

HOUSE / SENATE FINANCE COMMITTEE MINUTES - 1967-1982 2683



STATEMENT TO
HOUSE FINANCE COMMITTEE
CONCERNING
THE NORTH SLOPE ROAD
Page 6.

\$1.6 - 2.1 MILLION WILL BE REQUIRED TO OPEN THAT ROAD FOR THE REMAINDER OF THE YEAR.

WHAT REALLY CONCERNS US IS TIME.....UNLESS THERE IS ACTION TAKEN SOON AND IN A VERY POSITIVE MANNER, THAT ROAD WILL BE CLOSED ON 1 OCTOBER OF THIS YEAR. IN A TIME OF ECONOMIC DOWN TURN THAT MEANS THE LOSS OF JOBS AT A TIME WHEN WE CAN LEAST AFFORD IT.

IN CLOSING, WE STRONGLY SUPPORT HOUSE BILL 838 AND 916 AND URGE THEIR IMMEDIATE PASSAGE. IN THIS VIEW WE ARE SUPPORTED BY THE FOLLOWING ORGANIZATIONS:

THE STATE CHAMBER OF COMMERCE

THE ANCHORAGE CHAMBER OF COMMERCE

THE FAIRBANKS CHAMBER OF COMMERCE

OMAR

CMAL

THE ALASKA VISITORS ASSOCIATION

THE TEAMSTERS UNION

ALASKA MINERS ASSOCIATION

FAIRBANKS INDUSTRIAL DEVELOPMENT CORPORATION

THE ASSOCIATED GENERAL CONTRACTORS

THE SHIPPERS OILFIELD TRAFFIC ASSOCIATION

AND LASTLY AND MOST IMPORTANTLY TO ME, THE ALASKA TRUCKING ASSOCIATION.



STATEMENT TO
HOUSE FINANCE COMMITTEE
CONCERNING
THE NORTH SLOPE ROAD
Page 7.

ON BEHALF OF THAT ASSOCIATION I WOULD LIKE TO THANK YOU FOR THIS
OPPORTUNITY TO HAVE OUR VIEWS HEARD AND THANK YOU FOR YOUR EFFORTS
ON OUR BEHALF.

Section I. The sum of \$3,711,900 is appropriated from the general fund to the Department of Administration for transfer to the unallocated current fund balance of the University of Alaska. Funds for this appropriation may be withdrawn from the state treasury to the extent that the University demonstrates a need for current working capital.

Sec. 2. The sum of \$1,200,000 appropriated to the University of Alaska working capital reserve fund by Chapter 51 SLA 1973 is hereby appropriated to the unallocated current fund balance of the University.

Sec. 3. This Act takes effect immediately in accordance with AS 01.10.070(C).

HOUSE FINANCE COMMITTEE

April 24, 1978

1:25 p.m.

All members of the Committee were in attendance, except Chairman Cowper, Representatives Buchholdt, Gruening and Schaeffer. Representatives Meekins and Guy arrived later in the meeting. Also in attendance: Speaker Hugh Malone, Representatives Terry Gardiner and Al Osterback; from the Department of Fish and Game: Deputy Commissioner Ed Huizer; Deputy Director Lou Banderola, Division of Sport Fish; Steve Penoyer, Division of Commercial Fisheries; Pete Jeans, Director of Business Loans, Department of Commerce and Economic Development; John Williams, Research Analyst, Legislative Affairs Agency; Nick Carney; Bob Grogan, Fiscal Analyst, Legislative Finance Division.

PRESENT

Vice Chairman Freeman called the meeting to order and noted the Committee was one short of a quorum. He brought up HB 807 for discussion:

HB 807

"An Act relating to a fee punch card system for king salmon sport fishing."

Vice Chairman Freeman announced Speaker Malone, prime sponsor of the bill, requested to appear before the Committee.

Speaker Malone commented the Resources committee substitute made the bill a \$200,000 appropriation ("An Act making a special appropriation to the Department of Fish and Game, division of sport fish; and providing for an effective date."). He stated the purpose of the bill is to provide additional money for the management of the Cook Inlet king salmon sport fishery. He stated the question before the Finance Committee is whether to fund this through the fee card punch system or through a direct appropriation from the general fund. He indicated he prefers the general fund appropriation.

[Representative Meekins arrived at this time.]

Speaker Malone advised there has been a fee punch card system and read briefly from a paper prepared by the Department of Fish and Game. He stated the \$200,000 figure in the Resources committee substitute is an estimate of what would be raised by a fee stamp system, which places an assessment on the users. He commented the Resources committee put money into the commercial fisheries and believe a contribution should be made to the sport fisheries also.

Speaker Malone advised the Resources committee is working on a draft for a committee substitute for the original bill--fee card punch system--should the Finance Committee favor that system. He stated the original bill has some technical difficulties. One factor to be considered, he stated, was not to increase the levy on the licenses as they have been raised. He recommended the use of general fund money for the Cook Inlet king salmon fishery and stated he feels they should not depend on Fish and Game funds--income from the sale of licenses. In answer to a question, he stated \$1 million was raised in FY 77 and \$1.8 million in FY 78 from Fish and Game funds.

[Representative Guy arrived at this time.]

Mr. Huizer presented testimony at this time, stating reliance on sport fisheries' licenses has caused a funding short fall because they have remained stagnant for a number of years, as opposed to general fund money. Representative Haugen commented the problem in that area ought to be a joint effort on the part of the commercial fisheries and the sport fisheries. There was discussion on trying to control the exploitation of the resources (over-fishing), with Mr. Huizer stating the Division of Sport Fish and the Division of Commercial Fisheries have been working together on this in the upper Cook Inlet area.

Mr. Banderola presented information on the sales of licenses and on the new programs, commenting this appropriation would allow expansion of these programs. In answer to a question from Representative Rhode regarding how much money was taken in from the sale of licenses, Mr. Banderola replied 30-45% of the effort in the Cook Inlet area. He stated they don't have a breakout of the licenses by area; but \$1.9 million in license revenues was generated by Sport Fish, and \$1.1 million is coming in from Dingle-Johnson federal match.

Representative Swanson asked how much the licenses have been increased. Mr. Banderola answered the fees are now \$5 for a resident and \$30 for a non-resident. Representative Swanson also inquired about their budget increase in personnel. Mr. Banderola explained some of this was to convert some positions from temporary to permanent, temporary to permanent part time--seasonal. He stated these appeared as line items on the request and that the request was for five new positions--two have been involved in Southeast.

Representative Swanson moved he be allowed one day to prepare an amendment providing for the interior region. Representative Duncan objected. The question was called for, and the motion carried (four in favor). HB 807 was held over until tomorrow.

HB 807
HELD OVER

The next bill to come before the Committee was HB 573:

HB 573

"An Act amending the Commercial Fishing Loan Act; and providing for an effective date."

Vice Chairman Freeman stated Representative Gardiner would present testimony on the proposed Finance committee substitute work draft (attached).

Representative Gardiner referred to his memo to Chairman Cowper dated 4-20-78, stating the attachment provides a sectional analysis of the draft of the Finance committee substitute by John Williams, Legislative Affairs. He advised the bill incorporates several bills and amendments to the Fishermen's Loan Fund.

Basically, Representative Gardiner stated, this bill contains four major revisions: Section 1 clarifies the present eligibility requirements for applicants. Section 2 expands the eligibility requirements for applicants, in that it allows for joint ventures. Section 3 raises the loan limit to \$500,000 and provides for the State to assume a second mortgage in certain instances, such as if it does "not exceed \$1 million or 35% of the total purchase price of the fishing vessel". He pointed out the provision on page 8, line 13, gives the Department of Commerce the authority to establish a special reserve account to cover these mortgages and noted this is discretionary. Section 4 adds language that would allow applicants to receive a loan to purchase a limited entry permit. He advised this was introduced by the Administration, and that, basically, it sets up a process where the State would be able to hold the lien on the permit, and it also provides for default.

Representative Gardiner noted SB 184 deals with the same subject, but does not contain all the amendments in HB 573. He suggested incorporating the language in HB 573 into SB 184. Discussion followed.

SB 184

At this time, Mr. Jeans presented testimony. He commented that he had worked with the Resources committee on their committee substitute and that Section 3 had been taken out, as the Department is opposed to taking a second lien. He referred to page 3, lines 13-27, subsection (c), and stated the Department still objects to this entire section. He discussed vessel value and depreciation, and stated he feels taking a second would involve too much of a risk. He stated they would already be loaning 75% of the appraised value of the vessel and that banks would loan only 50%. He stated this way they would be providing 100% financing.

Representative Gardiner referred to page 3, line 24, subsection (4), and pointed out this allows the State

to charge a higher interest rate. He also stated he would have no objection to language stating the total loan could not exceed 75%. Discussion followed, with Mr. Jeans stating they should go to participation loans and added that they can do that now. He commented, with their \$150,000 loan limit and the bank's participation, there should be no problem.

Representative Meekins asked if he objected to the 75% total loan limit, and he indicated no, as long as the two liens would not be over 75% of the total loan cost of the vessel. Representative Swanson brought up having this apply only to new vessels, as opposed to including existing vessels. Mr. Jeans indicated he would be more comfortable with that.

Representative Osterback testified at this time, stating currently, you need \$500,000 to buy a fishing boat. He the present \$150,000 loan limit could provide a 42-foot boat, but he believes a 50-foot boat is better, as it is big enough for bottom fishing as well as all species. He stated if the Fishermen's Loan Fund can come up with the biggest portion of the total cost, the banks would take a second. There was discussion on the \$500,000 loan limit, with Representative Osterback stating for loans on larger boats, the fishermen have to go elsewhere.

Representative Meekins moved the Committee adopt the following amendment to Section 3. AS 16.01.320(c), inserting after "institution" (page 3, line 17):

AMENDMENT

"if the total financing does not exceed 75% of the appraised value of the collateral used to secure the loan."

There being no objection, it was so ordered.

ADOPTED

Representative Swanson moved second liens be restricted to new vessels only. Representative Rhode objected. The question was called for, and the motion failed.

Representative Meekins moved and asked unanimous consent that SB 184, currently before the Committee, be amended by incorporating the Finance committee substitute for HB 573. There being no objection, it was so ordered. House Committee Substitute for Senate Bill 184 was reported out with a "do pass" recommendation.

HOUSE CS
FOR SB 184
(Finance)
REPORTED OUT

Vice Chairman Freeman brought HB 898 up for discussion:

HB 898

"An Act making a special appropriation to the Department of Commerce and Economic Development for allocation to the Alaska Fisheries Development Corporation; and providing for an effective date."

Representative Gardiner testified briefly, distributing to Committee members a letter, 3-13-78, from Sara Hemphill, Alaska Fisheries Development Corporation. He stated this group was organized as a private, non-profit corporation to receive federal funding of bottom fishery promotion. He advised the \$100,000 appropriation would allow them to hire an executive director so that they are in a position to manage the \$300,000 in federal funds they have applied for over the next three years. There was brief discussion, with Representative Gardiner stating the federal grant money is to encourage organizations to pursue the bottom fishing industry.

Vice Chairman Freeman noted a quorum was not present and stated HB 898 would be held over until tomorrow. He stated the Committee would continue the hearings, but would defer action on the bills until tomorrow.

HB 898
HELD OVER

The next bill up for discussion was HB 763:

HB 763

"An Act relating to commercial fishing and agriculture."

Vice Chairman Freeman stated Representative Gardiner had to leave to attend another committee meeting, but that he would like to testify on this bill tomorrow morning.

Representative Osterback presented testimony on this bill, stating the bankers see no problems with this, and referred to a letter from the Spokane Bank for Cooperatives, 2-1-78. He stated this bill deals with the financing of Alaska's commercial fisheries and would give fishermen a chance to start a salmon fishery.

Mr. Williams advised the bill deals with the establishment of a Commercial Fishing and Agriculture Cooperative Development Bank, whereby the State would purchase 60-80% of the preferred stock issued by the bank. Section 1, he stated describes the various needs in the State for such a bank. He advised Section 2 deals with the purpose, which is to provide another financial source for the fishermen and farmers to assist in the development in these areas. Section 3, he explained, actually creates the Fishery-Agriculture Development Bank. He advised the bank may issue bonds and borrow money from the private sector. He stated this section also describes the bank as legal fiduciaries.

Representative Duncan noted the omission of language in the Resources committee substitute Section 21.45.210(4), page 9, line 29, regarding working agreements with the Spokane Bank for Cooperatives, and asked why that was changed. Ms. Diann Nelson, Administrative Assistant to Representative Osterback, advised the Director of

the Spokane Bank asked that that language be omitted. Vice Chairman Freeman stated Representative Duncan would look into this.

Mr. Williams commented the bank may also sell its notes through the federal intermediate bank and also through the private market. There was discussion on the various State loan programs, with Mr. Williams stating HB 763 has the potential of chartering itself to meet the needs of Alaska, in that it could be expanded to include harvesting and marketing.

Representative Duncan brought up the question of a fiscal note on the bill regarding the initial funding.

Mr. Carney stated he favors such a development bank, but suggested it be expanded to include a section on the financing of marketing and processing. There was brief discussion.

HB 763 was held over.

HB 763
HELD OVER

The next bill to be considered was HB 885:

"An Act making supplemental appropriation to the Department of Fish and Game; and providing for an effective date."

HB 885

Mr. Huizer advised this is now a \$30,000 appropriation to the Office of the Commissioner to fund consultant services, Leonard Lane Associates, required to implement the recommendations of the recent organizational review of the Department. He stated the additional \$7,100 noted in HB 885 was incorporated into HCSSB 399, which was reported out by the Finance Committee on 4-3-78.

Representative Duncan inquired into the status of the contract, with Mr. Penoyer providing a brief explanation. He stated Leonard Lane and Keith Specking and the FRED Division of Commercial and Sport Fish came up with concepts and recommendations for strategic planning. Brief discussion followed on the three-year organizational goals and objectives.

HB 885 was held over.

HB 885
HELD OVER
ADJOURN

The meeting adjourned at 3:30 p.m.

HFC 78-90 #0001 - End
78-91 #0001 - #0623



Official Business

Alaska State Legislature

House of Representatives

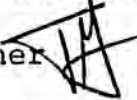
Committee on Judiciary

Pouch V
State Capitol
Juneau, Alaska 99811

April 20, 1978

Memo

To: Representative Steve Cowper
Chairman, House Finance Committee

From: Terry Gardiner 

Re: Proposed CS for HB 573

Contained in this packet are a proposed CS by the Finance Committee for HB 573 and a sectional analysis prepared by the Legislative Research Division. Basicly, the purposes of the amendments I have suggested to HB 573 are to promote the financing of bottomfish vessels through the Fishermen's Loan Program that presently exists.

Because the proposed bill amends many sections of existing law, I thought a sectional analysis explaining the effect of the changes to existing law would be helpful to the committee members.

STATE OF ALASKA THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

MEMORANDUM

April 18, 1978

SUBJECT: Draft CS for HB 573 (Finance); W.O. #24/R

TO: The Honorable Terry Gardiner

FROM: John Williams
Research Analyst *JW*

You have asked that we prepare a sectional analysis of the draft Finance Committee Substitute for HB 573. The following is a general description of the bill and a more detailed sectional analysis.

There are four major revisions and one minor revision of the commercial fishing loan program contained in the Committee Substitute. Section 1 provides for a minor revision--clarifying the present eligibility requirements for applicants. Section 2 expands the eligibility requirements for applicants. Section 3 raises the loan size to \$500,000 and provides for the state to assume a subordinate lien in some instances. Section 4 adds language that would allow applicants to receive a loan to purchase a limited entry permit.

SECTION 1

The section adds language to clarify the legislative intent with regard to eligible fishermen who may apply for commercial fishing loans. The language added specifies that eligible applicants must have been residents for five continuous years prior to making application for a loan, and must have been commercial fishermen for any three of those five years (and actively participated in a fishery).

SECTION 2

The present commercial fishing loan program is available only to individual commercial fishermen. Section 2 expands the eligibility

standards to include business ventures owned 100 percent by individual commercial fishermen. The allowable business arrangements are joint ventures, partnerships, and corporations.

Commercial fishing has become a major business activity for a large number of Alaskan fishermen, many of whom can no longer avoid taking advantage of the various business arrangements which allow them to limit liability, leverage capital, share risk, and take advantage of several other benefits offered by incorporation or other business arrangements. Present language would not allow a fisherman to receive a loan in the name of his fishing business or to apply with other fishermen for a loan to be utilized by a consortium. The provisions provided in section 2 should allow for a greater number of Alaskan fishermen to utilize the loan program.

SECTION 3

Paragraph (a) of section 3 (AS 16.10.320) provides for the limit on commercial fishing loans to be raised from \$150,000 (existing law) to \$500,000. The language also reorganizes the section so that loan terms are clearly presented. The paragraph contains no other changes in present law.

Paragraph (b) is contained in existing law.

Paragraph (c) is new language which sets out conditions whereby the state may accept a subordinate lien as loan security for the purchase of a new or existing vessel. The conditions are that (1) the borrower must have prior written agreement from a private lending institution to

accept a first lien on the vessel; (2) the size of the state loan may not exceed 35 percent of the vessel appraised value or \$1 million, whichever is less; (3) the term of the loan shall not exceed 15 years; and (4) the interest on the loan shall be between 7 and 8 percent at the discretion of the Department of Commerce and Economic Development.

Paragraph (d) prohibits more than one commercial fishing loan being made to an individual or associate of the individual, except as provided in paragraph (e).

Paragraph (e) allows for two or more eligible commercial fishermen to jointly obtain a loan, the size of which cannot exceed \$500,000 times the number of participating fishermen applying for the loan. The terms of the loan are identical to provisions in section 3, paragraph (a) of the bill.

SECTION 4

This section adds new language to AS 16.10 which allows the commercial fishing loan program to make loans to fishermen for the purpose of buying limited entry permits. Terms for loans shall be the same as provided in section 3, paragraph (a)¹. Paragraph (b) defines the procedure that would be utilized for entry permit loans; specifically that the commissioner of Commerce and Economic Development shall be the legal owner of the permit; the fishermen shall be listed as equity owner and debtor; and the debtor shall be issued the annual permit cards and shall bear full responsibility as permit owner. Paragraph (c) stipulates that

¹The term provisions are not specified in the draft CS. At page 5, line 6 of the work draft, delete "secs. 300-370" and insert "sec. 320(a)".

the commissioner is not liable for any act (or lack thereof) with respect to the permit. Once the debtor has satisfied his debt, the commissioner shall so notify the Commercial Fisheries Entry Commission (paragraph (d)) and shall amend the permit to list the debtor as legal owner (paragraph (e)).

Sec. 16.10.335 of section 4 specifies the actions to be taken by the commissioner if a debtor falls in arrears on an entry permit loan. The debtor shall be notified and given 60 days from the postmark of the notice to correct the situation. If he does not respond within the time allowed, any interest he may have in the permit may be terminated.

Sec. 16.10.337 specifies the means of disposing of permits which by default are the property of the state. The Commercial Fisheries Entry Commission is given first option to buy the permit (if the permit is for a fishery which has a buy-back program) for the amount outstanding on the loan (plus handling charges). If the commission does not exercise its option within 30 days, the person listed as debtor may name a qualified fisherman to whom he wishes to assign his former rights. If the nominated individual meets all necessary requirements to hold a limited entry permit, he may assume all rights and responsibilities of the original debtor. If the original debtor does not nominate a successor, the commissioner shall select at random, from a list provided by the Commercial Fisheries Entry Commission, a fisherman who may assume the loan.

Sec. 16.10.339 provides for the Entry Commission to adopt regulations to implement this portion of the bill.

Sec. 16.10.342 creates a foreclosure expense account from the "excess" interest earned on loans made with second mortgages (section 3,

April 18, 1978

paragraph (c)). Money may be expended from the account when necessary to protect the state's interest in collateral on loans granted under this chapter or to defray expenses incurred during foreclosure proceedings after a default.

Sections 5 and 6 of the bill provide for technical amendments (definitions and amendments to chapter 43). Section 8 is the effective date clause. The bill would take effect on July 1, 1978.

Please let us know if we may be of further assistance.

JW:jm

Alaska Fisheries Development Corporation (Information)

BOX 969
CORDOVA, ALASKA 99574
(907) 424-3116

March 13, 1978

The Honorable Terry Gardiner
House of Representatives
State Capitol Building
Juneau, Alaska 99811

Dear Representative Gardiner,

The Alaska Fisheries Development Corporation (Corporation) is a not-for-profit Alaska corporation recently formed by members of the Alaska fishing industry. The organization has been carefully structured so that its voting membership will equitably reflect both the harvesting and the processing sectors of the industry. Since December 3, 1977, a representative group of fishermen and processors has worked cooperatively to both form the Corporation and to draft a comprehensive bottomfish proposal which would win industry's support. Both goals have been realized.

Though many factors have encouraged this promising effort on the part of historically opposed segments of the industry, the most persuasive has been the promise of 2.7 million dollars in federal funding which the industry was led to believe would be available from Saltonstall-Kennedy Fund monies for the development of the Alaska bottomfish industry. Because it was necessary to have a viable legal entity which could receive and manage such monies and programs, the industry was compelled to coordinate its efforts and form the corporation. The current bottomfish proposal is the first of the research and development projects which the Corporation anticipates it will undertake.

Though early indications from NMFS and NOAA are encouraging the Corporation has been informally advised that contrary to earlier agency assurances the full 2.7 million dollars is not available for Alaska. Concurrently a hard look is being taken at this somewhat surprising cooperative effort on the part of industry. Skeptics lurk at every corner despite the demonstrated ability of this organization to perform well and to be flexible as well as resourceful.*

*Though timely filed with NMFS the proposal was modified by industry at the urging of both NMFS staff and high-level NOAA personnel. The revised proposal includes the independently submitted proposal of the Aleutian-Pribilof Fisheries Cooperative additional supporting marketing and economic data and a change from a one to a two year time frame.

To date members of the industry have volunteered their time with the understanding that incurred travel, telephone and printing expenses will be reimbursed. Similar organizations in other areas of the United States have and are obtaining funding for such initial activities through federal channels. Alaska's request to NMFS for such seed money was denied, though the Alaska Sea Grant program donated \$2000 for travel expenses to insure that working sessions were attended by fishermen as well as processors.

The Corporation is aggressively seeking funding with a membership drive and from donations of supportive components of the industry. Though the response has been excellent the process is a slow one. In order to maintain interest in and commitment to the Corporation and the proposal and to attract future funding, it is imperative that the proposed projects are implemented as soon as the money is available. A qualified staff, a solid budget and a base of operations are all prerequisites to the successful management of the projects.

Thus the Corporation seeks a grant of \$100,000 from the State of Alaska. It is essential that such funding be appropriated immediately for two reasons: 1) to indicate to both federal agencies and the industry itself that the State endorses this activity and has confidence in the industry's ability to look after its own needs and 2) to insure that there is a management team in place as soon as possible.

It is crucial that the viability of the Corporation be insured; that it is poised to swing into action as soon as the allocation of S-K funding for Alaska is confirmed so that no momentum is lost. Delay could well result in denial of funding for 1979 and beyond, not to mention the impact that such failure would have on the development of this most important fishery.

Thank you in advance for considering this request for a grant for \$100,000. Your concern and support of the fishing industry in Alaska does not go unnoticed. It is the industry of the future for Alaska.

Respectfully,

The Board of Directors
Alaska Fisheries Development
Corporation



by:

Sara S. Hemphill

SSH:dd

BUDGET SUMMARY

<u>Project</u>	<u>Federal Funds</u>	<u>Other</u>
1. Alaska Fisheries Development Corporation	\$ 236,250	\$
2. Full-year Offshore Trawling Demonstration	1,200,000	
3. Aleutian/Pribilof Bottomfish Development	300,000	
4. On-board Fishermen Trainee Program	473,530	
5. Kodiak to Chignik Bottomfish Development	300,000	
6. Prince William Sound Bottomfish Assessment	300,850	49,000
7. Test Fishery for Cod, Rockfish, and other Bottomfish	300,000	
8. Longline and Trawl Fishing Demonstration in Eastern Gulf of Alaska	300,000	
9. Technical Assistance in Adopting New Gear for Bottomfish Fishing		141,000
10. Project Evaluation	<u>75,000</u>	<u> </u>
Total Estimated Costs	<u>\$3,485,630</u>	<u>\$190,000</u>

INDUSTRY CURRENT AND PROJECTED
DIRECT CONTRIBUTIONS TO THE AFDC PROGRAM

Estimated out-of-pocket expenses by individual fishermen and processors to participate in planning meetings and AFDC formation	\$ 267,000
Estimated costs which will be incurred by participating fishermen in the AFDC program	1,981,000
Estimated costs which will be incurred by processors to participate in AFDC program	<u>881,000</u>
Total	\$3,079,000

The above figures are considered conservative and do not include values or capital costs of vessels or processing facilities now in place or expected to be built.

PROJECT OUTLINES

1. Formation of non-profit corporation; application to IRS for non-profit status
2. Solicitation of member organizations and member processors
3. Review of submitted project proposals
4. Solicitation of funding for future projects
5. Appointment of executive director and setting up office in Anchorage

BUDGET SUMMARY

	<u>Cost</u>	<u>Government Contribution</u>	<u>Industry Contribution</u>
Start-up expenses (18 Committee members, 4 meetings)			
Printing (est.)	\$ 200.00		\$ 200.00
Travel		\$ 2,000.00	\$12,700.00
Professional services	\$18,000.00		\$18,000.00
Telephone (est.)	\$ 500.00		\$ 500.00
Note: to date memberships have contributed			\$ 285.00
Executive Director (salary 12 months)	\$54,000.00		
Secretary	\$14,400.00		
Travel	\$36,000.00		
Phone	\$ 9,600.00		
Legal Fees	\$12,000.00		
Office Rental and overhead (6 months)	\$15,000.00		
		\$236,250.00	

(Looking for state funding - \$10,000.00/\$15,000.00)

\$101,250 is requested for FY78 and \$135,000 is requested for FY79.

HOUSE FINANCE COMMITTEE

April 25, 1978

9:05 a.m.

All members of the Committee were in attendance, except Chairman Cowper, Representatives Buchholdt, Gruening and Schaeffer. Representative Meekins arrived later in the meeting. Also in attendance: Representatives Terry Gardiner and Al Osterback; Keith Specking, Legislative Liason, Office of the Governor; Diann Nelson, Administrative Assistant to Representative Osterback.

PRESENT

Vice Chairman Freeman called the meeting to order and brought up HB 807 for consideration:

HB 807

"An Act making a special appropriation to the Department of Fish and Game, division of sport fish; and providing for an effective date."

Vice Chairman Freeman stated the Committee would be addressing the Resources committee substitute (title above) and not the original bill (An Act relating to a fee punch card system for king salmon sport fishing.) He advised testimony was presented yesterday on the bill, and Representative Swanson had requested the bill be held over until today so that he could prepare an amendment to include the Interior.

Representative Swanson distributed to Committee members a letter from Deputy Commissioner Ed Huizer, Department of Fish and Game, and moved and asked unanimous consent that CSHB 807 (Resources) be amended to include a new Section 2 as follows: "The sum of \$90,000 be appropriated from the general fund to the Department of Fish and Game, Division of Sport Fish, for the surveillance and reconnaissance of sport fisheries in the Tok, Tanana Flats and Cantwell areas."; and that existing Sections 2 and 3 be renumbered Sections 3 and 4. Representative Duncan objected, indicating a lack of backup material. There was discussion on making this request a separate Finance Committee sponsored bill. The question was called for, and the motion failed (three opposed, Freeman, Duncan, Haugen; three in favor, Swanson, Guy, Rhode).

SWANSON
AMENDMENT

FAILED

Representative Duncan moved and asked unanimous consent that Resources committee substitute for HB 807 be reported out. There being no objection, it was so ordered. CSHB 807 (Resources) was reported out with a "do pass" recommendation.

CSHB 807
(Resources)
REPORTED OUT

[Representative Meekins arrived at this time.]

The next bill to be addressed by the Committee was HB 898:

HB 898

"An Act making a special appropriation to the Department of Commerce and Economic Development for allocation to the Alaska Fisheries Development Corporation; and providing for an effective date."

Vice Chairman Freeman advised the hearings were held yesterday, but a quorum was not present.

Representative Rhode moved and asked unanimous consent that Resources committee substitute for HB 898 be reported out. There being no objection, it was so ordered. CSHB 898 (Resources) was reported out with a "do pass" recommendation.

CSHB 898
(Resources)
REPORTED OUT

The next bill up for consideration was HB 885:

HB 885

"An Act making supplemental appropriation to the Department of Fish and Game; and providing for an effective date."

Vice Chairman Freeman commented testimony was heard yesterday, but due to the absence of a quorum, action was deferred. He also noted that \$7,100 of the request had been incorporated into HCSSB 399 and reported out by the Committee on 4-3-78.

Mr. Specking advised the \$30,000 request to the Office of the Commissioner is to fund consultant services required to assist the Department in establishing a strategic planning team to develop goals, objectives and strategies for the operation of the Department. He presented an overview of the survey conducted by the consultant, Leonard Lane Associates, and himself last summer, which was done with the approval of Commissioner Skoog. He stated the Department is extremely short on management skills. Asked by Representative Meekins to explain the "strategic" management team, Mr. Specking replied it is a group inside the organization that will create the planning effort throughout the whole Department. There was brief discussion.

Representative Duncan moved and asked unanimous consent that Finance Committee Substitute for HB 885 be reported out. There being no objection, it was so ordered. Finance CS for HB 885 was reported out with a "do pass" recommendation.

FINANCE
CS for HB 885
REPORTED OUT

HB 763 was brought up for discussion:

HB 763

"An Act relating to commercial fishing and agriculture."

Vice Chairman Freeman stated hearings on HB 763 had been conducted yesterday afternoon, but that Representative Gardiner had had to leave and requested he be allowed to appear before the Committee today to present testimony on this bill.

Representative Gardiner presented background information on the history of agriculture in Alaska, discussing the Federal Farm Credit System (FFCS). He advised it was expanded to include fisheries. He discussed the fisheries and agricultural section and stated he would offer amendments that will clarify one of the original intents. He stated this bill provides that over a period of 10-15 years, the development bank would become owned and controlled by the people who are borrowing money. He advised the advantage of this institution would be development of resources and agriculture.

Representative Gardiner discussed the amendments (attached), stating this would make it clear it is not just for commercial fishermen and farmers but would include fishing and agriculture businesses. He advised this will help out the people at the production level; i.e., harvestors, processors and marketers.

In discussing the amendment changing "51%" to "the majority interest" of loans being owned by State residents, Vice Chairman Freeman asked why not restrict this to the Alaskan people. Representative Gardiner replied this would aid in corporate businesses or joint ventures, one advantage being outside people may have expertise. Discussion followed, with Vice Chairman Freeman stating he was against outside involvement in Alaskan fishing; i.e., the Alaskan government financing fishing vessels for someone outside the State. Representative Gardiner called attention to the last line of the amendment, drafted by Mr. Berrier, which states that, not only can residents own it, but they must have control of the stock. He commented he wouldn't have any problem with requiring 100% State ownership of farms and vessels. There was further discussion.

Representative Osterback stated Oregon, Washington and California are already involved in this type of loan program and feels Alaska should also become involved now. There was discussion on collateral and equity.

Vice Chairman Freeman advised the Committee would address the proposed amendments to HB 763 at the 1:15 p.m. meeting.

HB 763
HELD OVER

The meeting adjourned at 10:00 a.m.

ADJOURN

HFC 78-91 #0626 - #1410

STATE OF ALASKA

DEPARTMENT OF FISH AND GAME

OFFICE OF THE COMMISSIONER

JAY S. HAMMOND, GOVERNOR

SUBPORT BUILDING - JUNEAU 99811

April 25, 1978

Honorable Leslie E. Swanson
House of Representatives
Pouch V
Juneau, Alaska 99811

Dear Mr. Swanson:

In accord with your verbal request during House Finance discussions of CSHB 807 on April 24, 1978, the following needs for fishery surveys and evaluations in the Interior area are identified. Due to the shortness of the request period it has not been possible to establish a specific cost estimate.

Little fishery inventory effort has been accomplished in the areas on the northern slopes of the Alaska Range, specifically the Mentasta Mountains between Tok and the Canadian Border due to the high costs involved with the extensive air charter's required. In addition the Tanana Flats between Nenana and village of Tanana and the Cantwell area also require additional surveys to more adequately identify fish populations, abundance and growth rates.

Due to the anticipated human population increases that can be expected in the Tok area as a result of the gas pipeline construction and the general increase in angler demands on interior fish stocks specific fish needs must be identified in order to take full advantage of the Clear Hatchery production of rainbow trout, sheefish, grayling and some salmon.

As 60% of the costs for fishery evaluations in these areas will be used for charter air time, a substantial percentage of the funds will be required in contractual services. The survey work contemplated above can be accomplished in-house utilizing one additional permanent biologist and temporary time.

Sincerely,


Ronald O. Skoog
Commissioner

CS

AMENDMENTS TO HB 763

- ~~1~~ ~~29~~
1. page 2, line 2; delete "commercial fishermen and farmers" and insert "agriculture and fishing businesses"
 2. page 9, line 21; delete "fishermen and farmers" and insert "agriculture and fishing businesses, including harvestors, processors, and marketers"
 3. page 9, line 22; delete "51 per cent of which are owned by commercial fishermen or farmers who are state residents" and insert "the majority interest of which is beneficially owned by residents of the state and a majority of the owners are residents of the state"

HOUSE FINANCE COMMITTEE

April 25, 1978

1:20 p.m.

All members of the Committee were in attendance, except Chairman Cowper and Representative Swanson. Representatives Gruening, Duncan, Schaeffer and Meekins arrived later in the meeting. Also in attendance: Robert Buttane, Alcoholism Treatment Center, Bethel; Fred Pete, Alcoholism Prevention Program, Yukon Kuskokwim Health Corporation, Bethel.

PRESENT

Vice Chairman Freeman called the meeting to order and stated two constituents from Representative Guy's district would like to testify on SB 540 (An Act making a special appropriation to the Office of alcoholism in the Department of Health and Social Services for the prevention and treatment of alcohol abuse and alcoholism; and providing for an effective date.)

SB 540

Mr. Buttane stated this is the result of Senator Colletta's travels through the State regarding citizen input on alcoholism. He advised the appropriation is for planning, coordination, evaluation, etc., of a statewide alcoholism prevention program. He stated the emphasis would be on staff people being trained to give technical assistance to control alcohol abuse and for treatment to better deal with the problems of alcoholism.

Mr. Buttane advised in March 1978, the Governor's Advisory Board on Alcoholism stated over 50% of the people going through the program in Anchorage are Native people who do not live in Anchorage and that 54% of the people who go through the program in Bethel live in other areas. He stated this bill, which Bethel strongly supports, would provide funds for development of alcoholism programs where the need is the greatest--in the rural areas. He stressed the need for dealing with Village people in their own areas.

The \$8.2 million appropriation, Mr. Buttane advised, is the amount that is currently available through licenses and alcoholism prevention tax fees. He commented they are trying to assist passage of the Governor's excise tax bill (HB 196).

There was discussion on the commercial air carriers (such as Wein) transporting alcohol to the Bethel area, with Mr. Buttane requesting assistance from the Legislature in restricting the commercial air carriers from transportation of alcohol into those areas.

[Representatives Gruening and Duncan arrived at this time.]

Mr. Buttane advised they needed some additional outside help, other than city policy, in this regard. There was discussion on private groups obtaining liquor licenses, with Mr. Buttane commenting his concern is the control of the local government.

[Representative Schaeffer arrived at this time.]

Mr. Buttane stated it was not their intent to completely prohibit the sale of liquor, but should a community decide to go "dry," this decision should be honored. There was discussion on limiting club permits issued to one at a time (SB 311).

[Representative Meekins arrived at this time.]

At this time, Mr. Pete presented testimony, stating he employed as a Regional Technical Assistant in the Alcoholism Prevention Program of the Yukon-Kuskokwim Health Corporation (YKHC). He advised YKHC operates a contract as the health services agent for 16,000 Native Eskimo residents of 55 regional villages, scattered over 58,000 square mile region. He stated this region has a severe and excessive rate of alcoholism and mental health disease. He advised the YKHC mental health workload in FY 78 increased threefold over the previous year, and that 28% of all mental health clients treated had alcohol-related problems.

He stressed the importance of establishing these alcohol prevention programs at the local level. He stated eight such programs have been established, three of which were in operation the past year under minimal CETA funds, which may not be available during FY 79.

[The meeting recessed at 2:00 p.m. for a joint session of the House and Senate. Vice Chairman Freeman asked Mr. Pete to furnish the Committee with copies of his testimony. He stated the meeting would reconvene at 3:00 p.m. at which time the Committee would address HB 763.]

SB 540
HELD OVER

RECESS

HFC 78-91 #1411 - #1726

HOUSE FINANCE COMMITTEE
April 25, 1978
3:05 p.m.

All members of the Committee were in attendance except for Representatives Cowper, Duncan, Buchholdt and Swanson. Also in attendance was representative Gardiner.

PRESENT

Vice-Chairman Freeman called the meeting to order and stated the first bill to be discussed was HB 763.

HB 763

"An Act relating to commercial fishing and agriculture."

Representative Gardiner presented two amendments which he recommended be incorporated into the Resources Committee Substitute. The first amendment is to delete "commercial fishermen and farmers" on page 1, line 29, and insert "agriculture and fishing businesses". He advised the second section divides the subsection on page 9, line 20 into two new subsections. He advised the first subsection is basically the same as the original amendment. He stated subsection (2) is a new one, saying loans for fishing vessels must be owned by a resident, or the business venture must be wholly owned by residents of the state. Representative Haugen asked if it was possible to become a cooperative under this. Representative Gardiner stated it was, but the coop must meet the same requirements (made up of residents). There was brief discussion.

Representative Meekins moved that a finance committee substitute be prepared, incorporating the resources committee substitute and Representative Gardiner's proposed amendments; and the new committee substitute be reported out. There being no objection, it was so ordered. CSHB 763 was reported out with a "do pass" recommendation.

CSHB 763
REPORTED
OUT

Vice-Chairman Freeman stated the next bill to be discussed was HB 255.

HB 255

"An Act relating to commercial fish loan act."

Representative Meekins moved that HB 255 be reported out. There being no objection, it was so ordered. HB 255 was reported out with a "do pass" recommendation.

HB 255
REPORTED
OUT

Vice-Chairman Freeman stated the next bill to be considered was SB 45.

SB 45

"An Act relating to radiation protection."

Representative Meekins stated the purpose of this bill is to see that radiation equipment is monitored to be sure it gives the correct dosage of radiation. He stated that currently it is not monitored at all.

(Representative Gruening arrived at this time.)

Representative Gruening stated he has a proposed amendment to this bill which deals with atomic energy development. Representative Gruening moved to hold this bill over to give committee members an opportunity to review his proposed amendment. There being no objection, it was so ordered.

SB 45
HELD-OVER

Representative Meekins requested that HB 628 be considered.

HB 628

"An Act making supplemental appropriations to the Department of Health and Social Services, Administration of Justice; and providing for an effective date."

Representative Meekins stated the subcommittee met on this and prepared a proposed committee substitute (see attachment). He explained the differences in figures between this bill and the original bill. He advised they added the sum of \$81,250 to complete the master plan. He stated the lapsing date on this portion is December 31, 1978. Representative Meekins advised they have also added the sum of \$27,238 to update the data base. He stated the Division needs that amount to bring the data bank up to date.

Representative Meekins moved to adopt the proposed committee substitute and report the bill out. There being no objection, it was so ordered. CSHB 628 was reported out with a "do pass" recommendation.

CSHB 628
REPORTED
OUT

The meeting adjourned at 3:40 p.m.

ADJOURN

Section 1. The sum of \$283,939 is appropriated from the general fund to the Department of Health and Social Services, Division of Corrections as follows:

fiscal year 1978 funding of 5 temporary positions at Anchorage Annex Correctional Center	\$56,700
fiscal year 1978 Nome Jail Services	101,287
fiscal year 1978 Bethel Jail Services	43,069
fiscal year 1978 out-of-state federal prison costs	82,883

Section 2. The sum of \$6,700 is appropriated from the general fund to the Department of Health and Social Services, State Parole Board for fiscal year 1978.

Section 3. The sum of \$27,238 is appropriated from the general fund to the Department of Health and Social Services, Division of Corrections, for the period beginning with the effective date of this Act and ending September 30, 1978 to update the ^{correction} master plan data base.

Section 4. The sum of \$81,250 is appropriated from the general fund to the Department of Health and Social Services, ^{Office of the Commissioner,} for the period beginning with the effective date of this Act and ending December 31, 1978 for payment of costs necessary for the completion of the ^{correction} master plan.

HOUSE FINANCE COMMITTEE

April 26, 1978

1:25 p.m.

All members of the Committee were in attendance. Also in attendance to testify: Richard Blanchard and Dem Sisco, Wm. Blanchard Co.; Jay Hogan, Legislative Finance Division; Representative Kelly; and Mort Hoppenfeld, George Behlke, Bill Curbus, Ron Larson and Arliss Sturgulewski, Capital Site Planning Commission.

PRESENT

Chairman Cowper called the meeting to order and stated the purpose of the meeting was for the Committee to begin to familiarize themselves with the capital move issue and bonding. He advised the bills upon which they will be asked to work are currently in the State Affairs Committee. He stated the Committee is not by-passing the State Affairs Committee by beginning to study the capital move issue at this time.

CAPITAL
MOVE
ISSUE
& BONDING

Chairman Cowper stated there are three key issues the Committee has to address: (1) the number of personnel the state employs that are to be shifted to the new capital site; (2) the rate of inflation and construction costs; and (3) the rate of government growth.

Chairman Cowper advised that representatives of the Wm. Blanchard Co. are in attendance. He stated the Company had been retained by the Legislative Finance Division to look into these questions. Mr. Hogan, Director, Legislative Finance Division, presented members with a red booklet which contains an estimate for the capital construction site. He advised the Wm. Blanchard Co. was retained to provide a cost estimate for construction of the capital, based on assumptions given to the Capital Site Planning Commission (CSPC). He stated their focus has been on that. Mr. Hogan advised that other items that came to their attention are included in the booklet. He stated there is a Memorandum from him, that opens the report, which summarizes the enclosures and findings of the report. There is a summary cost sheet giving total construction costs. He explained what is contained in the book.

WILLIAM
BLANCHARD
COMPANY

(Representative Gruening arrived at this time.)

Mr. Hogan advised the method used by Blanchard was somewhat different from the CSPC method, in that specific existing buildings were used as models. He advised they were basically working from buildings constructed in the state of Alaska.

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Mr. Hogan stated the second tab in the book contains two summary sheets prepared by the CSPC. The next tab contains information on other projects that will impact the cost of construction. The next tab is the Attorney General's Opinion. He stated there is some question on what the Legislature's prerogatives are, and he would expect the Committee will get into this issue sometime when the attorney general is present. Mr. Hogan stated the next tab is a report from White Weld and Co. He stated this study was commissioned by the Budget and Audit Committee to address the question of the ability of the state to relocate the capital. The next tab is concerned with federal receipts. Mr. Hogan advised that in the CSPC report there was about \$53 million federal receipts anticipated. He stated that, upon checking with the federal delegation, it appears that additional federal money is not to be anticipated. Mr. Hogan stated the final item in the book was included to draw attention to problems of new cities.

Chairman Cowper asked who drew up the "Attachment A" in the book. Mr. Hogan advised the Legislative Finance Division did.

Chairman Cowper asked what the square footage for the court building in the new capital city was. After brief discussion, Representative Kelly stated he believes it is about 213 square feet per employee. Chairman Cowper stated the reason he asked is that it strikes him that it might not be necessary to build a court building as large as the one in Juneau because here you are taking care of litigation that is in Juneau itself. Mr. Hogan stated their assumption was the Juneau court building.

(Representative Haugen arrived at this time.)

Mr. Hogan stated his thought was that Mr. Blanchard and Mr. Sisco could explain how they arrived at building costs and address specific questions after that.

Representative Kelly stated he would like to study the report before commenting on it, but he would be interested to know how this report came about. He stated it seems that since the legislature had already commissioned the CSPC to do this study, they should do this. Chairman Cowper ruled this question out of order, stating questions to the material here could be asked, but that he could not attack the motives of the report. Chairman Cowper stated if the question was how the report was originated, that would be a proper question. Representative Kelly stated that was his question. Mr. Hogan stated at the time the decision was made to do this report, the Legislative Finance Division had a capital projects planner budgeted for last year. Mr. Hogan stated he asked members of the finance committees to provide him with projects of interest to the legislators to have the capital planner address to have information available for this session. He stated there were no

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specific projects provided. He stated he learned the Executive Branch did not plan any sort of study on costs of the capital. He stated he was not certain the CSPC would be able to accomplish this, and having funds for a capital site projects planner, this was the only project he could logically see for the planner. He decided to do this himself, and did consult with the leadership of the finance committees to let them know what he had in mind.

Chairman Cowper added it is his recollection that every member of this Committee knew the study was taking place. He stated it is common practice to bring in several sets of experts to testify on important matters.

Mr. Hogan commented that with a project of this magnitude it seems reasonable to have a comparison. He stated at the 10% figure, both the CSPC and Blanchard came up with the same total dollar figure to build the city -- \$1.9 billion. He stated if anything, there is a sense of confirmation about this, and it seems appropriate to put that type of information before the finance committees.

Mr. Richard Blanchard, President, Wm. Blanchard Company, stated they are builders and contractors who specialize in commercial and industrial construction. He advised Mr. Sisco is an estimator and project manager in his company. See attached list of projects done by the Company. Mr. Blanchard stated they have not had building experience in Alaska. He stated their experience is mostly in New Jersey. He advised they spent a good deal of time here last August in Anchorage and at the Willow site. He stated they talked to local suppliers and subcontractors, and members of the building contractors association. He stated they studied local conditions in as much detail as they could.

Mr. Blanchard referred to the cost estimate chart in the booklet, labeled "municipal buildings". He advised the figures are summarized on the cost estimate sheet. Mr. Blanchard stated they followed the criteria established in "Attachment A". He stated in most cases they received plans and specifications for buildings that had actually been constructed in Alaska. Referring to the municipal buildings chart, Mr. Blanchard stated all figures in the first portion are based on 1977 dollars. He stated at the bottom of the chart are four lines indicating what the figures would be at various compound escalation rates.

Mr. Blanchard explained how they arrived at the construction numbers that appear on the summary sheet. He stated the first number on the chart is \$5,014,000 for elementary schools. He stated the Auke Bay Elementary School was used

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as a standard. He stated they prepared their estimate in much the same way they do for lump sum competitive bidding. He stated they had a summary sheet for the Auke Bay Elementary School, with 20-some line items relating to various categories of work. The first line item for this school was \$41,581 for site work. He stated they have back-up sheets relating to the summary sheets for each estimate. He advised there are three pages of calculation relating to site work for that particular school. He went on to explain the various line items, and how they came to those figures. He stated that for each category they estimated their own numbers on the summary sheet, and they are net prices in 1977 dollars. He advised a great many parts of the work are done by sub-contractors, and where practical they talked to and obtained figures from subcontractors in the Anchorage area. He stated they also included 9% for design, which would normally not be a construction cost. He advised that from these figures they arrived at a total estimate of \$100.28 per square foot for the Elementary School. They then adjusted the figure to the necessary square feet for the school as it is to be constructed at the Willow site. Mr. Blanchard stated that is the method they used for most estimates they prepared. They used plans that had already been constructed.

Representative Buchholdt asked, in making the selection of a standard school, why Auke Bay Elementary School was selected. Mr. Blanchard advised they were not directly involved in the projects selected. He stated he believes that decision was made by the Legislative Finance Division. He stated it would seem to them that this school was a fairly recent one, and was fairly representative of something that was recently constructed. Mr. Hogan advised the specifications for the schools were recommended by the Department of Education.

Representative Kelly stated there is a lot of concern with cost over-rides. He stated the CSPC has indicated the probability of an over-run is almost minimal. He asked if Mr. Blanchard thought there would be a cost over-run. Mr. Blanchard stated he thinks there is less likely to be a cost over-run in a project of this type than one like the pipeline. He stated he thinks the selection of a contractor is of paramount importance before an assumption is made there.

Representative Kelly asked if the costs were prepared with the CSPC assumptions. Mr. Blanchard answered yes.

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Mr. Blanchard stated the total figures are in 1977 prices. He advised they did not presume in this price to pin-point what the compound escalation rate should be. He stated there are other items that could have been included but were not: they didn't have access to any soil bearing findings. If the actual soil bearing is significantly different from the standard they used, the cost could be higher or lower. Mr. Blanchard advised there are a number of things they didn't include because there were exempted from the list, like nursery schools, a skating rink, etc. They also did not include moving costs, financing, etc.

Representative Gruening asked what criteria was used to establish when schools should be built. Mr. Blanchard said they didn't make that judgement; "Attachment A" indicated the schedule for construction of schools. There was brief discussion on school construction. Representative Swanson asked, when using buildings constructed in Juneau, if they allowed for differences in costs between that area and Anchorage. Mr. Blanchard answered yes, they used the plans only for the construction, they were not using the source data on what the cost was. Representative Kelly referred to the escalation rate, ranging from 8% to 15%, and he asked how they arrived at 15%. Mr. Blanchard stated he was given those figures and asked to cost them out.

Chairman Cowper stated he would like to go into some historical basis for escalation of construction costs. He would like to find out what factors were used, and what the historical trends are. Mr. Blanchard commented that they are building contractors and not economists. He stated to predict economic trends is difficult for anyone to do. He advised they reviewed historical data. There are a number of groups who prepare construction cost indices, and they studied six of them. Mr. Blanchard stated the first index they reviewed was the Beck index. He advised they had figures for Anchorage, Fairbanks and Juneau. The 1977 figure for Anchorage was 9.7% annually compounded; Fairbanks was 9.1%; and Juneau was between 9.0% and 9.1%. There was a Marshall index that was approximately 8.5%; and there was a Means Co. index for Anchorage, but that did not cover a full seven-year period. For five years it was 9.9%. He stated when they focused on the 1974-1977 period, the Beck rate for Anchorage was 12.5% and for Fairbanks it was 11.9% for those years. Mr. Blanchard advised the tentative conclusion he reached is that if the 1970-1977 figures were used as historically significant, and projected into the future, the escalation rate to use would be somewhere between 9.4% and 9.5% for Willow. Mr. Blanchard stated the 1974-1977 rates are closer to them. In his judgement, they probably reflect more accurately what would occur in the near future. If averaged, that figure is between 11.5% and 12%.

Mr. Blanchard stated that what is going to happen in the next few years is very closely related to what other construction activity there is in Alaska. He stated his understanding is that the gas and hydroelectric projects are substantial, which together would be a significant increase in construction. He advised their judgement would be that a prudent escalation rate would be between 11.5% and 12%.

(Representative Guy arrived at this time.)

Chairman Cowper asked, leaving aside local area construction impact rates, what factors in the building industry are there that are causing construction costs to rise as significantly as they have. Mr. Blanchard stated that generally, one of the major factors is the cost of labor, and cost increases that are built into labor agreements that are in effect don't show signs of decreasing. He stated one other factor is the amount of activity in an area. Chairman Cowper asked about the availability of materials. Mr. Blanchard stated that would be a significant factor in Willow. There was brief discussion on the increased costs of construction.

Mr. Hogan mentioned that, relating to the question of how the schools were scheduled, they were scheduled as contained in the CSPC document. Concerning the question on how they arrived at the size of a particular school, Mr. Hogan advised these were specific standards given to them by the Department of Education.

Representative Gruening stated he thinks the questions concerning the schools are relevant because the State will be picking up 50% to 70% of the school costs.

Chairman Cowper called a recess at 2:40 p.m., and recalled the meeting to order at 3:05 p.m. In attendance at this time were Mr. Belke and Mr. Hoppenfeld of the Capital Site Planning Commission.

RECESS

Mr. Belke stated his understanding is they are to address the financial plan of the report for the capital move.

CAPITAL
SITE
PLANNING
COMMISSION

Mr. Hoppenfeld, Executive Director, Capital Site Planning Commission, stated the financial plan was prepared in a manner that reflected a program for growth of the city. They started with an assumption that the city would arrive at a certain employment rate, and it would continue to grow at a certain rate until central positions had been relocated to the new capital site. The plan was prepared in a manner that reflects the way the city would be built -- by a rational development process. Mr. Hoppenfeld stated that

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regardless of the actual numbers, in a financial plan one has to allocate where investments come from. He stated that by their allocation, the overwhelming majority of the costs are in the private sector (65%). The State's share (these are capital investments only--not debt service, etc.) is 27%, the new municipalities share is 5%, and the federal share is 3%. He stated they assumed the borough would not have any costs.

Representative Gruening asked if the new municipality's share would take care of school functions. Mr. Hoppenfeld stated no, the costs for the new municipality is largely in sewer, water and utilities. The schools are assumed to be paid for by the State in G.O. bonds.

Mr. Hoppenfeld presented and explained the financial information from four charts which are included in the volume prepared by the CSPC and were presented to each member of the Legislature. He stated their costs were arrived at by local experts Hanscomb & Associates. The inflation rate would compound at 8% annually. He advised that is the cost reflected in the plan. There was discussion on the charts. Mr. Hoppenfeld stated they assumed that Alaska Housing Finance Corporation will participate in financing of homes in the capital city.

Representative Buchholdt asked if 3100 positions will be re-located from Juneau. Mr. Hoppenfeld stated that in 1977 there were approximately 3100 positions that were identified as central to the State out of 14,000 total state positions. He advised that 2600 are in Juneau, the others are in Anchorage, Fairbanks and other locations in the state.

Mr. Hoppenfeld stated there are many policy assumptions that it falls to the Legislature to address. He handed out four documents (see attachments). The first is a summary of House Bill 857. The second is a memo dated April 19th which is an attempt to clarify what seems to be some of the assumptions that are over-lying this financial plan. He discussed that memo.

Mr. Hoppenfeld stated that in the new capital city, they figure that 74% of the land is best left undeveloped. In effect, the city development exists on some 16,000 acres. He stated the average density will be 2.3 dwellings per urban acre. He stated that one key assumption is that they are not assuming an intensely developed city.

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Mr. Hoppenfeld stated another assumption made is the city is assumed to grow at a programmed rate of development based on: (1) judgement as to the number of employees to shift per year; (2) capacity of industry to build the city. They plan to start with 500 units; (3) not to withdraw personnel from Juneau too rapidly, because that would impact the economy. It was on that assumption that they expended the development period to 1994.

Mr. Hoppenfeld stated another key assumption adopted by the Commission was that all central positions be relocated. Another assumption made was that they could not begin construction until 1980. He stated the Commission concluded it would not be possible to have personnel on site by 1980. He stated the predevelopment work that needs to be done wouldn't allow it.

Mr. Hoppenfeld stated that assumed 210 square feet per person for the office space. Mr. Hoppenfeld stated another assumption made was for the inflation rate -- the assumed 8%. Chairman Cowper asked what the sequence of events was that dropped their inflation rate from 10% to 8%. Mr. Hoppenfeld stated that in January when their preliminary financial report was submitted, they presented a spread sheet with three columns -- inflation at 7%, 10%, and 12%. He advised that rather than doing a detailed estimate, they simply took the middle figure. He stated they then made a presentation to the Commission.

Mr. Behlke advised their consultant (American City Corporation) indicated a 7% inflation rate. He stated a cost estimate was done by Hanscomb and Associates.

Chairman Cowper asked how scientific an estimate could be. He asked if they just studied trends, or if they could actually look into types of materials that would be required, freight rates, etc. Mr. Hoppenfeld stated Hanscomb and Associates made an effort to do it that way. They came up with a different number for each year. In American City's judgement, to try and use a different number each year would be too difficult.

Mr. Behlke stated the end result is that the Commission voted to accept an 8% inflation rate. He stated they recognize that they are no better than the next person in estimating inflation. He stated they began with the consultant stating they felt comfortable with a 7% inflation rate. There was brief discussion on the inflation rate.

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Mr. Hoppenfeld stated that since the state office building is the largest cost item, it was judged that it should be paid out of g.o. bonds. He stated the decision was that it would not be politically acceptable to go through the general fund.

Mr. Hoppenfeld stated that did not assume any federal funds for the highway access. He stated the Commission did not want to usurp any state highway funds for this highway.

Mr. Hoppenfeld stated another assumption made is that the schools will be paid for by the State through G.O. bonds. He stated the State will pay 100% of construction costs. He advised the normal procedure is that the borough would authorize the bond issue, build the school, and then get reimbursed by the state. The logistics of having the state pay 100% of construction costs at this time was that it is going to be hard enough to make this a good city to work in, in the early stages; and rather than have this new city hassling with the borough for funds, they decided to take this approach. Chairman Cowper asked what the Borough had to say about this. Mr. Ron Larson, member CSPC and Mayor, Mat-Su Borough, stated the borough is in favor of this.

In answer to a question from Chairman Cowper, Mr. Hoppenfeld stated the legislation does not call for any succession from the borough. He stated it was considered and rejected as not being desirable. He stated the intent was to build a city that would be much like any other city in the State. The procedure for developing and financing the new city are modeled after existing structure. Mr. Behlke stated their thinking was that they wanted to go as much as possible with existing laws and existing patterns. Mr. Hoppenfeld stated the schools are borough schools. The difference is only in how they get paid for initially.

There was brief discussion on the size of the new capital city. Mr. Behlke stated they assumed that in 1994 there would be one in-service job for each state job, and they assumed there would be three people per family. He stated there assumption was that there would be 1.3 jobs per family, and that 80% of the people would be located within the city.

Representative Duncan asked what the differences were in the bottom line of the financing plan prepared by the American City Corporation on January 9th and January 25th. Mr. Hoppenfeld stated one of the items taken out of the public cost was for housing finance corporation. The only part remaining in public is 20% sharing. Representative Duncan stated the total state figure at 10% is more than the state figure at 8%. Mr. Hoppenfeld stated in the original report there were 1,000 dwelling units assumed to be paid by ASHA, that has been cut to 500. Mr. Behlke will check into this and provide Representative Duncan with additional information.

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Mr. Hoppenfeld referred to the April 19th memo (attached) for other assumptions and decisions which effect the financing plan.

Representative Duncan asked if the Commission had taken Hanscomb and Associates inflation figures and projected their inflation rate, what would it be. Mr. Hoppenfeld stated he didn't know, but they have that information, and he will provide it.

Representative Gruening asked if they had estimated what the effect of the bonds for the new capital would have on other municipalities. Mr. Hoppenfeld stated he discussed this with the deputy director of the Municipal Bond Bank, and he felt that with the reserve fund there would be no problem.

Mr. Hoppenfeld referred to his April 25th memo (attached) showing how the financial plan can be used as a tool and interpreted in many ways. He stated the purpose of the memo was to address the differences between costs and investments. He explained what was in the memo.

Representative Gruening asked if private investment monies spent on the new capital will be in lieu of private investment that would go in other areas, like the Valley, or in addition. Mr. Hoppenfeld stated that based on trends, it was assumed that by 1995 the Valley would increase to a population of approximately 125,000 without a capital. He stated the difference the capital would make is to move that number forward by a few years. He stated that the cost of building the capital is less than 10% of the construction in the Anchorage bowl.

Chairman Cowper asked if anyone had studied trends in government employment. He stated there could be an argument that in the future there might be technology changes to the point where they wouldn't need to increase central positions. He stated he didn't think there was going to be a lessening in government employment, but he thinks the increase will be in the field. Mr. Hoppenfeld stated they hired a consultant to look at things like this. In their judgement, the central positions will grow at a rate of 6% per year. Mr. Hoppenfeld stated what they have reported here is the best judgement of the consulting staff who is assumed to be competent and able (Lane and Associates). Chairman Cowper asked if he had the consultants report in detail. Mr. Hoppenfeld stated that is in summary #2 provided to the Legislature. Mr. Hoppenfeld stated that all other costs were reached on this notion, and it is an important assumption. He stated the Commission spent hours deciding what the growth was.

Mr. Hoppenfeld advised the last item he presented to the Committee was an analysis of the FRANK initiative versus the Willow move.

Chairman Cowper stated he believes the State owes the members of the Capital Site Planning Commission a debt of gratitude for the work they have done.

Mr. C. B. Bettisworth, member of the FRANK committee and a co-sponsor of the initiative, appeared before the Committee. He stated their goal was to make voters aware of the magnitude of costs on the capital move, in order that they make a commitment to the total move. He stated they developed the initiative and circulated it. He advised it has been certified, and will hopefully be on the ballot in November. He believes that what the initiative requires is that all bondable costs be put on the ballot. He stated their intent, and the intent of the CSPC, was to see a city at Willow; not a capital campus or a satellite city of Anchorage or Palmer.

FRANK
COMMITTEE

Chairman Cowper asked if the plan presented by the CSPC met those specifications. Mr. Bettisworth stated it did, and he would like to commend them for the work they have done.

Mr. Bettisworth stated they did not want to see the State make the same mistake that was made in the Fairbanks North Star Borough. He stated the Borough had a large reserve, they invested it in capital projects, and today the reserve is gone, and they are talking about raising the millage rate from 5.4 to 8.4.

Representative Swanson asked if the total cost which is to be on the ballot includes g.o. bonds and direct costs from the general fund. Mr. Bettisworth stated no, the initiative didn't require that general fund expenditures be displayed on the ballot. The only stipulation is that voters be made aware of those costs. There was brief discussion on the costs.

The meeting adjourned at 5:10 p.m.

ADJOURN

Tape HFC 78-92 #709 to end
HFC 78-93 #001 to end
HFC 78-94 #001 to 882

4/26/78

RECENT AND CURRENT WORK
(PARTIAL LISTING)

DATE OF COMPLETION	TYPE OF BUILDING	OWNER (OR TENANT)	LOCATION	AMOUNT	REFERENCE	ARCHITECT
1973	Hospital Addition	Middlesex General Hospital	New Brunswick, New Jersey	\$ 9,100,000.	Bruce Topolosky Executive Vice President Middlesex General Hosp. 180 Somerset Street New Brunswick, N.J. (201-828-3000)	Alexander Owsny Ferrenz & Taylor, Inc.
1974	Office Building	New Jersey Bank, N.A.	West Paterson,	\$10,000,000.	John Gochenaur, Exec. Vice President New Jersey Bank, N.A. 1 Garret Mountain Plaza West Paterson, N.J. (201-881-5330)	Lloyd Slomanson Kennerly, Slomanson & Smith
1975	Satellite Hospital and Hospital Addition	Atlantic City Medical Center	Pomona and Atlantic City, New Jersey	\$ 7,000,000.	Charles L. Taylor, Admr. Atlantic City Medical Center, 1925 Pacific Ave. Atlantic City, N.J. (609-344-4081)	Wendel Morgan, Jr. Ritchie Organization
1976	Hospital Addition	Pascack Valley Hospital	Westwood,	\$ 5,450,000.	N.T. Verrastro, Admr. Pascack Valley Hospital Old Hook Road Westwood, New Jersey (201-664-4000)	L. J. Mineo L. J. Mineo, AIA Partnership
1971	Warehouse	The Book Warehouse	Totowa, N.J.	\$ 400,000.	Franklin Rodgers, Exec. Vice President Charles Scribner's Sons 597 5th Avenue New York, New York (212-486-4070)	Gilbert Ross Ross & Company

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4/26/78

WM. BLANCHARD CO. - RECENT AND CURRENT WORK (PARTIAL LISTING)

DATE OF COMPLETION	TYPE OF BUILDING	OWNER (OR TENANT)	LOCATION	AMOUNT	REFERENCE	ARCHITECT
1970	Office Building	General Learning Corp.	Morristown, New Jersey	\$ 2,700,000.	Lincoln Mullen, Manager Facilities & Services General Learning Corp. 250 James Street Morristown, N.J. (201-285-7883)	B. Kellenyi Office of B. Kellenyi
Continuing Work Major projects in 1961, 1971, 1977	Hospital	St. Barnabas Medical Center	Livingston, New Jersey	\$12,000,000.	Charles Horowitz St. Barnabas Medical Center, Old Short Hills Road, Livingston, N.J. (201-992-5647)	Charles Grable Ferrenz & Taylor Inc.
Various	Additions and Alterations	The Coca Cola Company	Kearny, N.J.	Various Sums	Peter Hammersma Plant Engineer Coca Cola Company P.O. Box B, Bergen Station Jersey City, New Jersey (201-344-8434)	By Coca Cola Company
Continuing Work Original project completed in 1972	Office and Laboratory	BASF Corporation	Parsippany, New Jersey	\$ 5,000,000.	George Moore, Manager Insurance-Real Estate BASF Corporation 100 Cherry Hill Road Parsippany, N.J. (201-263-0202)	Robert Kleid The Eggers Partnership
1971	Plant	U.S. Radium Corp.	Washington Township, N.J.	\$ 1,800,000.	E.B. Fisher, Chairman U. S. Radium Corp. 170 E. Hanover Avenue Morristown, N.J. (201-539-4000)	Charles Porter

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WM. BLANCHARD CO. - RECENT AND CURRENT WORK (PARTIAL LISTING)

DATE OF COMPLETION	TYPE OF BUILDING	OWNER (OR TENANT)	LOCATION	AMOUNT	REFERENCE	ARCHITECT
1973	Office Building	Hooper-Holmes Bureau, Inc.	Basking Ridge, New Jersey	\$ 1,536,000.	Dudley North, V. P. Hooper-Holmes Bureau 170 Mt. Airy Road Basking Ridge, N.J. (201-766-5000)	B. Kellenyi Office of B. Kellenyi
1977	Computer Center	New York Life Insurance Company	Clinton Township, New Jersey	\$18,000,000.	Marshall Bissell, Pres. New York Life Insurance Company, 51 Madison Ave. New York, New York (212-576-7000)	Bernard Grad The Grad Partnership
Various	Headquarters Building and Various Locations	Jersey Central Power & Light Company	Various	Various Sums	Norman K. Lanterman, Buildings' Manager Jersey Central Power & Light Company, Madison Ave. at Punch Bowl Road Morristown, N.J. (201-539-6111)	B. Kellenyi Office of B. Kellenyi
1977	Hospital Alterations	The Englewood Hospital Association	Englewood, N.J.	\$ 1,600,000.	Thomas Marshall, Head Building & Grounds Englewood Hospital 350 Engle Street Englewood, N.J. (201-568-3400)	J. Weglarz Ferrenz & Taylor, Inc.
In Progress	Operations Center	The Howard Savings Bank	Livingston, New Jersey	\$ 8,400,000.	Murray Forbes, President The Howard Savings Bank 768 Broad Street Newark, N.J. (201-456-3000)	Bernard Grad The Grad Partnership

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Summary HB 857 - SB 553

The Capital Site Planning Commission was mandated to prepare detail development plans for the relocation of the central functions of state government, the establishment of a New Capital City and the growth of these till relocation is completed. Further, it was required to identify all the costs involved in the process and to prepare a financial plan for its funding. In conformance with many conditions described in the legislation which guided the Commission's work, it was to develop proposals for implementing the plan over time and for the establishment of a local government for the new city.

The planning process begun by the Commission revealed the development task to be highly complex, but nonetheless doable. The Commission has come to value the concepts of a rational planning and development process for building this city. It recognizes the difficulty of the undertaking but believes that the people of the state would be well served by the establishment of appropriate planning and development processes in contrast to the essentially laissez faire practices of urban development which responds to random pressures of population growth.

In this proposed development of the new state capital in particular, it believes that new processes must be used to create the kind of city portrayed in its "report to the people".

The proposed legislation HB 857 and SB 513 were conceived to enable and facilitate the building of this city. Existing planning and development pressures of Mat-Su Borough and the state were carefully assessed for their potential use. Every effort was made to incorporate into the process the concepts and methods of financing, review, management and governance which had relevance and precedent in the state.

After careful scrutiny by the Attorney General's Office and Mr. Berrier of the Legislative Affairs Agency many amendments have since been incorporated. Now both have indicated that they believe the contents of the legislation to be wholly constitutional.

Following is a summary of the legislation.

I. Establishment of an Alaska Capital City Development Corporation. An instrumentality of the state

(within the Dept. of Commerce & Economic Development) but with a legal existence separate from the state. A public corporation created to manage the development of the capital site so that: government facilities may be built in a timely and cost effective manner; land can be readied for sale to private builders and developers able to provide the housing and other private facilities necessary and consistent with the growth of the work force; land may be transferred to the new municipality and to other state agencies as appropriate for public purposes; the necessary public facilities may be provided for the

functioning of the new city until such time as the municipality can take full responsibility; whatever is required by way of its own actions, cooperative agreements and contracts to insure that the social, economic and environmental qualities of the new city as described in the detail development plan and as ammended from time to time be achieved.

A. The board of directors.

Eleven members. The mayor of Mat-Su Borough; the Commissioner of Commerce & Economic Development; 9 members and chair selected by the Governor, 4 year terms at pleasure of Governor. (legislative confirmation?) (representative from new municipality?) The board sets policy, establishes C.D.C. regulations, holds public hearings, employs executive director and personnel, members may hold any other public or private position while serving.

Meetings of the Board are governed by AS 44.62.310 and 44.62.312.

B. A Development Advisory Board shall be established by the C.D.C. to consider and advise on matters concerning the provision of services and facilities and other planning and development issues.

C. Powers of the C.D.C.:

To sue and be sued, to enter into contracts and other instruments necessary to its mission; adopt, amend and repeal regulations; enter into leases and agreements with the state to finance the cost of state buildings or property to the extent authorized by law, to acquire and dispose of property as deemed necessary; to open streets and public rights of way and provide facilities and services as required; adopt or impose land use and building design restrictions through covenants or otherwise on real property owned by the corporation; charge and collect fees for the use of facilities and services; plan, finance, develop, acquire, construct, operate, sell or otherwise dispose of structures etc. In connection with the development plan; borrow money, issue rates, and other obligations, pledge any of its real property, fees or revenues, sell revenue bonds with approval of State Bond Committee; acquire real property outside the capital city area in any lawful manner including the exercise of the power of eminent domain--these for the purpose of providing water, sewer, road and other utility extensions necessary for the capital city.

D. Development Plans:

The C.D.C. shall prepare a general development plan based on the one presented by the Capital Site Planning

Commission. After public hearings in each judicial district of the state--adoption of such a plan and any future amendments shall be by two-thirds vote of the board.

Specific development plans shall be prepared and adopted preceeding actual site development.

E. C.D.C relationship to state and municipalities.

Reciprocal cooperation, consultation, contracting for services and other such agreements may be entered into. A master environmental permit application will be filed with the Department of Environmental Conservation.

F. Loans from State General Fund

As per an agreed to annual schedule, the C.D.C. may borrow up to \$153 million. Loan agreement, terms and interest rates (7%) to be fixed at the time of loan. C.D.C. repays the loan from land sale proceeds and the sale of utilities to the municipality.

G. Oversight of loans and fiscal affairs of the C.D.C.

Annual or other periodic review procedures to be determined by:

- a. a committee consisting of the Commissioner of Revenue and four other commissioners of principal departments of state government appointed by the Governor.
- b. The legislative budget and audit committee.
- c. The legislative auditor.

d. Independent auditors employed by the C.D.C.

H. Other

C.D.C. will adopt regulations for sale and lease of property. Property in the capital city is not subject to Alaska Land Act (AS 38.05).

Initial construction contracts shall be awarded by competitive bid, but bid formalities may be waived under certain circumstances.

I. Money of the C.D.C.

Corporation is tax exempt but can pay in lieu of tax fees to the municipality and borough.

The full faith and credit of the state is not pledged to any C.D.C. revenue bonds or notes.

Annual budget of C.D.C. to be approved by two-thirds vote of the board.

J. Termination of C.D.C.

It shall continue until either

1. completion of the general development plan.
2. the city has a resident population of 37,500 or
3. no later than the year 2010.

In any of the situations the corporation shall recommend and the legislature shall determine whether it is in the interest of the state for the corporation to continue. This determination shall be made one year in advance of proposed action by the board. It cannot dissolve with outstanding debt.

II. Creation of a Local Municipality

Passage of this legislation would establish a second-class municipality co-terminous and including all the land of the capital site, within the Matanuska-Susitna Borough. No action of the local Boundary Commission is required.

Until council members are elected by residents a five person council shall govern, four appointed by the Governor, one by the C.D.C. They shall serve staggered terms.

When the city attains 25 permanent residents it shall elect its own council as prescribed by ordinance. It may then as the population reaches 400 apply for first class status.

The Mat-Su Borough may not exercise area wide powers within the capital city for a period of five years from the first election. Public schools shall be built and operated according to terms of a cooperative agreement, the C.D.C. may be a party to such agreement.

The capital city may exercise planning, zoning and building regulation powers via agreement with the borough.

The C.D.C. shall transfer to the city ownership of utilities according to an agreed schedule.

III. Other

\$49.4 million dollars may be loaned from the general fund to the ASHA to provide up to 500 housing units for the elderly and persons of lower income in the capital city.

The purposes of the AHFC shall be expanded to allow relocated home owners to be eligible for low interest mortgages.

310 'K' Street
Suite 708
Anchorage, Ak. 99501
(907) 276-3003

DATE: April 19, 1978

TO: Arliss Sturgulewski
Vice Chairwoman

FROM: Morton Hoppenfeld *MH*
Executive Director

RE: Notes Toward Understanding the Detailed
Development Plan & Financial Plan--Critical
Policies & Assumptions

A Land Conserving But Still Low Density City

The land use plan is designed to accommodate a complete city of approximately 75,000 people.

The allocated land is sufficient for all the housing, public and private facilities, roads, open space, etc., while based on the assumption of a relatively low intensity of use:

Housing

Housing is assumed at an average overall density of 2.3 units per acre. Private office space in buildings at an average of three stories. Retail space at one level only. Public office space at four stories. Most parking is assumed to be at grade. These assumptions were deemed to reflect desired life styles and a balance of interests seeking construction and energy economies combined with land conservation practices, facilitation of public transit and a pedestrian environment downtown and in village centers and the provision of much open land for recreation and other uses. The infrastructure is designed so that it may accommodate higher densities and a larger population but no tests were made to assess limits.

Preservation of Open Space in the City

It was judged that no more land was necessary to be allocated to urban uses than that shown and that the land which is designated to be open is that which is least desirable for development (74 sq. miles[±]). After further detail study by the C.D.C. and involved state agencies, the open space is proposed to be transferred to the state and the municipality as permanent local and regional parks.

The City Grows by Increments Until All the Land is Developed
(6,000 Acres of Land are Still to be Developed After 1994)

The development program is based on a steady build-up of construction capability beginning with about 500 dwelling units/year in 1982 and increasing in number slowly to about one thousand/year in 1988 with a peak in 1992 of 1,600 units/year. State office space construction averages about 170,000 sq. ft./year. Infrastructure such as roads, sewer, water, heating, schools and other public facilities are scheduled to be built in increments to keep pace with the projected population growth and their facility requirements.

The cost of the infrastructure is incurred incrementally and is related to the development pace. Income from land sales begins in the first year and is similarly related to growth projections.

Without the need to alter the overall plan and design of the city, the development schedules and Financial Plan can be changed to reflect many different growth rate and population assumptions--so long as all related factors are changed simultaneously.

A population of about 10,000 is estimated to warrant completion of the first phase of most essential aspects of the city and to establish a tax base sufficient for the municipality to sell its own revenue bonds which enable it to purchase the utility systems from the C.D.C.

Power and telephones will be handled from the outset by the established utilities in the borough.

Some Key Assumptions and Policy Decisions Which Effect the Financing Plan:

1. Costs and revenues are estimated till 1994 and stop there. This was mandated in the enabling legislation. The commission was required to follow the guidelines as in the report of the Site Selection Committee. Thus the city plan was to accommodate 5,960 central state employees and 30,000 residents by 1990.

With this a 6% per year compound growth rate for central government positions was given.

In 1977 the Number of Central
Positions Appropriate to be
Relocated were Judged to be:

Total State
Employees 1977

Juneau	2,569	3,597
Anchorage	584	4,444
Fairbanks & Other	13	5,276
Total	3,166	14,376

2. Commission interpretation of legislative intent was that all such central positions be relocated.
3. The guiding figures of 5,960 positions 30,000 population in 1990 are essentially met in the development plan but additional assumptions resulted in larger growth over an extended development time, these are reflected in calculating the costs:
 - A. Initial (site selection study) estimates of central positions did not include Anchorage and Fairbanks positions. The concept of moving "all" central positions was interpreted to include these.

- B. Occupancy of the first buildings could not be achieved until 1982 (Site Selection Committee assumed 1980) during which time growth in current central positions would increase the number to be relocated.
- C. A moderate relocation rate was selected to achieve a slow withdrawal of positions from Juneau so as to minimize the negative impacts.

All of the above assumptions resulted in extending the date for completion of a full relocation till 1994.

By that time the growth in central positions is estimated to reach 8,657 and the resultant city population is 37,500. The costs of the plan are for the city as of that year. The Financing Plan shows the costs as incurred year by year.

- 4. An average of 210 sq. ft. of gross office space is currently used per employee (includes corridors, storage, equipment, etc). Current office space used for central positions in Juneau, Anchorage and other is equal to approximately 664,900 sq. ft. Projected office space needed by 1994 equals approximately 2,097,800 sq. ft.
- 5. The inflation rate of 8% per year is a commission assumption. Guestimates ranged from 6% to 12%. The legislation requires the costs be shown as escalated.
- 6. Use of General Obligation Bonds of the State:
 - A. State office space should be paid for with G.O. bonds (\$604 million escalated)--lease purchase was considered and rejected as politically not acceptable.

- B. The access highway (\$65 million escalated) is proposed to be paid for with G.O. bonds and built by the DOT. While no federal participation is assumed, it may be possible at a later date. This could be built by the C.D.C. as are other major roads in the city and thereby capable of being paid with general fund loans to C.D.C.
 - C. All school construction costs (\$260 million escalated) are proposed to be paid by G.O. bonds with the state paying all capital costs. This is in contrast to the standard practice where initial capital costs are typically borne by a borough, with state repayment according to a statewide schedule after occupancy.
 - D. Normal grants to a municipality for sewer, water and airport improvements are shown as \$26.9 million by 1994.
7. Use of funds to be borrowed from the General Fund:
- A. The C.D.C. would borrow to a peak debt of \$153 million (escalated) by 1987 and be repaid by land sale proceeds and municipal bond sales for utilities. C.D.C. would return a surplus of \$117 million by 1994 (more after that see below).
 - B. The state would participate in up to 20% of mortgage purchases by the AHFC to provide low interest mortgages for relocated home owners to a net of \$57 million by 1994 (with full payback after).
 - C. The state would loan money to the ASHA program to finance 500 new housing units for a net of \$38.6 million by 1994 (with full payback later).
 - D. The state would contribute \$227.5 million (escalated) by 1994 to the borough in normal foundation and school aid programs based on standard per pupil formulas.
 - E. The state would give to the municipality \$53 million in normal revenue sharing funds by 1994.
8. All land designated for housing, commercial and other private uses is assumed to be sold at fair market rates (with noted exceptions in start up years and for non-profit institutions).

9. With the planned facilities in place and investment to 1994 the following economic situation is estimated to occur after 1994:

Interest remaining to be paid on original \$966 million in G.O. bonds (repayment of principal is accounted for in pre-1994 costs)	=	\$ (306) million
Return of funds invested in AHFC(1)	=	93
Return of Municipal Bond Bank Reserve	=	7
Return of funds invested in ASHA(1)	=	83
Resale of Juneau property purchased through indemnification program	=	73
Net proceeds from sale of land to private sector (after development costs).	=	245
Value of 1,500 apts and 400,000 sq. ft. of retail space owned by C.D.C.	=	30
Net return to General Fund	=	\$ 225 million (escalated)

10. Cost of Relocation & Indemnification

Under the full move, through 1994 the state would spend approximately \$35 million to relocate households and office equipment to the new site.

The state would purchase homes under the terms of the indemnification bill by 1994 it would own approximately 1950 homes at a cost of \$417.6 million.

It is proposed to fund a Juneau economic renewal corp to the amount of \$17.7 million.

(1) does not include interest to be received.

CAPITAL SITE PLANNING COMMISSION

310 'K' Street
Suite 708
Anchorage, Ak. 99501
(907) 276-3003

DATE: April 25, 1978
TO: Capital Site Planning Commission
FROM: Mort Hoppenfeld
Executive Director

The purpose of this memo is to show how the financial plan can be used as a tool and interpreted in many ways.

This interpretation is to reveal:

1. Alternate ways of viewing costs vs investments.
2. A way of looking at costs in two parts, i.e., replacement vs growth.

MH:mrh

Attachment

1. The \$3.5 billion "cost" figure is a misleading number. It represents the "capital cost" of all the construction which would have taken place in the city up until 1994. Sixty-five per cent of these capital costs or \$2.2 billion are more properly described as investments by the private sector in the homes, apartments, hotels, shops, warehouses, office buildings, nursery schools, fast food outlets and all. These investments are financed through the normal mechanisms of the market place at no cost to the state.

- A. These would typically occur in the Mat-Su Valley in any event as population expands. The difference is only in that here we have a rational plan for the growth, have projected the cost, investments and returns and the value created by public actions in building the infrastructure and establishing the city, are returned to the state through land sales.

While the C.D.C. expends money in developing the city to prepare sites for this private investment, each private builder pays the state fair market price for the land thus prepared and sold. By this process the private sector pays for the costs of building the city's roads, sewer, water, transportation, heating, public squares and parks etc. The sale of land and later utilities to the municipality returns a surplus or

profit to the state of \$117 million by 1994 and a projected \$225 million more after 1994.

2. The state contributes land at no cost.
3. The Alaska Capital City Development Corporation is created to carry out the development process according to the adopted Detail Development Plan. It takes temporary ownership of the land. The C.D.C. is funded through loans from the state's general fund. It borrows money annually according to the development schedule:

1978	\$ 2.9 million	1983	\$10.9 million
1979	4.0 million	1984	29.8 million
1980	5.7 million	1985	21.5 million
1981	19.3 million	1986	33.4 million
1982	25.5 million		

By 1986 it reaches its peak debt to the general fund of \$153 million (escalated).* In carrying out the development process, C.D.C. has plans prepared and contracts for the building of major roads, sewer, water, and cooperates with the municipality and state agencies through loans and operating agreements for the building of selected public facilities. It manages the process which creates usable, salable land and through transfers to public agencies such

*all costs used in this memo are escalated.

as the state or municipality or sales to private investors and home owners, it divests itself of all holdings over time. It will build and operate some residential and commercial property early in the life of the project in the event that no private entrepreneurs are willing to build for an untested market in this new location. Following are the basic city building activities of the C.D.C. and the financing assumptions which accompany:

1. Builds sewer trunk line system and sewer treatment plant.
2. Develops city water supply and distribution system.
3. Builds co-generation, district heat and distribution system. (Some of this may be done by the MEA but this plan assumes C.D.C to build it.)
4. Operates above systems until they are taken over by municipality in 1987. Standard user fees are charged and municipal revenue bonds are sold to repay capital outlays.
5. Builds major roads. (Is not projected to build the major access roads from Parks Highway, but it could.)
6. Cooperates--helps to manage development, loans money and subsidizes in part for public schools, the airport and railroad spur.
7. Builds and operates selected commercial and residential properties as need be to generate private market response and maintain pace of residential sales.
8. Manages the entire development, and operational activities of the city until transfers of responsibility are accomplished and carries forth the sale of lands to private entrepreneurs.

The C.D.C. pays interest on state loans at 7%.

This entire enterprise conducted between a start up in 1978 and the assumed year of accounting in 1994 returns net cash proceeds from land sales after all other costs and income to C.D.C. and thus to the general fund of \$117.2 million.

Other state financial participation in development of the city's infrastructure.

A.	Access highway construction (G.O. Bonds)	\$65.1
B.	Airport, Sewer & Water Grants (G.O. Bonds)	\$26.9

These costs were allocated to be paid by state G.O. bonds because they are typically done for other communities in this manner. If there were reason to reduce the G.O. bond authorization up to 1994, the access highway and other costs could be paid for through the C.D.C loans from the general fund, then the state's net position would be \$117.2 - \$92.0 or resultant proceeds of \$25.2 million by 1994.*

With this investment in infrastructure and more in place, 6,000 acres of land remain accessable and available for sale after 1994 (110 acres of downtown land are given to

*Note the significance of 1994 as the year selected for accounting, each year before or after 1994 would have a different cash flow picture. True costs and revenues cannot be fully projected till all land is sold and accounts closed.

the State Department of Administration for state facilities. After lands are given to municipality and state agencies for public uses.) The estimated cost of preparing this land for sale is \$455 million. Proceeds from land sales is estimated to be \$700 million, resulting in additional net proceeds of \$245 million to the C.D.C. and general fund. According to this plan the C.D.C would still own commercial and residential operating properties valued at \$30 million. Total state proceeds at full urban development then could equal $\$225 + \$30 + \$25.2^{**} = \$280$ million.

This amount could be properly interpreted as the state's return on its contribution of land to the capital city development process. It equals approximately \$4,300/acre of total land or \$15,500/acre of urbanized land.

All of this economic projection is premised on this being the capital city and its growth is generated by central positions of state government being relocated there according to a schedule. Therefore the city would not be developed at this pace and these values would not be created according to this financial plan without other state activities and

****Subtracting costs of access road plus sewer, water and airport grants. If these remain as G.O. expenditures then net return could be \$372 million.**

financial participation:

1. The state office complex is to be constructed.

Total estimated cost for the 2.2 million sq. ft. of space needed by 1994 = \$604 million in capital costs to be paid with G.O. bonds. This could be viewed as having two distinct parts:

A. Replacement of existing facilities (office space+ areas including legislative halls, governor's home, archives, library, etc.) This space would accommodate the central activities of government as they are defined in kind and number as of 1977. According to the plan the development of new space as of the end of 1987 would accommodate 3,236 central positions which is approximately the total current central positions in Juneau, Anchorage and elsewhere. The cost of these facilities = \$230.6 million, i.e., the capital cost of relocation.

B. New facilities for growth. The balance of the capital cost of state office space could appropriately be viewed as space for central positions created by government growth at 6% per year compounded. As of 1994 this would = \$373.5 million and more beyond as a function of state, government size. This could properly be viewed as unrelated to the issue of capital location.*

2. Education facilities for residents of the new city.

These costs could be viewed in total as the normal costs that would occur as the result of the population growth in the Mat-Su Borough. The capital city could be viewed simply as one of these growth centers. Normally each school is built by the borough on an as needed basis. The borough would issue bonds annually for the capital costs of the schools. Once completed and in use the state

*No effort is made to assess the quality of existing space and the extent to which it would require replacement regardless of location.

reimburses the borough for some portion of these costs. The amount of such reimbursement has varied in the past from as much as 100% to as low as 50%. It is expected that 80% may become the state norm. Since the growth of the capital city will be rapid and it was judged in the best interest of the state to have schools in the new city in place when families arrive and need them, the financing plan proposes that the normal process be altered so that the state issue general obligation bonds instead of the borough and that the state pay 100% of such capital costs without going through the process of reimbursement. By this process the total capital cost of schools in the new city is = \$260.7 million.

It could be argued that 20% or 50% of this should be borne by the borough. In any event the dollars investment in these schools would occur capital city or no capital city and at 50% reimbursement the minimum cost to the state would be approximately \$130.4 million.

A university extension is proposed to accommodate the population growth at a cost of \$9.2 million. These elements of public investment are proposed to be paid by G.O. bonds--see summary for debt service costs.

In addition to capital costs the state would normally pay the borough its per pupil school aid and foundation grants. These amount to a total of \$227.5 million having been spent by 1994.

3. Housing investments.

In order to facilitate home ownership for those who were forced to relocate, the plan proposes that the Alaska Housing Finance Corporation be used in the capital city and that the state would participate up to 20% of the face value of mortgages purchased through AHFC. While the plan indicates a deficit in this account of \$57.6 million from the general fund at 1994. All of this is paid back with interest after 1994. Thus it can be viewed as a reasonable investment by the state in housing at the capital--since it is all paid back with interest it need not be looked at as a cost but more appropriately as an investment.

Similarly the state is proposed to loan additional funds to the Alaska State Housing Authority. By 1994 \$38.6 million is outstanding but it is returned with interest after 1994.

4. Other normal state expenses in the capital city.

A. By 1994 it is proposed that the state have

\$7.3 million in a reserve account for the Municipal Bond Bank to assist in its sale of capital city revenue bonds. This too would be paid back with interest after 1994.

B. Municipal revenue sharing.

The state is scheduled to give to the municipality a share of statewide revenues. This is given to all municipalities and is related to population size. Thus it could be viewed as an expense that would be incurred someplace and is related to population growth. By 1994 this would sum to \$53.0 million.

Costs from the general fund which are specifically related to the capital move.

1. Debt service on bonds which pay for state office space. By 1994 this totals approximately \$365.8 million (62% of \$590).
2. Cost of relocation for employee households and offices by 1994 for full move = \$35 million.
3. Costs of indemnification.

Assuming a full move, by 1994 the state would have acquired 1,950 homes in Juneau and the cost of maintaining these plus other efforts at renewal in Juneau = \$435.0 million.

After 1994 as Juneau slowly grows, some of these homes would be sold paying back some money to the state assume. \$70.0 million.

Summary:

With this way of looking at the financial accounts of the capital city the approximate costs could be summarized as follows:

<u>Building the basic city till 1944-</u>		
<u>net proceeds to state</u>	=	\$ 25.0 million
<u>after 1994</u>	=	<u>255.0 million</u>

Total Proceeds	=	\$ 280.0 million
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Replacing the existing (1977)
facilities for central government
activities.

till 1987 G.O. bonds	=	\$ 230.0 million
debt service from	=	<u>82.0 million</u>
general fund		

Total Cost of Replacement	=	\$ (312.0)million
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<u>Cost of growth in government =</u>	\$ 374.0 million
<u>space from 1987-1994 G.O. bonds</u>	
<u>Debt Service</u>	<u>284.0 million</u>

Total Cost of Growth 1987-1994	=	\$ (658.0)million
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Cost of education for the
residents of the capital city.

School construction costs till 1994	=	\$ 260.7 million
University construction costs till 1994	=	<u>9.2 million</u>

Total capital costs till 1994 to be paid with G.O. bonds	=	\$ 270.0 million
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Debt service till 1994 from general fund approx.	=	\$ 212.0 million
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School aid and foundation programs accumulated cost till 1994 = \$ 227.0 million

Total state costs of education-capital plus operating till 1994 = \$ (709.0) million

Cost of housing support to residents of the capital city.

Loans outstanding from general fund to ASHA (500 units) and AHFC by 1994 57.7+38.6 = \$ 96.3 million

These are repaid in full after 1994 with interest.

Municipal revenue sharing and reserve fund.

Total standard per capita municipal revenue sharing by state by 1994 still in reserve for municipal bond bank. = \$(53.0) million
= (7.0) million

Pond reserves are paid back with interest after 1994.

Additional one-time costs to the state from the general fund:

Relocation of personnel, household and office goods. = \$(35.0) million

Indemnification of Juneau residents under full move, and paid by maintenance of properties by the state up till 1994 = \$ 417.6 million

Funding of a Juneau renewal effort = \$ 17.0 million

Total Juneau Impact Costs = \$(435.0) million

Potential return on sale of 25% residential units after 1994 = \$ 70.0 million

FRANK vs. Willow Move

OPTION I: Legislature passes on to the voters a bond issue which provides for bonding of less than the full bondable costs.

<u>Bonds</u>	<u>FRANK</u>	<u>Implications</u>
Pass	Pass	Move to Willow stopped until another "full bondable cost" package is presented to the voters.
Pass	Fail	Move to Willow goes ahead
Fail	Pass	Capital move to Willow stopped (probably permanently)
Fail	Fail	Probably same as above

OPTION II: Legislature prepares bond package which reflects the FRANK initiative.

Pass	Wouldn't be on ballot	Capital move to Willow begins immediately
Fail		Capital move to Willow stopped (probably permanently)

OPTION III: Legislature places nothing before voters but decides to fund project from General Fund.

Wouldn't be on ballot	Pass	Capital move to Willow delayed until legislature puts "bondable costs" to voters <u>and</u> voters approve
	Fail	Capital move to Willow begins immediately following election.

OPTION IV: Legislature does nothing

Wouldn't be on ballot	Pass	Same as Option III, FRANK. "Pass"
	Fail	Capital move to Willow delayed until legislature makes money available. Environmental studies perhaps moving ahead.

HOUSE FINANCE COMMITTEE

April 27, 1978

8:40 a.m.

All members of the Committee were in attendance, except Representative Schaeffer. Representatives Gruening and Meekins arrived later in the meeting. Also in attendance: Speaker Hugh Malone and Representative Chat Chatterton; O.K. Gilbreth, Director, Division of Oil and Gas Conservation, Department of Natural Resources, Anchorage; Bob Grogan and Milt Barker, Fiscal Analysts, Legislative Finance Division.

PRESENT

Chairman Cowper called the meeting to order and brought up HB 815 for consideration. He also indicated the Committee would be addressing the Resources committee substitute.

HB 815

HB 815 - "An Act relating to oil and gas conservation; and providing for an effective date."

[Representative Gruening arrived at this time.]

Representative Chatterton (prime sponsor together with Speaker Malone) presented an overview of the bill, stating he would go through section by section pointing out what is to be accomplished. He advised 16 of the 17 sections relate to Title 31, Oil and Gas Conservation statute of the State of Alaska. He stated this was adopted in 1955, and since that time, there have been no substantial changes. He advised HB 815 is an update of this statute.

Section 1, he commented, would add a new paragraph (8) to AS 31.05.030(d), Powers and Duties of the Department, amending existing language which states, "The Department may require:" by adding "the monitoring of oil and gas pool pressures." Chairman Cowper asked if this is consistent with what is required by other states, and Representative Chatterton replied he is not familiar with other states.

Section 2, he advised, still under Powers and Duties, would add a new section (e)(6). He commented existing language states "The Department may regulate for conservation purposes:" and then goes on to list five purposes. He stated this is a cross reference which provides permissiveness for all State lands to be included in a plan. He stated this includes any units that apply to State leases.

Representative Chatterton advised Section 3 deals with Confidential Reports and amends existing AS 31.05.035-(a)(2) by inserting "flow test information and". Repre-

sentative Swanson asked if flow test information were to be filed immediately, and Representative Chatterton indicated yes, within a reasonable time.

[Representative Meekins arrived at this time.]

Section 4, he stated, also deals with Confidential Reports, and modifies existing statute by removing the requirement of marking information "confidential". He advised this would simply remove the mechanics of someone having to put the stamp "confidential" on information. Discussion followed, with Representative Rhode asking if there is a penalty if confidential information is released before the 24-month time limit. Representative Chatterton stated he was not aware of any confidential leakage. Representative Swanson asked if, by taking this restriction off, this would mean an oil company could be given that information. Representative Chatterton replied that, between oil companies, that can be done right now. He pointed out nothing is being taken away but the rubber stamp "confidential".

Representative Chatterton stated Section 5 is an amendment to the existing statute that the Department requested and he supports. He advised it also deals with Confidential Reports and adds new subsection (d), which would provide information filed with the Department voluntarily be kept confidential if requested.

Section 6, he advised, deals with AS 31.05.035, Action by the Department, and adds a new subsection (b). He noted this is also a departmental request. He stated some of the language in the Administrative Procedure Act of 1960 is confusing. He advised this section makes clear that anything the Department does that affects a statewide regulation should be handled through the Administrative Procedure Act, but where a single well or single field is involved, it is subject to Department regulations. Discussion followed, with Representative Swanson asking if this would include any field with a single well, such as Prudhoe Bay, and Representative Chatterton indicated yes. Representative Swanson questioned the Department's being able to write rules and regulations regarding this without going through the Legislature.

Speaker Malone commented this concept is designed to be an "anti-red-tape" provision for special consideration of a single field. A lot of times, he advised, it isn't in the best interest of the State to go through the Administrative Procedure Act for a minor situation. He stated there ought to be simplified procedures in instances involving a single well or field. He commented there may be a better way to word this. Discussion followed.

Representative Chatterton advised Section 7 amends AS 31.05.110(b), Unitization. He noted the first change is a departmental request and explained it adds clarification language that a person owning an interest in a unit can petition the Department. The second change, he commented, was not the Department's request, but his position that the language "...for the common good..." was sufficient. The deletion of the language immediately following, he feels is not necessary.

Section 8, Representative Chatterton stated, deals with subsection (c), Unitization. He stated with minor deletions and additions, this is existing statute through line 14, page 6. He called particular attention to the changes noted on page 3, lines 28-29, stating this would put into statute what is actually happening in practice. He commented the deleted language was extremely restrictive.

Section 9, subsection (h), Unitization, he advised, deletes the figure "one-eighth" when referring to landowners' royalty interest. He stated they should be making available leases to the oil companies, which is the purpose of this section. Representative Swanson questioned removing the fixed figure, and Representative Chatterton advised the constitution does not permit the State to have less than one-eighth.

Speaker Malone commented it is important to remember this bill deals with conservation statutes, Title 31. He stated whatever the share is, it is going to be free of these changes. Currently, he advised, the statute provides that one-eighth is going to be free.

Representative Swanson inquired if the term "landowners" applies to State-owned land or land the State controls through lease. Representative Chatterton replied Title 31 deals with all leased-for-oil-and-gas lands.

Chairman Cowper brought up the situation where a landowner may have sold his right to receive royalty and asked if this section covers this. Representative Chatterton called attention to Section 14, which defines "landowner" as "the owner of the subsurface estate". He stated, if a person sold any part of his land, there would be two owners. There was discussion on a provision to include "royalty owner". Referring to State lands, Speaker Malone pointed out that the State can only lease, but cannot dispose of mineral lands. He stated Section 9 would refer to any land owner, which was why the Resources committee added the definition of "landowner".

Representative Swanson asked if through the Administrative Procedure Act the Commissioner can write any regulation to govern ownership of private land, and Representative Chat-

terton indicated yes and that, as far as oil and gas conservation is concerned, that is currently in existing statute. Representative Gruening commented on a suit in court now regarding this. Representative Chatterton stated it is an opinion if this language had been in, we would not be in court today.

Representative Chatterton stated Section 10 adds a new subsection (p) to AS 31.05.110, which gives permissiveness to underlifting or overlifting of crude oil or gas from a reservoir so long as it doesn't create "waste" as defined in Section 14. There was discussion of overlifting and underlifting. Representative Chatterton cited an example, stating one or more of the owners may not be able to take his share of oil that comes out of the wellhead each day. He advised a person is permitted to leave his share in the ground until marketing conditions improve, at which time he can take it. But, he commented, this proposal means he shall be penalized in that he can only recover it at a certain rate. He stated the limiting factor noted in this section is 10%, which would apply to all units created after June 30, 1978.

Chairman Cowper asked if this is usually spelled out in a unitization agreement, and Representative Chatterton stated they may or may not have an underlift agreement. There was further discussion on overlifting and underlifting and possible detrimental effects. Representative Chatterton pointed out that you cannot overlift without someone underlifting, and that conversely this is true.

Representative Chatterton commented he would like to skip over Section 11 now and come back to it later.

Section 12, he advised, adds a new subsection (q) that tries to assure that the conservation statute applies equally to lands that are included in a unit and are under Title 38, which is now a very gray area.

Representative Chatterton stated Section 13 is an addition to the Definition section on "waste", which means "physical waste" and adds this subsection (J).

Section 14, he stated, as previously covered, is the definition of "landowner".

Representative Chatterton advised Section 15 deals with Title 38 and adds a new subsection (t), which would require that leases issued under this title from here on out shall include the new language noted in this section.

Section 16, Representative Chatterton explained, is a very substantive change, in that it would repeal AS 31.05.110(d), which would make Alaska one of 50 States that has the power to mandate the unitization of of an oil field. He advised unitization of an oil field is almost mandatory to assure good reservoir management. He commented, in effect, a unit acts as one lease. Discussion followed.

Chairman Cowper brought up Section 11, and Representative Chatterton explained, with deletion of language in this section, the State can force unitization. He pointed out, under existing statute, unitization can only be achieved if 62.5% of the owners agree the unitization. He stated this provides for the enlargement of a unit. In answer to a question regarding other states requiring a percentage mandate, Representative Chatterton replied most of the lands are in private ownership in the Southern 48.

At this time, Representative Chatterton brought up five proposed amendments to CS HB 815 (Resources), and gave a brief presentation on each (see attached).

The first amendment, Representative Chatterton advised deletes from the bill the requirement for filing dipmeter surveys. He explained the second and fifth amendments deal with information marked confidential. He advised Amendment 5 would change the current confidential requirement from 24 months to 48 months. Amendment 2, he stated, adds a sentence that would keep information confidential until 15 days after a lease sale, unless the owner of the well gives written permission to release such information earlier. There was brief discussion, with Chairman Cowper inquiring when the date of the end of the 24-months is up. Representative Chatterton advised information on the first well affected has already been released and another comes up May 24.

Amendment 3, Representative Chatterton stated, changes "may" back to "shall". He advised this language was changed in Resources committee and they decided they didn't want to change it after all. He explained Amendment 4 deals with the contraction of a unit. He commented this would not only expand the unit but would contract it also, as currently there is no mechanism that provides for the contraction of a unit.

Chairman Cowper advised the Committee would continue these hearings tomorrow morning at 8:30 a.m. He commented capital planning would be addressed at the 1:15 p.m. meeting.

HB 815 & 830
HELD OVER

The meeting adjourned at 10:00 a.m.

ADJOURN

HFC 78-94 #0882 - End
78-95 #0001 - #0506

AMENDMENT

OFFERED IN THE HOUSE:

BY: Chatterton & MaloneTO: House Finance Comm HOUSE BILL No. 815SENATE BILL No. -PAGE: Pages 1, 3 & 8LINE: See below1. Page 1 - Line 20Delete: (,dipmeter surveys,)2. Page 1 - Between lines 27 and 28

Add a sentence: Notwithstanding, should the Commissioner upon his own finding determine the required reports and information marked confidential are of significant geologic importance to the valuation of. unleased acreage in the vicinity, he shall continue to keep confidential the reports and information marked confidential until 15 days after a lease sale of all affected unleased acreage, unless the owner of the well gives written permission to release the reports and information at an earlier date.

3. Page 3 - Line 23Delete: (may) and add shall4. Page 8 - Line 4

After the word "amended," add the phrase "or the unit area contracted,"

5. Page 1 - Line 24Delete (24) and replace with 48

HOUSE FINANCE COMMITTEE
April 27, 1978
1:30 p.m.

All members of the Committee were in attendance except Representatives Schaeffer and Guy. Also in attendance to present testimony were: Commissioner Sterling Gallagher, Department of Revenue; Ted Swick, White Weld and Co.; George Behlke, Capital Site Planning Commission; Daniel Malick, Leonard Lane Associates; and Carolyn Burg.

PRESENT

Chairman Cowper called the meeting to order and stated the Committee would continue to receive testimony on capital move financing.

CAPITAL
MOVE
FINANCING

Chairman Cowper stated his understanding is that Commissioner Gallagher will address the question of state bonding capacity, and how it might be affected by the capital move bond issue. Commissioner Gallagher stated there have been two different reports done on the question of bonding capabilities. He advised that both started with the same premise and came to difference conclusions. White Weld Co. stated the bonding capability is based on the ability to market. Commissioner Gallagher stated he thinks basically, the state doesn't want to worsen its financial situation. He stated that in order to have the ability to market, you have to have the ability to pay.

Department
of Revenue

Commissioner Gallagher advised that currently the State's debt service is 4% of the state's budget. He advised that White Weld Co. claims the State could go up to 16%. Commissioner Gallagher stated he thinks that would be very dangerous. He advised that currently oil money makes up 60% to 65% of the general budget. He stated White Weld based their assumptions on this continuing, that oil prices will continue to be good and will stay up. He said that in the last year they have actually come down. He stated he would not recommend being that liberal with the State's debt service in the budget. Commissioner Gallagher said one of the things that is critical is being able to go back to the bond market in the future. He commented that if the state had a higher debt service, and the price of oil went down, the state might have a hard time going back to the bond market.

Commissioner Gallagher said White Weld stated nothing intrigues the market more than loaning money for construction. He stated that currently the State's debt service is 5% of the revenues. That could go up to 18%. He stated that would not improve the State's creditability, but would decrease it.

(Representative Meekins arrived at this time.)

Commissioner Gallagher stated there was another report, done by Dean Whitter, looking at what debt service would be like if the state funded the capital move and other state programs. Making the assumption that the State did not want to deteriorate its credit, Whitter stated they could spend an additional \$25 million a year over and above the capital move bonds.

Chairman Cowper asked how many states were authorized to go into debt for any capital improvements. Commissioner Gallagher stated all but for or five. Representative Freeman asked what percentage of the general fund budget is used for debt service. Commissioner Gallagher stated approximately 4.4% in 1978; the 5% figure he referred to earlier is the 1979 expected figure.

Commissioner Gallagher stated one of the things about the plan is that the period the state will be starting to pay off the bonds is the time-period they don't know too much about in regards to funding. He stated it will be difficult to find something to replace the revenue received from Prudhoe Bay. He stated the capital move plan is putting the debt service into the period of years when Prudhoe Bay is declining. He advised Prudhoe Bay oil will probably decline to 15% per year in 1994-1995. He stated inflation is going up, but you will also have substantially less oil flowing.

Chairman Cowper asked if this was a good argument for going to direct appropriations for capital projects. Commissioner Gallagher said he didn't agree. He stated he thinks you should use this debt as much as you can, as long as it stays at a reasonable financial balance -- about 5% of the budget. He stated if this is done, projects will actually cost you less; but if you are going to do a substantial program you should take it out of cash so you don't have debt service. He stated if going to direct appropriations, he would like to know where the state will get the money. He stated in the budget there is currently a \$600 million surplus, and \$300 million of that is tied up in loan programs.

Commissioner Gallagher stated he would recommend that if the capital move and the current bond issues before the Legislature pass, that in two years the Legislature cut back the debt program and go to cash programs until they see how the cash situation in the state would be. He recommended a substantial cut-back in debt service. He believes the White Weld Co. report is too optimistic.

4/27/78