

HOUSE / SENATE FINANCE COMMITTEE MINUTES - 1967-1982 2663

HOUSE FINANCE COMMITTEE
Thursday, February 17, 1977
1:30 p.m.

All members were present with the exception of Rep. Meekins due to illness and Rep. Buchholdt. Also present was John Crandahl for Rep. Meekins.

Present

Chmn. Cowper opened the meeting at 1:30 p.m. He said the agenda for the meeting was to be discussion of HB222, HB47, HB48, HJR12, SCR6 and HB186 (not necessarily in that order).

Agenda

Discussion of HB 186

*HB 186
Discussion
Postponed*

Chmn. Cowper said that the Attorney General had intended to attend the meeting and give testimony re this bill. However, he had to go to Washington. There will be a joint hearing with Senate Finance Committee on Monday at 1:15 p.m. Reason for the meeting is the time schedule - appropriation needed by March 1.

Discussion of HJR 12

HJR 12

Chmn. Cowper asked Rep. Haugen to explain this resolution, as he is one of the original sponsors.

Rep. Haugen: The Senate Resources Resolution is almost identically written to this one. He told Senator Ziegler that he would make HJR 12 relate to the same objections. He said he would like to make a motion that they report out Resources Committee Substitute.

*Motion to
Report Out
Resources Com-
mittee Substi-
tute*

Chmn. Cowper pointed out that the original resolution is before the Committee, but they could consider a motion to adopt a committee substitute.

Rep. Haugen moved and asked for unanimous consent that the Committee adopt for the purposes of discussion Resources Committee Substitute for HJR 12. Rep. Duncan asked what the difference is between the original resolution and the one substituted by Resources Committee. Rep. Haugen replied that they both have the same principle in mind. That is, to develop areas of the state for national interest use. Chmn. Cowper asked for a count of those members opposed to this motion. There being no objections, motion to consider the committee substitute for HJR 12 proposed by Resources passed unanimously.

*Motion for
Consent to
Consider CS
for HJR 12*

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Rep. Haugen explained his reason for getting involved in the matter. The State allotted a certain amount of lands for the Alaska Native Claims Settlement Act. There are bills being introduced in Congress that are in addition to those lands. It is feeling of the sponsors of this resolution that we should settle our state and native entitlements and that we are capable of deciding what lands should be for national and state interests. In the land claims bill there is a section that calls for 80 Million acres for national interest lands. Their bills add up to about 116 Million acres. Many of the locations transfer with right-of-ways, take away management of resources in those areas, and put them under federal management. We are capable of managing our own fish and game resources in the state.

*History of
Bill and
Opinions of
Sponsors -*

Discussion

Rep. Cowper asked what the position of the Alaska Congressional Delegate is on these bills. Rep. Haugen replied that Senator Stevens had alluded to his position in the Session yesterday, but decided not to go into it. Rep. Haugen thinks that Senator Stevens will be in favor of the Congressional bills and that they should be ready to go to Congress themselves on these matters this current year and make their concerns known regarding the Congress' interest in land problems in Alaska.

Rep. Cowper asked Rep. Haugen if he knows what position the State Administration has taken on these bills. Rep. Haugen replied that he hasn't asked them. They have indicated that they don't like the Udahl Bill and he assumes that they won't like these bills either.

Chmn. Cowper requested that Rep. Haugen clarify S.499 and S.500 which are the bills before the Congress. Rep. Haugen explained that S.499 was Senator Jackson's bill last year. The Udahl bill which is HR 39 was introduced in the House of Representatives in Washington. Question: Are both these bills by Jackson? Answer: That's right. Rep. Duncan said he is still not clear why HR 39 is not used. Rep. Haugen said that rather than our House Resources Committee making up a resolution on HR 39, we would accept theirs. Rep. Cowper commented that sometimes it is well to coordinate strategies with the people in Washington. He said he doesn't know if this is going to help them while they are trying to come up with a reasonable settlement regarding the D-2 land. Rep. Haugen said that all of the industries in Southeastern Alaska are violently opposed to HR 39.

Chmn. Cowper asked for further questions. Rep. Duncan requested that the Resources Committee Report be read. Chmn. Cowper read the Committee Report. Rep. Haugen

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said that the Resources Committee requested that if Finance does not sign it "do-pass" they offer something constructive.

Rep. Haugen moved and asked for unanimous consent to report out Resources Committee Substitute for HJR 12. Chmn. Cowper asked for a count on the motion. The motion carried with a majority of "do-pass" votes.

*Committee Voted
to Report Out
Resources CS
for HJR 12 "do
pass" recommend*

Discussion of HB 186

Chmn. Cowper asked Rep. Freeman to give a history on this Bill. Rep. Freeman explained that the Native village Hydaburg had its own independent school district and needed some funds to build a building several years ago. He said he never could understand why they were forced to sign a mortgage of their tobacco tax to the State for the funds. He felt it was unfair because the State is building school buildings all over the state at no cost. They had no choice because they were an independent school district. He and others have been trying for years to get this debt forgiven so that they could be on a par with other districts. They could use their tobacco tax for other purposes.

HB 186

History of Bill

Rep. Cowper said his records indicate that this took place somewhere around 1966 and that the school building was in fact built. The schools outside the organized districts are usually financed by the State at a 10% level. This one was burdened by the tobacco tax. It appears unfair that this building is being built by this tax instead of the usual bond fund appropriation. The original debt was \$294,000, now is \$189,000. The Fiscal Note is for \$189,221. Is this essentially your recollection on this matter Rep. Freeman?

Rep. Freeman said it is. He said he can't remember how many times they have tried to pass this bill. For some reason there have been problems on the Senate side every time.

Discussion

Rep. Cowper asked if the building is being used as a school at this time. Rep. Freeman said that is right and that, if his memory is correct, the State has built additional buildings there since with no attachments.

Rep. Haugen commented that other schools in the same area were given allotments without any charge to their tobacco tax. This community has always less tax income than most in the area. In Kake they forgave \$105,000 on a bond thing. He said he thinks the bill should receive favorable consideration of the Committee.

Rep. Freeman moved and asked for unanimous consent that the Committee report out HB 186. Chmn. Cowper asked for objections. There being no objections, the motion carried unanimously. The Committee Report was passed around and signed "do pass" by a majority.

*HB 186 Report
Out with "Do
Pass" Recommend*

Discussion of HB 222

HB 222

Chmn. Cowper introduced Mr. Ron Lind, Director, Division of Budget and Management, Office of the Governor. Mr. Lind said that he had looked at the Bill for the first time about 25 minutes prior to the meeting. He said that a broad interpretation of this bill would be that every time an individual of that division went down and conversed with someone in a state agency regarding any financial budget request there would be a public notice and public inquiry required.

*Mr. Ron Lind -
Interpretation*

Regarding the Review Committee - The Governor appoints a review committee that is external of the budget and audit division. Whenever the Governor and his representatives reviews it is required that public notice be given and public inquiry heard.

Rep. Cowper commented that there are probably some practical problems which arise under the proposed language. However, what is the Governor's position on what appears to be the intention of the bill itself? That is, to allow public scrutiny and comment before it comes out as a Governor's Budget Request?

Discussion

Mr. Lind replied that whenever an agency has statutorily required a review committee, that committee is supposed to note the differences between the agency making the request and the advisory committee. The review committee is the Governor's specific designee for reviewing the budget.

The problem that he sees with the bill is that he can't decide if it means that the Governor must allow the public to be present every time he talks to a commissioner about his budget.

Rep. Cowper said that the purpose of the bill is primarily to get away from the normal practice that the executive branch prepares the budget and nobody sees it until it comes to the House in the form of a bill. Do you have any recommendations?

Mr. Lind: I haven't attempted to sit down and figure it out yet. If the idea is to allow the public to make comment on every proposal, I would assume that the safest thing to do is to make the proposal public information and then set up a hearing. However, I don't know how that could be structured in the time periods we are talking about.

Rep. Cowper: I think everybody knows that it can't be done every time.

Chmn. Cowper asked for further questions of Mr. Lind. He thanked Mr. Lind for appearing before the Committee and said that it is his intention to defer further consideration until the sponsor arrives.

*Deferred to
Later Meeting*

Discussion of SCR 6

Rep. Freeman moved and asked for unanimous consent to report the resolution out. Rep. Cowper asked for objections to the motion. There being no objections, the motion passed unanimously to report SCR 6 out with a "do pass" recommendation.

*SCR 6
Report Out
Unanimous "Do
Pass" Recommend*

Discussion of HB 47 & HB 48

HB 47 & HB 48

Chmn. Cowper asked Rep. Swanson to present the committee with a rundown on HB 47 and HB 48.

Rep. Swanson gave background of HB 47 and what has been done with the appropriations for the project by the Legislature two years ago. HB 47 designates authority to the Department of Highways to do all of the preliminary work that is necessary to delineate a utility/railroad corridor for an extension of the Alaska Railroad to the Canadian Border.

Background

Rep. Haugen asked if the Canadians are going to beat us on this. Rep. Swanson said that British Columbia is starting an extension of their railroad at Prince George to Dease Lake. It will go through Dease Lake and on to Watson Lake. However, they've been slow coming to an agreement because they felt they couldn't bear the full burden. With the Alaska input they felt it would be shared.

Discussion

Rep. Guy inquired regarding line 35 with the right-of-way language. Who owns the land up there? Answer: There are five townships along the area. Approximately 68% is State land, 13% Native selected lands, and the balance is Federal.

Discussion as to the purpose of transferring the authority for a part of this work from the Division of Lands to the Department of Highways. Rep. Swanson said that the purpose is to eliminate any possible cross-fire between departments which could slow the project down. Rep. Cowper asked if this had been discussed with Ted Smith, Director of Division of Lands and Water Management. Rep. Swanson said it had.

Discussion regarding the native lands claims selections and likelihood of the lands in which the proposed corridor would be located being selected.

*Discussion
Re HB 47 &
HB 48*

Rep. Cowper asked who testified at the hearing before the State Affairs Committee and Rep. Swanson replied that Woody Johansen and he had appeared.

Discussion regarding the state's rights as to eminent domain of Native lands. Rep. Swanson said that the President has the authority to delineate that corridor for the Alaska Railroad.

Rep. Gruening asked if the Fiscal Note included any monies for the purpose of the State's acquiring lands selected by the Native claims which the proposed corridor would go through. Rep. Swanson said that it does not. The present bill calls for identifying the area for the corridor only. Ques: Are these General Funds on the Fiscal Note: Ans: Yes, I think the State of Alaska very well afford to build this portion of the railroad.

Rep. Cowper asked if Rep. Swanson thought it might be a good idea to also start on the environmental impact statement as far as information gathering is concerned. Rep. Swanson said that that could possibly cause a delay. And that he is sure Woody Johansen is totally versed on the whole matter.

Rep. Duncan said that the \$865,000 is just do the preliminary work and then the federal government comes in and builds the railroad and asked why the federal government is not contributing to the initial work. Rep. Swanson said that he suspects that this is to show that we are really sincere - must show good faith or it will just sit there and never get built. There is much interest by the federal government now as there will ever be.

Chmn. Cowper referred to the fiscal note and the special appropriation and said that it would be his preference that if the Committee passes on this particular legislation, they use the special appropriation, but that will be discussed later on.

*Reference to
Fiscal Note*

Chmn. Cowper introduced Mr. Woodrow Johansen, Interior Engineer, Department of Highways and asked him to express his feelings about the bill and its feasibility. Mr. Johansen said that the study would consist of reconnaissance by aerial photography extending from Eielson Air Force Base to Delta Junction. They will exclude the section between Delta Junction and Tok because the Highway Department already

*Woodrow Johansen,
Interior Engineer, Dept
of Highways*

had that area photographed. They will then study the photographs in detail to come up with a general location for the corridor. This would include putting out a control channel so that we could actually map it. A control channel is a painted white "X" on the highway which will show in aerial photography, usually placed about every three miles. We will then be able to do a control survey to locate the panels. When that shows up in the photographs, we will have the necessary controls for vertical and horizontal positioning. Once the control panels are located the mapping is done by more aerial photography. Just about everything necessary to locate and design the railroad can be obtained by the aerial photography.

Discussion

Rep. Cowper referring to Mr. Backland's Memorandum dated December 13, 1976, Item IV on page 2, Field surveys to control mapping, asked how much it cost to rent a helicopter per hour. Mr. Johnsen responded that the figure shown is helicopter time estimated at \$325 per hour. In response to a question by Rep. Cowper regarding policy for picking helicopter company, Mr. Johansen explained that they are allowed to pick whatever company they feel safe with. The State Administration has pretty well set the policy on that.

Re Helicopter Rentals

Rep. Cowper asked what selecting a centerline for mapping involves and Mr. Johnsen responded that once they have the aerial photographs, which are in color, from a study of the vegetation, the soil conditions can be determined quite accurately. The site can be located in such a manner as to obtain the best type of ground to go over as well as a location that will give the grades and curves necessary for a railroad to operate on.

Rep. Cowper asked if they would be in a position from this proposed study to make any sort of initial assessment of what consideration should go into an environmental impact statement. Mr. Johansen responded that the considerations are pretty well spelled out in federal regulations. The extent of the primary environmental impact statement is somewhat flexible. In order to do the study at all you have to make some environmental impact statement and have some public meetings. One important consideration will be that the area down by the river is becoming an agricultural area and what would the effect on that be. Rep. Cowper replied that he meant perhaps just pointing out some directions for the environmental study later on.

Re Environmental Impact Study

Rep. Gruening asked if it is final after the study has been made and the money spent on that, or if it is final when the federal government approves it. In other words, it's possible that the money could be spent on the study and then the federal government might not approve it? *Discussion*

Mr. Johansen: Formal request is made to the federal government after the study. They will have to work with various interests before it is final. Question regarding the actual clearing of the right-of-way. Ans: Would not be done until starting construction. The defining is all we are talking about here. There is a good possibility that portions would have to be changed due to inability to contact everyone involved. Would have to be accepted that there might be minor changes in location choice. Ques. by Rep. Schaeffer: What is the ordinary width of a railroad? Ans: Most are 200 feet.

Question and answer regarding scale figures on memorandum attached to fiscal note.

Mr. Johansen: If we say that Alaska Railroad has a 200' right-of-way, probably 400-500' for a corridor would be necessary.

Rep. Gruening: Will part of this money be used to determine what it would be? Will you be coming back to us with recommendations? Ans: Could make recommendations, but we would probably want feedback from the Legislature and public whose lands it would be going over. I think it would be safe to say that it would not be over 500'.

Rep. Rhode inquired how long it would take to get some sort of answer from the federal government after the environmental impact statement. Mr. Johansen said they would be lucky to get concurrence from Native Corporations, Federal Government, military, and State in less than two years.

Questions and answers regarding the reason for differentiating between utility corridor and railroad corridor.

Rep. Cowper asked Mr. Johansen to explain the figure shown in the Memo of \$225,000 for mapping cost.

(Rep. Buchholdt entered meeting - 2:45 p.m.)

Mr. Johansen: Photography companies have equipment with which they can construct a map containing all of the topography. They arrived at the \$225,000 because they had just gone through this procedure on another project and they just had to extrapolate. Question regarding rate basis. Ans: Based on the number of photographs they have to use in order to develop the map. Don't know the number of photographs that they have planned to use. The company ordinarily used for this is Northern Aerial Service, but there are a few others used occasionally. Show them the work and ask for quotations.

Rep. Duncan asked what the figures would be if the \$225,000 special appropriation is used up and Mr. Johansen replied that the figures are for an assess-

ment and that a full-blown impact statement might be necessary which would run about \$50,000.

Discussion

Rep. Cowper asked if Mr. Johansen meant that he is expecting potential problems and he replied that he is. The \$865,000 is at current cost figures and if the matter is postponed, it could go up.

Rep. Cowper asked if the State could condemn those lands if the President designated them as a railroad corridor? Would it have any bearing on an environmental impact statement or on crossing Native lands? Mr. Johansen answered that it would only be fair to say that they may have to make a change in plans if there is no agreement in these dealings.

Re Condemnation Possibilities

Question by Rep. Cowper regarding the figure for hiring of the helicopter company set at \$250,000. Mr. Johansen's reply was that the figure would depend upon the location - It could vary any where between \$123,000 to \$250,000.

Re Helicopter Rentals

Rep. Haugen inquired as to how much progress the Canadians have gone in this and Mr. Johansen said that they have gone quite a way, but that there is a great deal of controversy there right now. They have made a reconnaissance all the way from Watson Lake to the border. Ques: The Whitehorse railroad is up in that country isn't it? Ans: This is not the same railroad. Ques: Is the government building the railroad there? Ans: I think it is the government of British Columbia. Ques: Do you know who the potential users of this railroad are in Alaska? Answer by Rep. Swanson: There are about 80 potential users in Alaska. There has been a great deal of controversy over who is going to pick up the tab between the Yukon and B.C. There are apparently large deposits of various minerals along the route.

Progress of Canadians

Rep. Gruening asked if there is any possibility of federal money for this. Mr. Johansen said he believed the only fund that would be available might possibly be out of the Department of Transportation. The DOT is becoming more and more concerned with mass transportation. It would require special Congressional action, but it's possible that something could be done.

Re Federal Assistance

Chmn. Cowper informed the Committee that a meeting is scheduled for Monday, Feb. 21 at 1:15 on the pipeline appropriations and recommended the current matter be continued after that meeting. Rep. Swanson was requested to look into the possibility of federal funding in the interim. Chmn. Cowper thanked Mr. Johansen for his presentation.

Matter deferred to Later Mtg.

There being no further matters to come before the Committee, the meeting was adjourned at 3:20 p.m.

Adjourned

HOUSE FINANCE COMMITTEE
Monday, February 21, 1977
11:05 a.m.

All members of the Committee were present. Representative Miles was also present. Others present were: Sterling Gallagher, Commissioner, Department of Revenue; and Jim Edenso, Deputy Commissioner of Treasury.

Present

The first item to come before the Committee was HB 210, "An Act providing for interim management of the Alaska Permanent Fund; and providing for an effective date." Rep. Cowper asked Rep. Gruening for a run down.

HB 210

Rep. Gruening said HB 210 was for interim management only. The number of investments or the kinds of investments the Department of Revenue can make with permanent fund money is very limited. The constitutional amendment says that only investments specifically authorized by law can be made by the permanent fund. The legislature only can describe the kinds of investments that can be made. There has to be some way of preserving capital. Without getting into policy questions of what the permanent fund should do, this bill was drawn up by the Department of Revenue to provide for covering the investment of these funds in a conservative manner until legislature adopts some other means of management.

*Permanent
Fund
Investments*

Rep. Cowper asked how much was coming in tomorrow. Rep. Gruening said the figure was almost \$3,000,000. Rep. Cowper said it was his understanding that the purpose of this bill is to set up some structure for the placement of this \$3,000,000 that we will receive. The intention is to not set any kind of precedent. This will give the legislature the time that we need to carefully consider whatever policy decisions we will make on the management of the permanent fund.

Rep. Buchholdt asked for an explanation of "repurchase agreement." Comm. Gallagher said you buy collateral for a one-day or five-day investment. This gives flexibility. In a repurchase agreement for U.S. securities, you buy someone else's for five days and then you're out of it.

*Repurchase
agreement*

Rep. Meekins asked who would be carrying the bill on the floor. Rep. Cowper said the bill would be referred to Rep. Gruening to carry on the floor.

*Rep. Gruening
will carry
bill to the
floor*

Rep. Rhode said assuming the legislation regarding 50% of revenues doesn't go into effect until July of '78, how much money are we talking about. Comm. Gallagher said it was \$90,000,000 at the 25% rate. That's a gross figure.

Rep. Haugen moved and asked unanimous consent to report out HB 210. There was no objection; it was so ordered. The committee report was circulated, and HB 210 was reported out with a unanimous "do pass" recommendation.

*Reported
out "DO
PASS" rec.*

The next bill to come before the Committee was HB 244, "An Act for a special appropriation to Department of Revenue for interim management of the Alaska Permanent Fund; and providing for an effective date." Rep. Gruening asked Comm. Gallagher to explain this one.

HB 244

Comm. Gallagher said this pays for safekeeping agents; that is, those who hold the securities other than ourselves and make an accounting for them.

*Safekeeping
agents*

Mr. Edenso said the Department of Revenue does not hold any securities on its premises. The safekeeping agents hold them to facilitate movement of securities. The proposed bill only allows the Department of Revenue to establish safekeeping agents for the permanent fund. Rep. Cowper added that this special appropriation does stay in effect until June 30, 1978, about 1 1/2 years.

Comm. Gallagher said that because the securities the state will be investing in are liquid instruments, they must be where the market is. We give a written order by teletype and they buy and sell according to our orders.

Comm. Gallagher said that all interest is going into the general fund at the present time. Rep. Gruening added that one of the major policy questions will be what to do with the interest. If we do nothing, it automatically goes back to the general fund. Rep. Rhode asked about interest rates. Comm. Gallagher answered that short interest rates for U.S. securities are 4.70 or 4.80 now. Long securities are 8.0 or 8.25 now. Some of the securities will be short and some long for an average of about 6.0 to 6.25.

*Interest
from
Permanent
Fund*

On the safekeeping agents, Rep. Buchholdt mentioned that we pay the Bank of America \$45,000 annually. What extra will they do for \$62,000? Mr. Edenso said this was a separate fund, and the Department of Revenue is charged with managing it. We have to establish a separate and independent accounting system for it. We cannot comingle the funds.

Rep. Meekins asked, on HB 210, what types of investments the permanent fund would be used for. Comm. Gallagher answered that it would primarily be the first six listed in the bill. Rep. Freeman asked what a corporate investment grade security is. Comm. Gallagher answered that it was not stock. Rep. Gruening added that it would be in violation of the law to invest in common or preferred stock.

HB 210

*Types of
investments*

Rep. Rhode mentioned that the safekeeping agents' fees seemed low for a fund this size. Mr. Edenso said for the management fees on the retirement system funds and for the general fund the state was only paying \$45,000. Rep. Cowper commented that these figures cannot be taken as any kind of precedent in the area of managing these funds. It depends on the action the legislature takes in deciding what the final legislation will look like.

*Safekeeping
agents'
fees*

On HB 244, Rep. Gruening asked if some kind of insurance coverage would come with the fee paid to the safekeeping agents. Comm. Gallagher answered that they would be considered a trustee, and along with that goes the liability. That's included in the \$62,600.

HB 244

Rep. Freeman moved and asked unanimous consent to report out HB 244. There was no objection; it was so ordered. The committee report was circulated and HB 244 was reported out with a unanimous "do pass" recommendation.

*Reported out
"DO PASS"
recommenda-
tion*

Rep. Cowper then outlined the Committee's meeting plans for the week. He also announced that the House Finance Committee has retained Dr. Defoe to assist in policy decisions that have to be made regarding the University of Alaska.

There was no further business to come before the Committee, so the meeting was adjourned at 11:35.

Tape H 77-16
0000 - 0770

Tape #: H 77-18

RECORDER LOG

Date: 2-22-77

Beg. #: 0000

Time: 4:05

End #: 0658

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General Subject: Public Protection Subcommittee - Portion of meeting

Present: Representatives Rhode, Swanson, and Schaeffer. Commissioner Edmund Orbeck, Department of Labor; Don Cather, Chief Pressure Vessel Engineer; Budget and Management staff.

Log #	Description
0000	Representative Schaeffer called the meeting to order at 4:05.
0020	Swanson: Throughout the district and the state we are running into problems with OSHA regulations. Questions on industrial safety and inspection of boilers. Some of the boiler inspectors don't know what they are doing, and they should be removed.
0186	Orbeck: If we abolish our state OSHA program, we'll still have federal people investigating.
0232	Schaeffer: Do you thing the inspections are done in such a way so they don't harrass?
0243	Orbeck: We have better inspections now. They are no longer political appointments. They're hired through the merit system. There are lots of problems. The Capitol and the Assembly are in violation of federal requirements with torn carpets and overloaded circuits. These things don't seem serious, but they can cause injury.
0273	Swanson: Rules or no rules the person out in the country will not be able to live up to the rules.

General Subject: Public Protection Subcommittee - Portion of meeting

Log #	Description
0291	Orbeck: Fines are not handed out until there are 5-6 violations. We try to have our inspectors get along with people. I don't see where any of these small places would have any problem. If the Committee is interested in OSHA requirements specifically, Naomi Smith would be the best one to ask as she's the Director of OSHA.
0330	Cather: If a gentleman has his boiler room maintained and things are well kept up, we will not spent much time there. The Orcutt Apartments were always in pretty reasonable condition. We have to spent more time in places where there are obvious violations.
0362	Swanson: Mr. Orcutt denied his violations.
0389	Swanson: Are people charged for inspections?
0396	Cather: Yes. If there's a return visit necessary we try not to charge. However, distance to be travelled sometimes means it's necessary to charge.
0427	There's a possibility that fees will be increased again.
0445	Orbeck: There's a bill in Washington that would put Alaska back on its previous code instead of federal OSHA code. Last year in Region 10, we went from the worst record in the state to the best. That much change is amazing.
0500	Orbeck: There's a bill in Washington to repeal OSHA. Alaska would be better off if OSHA was repealed.
0528	Orbeck: On the question of complaints, we have had only around six complaints in eight years.
0544	Orbeck: On the question of boiler inspectors - We haven't had a serious boiler accident in four years.

HOUSE FINANCE COMMITTEE
Wednesday, February 23, 1977
1:20 p.m.

All members of the Committee were present except Reps. Haugen and Duncan. Rep. Miles was also present. Others present were: Jim Rhode, Assistant to Rep. Cowper; Judy Crondahl, Assistant to Senate Finance; Jay Hogan, Director, Legislative Finance; and Glen Vernon, Fiscal Analyst, Legislative Finance.

*University
of Alaska
meeting*

*Mr. Hullinger
& Mr. Miller*

Those present from the University of Alaska were: Max Hullinger, Special Assistant to the Executive Vice President; Larry Miller, Director of Accounting Services; and several students.

Log #

H 77-18 0657 Cowper: Stated that the purpose of the meeting was to inquire further into the fiscal activities of the U of A. Because of certain questions which arose based on the testimony received last week, Mr. Hullinger was asked to appear.

*Purpose to
inquire
further into
fiscal
activities*

0687 Cowper: How long prior to current job was Mr. Hullinger Vice President for Finance. Hullinger: For a little over six years.

0714 Cowper: Are you familiar with where the various funds in the University are and where the deposits are made? Hullinger: Yes.

0722 Cowper: What happens to general fund monies drawn from the State of Alaska? Hullinger: When the money is drawn, it's drawn in cash. It goes into the account at the First National Bank of Fairbanks. This will be turned over to the National Bank of the North. The payroll accounts are at the Alaska National Bank of the North.

0773 Cowper: Do you have other accounts elsewhere that do not consist of general fund monies drawn from the State of Alaska? Hullinger: All have funds other than those drawn from the State of Alaska. (Rep. Haugen arrived at 1:25.)

0782 Cowper: Are you talking about federal funds. Hullinger: We also have fees receipts and earnings and money from the bond funds.

0791 Cowper: You do put bond funds and general fund appropriations in the same account? Hullinger: That's correct.

0803 Cowper: Do you keep separate accounting for capital projects? Hullinger: Yes, we have separate accounting for all projects. Cowper: Are there capital projects that have been completed in the past few years? What's done with leftover money? Hullinger: Yes. We retain the money until we are sure everything is completed. Landscaping and minor modifications would be included.

Log #

- 0870 Cowper: Are there capital projects that are completely completed? *U of A*
Are there any capital projects that you finished and lapsed the remaining money in that account? Hullinger: I believe there has been, but I can't answer that. I don't know.
(Rep. Duncan joined the meeting at 1:30.) At one time the University could transfer funds between projects. More recently we would have to take that back to Budget and Audit. The funds could not be used for operating funds.
- 0873 Cowper: Of those bond funds is there any money left over?
Hullinger: I don't know, but Mr. Garrison could answer that.
- 0887 Haugen: What's done with residual money? Hullinger: In our financial report we identify each project and show the balance as of the end of that year.
- 0905 Haugen: In the case of an outright legislative appropriation where each area had an appropriation from the legislature, were those funds sufficient to complete the projects?
Hullinger: They went as far as the funds would go. Then they went to the bond issue that didn't pass. Now we are asking for another direct appropriation. We didn't get a whole project. Haugen: What stage of completion are the projects in? Hullinger: Next week Mr. Garrison could give you a report of projects.
- 0983 Meekins: If there has been a residual amount left in the bond issue, has there ever been a case where that was used for operating funds? Hullinger: No. Meekins: If you're comingling cash, how can you tell? Hullinger: We are comingling cash; not accounting. Meekins: Have you used funds and then paid them back? Hullinger: We have done that.
- 1019 Freeman: When was the last time the University lapsed funds.
Hullinger: We have lapsed money every year. Cowper: How much lapsed last year? Miller: We are estimating we will lapse back \$350,000 at this point in time. Cowper: How do you know if you have no financial report? Miller: We have our trial balance.
- 1080 Cowper: Have you lapsed money other than that one occasion?
Miller: The last two years are the only years we have lapsed money back to the state.
- 1126 Meekins: Did you already lapse funds for FY 76? Hullinger: Not yet. Meekins: How will you lapse that if you are \$10 million short? Hullinger: It will be lapsed as a financial offset. It has no effect on our potential cash shortage.

1154 Cowper: Last week we directed some questions about W-2 forms. We were told the W-2 forms were late, but they had come out on that date. We have received reports that up to 80% of those forms were inaccurate. Why? Miller: As we informed you last week we were beginning the process of distributing W-2s. In the newspaper the figure for error rate was transposed. The actual error rate was 12%. A table was set up in Fairbanks for people to bring their inaccurate W-2s to. Cowper: Are you keeping a record of the W-2s you are required to correct? Miller: Yes. Cowper: Do you report that to the Internal Revenue? Miller: When we file our forms, we will sent in that report. Our deadline has been extended 30 days beyond the regular date, and our employees were also given a 30-day extension.

1217 Meekins: We heard from Mr. Miller that one of the problems that brought us to the cash flow problem is there was a change in the base line for the new computer system. Because of this change it prevented the system's running in parallel. Who made that decision? Hullinger: I would like to explain the democratic process of running a university. Every major decision in relation to the data base for the new system has been brought before the President's Council: President, Vice President, Chancellors, and the rest of the staff of the Office of the President, Budget Officer, Assistant to the President, and Chairman of the University Assembly. There was concurrence for each decision prior to giving instructions to the systems firm. At a later date at a President's Council in Anchorage, December, 1975, after the system had been almost completely designed and between 75-80% was programmed, it was brought to the attention of the President's Council that some of the decisions made previously would adversely affect the employees of the University. It was brought up that we were treating our employees like children by demanding positive time reporting. As a result of that meeting we decided to make a change. Cowper: Who made the recommendations to the body as to what they should do? Hullinger: One of the chancellors.

1298 Meekins: I remember that the computer firm advised against this because it might cause problems. Wasn't that advice given to the Council? Hullinger: I transmitted this information to the Council. The decision was upheld. I took it to the President and was told that the computer would not dictate how the University would be run.

1320 Meekins: Was there any attempt to find some way to keep the two systems running in parallel? Hullinger: We tried to continue the operation of the old system, but we got only one month extension. We had no alternative other than using the computer at R & M. The changes meant we could not use it to the full extent.

- 1343 Meekins: Was the decision a unanimous one? Was there a vote taken? Hullinger: Not a formal vote. Meekins: Were the members aware of the possibilities for problems arising? Hullinger: I was shocked when this was unloaded on me at the meeting. I tried to impress on them that we were quite a ways down the road to make a change.
- 1378 Cowper: On the matter of the back-up computer, why did you stop using the R & M computer? Hullinger: The cost was high, and we were getting pretty good at getting out checks.
- 1418 Meekins: If you knew there could be problems with changing to the new system, isn't that a contradiction. Miller: The R & M computer was only available through the first of May. We investigated the possibility of running our monthly payroll in the lower '48. Portland and Seattle could not guarantee us that they would get our checks out on time because we were using a combination of 7 and 9 tapes, which is not common. This is why the new system was bastardized to run on a monthly basis.
- 1494 Miles: Are there minutes of the President's Council meetings? Hullinger: They don't keep minutes. They have fairly regular meetings sometimes once a month and sometimes twice and sometimes none. Miles: Are the meetings announced so the general public can attend. Hullinger: the general public is not formally invited to the meetings.
- 1517 Miles: I ran across newspaper articles from January of 1973 that state that the University is coming to the legislature for money. What's the budgeting process of the University? Hullinger: Mr. Scott is our Director of the Budget. They have tried to come up with different formulas. The departments put together expenditures and needs and try to work within the framework. This year the Governor gave us a framework of 12%, so we are trying to work within 112% of the existing budget. The departments work through their chancellors to develop budgets. They primarily make their decisions based on their current budgets. They also look at new programs and what programs can be discontinued.
- 1576 Miles: I understand there have been recommendations to prepare status reports so that departments know where they stand. Hullinger: The status reports are the big problem now with cash flow. We do not have the financial reports out this year for the benefit of the departments so they can find out where they stand budgetwise. They do have a report of expenditures and a report of their budget. Every department keeps some sort of records.

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1608 Miles: Are the status reports out now? Hullinger: Just for July, August, and September. *U of A*

1616 Cowper: How much is the University's cash flow need. Hullinger: Our best educated guess is approximately just under \$10,000,000 at the outside. Cowper: Has any of this cash flow problem been because of overexpenditures in this year or previous years? Hullinger: I cannot say that. We permit overexpenditures, but only as long as total stays within limits. Cowper: Has any of the money drawn this year been used to pay prior years' bills? Hullinger: Yes. The only way I can pay them is from current year cash. Gruening: Is it fair to assume that for this fiscal year you will need no more money to meet bills? Hullinger: I don't anticipate any appropriation need. I need cash. Gruening: Why do you need cash? Hullinger: Cash is only one of the current assets of the University. Gruening: Is the money coming from accounts receivables? Hullinger: We have not collected on our accounts receivable. Gruening: You don't anticipate problems collecting accounts receivable? Hullinger: Most of our accounts receivable are with the federal government and the State of Alaska. I don't anticipate problems. Gruening: If these accounts receivable are as good as you say, you should be able to cover your cash needs. Hullinger: That's the intent.

1715 Cowper: The University retained Coopers and Librand to advise you on getting a computer firm. They recommended someone other than SCT. Please comment. Hullinger: The reports you have recommended we go with IAI. IAI indicated to us that they did not have the capability for supporting a system in Alaska. Coopers and Librand said they would like to pick up that phase of the operation. Later we had a phone call from Mr. Mills saying we could work with any one of the companies. With SCT we would not need an interface. We made the decision based on cost and because IAI didn't have the capabilities. Cowper: Do you have correspondence to that effect? Hullinger: No. It was all telephone conversations.

1759 Cowper: I have read of a suit against SCT by other universities; Cornell and Missouri. Did you make any inquiry about that? Hullinger: I talked to someone from Missouri, and they said they were satisfied. I talked with the person from Cornell and they said they were equally to blame.

1777 Freeman: We heard that the Regents authorized \$28,000 of their planning fund to advertise the University bond issue last fall. Has this been done in other bond elections? What was the source of the funds and who authorized it? Hullinger: In past years we have made contact with firms and asked them if they would allow us to use funds. No University funds have been used prior to this year. This past year there was a decision of the Board of Regents and the administration that it was unfair to put the burden on the contractors. It was an expenditure of income funds. The payment of these expenditures was authorized prior to commitment of the funds. Freeman: They weren't planning funds? Hullinger: Yes they were. Also, we are using the income from the permanent fund.

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- 1819 Freeman: What is the Planning and Development staff coing with the defeat of the bond issue? Hullinger: I can't answer that. Mr. Garrison has made a recommendation for the phasing out of the people. He will be slowly reducing that force. U of A
- 1837 Cowper: A couple of minutes ago you said it wasn't fair to ask contractors to contribute to the bond issue campaign. Has this been done in the past? Hullinger: No sir. I don't make those decisions to solicit funds. Cowper: Have those funds been raised in the past from the private sector? Hullinger: They come from contributions from the Friends of the University, also from contractors who do work for the University. Cowper: What do they get in return. Hullinger: A thank you letter. They do not get a contract in response. They are chosen in open bidding.
- 1861 Rhode: On the cash flow problem of \$10,000,000. Of the present accounts receivable, how much is current? Hullinger: About \$9,000,000. Rhode: What would be the time element for collection? Hullinger: We get money in 45-90 days. Rhode: If you were to borrow \$10,000,000, how long would it take to pay the money back? Hullinger: It would depend. Effective July 1, I can take down money from the state. If I don't have that opportunity, I will need additional money.
- 1924 Cowper: Does the accounts receivable figure of \$9,000,000 represent your cash flow problem or are the two not synonymous. Miller: The two are basically synonymous. There's a delay from billing to receipt of cash. Gruening: Would you have the exact amound definite enough so that if the legislature wanted to they could appropriate program receipts so we would know for certain what you are collecting for accounts receivable? Miller: We cannot use those monies for anything we wish. It's money coming in to pay new bills. Gruening: You are saying you are not able to cover these bills from accounts receivable because they are not coming in on time. Miller: That's the reason for the cash flow problem.
- 1961 Gruening: If you borrow the money to cover the working capital you need, the other money can be used for anyting you wish to use it for. You could cover the same debts with accounts receivable. If the cash flow problem is synonymous, how to you propose to cover accounts receivable problem?
- 1977 Hullinger: When we get cash back in it continues to roll over. During the year I have been using state appropriations to fund working capital. Toward the end of the year I don't have the cash to do that. On July 1 I can take down enough money to help us and then I am back in the process until March. From March on I have trouble meeting bills because of accounts receivable.

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- 1992 Hullinger: Really those accounts receivable are used to pay for upcoming project. Miller: You catch up by either earnings or through paid in capital. The University doesn't have this type of working capital. We are asking for an enlargement of current working capital so that every year we do not get into a cash flow deficit. Hullinger: Several years ago the legislature gave us \$1.25 million. We needed \$3-4 million. That doesn't stretch very far. Even then I was advancing state appropriations and getting tight toward the end of the year. U of A
- 2022 Rhode: What you need to solve the problem is a \$10 million permanent cash revolving fund? Hullinger: That's what we need.
- 2032 Freeman: I understood the other day that our problems were because of the foul up with the computer and status reports weren't out on time. Is that correct? Hullinger: Because of the foul up in getting our accounts receivable we are worse off then we have been in the past. We still need a working capital fund. We need a greater amount because of the difficulties.
- 2050 Swanson: We heard last week that with the trouble with the computer system the status reports would not be up to date for seven months but the first of the reports would be out in a couple of weeks which would start them on picking up the shortfall. If the computer is working now and they have a \$10 million shortfall, they should be up to date within seven months. If we picked up the tab today they should be able to pay us back at the end of seven months. Cowper: If we picked up the tab, could you pay it back in the coming year? Hullinger: We could if we stopped programs, but we are always working behind as far as cash is concerned.
- 2086 Haugen: Do you charge an administrative cost for accounts receivable. Hullinger: It varies by contract. We get 54% of the salary funds. It's budgeted in program receipts. Haugen: Do you get your personal services in a lump sum? Hullinger: Only on a monthly basis. Haugen: Do you draw exactly what the payroll demands? Hullinger: We have been authorized to draw more than payroll because there's more to the University than payroll.
- 2159 Miles: A number of people have come to me concerned with the top heaviness at the University. This year's budget has an increase in administration of 26%. Of the other campuses the percentage of increase is less than 1/2 of the increase in administration. Can you explain why the situation might exist in light of the '76 reorganization of the University and the million dollar computer purchase in '73. Hullinger: I can't answer that. Dr. Hiatt could probably answer that or else the Regents can.

Log #

2187 Miles: What recommendations did you make for increases? Hullinger: *U of A*
I made recommendations for increases in the financial area because we felt we had insufficient numbers to accomplish the plan for the development of these systems. The other areas of the central administration I cannot speak to. Guy: Earlier you stated that bond and general fund money is together. In the previous meeting it was stated that it is unconstitutional to spend bond monies for other than bond issues. Hullinger: I can't speak to that because I don't know what was said. There's no question that it would be unconstitutional to use bond money for operations. I have not had it pointed out that it would be unconstitutional to comingle cash. Guy: Recently I read where supposedly University people held parties and gave away jewelry as gifts. Hullinger: I think you have reference to the fact that we were giving awards to the staff for being with us for a period of time. At the same time we cut back on the issuance of the catalogs. That's true. Guy: Regarding management personnel receiving housing from the U of A or having their housing paid for by the University, have the President and others in the upper echelon done this? Hullinger: They have received housing and housing allowances in the University.

2260 Gruening: Is there any reason because of the size of the University that we have to have a central administration? Is there any reason why the individual campuses couldn't handle their own affairs? Hullinger: That's a question of philosophy. Gruening: I am talking about the financial aspects. Hullinger: I think if we have a statewide system we should have statewide policies and procedures and outlying areas should operate within those. Gruening: As far as billings for accounts receivable, couldn't that be done by regions. Hullinger: They are doing that. Gruening: Is there any reason they couldn't handle their own cash flow? Hullinger: They are writing their own checks on the Juneau and Anchorage campuses. We have one central bank account and they write checks on it. They have their own purchasing and budgeting and they issue their own checks. They submit information to the central accounting system so it can be run through the computer. We built this computer system so that later on they can generate all their own input. We haven't gotten there yet.

Cowper: On the bank accounts and so forth, you say there's a central bank account where bond monies, general fund monies, and program receipts are put in. What about endowment funds? Hullinger: Cash all goes through the same account. Any cash from the endowment funds that is not invested would be in the same account.

2329 Cowper: What about proceeds from University lands and properties? Hullinger: It depends on what lands we are talking about. The rent managed by lands goes into the permanent funds. If it's paid by the University we turn it over to the state. If it's from our own lands we set it aside and the Regents use that money to develop other land.

2341 Cowper: What's being done along the lines of developing University lands? Hullinger: Several years ago we began setting aside permanent fund monies for development. We have set aside \$25,000 a year to develop lands. Every time we have worked through the Division of Lands.

2360 Cowper: Do you have any accounts other than central bank account? Hullinger: Yes. The recent revenue bonds for Anchorage student activity center and one other. Those funds have not been comingled. Miller: We also have a number of savings accounts from endowments. Cowper: What happens with interest. Miller: If it's restricted, the money might be for scholarship.

2404 Cowper: Other than those accounts to take care of cash flow in the outlying areas, are there any other bank accounts you keep besides this one at the Alaska National Bank of the North. Miller: Now we have bank accounts at National Bank of Alaska, Alaska State Bank, First National Bank of Anchorage, Behrends in Juneau. Then we have various revolving funds like in Bethel, Nome, Kenai, and Kodiak. These will be done away with and replaced with depository accounts. Hullinger: We are in 29 banks. There has to be a place for the person in charge of the learning center to deposit money he collects. What we want to do now in the collection of cash in various areas is that each place would have a batch of checks, but they would come from one central accounts. If it was all in one account we could keep less dollars in it and invest more. Cowper: The central bank account is something the University decided to do just recently? Hullinger: Within the last year and a half.

-----Tape changed to H 77-19-----

H 77-19 0031 Cowper: What do other universities do when they have a far flung system like this? Hullinger: I don't know of any as far flung as ours. But, others have central accounting.

0055 Cowper: Who knows where all the bank accounts are? Miller: We have a record of all accounts. The Accounting area knows, and Legislative Budget and Audit people know.

0126 Cowper: I read a recent newspaper report in which it was reported that the University Director of Insurance renegotiated some health and life insurance. There was a decision not to go into the cheaper contract. Why? Hullinger: For a number of years the U of A had health and accident insurance. At a later date the legislature took over the cost of medical insurance in its entirety and extended it to dental/audio visual. The state is with Blue Shield. We were with Continental Insurance. When we got bids, the low bidder was Continental. We have been with them for three years. We have been five years with United Benefit. We have had trouble with United Benefit and they have threatened to cancel our coverage. I instructed to make sure we don't lose coverage for our employees and to investigate the possibility of merging medical with dental/audio visual. We solicited from all companies doing business in the State of Alaska. We have not had a rate increase in medical insurance in three years and also no increase

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in dental/audio visual since the beginning. We asked what they *U of A*
were going to do. They said they would be increasing their rates
in the next year from 20-30%. We got other proposals. Metropolitan
bid on our proposal. Every other company wanted to increase our
premiums. We have had good results on premiums. We have paid
promptly. If there was a surplus in premium it was used in premium
reserve. We have had an unusually good record. We stayed with
Continental and didn't know what it was until we terminated our
policy. It amounted to \$328,000 in additional premium reserve.
That was transferred to Metropolitan. They applied \$125,000 for
premium insurance and applied the balance to the premium for '78.
We requested improvements in insurance. Metropolitan has made
recommendations. They say our benefits are falling behind.
We were going to apply some of the funds there. These are not
monies that ended up in my pocket or anyone else's. That money
is there and has been transferred over. I transferred it in
San Francisco so that we would not lose interest. I had some
problems with the Insurance Administrator. I would request that
it be studied by the auditors.

0346 Cowper: Was there an agreement with Continental that the
University would receive interest on the premium reserve as it
was built up? Hullinger: That was in the contract. I read
in the paper that the Insurance Manager wrote a demand on that.
It was to the other carrier, and there's no problem with that.

0453 Buchholdt: Last week when we had the chancellors and the
President of the University in the name of Mr. Hullinger was
mentioned quite a lot as the person who would know about the
programs. Here he is and the chancellors are said to know.
Who does know? Hullinger: If you are talking about the budget,
I am not involved with that any more.

0483 Cowper: Thanked Mr. Hullinger and Mr. Miller for coming and
answering questions.

0491 The meeting was adjourned at 3:25.

Tape H 77-18 0657
to Tape H 77-19 0491

HOUSE FINANCE COMMITTEE
Thursday, February 24, 1977
8:30 a.m.

All members of the Committee were present except Reps. Gruening and Meekins. Rep. Akers and Rep. Specking were also present. Others present were: Eric Lee, Director, Division of Community and Regional Development; Susan Clark, Anchorage, League of Women Voters of Alaska; and Duane Marshall, Kodiak Regional Director for Kodiak Community Development Program.

Present

The first bill for consideration was HB 220, "An Act making a supplemental appropriation to the Department of Natural Resources for the Iditarod Trail Race; and providing for an effective date." Rep. Akers was present to testify on the bill.

HB 220

Rep. Akers said the thing about the Iditarod is that they don't know from year to year if they will run the race or not. Whereas it's the state's official race and dog mushing is the state's official sport, a lot of people believe the state should support this and keep it going. The bill is asking for \$10,000. There are a number of petitions to support the request. Since the time the bill was drawn up, many people have said that \$10,000 is not enough. Some have suggested asking for between \$25,000 and \$50,000.

Rep. Cowper asked how much money the Race Committee had been able to raise and what the expected costs were. Rep. Akers replied that from year to year they figure their costs at about \$65,000. At this point in time they only have \$30,000. This year there's a snow problem and it's very nip and tuck. This race supports tourism for the state.

Rep. Cowper asked if they would be able to run the race this year in view of the snow problem. Rep. Akers answered that they are going to run it, no matter what. If there are guys with that kind of spirit, the state should support it.

Rep. Duncan asked if the cost was getting higher. Rep. Akers said it was expected to be higher this year because of the weather.

Rep. Cowper commented that the Iditarod Trail Race has been designated as a state race and is eligible for state funding. The legislature has funded state fairs, and the analogy seems clear. Rep. Cowper said he would hate to see the race fold.

*Iditarod
is State
Race*

(Rep. Gruening arrived at 8:35.)

Rep. Freeman said he was not sold on the idea that this was a proper function for the state. But, the bill has a lot of support. Rep. Freeman moved to report the bill out of Committee. Rep. Schaeffer objected saying he would like to change the amount from \$10,000 to \$20,000.

HB 220

Rep. Freeman withdrew his previous motion. Rep. Schaeffer moved and asked unanimous consent that the amount be amended to reflect the sum of \$20,000. Rep. Freeman objected. Rep. Rhode said he felt this was a worthy cause and \$10,000 was pretty good seed money. Rep. Schaeffer said he would hate to see the race fold because they don't have enough money.

*Amendment
to Amount
in bill*

Rep. Schaeffer moved and asked unanimous consent to amend the bill to show a sum of \$15,000. There was no objection, so the amendment passed. Rep. Freeman moved and asked unanimous consent that a Finance Committee Substitute for HB 220 be reported out. There was no objection; it was so ordered. The Committee Report was circulated with all members signing "do pass" recommendation. So, CS for HB 220 was reported out with a unanimous "do pass" recommendation.

*CS for
HB 220
reported out
"Do Pass"*

The next bill for consideration was HB 78, "An Act making a special appropriation to the Department of Education for construction at the Seward Skill Center; and providing for an effective date." Rep. Specking was present to testify on the bill.

HB 78

Rep. Cowper said this bill was a direct result of the decision not to house people in the old Van Gilder Hotel in Seward. Rep. Specking added that when that decision was made, students were housed in modular housing which is getting old. A year ago they came before the legislature and got funds to build a dormitory. Much of the labor has been done by Skill Center students with a per square foot cost of \$29. They now have a building worth \$1,000,000. This project has been done with the blessing of the various trade unions who have recognized this as a valid training program. The Skill Center has moved forward substantially in the quality of education provided. The phase this bill funds would provide not only the additional 40 room dormitory space but would allow the renovation of the food storage building into a student lounge. That building connects with a now completed food service building.

*Seward
Skill
Center
building*

Rep. Rhode asked if the merchants of Seward support this thing by hiring some of these students on weekends or evenings. Rep. Specking replied that they do occasionally, but basically the students are taught the type of trade that takes them away. The ability of Seward to absorb much of the employment is limited.

Rep. Specking went on to say the students have remodeled the school into a pretty neat building. It was a major capital improvement at little cost. There are two buildings there. The second is a shop training center. That program has been very successful. Some of the unions and the Department of Highways have used the center.

Rep. Buchholdt said she understood the kind of program they have at the Seward Skill Center, but through the years she had heard nothing but negative things about the system, particularly in the training of people from rural areas. The heavy equipment training was mentioned. That's not usually found in the rural areas. Oftentimes people are trained for a job and then they return home to find that type of job is not available. Rep. Specking said the student could choose the type of training in which he enrolls. One of the most popular programs has been small engine repair because of the snow machines used in villages. However, the program has been more related to a skill in which a person can get a job probably not found in the villages. Many of these people at the Skill Center are students who couldn't make it anywhere else. They don't relate well to academic training.

*Criticism
of Center*

Rep. Swanson asked who would be building the building. Rep. Specking said the Division of Buildings would have to approve what's done. It will be an in-house exchange between Education and Public Works for funding. Rep. Swanson said if the projected cost was based on the \$29 per square foot, that probably wouldn't be enough if Public Works is involved. Rep. Specking said that was a valid observation, but the other building had gone through the same procedure.

Rep. Cowper suggested that Sec. 2 of the bill be amended to reflect an immediate effective date. Rep. Freeman moved that the bill be amended to show an immediate effective date. There was no objection; it was so ordered. Rep. Rhode moved and asked unanimous consent that Finance CS for HB 78 be reported out. There was no objection; it was so ordered. The Committee Report was circulated, with all members except Rep. Buchholdt signing "do pass" recommendation. Rep. Buchholdt signed "no recommendation." So, CS for HB 78 was reported out with a "do pass" recommendation.

*Amendment--
immediate
effective
date*

*CS for HB 78
reported out
"Do Pass"*

The next bill to come before the Committee was HB 215, "An Act making a supplemental appropriation to the Department of Community and Regional Affairs for the day care assistance program; and providing for an effective date." Rep. Cowper explained that this was a supplemental appropriation for day care assistance. The Community and Regional Affairs Committee has adopted a Committee Substitute. Mr. Lee was present to testify on the bill.

HB 215

*C & RA
testimony*

Mr. Lee said the Governor had indicated that if the legislature saw fit to pass the supplemental and appropriate the funding the the Department of C & RA, he would have no objection to that at this time. However, if this level of funding is to be continued next year and it's the legislature's wish that that level be maintained, it will need an increase. If this is placed in the budget it must be within the limits placed on the budget and funds must come from other programs if there are no other funds added. Rep. Cowper said the Committee appreciated the Governor's concern with the amount of the budget.

*Governor
in agreement
with funding
Supplemental*

Rep. Buchholdt noticed that the amount on the Committee Substitute from C & RA had been reduced from the original bill. She asked if that would be sufficient. Mr. Lee said that according to present information it would.

HB 215
C & RA
Committee
Report

Rep. Gruening called attention to the fact that at the end of the report from C & RA it said that the Committee feels that the day care assistance program should be audited. Mr. Lee said he would not attempt to speak for the Committee. However, in talking with Rep. Rudd about the problem, she said she didn't feel that was probably necessary.

Rep. Gruening asked if the Department request for FY 78 was at the additional amount of \$368,750. Mr. Lee said that was not in the budget. They did increase by \$250,000. If the level that the supplemental maintained is to continue through next year, it will require an addition to the budget. It would probably take \$800,000 to maintain the same level of service that the supplemental would provide. The supplemental will increase the amount of service provided this year. The supplemental is only for the last four months. The program has not reached a saturation point yet. The time factor of getting the eligible parents into licensed spots is still a period of time.

FY 78
request

Rep. Cowper asked why the program ran out of money in mid-stream. Mr. Lee explained that the program is designed in such a way that it is administered through a contractual arrangement with municipalities. C & RA gave them a fixed dollar amount under contract at the beginning of the year. The communities are given flexibility in the administration of the program. They determine eligibility and amount of funding. In receiving a grant program and administering it, they know at the beginning of the fiscal year what their grant is. With proper management procedures they should be able to allocate that over the budget year and determine what level to bring people in. This did occur in some of the program.

Why did
program
run out
of money?

Rep. Cowper asked who determined the amount of the original grant. Mr. Lee said they took the total budget amount from the legislature last year, \$1,200,000. The program requires that programs be within licensed facilities. Using that for a basic figure we determined the cost by number of slots with the available care in the community. Rep. Cowper asked if any consideration was given to the fact that this type of legislation would encourage the starting of day care centers. Mr. Lee said consideration had been given. The number of slots in the state has not increased dramatically. The increase written into the budget for next year of \$250,000 is for increase in slots.

Rep. Cowper asked what a "slot" is. Mr. Lee explained that when a facility is licensed, the license says how many children they can care for.

"Slot"

Rep. Duncan asked what kind of a monitoring system was set up. Didn't C & RA know after a couple of months if the communities were spending too much. Mr. Lee said in some of the larger communities the reporting to C & RA has been lagging 2-3 months. In Fairbanks C & RA was late to realize they were running short. We let them know they were faced with a problem down the road. Rep. Duncan asked for a further explanation of the lag time. Mr. Lee explained that they will receive the money within 15 days, but there's a lag time in their report to us.

HB 275

*lag time
in reporting*

Rep. Freeman asked if each of the communities knew what their amount would be. Mr. Lee said they did absolutely. Rep. Freeman noticed that in the C & RA Committee report the money was divided between certain communities. Are those the only ones that have day care centers? Mr. Lee said there were others, but they did not request supplementals.

Rep. Haugen asked if the \$1,200,000 was placed in H & SS. Mr. Lee said it wasn't. In 1975 we did not expend all the money. Approximately \$700,000 lapsed to the state in 1975. That was pure general fund money. In 1976 \$1,200,000 was appropriated to us with the intent that the money from H & SS was to be transferred to us to cover AFDC children. There's no federal money for this. Rep. Haugen asked if the Anchorage fund was broke. Mr. Lee answered that the original supplemental was for Fairbanks, Juneau, and Kodiak. The original amount was reduced and then Anchorage was tacked on.

Rep. Guy asked the cost per child. Mr. Lee replied that the cost was whatever the going rate was for the community. Mr. Lee said that from their standpoint the program is still in its formative stages. We are gathering data on a daily basis to determine where we are. In terms of control we feel we have adequate control at the present time. The object in putting it in C & RA was to pass most of the authority to the municipalities, which we did. We feel we have a good contract with the municipalities which lays out their responsibility. It isn't that there's anything wrong with the contracts; it's simply that they feel the original contracts were not for enough money.

*Cost is
determined
by communi-
ty*

Rep. Gruening said he had a complaint from Anchorage that a group of people on the marginal income level are being cut out. The people that are able to work because of day care assistance would have to quit their work if the assistance was withdrawn. Mr. Lee said the municipality of Anchorage has a staff which determines eligibility. The original program was to help just that group. However, last year in putting AFDC funding in the same pot it complicated things. We are looking at separating AFDC into another program. Rep. Gruening asked if some state money is going into AFDC. Mr. Lee explained that some AFDC recipients became eligible and are mandated to receive the assistance if they meet the criteria of working and going to school.

Eligibility

Rep. Cowper asked if the problem is with the municipalities' control over the program or failure to properly supervise the expenditures, or do you think the problem is with the programs themselves. Mr. Lee said there are a multitude of problems. One is a lack of data to base the program on in the beginning. That creates a problem for the municipalities that are administering this. Some of the municipalities were a bit lax on planning on a yearly basis. Others did a better job and made an attempt to live within their budget.

HB 275

Rep. Haugen asked if, after the municipality requested and got the funds from the state, they could turn it over to a third party center. Mr. Lee said they could. That's what happened in Fairbanks. The contract says they must serve everyone in the geographic area. The parents have total choice of the provider as long as the provider is licensed. In Fairbanks the borough has subcontracted to an administrator.

Third-party
center

Rep. Cowper asked Mr. Marshall to testify. Mr. Marshall said Kodiak had had a problem with the day care program since its inception. Our program started in December of 1975. Initially it was hard to get people to respond to the program. But, in a six month period of time the day care bill climbed rapidly. Our situation was peculiar because we were only licensed for 91 slots in the Kodiak community and were able to provide 110 slots for Coast Guard kids. That was fine for the first year, but we ran into difficulty this year in serving 201 slots on payment for 91 slots. We made initial cut backs. We were counting on when the Coast Guard base became a state licensed and federally licensed facility we would be eligible for extra money. We thought we were operating a \$78,000 program and ended up operating a \$40,000 program. Our cut back was most drastic. We serve only income groups #1 and single parents in income group #2.

Kodiak
Day Care

Rep. Cowper asked why Kodiak had thought they would have more money to operate with. Mr. Marshall said that everything is based on a per slot formula. When we were serving 201 slots instead of 91 slots we thought the amount would be greater. We provided assistance to the extra people because last year we had an excess and could provide funds. They did become licensed in August of 1976, but when we received adjustment to our original contract we were only running a \$49,000 program.

Rep. Haugen asked about administrative cost. Mr. Marshall said they receive no funds. They do it for nothing. The Kodiak community would not have received the money if they didn't have staff, so we got staff. Rep. Haugen asked if the Coast Guard got any federal funds. Mr. Marshall said they did not. They are prohibited from using funds in this manner. Rep. Haugen asked again if the state paid to administer the program. Mr. Marshall said they do not receive salary directly from the state. We have used a Manpower person and a CETA person. We also used a VISTA volunteer. Mr. Marshall said he was funded through Rural CAP.

Rep. Duncan asked about the delay in getting reports back to C & RA. Mr. Marshall said that in the case of Kodiak there has not been a backlog. At the greatest the delay has been 18 days. In some cases it's only 12 days.

HB 215

Rep. Duncan asked why the Department wasn't aware that Kodiak would be in this position. Mr. Lee said they were aware that at the rate they were expending with the amount they had they couldn't fund all five groups.

Rep. Swanson asked which categories would be dropped if there wasn't enough money to go around. Mr. Marshall said that the legislation is primarily to serve low income persons and single parent families. We make sure we have money for those persons. We would start cutting at income group 5. Rep. Swanson asked what the percentage of assistance was based on. Mr. Marshall answered that it was primarily based on income. Some discretion can be used in cases of extreme medical bills. We are providing 50% assistance for people who are working. It is not a free ride for anyone.

Income
Groups

Rep. Cowper thanked Mr. Marshall for testifying and asked Ms. Clark for her testimony.

Ms. Clark read the position of the League of Women Voters into the record. A copy is attached (Exhibit A).

League of
Women Voters

Rep. Cowper thanked Ms. Clark and stated that the meeting would reconvene for further testimony on HB 215 after the session.

The meeting was recessed at 9:55.

Tape H 77-19
0516 - 2042

Attachment

LEAGUE OF WOMEN VOTERS OF ALASKA

HB 215

The League of Women Voters of Alaska is firmly in support of HB 215 and urges its swift passage, since passage much after March 1st will ~~require additional appropriation and will cut deserving parents unnecessarily from the program.~~ The League has been a strong backer of day care assistance, and our statewide position established just last year after careful study states that "supplemental financial and regulatory responsibilities should be shared by all levels of government to insure that day care is of high quality and available to those who need it".

I would like to underscore the fact that care given to children under this Dept. of Community and Regional Affairs program is required to be licensed by the State and is therefore providing a basic quality that is unavailable to too many Alaskan children. In fact 85% of the children in Alaska are cared for outside the home in unlicensed facilities. That is 17,000 kids (almost 9,000 in Anchorage alone) with working parents or a working single parent who must rely on arrangements that may be less than satisfactory because very few young families in the big cities have relatives close by that are available to help provide care. It is especially interesting to follow the licensing pattern that this program has produced. As parents become aware of their eligibility in the day care subsidy program, they tend to pressure their "babysitters" to become licensed, thus increasing the quantity and quality of overall childcare in Alaska. In Anchorage, for example, the number of available day care slots for 11,000 kids was 1,300 in October, 1975, when the program began. At the end of this last fiscal year it had risen to over 2,000 and now the number of slots has expanded to 2,400 with 300 more ready for processing. The same has happened in Kodiak and Juneau where available slots have doubled since the program began.

I would like to remind this committee that parents work because they have no other economic choice. Most employed parents are widowed, divorced, separated, or their spouse is earning less than \$10,000 a year; and in fact 52% of all minority women with children under the age of 6 are employed (compared with 52% of all women with children under 18) according to U. S. Dept. of Labor statistics. Low income working parents are faced with day care expenses that few can adequately meet. The going rate for childcare is about \$10 to \$12 a day (with infant care as high as \$15 to \$17 a day) and that is up drastically from only four years ago, for providers are no longer willing or able to work for poverty wages. That daily rate for one preschool child adds up to between \$2,400 and \$3,000 each year, or more if a family has more than one child. Working parents need to fund additional childcare during the summer months when school is out of session. That yearly sum takes a pretty hefty bite out of even a \$10,000 a year salary. When you add up the costs of rent, food, clothes, utilities and taxes, not to mention car and medical expenses, you may find the salary already expended past its limits. And yet in Fairbanks, for example, we understand that the program has already had to cut back service to all but those families whose combined income is \$8,000 or less!

The League feels that this program can therefore not yet reach significant numbers of people for whom help was intended. It would pay, for example, all or most of a family's day care expenses, allowing that family frequently to pull itself up from reliance on welfare; and yet would not support that family during the trying months that follow when the family is or would be actually paying more and more of its own share, requiring less and less from the State program. One particularly revealing case is

that of an Anchorage woman who recently called the CRA office. She explained how the program was keeping her family unit together because previously she had to hold down three jobs as a single parent to provide for her family - two during the week and one on the weekends. The subsidy program permitted her to live normally with one job and to be with her children. She worked her way up to level IV in which she was paying 50% of her childcare costs. But as of March 1st she would be dropped in the cut back, and she was calling in tears because this was going to force her to disrupt her family, to dissipate her resources and her energy just trying to make a living wage.

We understand the reluctance of some of you to grant supplemental budget appropriations, however in this case we feel that the grant is not only justified but vital to the parents and children involved. The Dept. of CRA had little way of knowing last year how many families would actually be applying for the available monies. The need was greater than many realized and we are seeing now the results of the program's success in responses from families and the mushrooming of available licensed slots. We are seeing success in the movement of families into, up through, and out of the program.

But there is one further important reason that we feel that the Dept. should not be jeopardized for using up existing funds. Last year's SB 753 which caused such flack at the end of the session contained some unalarming language that changed the definition of child to include "a child determined to be eligible for assistance under AS 47.25.310-47.25.420 and living with a family receiving benefits under AS 47.25.30 - 47.25.420." This in effect put the AFDC and WIN kids into the CRA program and out of Health and Social Service. Since Title XX funds could not be spent through the CRA Dept., those funds were reallocated to other areas within the Dept. of HSS, and only the State of Alaska general fund match monies were transferred for the use of the CRA Dept. to maintain the program. In other words 100% of the AFDC and WIN children were transferred to CRA, but only 20% of the money that it took HSS to run the program were transferred over. This financial burden has greatly affected the intent and expansion of the subsidy program, for monies which would otherwise have gone into the subsidy program have had to go to fully fund the AFDC kids which under law have priority. I should mention, however, that aside from the undue financial burden placed upon the Dept. of CRA, the overall move of AFDC and WIN kids out of HSS has been most beneficial. Prior to the move many childcare facilities refused to take state subsidized children ("welfare cases") and most day care homes would not. Now under the Dept. of CRA the stigma is gone and facilities are cooperating and new slots are opening up weekly.

We commend the Department of Community and Regional Affairs for a job being well done in helping communities take responsibility for their day care populations. We feel that the added supplemental appropriation asked for in this bill is not at all unreasonable or unjustified and we urge quick passage.

Sincerely,

Susan R. Clark
Human Resources Lobbyist
League of Women Voters of Alaska

HOUSE FINANCE COMMITTEE
Thursday, February 24, 1977
11:30 a.m.

All members were present except Reps. Haugen, Duncan, and Meekins. Others present were: Eric Lee, Director, Division of Community and Regional Development; Margo Dick, Juneau Day Care Assistance Program; Rosalie Walker, Lilliput School, Juneau; John Hartl, Fairbanks Program; Rochelle McKinnon, Administrative Assistant, Rep. Parr's Office; and Sam Coxen, Anchorage Municipality.

Present

The purpose of the meeting was to continue to hear testimony on HB 215, "An Act making a supplemental appropriation to the Department of Community and Regional Affairs for the day care assistance program; and providng for an effective date."

HB 215

Rep. Cowper asked Ms. Dick for her testimony. Ms. Dick said the Committee should remember that when they make a decision on day care they are making a policy decision as to whether they want to fund the program and make it a subsidy program or whether they want to make it a welfare program. It is now essentially a welfare program. There may have been some mismanagement of funds on a local level, but this hasn't happened in many instances. Even if there had been no mismanagement and communities had known what the demand would be for day care in their areas, only groups I, II, and portions of group III could have been funded with the money allocated. If the intent of the program is to be for families that are self-supporting, you should fund other groups.

*Juneau
Centers*

Ms. Dick continued saying that the problem is that most people on the program have little back-up money. They get a job and within one or two months they move to group II or III, sometimes IV. They are put back in their same situation when the subsidy program is taken away.

(Rep. Duncan arrived at 11:40.)

Rep. Cowper said it looked like what happens is that once a working parent reaches a certain level of income all of the subsidy is cut off. Ms. Dick said the program is not intended to be that way. The problem with not having enough money in the program is that these are the people who get cut off. In Juneau in October when we realized there would be a problem we redistributed the scale and cut everyone back 15-20% rather than cutting some people off the program.

Rep. Cowper thanked Ms. Dick and asked Ms. Walker for her testimony. Ms. Walker said that day care was not intended to be a welfare program. The original intent was to help the borderline people who are left out usually. The allocation was unrealistic. We knew that. It was more or less a pilot project.

Ms. Walker continued saying this project was to help get people over the hump. The people throughout the state have been very honest about the program. The problems are administrative. This bill is just asking for enough to get us over another hump.

HB 215

Rep. Gruening said he had heard that when the AFDC/WIN children were transferred to the program the total amount of money didn't come over. Ms. Walker said that was correct. Rep. Gruening asked what the money was being used for. Ms. Walker said it has been disbursed in other areas. Rep. Gruening asked if it was the intent of the bill last year to have the money transferred over 100%. Ms. Walker said that was her understanding.

*Transfer of
AFDC child-
ren*

Rep. Cowper asked what the cut backs had meant to Lilliput School. Ms. Walker said that right now they're \$1,300 in deficit. The parents have not been able to pay it.

Rep. Swanson asked what was necessary per child as far as space. Ms. Walker said the state has set a space requirement of 3500 square feet. Rep. Swanson asked about the number of attendants required. Ms. Walker said for three infants, one attendant was required. The ratio for ages 3-5 is 1:7. Rep. Swanson commented that by such stiff regulations we were causing a financial problem. Mr. Lee said the problems were recognized, and any municipality can override the regulations and set their own. The Department of Health and Social Services drafted the regulations. Ms. Clark interjected that the attendants were taking care of these kids for 8-10 hours. There's much more involved than just babysitting.

Regulations

(Rep. Haugen joined the meeting at 11:55.

Rep. Cowper thanked Ms. Walker and asked for Mr. Hartl's testimony. Mr. Hartl said that the number one thing that determines the quality of the day care program is the staff/child ratio. A high staff/child ratio means that more time can be spent with each child.

*Fairbanks
Centers*

Mr. Hartl said that in Fairbanks the problem is more severe in terms of the number of children being dropped from the program. Only group I is being funded. In the Fairbanks center there were 18 children on the program. Sixteen of them were dropped with 10 days notice. This put people in a tremendous bind. Rep. Duncan asked the size of Mr. Hartl's day care center. He replied that there were 36 and 18 were on the day care assistance program. Rep. Duncan asked if Fairbanks was completely out of funds. Mr. Hartl said there was enough to fund group I. What's happened is a lack of information. This is a new program, and no one knew if it would succeed. The need has now been determined.

Rep. Duncan asked how long it took Fairbanks to report back to C & RA on their program. Mr. Hartl said that at the end of the month they compile their attendance records for people on the program and turn that back in to the day care assistance administrator. Our center has been very prompt because we need the money. Our records are generally in order.

Rep. Duncan asked when C & RA had notified the centers that they would be on the short fall. Mr. Hartl replied that the parents came in with a letter saying they were dropped effective immediately.

HB 275

Rep. Haugen noted that the North Star Borough is appropriated \$128,000 by the C & RA. That is subcontracted out to Dr. Frank Gold. Rep. Haugen asked if he made the decision to cut down on service. Mr. Hartl said he did. Rep. Haugen said that in other words C & RA would be the last one to know. The subcontracted agent would be the one to see you would have to slow down. It was your duty to live within that program.

Subcontractor

(Tape changed to H 77-20)

Rep. Duncan said the first responsibility comes from the contractors. He asked where C & RA came in in monitoring the subcontractor. Mr. Lee said there was a contract with Fairbanks North Star Borough. They have subcontracted to Dr. Gold. All the records are kept in Fairbanks by the contractor. However, C & RA does go out periodically to assist with training. We also check to see they are properly determining eligibility and making proper payments. The communities are given a lump sum with a great deal of flexibility and responsibility. There's a lack of baseline data for the program.

Rep. Cowper asked if any contingency fund was held back. Mr. Lee said that some was held back for new programs which would be coming in. When it was determined that all the programs were in that would be coming in for the year, the balance was divided and this was the second amount sent out. At the present time every single dollar has been allocated.

Rep. Guy asked about the rules for centers. Mr. Hartl said the rules were very stiff, but this was good. It's necessary that centers meet the minimum health, fire, and safety standards before kids should be allowed to be in them all day. These are the minimum standards.

Rep. Cowper asked if the standards are dictated by the federal government. Mr. Lee said the problems with the AFDC was created over federal requirements. The federal requirements which are supposedly going to be going into place are very stringent. There are very few centers that would meet the federal requirements. A crisis was created 1 1/2 years ago and the regulations were to go into effect. Any kids under AFDC were told they would not be accepted. Then the state said they would take the program on itself. Rep. Haugen said that was the choice. If we didn't want to comply with federal regulations we couldn't get any Title XX money. The state took this program so that they would not have to be under the federal regulations for the AFDC portion.

Standards

Rep. Cowper thanked Mr. Hartl and asked Ms. McKinnon for her testimony. Ms. McKinnon said the program is not a welfare program. It's designed for people who are working. Correspondence that our office has received indicates that people are concerned. Dr. Gold has said that they need more money to get by for the rest of the year. Joe Kiekendall from the Pay and Learn Center in Fairbanks has expressed a concern. Rep. Parr supports this bill and the program.

HB 215

Rep. Guy asked if the cost of area differentials was considered in allotting these funds. Mr. Lee said it was.

area
differentials

Rep. Cowper thanked Ms. McKinnon. Rep. Cowper referred HB 215 to a subcommittee of Reps. Meekins, Duncan, and Haugen. Rep. Duncan was named to chair the subcommittee.

Rep. Guy requested the staff to get a copy of licensing requirements. Rep. Buchholdt said she recognized the urgency of this request and hoped it would be acted upon by the Committee promptly. Rep. Cowper said a decision was to be made as soon as possible.

Mr. Coxen of Anchorage Municipality asked to testify. He said the problems had been touched on in other testimony. The addition of AFDC caused considerable problems. Anchorage did ask for an increase fairly early on and were increased from \$669,360 to \$841,044. Rep. Buchholdt asked how many people on the Anchorage municipality staff were connected with running this program. Mr. Coxen said there are 2 1/2 people. The local budget is covered with a match. The amount in the budget for that is \$69,520, which covers salaries, fringe, and program costs. Mr. Hartl interjected that none of the funds go to other than the eligible participants. Ms. Walker said the law stipulates that the local municipalities must pay the administrative costs. That's why some communities chose not to have the program.

Anchorage
Municipality

Ms. Dick commented that in Juneau there are 55 on the program and 52 of them are single parent families.

Rep. Cowper again stated that action would be taken on HB 215 as soon as possible. The meeting was adjourned at 12:30.

Tape H 77-19 2042
to Tape H 77-20 0677

Tape #: H 77-20

RECORDER LOG

Date: 2/24/77Beg. #: 0690Time: 1:25 p.m.End #: 2376Page: 1

Full Committee Hearing
 General Subject: H+SS - Selected Budget & Management Practices

House Finance Committee Hearing

Present: ^{all} Comm. Members present except Rep. Hays. Also present were Comm. Francis S. L. Williamson, DHSS; Sam J. Granato, Dir., Div. of Soc. Servs.; Cathy Lloyd, Dep. Comm. DHSS; Don Kemp, Acting Dir., Div. of Public Assist., DHSS; Billy L. Berrier, Dir. Legal Servs.; Mist Barber, Fiscal Analyst, Legislative Finance. (See attached list for others present.)

Log #	Description
0690	Called to order 1:35.
	Purpose - review matters in the budget of H+SS. Rep. Meekins Chairman SubCommittee.
0715	Rep. Meekins - reason for mtg. some problems in reviewing. The budget itself is in real trouble. Seems as though the agencies don't feel it necessary for them to stay within the confines of the Legislative decisions.
	Comm. Williamson & Mr. Granato introduced.
Q.	Meekins - SS caseload has decreased while number of employees has increased. Compared 1972-1977. Fell from 14706 - '72 to 97--7.
A.	Granato - you have lumped divisions together

General Subject: H & S - Selected Budget & Mgmt. Practices

Ass. Finance Comm. Hearing

Log #

Description

Divisions were reorganized. Assume those figures include the Public Assist. division. Begun to make counts in redesign of system for evaluating caseload.

History - since 1974 - 2 Soc. Workers added in Soc. Services.

0881 Couper - Are these figures correct
1972 - 14706 1977 - 9792?

A. Williamson - Due to food stamps increase due to pipeline work.

Q. Couper - 40% inc. in Admin. Would appear that many additions would be Admin.

A. Granato - Day Care Licensing - 7 new people added. Specialists such as these in those figures.

0942 Q. Meekins - Given raised where these additions have been if not in those directly dealing with the public.

A. We would be glad to define for you.

Q. 60% above in amount of caseload in the national averages. Looks like overstuffed and making a lot of errors.

Soc. Servs. - Mgmt. Eff. Review - Calls

General Subject: H & S - Budget & Mgmt. Practices

Use. Finance Comm. Hearing

Log #	Description
	for elimination of 54 positions
A. ~~Granato~~ 1004	Study - identify positions they were referring - result would be to close all offices except for 5 or 6 major ones. Leg. indicated last year they wanted staff in other areas to provide service.
	Priboloff - in the past - someone flying from Anch. 4 or 5 times a year. Poor service.
Comper:	I recall that Leg. action
Q.	Comper: Have you made decisions to pull any people out of rural areas?
A. Granato:	Not in Soc. Servs. W. Can't recall any instance that we have pulled people out of any areas. Have reorganized some - movement of people due to reduction of need for services
Q. 1097	Nekins: Region 10 - Fed. caseload - 60 adult 60 child Legis. Auditors Come out with justification in category of 7 positions - 85 what ^{you} have. How can that be?
A. Williamson	Asked for Mr. Kemp to help answer.
A. Granato:	Under H.S. in terms of Oper. Budget but split organizationally. Explanation.
Nekins:	What could account for such a difference.

General Subject: H & SS - Budget & Mgmt. PracticesHAC Hearing

Log #	Description
<u>Comment -</u> <u>Mamie Hubbard</u>	<u>Budget Analyst - Figures provided to re AFDC</u> <u>Basic misunderstanding.</u>
	<u>M. Barber - Standards re Soc. Servs. not</u> <u>the eligibility workers. Dropped numerical</u> <u>standards several years ago.</u>
<u>A. Williams:</u>	<u>Figures appear. National Standard</u> <u>figures for Cash Assist Caseloads.</u>
<u>Q. Cooper:</u>	<u>Standards are not fair comparisons?</u>
<u>A. Granato:</u>	<u>Right</u>
<u>Q. McKinn:</u>	<u>Must have information for the Leg. to</u> <u>make decisions on a National basis.</u> <u>Have had staff people bring in info.</u> <u>Even if 100% still 6X the standard.</u>
<u>1230 McKinn -</u>	<u>Chart showing reorganization plan.</u> <u>BRU for SS - curr. authorized 9 new positions</u> <u>would be in effect tripling</u> <u>taken 12 positions out of field put in Admin.</u> <u>If reducing # in field should be reduction</u> <u>in administering programs.</u>
<u>A. Granato:</u>	<u>Last year - SS oper. under 5 BRU</u> <u>This year - oper. under 4</u> <u>BRUs did not reflect where people</u> <u>were & what they were doing.</u>

General Subject: HHS - Budget & Mgmt. Practices

HAC Hearing

Log #	Description
	Central Office - now reflected in the BRU Admin BRU includes Central Office + Admin. SS Work - all people out in field. Grouped according to regions. Trying to make clear for Legis.
	Programs BRU - Moved positions around. Chart for Senate Fin. will be made available to Comm. Last year's ^{authorized} - gave 8 positions to Pub. Assist. to complete split. Asking for 5 new positions so in effect losing 3 positions.
1350	^{Mekins:} Relate Program Svcs. to Admin. Svcs. - High percentages. Seems to be taking people out of field and putting in admin. Appears from BRU. Is there duplication? It looks like it accord. to BRU.
	A. Grants: Financial Affairs. - SS financial aspects. Projections of costs. Contracts work, etc.
1405	Comper: Called recess until noise stops outside. Reconvened 2:15
	Comper: "Guess they put fire out & fed dog."

General Subject: H + SS- Budget & Mgmt. Practices

HFC Hearing

Log #	Description
Q. 1419	Duncan: One comparison of figures given by Rep. Meekins. Have you looked to see if it is really justified
A. Granato:	700 Caseload - Pub. Assist - not Soc. Worker caseload. These are Financial Assistance caseload figures. Sent memo out in Jan. to get a # of caseload in Soc. Svs. - repled. to him - 4/18/76. Not # he would want to give Legio. In process of reading to determine status of cases. Has a feeling
Q. Duncan:	Ref. to Memo to Sen. Sackbitt Statement
A. Granato:	I don't remember giving such figures.
Q. Duncan:	Can we give Mr. Granato a copy of this.
Q. Cooper:	Quarterly period 10/75-6/76 (Memo attached) questions re Co's shown for time spent. 715 cases - counseling & case mgmt. service etc.
A. Granato:	"PIMS" report - refers to 2 letters in front of memo. A report of Title XX Fed. Soc. Sec. Act. have to make certain repts. Frankly, know it's not a good rept. Statistics & systems based on processing established poorly over a year ago.

General Subject: H & SS - Budget & Mgmt. Practices
HHC Hearing

Log #	Description
1550	Rep. Smith Q: Why no figures given for last year's service figures?
	A. Granato: The figures are in there.
	Q. Cooper: Mr. Smith referring to back up materials in Red Book. Rep. Smith - That's correct.
	A. Granato: Page 2 of 3 + 3 of 3 gives full-time equiv. estimates by regions. Up date - 468 in Foster Homes. As of 12/30/76 had 513.
	Q. Rep. Smith - Why wasn't the figures available to us before now.
	A. Granato: Forms 3's - data collected to analyze relative to program effectiveness reports. Spent last year designing new system for keeping track.
	Q. Cooper: You don't know true count of caseload?
	A. Granato: That's right.
	Q. Cooper: Aspraps for Medicaid End of FY 75 + FY 76 - ^{due to} outstanding billings - Dept. reencumbered monies - reported came out exactly to same amt appropriated. Or if Dept. policy to reencumber funds approp. for Medicaid.
	A. Goldbach: Happend FY 76 - FY 75 it did not. Process contained an error. Not properly

General Subject: H + SS - Budget & Mgmt. Practices
HJC Hearings

Log #	Description
	prepared information.
1695	Q. Couper: Re FY75 - I heard explanation was they did not want the Legis. to cut their Budget. Who made the decision?
	A. Goldbach: Don't know who made that decision.
	Q. McKinn: What is your procedure to avoid such a thing from happening?
	A. Goldbach: No overview by one person previously. Now being overruled by one.
	Q. Couper: Unauthorized manner to keep Legis. from cutting their Budget. Point to all this: money should be returned if not used up.
	A. Goldbach: No legitimate justification for the manner it was done. I have rectified that.
	Q. McKinn: Re travel. Authorization #10.3 total spent in Comm. Office \$40,000
1778	A. Williamson: travel for various programs charged to those programs. Travel fund collapsed.
	Q. McKinn: If inform. is not coded - reduced service.
	A. Williamson: travel funds for Comm. Office

General Subject: H & SS - Budget & Mgmt. PracticesHAC Hearing

Log #	Description
	not sufficient. Must use travel in ~~other~~ other programs coding.
	Q. Cooper: Why don't you ask for enough?
	A. Williamson: I have. Discussion.
	Cooper: Can't it be done in a way that Legis. can audit that? Do you know how many days you were out of Juneau?
	A. Absences: Why. 171 days
	Q. In charge while you're gone? A. Deputy Comm.
	Q. Meekin: The charging to other programs - is that done for equipment?
1872	(Comment)
	A. Kathy Lloyd: Done for federal funding programs. Just for travel.
	Q. Meekin: Is it ever done to make it difficult for Legis. to figure? A. Not to her knowledge except for Xerox - also for fede. funding
	Q. Dimsen: Do you know what your travel will be next year? A. Williamson: We try to plan it in advance.
	Q. Meekin: Can you provide list of necessary travel - could you keep w/in that figure?
	A. Williamson - Would be difficult - thing coming frequently very suddenly. Could make a

General Subject: H + SS - Budget & Mgmt. Practices
HSC Hearings

Log #	Description
	figure based on last year & prev. Comm's travel.
	Q. Duncan: Would think that out-of-state could be figured. Would like info - amt. of travel, where, what programs.
	A. Williamson: Will try to give a projected figure for that.
1947	Q. - Would like figure for travel on Fed. funding as well.
	A. Goldbach: travel figure based on approx. 14 differ. programs. Would be diff. to come up with figure.
	Q. Cooper: 8/75 trips - recruiting for Div. of Pub Health - what sort of recruiting.
	A. U. turned out to be to Wash, D.C. & Baltimore Director of Pub. Health & Dir. of Soc. Servs. Division Directors - prefer to recruit personally.
	Q. C. How much out-of-state recruitment. A. No - only Mr. Granato recruited from out-of-state.
	Q. L. - Did you recruit out-of-state Deputy Dir. Mr. Granato. A. No. Hired from home.
	Q. Rm. - Authority to draw for equipment?
	A. Williamson - Informed by staff that normal policy. Funds are not made available

General Subject: H & St- Budget & Mgmt. Practices
HFC Hearing

Log #

Description

Have to change thru BRIL.

A. Goldbach - Cost attributable - matching cost to the Budget.

Q.R.M. - More approp. to chg thru inter-agency budgets.

Q.R.M. - Conf. at Alyeska - Necessary to have it there? Probably more costly to have there.

A. H - Best conf. ever. Surveyed places available & costs - best financial deal available. Off-season - not so much. Anch. instead of Juneau - larger staff in Anch. area. First time whole staff together w/ people from other agencies as well.

Total cost \$4700 State money - rest Fed \$.

Q.R.M. Quas. is re location. Still ~~did~~^{sees} not seem justifiable. A.H. - single contract for rooms, meals, etc. whole pkg. Were 3 to a room. Less than would have been by per diem.

Williamson Of Comm. would like statement of conug. costs will provide one.

R.M. I would like one, yes.

2/4/77
Q. Bushholdt: Travel - Do you request Fed. funding for Fed. program attendance.

A. Williamson - Judged by importance to the State.

General Subject: H + 18- Budget & Mgmt. Practices
NJC Hearing

Log #	Description
2159	Staff Development - Most activity thru contract with U of A. 75% - Fed. Program - Reg. Training Officers - 6 Regions Monies available to Regions by RCN accordg. to Region plans presented. Prof. Ed. Development - Basically to develop undergraduate program for soc. workers Outside U of A - Stipend program - Graduate students in Soc. Worker programs Rep. Smith - Are they all college programs? A. No.
A. Smith	Purpose of contract w/ U of A - for accreditation of U of A program
Q. McKinn	Ques. re nonavailability of info.
2227 A. H.	Would be glad to provide copy of contract for next year.
Q. McKinn	Re publicity - necessity of prof. people : Agree w/you on that. Don't believe Master's Degree necessary. Build proper training program - bring in Alaskans and train them. Try to make more use of Soc. Serv. Assoc. people (non-college grads often).

General Subject:

Log #	Description
	Obviously valuable for graduate courses for those people wanting it.
2279	Couper - further ques.?
	Q Haugen Has day care program come up? A. No. Been Fed. funded. ^{Could.} Supplemental \$360,000 Title XX money be reapprop. w/o upsetting Budget?
	A. ^{received} ~~Grants~~ ^{reimbursable} money. Must be spent before ^{4 million} ~~Maximum~~ ceiling. FY78 claim for \$1.8 million more than ceiling for audit purposes. Overclaiming - protect future disallowances. No gain by financing day care by Title XX.
	Couper: Further questions?
	Announcement: 8:00 A.M. Fri - Comm. College Directors Hearing - Brief budget presentation + Comm. questions.
	Reconvene at 3:30 for Gas Contract hearings.
2376	Meeting recessed at 3:15 pm.

2/24/77

HSS Hearing

PLEASE SIGN YOUR NAME, TITLE, AND AGENCY FOR THE RECORD
AND RETURN THE LIST TO THE SECRETARY. THANK YOU.

NAME	TITLE	AGENCY
Sam J. GRANATO	Director, Div. of Soc. Servs.	DH & SS
Mary Eldemar	Budget Analyst, Div. Soc Servs	DH & SS
Don Kemp	Acting Director, Div of Pub Affs	DH & SS
Martha Hubbard	Budget Analyst,	DH & SS
Roger C. Lange	Administrator	DH & SS
Cliff Lloyd	Deputy Comm.	1 H & SS
Francis H. Williamson	Commissioner	DH & SS
Lyland T. Dally	Administrative Officer	DH & SS - DOC
William H. Hunter	Director Corrections	DH & SS
Michael Ouelone	Budget Analyst	Office of the Governor
Colaine Mitchell	Reporter	EEA/
Billy D. Berner	Legal Services	LAA
Art Holmberg	Social Services Field Director	DSS

MEMORANDUM

Attachment - Recorder Log
2/24/77
H & SS Hearing

TO: [The Honorable John Sackett
Chairman
Senate Finance Committee

DATE : February 2, 1977

FROM: Milt Barker
Fiscal Analyst
Legislative Finance

SUBJECT: Social Work Caseloads

The appended pages from a November 8, 1976 Program Evaluation and Monitoring Report from Sam Granato, Director of Social Services, indicate that social service caseloads varied from 649 to 715 during the quarterly periods from October 1, 1975 to June 30, 1976.

Also attached is a letter from Region X indicating that federal caseload standards for social services were 60 AFDC cases and 60 adult cases (old age assistance, aid to the blind, and aid to the disabled), a total of 120. This would seem to indicate a requirement for six social workers based on the above caseload.

The current number of non-supervisory social worker positions in the various regions are:

Bethel	13
Anchorage	36
Fairbanks	20
Juneau	10
Nome	8
Ketchikan	8
TOTAL	95

(85 non-supervisory
social workers)

(includes
assistants or
supervisory
MB;re
Attach.

COUNSELING & CASE MANAGEMENT

Review Period: October 1 - December 31, 1975; January 1 - March 31, 1976;
April 1 - June 30, 1976

Objective: Provision of Counseling & Case Management Services to 1,200 individuals per quarter.

Monitoring Method: A social service time study was conducted to determine the percent of social service time spent in the direct provision of Counseling & Case Management Services.

Quarterly Statistical Findings (October 1 - December 31, 1975):

Percent of social service time spent in
direct provision of Counseling & Case
Management Services during the quarter 29%

[715 cases of individuals were reported receiving Counseling & Case Management Services during the quarter through the Social Service Activity Report.

86 of these cases were selected at random and reviewed in depth with the following findings:

69 individuals' case records contained a complete and current Social Service Plan;

62 (89.5%) of these cases contained documentation that goal achievement was monitored, barriers identified and appropriate services provided;

5 (8.1%) of these documented cases had achieved the goal toward which Counseling & Case Management was directed;

1 (1.6%) of these documented cases was closed without attaining a goal.

The remainder of the Social Service Plans had been in effect for less than six months.

Quarterly Statistical Findings (January 1 - March 31, 1976):

Percent of social service time spent in direct
provision of Counseling & Case Management Ser-
vices during the quarter 34%

[649 cases of individuals were reported receiving Counseling & Case Management Services during the quarter through the Social Service Activity Report.

145 of these cases were selected at random and reviewed in depth with the following findings:

118 individuals' case records contained a complete and current Social Service Plan;

116 (98.3%) of these cases contained documentation that goal achievement was monitored, barriers identified and appropriate services provided;

13 (11.2%) of these documented cases had achieved the goal toward which Counseling & Case Management was directed within six months of service initiation;

4 (3.4%) of these documented cases received Counseling & Case Management Services for six months without goal achievement;

3 (75%) of these cases were closed;

1 (25%) of these cases continued to receive services after re-evaluation of the Social Service Plan;

The remainder of the Social Service Plans had been in effect for less than six months.

Quarterly Statistical Findings (April 1 - June 30, 1976)

Percent of social service time spent in direct provision of Counseling & Case Management Services during the quarter

34%

[665 cases of individuals were reported receiving Counseling & Case Management Services during the quarter through the Social Service Activity Report.

84 of these cases were selected at random and reviewed in depth with the following findings:

67 individuals' case records contained a complete and current Social Service Plan;

67 (100%) of these cases contained documentation that goal achievement was monitored, barriers identified and appropriate services provided;

16 (23.9%) of these documented cases had achieved the goal toward which Counseling & Case Management was directed within six months of service initiation;

13 (19.4%) of these documented cases received Counseling & Case Management Services for six months without goal achievement;

11 (84.6%) of these cases continued to receive services after re-evaluation of the Social Service Plans;

The remainder of the Social Service Plans had been in effect for less than six months.



DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

REGION X

ARCADE PLAZA BUILDING
1321 SECOND AVENUE
SEATTLE, WASHINGTON 98101

FEB 5 1974

SOCIAL AND REHABILITATION
SERVICE

In reply refer to CS

Mr. Milt Barker
Legislative Finance
Pouch WF
State Capitol Building
Juneau, Alaska 99801

Dear Mr. Barker:

Your request of January 11 was referred to our office and this letter is a resume' of your telephone conversation with Mr. Jim Gwaltney on January 22, 1974.

The present regulations pertaining to delivery of social services and caseload size are referred to in 45 CFR 220.5(a)(2) which reads as follows: "An explanation of how the quantity and quality of services will be maintained in instances where the number of professional personnel performing eligibility and service functions results in a caseload or workload higher than that in effect during fiscal year 1968." This requirement applies to Service Programs for Families and Children. In Adult Services, 45 CFR 222.25 applies and is almost the same wording.

Prior to the regulations we have cited, caseloads were sixty children in AFDC and sixty cases in the adult categories.

Social service cost figures from other states in Region X are misleading as they would relate to Alaska since the Federal financial participation is much greater than Alaska's \$3,901,750. Alaska matches this amount with State funds of 25% or a 3 to 1 match. Also, the costs of service delivery in your State are so much higher than in other Region X States that a comparison is very difficult.

It would appear a work measurement and time study could provide more of the information needed by Alaska in determining appropriate caseload size in services as well as assistance payments.

Mr. Harris and Mr. Mailer in the Division of Family and Children Services are aware of your interest, and you may wish to speak with them about these issues as they observe the problems throughout Alaska.

178-E

HOUSE FINANCE COMMITTEE
Thursday, February 24, 1977
3:35 p.m.

All members of the Committee were present. Rep. C. V. Chatterton was also present. Others present were: Bob Grogan, Fiscal Analyst, Legislative Finance Division; Guy Martin, Commissioner of Natural Resources; Hoyle Hamilton, Director, Division of Oil and Gas Conservation; Lowell Thomas, Jr., Lieutenant Governor; Av Gross, Attorney General; Fred Boness, Assistant Attorney General; Joe Henri, representing El Paso Natural Gas Co.; and Henry Pratt, representing Southern Natural Gas Co.

Present

Log #

0000 Rep. Cowper stated that the purpose of the meeting was to hear testimony regarding HCR 11, 12, and 13.

*HCR 11, 12,
and 13*

Lt. Governor Thomas was present and was asked to testify. He explained that he had been to Washington, D.C. last week where it became apparent that officials think the state will go ahead with this deal. The word will get around if the state doesn't do this. If the state decides now that they don't need El Paso it would be unfair. They deserve at least 25% of the action on the surplus gas for what they have done so far. As far as selling this thing and getting a permit for the Alaska routing, it's crucial that these deals be consummated. Rep. Freeman asked if this was a good deal for the state. Lt. Governor Thomas said he thought so, as did others who have been exposed to it.

*Lt. Gov.
Thomas*

Rep. Cowper asked Mr. Martin to make a presentation which would be a reply to the Special Committee report of February 21. Mr. Guy said that basically there are two general sorts of issues in dealing with royalty gas contracts. Both were dealt with last year. 1) What can the state do to improve its position with regard to the gas pipeline routing issue before the Congress, and 2) what can we do to protect our state royalty gas in terms of a loss of control of that gas and to protect future state uses. The report listed no benefits. We do not agree with the statement that the report to be submitted to the legislature on the question of gas surpluses did not comply with Alaska statutes. Mr. Boness said that the statute itself is somewhat ambiguous. The obligation to submit a report can be interpreted as an obligation to submit a report annually. This relates in no way to the contract. It's a separate problem.

Guy Martin

Mr. Martin said that the contracts by their very terms protect all future uses of Alaska gas. Mr. Martin went on to say that the President will be forwarding his plans for reorganization of the energy plan next Wednesday or Thursday. One of the things he is planning is the elimination of the FPC.

Mr. Martin said he felt this contract was good. We believe we have the best price terms that we can negotiate or expect to in the future. Your own auditors have said this is a good one. We have a total take back provision for future state uses. You cannot rely on the fact that this contract can be automatically renegotiated to get the price your consultants say is good.

Mr. Martin said the Congressional Delegation is on record that having these contracts on hand is valuable in arguing for an all-Alaska route.

Mr. Martin said another view was that Canada would decide. Some substantial changes have taken place which make that suspect. While it's fair to say that Canada is an important influence, I think it's entirely wrong to say that this issue will be determined by Canada. We have to rely on the decision makers we have elected to work for us in Congress. None of them believe that.

Mr. Martin said the argument was also raised that there are no standards for lobbying. We struggled mightily with the idea of developing performance standards for lobbying. We think there's no way to write performance standards that would hold. We have written a maximum incentive into the contract in that these people would not get the gas unless they win. The quantity and quality of the lobbying is not the only factor in this decision. There's the fact that gas is going to people in the lower 48.

Mr. Martin said that the point that El Paso is already working to get the route so we don't owe them anything is preposterous. El Paso originated the proposal that the state adopted. They have put together the winning proposal. It seems to be unwise not to sell to El Paso.

Mr. Martin said that another point in the report is that somehow these contracts would create a political backlash and rather than undertaking a sale of this type we should undertake a direct political campaign. Last year you voted that down. Again, we have to rely on some of the opinions received by the Congressional Delegation. They believe that no such backlash will occur. but rather that we will gain support instead of losing it.

Mr. Martin continued saying the next point made by the report is that we are selling an insignificant amount of gas to the company. To some extent it's important to understand that Alaska does not have a tremendous amount of gas to sell under contract. The companies do think our gas is important, though.

Mr. Martin said it seemed to him that what we are doing is making gas available to the lower 48 on the most understandable base that we can. Trying to base our decision on what might happen will not help us win in the present pipeline debate.

Mr. Martin said the next point had to do with the take back being ambiguous. He asked Mr. Boness to comment. Mr. Boness said that point comes from a legal memo prepared by the Director of Legal Services for LAA. The memo speaks for itself. The conclusion of the memo is "even if fully developed it would not prevail"... so that the basic conclusion is that the argument raised is one that would not prevail. What you have here is a lawyers word game going on.

Mr. Martin said the next point in the summary relates to the flexibility that the state might lose with regard to the future use of surplus gas. It relates to the testimony of Dick Moll in California. One of the things that is given up in this contract is the ability to recommit our surplus gas up to the 3.6 trillion figure. We are committing our surplus gas, only our surplus gas. If you are one that believes Alaska can utilize all its gas from the beginning, there won't be any surplus. If you think there will be a surplus, then we will commit it to one of these three companies other than the state of California. Dick Moll proposes that California may be able to buy it at a later time. One of the possibilities is that California will pass a bill and have that authority and pay us and come to us and renegotiate a contract and buy our gas. If you believe that and want to bet on it, vote against these contracts. In terms of future surplus export, I think it would be possible to enter into a contract whereby we have a buyer
1036 who says he will be able to build you a facility utilizing gas in Alaska, but he won't build it unless you allow him to use the surplus. If you believe this, you may want to make that the controlling factor. My judgment is that neither one of those possibilities in terms of future exported gas gives me much hope. You must assess whether either one of those will be a reality.

Mr. Martin said the next point raised in the report deals with the possibility that a cash advance might have been a possibility. About cash advances, virtually no cash advance has ever been made which was not a credit against the price bid by the state for the gas. If what you are talking about is a bonus, no one knows of that every happening. In terms of this negotiation and in terms of a cash advance, I do not believe it's possible to negotiate a cash advance in addition to the purchase price. For any company to pay

in advance except for the largest company that payment would have had to be built into their rate base. Since those contracts were not around at this time, they could not be built into the rate base. Very early in the negotiations Tenneco put on the table a cash advance option for \$100 million but that was tied to a demand that they purchase 90% of the gas with a 10% take back provision for the state. That should indicate the kinds of hopes there are for getting that.

Mr. Boness said the report indicates we could be locked into the contract by vintaging. Only once in the history of the FPC has that approach been used. The legislature's own consultants gave a very low probability to that possibility. They indicated part of the reason they did not believe that is that to do so would affect the royalty of those people who have held gas. It was their conclusion that it is extremely unlikely, virtually impossible, for the FPC to vintage on contract.

Mr. Martin said that on the question of price uncertainty, he did not feel the price was uncertain. On the question of gas needed for reinjection, if it is needed for reinjection it will be used for that.

Mr. Martin said in terms of lessening the amount, his view is that these contracts could not be renegotiated at all if the amount committed were reduced.

- 1180 Rep. Cowper asked if the FPC functions would be transferred to the FEA if the President abolished the FPC. Mr. Martin replied that he did not know. But, they would either be transferred to the new agency or the FEA or he may not succeed and the FPA would be retained.
- 1197 Rep. Cowper asked what's going to happen if they run into a natural gas shortage in Pennsylvania with these take-back provisions. Will the federal government allow Alaska to take back gas. Mr. Martin answered that if the natural gas shortage becomes so bad in the lower 48 and it's necessary to take federal steps, I don't think there's anything we can do about it. I don't think these contracts put us in a more vulnerable position.
- 1222 Rep. Cowper asked if the federal government had the power under present statutes to order the sale of gas. Mr. Martin said they didn't. Rep. Cowper said that theoretically Alaska could hold its gas in the ground indefinitely. Mr. Martin replied that within the terms of the conservation statute that would be possible, but beyond that we have no power to hold it in the ground.

Rep. Meekins commented that once we have committed the gas under contract and if there was a critical shortage it would seem that it would be harder to get it back. Mr. Martin replied that we have to look at alternatives. We can do no more than do this at a time when there's a statute on the books that clearly states that gas can be taken back for intra-state uses. If these contracts are approved, I think we have picked the best route. If these contracts are enacted they are then certified under the terms of 13-D. If the federal government came in they could say that the emergency would take gas not used for priority uses. I don't think that will happen, but I think the contract is the best way to go.

Rep. Gruening asked if over the period of time you dealt with this question has there been any direction that the administration commit 100% of the gas. Mr. Martin said no.

Rep. Gruening asked if it appeared to Mr. Martin that what we are saying in these contracts is that really if it will have any benefit to you we have no significant state use for the gas. Mr. Martin said we walked away with the full expectation that Alaska will fulfill its plans for the gas and they walked away thinking that Alaska will never use all its gas. There's no way now to predict what those uses will be. What is important is that we have protected any use that may come along. We can protect any quantity of fuel use with these contracts. Mr. Boness said that once the gas begins to flow if the state has not taken their royalty in-kind we will be in trouble. We have to sell it or do something with it. If it begins to flow and the state has not decided what to do with its gas, we run into the legal question of whether we can get the gas back. You don't have a definite period of time in which to decide what to do with royalty gas. This contract does protect your royalty gas.

Mr. Boness went on to say that in terms of price your report says that the highest price is a prerequisite. If we are the last ones to enter into a contract and there's only one purchaser, we are not going to get a good price. By being the first ones to enter into a contract we have done better.

Rep. Gruening said let's take the example of a completion of the pipeline of the year '82. If we have no state use but we develop one by '85 and we have had three years of 100% going out, you are saying that we would be forced to reinject the gas. Mr. Gross said the gas would be moved through the line in any event. We cannot leave it in the ground. Rep. Gruening said his understanding is that we could reinject it. Mr. Martin said he knew of no authority that allows us to do that.

Mr. Gross said we do not have the right to leave it in the ground. Once it starts to move we either take it in value or take it in kind. Rep. Gruening said it can be reinjected for conservation. Mr. Gross said that was true. Mr. Martin commented that there's no authority that creates a prejudice. There's no legal authority that backs up your concern. The fact is that it doesn't prejudice it. Rep. Gruening said that if the line is predicated based on 100% commitment it seems to me that someone else is going to have something to say about it. Mr. Martin said there's a percentage figure that we are dealing with. It has no volume figure. The conservation statute will control that decision. Rep. Gruening said he thought there would still be a challenge.

- 1526 Rep. Meekins asked what happens when we reinject our royalty gas for purposes of conservation. Mr. Martin said in the early phases of the field all of the gas will be reinjected. The notion of reinjection being a good idea is made with no facts.

Rep. Gruening said on the comment on the report about Canadian officials being the ones to decide, that's not what the report says. I am suggesting that a lobbying effort by Alaskans is more effective than some gas company lobbyists lobbying for us. Sometimes a contingency fee can be unearned. No matter what the standard of performance, we are expecting too much from it.

- 1618 Rep. Chatterton was asked to report. He said he would like to take us down a road to bring this into perspective. As we may recall, in 1976 the federal congress passed what's now referred to as Alaska Natural Gas Transportation Act. Congress passed this for the purpose of making a decision on transporting Alaska gas from the North Slope to the lower 48. The act set a time frame in which this decision had to be reached.

Mr. Chatterton continued saying that there are reserves of gas associated with oil on the arctic slope. Reserves of gas are sufficient to support the pipeline. One question not responded to was one of time. When could the gas associated with oil safely be exported. The federal congress acted and we have a very short time frame in which we as Alaskans will have any input in the selection of a route by which gas will pass from the North Slope to the lower 48. Unfortunately we have to do our best today in the selection of a route. From everything I have been able to find out, most Alaskans favor an Alaska routing of the gas. We had testimony that regardless of the route the wellhead price would be the same. The wellhead price is what's important to us. Under the conditions today that wellhead price is not a function of the system that this gas would be limited to. Public testimony further pointed out that from all corners that approval of these gas sales contracts would provide a plus in attempting to obtain a favorable decision for the routing of a gas system via the Alaska route.

1710 Rep. Chatterton said it was a question of what we are giving up if we approve these contracts. If we have faith in the Oil and Gas Conservation Committee it will be a good many years before all eight 8ths of gas can be safely committed to leave Prudhoe Bay. It will be a good many years until anyone even thinks about constructing a line. When we think about take back provisions, I assure you that as long as we don't have a line we don't have to worry about take back. The signing of these contracts doesn't jeopardize our position before a period that's 10-20 years from now. I recommend that we approve these bills.

Rep. Gruening said he had read this report and agreed with Rep. Chatterton on every aspect except his conclusion.

Mr. Martin said he appreciated the report because it brought home what direction Rep. Chatterton was taking. The only point at which we diverge is that your conclusion with regard to the viability because of production rates is based on your judgment as to the prevailing circumstances which will exist in that reservoir. You have made a judgment. From the perspective of the state administration we feel we cannot make those judgments now but must await early field history. That computer reservoir simulation is not facts, it's simply a computer simulation of what that reservoir might be expected to act like. We won't know until action production rate is known. Nothing would be nicer than to know that our reservoir simulation is going to be what happens. We differ in the willingness to accept certain assumptions.

Rep. Chatterton said Mr. Marton only complemented his point. I am aware that we cannot make a prediction. That's why I am saying that we cannot make a decision for 10-20 years.

1842 Mr. Hamilton said we have made an intensive study of this reservoir since 1972. We are not capable of projecting in the future without production history. We are saying that gas output can be maintained with water injection. There's been some story in the newspaper that gas rates themselves will jeopardize recoveries. If you take the compression gas from that study and subtract it from the maximum recovery gas you do get 106 barrels. That's not accurate.

Rep. Gruening said one of the concerns is that although you may have stated that you wouldn't know what the gas production rates will be, if we do commit to these contracts in terms of financing, you would assume that the state is committing at 1/8 share in the line.

1930 Mr. Martin said it seemed to him that we run into the same problem by taking a position on a line. By Alaska supporting a gas line which requires a certain rate and appropriating \$100,000 for people to go to Washington. Perhaps the best bet would be to stay out of this and say we will stay out and tell you what to do when we have the production history. The point is we don't have a luxury of waiting the debate out.

Log #

1956 Rep. Gruening asked Mr. Martin -- If you don't disagree there's some ambiguity, is there any advantage in getting the buyers to state that we are not bound by any estimations or preliminary reports at this time.

HCR 11, 12, 1

Mr. Martin said he didn't think the producers would object to saying that there are no agreed understandings.

Rep. Gruening said nothing we state now in our reports can be used against us in determining what is surplus at a future date. It would be nice to have that in the contract.

2004 Rep. Cowper said action would be taken early next week.

2015 The meeting was adjourned at 5:15.

Tape H 77-21
#0000 - #2015

Attachment

HFC 2-24-77

HOUSE
JOURNAL SUPPLEMENT

February 22, 1977

No. 22

February 21, 1977

SPECIAL COMMITTEE ON
THE SALE OF
ROYALTY GAS

SPECIAL COMMITTEE REPORT

on House Concurrent Resolutions 11, 12 and 13

Legislative approval of the Administration's proposed sale of the state's 1/8 royalty share from the Prudhoe Bay field should rest on a clear finding that a sale at this time would serve the best interests of present and future generations of Alaskans.

A threshold legal question must first be resolved as to whether the three contracts for which approval is sought in House Concurrent Resolutions 11, 12 and 13* are before the Legislature in compliance with all applicable statutes. This question requires examination of whether, under AS 38.05.193, competitive bidding was properly waived, whether there was a proper determination of what gas was surplus to the "present and projected intrastate domestic and industrial needs" of the state, and whether the required reporting of such needs was made in proper fashion to the Legislature.

AS 38.05.183(d) requires the publication of a report to the Legislature. While a report was issued pursuant to the statute,** the report does not by itself squarely address the

*Identical to Senate Concurrent Resolutions 3, 4, and 5.

** O'Connor, Kristina M., and Dobey, Patrick L., "Analysis of Prudhoe Bay Royalty Natural Gas Demand and the Proposed Royalty Natural Gas Sale," State of Alaska Department of Natural Resources, Division of Minerals and Energy Management, January, 1977.

issue to be answered under subsection (d). * The Commissioner of Natural Resources, in explanation, stated that the report incorporated by reference a number of other publications which allegedly contain the required information. The information included by reference is, however, conflicting and does not make the report responsive to the statute.

The inadequacy of the report under AS 38.05.183(d) is also significant in view of the ambiguity of the contracts in establishing what future role this report will have in determining what is surplus gas when the state attempts to take back gas for in-state use.

Regardless of any procedural problems with the presentation of these contracts to the Legislature, it is incumbent on this committee to consider the provisions and purpose of these contracts on the merits.

Hearings were held by this committee on January 27, 1977 and joint hearings were held on January 31, February 1, 2, 3, 4, and 7, 1977. Throughout the varied and sometimes conflicting testimony of some 31 witnesses, there was no doubt what the primary purpose of these contracts is. The stated and singular purpose for selling the state's royalty share of natural gas from the Prudhoe Bay field at this time is to help secure a decision by the President and Congress for the all-Alaska pipeline route.

* Sec. 38.05.183. SALE OF ROYALTY.

"(d) Oil or gas taken in kind by the state as its royalty share may not be sold or otherwise disposed of for export from the state until the commissioner with the approval of the Alaska Royalty Oil and Gas Development Advisory Board determines that the royalty-in-kind oil or gas is surplus to the present and projected intrastate domestic and industrial needs. The commissioner shall make public, in writing, the specific findings and reasons on which his determination is based and shall, within 10 days of the convening of a regular session of the legislature, submit a report showing the immediate and long-range domestic and industrial needs of the state for oil and gas and an analysis of how these needs are to be met." [emphasis added.]

In the opinion of the committee, there has not yet appeared any other compelling reason for the sale of royalty gas at this time. There was testimony by the Administration and others that these contracts met other objectives, namely, flexible provisions for taking back royalty gas for in-state use and favorable pricing terms. Provisions for a good price and for taking back the gas are more correctly viewed as prerequisites to any sale of royalty gas of this magnitude, rather than as objectives of these contracts.

The policy question for the committee is, therefore, what is the likelihood that approval of these contracts will favorably affect the ultimate decision on gas pipeline routing and what does the state give up by entering into these contracts. If in the opinion of individual legislators, the costs of the contracts or the uncertainty of the costs to the state of these contracts outweighs the likelihood of having the contracts win certification of the desired pipeline route, the contracts should not be approved.

There is clear agreement among nearly all witnesses before the committee and the stated views of Alaska's congressional delegation, that the internal problems of Canada in certifying and financing a pipeline route and resolving Canadian native land claims questions (before certification, financing or construction of a gas pipeline) are major impediments to timely Canadian certification of the Arctic Gas pipeline. Regardless of whether the State of Alaska enters into these proposed contracts at this time, these problems will continue to be substantial roadblocks to the construction of a Canadian gas pipeline to transport Prudhoe Bay gas. It is inconceivable that if the arguments

of the congressional delegation, Dr. Tussing and the El Paso proponents are sound, that the President and the Congress will not give these internal Canadian problems just consideration in their decision on the gas pipeline route.

Nothing in the Alaska Natural Gas Transportation Act of 1976 (which sets out the timetable for F.P.C., Presidential and Congressional decisions on the gas pipeline route) precludes the serious consideration of all of the above-mentioned Canadian route impediments. In fact, the Act of 1976 mandates the President, in making his decision, to "...inform himself ... of the views and objectives of the government of Canada and other governments with respect to those aspects of [his] decision that may involve inter-governmental and international cooperation among the government of the United States, the States, the government of Canada, and any other government." The factor of delay of pipeline completion is a critical one in the decision-making process by the President and Congress.

Obviously, the probability of delay works in favor of selection of the El Paso route and, to a lesser degree, the Alcan route. If these problems are to be given any consideration, they will be given weight regardless of what action Alaska's Legislature takes on the proposed gas sale. In the event these international considerations are determinative, commitment of the state's gas to the El Paso route is superfluous to the route decision.

At no time during the hearings was the nature or type of the lobbying activities of the three buyers (before federal agencies, the President and the Congress) made clear. However, the committee was informed by the Administration and representatives of the three buyers that in return for the sale of the state's royalty gas, El Paso, Tenneco and

Southern Natural Gas would mount effective lobbying efforts on behalf of the all-Alaska gas pipeline route. The same witnesses also indicated that the conditional promise of delivery of the royalty gas would help to build "constituencies" favorable to the state's cause.

In regard to "lobbying efforts", no standard exists in the contracts to measure suitable performance by the buyers. The contracts state only that the buyers must "actively support" an all-Alaska route or the route chosen by the State. Despite extensive questioning, no statement of projected lobbying expenditures or activities was ever provided. Even assuming that conditional commitment of the gas would provide sufficient incentive to Tenneco (buyer of 50 per cent of the state's royalty share) and Southern (buyer of 25 per cent) to pull all stops on behalf of the all-Alaska line, there is no basis for assuming that El Paso needs the additional incentive of 25 per cent of Alaska's royalty gas in order to work on behalf of its own proposal.

Moreover, the committee believes there is some risk that the political mood of the country towards the petroleum industry, of which our buyers are considered by the public to be a part, will make the "lobbying efforts" of the buyers more of a liability than an asset to the state's cause. In securing lobbying efforts, the committee is of the opinion that the better method by far is to support direct lobbying efforts by Alaskans for an Alaskan cause, as was done during the Statehood battle and in securing passage of the Alaska Native Claims Settlement Act.

In weighing the claim of the buyers that conditional

commitment of our royalty gas will build meaningful constituencies in 42 states, the committee compared the relative magnitude of the quantities of royalty gas sold to the respective buyers to the total 1975 annual gas consumption by the 42 states. Alaska's royalty share accounts for a miniscule percentage of the total needs of these 42 states. For example, Tenneco's annual share of Alaska's royalty gas would amount to only 3.5 per cent of Tenneco's total 1975 sales, and only 0.35 per cent of total 1975 consumption in Tenneco's 25-state market area.

Moreover, in view of the fact that federal legislation will control where gas flows in a time of gas shortage (as is the case presently in the gas-short areas of the United States), there is no reason to believe that commitment under these contracts will have anything to do with where gas flows in the event of future shortages.

In determining what the state gets for sure under these contracts, it is the opinion of the committee that at best, the state receives an absentee lobbying effort having minimal impact, and at worst, a scheme which engenders general disfavor. Testimony before the committee suggested that the threat of withholding royalty gas will not be viewed as credible, but to the extent such a threat is taken seriously, it may prove harmful to our cause on this issue, and perhaps on others of equal or greater importance before Congress.

Legislators must in the final analysis draw their own conclusions as to the political impact of these contracts. Each legislator should, however, be aware of the costs of the contracts to the state.

One principal cost of these contracts to the state is

the risk of not being able to take back our own royalty gas for in-state use once gas is flowing out of the state. Despite the artful drafting of the contracts, there is, in the opinion of the committee, a substantial ambiguity as to how surplus will be determined at the time the state desires to use the gas. An opinion by Legislative counsel (attached hereto) states that "... an argument could be made that the determination [of surplus] made to support this sale is the sole determination allowed." While this argument would probably not prevail, according to the opinion, "the contract is not fully clear on this point leaving room for substantial disagreement at a future time." This ambiguity would not exist if the state were given sole discretion to determine at any time in the future what gas is surplus.

Under one provision of the contracts, the state is given sole discretion in determining whether the buyer can recoup from other Alaskan gas fields one-and-one-half times the amount of natural gas the state takes back for in-state use. The committee suggests that this same standard should also clearly apply to the initial decision by the state to take back its gas for in-state use.

At the very minimum, it should be made clear in these sales agreements that surplus must be determined solely on circumstances which exist at the time the state wishes to take the gas back and not by any estimates of state needs contained in state reports issued before the sale. As trustees of resources belonging to the people of Alaska, public officials should not take the chance of committing gas which is not surplus to the future needs of the state.

Another cost to the state is the loss of flexibility in dealing with other potential buyers of the state's royalty gas. Several other companies and the State of California

submitted interesting offers, but were unwilling to include a provision for support of an all-Alaska gas pipeline. The state also loses the opportunity to secure future siting of petrochemical industries based on present commitments of gas.

Recent F.P.C. decisions have disapproved the practice of charging gas customers for advance payments to gas producers for gas not yet produced. Nothing in these decisions rules out a cash advance payment made at the time of initial delivery from being charged to gas users. Moreover, advance payments made from surplus or borrowed capital would be chargeable to the end users of the gas at the time of delivery. The present contracts, however, rule out such cash advances.

In committing 100 per cent of the daily production of the state's royalty gas for up to 20 years, the state could lose the ability to leverage a higher price under these present contract provisions by sales to other buyers. Further, it has been calculated by assigning the state a discount factor of 10 per cent per year that the most profitable production period for the gas is from 1991 to 2010.*

Consultants Carl Swanson and Rush Moody conceded in their testimony that there is a possibility that under continued regulation by the F.P.C., contracts entered into at this time might be given unfavorable gas price treatment by the F.P.C. or Congress under a contract vintaging price regulation. This was one concern expressed by the producers

* Interim Report and Testimony Submitted to Joint Gas Pipeline Committee, Public Hearings February 17 - 20, 1976, p. 79.

of the 7/8's of the Prudhoe field and one of the reasons given by the producers to the F.P.C. for not entering into firm contracts for sale of their 7/8's share.

Another concern of the producers is that the gas bring a sufficient price under either regulation or deregulation to justify an early sale. If projected costs of whatever gas pipeline is certified were only half as inaccurate as those for the oil pipeline, a situation could evolve in which the well-head value of the gas would be so adversely affected that the state would derive little benefit from the interstate sale of its gas under these contracts.

The uncertainty of the well-head price of the gas at the time of completion of the delivery system is predicted is probably a primary reason for reluctance of the producers to enter into contracts at this time. The contracts do allow the state the best price obtainable by the producers for the sale of their Prudhoe gas, but the strong possibility must be considered that the most economic use of the state's gas (and that of the producers) may be to continue, after completion of a gas line, to re-inject the gas into the reservoir to maximize recovery and daily flow of oil.

Recognizing that although there is reason to believe that under present conditions, some of the above-mentioned contracts benefits were difficult to obtain, a future contract which does not have political support as its principal goal could contain some of these benefits.

The assumption that only the El Paso or Alcan proposals would give the state an opportunity for in-state use of the gas may be questionable. Present or future market prices may not reflect the full economic cost to the state of not having the gas. A line to carry the state's royalty share (and later perhaps a portion of producer gas) to Fairbanks

or to tidewater has not yet been given the serious consideration it deserves.

The question of the effect of 2.0 to 2.4 billion cubic feet per day production of gas on the oil reservoir is one to which no satisfactory answer has been given. The committee does foresee some risk in committing on a daily flow basis 100 per cent of the state's royalty gas to a pipeline which even now is economic only under a daily flow of at least 2.0 billion cubic feet. If, after the financing and construction of that pipeline, the state must defend the decision of the Conservation Committee to curb or end gas production, these contracts may weaken the state's power to restrict the flow of gas from the state. It should be recognized, therefore, that the legal and political challenges to the Conservation Committee's decision by gas purchasers, transmission companies and the American consumer will be formidable.* The commitment of gas under these contracts may prejudice the state's defense.

All of the foregoing cost considerations cast doubt on the advisability of committing gas for export from the state in order to gain marginal political leverage in the gas pipeline routing decision. If in the opinion of individual legislators, these cost considerations are outweighed by the likelihood that commitment of the gas will have some favorable effect, the committee strongly recommends that 100 per cent of the state's daily production of royalty gas not be committed. The sale of 25 per cent of the royalty share to El Paso makes little

* The committee strongly urges revision of the conservation statutes to anticipate future challenges by defining economic as well as physical waste and assuring that procedural due process and accountability of the committee members are provided for.

sense even under the political objectives of building "constituencies" and "lobbying efforts" for the El Paso line. In addition, approval of any or all of the proposed contracts should be done only after the method of determining what is surplus to the intra-state domestic and industrial needs of the State of Alaska is clarified in the contracts.

The entire basis for a sale under these contracts is the belief of the buyers and of the people these buyers are to lobby that the state really will have no significant in-state use for its gas. Despite the take-back provisions and protestations to the contrary, the state has weakened its case for taking back its royalty gas by committing all of it.

Dr. Tussing, Mr. Jefferson Barry and others have testified that regardless of the primary political objective of these contracts, it is advisable not to commit what amounts to 100 per cent of the production of royalty gas for at least 20 years. Reduction of the amount of production of royalty gas for export can be accomplished by amending the contracts or by disapproving one of the sales agreements.

The foregoing report does not attempt to list all possible costs of the gas sales agreements, but only those costs which are now apparent. Each legislator must make his or her own determination as to whether political support gained by these conditional sales constitutes a wise use of the State's natural resources.

Charles H. Pan
C. V. Gutterman
Joe L. Hagan - Not Convinced

Clark Gruening
Rep. Clark Gruening, Chairman
House Special Committee on the
Sale of Royalty Gas

Joe McKinnon

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

February 16, 1977

SUBJECT: Gas Sales Agreement

TO: Representative Clark Gruening

FROM: Billy G. Berrier ~~BBB~~
Director, Legal Services Division

You have requested that I review the Royalty Gas Sales Agreement for legal form and freedom from ambiguity. There are major areas that appear to be problems from this limited approach.

The pricing problem has been extensively dealt with in the opinion of Rush Moody, Jr. of the firm Vinson, Elkins, Searls, Connally & Smith.

I do find a substantial ambiguity in the gas reduction clauses. The material clause reads:

"3.5 The reservation of gas by Seller by way of its exercising its rights of gas reductions pursuant to Sections 3.3 and 3.4 hereof shall be for the sole purpose of Seller meeting the intrastate domestic and industrial needs of the State of Alaska including the right to exchange reserved gas for other natural gas produced or delivered into Alaska, provided such exchanged gas is used for the sole purpose of meeting the intrastate domestic and industrial needs of the State of Alaska. However, this provision shall not limit the right to export from the State any products manufactured from said gas." (emphasis added)

This clause is controlled by Sec. 1.11 of definitions which reads:

"1.11 The term "domestic and industrial needs of the State of Alaska" shall mean those present and projected residential, commercial and industrial uses for gas within Alaska as determined by the Alaska Royalty Oil and Gas Development Advisory Board in accordance with AS 38.05.183(d)."

However, in Sec. 3.7(a) relating to the buy-back rights of the Buyer a broader reference is apparently made. This section, in material part reads:

"3.7(a) Should Seller, through the exercise of its rights under Sections 3.3 and 3.4, in fact diminish the volume of gas otherwise available to Buyer hereunder and should Seller during the term of this Agreement and five (5) years thereafter have additional royalty gas which in Seller's sole discretion is surplus to the intrastate domestic and industrial needs of the State of Alaska, and will be transported by the Pipeline, Seller shall offer to sell to Buyer under the provisions

of this Agreement, except as to price and term, ratably with other eligible purchasers of Seller's royalty gas from the leases identified in Exhibit A such additional royalty gas equivalent to Seller's prior reductions under Sections 3.3 and 3.4." (emphasis added)

This language is also used in Sec. 3.7(b) with only a slight variant, that section reading:

"3.7(b) In addition to the right granted Buyer under Subsection 3.7(a) and after all eligible purchasers of royalty gas from the leases identified in Exhibit A have had an opportunity to exercise such right, Seller grants to Buyer the right of first refusal to purchase additional royalty gas from Seller to the extent of one-half (1/2) times the volume that Seller's exercise of its rights under Sections 3.3 and 3.4 in fact diminishes the amount of gas Buyer otherwise would have purchased and received hereunder. Such right is granted during the term of this agreement and five (5) years thereafter. This right of first refusal shall apply to royalty gas which becomes available to Seller and which in Seller's sole discretion is determined to be surplus to the intrastate domestic and industrial needs of the State of Alaska. This right of first refusal applies only to gas which will be transported by the Pipeline." (emphasis added)

The net effect of Sec. 3.5 and definition 1.11 is that the gas reductions the state may order is that not found surplus to needs under AS 38.05.183(d) which reads:

"(d) Oil or gas taken in kind by the state as its royalty share may not be sold or otherwise disposed of for export from the state until the commissioner with the approval of the Alaska Royalty Oil and Gas Development Advisory Board determines that the royalty in kind oil or gas is surplus to the present and projected intrastate domestic and industrial needs. The commissioner shall make public, in writing, the specific findings and reasons on which his determination is based and shall, within 10 days of the convening of a regular session of the legislature, submit a report showing the immediate and long-range domestic and industrial needs of the state for oil and gas and an analysis of how these needs are to be met."

It is my understanding that a determination required under this subsection has been made in connection with the sale.

Under Sec. 3.3 of the contract of the state is given the right to reduce the quantity of royalty gas available for sale and delivery by percentage varying with time but the reduction must be pursuant to the limitation in Sec. 3.5. I find the mechanics of this obscure.

Apparently a determination would be made that certain royalty in kind gas is surplus to the present and projected intrastate domestic and industrial need. All royalty gas remaining would be for domestic and industrial needs of the state and, subject to the percentages set out in the contract, the state would have the right to reduce the quantity of royalty gas available for sale and delivery by that amount.

This determination could apparently be made at least annually on a continuing basis but an argument could be made that the determination made to support this sale is the sole determination allowed. The argument would be that the reservation in Sec. 3.5 is deliberately narrow in order to limit the reservation of gas to that which the board initially determined to be not surplus to present and projected needs so that if the projected needs do in fact materialize a take-back can take place, while broader discretion was allowed in Sec. 3.7 to cover the possibility that projected needs may not materialize in the future.

In my opinion this argument even if fully developed would not prevail and that the contract would be construed to allow future determination since that interpretation is much more consistent with the entire contract. Unfortunately, the contract is not fully clear on this point leaving room for substantial disagreement at a future time."

Tape #: H77-22

RECORDER LOG

Date: 2/25/77Beg. #: 0000Time: 8:40 A.M.End #: ~~1657~~ 1657Page: 1

General Subject: University of Alaska - Directors of Community Colleges' Testimony

Present: All House Finance Committee members were present except Rep. Guy and Rep. Meekins. Also present were Don Wafae, Spec. Consultant to H.F.C.; Mr. Arch, Ex. V. Pres.; Ralph Mc Grath, Pres. ACCT; Wald McPherson, Extension Agent, U of A; Tom Wagoner, Dep. Director, Kenai Peninsula Comm. College; Bill Stewart, Dean, Anchorage Comm. College; John Wilsey, Dir. Kenai Penn. Comm. Colleges; Mr. Floyd, Dir.

Log #	Description
000	Chairman Couper opened meeting at 8:40 a.m.
	Purpose of meeting:
	Four directors of the community colleges to give their opinions regarding the central admin. budget process and their relationships with it, regarding the budget impact on their campuses.
Comment	- Mr. Arch - He called the community college directors and told them they were invited to come and make their budget presentations. Four opted to attend and six decided their programming had been presented well enough already.
	Dr. John Wilsey - Background of Kenai Comm. College 1,000 students enroll twice each year 4th most populous area 3rd largest comm. college in state.

General Subject: U of A - Community Colleges

Log #	Description
	Wilsey - Special training courses - for example, petro- leum technologists and other ^{oil} related courses. They don't pay much attention to the formulas given to them for their budget. - not realistic. Growth of 100% in the enrollments in past 3 yrs. Growth of 35% since just last year. - still working with the original office staff - 4 clerical 3 administrative. Problems with Central Admin. - No solid formula to work with. Constant revisions - this is 11th budget for this yr. Registration - 1680 people. Will have 2000 by end of semester). Have some overloading - example: need another person for the office. Have people wkg. 50 hrs. a week. Problem definition: 2 columns "Increased workload" & "Change" Increased workload means increase in work for existing programs not for new ones. Disagree with UofA on placement of programs in these two problems.

General Subject: U of A - Community Colleges

Log #	Description
0362	Last week received the last version of their budget.
	Asked for \$1,000,023 = 64% for instruction only
	9.9% student service, 23.6% administrative
	\$783,000
	\$689,000 maintenance column
	\$94.2 thousand for increased workload, more instructors and a coordinator of programs
	1 counselor for 1,600 students - asked for more counselors.
	Instructional Prgm. increased - credit hours will triple eventually.
	Student lunch service and book store. Hope to be able to contract
	12.6% increase = includes increased workload. Over 1/2 for transfer in from other department for his assistant.
	Place 100% of students in mgmt. and business.
Q	Comper: Do these positions show up in the "change" column?
	That's right.
Q	Comper: Some change items are necessary due to 12% cap.

General Subject: U of A - Community Colleges

Log #	Description
	Petroleum program funding Funded primarily by the Univ. Requesting petro. companies to assist.
Q	Cooper: Enrollment - local or from outside
A	Primarily Alaskan from around State.
0630	Have contract courses with the pet. companies.
Q	Buckholdt: Counselors: How are you covering the figures stated in accomplishment report.
A	Many do not talk directly with counselors.
Q	Re page 167 - operating coordinators - Is this some sort of extension course?
A	Do have part-time coordinators but the Admin. has been going out and enrolling etc. themselves to well areas etc.
Q	L. Rhode: Re field trips + funding for this?
A	Do have field trips yes. Amt of money contributed by petro. companies. Direct short term contracts: Alyeska contracted last year when rec'd budget the position had been cut out. Ask orders \$20,000 + \$38,000 = fund one full-time instruction for operation. Colleges supplied petro. technologist instructor.
Q	Has the oil industry contributed any equip?

General Subject: U of A - Community Colleges

Log #	Description
A	Yes, they have contr. some instruments.
	Talking about contributing more equip. to the colleges.
Q	Morning: \$783,000 budget request for instruction
0818 A	: " the end of the 9th revision of budget
	Board of Regents Review - revised
	Total ? A. \$12233.1
0843	End of presentation.
	Mr. Bill Stewart - Anchorage C.C.
	Have approx. 40% of U of A total enrollment.
	4,610 increase in enrollment
	7,345 head count in Fall of 1976.
	Cost per student FTE lowest in U system.
	Antic. 10% gain next year
	Credit hours not increased much - no funding.
	He arrived in Oct. 1976 - had to terminate
	3 admin. office positions.
	Budget procedure for next year. 3 days to prepare.
	Told not to worry all done by formulas.
	Never involved in the revisions.
	Never provided with documentation or figures.
	Saw advert. for instructor positions w/ U of A, but was told he would not be able to put on any new positions.

General Subject: U of A. Comm. Colleges

Log #	Description
0975	Jan. 77 rec'd. New Budget Ref. to "Change" allocations figures - more went to Anch. C.C. Out of total Budget 48.6 positions for U/A, more for Anch. C.C. \$12,000 less this year to get Counselors back in "Maintenance" Budget. Comm. Services + Commun. Ed., that taken away entirely. No one was consulted in their admin. No Budget briefing - just memo informing losing program. Instructional - Increases Anch. C.C. rec'd 1.4% increase "No Change" Budget. Went to Fairbanks U/A main office expressed his dissatisfaction. Chancellor Lindauer - going to give C.C. 1/2 "Change" column after appearing before your Comm. Need 11.8% minimum figures just to operate. Students Anch. C.C. pay highest % of costs. Ratio is 1/2 part-time 1/2 full-time - most comm colleges 1/3 part-time. Requests for programs - can't start them at all. No contingency fund.