or are selling items within the State. Mr. Malone felt the best approach to this question was through another piece of legislation. Mr. Duncan suggested John Messenger had spent a lot of time on this type of work and had knowledge in this area.

Mr. Malone said since the Bill failed last year it might be the best idea to proceed and put an amendment in on the Senate side having to do with the ability to tax some people who have no place of business within the State. Mr. Cowper asked if this was a constitutional jurisdictional problem.

Mr. Duncan moved to report HB 212 out of Committee. After a brief explanation that this does not increase taxes; that it provides for a new tax schedule only, which is rounded up to the nearest 1/2% for easier calculations; and amends the question of tax credits and deductions slightly; and would apply to the 1975 tax year, there was no objection to the motion and it was so ordered.

MOTION

Motion  
Carried

Mr. Duncan was assigned to carry HB 212 on the floor.

(Mr. Haugen entered the meeting).

House Bill 170 sponsored by Gruening and Cowper was taken under consideration. This relates to payments for judicial services by a polical subdivision. Mr. Rhode, the Chairman's Administrative Assistant questioned the fiscal impact saying that the fiscal note appeared to be much too high.

HB 170

Mr. Snowden's opinion was that the fiscal note was correct; the \$440,000 is because of taking over the salaries of employees now under the political subdivisions with the repeal of the Statute. Under the existing Statute they must reimburse for floor space, electricity and any other costs relating to the use of the court system. It is the Judiciaries opinion that private parties in the State of Alaska do not pay, so why should municipalities have to pay for the use of the courts of the State. If they don't repeal the Statute enforcement of it will be necessary and he will have to back and charge every municipality with ordinances for the use of the court system.

In response to Mr. Cowper, Mr. Snowden reported that they billed the municipalities, and the money comes from the fines and forfeitures paid to them; any other litigant would receive the money himself.

Mr. Gruening noted two things: that a large number of ordinances are mandated by the State anyway, and the expense of enforcement is tremendous in many cases. HB 170

Mr. Snowden said it was "fair and proper and more expeditious to do this" (pass this Bill).

Responding to Mr. Duncan, he noted that they were collecting in some areas, but the problem has been selective enforcement; that is where the \$440,000 comes from. Right now in a number of places, a group of people who are city employees are actually doing court work and because they have different house they have been made State employees. If the Bill is not passed they will bill back the cost to the city; if it is passed, the State will pay for the employees.

Mr. Cowper pointed out that the Constitution calls for a unified court system, so actually an ignored constitutional mandate is being conformed to.

After further discussion on the difficulties of charging back costs, and calculating charges;

Mr. Gruening moved to report House Bill 170 out of Committee. MOTION

Mr. Duncan expressed the opinion that perhaps the real fiscal impact of the bill had not been seen. Mr. Snowden explained it was not a revenue loss, but a revenue loss, plus the cost of the employee. Mr. Gruening asked why the figure increased from 1976 to 1980, and Mr. Snowden said it was the revenue loss under the bill; a lot of costs could not be foreseen and many were intangible.

The meeting was recessed at 9:59 a.m. RECESS

AFTER RECESS

1:37 p.m.

All members were present except Mr. Cowper. Also attending were Dr. Marshall Lind, Commissioner of Education; William D. Thomson, Director of Administration and Finance, Dept. of Education; Linda Boetsch, Legislative Audit and Sarah Eppenback, interested citizen. PRESENT

Consideration of House Bill 170 was taken up again. Mr. Gruening being the main sponsor, asked if there were any further questions. He reviewed the morning meeting for those who had missed that portion; the transferring of city employees to the State; the State no longer requiring reimbursement from the cities; and that the courts had not had a formula to figure the costs anyway. HB 170

Mr. Gruening said it would cost less if the bill wasn't passed out and reimbursement from the cities was insisted upon, but there has not been consistent enforcement of this. Private litigants are not charged costs by the court.

(Mr. Naughton left the meeting).

Mr. Duncan thought the fiscal note misleading because there had

been very few collections in the past, therefore very little revenue too. Mr. Malone, clarifying the fiscal note said without legislation the court would seriously try to collect the costs from the municipalities which is why the amount theoretically increases. If they would not pay they would be prosecuted under 22.15.270. Mr. Duncan insisted that the \$440,000 wasn't collected; and Mr. Gruening answered that in reality they would not lose that amount if the old system was continued.

HB 170

Mr. Duncan moved to table the Bill. Mr. Malone said there was already a motion to report out HB 170, and ruled Mr. Duncan's motion to table, out of order.

(Mr. Naughton re-entered the meeting).

After further brief discussion, the motion was voted on; there was no objection and the Motion to report out of Committee, HB 170 was so ordered.

Motion  
Carried

(Mr. Gruening left the meeting).

House Bill 131 was taken under consideration next. Dr. Lind and Mr. Thomson appearing to testify from the Department of Education.

HB 131

The Chairman pointed out the amendment and letter of intent from the House HESS Committee on HB 131. Dr. Lind said they had recommended the first amendment saying there was a \$3.3 million cost estimate. He was unsure exactly what the letter of intent meant. The Chairman requested someone from the House HESS Committee to come up and elaborate on this.

(Mr. Duncan left the meeting to fulfill this request).

Dr. Lind said that the increase from 90% to 93% of basic needs was part of a sequence leading to 100% funding of basic needs to occur over a three year period. Special Education changes is one under discussion and it was suggested last to make the funding similar to Vocational Education rather than as it has been computed in the past; a restructuring of the formula of the way Special Education dollars are added to other units. Area differential is another area needing to be addressed; many costs can be attributed to geographic locations.

(Mr. Duncan re-entered the meeting).

These area differentials are patterned after the State pay schedule in different areas.

Dr. Lind noted two main concerns connected with Mini 874; one is the Special Education formula itself which they feel should be changed from 11 to 9; the other is the immediate and complete repeal of Mini 874 they feel it should be retained. In respect to HB 131 there are no other problems. They feel that rather than increase funding according to the unit, inequities should be corrected.

He told the Chairman \$1,000 was worth about \$4.6 million in an instructional unit; and 1% of basic need would be about \$1 million.

Under the current basic unit allotment any school district which

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did not have access to Anchorage, Fairbanks or Juneau was receiving the 5% increase. Under the new plan three communities would end up with less money: Craig, Klawok, and Hydaburg. The 5% would be 0%, but their basic needs would increase.

HB 131

The Chairman asked if anyone had suggested phasing the Mini 874 out as the 100% funding was phased in; Dr. Lind thought this had been discussed in several places. He felt it was logical that as the amount of basic needs went up that part of Mini 874 could go down. At the time complete repeal of Mini 874 was recommended they thought it was the best way to go, but the phasing part does make sense and they are trying to negotiate with the Federal government. In response to further questions from the Chair, Dr. Lind said page 3, Section 6 expresses the intent to raise the amount of funding sort of on an annual basis; no one is calling that 100% funding. As to whether there would be administrative problems connected with writing the phasing out of Mini 874 into the bill; Dr. Lind thought it could be done, that it would make sense to set it up similar to the Governor's bill. He did think the Chairman's question could be taken care of legally.

Mini  
874

There is an activity going on which will call for a very thorough analysis of all financial support programs to the school districts; this will also attempt to define basic education. There is not mutual acceptance of the matter of basic need or basis education. He didn't think they would be ready with a definition for another year or so. Referring to the Governor's first statement to go for 100% funding, he said that at the present definition it would probably cost \$10 million for basic need alone. Mr. Haugen noted there was resistance by the State School Board because they did not know how much authority they were giving up. Dr. Lind told Mr. Haugen that a document from the School Board Association shows about 80% of the instructional unit support goes for personal services.

Mr. Thomson reviewed the instructional unit allotment: under the current plan, communities not connected to the larger communities of Fairbanks, Juneau or Anchorage get 5% more. Under the Bill as proposed they would receive 0%, but their basic needs amount would increase. There is no area differential in Haines or Skagway because they are connected by ferry. This concept applies to the remainder of Alaska; some areas get 10% and also receive the 5%, plus their salary schedules are somewhat higher. Under the bill Nome would get 26% plus 2%.

Instruct  
Unit  
Allotmen

The difference between what a district receives and the floor which is 93% is based on assessed evaluation per ADM. Juneau's assessed evaluation per pupil is somewhat lower than the State average so as an equilibrizing factor they get some money. The assessed evaluation statewide per pupil is \$57,000.

(Ms. Buchholdt left the meeting; Ms. Susan Sullivan entered the meeting).

The Chairman pointed out if their evaluation is higher than average, they would be penalized; he was told the Assessor gives the requested information.

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At this point, Ms. Susan Sullivan was asked to elaborate on the House HESS Committee letter of intent regarding the new funding formula for special education resulting in a net gain to Special Education Programs within each district. She mentioned a graph that showed what the changes in the foundation unit would be on the new formula, copies of which she would supply to the committee. Anchorage district would realize a decrease of 38 special education units as a result of the change in ratio from 9 to 11. Because of counting them additionally in the regular formula it would result in an additional 88 units; so it would be a net gain of 50 units. Since special education funding could pick up 38 units there should be a cut back in the Special Education Program, but that was not what they had in mind. The net gain was generated by special education students and they should not suffer. She further stated that they didn't want to bind school districts to how they spent money, but did not want the Special Education Programs decreased.

HB 131

Special  
Educ.  
Programs

Ms. Itta asked the main reason for the change in ADM; Mr. Thomson Average replied that at the current time indirect costs were being charged; Daily under the new formula, and treating it as an add-on, these special Member-education units would be strictly direct service. The change from ship 9 to 11 was an estimate of economies of scale; looking at the smaller communities, what the total amount of dollars was available. The larger communities could absorb those costs treating them as an add-on of special education. The more kids in a Special Education Program, the less the cost per pupil. Special Education costs 2.8 times higher than instruction of a regular student; the national cost is about 3.5 times regular education.

If the change is made from 11 to 9, the cost factor is about \$2 million. Almost the same as the indirect costs in the formula. Indirect costs would no longer be allowed to be charged to special education. Mr. Thomson told Mr. Naughton that district records are detailed enough to bring this out.

Mr. Haugen said the Commissioner mentioned something about having to have a substantial study between now and next session and he could understand how critical it was and was certain it would involve an interim committee. He felt the public should participate. He is opposed to 100% State support of education until he finds out what is happening. There are some real questions as far as total costs of education in the State are concerned. Ms. Sullivan noted there was a Bill in her Committee--HB 229-- proposing a study and the costs for this fiscal year would be \$143,000. She expected it to be heard shortly and that it would leave her committee with a "do pass" recommendation. It addresses the study of the Foundation program and other programs in statewide education.

HB 229

(Ms. Sullivan was thanked and left the meeting).

Ms. Itta wanted to know how the 30 districts in the State feel about HB 131; Dr. Lind said they have two major concerns, both addressed by the House HESS Committee: Mini 874 not being repealed and an adjustment being made in the special education formula. He had expressed concern to the House HESS, Senate HESS, this Committee and the Governor, but no one could name the magic figure.

Mr. Duncan asked what Dr. Lind would think if instruction was higher and a 90% funding maintained; Dr. Lind answered that a number of people were for moving toward 100% funding, and the result of that move is the 93% factor; the hardest area to define would be held down. He personally thought holding that unit down until it can be thoroughly analysed would be the best way to go. Mr. Duncan thought perhaps a higher increase in the instructional unit might be more accurate; perhaps school districts as a whole might rather the instructional unit be raised.

HB 131

Dr. Lind stated that if the 90% were maintained and the instructional unit went up, the local matching would be increased. Increased funding cuts the local matching.

Mr. Haugen said he was in favor of moving the bill out, but did not know if there had been enough testimony. He would like to see the statewide study; and thought there should be a statewide property tax if nothing else. That should be taken care of by the interim committee if it is ever established.

Dr. Lind said the Governor presently only has \$10,000 in for the study. He outlined the first year and total commitments needed: The first year is around \$100,000 from State sources; BIA has committed to participate in the study and has committed an in-kind match of \$60-70,000 which is one person working full time for 1 1/2 years or so. This is a BIA employee from Washington, D. C., who is familiar with education, Jerry Waddell. There are also commitments from private sources, and they are attempting to get help from other sources. This could go on for 2-3 years. If the study got on next fiscal year, they could come back with specific recommendations next session; otherwise the actual recommendations would have to be dealt with by another group of legislators. They would like to keep it within one Legislature.

Defining basic education and state responsibility gets into complex questions which should not be handled just by educators or Legislators. It must be determined what people all over Alaska see as "basic education."

The meeting was recessed at 2:55 p.m.

RECESS

AFTER RECESS

3:05 p.m.

Mr. Gruening moved to report out of Committee, a Finance Committee Substitute for HB 131 incorporating the House HESS amendment.

MOTION

Mr. Malone answered Ms. Itta's question on the correlation of school districts with election districts, saying it was for ease and because that is what the salary figures are based on. Ms. Buchholdt was told that the present instructional unit at 90% is \$21,750.

There was no objection to the motion and it was adopted.

Motion  
Carried

Mr. Malone thanked Dr. Lind and Mr. Thomson for their testimony and explanation.

The meeting was recessed at 3:08 p.m.

RECESS

AFTER RECESS

3:23 p.m.

All committee members were present except for Ms. Itta and Messrs. Duncan and Gruening who were excused to attend another meeting. Also present from the Department of Administration were: Kellus N. Sewell, Administrative Officer; Richard Winchell, Deputy Director, Division of General Services/Supply; Ms. Colleen Roguska, State Archivist, and Kent Dawson, Director of Budget and Management.

PRESENT

House Bill 252, making a supplemental appropriation to the Department of Administration, \$719,100, was taken under consideration at this time.

HB 252

The Chairman pointed out a letter from the Commissioner of Administration dated March 27, 1975, in response to questions of the committee raised at an earlier meeting. One question was the March 11 request for \$200,000 additional non-lapsing money for the payroll study. HB 364 has been introduced dealing with that subject. The questions mainly revolved around whether or not the amount of funding in the original bill pertaining to the Division of Finance and Archives and Records, was entirely justified.

Mr. Naughton noted that the January 30, letter justifies \$28,832 for Archives and Records as being needed for contractual services but in the letter of March 27, only increased costs of forms and supplies are mentioned. The Chairman explained that the March 27 letter refers to the questions that the committee raised dealing specifically with paper costs. One question was what the actual costs of paper in Archives had been and what they had spent so far.

Mr. Naughton asked about the system of bookkeeping that requires Archives and Records to buy new office supplies and NOT be reimbursed by the alternate receiving agencies. Mr. Dawson replied that the decision was made on a lot of these smaller charges being charged back, to use General Funds instead of billing the other agencies and operating in the dark. Mrs. Roguska noted that this was the first fiscal year this had been done. A Statewide usage form which the Department of Administration requires all agencies to use can mean a great savings realized, if Archives and Records can order them for all agencies.

They were asked to guess what Statewide usage would be and they came up with \$48-49,000 which was removed from the Departmental budget and put into the Archives and Records as a single allocation. The estimate turned out incorrect. There were some forms that had not existed: the Collective Bargaining Act didn't exist. Their forms had to be designed, printed and distributed; the cost of envelopes went from \$4.51 to \$11.84 per thousand, the paper market "went nuts" during the past 18 months and they had to make a decision on whether to use contractual services money to replace the money or appropriate enough to get through the rest of the year.

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The Archives and Records budget had been finalized September, 1973 and the Collective Bargaining Act had not been implemented and there was no way of estimating their form requirements. Mr. Winchell said some materials are put out for bid; some are processed through central duplicating.

The Chairman asked if any attempt was made to adjust to the short-fall or did they just save it until the last two months. Mr. Dawson said the decision was made in September or October, and he hoped it was not the policy to save these things. The decision would have to be made to either adjust the program or notify the Legislature of what they were doing in the future. In the case of federal funds there are ways to improve the ability of the State to anticipate this type of thing. They are attempting to communicate more with the federal government especially in Budget and Management because they have a different prospective.

Mr. Malone said he was trying to determine the policy of Budget and Management to have an idea of what they will be faced with next year. The Legislature is liable to hold more in reserve to meet these supplementals. Mr. Dawson pointed out that one problem was they did not find out until it was an emergency situation; they were trying to develop an information system, but the policy would probably depend on some programs. The Pioneers' Home, they are not going to shift down.

Mr. Haugen said those positions were on board before FY 75 was out and they were using federal money, then it became obvious that Rgion X was not going to get the money and the revenues did not materialize.

Mr. Malone said, as Chairman of the House Finance Committee, that unless some of the agencies started making an attempt to do something about living within their budget constraints, they may have to do some of the things they think the Legislature will never make them face; such as wheel out the old people and tie up the ferries. Mr. Dawson said they have a performance program measure which gives on a quarterly basis, how the plan is going. The system is not working and they have a man on a full time basis redesigning it.

Mr. Guy asked about the additional \$52,600 to cover increased forms requirements, forms and paper costs mentioned in the January 30, 1975 memorandum; Mr. Sewell reported that they had decided they could cover that amount inhouse so did not submit it as part of the supplemental. The survey which resulted in the \$17,400 figure was an informal survey simply to get an accurate figure to see what was needed for the rest of the year. It is an accurate figure based on feed back from the agencies.

Mr. Guy asked for an elaboration on the "crash" purchases and why they became necessary. Mr. Winchell said that after their funds had run out the requests for paper and forms continued to roll in and they continued to supply agencies. They had expended around \$7,000 in excess of the original contractual allocation.

Mr. Dawson noted it seemed to be the nature of mankind; there is

never enough planning done. They try to get a good estimate and then things change and problems occur that weren't anticipated. Mr. Malone responded that he knew there is never enough time for planning, but wondered why the error always was on the low side. Mr. Sewell again stated that the tremendous paper costs increases compounded the problem; plus he didn't think the agencies really knew what paper they used. HB 252

Mr. Winchell felt that the State will probably save money as a result of centralization of forms instead of letting agencies stock pile. They do know that the agencies always have a tendency to over-estimate their needs.

It was pointed out that since they are paying Tri-Trades people twice a month now they will be using twice as many warrants as before. Most of these people had been monthly employees. Mr. Haugen inquired as to figures on what the Tri-Trades has cost in extra State costs. Mr. Sewell said the figures could probably be obtained; he had heard the figures between \$60,000-\$100,000.

Mr. Naughton moved to report House Bill 252 out of Committee; there was no objection and it was so ordered. MOTION

The next item for discussion was House Concurrent Resolution 34 sponsored by Rep. Tom Fink, who was invited to testify. Mr. Fink said there was an urgent need for this bill for the sake of the economy, and people being employeed, and the need for domestic energy. This would not affect the money shortage; any environmental degradation has already occurred; there is no commercial fish source except a small subsistence fishery in the Colville River area; the oil industry has sent people up and expressed an interest in the North Slope and they have said it would cover our shortfall. HCR 34

Rep. Fink said the Bill is a request that the Legislature take a position on the oil and gas lease sales. The Governor has indicated he would make a decision when Mr. Weeden completed his environmental analysis by April. Mr. Fink feels there should be a Beaufort Sea Lease sale; that the best way to meet the shortfall is with a lease sale and the State doesn't own Cook Inlet. He is opposed to a tax on reserves in place. He feels the State should first of all put up the valuable lease to get money and answer the question on the nation's supply of fuel; if that fails then other options are available: borrowing; ABC sale, tax on reserves. The sale would not necessarily be every inch; the Division of Oil and Gas would locate the hotter areas. Mr. Fink said his Resolution goes beyond the the Colville River to the Canadian Border.

Mr. Fink felt strongly that the Legislature's will should be expressed rather than let the Governor do what he wants to do. He told Mr. guy that the limit would be three miles from the furthest island. He also noted that just recently Union Oil had applied for a permit to drill up there, and that some of the Sea is already leased.

Mr. Naughton posed a question: What if President Ford deregulated oil and the price elevated to the present \$11-12 per barrel for foreign oil and Alaska increased the severance tax in order to absorb one-half of the increase--say \$2.70 per barrel. This would

bring in about \$300 million a year. He asked if Mr. Fink would be in favor of another sale. Mr. Fink repeated his earlier reasons: (1) the cash flow problem; (2) the need for energy; (3) a domestic source so money did not go into foreign countries. Mr. Naughton asked if it would make better sense to hold off until the price of oil went up. Mr. Fink replied that the price could go up to the new oil price; he thinks the State the State will have so much money the Federal Government will find some way to tap it. That by 1983 the Federal Government will be finding ways of rewriting grants to allow Alaska less money.

In answer to Mr. Malone, Mr. Fink said he would recommend that all future sales be straight royalty bid sales, as opposed to maximizing front end receipts from the sale. To him it appeared to be the only acceptable method of covering the gap at this time. He felt Alaska was entitled to the money any other State gets which is about \$2.50 per barrel, or close to \$200 million. If more money per barrel could be obtained, more could be spent on things like injection. Theoretically it would be difficult to increase the rate of flow because if oil flows too fast, it leaves oil in the ground, and if it flows too slow it also leaves oil. Last month's figure of 198,000 barrels has been just about average.

Mr. Malone was interested in the philosophy that Alaska should get as much as any other State is getting. The material resources belong entirely to the people of the State and if a contract is made to develop them, the contractors are entitled to a rate of return, but the balance belongs to the State, without regard to what other State are doing. Mr. Fink pointed out that many of the resources in other states belong to the state; most larger states are exporting most of the production. Whatever Alaska adds on in tax will be reflected in the selling price of the commodity. Some people have suggested an excess profits tax.

Mr. Fink continued, saying, if Alaska taxes inordinately high on oil, some other states could tax high on their resources also. This is not the United States system; each state should treat the others equitably. Mr. Fink felt it was improper to get what the Arabs get out of oil, Alaska should not be comparing with foreign countries but with other states. There are all kinds of ways to produce the needed funds, but there is also an obligation to the United States. If the price of deregulated oil went up to the Arab price, excess profit taxes would spread it out among the States. Another reason he felt the tax should be similar to other states is because any state producing a commodity could say they would keep more than their share of the product; the Federal government would come back with all sorts of remedies to equate this. The Chairman considered this to be a rather "timid taxing philosophy", saying if he felt the Federal government would retaliate, he might agree. Mr. Fink replied that he had not been timid in the past but beyond a certain amount is unreasonable; he felt an exorbitant method would be taken away in other ways.

Mr. Naughton suggested rationalizing the keeping of the product by saying the 874 funding was taken away. He said it would be the oil companies policy that would precipitate nationalization; it would almost be done by an excess profits being put into the private sector. Mr. Cowper understood the mood of Congress had changed re-

garding an excess profits tax.

Back to the subject of HCR 34, Mr. Malone said the land in front of the Arctic Wildlife Refuge was not included in the Governor's recommendation. Mr. Fink suggested all the land be put up for sale; let the environmentalists challenge that partition and sell the rest. Only part of the lease sale would be blocked. Mr. Fink thinks the nation, either purposefully or by accident will come up with some kind of policy on environment, and Alaska will help with the resolution of it by making an issue. Nothing will be resolved without a 3-4 year court process.

HCR 34

Mr. Malone said the third "whereas" is the only one he objects to, as being the best way to resolve the current fiscal dilemma by holding a lease sale. He is afraid of setting a policy of holding another lease sale every time the General Fund comes down. Mr. Fink suggested having a second "resolve" clause to NOT have a lease sale every time there is a cash shortage. He reminded the Chairman that the shortfall is only one of three purposes of this resolution; he did agree with the Chairman's idea.

(Mr. Duncan entered the meeting).

Mr. Malone commented that Alaska certainly has resources and does not have a leasing program that makes sense. He feels that Alaska's impact on the Federal Government's policy and the needs of the nation was likely to be very small; the 6 million barrels a day through the Trans-Alaska Pipeline will be meeting only a fraction of those needs. Mr. Fink noted that the area in question is larger than Prudhoe; there should be a sale to determine if there is oil there. Also, to get the maximum dollars in the next five years, there should be a sale before the feds have their big sales. There is a limit to the amount that can be raised. He felt Alaska would get a lot less if the sale were held after the Gulf of Alaska sale.

Mr. Cowper reported that a substantial body of opinion believes the costs of drilling and producing oil probably has more to do with the amount of money than the timing. It will cost a lot more to get oil out of the OCS than the Beaufort Sea. Companies will be looking at that regardless of the timing of it. Mr. Fink said the drilling would be more expensive, but no pipeline would be required. It would depend on the size pools found in the Gulf; the \$6 billion of the pipeline would cover a lot of drilling expenses. Mr. Cowper felt the bid price would depend on the concept of the geological structure of the land. Mr. Fink reported SOHIO would not have money to bid until oil started flowing.

Mr. Haugen personally believed it was a good idea to go for the Beaufort Sea lease sale; it would take the heat off the OCS. He feels the reason the President put the high tax on oil was to get the U. S. into development of those things. This is the logical time to go there; he thinks the best price will be obtained now before they go into the Gulf of Alaska. It is already known there is oil in Santa Barbara but environmental politics will keep them out. They will bid a better price because the National Energy Committee wants to know where there are substantial American reserves to offset known foreign reserves.

4/1/75

Mr. Malone personally felt there was a problem with the third "whereas" clause because it appears to advocate the lease sale as a way to finance State government. It implies that the projected deficit should be raised from this source.

HCR 34

Mr. Cowper felt one could not say it would cause no damage to the fish resources. "It may be true, but we cannot say it." Mr. Fink reported that Mr. Weeden testified before the Resources Committee that there would not be any fishery damage, but Mr. Cowper said they really only used existing data.

Mr. Cowper moved to delete lines 20 and 21 of HCR 34, "WHEREAS the development of offshore land near the North Slope will not damage the state's fishery resources; and".

MOTION

The Chairman read a proposed amendment from the Resources Committee; they proposed to add "we feel" after the "WHEREAS" on line 20.

There was no objection to the motion and it was adopted.

Motion  
Carried

Mr. Cowper moved to delete the words on line 27 "between the Colville River and the Canadian border".

MOTION

Mr. Fink said it could be left up to the Governor, but one of the ideas was to have the Legislature at least express an opinion, and he hoped the Legislation would be more expressive of its position. Mr. Cowper was not convinced that the property above the Arctic Wildlife Refuge should be put up at this time. Mr. Fink pointed out that the "Resolve" doesn't say "all" lands, it is there to tell the Governor not to restrict himself.

Mr. Guy asked if any mention had been made by Mr. Weeden of the water fowl; Mr. Fink did not recall any comments. Mr. Cowper reported that the people who came down with the Arctic Slope Regional Corporation were of the opinion that it would not damage the water fowl migration or anything--that was his impression. Mr. Guy expressed concern for other water life and water fowl in the area of Barrow's wildlife refuge; Mr. Cowper noted there would be no contemplation of sales west of the Colville River; he agreed that the possibility wasn't precluded, but stated that the Governor could do that without this Resolution.

By rollcall vote, the motion carried with Mr. Guy dissenting.

Motion  
Carried

(Mr. Gruening and Mss. Itta and Buchholdt entered the meeting).

Mr. Malone read the suggestion of the Resource Committee to also add the words "we believe that" after the "WHEREAS" on line 17.

Mr. Cowper moved to amend HCR 34 by adding the words "available information indicates that" after the word "WHEREAS" on line 17.

MOTION

Mr. Guy moved to amend the amendment by inserting the word "insufficient" after the word "WHEREAS" and before the words "available information indicates that". The amendment would read: "WHEREAS insufficient available information indicates that".

MOTION

Ms. Itta informed the Committee that the Planning Commission members are in the midst of a study of protecting the fish and game and lands in the North Slope and Barrow area. She did not agree with that "WHEREAS" clause saying there are environmental problems right now. She asked Mr. Cowper where he had obtained his information that oil on the North Slope can be extracted with the least amount of environmental degradation. Mr. Cowper said he was not making the statement and referred her to Mr. Fink; that he made the amendment because he could not state to any degree of certainty that that determination could be made.

Mr. Fink answered that the clause was based on the fact that there is already a pipeline to the North Slope area; the Beaufort Sea is a shallow area; there is not a commercial fishery in the area; there is little subsistence fishing in the area; Mr. Weeden testified before the Resources Committee and said that the clause is essentially correct. Whatever damage will be done is done and this will not do any more.

Ms. Itta expressed concern about the Planning Commissions incomplete study. The Chairman did not know of an available body of information that could be used to make decisions on. The environmental assessment was supposed to be complete as far as the gathering process went, but he has not seen it. He agreed that Ms. Itta might have a valid point.

Mr. Cowper volunteered to restate his amendment, but Mr. Naughton said the study is not done and it should be said as Mr. Guy stated it. Ms. Itta said she would like to see a representative of the Governor's Office before the Committee before acting.

The Chairman told the Committee that HCR 34 was put on the agenda because the sponsor will not be in the capacity to introduce other legislation if this fails, to take its place. This was done as a courtesy and he was not attempting to stampede the Committee.

By a rollcall vote, the amendment to the amendment carried, with Messrs. Cowper, Haugen, Duncan and Malone dissenting. MOTION Carried

By a rollcall vote on the main motion the motion failed with Messrs. Gruening and Guy, Mss. Itta and Buchholdt in favor and Messrs. Cowper, Haugen, Naughton, Duncan and Malone against. Motion Failed

Mr. Naughton moved to strike lines 17, 18, 19 from HCR 34, "WHEREAS oil on the North Slope can be extracted with the least amount of environmental degradation as one pipeline is already under construction; and." He told Ms. Itta his reason was that "if we don't have the information, we should not be saying it." MOTION

Mr. Gruening and Ms. Buchholdt expressed the desire to have someone appear from the Governor's Office, and to hear more information before acting on the Resolution. Mr. Malone noted that four members had expressed trepidation about the bill. He asked if the Committee would have objection to postponing action on this until further testimony from Administration could be had. Mr. Cowper objected.

By a rollcall vote the Motion to delete lines 17, 18, 19 of HCR 34 carried with Mr. Haugen dissenting.

HCR 34  
Motion Carried

Ms. Buchholdt moved to postpone HCR 34 until such time as further testimony could be heard.

MOTION

Mr. Cowper objected saying there was not the time to have a parade of witnesses; that most members have enough information to make the decision on what to tell the Governor; and the Resolution should be passed out as amended.

Mr. Duncan agreed with Mr. Cowper adding that there were many other things that had to be done. This was important, but he thought everyone had enough information.

Mr. Gruening didn't feel much time would have to be spent on this. He was not convinced that the Governor should be urged to have a lease sale; but perhaps should be urged to make a decision on whether or not to have a sale.

By a rollcall vote the motion to postpone carried, with Messrs. Cowper, Haugen and Duncan dissenting.

Motion  
Carried

The Chairman announced the meeting tonight at 7:30 a.m.

The meeting was recessed at 5:40 p.m.

RECESS

AFTER RECESS

7:45 p.m.

All members were present with the exception of Reps. Itta, PRESENT  
Buchholdt, Gruening, and Haugen. Also present were Rep. Nels  
Anderson; Mr. John Coffee, Superintendent of School for Juneau;  
Mr. Larry Fanning, representing the Alaska Fire Chiefs' Associa-  
tion; and staff.

Chairman Malone called the meeting to order. First item on the HCR 22  
agenda was HOUSE CONCURRENT RESOLUTION 22 (Relating to future  
oil lease sales). Representative Anderson, prime sponsor of  
that resolution was present to testify. The Chairman invited Mr.  
Anderson to speak.

Mr. Anderson commented on the serious financial straits the state  
could be in if the Pipeline is delayed and with the serious con-  
cerns of the Bristol Bay region on environmental impact of off-  
shore leases in that area. He said that he was, in view of  
those situations, encouraging a lease sale in the Beaufort Sea  
area. He read a prepared speech along those lines (attached to  
these minutes). After he finished his speech, the Chair questioned  
him on its focus, as it seemed to address HCR 34 more closely  
than it did HCR 22 and he wondered how his comments related to  
the resolution before the committee. Mr. Anderson explained that  
he spoke to the "whereas" clauses in the resolution. He also  
alluded to other means of generating revenue to the state because  
he is in total opposition to HOUSE BILL 324 (establishing mineral  
lease bonus permanent fund) and the reserve tax. He stated that  
the Beaufort Sea area is a much more problem-free area for a lease  
sale.

Mr. Malone said that in a meeting earlier today there was  
considerable concern expressed about environmental protection in  
the Beaufort Sea area. In fact, those concerns prevented action  
on the bill. He thought that perhaps the same might be true of  
this one. He asked for expression of committee interest.

Mr. Guy suggested that when the Administration's representative  
comes to speak on HCR 34 s/he could also speak to HCR 22. That  
being agreeable to the rest of the committee, Mr. Malone thanked  
Mr. Anderson for his testimony and Mr. Anderson left the meeting.

SENATE BILL 40 amended (Increasing state aid to municipalities SB 40am  
for fire protection) was brought up for discussion. Mr. Duncan  
said that he had a like bill introduced in the House; he wanted  
the Senate bill to be considered, however, in the interest of  
speeding up the legislative process. The original bill and his  
own bill increased the per capita from \$5 to \$15. The amended

version, the bill before the committee, increases the per capita SB40am to \$7.50. There are several areas of increased fire protection costs that have brought about the need for this per capita increase. Mr. Duncan introduced Mr. Fanning of the Alaska Fire Chiefs' Association to testify on the subject.

Mr. Fanning said that basic costs have increased substantially. He listed a variety of materials that have increased greatly in cost and are used in fire equipment and clothing. The cost of cotten has increased; rubber has gone up 100%; brass, used on the hoses, has gone up 100%; aluminum has gone up; these are just some of the increases. Inflation has really hurt them; fuel costs have doubled. He said that an increase in their revenue sharing would be a great help.

Mr. Duncan brought up the amendment from House Community and Regional Affairs to restore the \$15 figure of the original bill. Mr. Malone noted that there would be an increase of \$3 million with the \$15 figure. He asked Mr. Fanning for his comments on the amounts. Mr. Fanning said that he is a firefighter himself and he attested to the fact that they have had to cut back considerably on garments and equipment. There is not enough money for adequate protection of the firefighters. He commented that, fbr example, his bunker coat is flammable; his helmet is melted; they are running out of fire hose. He said that he appreciated the condition of the state's finances at this time but also felt that their needs for fire protection are great. He reiterated that firefighters are not adequately protected by the garments and the equipment they are presently using. Communities are just unable to replace old equipment and clothing.

Mr. Duncan compared the revenue sharing for firefighting with other revenue sharing. Police protection, he stated, was \$10 and has recently been increased to \$12. Fire protection has never been increased from the original \$5. He said that he thinks that fire protection costs have increased even more rapidly than some of the other costs.

Mr. Malone commented that he and Mr. Guy had worked on this last year to no avail. He said that he thinks in the area of public safety in general that this is one of the major cost centers of local government next to debt service. He mentioned that if the committee is interested in the legislation, they know that \$7.50 will go with the Senate.

Mr. Naughton said that he thought they should come in with a higher amount. Mr. Duncan said that he thinks the \$15 figure is perhaps out of line looking at the total expenditure of the state. He thought that it would be difficult to come up with. However, he was not convinced that \$7.50 would be a sufficient increase.

He suggested perhaps a \$10 figure. The fiscal note indicates SB 40am that the cost for this would be \$1.5 million which is quite substantial but he said that the service provided has to be considered. Ms. Buchholdt suggested a \$12 figure. Mr. Cowper said that about the only justification he has seen for the increase in the per capita appropriation is the fact that costs are increasing -- but he questioned an increase that would justify a \$5 to \$15 increase. He personally felt he could not support this without some further backup. He said that he would like to see what the money is supposed to be used for. He said that he can understand the fact that they have inadequate equipment as the budget stands now, but had doubts about increasing it by much more than the amended Senate bill provides. He was concerned about money going into administration and not really providing for substantial changes in the fire equipment and clothing of firefighters. Note was made that there is a bill that has passed the Senate restricting the use of these revenue funds.

Mr. Naughton moved to amend the bill from \$7.50 to \$10.00. This would result in a \$1,534,000 increase. Mr. Cowper objected. On vote, motion carried 4-2, Messrs. Cowper and Malone dissenting. [Action later rescinded - see After Recess] MOTION  
Meeting recessed at 8:16 p.m. RECESS

#### AFTER RECESS

Chairman Malone called the meeting back to order. He said that there had been discussion during the recess as to the wisdom of doubling the fire protection per capita and it had come to his attention that the committee might wish to rescind its action in adopting the amendment to increase the figure to \$10. Mr. Duncan moved to rescind the previous action. Mr. Naughton objected. Mr. Malone said that what it comes to is that he and Mr. Duncan are concerned that the extra step involved in passage of the bill may not be worth the chance of losing any increase at all and if the state's financial problems are resolved in the next year, then they might be able to do something more substantial next year. Question was called and on vote, motion carried, 4-2, Messrs. Guy and Naughton opposed. Mr. Cowper moved to report HCSSB 40am out of committee. No objection so ordered. MOTION  
Committee report was signed with a unanimous "do pass" for the committee substitute. TO RESCIND

[Rep. Gardiner entered the meeting.]

HOUSE CONCURRENT RESOLUTION 20 (Ferry Travel by School Activity Groups) was brought up for discussion. Mr. Duncan said that he has received a large number of letters in support of this resolution. Mr. Coffee, superintendent of schools in the Juneau area was present to testify. HCR 20

Mr. Coffee said that he had just finished reviewing the school HCR 20 budget. More than 70 or 80% of the school activities cost is for travel; the budget for next year would be \$40,000 for travel alone. An additional impact to the travel budget for school activities is in the increase of girls' activities which, as Mr. Coffee said, everyone is encouraging and is a very positive thing but which, nonetheless, is increasing costs for their travel for competition to other communities. There are particular problems in Southeast because of the necessity of either taking a ferry or flying. Another problem is the number of days that students must miss from school due to these extracurricular activities. If this provision were enacted, perhaps more money could be used to fly students back from activities so that at least they would not be taking the ferry both ways and so would lose less time from school. The other point Mr. Coffee made is that there is light ferry traffic in the winter time. He thinks this could be a real service to young Alaskans and would allow continuance of good activities programs without putting a burden on the state.

Ms. Buchholdt asked if this resolution could be enlarged to include non-profit organizations who are interested in having a similar arrangement made. Mr. Duncan said that his bill does not include that and he would not really want that addition made to HCR 20 in the interest of passing the resolution. Mr. Duncan moved to report HCR 20 out of committee. No objection, so ordered. MOTION Committee report was majority "do pass", with Mr. Guy voting "no recommendation". Mr. Duncan was assigned the bill to carry on the floor.

HOUSE CONCURRENT RESOLUTION 23 (Relating to winter traffic and HCR 23 the tariff rates for winter travel on the Alaska Marine Highway) was brought up for discussion. Mr. Gardiner, prime sponsor, was present to testify on the bill.

Mr. Gardiner said that he had hoped to have statistics to present to the committee but was unable to get them. He said that within Southeast, ferry costs are pretty fixed (he is not speaking of the Seattle runs in this measure) and the only things that could vary are services in the stewards department and meals. A high percentage of the costs, however, are fixed. He felt that within Alaska it would be to the advantage of the state, then, to promote travel during the winter by advertising and by lower costs. He said that one advantage of this that cannot be measured is that people get into the habit of using ferries, and then continue to use them when the on-season higher tariffs go back into effect. The only kind of "special deal" provided now is the 20% across the board reduction of tariffs. There are no longer group rates, special rates for round trips, and things of this nature which he proposed be reinstituted during the winter months. He said that he is not advocating a cut in revenues. If anything he is hoping to generate more revenues by this kind of practice. If

the program is set up and proves to be losing revenues, the program could be discontinued. HCR 23

Mr. Malone asked if the resolution is an attempt to increase revenues or increase winter passage. Mr Gardiner said hopefully both. Mr. Malone said that if they wanted to increase revenues they could increase summer rates. Mr. Gardiner said that they just have. Mr. Malone inquired about the "~~aggressive~~ advertising campaign" referred to in the resolution, and whether it would end up promoting more on season summer travel. Mr. Gardiner said that he was not referring to advertising down south. He was talking about providing things like family fares, round trip fares, and he didn't feel this sort of thing needed to be handled through standard media advertsing but could be spread by word of mouth, as was the over-65 provision.

Mr. Naughton moved and asked unanimous consent that HCR 23 be reported out of committee. No objection, so ordered. Committee report was a unanimous "do pass". MOTION

HOUSE CONCURRENT RESOLUTION 24 (Proposing a study of the feasibility of locating a marine maintenance facility in Alaska for the vessels of the state ferry system) was brought up for discussion. Mr. Greg O'Claray, lobbyist for the Inlandboatmens Union of the Pacific was also present at this time. HCR 24

Mr. Gardiner began by stating that the figure of \$235,000 in the first Whereas clause of the resolution is probably incorrect for the amount spent in Seattle shipyards in FY74 by Marine Transportation. He said that historically, the Department has maintained that it would be impossible to do the needed maintenance for the Alaska ferries in Alaska. However, many of the people involved in maintaining these vessels contend that it is possible. About 80% of the vessel employees are in Mr. Gardiner's district, and from what he has heard from them, they think it is possible. When the vessels go to Seattle, the crew goes with them and has to stay the 60 days. If there were a facility in Alaska, the work that has to be done in drydock in Seattle could be done and then the crews and vessels could return to Alaska for the remainder of the maintenance work. Mr. Gardiner said that he is proposing a feasibility study because he does not think that he has the facts; he doesn't think the division has the facts; and he does not feel that the information from the Seattle shipyards that the work could not be done in Alaska is reliable for obvious reasons.

Mr. Gardiner said that he had recently discussed this matter with Kent Miller, a Petersburg consultant hired by the City of Ketchikan, and Mr. Miller had suggested that perhaps a pilot program might be worth more than a paper study. Mr. Gardiner

said that he had not had a chance to examine that possibility. HCR 24

In one of the Resolved clauses on page 2, it is stated "that the Legislative Budget and Audit Committee is authorized to contract with a recognized consultant or consultants..." so Legislative Budget and Audit would have control of the money, Mr. Gardiner said. A lot of the work could perhaps be done in house. Stu Hall, for example, is interested in anything having to do with ferries, he said. A reason for putting this under Budget and Audit is that the Division of Marine Transportation seems already to have made up its mind that this will not work, so there was question as to how penetrating a study they would do. He mentioned that he had gone down and looked at the facilities in Seattle, and they have the ferries tied up to a dock. They are not using any facility. The question of the rain in Southeastern has been brought up as a factor against having this work done here, but according to the consultant there is 30 days less rain a year in Seattle than in Southeast. Mr. Malone asked what the other seafaring nations do. Mr. Gardiner said that Mr. Miller said that all the major shipbuilding companies are in northern latitudes, for instance, Scotland and Norway.

Mr. O'Claray said that most of the seafaring nations in the world are in the same or higher latitudes as southeast Alaska. The fact that they are northern latitudes in no way affects their ability to operate. Thus the argument of colder weather does not really hold. There are areas around Ketchikan, he stated, where they could construct overhead enclosures as protection from the weather. The amount of days required to paint one of the vessels is minimal compared to the 60 days they are presently spending in Seattle.

Mr. Malone asked Mr. Hogan if he had any comment. Mr. Hogan said not really. He has no first hand knowledge as to whether this would be feasible or not. He suspected strongly that it would not take \$50,000 to find out but he assured the committee that it would lapse if it were not spent. He said that the Division (Legislative Finance) does have some good contacts from last year's examination of the problems related to the Columbia, so they have some good people to turn to to help in analyzing the problems.

Mr. Malone commented that it is pretty obvious that they will be "bucking" the Department of Public Works every step of the way on this. Mr. Gardiner said that that is why they left it with Budget and Audit. They certainly want the Department involved in the study because they have the expertise, but if they are philosophically opposed to the concept to start with he did not expect them to come forth with any real valid conclusions. If someone on Budget and Audit thought this was a good idea, that would provide some balance. He repeated that he does not know if

this kind of facility is feasible or not, but he thinks it would/ <sup>be</sup> HCR24  
worth finding out. Maybe the study will say that it is feasible  
if there were 15 ferries or if the Coast Guard would agree to  
maintain their ships there. He incidentally pointed out, relative  
to the kind of facilities in use in Seattle, that the shipyard has  
leased surplus drydocks from the navy for virtually no cost.

Mr. Duncan commented that he thought that the fiscal note should  
be ignored. They are "way ahead of the game" in their determina-  
tion of actual costs of such a facility. The note was to have  
been for the resolution, which is only a cost of \$50,000.

Mr. Hogan said that he first thought it was not likely to establish  
an industry in this way, but then he thought about the fact that  
there are a lot of industries that have been located by design  
throughout the U.S. -- Geneva Steelworks in Utah; aluminum  
industry in TVA; industry around Bonneville Dam; Kaiser Shipyards  
existing solely as recipient of Liberty contracts during World  
War II. He said that he does not think that there is any area  
in Southeastern where large fishing vessels can be drawn out of  
the water, so this could also be a factor. Mr. Gardiner noted that  
there are a couple such facilities in Ketchikan and one in Wrangell.  
Mr. Hogan continued that there is the possibility of commercial  
fishing vessel maintenance, possibility of Coast Guard maintenance,  
in addition to maintenance of the ferry system vessels. He agreed  
with Mr. Gardiner that it is worth taking a look at.

Mr. O'Claray brought up the subject of tanker traffic in and out  
of Valdez. The oil industry has considered establishing a facility  
in Sitka. If they have to tow the tankers to Seattle, it would be  
much worse than to Southeast so he thought that this would be an  
additional use and would alleviate environmental problems the  
industry would face going by Canada and "the Canadian posy pushers".

Mr. Malone commented that there has also been interest in the  
Cook Inlet area in doing something. It probably is in the interest  
of the state. For one thing, he said, capital continues to flow  
out of the state, and despite statehood, Alaska's commerce is  
still basically controlled from Seattle.

Mr. Malone raised question about the \$235,000 Mr. Gardiner spoke  
of earlier in the first "Whereas" clause in the resolution. Mr.  
Gardiner said that that was based on information Mr. Hall had  
requested of the Division. He did not feel that it was an  
accurate figure, but could not provide one, either. Mr. Hogan  
said that the Division of Marine Transportation provided that  
figure as annual overhaul costs which they had separated from  
the major renovation work. He wondered if it would be possible  
to extract from the FY 76 budget the total request for what  
will be spent in Seattle or the West Coast during that fiscal

year. Mr. Duncan wondered whether those costs would include HCR 24 the cost for personnel. Mr. Gardiner said that they do pay per diem for the crew and the only reductions from regular service are in the stewards department. Mr. Hogan said that the figure given did not include the per diem. That would be an additional benefit.

HOUSE BILL 234 (Appropriation to the Legislative Budget and Audit Committee for a study of the feasibility of locating a marine maintenance facility in Alaska for the Division of Marine Transportation) was looked at in conjunction with HCR 24. Note was made that that language here that would seem to exclude the possibility of considering other vessels that might be maintained by such a facility. Mr. Gardiner thought that that was perhaps correct, and he thought that that possibility should be included; that had been his intent. HB 234 & HCR 24

Mr. Hogan referred to page 63 of the capital budget and went over figures budgeted for FY 76 at the Seattle shipyards for the Marine Highways System. He commented that experts, if there were a facility in Alaska, could be flown up. The Alaska officers are now flown down every time a major decision is made.

There was discussion on possible overhaul of the resolution and the appropriation.

Mr. Hogan commented on a matter that he thought might be of interest to the committee. When Budget and Audit was doing its examination of the problems related to the Columbia, it became apparent that a shipyard is almost like an "enemy camp" in that when work is being done, you really have to be "on your toes" and it was clear in the case of the Columbia that the state was not "on its toes" enough. The shipyard certainly was, armed with a substantial staff of attorneys, accountants, working on change orders long before the state was underway and they were ready to hit the state with \$2 million in change orders when they signed it over.

Chairman Malone proposed some amendments to HCR 24:

Page 2.

Strike line 6

Line 7, strike "the Division of Marine Transportation"

Line 8, strike "of leasing or otherwise acquiring"

Line 9, strike everything up to and including "maintaining"

Line 10, strike "for the ferry vessels owned by the State of"; insert "within"; strike and operated by"

Line 11, strike everything up to the semicolon

Line 16, strike "and the Department of Public Works"

Line 15, strike "and maintaining," and all language following "facility through and including line 17. Place a period after "facility" on line 15.

There being no objection, the amendments were adopted. Mr. Guy moved to report out of committee a committee substitute incorporating the amendments. No objection, so ordered. Committee report was signed with "do pass" majority on the committee substitute, Mr. Guy signing "no rec". MOTION

HOUSE BILL 227 (Senior Citizens Tax Exemption) was brought up for discussion. Mr. Malone said that the problem this bill deals with is that there are always around 10% who "never get the word". Some people don't know they have to file; some are not able to post their mail because no one comes to pick it up for quite a while; and there are a number of persons who miss the tax exemption to which they would be entitled because they miss the deadline. The bill would allow municipalities to accept applications on finding that there is good cause and grant the tax exemption under 29.53.020. There is a fiscal note attached to the bill. They estimate that late payment of taxes with average reimbursement of \$335 the amount would be \$36,400 in FY 76. Mr. Malone said that he actually thought it would be substantially less than that. It probably affects 10 or 20 people statewide in any given year. HB 227

Ms. Buchholdt said that she favored the bill because they have that kind of problem in Anchorage with older citizens. Often they don't even realize there is such a thing as a tax exemption.

Mr. Rhode said that many localities submit the assessment to the individual property owner in the fall and it is all too easy to put that aside and "lose your mental note" to get back by the 15th of January.

Mr. Naughton moved and asked unanimous consent that SB 227 be reported out of committee. No objection, so ordered. MOTION

There was brief discussion on legislative salaries and the idea was proposed by Mr. Hogan of tying the legislators' salaries to another group, for instance commissioners, so that their increases would come automatically as the increases were passed for that other group. The idea of increasing benefits rather than salary was mentioned.

Meeting adjourned at 9:50 p.m.

ADJOURNED

# **CORRECTION**

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

He moved for adoption of the amendments. He explained that the reason for the amendment on line 16 was that Budget and Audit would have the option of contracting or working with the Division of Marine Transportation or anyone else without it being specified. Mr. Duncan objected to the motion for purposes of clarification. He asked Mr. Gardiner his reaction to the amendment. Mr. Gardiner said that he had no objection. He appreciated it being made more flexible. Mr. Malone said that his reasoning was that he thought the Committee may have to work entirely around the Department of Public Works. Mr. Duncan removed his objection. There being no further objection, the motion was adopted.

HCR 24  
MOTION

Mr. Naughton moved to further amend the resolution by striking "locating" on line 6, page 1, and on line 7 of page 1, striking all language following "Alaska" and placing period in its place, striking also "system." on line 8. No objection, so ordered

MOTION

Mr. Malone turned the gavel over to Ms. Buchholdt at this time. Continuing with amendments on page one of the resolution, Mr. Malone made the following suggestions:

- Line 10, strike "spent" and insert "plans to spend";  
strike "\$235,500" and insert "1,000,000"
- Line 11, strike "1974" and insert "1976"  
strike "six of " and "seven"
- Line 12, strike "comprised" and insert "comprise"  
strike "during that"
- Line 13, strike "period"

Mr. Guy asked the reasoning behind the \$1,000,000 figure. Mr. Malone said that they subtracted out the expenditures planned for shore facilities here in Southeastern during FY 76 in the capital budget request and they came up with about \$900,000 which is close to \$1 million.

Mr. Malone moved the above amendments. No objection, so ordered.

MOTION

Mr. Malone moved to report out a committee substitute for HCR 24 incorporating the amendments. No objection, so ordered.  
Committee report was "do pass" with Mr. Guy signing "no rec".

MOTION

Mr. Malone reassumed the Chair. He commented that he felt some changes needed to be made in HB 234. Mr. Naughton moved the following amendments:

MOTION

- Line 8, strike "locating"
- Line 9, strike "for the Division of Marine Transportation"
- Strike all of line 14

Line 15, strike "and maintaining," and all language following "facility through and including line 17. Place a period after "facility" on line 15.

There being no objection, the amendments were adopted. Mr. Guy moved to report out of committee a committee substitute incorporating the amendments. No objection, so ordered. Committee report was signed with "do pass" majority on the committee substitute, Mr. Guy signing "no rec". MOTION

HOUSE BILL 227 (Senior Citizens Tax Exemption) was brought up for discussion. Mr. Malone said that the problem this bill deals with is that there are always around 10% who "never get the word". Some people don't know they have to file; some are not able to post their mail because no one comes to pick it up for quite a while; and there are a number of persons who miss the tax exemption to which they would be entitled because they miss the deadline. The bill would allow municipalities to accept applications on finding that there is good cause and grant the tax exemption under 29.53.020. There is a fiscal note attached to the bill. They estimate that late payment of taxes with average reimbursement of \$335 the amount would be \$36,400 in FY 76. Mr. Malone said that he actually thought it would be substantially less than that. It probably affects 10 or 20 people statewide in any given year. HB 227

Ms. Buchholdt said that she favored the bill because they have that kind of problem in Anchorage with older citizens. Often they don't even realize there is such a thing as a tax exemption.

Mr. Rhode said that many localities submit the assessment to the individual property owner in the fall and it is all too easy to put that aside and "lose your mental note" to get back by the 15th of January.

Mr. Naughton moved and asked unanimous consent that SB 227 be reported out of committee. No objection, so ordered. MOTION

There was brief discussion on legislative salaries and the idea was proposed by Mr. Hogan of tying the legislators' salaries to another group, for instance commissioners, so that their increases would come automatically as the increases were passed for that other group. The idea of increasing benefits rather than salary was mentioned.

Meeting adjourned at 9:50 p.m.

ADJOURNE

HOUSE FINANCE COMMITTEE  
Saturday, April 5, 1975  
9:15 a.m.

All Committee members were present except Messers. Naughton and Guy. Others attending the meeting were:

PRESEN

Sterling Gallagher, Commissioner of Revenue  
Eric Wohlforth, Wohlforth & Flint, Anchorage  
Roland C. McLaughlin, Foster & Marshall, Seattle  
Norman Banfield, Juneau attorney  
Don M. Berry, Alaska Municipal League  
H. D. Scougal, City Manager of Petersburg  
George M. Sullivan, Mayor, City of Anchorage  
Jack Chenoweth, Director, Local Plan. Asst., C&RA  
Mike Harper, Deputy Comm. Community & Reg. Affairs  
Rep. Neils Anderson  
Rep. Mike Miller  
Jim Rhode, Administrative Assistant, House Finance Com.  
Milt Barker, Fiscal Analyst, Legislative Finance

The meeting was called for the discussion of House Bill 72,  
"An Act creating the Alaska Municipal Bond Bank Authority and  
prescribing its organization, powers and duties" and House Bill  
73 "An Act making a special appropriation to the reserve fund  
of the Alaska Municipal Bond Bank Authority" of \$2,665,000.

HB 72

HB 73

At the Chairman's request, Mr. Gallagher outlined the background, concept and what the utilization would be in Alaska. He reported that many communities in the state, because of size, or size of projects they are selling, do not have a good reception in the municipal bond market. This concept is designed to help get them close to a State rating on the municipal bond market. With the reserve fund behind it they think this will make it good. Alaska bonds do sell well on the "outside" because while there is a high debt outstanding per person, there is also a high assessed evaluation per person. The general concept is the Municipal Bond Bank itself, would be financing by issuing a sort of revenue bond; the bonds have the general obligation of the particular city behind them plus the debt service. There are a lot of aspects that are general obligation. It is a revenue issue, but also a general obligation of the particular city involved.

Mr. McLaughlin said revenue bonds will sell about 3/4 - 1% above a general obligation bond issue. The bond bank concept is a new type of financing that has been developed in the last five years. A bond bank sells its obligation which is classified as a revenue bond, but the security is the security of a general obligation bond, which is secured by the taxing power behind the various municipalities around the state. Its typical rate is about one notch below the state rating. This can give a substantial advantage to some of the smaller municipalities. The individual municipalities do not have to go to market, they sell to the bond bank. He related the example of the State of Maine which had a bond indexed at 6.60% which sold for 6.44%.

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Mr. Wohlforth added that the Authority actually commits to purchase local issues; when they get enough together to make their own issue they market their bonds. The credit of local municipalities will be carefully scrutinized, and cannot go beyond what they are allowed to borrow. This bill provides for a reserve fund but municipalities who are not in a position to do so, may not be permitted to borrow. The reserve fund will make the bond achieve a lower net interest cost.

HB 72  
HB 73

Under the discussion of "moral obligation", Mr. McLaughlin, said there is no one now who recognizes a "moral obligation" as an added security. The phrase is included in a good number of pieces of legislation but it has very little value in the marketing of bonds.

Mr. Wohlforth briefly described the circumstances originating the term "moral obligation:" Former Attorney General John Mitchell along with Nelson Rockefeller, in the 1950's decided that the state of New York needed a substantial lot of capital improvement financing which they doubted would be passed by the voters. Someone had the idea that if legislation stated that the State shall appropriate money sufficient to make up any deficit, that that would be sufficient. The word "shall" did not mean what it said. Legislature No. 1 could not commit Legislatures 2, 3, or 4. The bankers thought it was 99% sure they had a commitment and from that came the term "moral obligation" and millions of dollars of bonds were sold on this.

What New York did has substantially damaged the bond market in the whole country and until New York actually makes hard dollar payments to the holders it will continue to hurt the market. He admitted this didn't bear on the issue at hand, but was an interesting story. He agreed with Mr. Cowper that it related to the market conditions that make this sort of thing advisable.

At the Chairman's request, Mr. Wohlforth went through HB 72, section by section, answering questions as occurred.

Sec. 44.58.020 is standard language to import when creating a public corporation so it can borrow separately from the State;

Sec. 44.58.030 is appointment of membership; 040 is the quorum provision; 050 is the bonding provision which is typical; 060 is reimbursement for expenses;

Sec. 44.58.070, Staff; The intention is that the staff be operating in-house with existing personnel if possible; Responding to questions on the fiscal note requesting additional positions in the Department of Revenue, Mr. Gallagher clarified that the executive director was to be a debt manager for the State which they do not have and this would be only a portion of his duties. The Authority would not be charged with his full time. Mr. McLaughlin, referring to the other expenditures not listed in the fiscal note, said that the cost of a bond council and financial advisor would be paid out of the proceeds of the sale.

Sec. 44.58.080, Conflict of Interest was clarified by Mr. Gallagher with the example of a banker whose bank owned local government notes. He would still be a member of the Authority, but could not

advocate the purchase of the notes by the Authority. Mr. Malone thought the bill could be more specific on the conflict of interest. Mr. Cowper commented on the Oil and Gas Advisory Board; anyone who knew anything about gas or oil was disqualified; he thought this was an attempt to avoid that type of problem.

HB 72

HB 73

Sec. 44.58.090. Powers of Bond Bank Authority. describes the possible things the Authority might do. In answer to Mr. Malone's questions on insurance, Mr. Gallagher said this would permit casualty insurance on personal property and also municipal bond insurance, which was a new thing coming up. Municipal bond insurance has been very expensive but is coming down.

Mr. Gallagher told Ms. Itta that any private person, which includes corporations, can make a grant to pay off a debt. He explained to Mr. Cowper that it would be the intent not to fund until the bonds were sold; they would not buy bond anticipation notes until there was a good track record. The anticipated policy of the Authority needs to be left a little loose.

Sec. 44.58.100 tells the things that cannot be done in the Bank under the definition of a normal bank; they cannot deal in securities; cannot make loans to corporations other than municipalities.

Sec. 44.58.110 establishes the annual report and requires it to be audited; 120 sets up the annual budget and handling; 130 is the care and custody of bonds which permits the authority to enter into arrangements with banks in connection with bonds it has purchased for their safekeeping.

Sec. 44.58.140, Effect of Obligations. expresses the statement that bonds or notes are not debts or liabilities of the State. The bonds are general obligations of the Authority unless the Authority structures in a different way to give them that option. Once bonds are issued and covenants made with bond holders, the State won't repeal it. Mr. Cowper asked if there was any authority for holding that makes the State a party to the agreement set up in the bond originally to allow for a change of the statute provision; does it provide some leverage on the State or do they "promise not to do it." Mr. Wohlforth answered that it was "sort of the latter"; they will not limit the authority to do it. Mr. Wohlforth added that it was not a moral obligation section; it would be stretching it to say the State was a party to an agreement. If Sec. 44.58.140 (b) was repealed by a future Legislature as the Chairman suggested, it would say that the obligation on the bond was no longer valid. He did think the bond contract would be equally effective for enforcement in that case. Mr. Banfield added that Legislative changes would only affect bond issues after that date. It was found that (b) is included because it is included in three other Municipal Bond Bank bills; the bankers like to see it and it enhances marketability.

Sec. 44.58.150, bonds fall under the Uniform Commercial Code as negotiably good; 160, is standard language to make bonds an eligible investment to the types of institutions listed. Mr. Wohlforth pointed out that for any tax exempt body to buy tax exempt bonds would be an uneconomical transaction, in answer to Mr. Malone's suggestion of the State Employees' Retirement Fund investing.

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Sec. 44.58.170, addresses the tax exempt status of the bonds.

HB 72  
HB 73

Sec. 44.58.180 deals with the authority of the Authority. In the case of local government default, the Commissioner of Revenue can withhold monies from the municipalities. Mr. Banfield emphasized that the Commissioner is not authorized to pay this money to the bond buyers or to remedy the default, but just to hold the money indefinitely. Mr. Wohlforth took exception to that on two counts: The reserve fund is designed to tide the Authority over a temporary default period; he didn't think the Commissioner could be constitutionally bound to pay money to the bond holders. He called this a hammer-type clause. It also suggests other satisfactory arrangements can be made, which could be a refunding of the bond. He said this adds greatly in the marketing of a bond.

Mr. Banfield noted that one remedy is getting a Writ of Mandamus to raise the taxes to cover the municipal bonds; in the meantime there is money tied up in the Department of Revenue. He wanted to know why this money could not go toward the default. He felt to make this of real value, there had to be some authority and the Commissioner of Revenue should pay the money to the bond holders which in turn could pay off the debt. Mr. Malone pointed out that long term debts of the State could not be committed; Mr. Banfield said this was only for monies due to the municipality, but the Chairman said there still were State funds, to which Mr. Banfield replied it was money the State was authorized by law to give to the cities.

Mr. Wohlforth said it may not be desirable to hold necessary revenue sharing funds if other arrangements can be worked out; it is known that the policemen and teachers are paid before the bond holders. Mr. Banfield said the bonds issued to the U. S. under the Alaska Public Works program were the last default he knew of.

Sec. 44.58.190 (a) specifies the various purposes for which the Bond Bank Authority may issue its bonds and notes and establishes the necessary reserves; (b) that the bonds may be of more than one variety, they may be payable by all funds or separately secured; (c) limits the authorization to \$150 million. Mr. Wohlforth said there had been a committee substitute; and Mr. Rhode said the bill was amended by a prior committee and the amendments should appear. A committee substitute had never been reprinted. Mr. Gallagher explained two reasons for having the dollar limit as well as a funded reserve: They want the Legislature to review it periodically.

Mr. Cowper understood that the Authority would issue its own bond and present them to the market and it would be buying its bonds from the municipalities and issuing its own; but he wondered what would happen if there were political pressure to buy bonds from a community which wasn't really solid, wouldn't the credit of the more stable communities be compromised by that. Mr. Wohlforth explained that the typical financing would come when ten communities had applications in for sale of their debt. The financial advisor or consultant would analyze the credits and if one is weak or below the run of the other credits, it could mean the issue would not be sold. The reserve fund probably enhances the ability indirectly of some municipalities to borrow who might not

be able to do so otherwise. As far as that weakness diluting the credit of other communities, in Maine, the debt schedule of each community is set out under their authorization. If bond people decide one is not as good as the others, they just don't buy. The bond buyer is able to discriminate. Mr. McLaughlin expanded on this; the general investing public or individual looks to the underwriter that put the information together; the bonds generally are sold on a negotiated basis. An individual firm analyzes each individual credit and if there is a municipality in the package that should not be in there, it would not be involved. You would not end up with some municipalities subsidizing others.

HB 72  
HB 73

Mr. McLaughlin informed the Committee that this type of program was born in 1969-1970 when extremely high interest rates were prevailing and the statutes of limitations were being approached. This is what started the concept. The real beneficiaries are those states who have new communities with unknown credits.

Mr. Cowper asked for an explanation of Sec. 44.58.190 (d) which Mr. Gallagher said was called "the Juneau provision." Mr. Wohlforth said that to the extent Juneau has problems financing its capital needs over the next couple years, the Bond Bank Authority would provide a vehicle. It could relieve some of the high interest costs and might assist Juneau in financing some of its capital needs that otherwise might be paid heavily for. It would have to be a financially feasible project.

In response to Mr. Gruening's questions, Mr. Gallagher described the types of projects that might be included. For schools there is a 50% sharing by the State of Alaska which makes schools a number one criteria. The water treatment and sewage required by the Environmental Protection Agency makes that a higher priority. There is only so much money to go around so projects are graded in importance to the State. Mr. Wohlforth pointed out that they were limited to G.O. bonds under the definitions on page 27 of the Bill. Mr. Gallagher added that the Bond Bank Authority could help schools under the Pennsylvania method which pledges royalties to the schools. The limitations would improve the quality of the bonds, and they do want the best type of projects.

Mr. Haugen commented on the bill passed last year that allows a Charter Home Rule municipality to have a bond issue for the purpose of schools beyond their statutory limitations. Mr. Wohlforth said this bill would dovetail with that, the Authority could purchase those bonds.

Mr. Scougal, said last year voters of Alaska mandated \$33 million for schools mostly in unincorporated areas; they are nearly in the same position as Petersburg where there are bonds for a school. When it comes to the bond sale, they are equated with the population in a municipality. He felt this concept takes the individuality of the bond out of the bond market. Mr. McLaughlin said any interested buyer in a bond bank purchase will look into each individual municipality involved and might go to the underwriter requesting information; they would want a comprehensive review. Mr. Scougal felt this way did not really help the smaller municipalities; they were still evaluated on individual payment ability.

Mr. Gallagher said the bond would trade better because the State had looked at it and there would be a reserve behind it.

HB 72

HB 73

Sec. 44.58.210 is the authority provision to sell at public or private sale; 220 allows for payment or refunding of notes by the Authority issuing its own notes; 230 deals with terms of agreements; the right of the Authority to pledge its revenues to support the bonds; 240 provides for the purchase of its own bonds or notes to retire a debt; 250 provides for the purchase of bond anticipation notes which must mature within five years of original issuance date; 260 requires that the issues be properly documented; 270 is the presumption of validity, but does not exclude a tax payer suit; 280, the Reserve Fund, would be initially fed by the appropriation established in the companion bill and could also contain amounts capitalized by bond issues by the Bond Bank Authority.

Going back to Sec. 44.58.250 and the "failure of a municipality to comply with the agreement...", Mr. Wohlforth said this was directed to the situation where there was a change of heart and a desire not to live up to the contract. The language cannot be all inclusive of every potential situation.

In Sec. 44.58.280 (g), line 23 changes "shall" to "may", and on line 25, after governor add "and to the chairman of the House and Senate Finance Committees". This is to assure that the Legislature is directly apprised of the situation. Line 27, the date is now January 30; line 28 after governor "and to the chairman of the House and Senate Finance Committees." Mr. Malone thought "Legislature" might be a simpler way of stating this. Line 1, page 22 "shall" be changed to "may". These amendments were from the Community and Regional Affairs Committee.

Mr. Wohlforth said that section covers the disclosure that the Authority is not doing its job and the Legislature may appropriate money. Referring to changing "shall" to "may", Mr. Wohlforth told Mr. Cowper that the Oregon court held that "shall" was unconstitutional and should be changed to "may". To call a bond a "moral obligation" now would likely be a detriment.

Under Sec. 44.58.280 (c) the operating account would be another fund. Or perhaps the Authority would pay for a project out of excess reserve funds.

Mr. Rhode pointed out that great pains were taken not to call it a "moral obligation", and suggested calling it a "possible obligation." Mr. Wohlforth thought this was a misuse of the word "moral" and didn't think it was an obligation at all. The Legislature would be told each year about the Authority and they would either do something about it or not.

Mr. Cowper requested copies of the Maine and Vermont enabling legislation be made available to the Legislative library. Mr. McLaughlin said this Bill was a repeat of that legislation.

Sec. 44.58.290 through 410 were reviewed briefly by Mr. Wohlforth with no comments from the Committee members.

Mr. Don Berry of the Alaska Municipal League, in the interest of time, said he would not speak at this meeting but pointed out the written statement he had prepared for Committee members. He is in favor of this Bill.

HB 72  
HB 73

Mr. Harper also favors this Bill, having worked with it for a long time; he feels this is a way to help small communities.

The meeting was recessed at 11:15 a.m.

RECESS

AFTER RECESS  
11:35 a.m.

Mr. Banfield, a Juneau attorney was invited to speak on this Bill. He claimed to not be a financial expert, though he had specialized in municipal and utilities law and financing since 1935 during the depression. He would try and relate this legislation to what it would do for individual communities, to the classes of municipalities in Alaska.

Many second class municipalities will not be eligible for participation in the plan; they don't have regular meetings, don't keep records. He gave the example of Kake, population 550; whose electric utility went to pot due to lack of maintenance. They could not tell what the revenue was from this service, and didn't know what expenditures had been made against the revenues because it all went into one account. They did not have a set of ordinances on hand; someone had borrowed them and not returned them. Under this Bill they could only issue G.O. bonds. For these kinds of communities this Bill will be no help. Pelican, population 169, on the other hand, does hold regular meetings, keeps books etc. They are credit worthy and could float a bond tomorrow.

One of the biggest problems in these communities is sewage and water. The costs of those projects today is so fantastic that municipalities are in no position to do it; they have federal and state participation. In Haines the cost of the treatment plant and outfall cost \$1,960 per capita. The smaller communities get a great deal of financing from federal and state grants and will not use another method of funding. Referring to the questionnaire sent out by the Commissioner of Revenue, more people didn't answer it then did.

Mr. Banfield felt the small communities would not take advantage of a Bond Bank Authority. They would have to go through the same "rigamarole" for a small issue as a big one, consequently the small villages would not go in for bonding any more then they did in the past. What about impacted cities? A town that was dependent on the timber industry; the timber is all cut and the town dies down. These communities need help and it says they will get preference; but if it doesn't meet a certain bond rating they will not buy them anyway. If there isn't the bond capacity, they will get nothing. This program is available, but only to those who can qualify.

Juneau has \$2.5 million in authorized but unissued bonds because the Switzer Creek School bond will not be sold. Juneau has always been able to sell its bonds; what good will this program be

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unless the rate that the Bond Bank can give them can be reduced. The Bond Bank has to at least pay the expenses of the operation from the bond sale; they have no operating funds except interest from municipalities or state subsidy. The Bill says the state will not subsidize. No one has come up with an appropriation figure for operating expenses; there is a figure for the bond reserve but that cannot be used for operation. His guess for a fair figure would be \$300,000, which could be provided by \$30 million of bonds at 1%. He didn't think this could be done; he didn't think a state revenue bond, even though a peculiar type of one, could sell for anywhere below what the City of Juneau could sell its own bonds today. He does not see the Bond Bank Authority as a viable vehicle. The expenses would be practically the same as going straight to the market.

HB 72

HB 73

The cities who did reply to the questionnaire sent from the Commissioner of Revenue--more didn't reply then did--were the cities who have bonds out now. There is only one thing to do for them and that is to provide them cheaper money.

The actual mechanics he did not like about the Bill: the cost of operation is not known. If the Bond Bank should require that the loan be insured in the case of default, a premium will have to be paid which would be very expensive. The Bond Bank will have to be audited which will cost money.

Referring to the Issuance of Bonds and Notes (4), on page 13 of the Bill, he made the following supposition: That the Bond Bank started by borrowing \$1 million. There must be a reserve for the bonds which can be invested. When its in the reserve fund, the money can be reinvested but they must go to the General Fund then to pay operating expenses. Who is going to buy a revenue bond the proceeds of which will be used to pay the operating expenses?

Sec. 44.58.210 provides that the bonds can be sold at any price the Authority wants; who will buy a revenue bond sold at a discount? Maybe they can sell a bond and maybe they cannot. Municipalities are not allowed to sell at a discount.

Sec. 44.58.280 (1). Mr. Banfield stated this reserve fund is like the capital put into a bank; there is no provision for an operating surplus. If \$50 million of 25-year bonds were issued at 6%, to cover the first year's interest and principal payment, \$5 million would have to be in the fund to cover the bonds. The Legislature will have to put more money in if this institution is to do any business. If the cost of operation amounted to \$300,000 a year, 1% of \$30 million would have to be the profit. Where is the advantage to cities under these circumstances? True the Legislature can appropriate to the reserve, but if it is to be a large operation, this will be a continuing thing.

He pointed out that the Petersberg bond was not the kind of bond that could be purchased by this Authority. Petersberg is a very viable community but the cost of building schools is so high they cannot sell the bonds. The cities who have good credit and are not over-bonded can sell their own bond; the cities who are over-bonded will not be able to sell their goods.

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Mr. Gruening asked if the state would be better off helping these municipalities with problems by issuing G.O. bonds for them, as it seemed administrative costs were already set up to do this; Mr. Banfield referred to SB 116 which would provide for a revolving loan fund for municipalities and utilities, which was a scheme whereby the state would put up the needed money and make loans to the communities. Regarding HB 324 placing bonus lease money into a fund; Mr. Banfield said that would make money available that could be diverted from the investment fund. The Department of Commerce could loan a village a certain amount of money on a note, but it still depends on the history of the city. HB 72  
HB 73

Mr. Banfield would like to see something where they could go without having a bond transcript and someone else's opinion, and obtain a loan from the state without a lot of expense. The state should have certain criteria set up, such as if a municipality did not collect taxes regularly, they should not get a loan. He mentioned other revolving loan funds already in existence.

Ms. Buchholdt had the impression that the beneficiaries would not be the small villages because of not having credit worthiness, and not the larger communities, and wondered who the beneficiaries would be. Mr. Banfield did not know. He reported that if Craig put out a bond for the \$58,600 they need, the legal proceedings would cost more than that, plus a minimum of three months to go through the proceedings.

Mr. Gallagher noted that Mr. Banfield was helpful in pointing out that every municipality cannot be helped. He corrected previous testimony saying that the North Slope Borough last year sold bonds for 8% or so and the State got around 6% plus the fact that they were ten-year loans. Mr. Wohlforth said that a local government borrowing from the State would be subject to the same legal criteria as a bond issue.

Mr. Gruening asked what advantages there were for the cities who qualified, putting aside the paperwork; was there really a break in interest. Mr. Wohlforth replied that there was more or a market for a \$10-15 million issue than of a series of very small ones.

Mr. McLaughlin clarified, not talking about impacted areas or those who have not a bond capability since this is not designed as a grant program, but as a financial maneuver, that the primary advantage of the Bond Bank is to give municipalities a voluntary alternative to financing. The concept is that smaller issues do not generate marketing interest and because of that have higher interest rates.

It was brought out that the municipalities do not pay into the reserve fund, that it is capitalized by increasing the bond issue to cover the reserve.

At this time Mr. Malone halted the discussion and determining from the Committee that they wished to continue investigating the topic, scheduled further testimony for Monday, April 7, at 7:00 p.m. in the House Finance Committee room. He thanked those people testifying for their time and cooperation.

The meeting was recessed at 12:30 p.m.

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AFTER RECESS  
1:45 p.m.

All members were present with the exception of Mr. Guy. Also PRESENT present were Mr. Gonder of Budget and Management, and from the Department of Public Works, Commissioner Harris and Mr. Hudson, Director of Marine Transportation; along with staff.

Chairman Malone called the meeting back to order, announcing that the committee had before it HOUSE BILL 145 (supplemental - HB 145 Marine Transportation). Mr. Malone noted that the bill has been through the House State Affairs Committee who had an amendment to delete \$7,387,100 and insert \$6,375,100 and also spread a letter to the Speaker in the House Journal on the subject. He then invited the Department's testimony.

Mr. Harris said that since the came into the administration, they have looked at this budget and found that the way personal services had been budgeted was using a flat 18% as the increased cost figure. They went back through all of the existing positions and recomputed the personal services requirement to amounts required for the balance of the fiscal year. When they came before State Affairs with their supplemental request, they gave the committee the amount of personal services money required for the balance of the fiscal year. Mr. Harris asked Mr. Hudson and Ms. Trimble, Finance Officer, to make the presentation on the supplemental. He commented that they have compiled a six page breakdown of fiscal needs adjusted as best possible, predicated on what has been spent and estimating what will be required. The Division and Department has reduced the amount by approximately \$1.1 million from the previously recommended budget. What they are now requesting he said that they believe is as close as they can come. They have gone to Seattle and have gotten contracts, which they have on file. 75% of the budget is pay increases, something that they more or less "inherited".

Mr. Malone requested that they concentrate on the major items in the supplemental request for their presentation and if the committee had questions on the other items, they would then be taken up.

Mr. Hudson said that the major item is, as was earlier stated, personal services per the union contracts. Each contract has a different pay scale. The six page breakdown Mr. Harris had mentioned was distributed to the committee members and was used to work from during the presentation on HB 145. (copy in bill file)

Note was made of the personal services figures. Mr. Hudson

said that item 16 on page one and item six on page 5 relate to the new union contracts explicitly. Other items relate to the contracts to some extent, too, but there are other decision factors that caused their coming into place. HB 145

Discussion followed on specific contracts and dates signed. All of the contracts are retroactive to July 1, 1974. Mr. Malone asked if the estimated amounts on the breakout expended to date are paid under the new union contracts. Mr. Hudson said yes, except for the latest cost of living increase. Mr. Malone said that he had difficulty with this point. He read from the Collective Bargaining Act, "Sec. 23.40.215. FUNDING. The monetary terms of any agreement entered into under the Public Employment Relations Act are subject to funding through legislative appropriation." He asked if it is correct that under these union contracts payments have been made that were not funded by legislative appropriation. Mr. Hudson said yes. Mr. Malone asked what the policy of the administration regarding this provision in the law is. Mr. Harris said that it is his understanding that for the past six years, the three marine unions involved have been paid without consideration of that provision. The practice evidently was started before that provision came into being when those three unions were the only organized labor groups that the state was dealing with, before enactment of the Public Employee Relations Act. Looking at the expenditures, Mr. Malone said that the practice is obvious but he is trying to determine the policy. Other increases have come before the committee submitted by the administration with the belief, at least on the part of the committee, that these increases or changes would not go into effect until there was legislative authorization for the increases.

Mr. Harris said that the policy will be that whatever the funds that are allocated to the Department of Public Works are the funds that they will expend in the fiscal year that they are appropriated for. In the upcoming negotiation with the unions, they intend to try to change the provision that provides for the date of negotiation and to change the effective date of the contract so that they have the contracts in hand before making their final budget submission. In that way the actual dollar requirements will be known so that the personal services figure reflects the full need.

[Mr. Guy entered the meeting.]

Mr. Malone said that if the legislature appropriates a sum, and in the interim a contract is signed changing some of the costs, he wanted to know what the policy will be for handling that contract -- to pay the costs when the contract is signed or to wait for a legislative appropriation authorizing that expenditure.

Mr. Harris said [verbatim]"The policy will be if funds are not appropriated at the time of the effective date of the contract, the funds will not be spent until the appropriation is made." HB 145

Mr. Gruening asked if that means the way increases will not take effect until the legislature has taken action, and Mr. Harris said yes.

So that there is no ambiguity as to what the policy is, Mr. Malone requested Commissioner Harris to submit to the committee a written statement as to what the policy will be with reference to any increases in negotiated contracts that have not been appropriated by the legislative appropriations process.

Ms. Buchholdt asked about item 20 on page 2, costs for additional crewing. Mr. Hudson referred to a packet of information dated April 3 (copy in bill file) which explains some of the increases. The item to which Ms. Buchholdt referred is explained on page 6 of the packet.

Committee began going through the six page itemized report. On page 1, #1, there is a \$150,000 contractual figure. Ms. Trimble said that the original amount authorized for annual overhaul was \$222,900. They have expended \$296,000 so far. This was started during the previous administration but they were left very little choice since the annual overhaul had been scheduled a year previously. Mr. Hudson said that there are 8 vessels, and each needs annual overhauling and drydocking. The drydocking is per demand of the federal government for inspection. The original request would have covered this, but it was cut. The funds ran out before the change in administration, and they have expended to date \$296,000; an overexpenditure of \$73,180. The ships are overhauled during the winter months because they get higher revenues during the summer months. Also, he mentioned that costs are higher. Mr. Haugen asked if the Finance Committee didn't actually cut that money out last year. Ms. Trimble said that they had requested over \$400,000 for the annual overhauls and it was cut back. Mr. Hudson said that in estimating needs for annual overhaul, it is very difficult for any organization because the only things solid are the basic costs. Once the vessel is "opened up" costs depend on what they find; i.e., if you pull a shaft and find fractures you may end up replacing the shaft. Mr. Naughton said that then they need \$76,000. Ms. Trimble said yes, in order to finish out the fiscal year in this particular case. They have billings that support some of this request. They have three ships in drydock right now. Ms. Trimble said that they have actual quotes for all but \$24,900 for the requests in items one and two. That additional \$24,000 is for anything unseen. Mr. Gruening noted that they are requesting

quite a large sum of money; he asked what their maintenance request was. Ms. Trimble said that it was something like \$490,000. They received \$22,000 for this purpose. Mr. Gruening noted that that is considerably more than the \$150,000 they are now requesting. Ms. Trimble said that they have come up with a total of \$372,000 versus the original \$494,000. She said that another element of the supplemental is rising costs. She mentioned that the supplemental is based more on what they know their needs to be -- the estimates are more recent than last year's. HB 145

Mr. Hudson said that he doesn't believe they should really comment at great length on the original budget or the estimates, since they don't really know how they were based, being under a different administration. They do know that they are faced with three vessels to get out and with overage on their billings. He said that everything that they have placed on vessels so far they have felt was needed. The request plus what they have spent is what they feel they need. In the future they hope to have better processes to come up with more accurate estimates.

In response to questioning by Mr. Gruening, Mr. Hudson said that their FY 75 budget was prepared in 1975. In 1975, a major portion of the fleet is now 14 years of age and the vessels are requiring more attention. Mr. Haugen commented that the money they were appropriated last year was just an arbitrary cut. Mr. Hudson said that many things have been deferred already; for instance, the stabilizers in the Tustamena are still locked in. The bowthruster in the Tustamena also was repaired and not replaced, as it probably should have been.

Going on to item 2, Ms. Itta inquired about the transportation costs. Ms. Trimble said that she did not justify the transportation costs by individual items. She justified them based on actual expenditures for crew changes and past history. Mr. Hudson commented that they have overspent part of the request already.

Mr. Naughton asked the meaning of "Repairs to vessels not applicable to contractor". Mr. Hudson said that when a vessel is constructed, many of the items are under warranty. All other items, specific oversites, poor planning or design, have to be corrected at the state's expense. There were, for example, problems with the piping. There was question about the kind of fittings to be used, and what was used ended up causing problems. The boat had been okayed by the American Bureau of Shipping and the Coast Guard, but the state ended up with very extensive costs.

Question was raised about number 12 on page 1, additional 8 months service plus drydocking expenses for the Matanuska. Mr. Hudson said that the Matanuska had been scheduled for a stretchout last

winter. They had used the figures for stretchout of the Malaspina as a basis for funding. When it finally got down to it, because of inflation the costs would have been in the neighborhood of \$13 million. Funds were not available for that so they ended up operating the ship for the balance of the 8 months that it had been scheduled not to be in operation and in drydock. For that reason they have expended the funds indicated under "Expended to Date". They feel in this case that they can justify the travel which they have lumped together. They have adjusted some figures here. Contractual services should have been higher than commodities, particularly with past precedents. They think they can drop \$50,000 off of Commodities. They are taking \$148,500 from Commodities and putting it into Contractual. HB 145

[Reps. Cowper and Itta left the meeting.]

Page 2, number 20, is the additional crewing for the Columbia, Chilkat, LeConte, and Matanuska to provide full year service. He distributed a duplicated page to the members, (see bill file) which is headed by "20. Increased personal services:" He said that here they have lumped together all the personal services. The Taku was per union contracts; Matanuska was for continued operations and employer contributions; Malaspina was a decrease due to shift of positions to the Columbia; Columbia cost a good deal more in personal services than they had anticipated. Somewhere along the line in the planning it was overlooked that the Wickersham was a foreign flag vessel and required less crew than a U.S. ship. Thus planning was done for crewing per the lower requirements. The LeConte was originally scheduled to only operate for seven months. However, due to pressures that he said he was not familiar with, the decision was made to run it for the rest of the year, which increased those operations. There was a more intense schedule to Haines, side trips to Glacier Bay, and it went to Skagway. This \$2,055,700 figure is as close as they can come for their additional personal services needs.

Mr. Malone said that the understanding was that the Chilkat was to have run minimal service with a one crew system. Apparently the decision was made during the year to change this, and it seems that many of these decisions were made verbally. Mr. Hudson said that the service cannot be expanded like that with the same crew, by Coast Guard regulations, so they were forced either to provide the same level of service and ignore the higher authority demands or go to a two crew system.

Mr. Malone said that this is something that probably affects many of the supplemental items, but he would think that normally as a matter of policy, the best thing to do when a change in the level of service occurs is to document that change. He asked what the policy of the administration is going to be on this.

Mr. Harris said: [verbatim] The policy will be that whatever program is funded will operate in that manner. If the legislature decides for one reason or another that they want this program operating at a certain level, that is the level that is the way it will be operated."

HB 145

[Ms. Itta returned.]

Mr. Malone said that the reason he is asking is because if some of these increases had been documented, the responsibility could be fixed on someone. Mr. Hudson agreed. The only way now they can determine responsibility at all is by judging from the date, but who made the decisions and documentation of the decisions are things he has been unable to find. There was some discussion on possible mechanisms for monitoring these decisions and changes.

Mr. Gruening asked how many people are required in the stewards department to be on board at a given time and he was answered that none are required. Mr. O'Claray said that none are required in their capacity in the stewards department but are required to fulfill the requirement for certified life boat personnel. The balance are needed for full utilization of the vessel and serving people.

Mr. Naughton asked for elaboration on the distinction between items 10 and 20 (on the 6 page long form) as appropriate to the Chilkat. Ms. Trimble said that 20 is strictly personal services. 10 has no personal services, but is just the other codes.

Mr. Gruening asked exactly how many people were required under the Columbia. Mr. Hudson said that they needed 10 new positions. Mr. Gruening noted the increase by 15 and asked the reason for that. Mr. Hudson said that it was difficult to say. They do have to have 36 certificated life boat crew, and perhaps that is related, but he really couldn't say.

Mr. Malone referred to item 21, \$10,000 increase for marine union negotiations, and he asked if that is for the new negotiations. Mr. Hudson said yes. This must be supplemented by certain funds that are held in the Department of Administration and will be available to the Division.

Item 4. Vessel Radios. Replacement of present vessel radios. Mr. Hudson said that they have been experiencing inability of communicating with Canadian stations as they are navigating those waters plus difficulty in vessels reporting to the weather bureaus as they transit. None of this money has been spent yet.

Item 5. Salt Water Pumps. These units are obsolete, Mr. Hudson said, and they can't get parts while they are underway.

4/5/75

Item 6. Springline Stations and Headline Capstan for the Columbia. Mr. Hudson said that they have already expended an estimated \$25,000. This was another design factor. Had they talked with the crews they would probably have gotten a vessel configured right.

HB 145

Item 7. Change Vessel Venting. Mr. Hudson said that they have gotten word from the Coast Guard that they do not meet federal requirements. Change must be made or they will be unable to operate the ships. They have come up with a modified design through their engineering staff and have changed the request for this from \$95,000 to an actual \$20,000. Mr. Malone asked if these requirements are new regulations, and Mr. Hudson said yes. This is just for large vessels.

Item 8. Columbia Accident. There was a \$4,700 actual cost in flying passengers and crew when the vessel ran aground. Mr. Malone asked the request for the \$5,000 request if the actual is \$4,700. Ms. Trimble said that they are more willing to go with the \$64,000 request for travel and Mr. Hudson remarked that that is one of those that they lumped together.

Item 9. Bilge Waste Disposal. Mr. Hudson said that regulations went into force eliminating any further dumping over the side so everything has to be handled on the dock. They have a contract in Seattle and can no longer pump their bilges. These are increases in contract costs they have incurred there.

Item 11. Chilkat, Installation of Holding Tanks. The U. S. Coast Guard had placed on them the need for holding tanks and they got around this by a no-cost means, and so they have cut that.

Item 14. Increased Travel Rates. Ms. Trimble said that the increase is based on the percentage Budget and Management gave them on air fare costs. These are inflationary costs.

Item 15. Longshoremen, Seattle. Mr. Hudson said that they are locked in on this. Longshoremen handle their lines, and each vessel requires longshoremen's services when they arrive and depart. Actual figures and estimates for the balance of the four months remaining make up the \$27,853 request. \$15,000 is what they were budgeted and they have already expended \$29,347. Costs have gone up immeasurably.

Item 17. Legal Fees. In the receipt of the new ship they had a potential law suit. In the face of that they contracted with a lawyer. They have expended to date \$21,718 and are not totally "out of the woods" yet so would like money left there until they are through with the lawyer. Mr. Malone asked why the Department

of Law doesn't handle this or wondered if that is where the money is going. Mr. Harris said that arrangements were made for a law firm in Seattle to represent the state during the course of the construction of the Columbia. This is money required to settle the case. Mr. Malone said that Mr. Hogan had informed him the matter of a potential suit had been brought to the attention of the Budget and Audit Committee who did recommend that the Division protect themselves.

Item 18. Refrigerated Condiment Tables. Mr. Hudson said that these are required by HEW and State of Alaska health requirements on board the vessels. In August of 1974 and November of 1974 they told the Division that their condiment tables were inadequate, and hazards to the public and should be corrected as soon as possible. Mr. Hudson said that they have reduced the expenditure to \$10,000 from the \$30,000 originally requested. These funds have been expended.

Item 19. Soft Ice Cream Machines. \$2,700 will replace one and they can repair the other one instead of replacing it as originally planned. This is a good money maker for the system. It brings in a lot of revenue.

Southeast Shore Facilities, page 3, was the next section.

Item 1. Ketchikan Dolphin and Piling Repairs. Mr. Hudson said that there is necessity for a new dolphin at the south end of the Ketchikan pier as a result of different mooring requirements of the Columbia. The structure was too light for the Columbia. They have expended the money, but per his own inspection he still finds the north end is loose. He would like to see the entire amount remain.

Item 2. Ketchikan Storage Room. They are deferring this.

Item 3. Sitka Dock Repair. Mr. Hudson said that a cleat was pulled out of one of the pilings and there was some rot they had to replace.

Item 4. Auke Bay Terminal Lighting. This is about 50% completed. Mr. Hudson said that he assumes they have done the interior and are waiting to see whether they can do the rest.

Item 5. Auke Bay Ramp Repair. This is actual cost due to an accident.

Item 6. Juneau Ramp Repair. This has also been expended.

Item 7. Ketchikan Ramp and Walkway. Mr. Hudson said that they have a permit to tie up on the backside of the ramp. They don't

have a safe way of getting crew on or off. They have already had two accidents. HB 145

Item 8. Hoonah Ramp Stabilization. This was of poor design from the very beginning, Mr. Hudson commented.

Item 9. Hoonah and Kake Electrical Hookup. Mr. Hudson said that this has been started already. It is 20% completed and is scheduled for completion this summer.

Item 10. Haines Sewage Improvements. Mr. Hudson said that they had to reinstall drain lines there. This must be completed as soon as weather permits.

Item 11. Prince Rupert Terminal. Since 1962 or 63, the state has operated with management, ticket sales, etcetera, through a contract with the British Columbia ferry system. In September last year they terminated that contract and told the state that they would no longer continue handling its business. This left them with no one to continue ticket sales. They purchased a trailer house, installed it temporarily right on terminal grounds, and hired a small staff. The figures shown are actual costs incurred in order to make these emergency arrangements.

Item 12. (Page 4) Haines Terminal Ground Lease. Mr. Hudson said that additional contractual costs were incurred right after the first of the year when they increased the lease from \$800 a year to \$7,200. He was asked who the owner is, and answered the Corps of Engineers.

Item 13. Port of Seattle Lease and Taxes. The lease went up because of changes in the Seattle port complex. They actually increased the annual costs of the lease. In addition they were assessed property taxes. They went to the attorney general for an opinion and he said that they were liable and must pay the additional taxes.

Item 14. Prince Rupert Docking Facility. Mr. Hudson said that initially they thought they were going to have to do major construction and modifications themselves. They have now worked out a temporary arrangement whereby an increase of \$20,000 will permit them to do the necessary modifications in the area using Canadian dollars and then reassessing back to the state their increased maintenance.

Committee turned to page 5, Southwest Vessel Operations.

Item 1. Bartlett Gangway, Valdez. Mr. Hudson said that this has been a makeshift operation that was especially dangerous.

Item 2. Life Boat Engines. These have been deferred because HB 145 they could not get the parts they needed for them. Mr. Malone asked if that is in next year's budget. Mr. Hudson said that it will be but at a higher rate.

Item 3. Salt Water Pumps. Same situation as item 3.

Item 4. Change Vessel Venting. Mr Hudson said that they need \$14,000 in order to complete the job required to meet Coast Guard and environmental regulations.

Item 5. Increased Travel Rates. Inflationary costs here, same as in item 14 under Southeast Vessels.

Mr. Naughton asked if they have got the Tustamena overhauled now. Mr. Hudson said no. Mr. Malone asked if they are going to have money for the stabilizers nex year and if it is a sufficient amount. Mr. Hudson said that there is \$15,000 for stabilizers and the best estimate he has to date is closer to \$40,000 or at best \$30,000.

Page 6, Advertising and Promotion. Mr. Hudson said that the schedule comes out in May of every year and people all over the country predicate their travel plans on that. They had to go out and notify 6,000 travel agents and other travel originators to show the changes brought about by Columbia equipment failures. \$37,000 were the actual bills. They had requested \$22,000 initially and they are asking now for what they feel they are going to need; they have expended over \$29,000.

[Mr. Cowper returned.]

Under Administration and Support, \$35,000 is a very close estimate of the cost of printing the summer schedules, Mr. Hudson said. Mr. Malone asked why this wasn't a budget item. Mr. Hudson said that it was budgeted, but contractual services in this area were cut back.

Under Centrex, \$2.2 can be dropped from their contractual figure of \$9.2. Their actual expenditures are \$7,000.

There was discussion of figures under southeast, as Mr. Naughton reminded the committee that they had decreased figures in Item 12. Ms. Trimble said that their new figure in Southeast Vessels is \$681.6 in Contractual and \$594.7 for Commodities.

The total supplemental request would be \$6,322.1. Mr. Malone said that this includes the reduction in Centrex.

Mr. Malone raised question again about page 1, item 8, where the actual cost was \$4.7 and the request is \$5. Ms. Trimble said

that this is where she could not justify travel the way it is written in the supplemental. They have requested \$69.8 in Travel, and have justified \$65.4 at this time. If nothing else happened they could live with that figure, which would give another \$4.4 reduction in the total figure. Mr. Hudson said that he would like to leave that figure in at this time simply because they have had 14 drydocks with the Columbia so far and so they would like to have some money in case of another. HB 145

Mr. Haugen moved to report out HB 145 with a "do pass". Mr. Malone objected, stating that the original bill does not reflect the adjustments. Mr. Haugen amended his motion to report the bill out of committee. Mr. Naughton objected. Ms. Itta requested a short break and the chairman recessed the meeting at 3:39 p.m. MOTIO AMEN RECES

AFTER RECESS  
4:00 p.m.

Chairman Malone called the meeting back to order. Mr. Haugen renewed his motion to replace HB 145 with a committee substitute incorporating the adjustments discussed by the committee. The figure inserted on line 10 in place of \$7,387,100 was \$6,322,000. No objection, so ordered. RENEW

Committee report was signed with individual recommendation. Signing "do pass" were Reps. Malone, Haugen, Naughton; "no recommendation" were Reps. Buchholdt, Itta, Guy, Cowper and Gruening. [Bill was reported on the floor as having a majority "no recommendation" report] A letter was to be written to be spread in the Journal on the bill. The Public Works people left the meeting and Department of Health and Social Services personnel swarmed into the room. Present were: Commissioner Francis Williamson, Roger Lange, William Mailer, Myrt Charney, Cathy Lloyd, Dorothy Benson, Larry Sullivan, Dr. McGinnis, Deborah Staack, and Don Kemp. Mr. Orelove of Budget & Management was also present. The Chairman stated that HOUSE BILL 251 (Supplemental - Health and Social Services) was before the committee. He invited department testimony. PRESEN HB 25

Mr. Williamson said that the total amount they requested originally was \$7,835,500. The Governor has submitted an amendment to the Chairman increasing the bill by \$19,800. Copies of the bill with the changes that would occur as a result of the amendment were distributed. Two allocations in the bill comprise most of this appropriation request. Medicaid and AFDC would total \$6,340,100. Both of these items were the topic of discussion during the Free Conference Committee of the last legislature. There was specific legislative intent that supplementals for these two areas would be considered based on documentation showing that factors determining the figures were underestimated. He said that the conferees

were aware that they were underfunding these two areas and said that they would entertain supplementals. Then an additional thing occurred. During the final days of the session, they increased the legal maximum pay. This was not considered by the conferees. Actually, he said that that last statement was probably not completely correct. They considered the matter but arrive at the position of waiting until now for consideration of a supplemental rather than change the budget figures. He reminded the committee that approximately \$1.5 million is spread through 8 program components. He spoke of the general impact of inflation on their entire budget and said that he felt that they had exercised considerable constraint in holding down their supplemental requests to as few as they have.

Mr. Kemp spoke on the increase in assistance payments. Speaking about the AFDC figure, Mr. Kemp said that last year the legislature increased the legal maximum in AFDC by a substantial amount more than payments in the previous year. At the same time, the appropriation for FY 75 was close to the previous year's with lower payment levels. That is the reason for this request. He noted, as had the Commissioner, that p. 35 of the FCC report from last year stated its intent that all obligations will be met. Thus services could not be cut and so they have had to come in with this supplemental request.

Mr. Malone referred to a memo from Milt Barker and Bob Grogan dated April 4, 1975 (see bill file) which suggests possible reduction of the supplemental request for AFDC. He asked Mr. Kemp if the figure in that memo for March is correct. Mr. Kemp said that it is different than the figure that they have. Their figure is \$9,098,100, as opposed to the one in the memorandum which is \$8,875,394. Mr. Malone asked if could give a figure on what was expended during the month of March. Mr. Kemp said that he could come pretty close -- it would be \$995,756. Mr. Malone asked for his comment on paragraph one of the memo. Mr. Kemp said that one of the problems with a program such as this is that expenditures never exactly meet appropriations. Those eligible must be served, and the caseload is always changing. Should expenditures go up, they would have to meet them with the legislative intent that all legal obligations be met. He said that he would hope they would not have to use the whole amount they have requested. Ms. Lloyd said that it would appear to her that the anticipated expenditures for the last months of the year would be low. The average monthly for the first 9 months would be over \$1 million. Dr. McGinnis pointed up another aspect which is that there is no firm data. They are not sure they can assume that April, May and June will be identical to the past 9 months or a comparable period last year and unemployment being what it is and people streaming into Alaska because of the Pipeline make it still more difficult to project. He said that they feel it would be better to be

granted some "breathing room" and lapse the extra funds if necessary than to need them and decide who would be funded and who would not. HB 251

Mr. Gruening asked if there is a monthly fluctuation on payments made; has any trend been established. Mr. Kemp said that in March of 1974 they had 12,182 recipients. In March of 1975, they had 11,412. He showed the committee a graph (see bill file) indicating that there is quite a bit of fluctuation. Dr. McGinnis said that in further reference to that their concern is that spring of 1975 could be a spring without parallel except maybe the prospective spring of 1976. No one can tell based on the rising unemployment in the nation and the people swarming into the state.

Ms. Buchholdt asked if they are experiencing more women asking for AFDC. Dr. McGinnis said that mostly AFDC recipients are women. There could be some men as well in terms of qualification or eligibility. Mr. Kemp did not have figures but said that it is true that the majority are women. Ms. Buchholdt asked if they are saying that the women are coming up looking for jobs on the Pipeline and Dr. McGinnis said yes. They may not be looking for work directly in the field but in related support services.

Mr. Duncan asked if Alaska is unique in the problems the state has in predicting needs for these programs. Dr. McGinnis said that prediction is difficult at best. Last year there was a special legislative consultant who had his figures; HSS said what their experience was; the free conference committee looked at both and took the consultant's figures. The unique thing about Alaska, he said, is the Pipeline project which is drawing people to the state in hopes of high salaries when the nation is facing such unemployment. He commented that one of the lists has 10,000 people on it. He said that they predict as best they can. He thinks that the state's track record for data is as good or better than any state in the union. Mr. Haugen said from last fall until now he would imagine Fairbanks, Anchorage, and Valdez are the worst areas. Dr. McGinnis said yes, they are the worst although smaller communities are impacted, etc.

Mr. Duncan referred to the chart Mr. Kemp had provided and said that it seems to refute what they were saying about Pipeline impact. Caseload numbers are going down. Dr. McGinnis said that he is aware of that, but his feeling is that they do not really know what the caseload is going to do. If the unexpected is going to happen, then he asked what alternative the department will have if they have no breathing room.

Mr. Naughton asked in the event that the caseload increases to the point where there is not enough money in June to meet the caseload will they go to a pro rata system. Dr. McGinnis said that they

would have to make adjustments. They would first look to see if there was anywhere else in the budget that they could legally reapportion money from. Failing that they would have to prorate a reduction. He doesn't think they could reduce all people in a certain geographic area or by age or by need. They would have to have a pro rata system to be equitable. HB 251

Ms. Buchholdt asked how their caseload work for AFDC or other kinds of recipient programs in the impacted areas is. For instance, in the Anchorage area for some years she has gotten complaints from social workers about not being able to keep up with their caseloads. Mr. Kemp said that he doesn't have specific figures for Anchorage. As far as he knows, there has been a small rise in the caseload and he couldn't say anymore than that. Ms. Buchholdt said that what she is saying is that maybe they do have more people who should be under AFDC but they have not found them because their caseloads are already too high. On the other hand, perhaps there are other areas where there do not need to be programs but the state is continuing people. She wondered if the state is picking up people who should be in the different programs or the ones who should not be. She did not believe their funds should be decreased below what they are entitled.

Mr. Lange said that he believes that the problem as far as impact goes in the Anchorage district office was taken care of. About 14 or 15 months ago there were a number of eligibility workers authorized by Budget and Audit after a study by an independent CPA firm. As far as he knows the number of caseworkers is higher now, so their caseloads would be lower. As far as caseload fluctuation, it was about a year ago at this time that the eligibility staff went from the self-declaration method to a verification system which resulted in a large drop in the caseload and it was about this time that the federal government began stressing quality control. Through corrective action in eligibility there has been a decrease in the error rate from a year ago to under 6%. Taking those things into consideration, the dropping caseload cannot be viewed as a pattern. There are too many variables to make a graph chart reliable to predict what is going on out in the field.

Commissioner Williamson said that further consideration with respect to the paragraph below the figures on page one of the Barker/Grogan memorandum with respect to the flexibility within the department to transfer funds to AFDC if they come up short in June, is contrary to Department of Administration policy, which is to be reluctant to allow such transfers or to deny them. He felt it might be wise if the amount is not funded and the intent of the legislature is that these funds could be transferred if necessary, to put that in legislative intent.

Mr. Malone said that what they are trying to get at is what HB 251 is going to happen to the caseload. The charts have indicated that perhaps the total request may not be necessary. Mr. Haugen requested a breakdown of average per month per area AFDC figures. He wondered if it would be possible to get some kind of unemployment figures by area, and asked if it wouldn't all relate. Dr. McGinnis said that it would relate but not on a one-to-one basis. There are other factors involved in AFDC than unemployment.

Mr. Naughton asked about the Touche Ross study. He asked what the story on the study is, and which category it is charged to. Ms. Lloyd said that she did not have the present study with her but could provide it for the committee. It was divided between several areas. They attempted to spread it through all of the areas that were being studied.

Mr. Mailer spoke to the supplemental request for Program Services. He said that institutional care under full cost of care indicates a need for \$221,800 in supplemental monies. The caseload average has gone from 188 in November of 1974 to 205 in February of 1975. He said that they ran the figures for the first six months of the year which indicate \$743,300, which doubled is \$1,486,600. They have had seven additional children recently placed in Hope Cottage, a cost of \$26,000. There is a \$100,000 contingency request for increased caseload or costs. He commented that July through September are lower population months; in December many of the children return and January through April are the heaviest population months. Institutional care costs have grown due to inflation which was unanticipated at the time of the FY 75 budget request, Mr. Mailer said. The number of children in institutions is up 4% over the estimate. Actual rates are up 26% over the projected rates.

Ms. Buchholdt asked the locations of the different institutions. Mr. Mailer said that there are children throughout the state. The only reason they separate out Hope is that they now have a reimbursable agreement with the Division of Mental Health in which Program Services pays for the care but Mental Health has the management of the children. At present there are 33 children at Hope. Cost is \$22.75 per child per day. The average institutional cost per day is \$28, Mr. Mailer said in response to questioning. Ms. Buchholdt asked about a list of all the institutions and the Commissioner said that they are listed in the budget.

Mr. Duncan asked Mr. Barker about paragraph 2 of the Barker/Grogan memorandum. Mr. Barker said that the way the Department originally projected their need was to take the first six month's billings and multiply them by two. What the paragraph number two does is just adds in another month's experience based on estimating those seven months which shows that they don't need quite as much money

as they had figured. They figured if the caseload was the same during the second six months as the first, they would request \$221,000. \$100,000 of that would not be needed unless the caseload did increase. Ms. Lloyd brought up the possibility of Pipeline impact and difficult in finding foster homes in Fairbanks which will increase numbers of children needing institutional care. HB 251

else

Dr. McGinnis said that something related to that is something that is difficult to get a feel for. That is the Pipeline impact on housing for people who might normally have had an extra room and were willing to take in a foster child who are now taking in boarders, instead. He said that he didn't think an assessment could be made of that. They want to be responsible, but do not want to spend more than is needed. However, they would prefer to err on the side of having the resources to take care of the situation in which case they would lapse money, rather than to be caught short. He mentioned that the department does have quite a record for lapsing monies.

Mr. Sullivan spoke to the Medicaid/Medical Assistance request. He read a statement (see bill file). The figure is \$3,425,500 (50-50 match). He distributed back up on the request (also in bill file). Ms. Buchholdt asked if they cover the nursing homes in the Anchorage area, and Mr. Sullivan said yes. Ms. Buchholdt inquired about Carriage House and whether they are meeting requirements for Medicaid. Mr. Sullivan said yes, they are. He said that after attending meetings outside the state, he sees that Alaska is really lucky to have good nursing home facilities with good programs. The state is not having the problems they are having in other states. In response to further questioning by Ms. Buchholdt, Mr. Sullivan said that he does not know of any time that Carriage House was in danger of not meeting standards. Ms. Buchholdt asked if they take all kinds, and Mr. Sullivan said yes. They provide both skilled nursing home and intermediate care. Glenmore, the other institution Ms. Buchholdt had inquired about, does not provide intermediate care.

Mr. Haugen asked about the \$50 per doctor's visit cost, and wondered if that includes medicine. Mr. Sullivan said that that is the average cost for services rendered. Mr. Haugen asked if it includes prescriptions. Mr. Sullivan said that that is the average cost for a patient going. He did not know if it included medicine.

Mr. Sullivan also spoke to the \$293,600 request for General Relief Medical. He said that this program offers services to the financially needy individuals not eligible for Medicaid, people who could not meet the strict federal definitions of disability. Their appropriation was about 7% less than the appropriation for the program for 1974. Health costs have risen, administrative costs have increased, commodities have increased due to the high

cost of drugs and increased number of prescriptions filled. HE 251  
In addition, cost of living has increased. This program is  
entirely from state monies with controls set by the legislature.  
If they do not get more money,, it will mean drastic cuts in the  
program which includes inpatient and outpatient care, emergency  
dental care, etcetera.

Dr. Schrader spoke to the Mental Health supplemental. Mr. Malone  
referred to a letter dated March 25 to him from Commissioner Warwick.  
The letter requests a line item increase of \$19,800 on line 23,  
page 1 of the bill, to make the supplemental request \$133,000 due  
to increases in cost projections at Atascadero mental hospital.  
Dr. Schrader said that there are two areas where increases have  
occurred. He spoke of the increase in costs for the care of  
mentally disordered offenders. They are coming with a request for  
a supplemental because the numbers of mentally disturbed offenders  
that they have to take care of increased more rapidly than they  
had anticipated. They now have 13 at Atascadero State Hospital  
in California. They have raised their minimum daily rate by \$4.30  
per patient. The budget was figured for 5 patients at the lower  
rate so there is a substantial increase. The total request for  
that is \$93,737.81. (Original supplemental request for Atascadero  
costs was \$73,900) Dr. Schrader went on to say that during the  
course of this fiscal year a number of programs funded through  
other portions of the department were transferred and consolidated  
with the Division of Mental Health, like the program at Hope Center.  
These programs were transferred with partial funding. For example,  
one of these programs was previously funded under Title IV and XVI  
and a change in priorities left the program with no money. He said  
that they felt they could cover with Title XIX reimbursements. Even  
with their money from Family and Children's Services they anticipate  
a shortfall of \$39,300.

Mr. Svenson spoke to the request for Violent Crimes. He said that  
there are asking for a supplemental request of \$75,000. This is  
to cover undetermined 1974 claims and provide for funding for increased  
claims for 1975. The committee had a list of pending claims.  
The question was asked how many claims are pending and for what  
amounts. Mr. Svenson said that these are just projected figures  
based on prior Board experience; for 1974 they estimate \$31 to 39,000.  
For 1975 their claims so far are \$89,000 to \$101,000. The Board  
has quite a bit of discretionary power and they can deal quite  
differently with claims than can the department.

Mr. Adams spoke to the request for Adult Confinement. He said that  
Corrections has a request for \$176,000 based on two things. First,  
they have experienced 45 additional beds being filled during the  
fiscal year so far. The other thing that has hit them hard is  
inflation -- food costs, for example. They budgeted for \$2.15 a  
day and currently are experiencing a cost of \$2.40 per day. An 11.3%

inflation rate is taking place.

HB 251

Mr. Adams next spoke to the Juvenile Confinement request. They have experienced an increase of 19 beds. They budgeted for 84 beds and now have 103. Each bed costs approximately \$11,500 and this is what their supplemental request is based on -- that and full cost of care. The budget was for \$7200 per bed as opposed to the \$11,500 they are experiencing.

Mr. Malone said that the staff called attention to the fact that federal receipts were approved in RP 75-256 and that might have some impact on this request. Mr. Malone asked if all of the \$516,900 is necessary. He wondered if this could be reduced by the federal receipts.

In Adult Rehabilitation the figure there is a request for \$77,400. There are an additional 45 beds, and increased medical costs justifying this request.

The increase in Probation and Parole is for additional costs experienced in Nome and Ketchikan office rental. They were appropriated \$4,000 and the present rent for Nome and Ketchikan is \$25,000.

Ms. Buchholdt asked what the difference between foster home care and private institutions is. She was answered that a foster home would care for up to five children with a mother and father. A private institution could be handling up to 30 or 40 children in a facility. Ms. Buchholdt asked about Alcantra and was told that that is under Family and Children's Services.

Mr. Naughton asked about the Juvenile Confinement figure again. There was some question about the amount of this in lieu of the RP that was passed increasing federal receipts.

Mr. Malone proposed that the committee hold the bill over until Monday morning, since it cannot go to Rules until that time, anyway. There was no objection. Mr. Williamson commented that it is the general feeling of his department that insofar as possible they would like to see expeditious handling of the bill, as some of the divisions are really experiencing difficulty.

The Health and Social Services personnel left the room. Dr. Beirne was present at this time and the committee turned to examination of HOUSE BILL 68 (Alaska Youth Hostels). The committee had before HB68 them a second finance committee substitute for the bill. Dr. Beirne went over the changes with the committee. She said that in the first committee substitute, the word "promote" appeared in several places. This did not provide much administrative "clout" so the

word "promote" has been replaced with "administer a program of grants". However, she said that they are giving them no grants. The grants are monies that could come through from federal grants, gifts, or other sources. This committee substitute also takes out the section entitled "Hostel Use Fees". Once a person is brought on board they would establish the fees. Toward the end of the bill there is a (4) under (d) which states that the committee shall "establish criteria for the grant programs authorized under sec. 510(2) of this chapter and have approval authority for grants made under sec. 510(2) of this chapter." HB 68

This bill gives them more administrative authority, gives no more money to operate, and cleans up the bill. Ms. Buchholdt moved to report out the second finance committee substitute for HB 68. No objection so ordered. Committee report was signed with a unanimous "do pass". MOTION

SENATE BILL NO. 77 amended (Supplemental - Military Affairs, for CAP) was brought up for consideration. Mr. Malone said that he was inclined to agree with the comment Budget and Management had made that if the state is to save money, this is probably a bad place to do it. He said that California is looking for the plane. SB77am

Committee decided to postpone the rest of their agenda until 8:00 a.m. Monday morning.

Meeting adjourned at 5:45 p.m.

ADJOURNED

HOUSE FINANCE COMMITTEE  
Monday, April 7, 1975  
8:32 a.m.

All members were present except Mr. Cowper; Mr. Duncan arrived later.

PRESENT

Others present:

Frank Williamson, Commissioner, Health & Soc. Serv.  
Kathy Lloyd, Deputy Director, Admin. Services H&SS  
Myrt Charney, Financial Management Officer, H&SS  
Harry Aase, Administrative Officer, Natural Resources  
George Hollett, Division of Lands, Anchorage  
O. K. Gilbreth, Jr., Director, Div. of Oil and Gas  
Jeff Morrison, Budget and Management

The meeting was called to order to continue discussion of House Bill 251, making a supplemental appropriation to the Department of Health and Social Services for \$7,662,200.

HB 251

In response to the Chair's question, Ms. Lloyd pointed out document No. 1, showing exactly how the \$1,360,700 figure for Aid to Families with Dependent Children was reached. She outlined each figure as requested and said the figures were based only on projections. With the pipeline impact so uncertain at this point they would like the entire amount as requested.

Mr. Malone reviewed step by step:

\$88.37/person/month x 11,686 persons	= \$1,032,692 monthly
x 3 months remaining in fiscal year	= \$3,098,075
+ payments of \$9,184,862	= \$12,282,937
- current approp. \$9,670,500	= \$2,612,437

Ms. Lloyd agreed with his calculations and said his recommended figure of \$1.35 state funds and \$1.35 federal funds would be sufficient if the projections did not change, and would provide a small buffer.

Mr. Malone noted that the additional federal receipts in RP 75-256 had been included in the request for Juvenile Confinement, line 27, and if taken out, would reduce the amount to \$489,300.

Mr. Naughton moved that a Committee Substitute be prepared reflecting changes discussed: On line 16, the figure to be \$1.35 million general fund and \$1.35 Federal Program Receipts; on line 23, Mental Health, Contract Institutions, the figure to be \$133,000 General Fund, and \$133,000 Federal Program Receipts; on line 20, Medical Assistance, Medicaid Program to correct an error in addition, the figure to be \$1,712,750 General Fund and \$1,712,750 Federal Program Receipts; line 27, Juvenile Confinement to be \$489,300 General Fund, and line 10 to reflect the total of the columns.

Mr. Gruening moved to amend the amendment by inserting on line 23 the figure \$173,500 which would include an additional \$40,500

supplemental request for retarded citizens of Anchorage to meet a shortfall for the Sheltered Workshop. This is a contract item and there was backup for it. HB 251

He continued: The supplemental would allow an increase from 40 to 56 people employed in their workshop for FY 75. They had a contract for that many people in two areas--33 in work adjustment, for employment outside the center for mentally retarded people, and 13 in sheltered workshop employment.

Funding for vocational rehabilitation did not materialize and it was too late to be budgeted for from H&SS, and they are short that amount.

Ms. Lloyd added that there had been a grant from Mental Health in the amount of \$58,000; at the time ARCA came down and expected a performance contract for vocational rehabilitation; she said there could have been a shortfall. Dr. Shrader was more familiar with this.

The meeting was recessed at 8:55 a.m., while Dr. Shrader was located. RECESS

AFTER RECESS  
9:08 a.m.

Mr. Malone reviewed for Dr. Shrader what had occurred before he arrived. Dr. Shrader said this was the amount of the shortfall; how the problem had developed was not completely clear to him either. It had been an oversight not to include it in their supplemental request, and it hadn't even been discussed. He expressed uncertainty over the amount, but said he was prepared to accept their word at this point.

There was no objection to the amendment to the amendment to include \$40,500 which would change line 23 to \$173,500, and it was adopted. Motion Carried

Mr. Malone reviewed the changes proposed in the main motion; there was no objection to the amendment and it was so ordered. Motion Carried

Mr. Naughton moved that the Committee Substitute for House Bill 251, be reported out of committee, and asked unanimous consent; there was no objection and it was so ordered. All members recommended it "Do Pass" except Mr. Haugen who had no recommendation. MOTION Motion Carried

Mr. Haugen said he still wanted a report on average monthly figures by region.

The next item for discussion was House Bill 345, making a supplemental appropriation to Legislative Affairs Agency for \$368,694. Mr. Malone pointed out the memorandum from Mr. Elliott giving a breakdown of this figure (see bill file): \$211,015 for temporary employees; \$66,646 for furniture and equipment; \$23,333 for McLean Associates; \$14,700 for Book publishing company; \$3,000 for wiring chambers; \$50,000 miscellaneous. HB 345

(Mr. Duncan entered the meeting).

4/7/75

The Committee sent for Mr. Elliott, and upon his arrival asked for an explanation of the furniture and equipment expense of \$66,646. He told them that money for the remodeling had been appropriated, but not the money for the office furniture. The bid price on the remodeling had been approximately \$140,000.

HB 345

There are seventeen permanent employees in Legislative Affairs, and 130 temporary employees to date, which cost \$6,029 per day. Ms. Itta requested a copy of the list of temporary employees. Mr. Elliott said the current budget funded 123 temporary employees based on a 90 day budget and last year's figures. The increase in employee benefits and wages undermined their calculations. This supplemental will fund the temporary employees through May 12, rather than May 7, as stated, but if the session were extended beyond that there would have to be another supplemental, figured at \$6,029 per day.

In response to Ms. Itta's questions, Mr. Elliott told the Committee that McLean Associates has a contract with the Legislative Council and believed this to be their fourth year. They do educational research and work at the direction of higher education. Ms. Itta requested a copy of the contract. Ms. Buchholdt expressed disbelief that anything was being done, and Mr. Malone agreed it was fair to criticize the report; that the Council had extended the contract. He suggested the approach of last year's Legislature could be adopted and the funding deleted. Or, Ms. Itta suggested, cut it in half. She thought this a lot of money for the work that had been seen and did not think it was worth \$40,000. Mr. Malone pointed out the difficulty that the Council had already extended the contract. He supposed the obligation was there similar to HB 145 before the Committee last Saturday putting the Legislature in a difficult position because theoretically, the expenditures were made without authorization. Mr. Elliott said the amount in item three was for the old contract; the new funding will be in next year's budget; the Council voted to extend the contract, but it has not been signed to at this time. Ms. Itta and Ms. Buchholdt both expressed interest in talking to the Legislative Council about the contract before it was signed.

Mr. Elliott said if the Special Committee on Taxation, which is an interim committee, desires to bring someone up prior to July 1, the miscellaneous funds would be available for this; the funds were for anticipated expenditures prior to the end of the fiscal year.

Regarding the Administrative Code: The funds were not included in last year's budget. Updates for this are regular. This money is for the purchase of the original volume. Mr. Elliott told Mr. Gruening the State Statutes cost \$300 per set and the supplements vary according to the amount of legislation.

Ms. Buchholdt asked several questions pertaining to the purchase of furniture. Mr. Elliott replied that the desks had come to \$47,000; the remainder was for typewriters, etc. There is no surplus furniture during the session. During the summer it's all under lock and key and rooms are only leased for hearings or meetings of other agencies. He told Mr. Haugen there were sixteen of the original eighteen tape recorders purchased last year. They

were not turned over to the Court System as had been discussed. Some of the typewriters are on lease, but the greatest percent are purchased. Mr. Malong requested a copy of the typewriter inventory.

HB 345

Mr. Malone reminded Mr. Elliott of the three requests made by the Committee: the information on temporary employees; the McLean and Associates contract; and the typewriter inventory indicating lease or purchase.

Mr. Elliott reported that Legislative Affairs staff was fully funded; that he didn't need any immediate help, and would have no place to put them if he did. He told Ms. Buchholdt there was one researcher, and the attorneys were doing a lot of non-legal work. There is a request to expand the staff for next year and add eight researchers and two secretaries.

Mr. Naughton moved to report HB 345 out of Committee and asked for unanimous consent. There was no objection and it was so ordered. All members recommended it "Do Pass" except Mr. Haugen who recommended "Do not pass."

MOTION

Motion  
Carried

Mr. Haugen brought to the attention of the Committee, a report on the Veterans' Loans, saying that if a bank manager had a report like this he would be "canned." Mr. Malone apologized to Rep. Swanson for the delay in considering HB 20, and said it would be the first item at 8:30 a.m., April 8.

The meeting was recessed at 9:50 a.m., until 7:00 p.m., this evening.

RECESS

AFTER RECESS  
Monday, April 7, 1975  
7:07 p.m.

All members were present except Mr. Naughton; Ms. Itta and Mr. Gruening arrived later. PRESENT

Others present:

Sterling Gallagher, Commissioner of Revenue  
Mike Harper, Deputy Comm., Community & Reg. Affairs  
Jack Chenoweth, Director, Local Plan. Asst., C&RA  
L. B. Jacobson, Petersburg City Attorney  
Norman Banfield, Juneau Attorney  
Don Berry, Executive Director, Alaska Municipal League  
Robert Dupere, Dupere and Associates  
W. D. Overstreet, Association of Alaska School Boards  
Rep. Mike Miller  
Rep. Lawrence Davis  
Milt Barker, Fiscal Analyst  
Jim Rhode, Administrative Assistant to Mr. Malone

Mr. Berry, in addition to his written statement submitted last Saturday, read the policy statement passed by voice vote by some 27 Alaskan municipalities last October. In view of testimony that said this Bill was inoperative for small communities, the communities in favor of the above statement included: Hoonah, Petersburg, Wrangell, Dillingham, Tennakee, Craig, Homer, Kotzebue and Nome. He added that Mr. Scougle, City Manager of Petersburg, told him the City Council will pass a resolution supporting the Bond Bank Authority which will be sent to the Committee. Haines is not only in favor but has included it in their overall economic development plan which they will be submitting. Craig is not in a position to issue bonds, but thinks this would be an ideal tool instead of the open market. Homer indicated 100% in favor and Mr. Malone should have received a phone call. In Nome, both the City Manager and Mayor wished to have their 100% support expressed. The same with the City of Wrangell. HB 72  
HB 73

He did not think the revolving loan plan that had been suggested would be a better tool. While it was pointed out that a number of the smaller cities don't hold regular meetings and could not take advantage of this Bill; he felt this Bill might be an incentive to those who have been floating along. He emphasized and re-affirmed the 100% support of the Alaska Municipal League.

Mr. Overstreet, Executive Secretary of the School Board Assn., reported that the concept of this Bill had been supported by resolution for the past three years. He said the main school district has very little trouble getting money for schools, but small districts most always come to the Legislature for appropriations to build their schools. The districts of in-between size frequently have a limited bonding capacity. The alternative to this Bill is to leave them out or have the State fund their projects. He felt it was a good idea to have this Bill enacted.

4/7/75

Mike Harper, Deputy Commissioner of Community and Regional Affairs, stressed strong support of the concept of the Municipal Bond Bank Authority. It has been around for several years and while they recognize it will not speak to the needs of small communities whose credit worthiness is suspect due to lack of taxation, or remoteness, medium cities with populations of 1500 to 2000 have many times stressed the need for such an authority. These areas are becoming more and more sophisticated. Also, areas within cities or boroughs might be able to take advantage of this. HB 72  
HB 73

EDA, OEO and others are in the business of granting large funds to municipalities, but many require some local matching. Their local match could be derived from this authority. Many communities have asked about means of getting local matching funds.

Mr. Banfield had mentioned that various municipalities are not handling their affairs as well as they should. Kake was a poor example, but Hoonah has come to them for help and they are on the road to doing something about their own problems. Much of rural Alaska is not in tune with sophisticated financial requirements.

Ms. Buchholdt noted that many programs give money to communities and municipalities and it seems they are not really helping the people they were intended to help. Most seem to help the big business man. She wondered how it would be if the members of the Authority were people who understood problems of rural Alaska. Usually the people appointed to those boards are people who understand big business and banking instead of rural Alaskan problems, and this looks like another one.

Mr. Harper agreed with Ms. Buchholdt that commissions and boards do not have a lot of knowledge of rural areas. He expressed hope that rural Legislators or force from the rural areas would have enough "clout" to assure that at least one member would be appointed with knowledge of rural areas.

Rep. Miller emphasized that this was purely a voluntary thing; communities were welcome in and there are percentage points to be saved for them, but participation through the Authority is not mandatory. No one's place in the market will be jeopardized by the existence of the Bond Bank Authority. He felt there might have been a misconception on the cost of this which will be negligible. The money will be appropriated but actually it is being put in a savings account and the interest from the savings goes into the general funds.

(Ms. Itta and Mr. Gruening entered the meeting).

Mr. Malone asked Commissioner Gallagher if he had reviewed the draft of a proposed committee substitute that would provide a funding mechanism in the form of State G.O. bonds. Mr. Gallagher noted two technical areas he questioned: No department was designated in the legislation; and the bond buyers index is a very difficult thing to define because it's rated on AA rated bonds for twenty years.

Aside from that he did not see where a loan-sort of program could help at this time. It would probably take two years to fund and

he felt the outside market should be used instead of our own. This program does not help those who cannot help themselves; but can help those who are willing. The time lag it would take to authorize and sell State G.O. Bonds would be a disadvantage. Mr. Gallagher said he didn't think the capital would ever be available to finance the myriad of loan programs that keep coming up. Mr. Malone described the alternative of putting a bond package together representing the needs of communities in the state; put it on the ballots, then loan the money out. The financing source would be state debt. Mr. Gallagher noted the amount of Bills in this Legislature to raise close to \$900 million of G.O. Bonds, and said he cannot foresee the day when there will be enough surplus money over and above the already bonded debt. Alaska is already the lowest rated state in the union and he would hate to see us watered down further. Mr. Malone pointed out that this would be to more or less centralize the municipal debt and state debt so the amount would be equal or less than what it would be otherwise; right now the debt services are counted separately. Mr. Gallagher reminded him an election could only be held every two years--a drawback.

HB 72  
HB 73

Mr. Cowper noted two points he could not reconcile: The Bill is to assist the communities who are growing and need bond issues to take care of growth. He cannot reconcile this idea with the one on page 14 where preference is given to municipalities experiencing reduced economic growth by means of loss of major employer. He felt the preference statement to be inconsistent with the intent of the Bill, which is to help communities that are growing; not preference to communities that are shrinking. This might jeopardize the status of growing communities if they are put in the same pot with declining communities.

Mr. Banfield felt the preference provision dilutes the whole thing to the bond buyer. He added that it wasn't explained how the bonds would be marketed. If a package is put together for four or five communities and \$1-2 million is pledged behind the bonds, the buyer knows what is in the reserve fund and can bid a good price. But if the reserve fund is a continuing thing that any bond sold by the state is backed up by the same fund, good, bad or indifferent, and with the preference provision in there, the market would want to know what bond they were putting up. The preference provision is a bad one.

Mr. Gallagher explained how the bonds would be individually delineated, as Series A, B, C, D, each being separate communities and all would have separate rates with reserve funds behind them. They can be lumped or separated, and maybe the losers should be identified. Mr. Duncan recalled at the meeting Saturday, it was brought out that no matter whether this provision was in or not, any project had to be financially feasible and communities had to have a substantial tax base or ability to repay the bonds.

Mr. Haugen, referring to cities whose growth is very slow and their bonding capacity has reached its limit, mentioned HB 705 passed last year allowing communities to go beyond the statute of limitations for school construction. Because of EPA requirements they are driven to the limit and in some cases because of the rates on the bonds they will have to be pushed into a revenue

bond situation. That still doesn't leave any room. If everything is put into schools it leaves nothing for other projects. Mr. Haugen felt this type of vehicle was what Petersberg needed and he was anxious for expeditious treatment. Before the State gets into taking out bond issues, he will personally see there is a responsible agreement made.

HB 72  
HB 73

Mr. Gruening asked what the Bill would do for Juneau, and for communities who were bonded to capacity now. Mr. Gallagher replied that the reserve fund meant a lot to a professional bond buyer. A particular reserve will be set up for a particular series. The reserve shows good faith.

Ms. Itta stated it was not clear to her which communities or municipalities were being assisted. She felt Community and Regional Affairs should be in a position to answer that question, because they are supposed to be assisting local governments. Mr. Chenoweth said the principal beneficiaries will be the middle-sized communities in the state who could issue credit worthy bonds. They must have some ability to repay these bonds. This will help communities with no previous history in the bond market, or with a history from ten years ago and no current history. Under the current water and sewer local matching money might have to be put up. These municipalities could sell a bond that would be worth while to the Bond Bank, but not to the major bond buyers.

Mr. Cowper suggested the possibility of political pressure on the Governor, who might put pressure on the appointed board members to issue bonds from particular areas. Mr. Gallagher said the market place would make the final determination.

Rep. Miller said this Bill addresses a variety of needs in the state for the town that is growing and has a bond problem for that reason and for a smaller growing town who is bonded to the limit of their indebtedness, and for cities losing big industries. Suppose Ketchikan is ready to go to the bond market. If the pulp mill has to close down, some other company will come in; \$100 million worth of plant just doesn't get left. A community like that will have a vehicle to ride on to raise some of their bonded needs.

Mr. Miller reviewed the reserve system: The reserves come from the General Fund, an appropriation made in the magnitude of \$4 million which represents the anticipated debt service for one year for \$50 million worth of bond sales. That amount goes from the general fund into the reserve account. This money can only be used in the case some community reneges on its bonds. This is where the strength comes into play because communities don't have a reserve fund. The bond council looks at the bond history, current indebtedness, but no community has a reserve fund. Mr. Miller felt this would be a major reason for people getting into the bond bank. It will give great comfort to the bond buyer, and this is where it would provide help for Juneau because right now Juneau doesn't have a reserve fund.

He told Mr. Cowper, the Committee would decide whether the state would put its credit behind the issuance of the bonds. Also, the market place has an input. Once the state puts the reserve fund

behind the bonds, it makes them more attractive, and people may buy the bonds regardless of whether its marginal or not. HB 72  
HB 73

Mr. Miller further noted that in a package of five or ten issues, if the communities were similar it might be presented as one general package; if the communities had different needs they could bid for them separately, but all would be backed by the reserve fund.

Mr. Gallagher, in response to Mr. Cowper's remarks, said he was very sensitive to the politics entering into this system, which is one of the reasons for the dollar amounts listed out; to make sure the Legislature reviews the job being done every year.

Mr. Gruening expressed concern about the priority of projects in the state and the possibility of communities being left out. Mr. Gallagher agreed that every project could not be done. They intend to do the ones under the criteria. School projects, water and waste treatment are the first priority projects and will be given preference. There is no advantage in limiting the amount of equivalent debt service that can be appropriated to a community. The appropriation limits their ability to act.

In answer to Mr. Malone who referred to a community like Petersburg wanting to fund a school or water treatment plant, Mr. Gallagher said the Board would have regulations adopted that would indicate what sort of projects they would look at. If it were required, Community and Regional Affairs might help them do this sort of compilation. The projects would be submitted with the necessary paperwork to the Board and they would be reviewed and the amount of money available would be looked at. It then goes to the underwriter who is asked if the project is financial advisable. If it is, the community is told the bonds will be marketed. When a bid is made, they contact the community and ask if they will accept--it's usually one day in which to accept an issue. Mr. Malone wanted to know where in the process the municipality would know they could sell a bond through the bond bank; Mr. Gallagher said once there is notice of a sale, it is a good indication they will make it on the market.

The community must have an election, and have the authorization to come to the bond bank. The same process they have now. When there is an authorized issue in hand then they could come to the Bond Bank and the market package will be examined. The community would be committed when the council accepted the bid from the bond bank. There would be no guarantee when formulating an issue.

Mr. Gallagher told Ms. Buchholdt, that cities who would like to begin a bonding program should seek assistance from their local Community and Regional Affairs office. Mr. Gallagher told Ms. Itta there would be five board members; they didn't need to be directors but probably would be.

Responding to several points, Mr. Banfield expanded on the procedure in issuing bonds. The first problem of every municipality is never having any planned funds; unless the cost of a project is known an issue cannot be authorized. In order to get to the point of elections, the costs must be estimated. The council calls an election and gets an authorization if voters favor it.

The Farmer's Home Administration (FHA) says to pass an ordinance and put the bond issue up for bid and if it isn't sold they will buy it. If the bonds don't sell under the ordinance on the market, the ordinance is repealed and another issued authorizing sale to the FHA. To find out if the price is reasonable, it must be offered to the public. After the election, the Bond Bank sets up the package. The ordinance is set up to meet the requirements. The municipalities will probably test it out because small ones will want to offer their bonds to the local banks. HB 72  
HB 73

Mr. Malone noted that the Bond Bank was an alternative to the regular market for bonds. Mr. Berry stated this was why they thought it was such a good idea, because it is an alternative. The "horrors" of a bond have nothing to do with the Bond Bank.

Replying to Ms. Itta's question, Mr. Gallagher said the costs for staff are generally small. All their G.O. bonds cost around .0025 per \$100,000 and revenue issues about .0035 per \$100,000. The costs are capitalized in the cost of the bond issue. He added that the Debt Manager for the state would handle much more than this Authority. There is approximately \$300 million of debt each year. Mr. Chenoweth said there would be close coordination between C&RA and the Bond Bank. He said there would be no additional costs of staff in C&RA.

The meeting recessed at 8:45 p.m.

RECESS

AFTER RECESS

8:55 p.m.

Calling the meeting back to order, Mr. Malone asked if the Committee wished to continue working on HB 72, or to consider other proposals that might reach the same goals. He had drafted an alternate proposal that had not been passed out to the members yet. Mr. Guy wished to continue discussion on HB 72.

He asked what means was used in determining how much a municipality could borrow; Mr. Chenoweth said limitations were more in terms of tax levies and revenues: 30% of assessed evaluation. Mr. Gallagher clarified that home rule cities are 30% of assessed valuation; some are different but there is a maximum percent or amount equal to a percent of assessed valuation. Mr. Banfield said there was no limitation on general rule cities, but home rule cities can provide a limit in their charter, unless it is backed by a utility fund.

In response to Mr. Guy's questioning of the word "shall", Mr. Malone said this Legislature or any Legislature does not have the constitutional authority to provide for long term debt of the state. The law itself would not be binding on a future Legislature.

Regarding "conflict of interest", Mr. Malone said he felt that whole section could be better handled, to make this Authority, and the members subject to the disclosure law presently in force. Then a judgment of whether a conflict would exist could be made. Ms. Buchholdt expressed concern about delivery of programs to the people. She felt the conflict of interest did not cover that area

and a few people always seemed to be exempt to get involved in these kinds of programs. She felt that section of the Bill should be clarified. HB 72  
HB 73

With reference to the draft of the April 4 minutes, several points covered at that meeting were clarified by the Chairman and agency representatives. One question brought out that Kake was not successful in selling bonds for a financially feasible project and the state finally bought them. Mr. Gallagher thought it probably was not a feasible project and that was why it was written off last year in the G.O. bond election. He also said Dillingham could not sell last fall because it was uneconomit and he turned it down.

Mr. Cowper said other states had turned down the idea of a bond bank because the existing open market was sufficient for every financially feasible project that could be thought of. Mr. Gallagher said the state can lower the cost of interest on the feasible projects.

Mr. Haugen said he had been involved with the Petersburg issue when it went to market, and it was economical, but they had a lot of legal problems. Within the statutes of limitations they could get a better rate of interest through a bond bank because of the reserve fund behind it.

Mr. Cowper asked Mr. Gallagher what the history of bond ratings was in Vermont and Maine, and if they actually went up. He was told the bond bank rate was one step below the state. If they had dropped as Mr. Cowper suggested, he was not aware of it.

In response to Mr. Gruening, Mr. Gallagher cited Dillingham when it was going through distressing times concerning the annual run. They wanted to open a cannery and pay it off over ten years with the revenues. The reserve fund would not help them in this particular issue. If they wanted a \$100,000 sewer project and that much revenue could be generated, it would be alright.

There was discussion on the default of a community, covering the material in the April 4 minutes. Mr. Malone said the bond bank could get a receipt and go to a community and make them raise the taxes to cover the debt. Basically any municipality in default or about to go into default has the authority under state law to raise the levy. He didn't think they could see bonds without that. The procedure necessary to do this was described.

The point was made by Mr. Guy that larger communities have planning monies available that enhance their securement of grants, and this is often not the case in rural communities. Referring to the general direction the state and general government is taking, and in parts of the proposed budget, it was noted a lot of positions had been cut from rural areas. Mr. Guy said he'd been in the Committee no more than 75 days and is beginning to see what people in his area are talking about.

Mr. Banfield pointed out a clarifying sentence in Sec. 44.58.250, "In connection with the transaction and purchase of bond anticipation notes, the bond bank authority may by agreement with the municipality impose any terms, conditions and limitations" and if

they are not complied to, they can proceed to enforce payment just as if it were a bond.

HB 72  
HB 73

Mr. Guy, referring to the many second class municipalities that will not be eligible to participate in this plan, noted that especially in the past few years, the rural communities had been prompted, pressed, and pushed to accept these alien concepts of government and he said it takes time and involvement and participation to begin to understand the language written under the law when formulated into regulations. He had experienced this himself and still is. This is one of the reasons he has made efforts to slow down the progress and acceptance of these types of laws and regulations, because people in local areas are not up to par in their recognition and cognizance of these established laws. He supposed it could not be helped, but noted it was a period when people seemed to be revolting in many ways; from small villages to big cities people are reforming. He has noticed the differences in the past two years he has been involved in the Legislature. When he was first a member of the Legislature the people in his area were beginning to react to various existing laws, regulations and proposals and it is apparent, based upon the communications received that there is continuing concern. These communications are signs of a form of revolution that is being gone through.

The Chairman expressed the opinion that the Committee was not ready to act on the Bill and suggested scheduling a work session on the legislation tomorrow night (April 8). Council could be brought, but no testimony would be given. He suggested the rest of this evening be spent in answering general questions. Mr. Malone told Mr. Haugen that basically he was not sure what advantage would be gained either to large, small or middle-sized municipalities under the legislation. He didn't think the Bill was particularly "dangerous" but did think there were sections that needed revision. He is afraid that in the end, it may do no good.

Ms. Buchholdt requested to have a copy of his proposed amendment. The amendment was passed out to Committee members for comparison. Ms. Itta noted that various people last Saturday were relating this Bill to communities throughout Alaska and there seemed to be a lack of input. She is afraid it will laden the people in the villages with a lot of paperwork and she would like to be able to explain it to the people in the villages. Mr. Malone said he also found the Bill to be confusing; any bill this long takes a lot of work to understand. Mr. Miller expressed his regret at the length of the bill saying that the bond market was not a simple place to transact business; it was their "turf" and we must play according to their rules, if we wanted these advantages.

Mr. Gruening had trouble understanding the direct benefit and said \$4 million seems like a lot of money this year. Perhaps there is a way to achieve lower interest rates and enable municipalities to bond who otherwise could not, such as allowing the state to pool bonds for the municipalities. He didn't think the state would be over bonded. At this time \$4 million seems like a lot without a real definite tangible benefit; maybe there would be a viable substitute. Mr. Malone noted the original figure had been \$2.6 million and was too low.

Mr. Duncan felt no particular progress had been made tonight,

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and the idea of a work session tomorrow evening was a good one.

HB 72

HB 73

After a brief discussion, it was decided to schedule the work session for tomorrow evening, and the meeting was adjourned at 10:20 p.m.

ADJOURN

HOUSE FINANCE COMMITTEE  
Tuesday, April 8, 1975  
8:45 a.m.

All members were present except Representative Guy.

Also present were: Representative "Red" Swanson and Mr. Robert Schroeder, PRESENT  
Legal Administrator, Department of Law.

Chairman Malone called the meeting to order.

First order of business was approval of the minutes. There being no objec- MINUTES  
tion, the minutes through the meeting of March 15 were approved without  
correction.

The Chairman stated that the committee will now consider House Bill No. 20 HB 20  
relating to veterans' loans. Veterans'  
Loans

Administrative Assistant James Rhodes distributed a sheet to the committee members showing VA loan flow and delinquency rates (see bill file). Chairman Malone said the indication is that the number and amount of veterans' loans are increasing each month. The Chairman said he understands this legislation is designed to raise the limits of the loans to account for increased costs for home and multiple-dwelling loans.

Representative Swanson, sponsor of the bill, explained that he introduced HB 20 at the request of many people in his district who desired to have the limit of individual home loans raised from \$55,000 to \$65,000, due to the increased costs of materials. He said he has received lots of correspondence from veterans who have borrowed money and found themselves running short because of the increased cost of materials. He explained that many of the veterans are doing their own construction work. Representative Swanson advised the committee that people in the Veterans' Administration have told him that there has been a real demand on the program due to the fact that people could borrow State money at lower interest rates than are available at a bank. He said it was brought out that there was quite a delinquency rate in paybacks--some of this he felt was due to the fact that "there had not been any correspondence for up to 120 days." Rep. Swanson believed that this was not really the fault of the program but rather the fault of the administration in the way they run their program.

Rep. Duncan questioned a statement appearing in the fiscal note that read "Volume would increase by 40% with unlimited funding of loans. 7 new positions are needed to handle involved workload." Rep. Swanson replied that he also was a little disturbed when he saw the 7 new requested positions. He said when he inquired about the delinquency rate, he found the program to be a very "loose" one.

Rep. Buchholdt noted that there apparently is a backlog of processing the loans. She wondered if this was because of the larger amounts, i.e., would they generate more paperwork and increase the backlog?

Chairman Malone stated that he has just been informed by Administrative Assistant Alison Farnan that the Veterans' Administration has requested 10 new positions in the FY 76 budget. He felt that the new positions probably would not affect the current backlog. If the loan limit is raised, it would not take effect until after this fiscal year. He believed they could wait on their request in the budget as far as the new positions are concerned.

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Representative Cowper asked for an explanation of what is meant by unlimited finances. Mr. Swanson explained that when the program was first instituted, it had a ceiling of \$4 to \$5 million and "they just took the ceiling off."

Representative Cowper moved that House Bill 20 be reported out of committee.

Chairman Malone felt that the fiscal note should be "scratched" with a note to the effect that the needs of the program will be considered in the FY '76 budget. Representative Itta agreed, saying that she didn't think the fiscal note is justified.

In answer to Rep. Duncan's question, Rep. Swanson said the increase in the loans might be of some help to those who already have loans, since they might be able to refinance and pick up an extra amount of money.

Chairman Malone restated the committee's intent as follows:

"The Committee rejects the request for seven new positions, with a statement to the effect that any positions that are needed in the Veterans' program will be covered in the new positions granted in the FY '76 budget request and will be decided then."

HB 20

There being no objection, the motion to move House Bill 20 from the committee with a "do pass" recommendation was adopted, with the qualification as stated by the Chairman. (Rep. Cowper left the meeting).

The next bill to be taken up by the committee was Senate Bill No. 77 am, making a supplemental appropriation to the Department of Military Affairs in the amount of \$43,200.

SB 77 am

Chairman Malone reported that he has looked into this and concluded that the original request for \$61,000 is justified, at least more justified than the \$43,000 adopted by the Senate. Chairman Malone referred to a letter dated March 27, 1975 to Senator Bill Ray from the Department of Military Affairs explaining the appropriation request (see budget file). He stated that repair work has stopped on the Cessna 310 stationed in Juneau and a plane in Seward since these repair funds have been cut out of the bill. He felt these repairs are worthwhile and should be approved, remarking that the difference is about \$22 to \$23,000.

After a short discussion, Mr. Duncan moved that the committee report out SB 77 am, after amending it to be the originally requested amount of \$61,000

Rep. Buchholdt noted that Senator Ray has mentioned in a letter she has before her that the amount deleted by the Senate will be requested in the FY '76 budget. How will we remember to deduct this amount? Rep. Malone replied that we will have to make sure that their repair estimates are accurate, since we will not want to fund the same work twice.

Restating his motion, Rep. Duncan moved that a committee substitute for SB 77 am be reported out of committee, with the amended amount of \$61,000. This will change line 10 from \$43,200 to \$61,000. All were in favor, and so HCSSB 77 am (Fin.) was ordered prepared and reported out of committee.

Next bill before the Committee was House Bill No. 81, making a supplemental appropriation to the Department of Law in the amount of \$120,300 for funding of two major pending lawsuits in which the state is a party and for specialized legal services.

HB 81

Chairman Malone said that the Department of Law in their review found that they had overestimated the travel expenses and Mr. Schroeder, when he arrives, will explain that it should be reduced to \$17,000 (from \$41,000). Some of the items in the bill are billings from attorneys which are difficult to get around. He referred to a January 29, 1975 memorandum from Mr. Schroeder of the Department of Law (in bill file) which explains the breakdown of the appropriation. \$107,900 is a request for legal services for the Cook Inlet Pricing Case litigation, including a large amount for travel. The rest of the bill as originally submitted includes the Lower Cook Inlet case--we have billings for \$12,350 on that which are attached. In addition to that, there is a letter dated February 28 from the Commissioner of Administration requesting the addition of \$54,100 to cover a bill from the attorneys in the State v. Chevron Asphalt Co. case. Since this billing was submitted, the case has been decided in favor of the State in an amount of approximately \$2.7 million, which is a substantial return on our money; however, we still owe the bill.

Mr. Schroeder said he has asked that that \$54,100 billing be deleted since there is a vehicle within the contract with the attorneys, Ferguson & Burdell whereby we could take that amount right out of the settlement (payment can be made from the settlement). This statement is set out in an April 2, 1975 memo to Chairman Malone from Mr. Schroeder. Mr. Gruening arrived at the meeting.

Representative Itta asked if all the travel was needed. Mr. Schroeder, referred to his memorandum of April 2, 1975 which gives detailed information concerning the amount requested for travel expenses. This memo states that after a thorough analysis, they find they will need approximately \$16,963 for travel expenses in the Cook Inlet Pricing Case. Mr. Schroeder then testified that they now foresee that they will need about \$15,700 for travel.

Answering Mr. Duncan, Mr. Schroeder repeated that they will actually need about \$15,750--he actually came out with \$12,723.

Mr. Duncan questioned whether there could be a reduction in personal services since that request was made 12 months ago, to which Mr. Schroeder answered that he could not foresee any reduction at this time--the work is just beginning that they wanted the clerical people to do.

In answer to Rep. Itta's question as to the total cost for personal services, Chairman Malone stated that the January 29 memo lists \$17,100 for personal services for the Cook Inlet Pricing Case and \$12,400 in round figures for the Lower Cook Inlet case.

In computing the new totals, the committee came up with \$96,300 as a total supplemental appropriation for HB 81.

Chairman Malone called the committee's attention to a letter and an amendment from the House Judiciary Committee. The substance of it was questioning a "continuing appropriation." They suggest an amendment to qualify some of the language in the bill as to the purpose of the appropriation; however Mr. Malone did not entirely approve of the new language they proposed. He said he would like to see the money allocated for the specific purposes. Rep. Itta said she would also like to see the money allocated.

Representative Naughton moved that the committee report out a committee substitute to HB 81, incorporating the figure of \$96,300 and that the committee substitute allocate the monies to the appropriate places.

Chairman Malone said he will want to see a rough draft before he lets the bill out of committee. Restating the motion for the benefit of the committee, Chairman Malone said the motion will now read:

"That the committee report out a committee substitute for HB 81, changing the total amount to \$96,300 and allocating the funds according to the two cases as follows:

\$83,900 for the Cook Inlet Pricing Case  
\$12,400 for the Lower Cook Inlet case.

After a brief discussion concerning the difference between special and supplemental appropriations, the motion was adopted without objection, and was reported from the committee with a "do pass" recommendation.

Next bill before the committee was SB 82, authorizing the construction of a life-sized statue of the late Senator Ernest Gruening. SB 82 am

Representative Malone remarked that he has not yet had a chance to talk to any of the sponsors about this bill.

Representative Buchholdt moved that SB 82 am be reported out of committee. Objection was heard from Representative Haugen (he had not yet found his copy of the bill in the file).

Representative Gruening explained that there is a separate appropriation bill to the tune of about \$50,000 for the actual work on the statue.

Representative Duncan remarked that SB 81 is still in the Senate. This is the bill making a \$50,000 appropriation for construction of the statue. Representative Gruening explained that one of the reasons the bill is still in the Senate is that the Director of the State Council on the Arts wrote a letter describing the fiscal needs of the project, stating that the Gruening statute was going to cost \$80,000.

(A copy of this letter dated February 25, 1975 was then distributed to committee members)

Mr. Gruening felt this estimate was quite high and thought that he could get this straightened out with the Director. He said he sent a copy (of the letter?) to his grandmother and her only wish was that she have a chance to look at it and that it look like Ernest. He said the sculptors, whom he has spoken with, indicate that they can make a plaster mold for inspection.

There was no further discussion and no objections, so the motion to report SB 82 am from the committee was adopted with a "do pass" recommendation.

Next bill up for consideration was SB 66, making a supplemental appropriation SB 66 to the Department of Public Safety in the amount of \$179,500.

Chairman Malone said he was calling this bill to the Committee's attention to point out a couple of items, namely a letter dated March 12 signed by Vona Hall, Fiscal Officer and Pat Wellington, Special Assistant and former Commissioner. What it boils down to is that they were underbudgeted and made a decision to drive a number of miles that they wanted to drive, but it put the department in the position that if the supplemental is not approved they will have to make a very sharp decrease in the amount of miles driven. He referred to a letter dated November 18, 1974 to Commissioner of Administration Freer from Mr. Wellington which pointed out that they were underbudgeted and were going to go ahead and drive the miles, and they continue to justify this through the remainder of the correspondence in the file. Chairman Malone then read statements contained in a memo dated January 31, 1975 from Richard L. Burton, Commissioner of Public Safety, to Senator Sackett (in bill file). Rep. Malone said he did not like the tone of the letter.

Chairman asked committee members to look at the material in their files concerning this bill and come to their own conclusions. He said he has worksheets on the mileage for the different detachments in the State; however the figures don't exactly add up. He added that the committee may be able to take up this bill at 3:30 this afternoon if Mr. Wellington is available to testify before the committee.

The committee recessed at 10:00 a.m.

RECESS

AFTER RECESS

1:46 p.m.

All members were present. Ms. Itta, Messrs. Naughton, Guy and Cowper arrived late. Also present were Sterling Gallagher, Commissioner and Fred Boetsch, Deputy Commissioner of Revenue; Larry Vaura, Union Oil.

PRESENT

The meeting was called to order to consider House Bill 139, relating to periodic rental adjustment on land leased other than for the extraction of natural resources, the prime sponsor being Rep. Gruening. He said the whole point to amending this section of the law is because the provision has never been used for the stated purpose and may have been discouraging development; it has been the subject of administrative abuse. The present administration sees no use for it and neither does he. There was a brief examination of the statement on the fiscal note.

HB 139

Mr. Haugen moved to report out of committee, House Bill 139.

MOTION

Mr. Duncan asked the recommendation of the prior committees of referral; Mr. Malone said Commerce recommended a unanimous "Do Pass" and Judiciary reported it out with a majority "Do Pass." Mr. Gruening noted that an amendment had been suggested by Mr. Parr that this provision would apply to the open entry land; he had no objection but they never did draft an amendment. He supposed someone who did not read the bill carefully could think open entry lands were included. This deals with state lands other than home sites.

There was no objection to the motion, and it was so ordered. Motion  
HB 139 was reported out with a unanimous "Do Pass" recommendation. Carried

The next bill for discussion was House Joint Resolution No. 8 relating to the construction of a seawall at Unalakleet.

HJR 8

Mr. Malone pointed out a letter from the Commissioner of Public Works to J. Hogan indicating a negative recommendation from the Corps of Engineers in 1973. Perhaps because of recent flooding in the area, they might review their study.

Ms. Buchholdt expressed concern for the need for a seawall in this area and also Bethel and the mouth of the Yukon, but was unsure how much money could be afforded for these areas. Mr. Malone said the resolution was directed to the federal government and he presumed they would have to reassess their 1973 report and see if they came to the same conclusions. There was damage there.

Mr. Gruening moved to report out of Committee HJR 8; there was no objection and it was so ordered. The Committee recommended unanimously that it "Do Pass."

MOTION  
Motion  
Carried

The next item on the agenda was House Bill 208, relating to Alaska net income tax deductions and credits.

HB 208

Mr. Boetsch handed out proposed amendments and a copy of the memorandum to R. D. Stevenson dated March 10, 1975

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(Mr. Cowper entered the meeting).

HB 208

Mr. Boetsch said the Bill had been reviewed on Thursday with the Governor and they wanted to amend it rather than introduce a new bill. He pointed out the estimates of potential revenue effects attached to the March 10 memorandum. The Bill had been amended in the Commerce Committee and there is a Committee Substitute, the thrust of which is to increase the original allowance for equipment from \$100,000 to \$5 million and to also include any pollution control facilities. This would tend to reduce the potential revenue effects, but he did not know how limiting this would be.

(Mr. Guy entered the meeting; Mr. Cowper left).

Mr. Boetsch said they had proposed the foreign tax credit be removed as a credit that has no reasonable tax application at the state level.

They propose a limit on the type of equipment which would qualify for investment credit. This is to allow the investment credit for small local businesses but not for large national firms doing business in the state.

The domestic international sales corporation (DISC) provides a tax shelter for export firms that was instituted in Congress in 1972 to give firms an advantage in the foreign market.

They have proposed that the percentage depletion allowance be removed for Alaska tax calculation purposes. This is the percentage depletion, not cost depletion. This has been an incentive device to encourage exploration. This application has been severely restricted as of 1975.

In answer to Mr. Duncan, Mr. Boetsch reported the Commerce Committee thought \$100,000 worth of equipment wasn't enough; \$10 million was suggested and \$5 million was just a mid-point. There is no relationship between \$5 million and the size of a business in the state. Not very many businesses invest in that much equipment except perhaps in the timber and fishing industry. They have not had the opportunity to compute the figures on revenues. They will have to determine how much is purchased by various businesses to take advantage of the credit. For the fiscal note, they assumed that the \$100,000 was so small that it was negligible. In order to determine \$5 million the prospective purchases of equipment would have to be known, almost by company.

Mr. Gruening read a portion of a letter from the Chairman of the State Taxation Committee who felt in this day and age \$100,000 would not begin to cover the costs of equipment. Mr. Boetsch said there is a limit on used equipment in the IRS code, but he is referring to the new equipment. Credit up to \$25,000 and 1/2 tax beyond that with carry-forward and back provisions in addition to that.

Mr. Boetsch said the Committee on State Taxation was asked for a figure for local businessmen last August; they did not give an answer except to say they think \$100,000 was low. They had first

proposed \$50,000, but got no answer so raised it to \$100,000 but still no answer. On \$5 million it would be a \$62,500 credit and on \$100,000 it would be \$1,020. The Tax Reduction Act of 1975 raises from 7% to 10% the federal level; their concern is the amount of equipment that will qualify in any given year. If the investment credit does have any effect on companies deciding to purchase new equipment, it's the effect on federal taxes that is of primary importance. The state tax is smaller and is also deducted on the federal tax return.

Whenever the state tax is raised the federal deduction is raised.

Under the amendment only the very big, multi-state corporations would benefit. By setting \$5 million dollar limit they are picking up a whole lot more from the multi-national corporations than from the local firms. Mr. Gallagher could only think of three Alaskan companies. Mr. Malone recalled a bill limiting investment credit to the amount of \$100,000 of eligible equipment that passed the House last year; the consensus at that time was it would cover the majority of small businesses in Alaska. Mr. Boetsch confirmed that Alyeska or anyone who purchased equipment and put it into use during the year would get the credit.

With the \$5 million limit, it would be difficult to estimate a drop in revenue; probably, Mr. Boetsch said, it would be cut in half or perhaps 90% of it. There was some discussion of the impact of an increase in state tax on the tax payer, which would be roughly one half the tax, because of the deduction of the tax on the federal return. (Mr. Gruening left the meeting).

Clarifying further, Mr. Boetsch said, in applying the credit, the first \$25,000 of the credit plus one half of the tax beyond that for that year. Any credit can be carried back or forward. Mr. Gallagher added that the effective tax rate would be to cut the first \$25,000 in half.

(Mr. Malone left the meeting and Ms. Buchholdt assumed the Chair).

Ms. Buchholdt asked what the criteria was for the \$100,000. Mr. Boetsch replied that a similar bill was in last year and passed through the House. Originally there was not an allowance for any investment credit at all. Pete Kline testified before the House Finance Committee and thought there should be an allowance for the local businessman, and suggested \$50,000 at that time. This last summer when they met with the Society of CPA's, they thought \$50,000 was too low; \$100,000 was offered and they have yet to hear from them. \$5 million would effectively allow everybody to have the investment credit.

The Committee was told the pulp companies cannot make a decision whether they should invest or spend their money in new equipment. They are required by EPA to do it; there is no choice. They are having an extremely difficult time raising the money required, and it is questionable whether they can or not.

Mr. Duncan was concerned about the effect on the pipeline. Mr. Gallagher reported a considerable portion in Valdez would qualify as a certified pollution control. But eight companies would be in

the allocation of the credit and it would end up probably only a couple hundred thousand. HB 208

Answering Mr. Guy's question, Mr. Boetsch referred to the section of the IRS code which defines what qualifies as a pollution control device. Section 169 basically allows the rapid amortization. It requires them to be put into place before March 1, 1975.

(Messrs. Malone and Gruening re-entered the meeting).

Referring to Sec. 43.20.036 (c) and the domestic international sales corporations (DISC); Mr. Gallagher said most companies are foreign owned, and cannot use a DISC anyway. Mr. Boetsch said the committee substitute would amend the original bill to provide the DISC would be not allowable for nonrenewable resources. The federal act which restricts the use of DISC would also leave the DISC available to fishing and certain kinds of manufactured products. He noted there were one or two in Kodiak who were using DISC's.

Mr. Malone drew the attention of the Committee to the additional amendments offered which cover areas of the tax code and which have substantial impact on the state's immediate revenues. The amendments are submitted by the Department of Revenue as a result of analysis of the 1975 Tax Act.

(Mr. Naughton entered the meeting).

Mr. Boetsch said the first item received the most publicity during the last few months. This provides for refund of between \$100-200 to each person who paid the 1974 tax. It's based solely on what his adjusted gross income of 1974. There is a possibility that because of our piggyback, it might be required that the same refund be made. The effect would be to sustain an immediate outflow of \$20-25 million. The purpose of amendment (e) is to eliminate any possible legal challenge and to make clear it was not the intent to piggyback.

Amendment (f) relates to additional credit provided by Congress for personal exemptions. You are allowed to take \$750 for yourself and dependents, to arrive at the taxable income. This provision would allow in addition, a \$30.00 for each dependent, but does not include special exemptions, which would be an effect of \$4.80 for each credit on the Alaska state return and would be a total of \$1.5-2 million. (f) eliminates that provision that Congress passed. This section applies just to 1975.

Amendment (g) is popularly known as a negative income tax. It is credit for earned income up to \$4,000 you get a credit of 10% or \$400. Over \$4,000 a declining formula is applied for a credit. This has no relationship to the tax liability. The person could have no tax liability and still get \$400 back from the government. The maximum impact would be \$64 per person. A problem is that residents and non-residents cannot be distinguished between. The impact would be about \$1.8-2 million on the state treasury.

Amendment (h) is another provision that Congress enacted. If you buy a new house under construction prior to March 26, 1975 and are the first occupant, you get a credit of 5% of the purchase price

or \$2,000. There is no similar situation in Alaska where there is a housing slump. Estimated revenue loss would be around \$1.5 million.

HB 208

These four amendments are the ones with significant treasury impact and would serve no useful state purpose.

Ms. Buchholdt asked if timber sales would be under the DISC exemption; Mr. Boetsch said under the committee substitute it says the DISC will not apply for non-renewable resources. There is a lot of discussion on what this includes. In the Tax Act passed by Congress there were changes to the DISC. What they say now is more limiting than CSHB 208. A product of a character with respect to which a deduction for depletion is allowable, could not be exported through a DISC and get the tax benefits of a DISC. The federal law is more restrictive than the CSHB 208.

(Ms. Itta entered the meeting).

Ms. Buchholdt's opinion was there should be no exemption; the federal regulation should be complied with.

Further discussion was postponed because of a prior commitment of time at 3:00 p.m. The meeting was recessed at 3:02 p.m.

RECESS

AFTER RECESS  
4:10 p.m.

Members present at this time were Messrs. Malone, Gruening, Haugen, Guy, Duncan and Ms. Itta.

PRESENT

Also attending were:

Roy Helms, Executive Director, State Council on the Arts  
Paul Brown, consultant to the Council  
Guy Van Doren, Council member  
Carl Heinmiller, Council member  
Rep. Mike Miller  
Rep. Bill Parker, State Affairs Committee  
Cheryl Probst, press representative

The meeting was resumed to consider House Bill 133, relating to art works for public buildings and facilities.

HB 133

Mr. Roy Helms was first asked to testify, and said the State Arts Council had participated in planning for such a bill and was very supportive of the Bill presented. The general feeling of the Council was that public buildings built by the State should not be cold, inhospitable buildings but should reflect the culture of the state and should appeal to people and be pleasant places. It should be part of the construction cost of a building. It would be a creative outlet to provide works of art for public enjoyment. At Mr. Gruening's request he gave examples of art in public places he had seen and knew of.

Mr. Van Doren testified as a member of ASCA with concurrence of his Committee Chairman and the Rules Committee Chairman. He outlined what other states had done toward providing works of art and the wording of their bills. These examples included Tennessee, New York City, New Jersey, Hawaii, Buffalo NY, and Seattle. The

From questions on "utilitarian" buildings, it was found that the Department of Public Works shall determine which these are. Mr. Van Doren found no definition in the other statutes, but there are some states with a monetary limit law: New Jersey has a section that the contract officer shall consult with the Council as to improvements; in Tennessee the costs must exceed \$250,000; Hawaii, Buffalo, Seattle and the federal government do not distinguish.

Mr. Heinmiller, a member of the Council and practicing artisan, told the committee about a group in Haines made up of the elderly, handicapped or young, who are producing a number of pieces of art that are being used throughout the United States. Besides the effort to produce art works, it is a source of income; this Bill would be a great opportunity for all artisans in Alaska. It behooves the state to keep up with private business in the use of Alaskan art. He reported hopes to involve the CETA program and money should this Bill become a reality.

Mr. Gruening asked Mr. Parker is there had been discussion of utilitarian buildings in State Affairs Committee, commenting that the Commissioner of Public Works could be down on art. He thought the language could be straightened out. Mr. Miller mentioned Hawaii, that it was the experience of a lifetime to walk down the streets. Art in public places is more than an aesthetic thing; it will create a ready market for Alaskan art works especially in the bush areas. It is important to get funding into the bush but it is hard to do. Art is one way because it can be created wherever the artist happens to be. He emphasized that using native art would not mean the exclusion of other types. If something is done for artistic souls and their economic ability it would be a double stroke in the state.

Mr. Malone, referring to the last paragraph of the State Affairs letter of intent, asked if Mr. Parker had talked to the Department of Public Works, as far as the "cost of the acquisition of works of art be(ing) included in the original appropriation for capital expenditures." Mr. Parker replied that whoever prepared the fiscal note misunderstood the Bill and took 1% of \$50 million, the figure they thought would be spent next year. He noted that every architect puts some percent for beautification of a building and this Bill would require no additional appropriation. He said the buildings will look nicer if this Bill passes. Mr. Miller added that this only takes away some of the latitude of the architect in the decision of what beautification will be made.

Mr. Malone asked if any thought had been given to the letter from "Peggy" Benson, President of the United Alaska Artists, regarding the idea that "art in public places shall be selected by competition with the approval of the Alaskan public, open competition which would require compliance with the 'local hire law' and which would be judged by Alaskans." The impracticality of this was pointed out by several people, plus the fact that this would not necessarily result in the best art. Mr. Helms didn't think the Bill should be restrictive. Mr. Malone asked how first consideration of the Alaskan artist could be insured. Mr. Helms said their purpose

and direction is to strengthen the Alaskan artist, but he did feel it should be limited in this way.

HB 133

(Ms. Itta entered the meeting).

Regarding remodeling, Mr. Miller said this Bill applies to remodeling, but not to buildings under construction or already constructed. The state ferries are included to get the Seattle people out of the business of deciding what Alaskan art is; some of their choices have been "awful."

Mr. Van Doren read written testimony received from Arlis Bernett and Steve Forest, both in support of the passage of HB 133.

Mr. Malone said if remodeling was to be included it should be in the Bill. If the problem arises that the Department of Public Works is not very 'artsy' they will not pick it up unless mentioned. He also questioned "at least" one percent on line 25, suggesting it state a percent. Also that (d), line 5 page 2, should say "specifically authorized" by whom.

(Mr. Malone turned the gavel over to Mr. Gruening and left the meeting).

Ms. Itta moved to delete "at least" on line 25, page 1.

MOTION

In the discussion following Mr. Heinmiller felt this would limit the architect. Mr. Van Doren pointed out as an example that 1% of \$3 million was not very much when the cost of installation and any administrative costs were first considered. Mr. Gruening commented there might be an instance where the architect could go "hog wild" and suggested saying 'up to 1 1/2%' which would limit the descretion both ways. Mr. Helms didn't think it had to be limited upward "witness the architect is now spending nothing."

Ms. Itta moved that "at least" be deleted and "not more than" be inserted in line 25, page 1.

MOTION

Mr. Duncan thought it should be left alone, or perhaps follow the federal rule of 1/2 of 1%.

(Mr. Malone re-entered the meeting).

The Chairman was informed of the motions pending. Mr. Helms said art works should be included in the costs of planning and the architect must be aware of those plans.

Mr. Gruening proposed a subsidiary motion: On line 25, page 1, after "At least one per cent" insert "but not more than one and one-half percent." After discussion this motion was withdrawn without objection.

SUBSIDIARY  
MOTION

Motion  
Withdrawn

The inclusion of remodeling in the Bill was discussed;

Mr. Gruening moved to add on line 21, after the word "art", "This subsection also includes remodeling or renovation of public buildings and facilities where the overall construction cost exceeds \$250,000." There was no objection and it was so ordered.

MOTION

Motion  
Carried

Mr. Gruening moved that subsection (d) be deleted and a new subsection (d) be added: "Public buildings and facilities with an overall construction cost of less than \$250,000 are exempt from the requirements of this chapter unless inclusion of works of art in their design and construction is specifically authorized by the department." There was no objection and it was so ordered. MOTION Motion Carried

Mr. Duncan moved to report out of Committee, a Committee substitute for House Bill 133 including the amendments adopted by the Committee; there was no objection and it was so ordered. MOTION Motion Carried

Mr. Malone said there would also be a Committee letter of intent on CSHB 133 explaining the following changes in the bill:

The language being added to Sec. 35.27.020 is to include remodeling of public buildings and facilities where total cost is over \$250,000.

The subsection (d) of the Bill was replaced with a new section that would eliminate the reference to utilitarian buildings and make this chapter effective in any case where total cost was in excess of \$250,000.

The House Finance Committee endorses the State Affairs Committee report and letter of intent on HB 133, particularly with regard to the fiscal note. It is the intent of the House Finance Committee that the expenditures necessary for works of art for public buildings and facilities would be reserved out of the total appropriation for the building itself and no additional appropriation would be entertained for the purpose.

Mr. Malone said he intended to hold a work session tomorrow evening or Thursday evening on HB 208, the income tax deductions and credit.

The meeting was recessed until 7:30 p.m., this evening. RECESS

AFTER RECESS  
7:45 p.m.

All members were present with the exception of Representatives Buchholdt and Gruening. Also present were Commissioner of Revenue Sterling Gallagher; Representative Mike Miller; Messrs. Dupere and Coxson; and staff. PRESENT

Chairman Malone called the meeting to order. HOUSE BILL 372 HB 372  
(Municipal Sales Tax) was brought up for consideration. Mr. Malone requested Mr. Cowper, one of the sponsors of the bill, to explain the legislation. Mr. Cowper said that he would speak to 372 and HB 373  
373 (Financial Assistance - Oil Development-impacted communities) at the same time. He said that about two or three weeks ago, the Fairbanks borough passed an ordinance which cut the sales tax on food out of the picture. There is a 5% sales tax total in Fairbanks and they cut it off of food in order to help people on fixed incomes and in lower income brackets. The result was that the Department of Community and Regional Affairs decided that they were cutting their tax rate and refused to give them their impact check because there is a statute saying that you cannot use impact funds to cut your tax rate. Community and Regional Affairs took the borough's check away. There will be a further adjustment in the mill rate and property tax to make up for the food tax; but the feeling of the sponsors is that the best way to do this is to put a statute in to exempt food from the sales tax as a policy measure. That is what is taken care of in HB 372. In HB 373, it says that grants made under this section (oil development-impacted communities) may not be used to reduce current ad valorem tax rates. That means a municipal body can move to adjust or exempt certain sales tax items without running the risk of losing their impact checks (the change is the addition of ad valorem). Mr. Cowper mentioned that all the Fairbanks people co-sponsored these bills.

Mr. Malone asked if the borough was not reducing the rate, and Mr. Cowper said no, they were not -- they were just exempting food from the sales tax. Mr. Malone asked under what authority Community and Regional Affairs went in and took the check. Mr. Cowper said that he did not know. The decision was based on the statute saying that the impact monies could not be used to reduce the current municipal tax rates -- which really was not what was being done. Mr. Cowper said that as a matter of policy, a lot of states exempt food from the sales tax for the reason that it affects people on the lower scale of the economy. Mr. Malone asked, then, if CRA picked up their check. Mr. Cowper said yes; but now Fairbanks has gotten it back. Mr. Malone asked what was done. Mr. Cowper said that the borough assembly made a motion to reconsider. Technically the administration takes the position that if they cut that sales tax than no impact funds will be delivered unless it is shown that the borough mill rates

go up to compensate for the amount lost by exempting food from the sales tax; however, the mill rate hasn't been set yet. HB 372  
HB 373

Mr. Malone asked if sec. (d) of Ch. 8, sec. 2, SSSLA 1974 is qualified by adding the words "ad valorem", as per HB 373, would HB 372 then be necessary in terms of the Fairbanks situation. Mr. Cowper said that he doesn't think it would be necessary; Mr. Bradner put in the two bills in response to the Fairbanks situation. Mr. Cowper said that he would expect that HB 373 would take care of the problem; the point of HB 372, however, was the policy behind exempting food from sales tax.

Mr. Duncan said that he agrees that there should not be tax on food. However, he asked if this bill is passed, would the legislature be telling a community (for instance, Juneau) that they cannot tax food unless they pass an ordinance or telling them that their ordinance providing a tax on food is out; Mr. Malone said yes. Mr. Duncan said that he agrees with the policy, but he thinks that it should be a local decision.

Mr. Malone said that he, too, favors the policy but he doesn't know what the impact would be, for instance, to the Kenai borough. Mr. Haugen said that he could not support the bill because he knows the sales tax structure in his area. Mr. Naughton pointed out that this just says boroughs.

Mr. Malone said that the bills would be considered separately. The committee took a look at HB 372. Mr. Cowper said that this would take care of the situation in Fairbanks. Ms. Itta raised question about Sec. 2, the retroactive date of July 15, 1974. Mr. Hogan said that that probably goes back to the date of determination that Fairbanks was ineligible so that it pre-dates that determination and the Fairbanks situation will be covered. HB 373

[Mr. Gruening entered the meeting.]

Mr. Cowper moved to report HB 373 out of committee. The fiscal note MOTION is zero. There being no objection, it was so ordered.

Returning to discussion on HB 372, Mr. Malone said that he was hesitant to move the bill out of committee without knowing more about the impact on the boroughs. Mr. Cowper said that he also felt there should be some comment from the affected boroughs. He said that he knew Fairbanks was okay, but that might not be the case with other boroughs. Mr. Duncan said that it would create a difficult situation in Juneau. Mr. Hogan said that the fiscal impact to the state is really \$2 million, because the standard practice in this state on this kind of tax is when the state grants an exemption, they "pick up the tab". He referred to the analysis section of the fiscal note, HB 372

which states that indirect impact is likely. He said that when the HB 372 state has exempted people from local ad valorem taxes, the state has made a practice of making up the difference to the local community.

Mr. Malone said that he did not wish to take action until he knew what would happen if the tax burden shifted in the boroughs. Ms. Itta agreed. Committee decision was to return the bill to the file.

SENATE BILL 224 (Special appropriation to R.S. Davena for loss of vehicle) was brought up for consideration. Ms. Itta asked if it is customary for individuals to be reimbursed by the state. Mr. Naughton said yes. Ms. Itta wondered if Highways would have money to reimburse. Mr. Gruening moved to report SB 224 out of committee. MOTION  
No objection so ordered. SB 224

HOUSE BILL 208 was brought up for consideration. Mr. Duncan said that he would like to see the figure \$5,000,000 in the Commerce Committee substitute changed to \$500,000. He moved to amend line 18 of the committee substitute by striking \$5,000,000 and inserting in lieu thereof \$500,000. MOTION  
Mr. Haugen objected. He felt that \$5,000,000 was a good figure. Mr. Duncan said that from what was said in earlier testimony today, he thinks the figure is too high. Spread out over 12 oil companies, that is around \$40 million apiece. Mr. Gallagher commented that the data is not there to do a data analysis. Mr. Haugen asked how this is going to affect the fishing and pulp industries. Mr. Gallagher said that it will affect fishing probably less than pulp; there will be much more of an effect on the timber industry than there will be on the pulp industry -- they have to be considered separately. HB 208

Mr. Malone said that in the Commerce Committee Substitute they allowed investment credit for pollution control facilities. Mr. Haugen removed his objection, and so the motion was adopted.

There were four amendments proposed by the Department of Revenue as a result of the 1975 Tax Act recently passed by Congress which would if carried through into the state law cost the state between \$25 and \$30 million. Mr. Naughton moved for the adoption of amendments e, f, g, and h. MOTION  
Mr. Malone briefly went over the amendments: (e) applies to "one-shot" rebate or reduction. (\$20 to \$25 million applied to the 1974 tax files); (f) would take out the state's \$30 tax credit for personal exemptions estimated at \$1.9 million; (g) relates to the negative income tax provision (\$1.8 million estimated revenue loss); (h) purchase of new principle residence (\$1.5 million revenue lost to the state. There being no objection, the motion was adopted. MOTION  
Mr. Naughton moved that the amendments be incorporated into a committee substitute and that the committee substitute be reported out of committee. MOTION  
No objection, so ordered.

Meeting recessed at 8:30 p.m.

RECESS