

HOUSE / SENATE FINANCE COMMITTEE MINUTES - 1967-1982 2712

Community Colleges: Representative Rogers advised the Subcommittee accepted the new position for a printer.

UNIVERSITY DEBT SERVICE-OTHER: Representative Rogers commented the Fairbanks campus has a \$15 activity fee added to go towards the cost of construction of student centers, and the Anchorage campus does not have this fee added. DEBT SERVICE

The Committee returned to the UNIVERSITY OF ALASKA-ANCHORAGE, UAA
Instruction component. Chairman Meekins moved to add the positions on his list in their order of priority. He instructed Mr. Scott to add as many of the positions with the correct figures as he can within the \$250.0 limit. There being no objection, it was so ordered.

Representative Rogers advised there are two additional items in the University budget, but these will have to be addressed as separate sections in the bill. He said he doesn't have the specific wording at this time, so will bring this up again prior to the time the bill is reported out of committee.

The meeting adjourned at 3:30 p.m.

ADJOURN

Tape HFC 80-36, Side 1 #540 to end
 Side 2 #001 to end
HFC 80-37, Side 1 #001 to 571

4/2/80

HOUSE FINANCE COMMITTEE

April 3, 1980

9:25 a.m.

[Tape HFC 80-37, Side 1 #571.]

All members of the Committee were present except Representatives PRESENT Moss and Haugen. Also Present was Bob Schroeder, Fiscal Analyst, Legislative Finance Division.

Chairman Meekins called the meeting to order. The Committee began close-outs on the JUSTICE budget. [Representative Guy, Chairman, Justice Subcommittee.] ADMIN. OF
JUSTICE
BUDGET

Representative Guy advised that Chairman Meekins will have some recommendations on the Alaska Court System as a result of work he has been doing on the Corrections Master Plan. He said that other than that, the Justice operating budget is basically the same as the Governor's budget. He said the increases in cost are generally inflationary costs. Representative Guy said one other change in the Justice budget is that they have created a new BRU for the village public safety officer program.

Representative Guy outlined changes in the House's version of the budget as compared to the Governor's:

Department of Administration, Public Defender:

Representative Guy advised they added a Public Defender in Kenai at \$57.5.

Public
Defender

Representative Guy advised they deleted the new position requests in the Fourth Judicial District. There was discussion.

Mr. Schroeder advised that, in spite of numerous requests, they have never received any information from the Public Defender's office on the case loads in the various districts. He said the Committee has no way of verifying the case load or the need for additional personnel. There was discussion on "Freemanizing" this budget in order to get the information. Representative Rogers moved that legislative intent be included stating that no further new positions will be considered until case load data is provided to the legislature. No objection. There was further discussion.

Representative Schaeffer commented a new judge was approved in Kotzebue, the Second Judicial District, and suggested the requests for additional personnel there should be approved. There was discussion. No action was taken.

Department of Law:

Law

Prosecution, Third Judicial District: Representative Guy advised they deleted the attorney and clerk typist position requests for Anchorage.

Prosecution, Administration & Support: Mr. Schroeder advised the contractual figure should be \$27.3.

Department of Health & Social Services:

DH&SS

Representative Guy advised they added the three alcoholism counselors for the Anchorage, Juneau and Fairbanks correction centers that were added in the supplemental budget (HB 60).

Ridgeview Manor: Representative Guy advised they added the position and funds for the institutional instructor added in the supplemental budget (HB 60).

Chairman Meekins said the Master Plan Advisory Committee recommended that four new positions be added to the Palmer correction center. Mr. Schroeder advised the new figures under the Palmer Correction Center would be an additional \$18.8 in personal services and \$102.4 in equipment. Chairman Meekins moved to add those figures. There being no objection, it was so ordered.

McLaughlin Youth Center: Representative Guy advised they added funds for a counselor.

Department of Public Safety:

Public
Safety

Crime Ident. & Apprehension, Detachments & CIB: Representative Guy advised they added a trooper for Holy Cross and a constable at Iliamna.

Crime Ident. & Apprehension, Ast. Director's Office: Representative Guy advised they deleted \$58.9 for the position. He said this was transferred to the newly created BRU.

Alaska Court System:

Court
System

Judicial Council: Representative Guy advised they deleted \$5.0 from the travel request. He said this was an agency error.

4/3/80

Department of Public Safety:

Public
Safety

Village Public Safety Officer: Representative Guy advised this is the newly created BRU, and he presented a hand-out to Committee members explaining the program. Representative Guy advised the program was initiated through the CETA program and it has had some very good results in the village areas in training village officers. He said that apparently the people in the villages like the program. He advised the total amount for the new program is \$2.5 million.

[Tape change, HFC 8037, Side 2.]

Representative Guy advised the number of trainers proposed will cover forty villages. There was further discussion on the program.

Chairman Meekins advised the following areas will be increased due to recommendations made by the Master Plan.

Department of Health & Social Services:

DH&SS

Mr. Schroeder advised the "Master Plan Statewide Pool" which provides nine correctional officers statewide for educational counseling contracts should probably be considered a new component. Chairman Meekins advised they have reduced the amounts requested by the Master Plan down to only what they can use this year. He moved to add a new component adding these new positions for a general fund total of \$466.1. There was no objection.

Adult Confinement, Major Medical & Guard Hire: Chairman Meekins advised the recommendation here is to add two nurses which would be an addition of \$55.0 in personal services. There was no objection to the addition.

Probation & Community Programs, Community Based Programs: Mr. Schroeder advised the recommendation is to add \$200.0 to contractual to look at implementing half-way houses in local communities. Representative Smith asked if they would be looking at how the programs work before implementing them. Chairman Meekins said they would be looking at the programs, but not the actual locations. He said it would be up to the local community to determine the location.

Division of Corrections, Directors Office: Mr. Schroeder said the recommendation is to add three new positions to implement the master plan. He said one of the positions would be in Anchorage and two would be in Juneau.

The Justice Subcommittee recommendations were accepted.

The meeting adjourned at 9:55 a.m.

ADJOURN

Tape HFC 80-37, Side 1 #571 to end
Side 2 #001 to 306

4/3/80

HOUSE FINANCE COMMITTEE

April 7, 1980

1:47 p.m.

All Committee members were present, except Representative Moss. Representative Meekins arrived later in the meeting. Also in attendance: Samuel A. Stern of Wilmer & Pickering, Washington, D.C.; Robert Gerard and James H. Brandi of Dillon, Read & Company, New York; John Crandall and Mike Doogan, Administrative Assistants to Chairman Meekins; Milt Barker and Bob Grogan, Fiscal Analysts, Legislative Finance Division. PRESENT

Vice Chairman Freeman called the meeting to order and advised the first order of business is HB 205:

HB 205 - "An Act relating to the prevention and control of oil pollution." HB 205

Representative McKinnon reported this bill has a rather substantial fiscal note, which was why it was referred to Finance. He stated the only concern is the philosophical approach which is should this be funded out of general funds or through assessment provision. He said he recommends passing out the Resources CS for HB 205 with their \$1.5 million fiscal note. He also indicated he and Representative Rogers will offer a floor amendment to allow the collected fines assessed under the bill to go as program receipts.

[Chairman Meekins arrived at this time and conducted the meeting.]

Representative Rogers moved to report out the Resources CS for HB 205, with attached \$1.5 million fiscal note. There being no objection, it was so ordered. CS for HB 205 was reported out with a "do pass" recommendation. RESOURCES CS
FOR HB 205
REPORTED OUT

The next bill to come before the Committee was HB 930:

HB 930 - "An Act increasing the number of superior court judges; and providing for an effective date." HB 930

Referring to a previous motion on the bill, Chairman Meekins advised the consensus was to move the bill out with an amendment by Representative McKinnon; however, Representative McKinnon has withdrawn his amendment.

Representative Rogers moved to report out HB 930 with a one-sixth reduction in the fiscal note; total \$262.5 for FY 81. There being no objection, it was so ordered. HB 930 was reported out with a "do pass" recommendation. HB 930
REPORTED OUT

Chairman Meekins briefly reported on Free Conference Committee on HB 60.

Chairman Meekins advised the Committee would now hear a presentation on Alaska General Stock Ownership Corporation (AGSOC) teleconferenced to Senator Mike Gravel in Anchorage.

<u>Tape #</u>	<u>Description</u>
<u>HFC 80-37 Side 2</u>	
485	Senator Gravel noted he submitted written testimony (Attachment 1).
527	Samuel Stern testified his firm is involved in helping AGSOC become a reality. (See written outline of testimony, Attachment 2.)
718	Sen Gravel indicated he is struck by the reasonableness of Mr. Stern's comments and asked about the interview with the executive director of BRIC. Mr. Stern advised at present, they have no plan to distribute dividends, just a shareholder's report; does not involve cost of distributing dividends. Brief discussion. Sen Gravel stated he feels all persons have to be accountable.
795	Sen Gravel indicated he feels the 3-member board acting in the interim is a good idea.
816	Sen Gravel asked the size of the initial grant and if it is adequate for implementation prior to March 1 of next year. Mr. Stern advised the \$1 million maximum is adequate and won't necessitate going back to the Legislature before next session. Sen Gravel stated he feels this would not be in violation of existing certification.
<u>HFC 80-38 Side 1</u>	
001	Mr. Stern advised that, in prior discussions with Billy Berrier, he too feels it would not violate the initiative.
024	Testimony by Bob Gerard. He advised his investment firm financed Green Lake hydroelectric project in Sitka last year. Advised he would present general observations and principles in the creation of AGSOC. He indicated he feels that, unless 1 or more of the suggestions put forth by Mr. Stern is implemented, AGSOC will have trouble getting financing on its own. He seconded very strongly the proposal by Mr. Stern that the Legislature move very quickly on AGSOC.

Tape #Description

186 Sen Gravel discussed the pipeline level of return which would be guaranteed and asked even with debt if that could be transferred over to entity. Mr. Gerard indicated they have not pinned down their numbers. He stated he suspects the lenders would demand a lot more than 1%, as the lenders' rate is about 8% now. Discussion on total financing; cash flow to meet the debt service. Sen Gravel talked about the corporate shield with royalty oil. Mr. Gerard discussed the contact period being no shorter than the life of the bonds, stating, then you are talking about security that would be attractive to the BP bond holders.

432 Sen Gravel referred to his written testimony and read the "Executive Summary".

510 Sen Gravel expressed hope the matter comes to a vote before the Finance Committee and that it not be "sand-bagged". He urged the Legislature to make a decision now so that Mr. Stern's proposal can be implemented and so that Alaska can catch up to British Columbia.

542 Mr. Gerard clarified his position regarding statement on federal legislation Sen Gravel got through on form of ownership.

560 Chairman Meekins indicated he could not guarantee when the AGSOC vote would be considered, but that he would bring it up.

590 Sen Gravel indicated he did not envision any difficulties regarding the supreme court decision and the initiative.

610 The meeting adjourned at 3:00 p.m. ADJOURN

Tape HFC 80-37 Side 2 #306 - End
80-38 Side 1 #001 - #610

THE RELATIONSHIP
BETWEEN
CASH FLOW AND TAXABLE INCOME
IN
GENERAL STOCK OWNERSHIP CORPORATIONS

Senator Mike Gravel

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EXECUTIVE SUMMARY

The Potential Problem

The law governing GSOCs attributes GSOC taxable income to GSOC shareholders raising the possibility of shareholder tax liability on attributed GSOC income in excess of GSOC cash distributions. This could present hardships for the shareholders who might not have sufficient funds to pay the taxes due.

When Can It Occur

Shareholder tax liability in excess of cash available for distribution can occur when the corporation has (1) cash flow expenditures which are non-deductible for tax purposes or (2) items included in taxable income which do not represent cash flow income.

Examples of non-deductible cash flow expenditures include principal amortization on installment debt, some political and charitable contributions, the excess portion of unreasonably high salaries, illegal payments and contributions to non-qualified or disqualified retirement plans. Examples of items included in taxable income which do not represent cash flow income include depreciation and investment tax credit recapture income and income from installment sales with excessive down payments.

Shareholder Protection

The special tax treatment for GSOCs must be elected. If no election is filed the GSOC is taxed as a regular business corporation. To qualify for the election the corporation must meet the requirements of a GSOC which include limitations desirable in any state chartered broadly owned corporation.

GSOC management is the shareholders' first line of defense. Potential problems can be avoided with careful planning. However, since corporate management may err the law provides for termination of the special tax treatment voluntarily upon request of the corporation or involuntarily by operation of law. Termination closes off the attribution of corporate taxable income to the shareholders and the corporation is taxed as a normal business corporation. As a last resort the state legislature can revoke the GSOC corporate charter terminating its existence.

Conclusion

GSOC management has the tools to prevent shareholder tax liability in excess of GSOC distributions. Failing this the law allows the termination of special tax status in a number of ways closing off the attribution of income to the shareholders and protecting them regardless of management decisions.

The General Stock Ownership Corporation (GSOC) provisions of the Internal Revenue Code (Subchapter U, Sections 1391-1397) present an interesting question regarding the relationship between taxable income and cash flow of the corporation and distributions to its shareholders. Several witnesses before the State Affairs Committee have commented upon this issue during consideration of HB 240. This paper analyses the potential problem and the protections for the shareholders built into the statutes.

THE POTENTIAL PROBLEM

Subchapter U of the Internal Revenue Code (Code) provides that the taxable income of a GSOC is attributed annually to its shareholders. With minor exceptions taxable income of a GSOC is computed in a manner similar to other corporations. Shareholders must include in income for tax purposes their share of GSOC income for the year. The tax liability of a GSOC shareholder arising because of his share ownership is determined by multiplying the income attributed to him from the GSOC by his marginal tax rate. This tax is increased by the shareholder's portion of any net investment recapture tax and reduced by his share of any net investment credit.

To provide shareholders cash sufficient to meet the tax liability created by the attribution of GSOC income the Code requires a GSOC to distribute annually to its shareholders an amount equal to at least 90 percent of its taxable income.

This distribution requirement applies irrespective of corporate

cash flow. However, if the GSOC fails to make the required distribution the only penalty is a 20 percent deficiency tax assessed against the corporation. Application of this tax does not absolve GSOC shareholders from the obligation to pay tax on the income attributed to them from the corporation.

Taxable income does not necessarily reflect cash flow available for distribution to shareholders. It is an artificial number arrived at in an effort to determine on an annual basis the average earnings of a company or individual over a lifetime. Some items such as depreciation on capital assets reduce taxable income without affecting cash flow while other items which are actual cash flow expenses, such as the repayment of debt principal, do not reduce taxable income. Thus, cash flow after expenses may be either more or less than taxable income.

Concerns have been expressed that GSOC cash flow could be insufficient to meet the distribution requirements and perhaps so low that no distributions occur at all. In such a case GSOC shareholders might have income tax liability as a result of income attributed to them from the GSOC and yet have no cash distributions from the corporation with which to pay the taxes. We shall attempt to analyse the risks presented by this scenario and the protections afforded the shareholders.

WHEN CAN THE PROBLEM OCCUR

Two general types of situations can cause taxable income to exceed cash flow. Taxable income can exceed cash flow where (1) cash flow expenditures are non-deductible for tax purposes

and (2) items of taxable income do not represent cash flow income. The first category of transactions includes the amortization of debt principal, illegal payments and unreasonably high salaries. The second category includes recapture of depreciation and investment tax credits and installment sales with excessive down payments.

Non-deductible Expenditures

Non-deductible expenditures reduce GSOC cash flow available for distribution to the shareholders without reducing taxable income attributed to shareholders for income tax purposes. Carried to an extreme these expenditures could eliminate all the cash in a corporation, but still not reduce the taxable income. The taxable income would be attributed to the shareholders who would incur tax liability based on the attributed income, but the corporation would have no cash to distribute and the shareholders would be required to finance the additional tax liability out of other income. This could work considerable hardship upon many shareholders.

There are many expenses which do not reduce taxable income. The more common of these include contributions to disqualified retirement plans, some charitable and political contributions and the excess portion of unreasonably high salaries. Amortization of debt principal is also a very common non-deductible cash flow expense. Although interest payments on a loan are deductible for Federal income tax purposes payments which reduce the principal amount due on the loan are not. In many cases the non-deductible principal portion of a loan payment may

represent the lion's share of the annual loan amortization cash flow. Since this principal amortization component of debt service requires cash payments from the corporation it is the type of non-deductible expenditure which could cause problems for the shareholders of a GSOC.

Other non-deductible corporate expenses can result in GSOC expenditures which do not reduce taxable income. Generally all ordinary and necessary business expenses are deductible in computing taxable income. However, some political and charitable contributions, the excess portion of unreasonably high salaries, illegal payments and contributions to non-qualified or disqualified retirement plans are not deductible. While this list of items is not exclusive these are the more common non-deductible corporate expenses. The common thread through all of these transactions is that they are avoidable with careful planning by management. There is no event which could involuntarily trigger large increases in taxable income without a corresponding increase in cash flow. The problem presented by loan amortization principal can be avoided through the installment purchase solely of depreciable assets with depreciation schedules carefully arranged to provide tax protection for principal amortization cash flow. This solution is workable because, over the life of an asset, depreciation and principal amortization will be the same. Thus, if a problem should occur in this area it will almost certainly be the result of bad management.

Taxable Income Without Cash Flow

The other situation in which cash flow available for distribution may not be adequate to cover the additional shareholder tax liability occurs where items which are included in taxable income do not represent cash flow income to the corporation. Generally, this occurs where a taxpayer has received cash flow income in the past which was non-taxable at the time of receipt. The inclusion of this cash flow in taxable income occurs at a later date when recognition for tax purposes is triggered by some event. The most common of this income type is recapture income. The law "recaptures" the tax on income which avoided tax at the time it was earned. This prevents the permanent deferral of tax on certain types of income. There are two major kinds of recapture income, depreciation recapture and recapture of investment credits.

Depreciation Recapture

Tax law allows the owner of a capital asset used in a trade or business to recover his initial investment tax free over the life of the asset. The mechanism used to provide this recovery of investment is depreciation. The depreciation deduction reduces taxable income sheltering income from tax. If a taxpayer holds a capital asset for its full useful life he is allowed depreciation deductions equal to its initial cost and can shelter that amount of income from tax.

Depreciation recapture may occur where a taxpayer elects to use accelerated depreciation. Accelerated depreciation

allows additional depreciation deductions protecting from tax income which would otherwise be taxed currently. Accelerated depreciation provides deductions larger in the early years than straight line depreciation. It allows rapid capital cost recovery on depreciable assets in an effort to encourage modernization of capital stocks.

To prevent additional income sheltered by accelerated depreciation from permanently escaping taxation when the asset is disposed of taxable income is increased by the amount by which accelerated depreciation on the asset exceeded straight line depreciation. When this occurs taxpayers may have taxable income without cash flow and other income will be required to pay off the tax liability. Planning can save taxpayers in these situations. Accelerated depreciation shelters cash flow from tax which would otherwise be taxable at the time of receipt. If the taxpayer sets aside this income or a portion of it into a fund for depreciation recapture taxes at the time the asset is disposed of he will have sufficient funds available to pay the tax generated by the recapture income. An example might help to clarify the operation of the depreciation recapture provisions.

John owns a rental apartment for which he paid \$100,000. The unit will last for 20 years. John takes a depreciation deduction each year equal to one-twentieth of his investment or \$5,000. This uniform annual depreciation deduction is known as straight line depreciation. After 20 years John will have taken depreciation deductions equal to the \$100,000 he paid for the apartment. He will have recovered his investment through income on which he paid no tax.

To encourage investment in rental housing the law allows John to recover his investment in a shorter period of time through accelerated depreciation. In some cases John can elect to take twice the normal depreciation deduction. If he takes a \$10,000 depreciation deduction in the first year he will shelter \$10,000 from tax. If he then sells the property

for \$100,000 he will have a capital gain of \$10,000 because he has been allowed to recover \$10,000 of his investment tax free. The \$10,000 depreciation deduction reduces his basis in the property for capital gains purposes resulting in a basis of \$90,000 at the time of the sale.

If John had taken straight line depreciation on the apartment he would have had a capital gain of only \$5,000 upon the sale because his basis would have been \$95,000 at the end of the first year due to depreciation deductions of \$5,000. The additional \$5,000 deduction in year one has sheltered from tax \$5,000 of additional income for John. However, as we have seen, this \$5,000 which is sheltered by accelerated depreciation appears upon the sale of the property as a capital gain receiving special favorable tax treatment.

Through accelerated depreciation John has converted ordinary income into capital gain income taxed at 40% of ordinary income rates. To prevent this conversion of ordinary income into capital gains, or the permanent sheltering of ordinary income, the depreciation recapture provisions step in and require that \$5,000 of John's \$10,000 gain on the sale be taxed as ordinary income.

This description of one transaction subject to the depreciation recapture rules is for illustration purposes only. These rules are complex and many of the ramifications of these provisions have been excluded from the example in the interests of simplicity.

Investment Tax Credit Recapture

The Code allows an investment tax credit equal to ten percent of the purchase price of certain types of new and used property. This ten percent credit reduces taxes rather than reducing gross income as does a deduction. The property eligible for the investment tax credit is generally depreciable tangible personal property, excluding buildings and structural components, used by an individual or corporation engaged in a trade or business and having a useful life of at least three years.

The investment tax credit may be taken for the year in which the taxpayer places the asset into use in his trade or business.

To prevent the sheltering of income through the investment tax credit Congress provided recapture provisions similar to the depreciation recapture rules. If a taxpayer disposes prematurely of an asset on which he has received an investment tax credit the disposition triggers the recognition of investment tax credit recapture income to the taxpayer in an amount designed to generate tax liability equal to the credit which he earlier received. This investment tax credit recapture income is included in income for the year of disposition and may increase the taxpayer's liability. The recapture income is income only in the tax sense and may or may not represent cash flow. It is an effort to recover tax on income which was earlier sheltered by the investment tax credit. Planning for investment tax credit recapture income involves steps similar to those followed in planning for depreciation recapture income. It can be avoided entirely by not disposing of the asset or it can be funded through a reserve set aside from the income sheltered by the credit.

The law sets up special rules for the treatment of investment tax credits and investment credit recapture in GSOCs. The investment tax credit is not allowed to GSOCs. The investment tax credit to which a GSOC would be entitled if it were taxable flows through to the shareholders in much the same manner as income. The credit and any recapture of investment credit are netted at the corporate level. Thus, if a GSOC has both

investment credits and investment credit recapture income in the same year these items will be set off against each other and only the net credit or recapture will flow out to the shareholders. If there is a net investment tax credit, that amount will be prorated to the shareholders in the same manner as income. The credit will reduce the shareholders' tax liability. Net investment credit recapture is prorated to the shareholders and characterized as additional tax liability. Net investment credit recapture is not treated by the shareholders as additional taxable income, but as a direct addition to tax liability. It is different than depreciation recapture income which is treated as an addition to shareholder income. Investment credit recapture presents a more serious problem for the corporation and its shareholders because it increases tax liability rather than income. However, in nearly every case the generation of net investment credit recapture is avoidable or can be anticipated at the time the asset is acquired.

Installment Sales

The installment sale of an asset can generate taxable income without cash flow. The law allows a taxpayer to defer reporting income on an installment sale until the time payments are made. This allows the income from such a sale to be spread out over the life of the sales contract. However, if the seller receives more than 30 percent of the total contract price in the year of sale the entire gain is taxed as income in the year of sale ins spite of the fact that the seller did not receive

the full sales price at that time and may not do so for several years. this can mean that a seller has tax liability on gains from the sale in excess of the cash he received in the year of sale from the buyer. GSOCs, like other sellers, must operate within these rules.

PROTECTION FOR SHAREHOLDERS

GSOCs must elect to be subject to the flow through character and distribution requirements of subchapter U. Although the GSOC charter must provide "that such corporation shall qualify as a GSOC under the Internal Revenue Code," election of special tax treatment is not mandatory. If no election is filed a GSOC is taxed as a regular business corporation. GSOCs can qualify as such without making the election, however, in such a situation the primary advantage of GSOC status would be foregone.

The Election

There may be good reasons why a corporation might want to qualify as a GSOC and forego the election. If a corporation expected cash flow problems in the early years of operation or invested in projects with high reinvestment requirements it might desire to delay making the election until a more appropriate time. Comparable situations occur in closely held corporations where the owners may elect during loss years to be taxed under subchapter S, a provision allowing flow through of corporate losses and income to the shareholders of small corporations. But, when the corporation begins to turn a profit the election may be revoked and the income taxed to the corporation

rather than the shareholders. This is standard tax planning for high income shareholders of closely held corporations whose personal income tax rates may reach 70 percent. Since the maximum Federal corporate income tax rate is 46 percent, these individuals want losses to flow through to their personal returns and income to be taxed to the corporation. The subchapter S election allows such an outcome in certain cases.

Just as the subchapter S election provides flexibility in tax planning for high income shareholders of closely held corporations the subchapter U election provides flexibility for GSOC tax planning. The special tax treatment provided by subchapter U is not automatic. Election must be made by the GSOC or it will be treated as an ordinary business corporation subject to tax under the provisions of subchapter C, the general corporate tax provisions. The determination of whether or not to elect subchapter U treatment is one of the most important decisions to be made by the board of directors of a GSOC. The election need not be filed immediately upon formation of the corporation.

If the GSOC upon creation does not file an election one might ask why create a GSOC at all. Why not simply create a broadly owned conventional corporation not subject to the strictures of subchapter U? To answer this question we must separate those aspects of subchapter U required to qualify as a GSOC and those which flow from making the election. In so doing we find that the elements necessary to qualify as a GSOC are relatively innocuous. They include:

1. Chartered after 12/31/78 and before 1/1/84,

2. Chartered by legislation or initiative,
3. Charter providing-
 - Only one class of stock
 - Issuance of at least one share to each resident
 - Issuance of shares only to "eligible individuals"
 - Election to reject shares
 - Transfer restrictions
 - Intent to qualify as a GSOC
4. Limitations on use of state's condemnation powers, and
5. Affiliated group limitations.

Most of these limitations might be appropriate to any broadly owned corporation initiated by a state. The affiliated group limitation is applicable only at the time an election is filed and a defect here could be cured by a reduction in GSOC subsidiary share ownership below the 20 percent limit prior to filing.

The special tax and distribution provisions of subchapter U apply only to those corporations making the election. In some cases inadequate drafting left ambiguities in this regard which are being clarified by a bill, S.2275, currently pending in the United States Senate. Thus, a corporation can qualify as a GSOC and be taxed as a normal business corporation leaving open the option to be taxed under subchapter U if it becomes appropriate at a later date. However, if a corporation does not meet the requirements of a GSOC upon creation it will be difficult to cure the defect if, at some point, the special tax treatment becomes attractive. In fact, if the defect were not cured prior to January 1, 1984, it is likely that attempts to cure the defect and elect subchapter U status for tax purposes would fail. However, if the corporation qualifies as a GSOC prior to January 1, 1984, the statute does not preclude election of

the special tax status subsequent to that date.

Management

The first and most important protection for GSOC shareholders is good management. GSOCs are not foolproof. Like any corporation they can be successful only if carefully managed. This is true with respect to investment decisions and day to day operations as well as tax planning. Timing by GSOCs of an election for special tax status is an important management responsibility, but in order to analyse the protections for shareholders from tax liability in excess of cash distributions, we shall assume that the decision to be taxed under subchapter U has been made and a timely election filed.

GSOC management has a responsibility to protect the shareholders from tax liability on GSOC income in excess of distributions from the corporation. It would appear to be a violation of the shareholders' trust to allow any substantial amount of tax liability to befall them without providing distributions adequate, at least, to cover the liability for tax. If the management of a GSOC allowed such an event to occur without a vote of the shareholders it would seem appropriate for the shareholders to replace that management at the next opportunity.

Most of the events which could generate tax liability in excess of cash distributions involve discretionary acts by the corporation. Careful planning and attention to detail can avoid this undesirable result. In some cases the planning must occur at the time an asset is acquired to assure that principal amortization is accompanied by depreciation deductions to preclude

mandatory distributions and taxable income in excess of cash flow. So long as management carefully plans its acquisitions and views each transaction with an eye toward its tax consequences problems can be avoided.

It is difficult to visualize an instance where tax liability in excess of cash flow for distribution cannot be avoided by responsible management. Every situation in which such an event could occur would require either an intentional decisions or gross negligence by corporate management. There does not appear to be any involuntary event which could result in this undesirable outcome. Thus, the GSOC management is the shareholders' best protection. However, since negligent management does occur at times in corporations additional protections for the shareholders are built into subchapter U.

Termination of Election

If GSOC management should fail to protect the shareholders from tax liability in excess of cash distributions termination of the subchapter U election may be undertaken either voluntarily or involuntarily. Termination of the election should be used as a last resort since once terminated the special tax status may not be regained by subsequent election. Upon termination of the election the GSOC is treated as an ordinary business corporation for tax purposes. The flow through of taxable income to the shareholders is eliminated and the corporation becomes subject to the corporate income tax.

Voluntary termination may be undertaken with the consent of the Secretary of Treasury. This safety valve was designed to

be available in the very situations which are contemplated in this paper. The provision was included with the concurrence of the Department of Treasury which has no interest in audits involving all the shareholders of a GSOC and preferred a statutory escape clause in the situation where shareholders might be faced with large tax liability and insufficient cash flow. The voluntary termination is effective for the first year to which the Secretary consents. It is effective for the entire year and, if significant tax liability in excess of cash available for distribution is anticipated, the Secretary can be expected to make his consent effective for the year in which the problems arose, thereby protecting the shareholders. Even if management is so negligent that the problem is not discovered until after the close of the taxable year for which it exists the Secretary has authority to grant the revocation of election for any taxable year, even those which have gone by. Thus, the shareholders are protected even if the problem is not discovered until after the close of the corporation's taxable year.

Subchapter U elections may also be terminated without the consent of the Secretary of Treasury in a manner which we shall refer to here as an involuntary termination. The Secretary has no control over whether an involuntary termination occurs. Once certain events occur the corporation ceases to be a GSOC and is removed from the provisions of subchapter U by operation of law.

Involuntary terminations can occur by accident and management must plan carefully to assure that involuntary termination does not occur unintentionally. An involuntary termination occurs whenever an electing corporation fails to meet the

definition of a GSOC under subchapter U. Events which would trigger an involuntary termination of subchapter U status include revocation of the corporation's charter by the sponsoring state, acquisition of more than 20 percent of the stock of another corporation, and amendment of the corporation's charter permitting the issue of a second class of stock.

An involuntary termination of subchapter U status is retroactive to the beginning of the year during which it occurs. Thus, subchapter U status could be terminated involuntarily on the last day of the corporation's taxable year and the flow through of corporate taxable income to the shareholders would be terminated retroactively to the beginning of the corporation's taxable year, 364 days earlier. For the entire year the corporation would be taxed as an ordinary business corporation and the shareholders would have no liability beyond tax on dividends actually distributed by the corporation.

Revocation of Charter

If all of the protections which have been examined should fail the ultimate power over the corporation continues to lie with the legislature of the authorizing state. The corporate charter granted by the state can be revoked by the state. This revocation might be made retroactive to the date on which the legislation was introduced or earlier, perhaps as early as the date on which the GSOC was created. The revocation of the charter terminates the subchapter U status effective the first day of the year for which the revocation is effective. In a charter

revocation all existing contracts of the GSOC would have to be honored, but a receiver could be appointed to handle this task along with liquidation of the corporation. The important aspect of the revocation is that it cuts off the flow through of corporate income tax consequences to the shareholders. Revocation of the corporate charter and liquidation of the corporation is a drastic measure and, with careful management and the other protections afforded under subchapter U. should never be required to protect shareholders from tax liability due to GSOC taxable income in excess of cash distributed to the shareholders by the GSOC.

CONCLUSION

The possibility of GSOC taxable income attributed to the shareholders resulting in shareholder tax liability in excess of cash distributions from the corporation warrants careful consideration by the management of any GSOC. Without careful planning it can occur and could have serious consequences for the shareholders. However, it is the responsibility of the GSOC management to assure that the decisions which are made with respect to the operations of the corporation do not result in shareholder tax liability in excess of cash distributions. However, if the management of a GSOC fails to adequately protect the shareholders the law allows the termination of the subchapter U election in a number of ways in order to close off the flow through of corporate tax consequences to the shareholders. This assures that are protected regardless of management decisions.

Outline of Testimony of
Samuel A. Stern
of
Wilmer & Pickering
Washington, D.C.

FOR HOUSE FINANCE COMMITTEE, April 7, 1980

1. Status of Federal Tax and Regulatory Applications

- a) IRS - Staff unwilling to rule because Alaska has not yet adopted enabling legislation.
- b) SEC -
 - i) Informal 1933 & 1934 Act clearances.
 - ii) Requests for further definition of AGSOC's expected investment and operating policies; reluctance to entertain formal application under Investment Company Act until AGSOC is formed.

2. Conflicting Financial Advice on Viability of AGSOC

3. Possible Staged Approach

- a) Create AGSOC now.
- b) Appoint Three Incorporators and perhaps defer appointment of Board of Directors.
- c) State Grants Funds for Initial Operations.
- d) IRS and SEC applications are perfected in name of AGSOC.
- e) Incorporators and their advisors:
 - i) Explore possible investments,
 - ii) Explore possible corporate funding,
 - iii) Develop detailed plan for distribution of AGSOC shares,
 - iv) Examine administrative and shareholder relations implications and costs.
- f) Incorporators determine:
 - i) AGSOC can realistically proceed without further State assistance; they appoint Board of Directors and AGSOC proceeds with distribution of shares;

- ii) AGSOC requires further State assistance; they report to legislature with recommendations; nothing proceeds without further State action; or
- iii) AGSOC is not a viable concept; they report to legislature with recommendation to wind up.

g) Advantages:

- i) AGSOC will have sufficient presence to have more realistic negotiations with sources of investment opportunities and of debt capital.
- ii) AGSOC's effectiveness will not be delayed if it can commence without State support.
- iii) State can decide whether to support AGSOC or wind it up in light of Incorporators' test of marketplace.
- iv) Public will have greater assurance of feasibility of plan if AGSOC goes forward.
- v) Public will not be disappointed as holders of valueless shares if AGSOC does not go forward.
- vi) Significant costs of share distribution are deferred until viability is determined.
- vii) Federal regulatory rulings and exemptions can be more easily obtained by AGSOC itself.

HOUSE FINANCE COMMITTEE
April 8, 1980
8:45 a.m.

All Committee members were present, except Representatives McKinnon and Moss. Representatives Meekins and Duncan arrived later in the meeting. Also in attendance: John Crandall and Mike Doogan, Administrative Assistants to Chairman Meekins; Bob Grogan, Fiscal Analyst, Legislative Finance Division.

PRESENT

Vice Chairman Freeman called the meeting to order and asked that Representative Smith, subcommittee chairman, NATURAL RESOURCES budget, present an overview before going into budget closeouts.

NATURAL
RESOURCES

Referring to a handout (see attached), Representative Smith advised the recommendation for the Department of Fish and Game represents an overall 4% reduction from the Governor's figures, noting that they came in for over a 30% increase.

[Chairman Meekins arrived at this time and conducted the meeting.]

Commenting the subcommittee felt this was a priority, Representative Smith said they set up a computer division for Limited Entry, which would bring the fish tickets up to date. Responding to questions, Bob Grogan stated the total budget is 1% below the Governor's figure, and the total number of positions is 20 below the authorized. During brief discussion on positions, Mr. Grogan advised there is a rough increase of 200 positions. Representative Smith added a lot of these are seasonal part-time positions. Mr. Grogan said he doesn't have the exact figure, but that there are many CIP positions throughout.

[Representative Duncan arrived at this time.]

Mr. Grogan explained the Budget Summary and the budget format used. Representative Smith pointed out the Department of Natural Resources did a complete reorganization this year, using a zero-base budget. Referring to the Budget Summary, Mr. Grogan advised the lines where there are no figures represent the deleted BRUs, maintained on file for historical data only; they are not asking for money. He further stated the budget is presented in a way where you can look at it in terms of projects or the old way. Representative Smith added the subcommittee deleted by project and added by project. Mr. Grogan advised he would point out the components where there is a significant difference:

DEPARTMENT OF NATURAL RESOURCES

Water Management, Water Use Management, p 138: Mr. Grogan stated the Land Management Officer I was deleted and \$10.0 was added to contractual services to fund a project to publish a handbook dealing with water use.

Forest Management, Timber Inventory/Sales, p 144: Mr. Grogan advised the recommendation is for \$53.8 above the Governor's figure to fund two projects not included by the Governor--beach log salvage/log brand projects. He called attention to the intent statement regarding a status report on these projects. He added the Governor authorized all the new positions but did not authorize those two projects, and there are no new positions required for them. He referred to a sheet he handed out which shows the projects and the dollar spread over the line items. Representative Duncan indicated he feels the positions should be listed by projects.

Oil & Gas Management, Lease Sales, p 154: Representative Rogers requested this be held OPEN on behalf of Representative McKinnon. There was no objection.

OPEN

Resource Inventory/Assessment, Geol Investigations/Mapping, p 164: Mr. Grogan noted two projects were added--\$4.0 for Western Clearwater Mountain and \$14.0 for the Healy Quadrangle.

Minerals & Energy Management, p 169, through Park Operations, p 192: Mr. Grogan advised the recommendation is the Governor's figures.

DEPARTMENT OF FISH AND GAME

Representative Smith called attention to the addition of a new Non-Game Fish & Wildlife Section being set up in the Department this year. She explained "non-game" is defined as being any species that are non-consumptive, such as eagles, and indicated no that it is not statutory. During discussion, Representative Smith advised the new positions for this Section are a biologist IV in Juneau, a special assistant in Anchorage or Fairbanks, and a clerk typist.

Commercial Fish, Salmon, p 207: Mr. Grogan advised the recommendation of \$6,500.0 represents a 17% increase over the continuation level. Representative Schaeffer asked where to find the results of the studies that have been done, and Representative Smith indicated she recieved a list from the Department of the studies that were done and would see that Representative Schaeffer received a copy.

Commercial Fish, Shellfish, p 209: Mr. Grogan stated the House figure reflects holding this to a 17% increase over last year. He noted there are no new positions here.

Commercial Fish, Herring, p 211: Mr. Grogan noted the subcommittee recommended a general reduction and that there are no new positions here.

Commercial Fish, Administration, p 212: Mr. Grogan noted the same general reduction taken as in the previous BRU, and that the House figure represents the transfer out for the Limited Entry Fisheries Data Center.

Commercial Fish, Ground Fish, p 215: Mr. Grogan noted the request is for 19 positions, and that the subcommittee recommendation of \$180.1 in personal services does not address the number of positions; i.e., they can fund as many as they want staying within the \$180.1 limit.

The meeting adjourned at 9:50 a.m.

ADJOURN

Tape HFC 80-38 Side 1 #610 - End
Side 2 #001 - #782

ADF&G VS. DNR

In spite of a 4% reduction in the Fish and Game budget in the House recommendation, the Department received twice as large an increase as the Department of Natural Resources over the FY 80 budget.

GAME DIVISION

Addition of non-Game Fish & Wildlife Section \$150.0 (3 positions). House figure allows +17% over FY 80 not including above addition.

PUBLIC COMMUNICATIONS

A +34% increase over FY 80. Provides complete reinstated funding of fish & game magazine, plus \$10.0 for TV spots & filming.

SPORT FISH

+19% increase overall. House figure allows 3 new full time positions, 16 new part-time positions. Funding of studies for chinook/coho in Deshka River, steelhead in Anchor River allowed.

COMMERCIAL FISH - SALMON

+17% over FY 80 (+\$1.700.0). They asked for 81 new positions, House allowed 22. (locations to be determined by the Department's priority).

F.R.E.D. +17%

get Leo the Corn fish lists

HOUSE FINANCE COMMITTEE

April 8, 1980

11:45 a.m.

All Committee members were present, except Representatives Moss and Smith. Representative McKinnon arrived later in the meeting. Also in attendance: Bob Greene, Alaska School Boards Association; Deputy Commissioner Bill Thompson, Executive Administration, and Executive Director Kerry Romesburg, Postsecondary Education Commission, Department of Education; John Crandall, Administrative Assistant to Chairman Meekins; Dave Scott, Fiscal Analyst, Legislative Finance Division.

PRESENT

Chairman Meekins called the meeting to order and advised the Committee would consider CSSB 199 (Finance) am:

CSSB 199 - "An Act relating to the public school foundation program; to educational assessments of children; and providing for an effective date."

CSSB 199

Dave Scott distributed handouts (see Attachments 1, 2 & 3) and provided an overview of HCS for CSSB 199. He advised it is a two-year package broken down as follows:

Fiscal Year 1981

Section 6:	Separate Elementary Sites	\$ 7,417.4
Section 10:	Secondary Formula	13,186.5
Section 13:	Biennial Area Differential	224.3
Section 14:	Increase Unit Value	17,171.8
		<u>\$38,000.0</u>

Fiscal Year 1982

Section 5:	Supplemental Equalization	\$ 9,142.2
Section 9:	Elementary Formula	3,424.5
Section 11:	Secondary Formula	5,776.0
Section 15:	Increase Unit Value	21,593.8
Section 24:	Eliminate 3% Local Effort	3,968.7
		<u>\$43,905.2</u>

[Representative McKinnon arrived at this time.]

Mr. Scott advised the two major changes in the Finance Committee Substitute from the three previous drafts discussed are expanding participation on prior year to all REAAs and districts within the State and eliminating inlieu as a separate program. He also pointed out two errors in the draft: page 3, line 1, "July" should be "June"; and on line 3, "and" should read "aid". Using a hypothetical district, Mr. Scott gave an example of how the formula would work as to entitlements.

Referring to Section 13, area differentials, page 5, Representative Schaeffer stated he does not feel comfortable with this and moved to delete Section 13(a)(b)(c). During discussion, Chairman Meekins suggested leaving in subsection (b) requiring a biennial study be submitted to the Legislature, which would retain control. Representative Schaeffer indicated this was fine with him. Chairman Meekins moved to amend the motion to delete subsections (a) and (c) and reword language in (b) changing the authority from the Commissioner to the Legislature. This way, he stated, the Commissioner would just make recommendations to the University doing the study; then the Commissioner would take the study and make recommendations to the Legislature; the Legislature could accept or reject it, but it would not take effect until the Legislature acted on it. Representative Rogers objected to this becoming law automatically if the Legislature fails to take action. The question was called for, and the motion carried (7 in favor; Rogers opposed).

AMENDMENT

AMENDMENT

APPROVED

Representative Montgomery suggested putting in a date, whereby legislative action must occur in a timely manner. Mr. Scott indicated this would have to take place during the session. A case in point he cited as an example is Sand Point, which did not get in last year. Representative Duncan suggested inserting language "by January 15, of each year" after the word "regulation" on line 21. After brief discussion, Mr. Scott suggested "by January 15, of the following fiscal year". There being no objection, it was so ordered.

AMENDMENT

APPROVED

Representative McKinnon moved to include language in the bill to the effect that "at least 95% of the funds received by a school district or REAA under the allotments for special vocational or bilingual education must be expended for those purposes". Mr. Scott pointed out that, during previous testimony, it was noted the districts do not have to expend all the dollars they receive on special education as long as they provide the services they were claiming.

Chairman Meekins announced the Committee would accept brief statements on this matter from the Department. Bill Thompson indicated the Department has no position on this, but offered his comment that the districts spend more on special education than what is received, and in bilingual, the gap is close. During discussion, Representative Schaeffer commented he feels it is being inferred the districts are using this money for something else by the amendment. Representative McKinnon withdrew his motion.

Bob Greene testified the Alaska School Boards Association would be opposed to this because local districts spend considerably more than they receive on categorical aids

funding. He stated he feels the point the Committee is making is directed at the very small districts in the State and urged the Committee look at further study and research. He added he does agree that sometimes more money is generated that is used.

Representative Freeman moved and asked unanimous consent that House Finance Committee Substitute for CSSB 199 be reported out as amended. There being no objection, it was so ordered. HCS for CSSB 199 was reported out with a majority recommending "do pass".

FINANCE HCS
FOR CSSB 199
REPORTED OUT

There being no further business to come before the Committee, the meeting adjourned at 12:40 p.m.

ADJOURN

Tape HFC 80-39 Side 1 #001 - End
Side 2 #001 - #227

4/8/80

PROPOSED HCS CSSB 199

Fiscal Year 1981

	<u>City/Borough</u>	<u>REAA</u>	<u>DOE</u>	<u>Total</u>
Separate Elementary Sites	7,340.8	76.6	-	7,417.4
Secondary Formula Changes	5,993.4	7,193.1	-	13,186.5
Increase Unit Value - 7.3%	12,928.6	4,243.2	-	17,171.8
Biennial Area Differential	-	-	224.3	224.3
	26,262.8	11,512.9	224.3	38,000.0

Fiscal Year 1982

Secondary Formula Change	5,589.4	186.6	-	5,776.0
Elementary Formula Change	2,210.8	1,213.7	-	3,424.5
Eliminate 3% Local Effort	3,968.7	-	-	3,968.7
Supplemental Equalization Aid	9,142.2	-	-	9,142.2
Increase Unit Value - 8.1%	16,323.0	5,270.8	-	21,593.8
	37,234.1	6,671.1	-	43,905.2

Total - 2 Year	63,496.9	18,184.0	224.3	81,905.2
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% of Program

Initial FY 81	76.3%	23.7%
Revised FY 82	76.3%	23.7%

PROPOSED HCS CSSB 199

Fiscal Year 1981

- Separate Elementary Site Calculation - Section 6, page 3
- Secondary Formula changes - Section 10, page 4
- Increase Unit Value - Section 14, page 6
- Biennial Area Differential - Section 13, page 5
- Centralized Correspondence Study - Section 4, page 2
- Minimum Expenditure for Instruction - Section 16, page 6
- School Board report on improvement of instructional services - Section 1, p. 1; Section 2, p. 1; Section 19, p. 7
- Deduction of State Aid for Fund Balance Increase - Section 17, page 6
- Revised Secondary school definitions - Section 22, page 8

Fiscal Year 1982

- Secondary Formula changes - Section 11, page 4
- Elementary Formula changes - Section 9, page 4
- Elimination of 3% local effort - Section 24, page 9; Section 3, page 1
- Supplemental Equalization Aid - Section 5, page 2
- Increase Unit Value - Section 15 - page 6
- Elimination of separate In-lieu program for REAA - Section 5, page 2; Section 24, page 9

HCS55B 129 4/8/00

Article	Date

	FY81-Initial # Instruction Units	FY 81 Prelimin. Entitlement	Separate Elem. Sites Increased # Units	Cost	Secondary Increased # Units	Formula Cost	Increase Unit Value 7.3 %	Total FY 81 Revised	Increase with Proposal
Anchorage	1983	61957628	155	49411500	14	446600	4916457	72265185	10307557
Bristol Bay	21	1016762	—	—	3	148335	85052	1280149	233387
Cordova	42	1524589	—	—	5	183425	124685	1832699	308110
Craig	18	617174	—	—	1	31452	47569	699195	82021
Dillingham	32	1567780	—	—	6	296670	136105	3000555	432775
Fairbanks	579	19817326	29	1036112	15	535920	1561423	22950781	3133455
Galena	19	937168	—	—	4	197780	82851	1217779	280631
Healy	35	1264999	—	—	5	183425	106100	1559524	289525
Hoonah	22	783551	—	—	3	107184	65024	955759	172208
Hydaburg	14	484767	—	—	1	341152	37611	552832	72063
Juneau	282	8863912	9	287100	10	319000	691311	10161323	1297411
Kake	21	722347	—	—	3	103356	60276	885979	163632
Kenai	454	15171972	8	275616	11	278972	155339	16981899	1809927
Ketchikan	169	5308330	5	159500	6	191400	413124	6072354	764024
King Cove	13	618321	—	—	1	47850	48630	714801	96480
Klawick	7	246257	—	—	—	—	17539	257796	17539
Kodiak	196	7151151	2	74008	6	222074	543644	7990827	839676
Mat Su	327	10634651	10	331760	14	464464	834454	12265329	1630678
Nenana	22	839715	—	—	4	153120	72492	1065527	225612
Nome	68	3346970	—	—	7	346115	269159	3956264	615274
North Slope	167	8609575	—	—	9	445005	617186	9071786	1062191
Pelican	6	211217	—	—	1	35728	18027	264974	53755
Petersburg	46	1567765	—	—	3	99528	117328	1724561	216856
Sand Point	15	475613	—	—	2	63800	39379	578822	103179
Sitka	115	3742354	7	232232	5	165880	302254	4442720	700366
Skagway	18	666081	—	—	1	34452	46759	687772	81211
St. Mary's	16	781567	—	—	1	44445	61248	900260	110693
Unalakleet	19	894072	—	—	2	95700	72253	1062025	167953
Valdez	75	2668834	—	—	10	366850	221605	3257289	588455
Wrangell	39	1278053	—	—	5	165880	105407	1547340	271287
Yakutat	19	722653	—	—	2	76560	58343	857556	134903
TOTALS	4850	163776368	225	7340828	160	5993372	12928634	190033202	26262834
FY81 Cumulative				171,141,196		177,104,568	190033202		

29-8-4

689.

Attachment 2

FY81 IMPACT

HCSCSSB129 4/8/80

Prepared By	Initials	Date
Approved By	Initials	Date

36		FY81-Initial & Instruction Units	FY81 Formulation	Separate Elem. Sites Increased # Units	Cost	Secondary Increased # Units	Formula Cost	Increase Unit Value 7.3%	Total FY81 Revised	Increase with Proposal		4-8-80
	Adak	42	619187			6	267960	64762	951909	332722		
	Alaska Gateway	57	1814085			7	267960	151986	2233981	419446		
	Aleutian Chain	32	1334693			1	47850	101291	1488834	149141		
	Annette Island	33	313850			5	165880	35029	514750	200900		
	Bering Strait	84	3257170			14	692230	288306	4237106	980536		
	Chatham	29	661599			1	34452	50812	146863	85264		
	Chugach	8	259829			11	38280	21762	319871	60042		
	Copper River	62	1942783			4	143740	152535	2242058	299275		
	Delta/Greely	72	1638658	2	76560	5	191409	139183	2045801	407143		
	Iditarod	52	2027938			5	247225	166087	2441250	413362		
	Kuskokwim	58	2330830			8	395560	199026	2925416	594586		
	Lake & Peninsula	75	3063553			4	197780	234063	3440401	431843		
	Lower Kuskokwim	224	8676248			28	1384460	734432	10795140	2118892		
	Lower Yukon	136	4799808			13	642785	397163	5837756	1039949		
	Northwest Arctic	168	6030490			24	1186680	526853	7744023	1713533		
	Pribilof	23	725552			1	47850	56458	829860	104308		
	Railbelt	44	1382371			6	229680	117681	1729752	347361		
	Southeast Island	68	1571436			2	68904	119745	1769085	188649		
	Southwest Region	84	3125638			6	296670	249832	3672190	546502		
	Yukon Flats	61	2462083			4	197780	194170	2854033	391950		
	Yukon/Koyukuk	81	1870132			9	445005	242005	3557142	687010		
	Totals	1493	50855958	2	76560	154	7193131	4243172	62368821	11512863		
	FY81 Cumulative				50932518		58125649	62368821				

Attachment 2

FY82 IMPACT

HCS 358195 4/8/80

Prepared By	Initials	Date
Approved By		

4-8-80

	FY82 Initial Foundation	Eliminate 3% Local Effort	Secondary Formula Increased # Units	Cost	Elementary Formula Increased # Units	Cost	Increase Unit Value 8.1%	Supplement Equalization Aid	Total FY82 Revised	Increase with Proposal
Anchorage	72144823	1513833	97	3320116	42	1437576	6,351,724	3,547,264	88,315,336	16,170,513
Bristol Bay	1246806	26466				53053	107432	90,545	1,524,302	277,496
Cordova	1830585	19429					149851	138003	2,137,868	307,283
Craig	699000	12354					57620	142725	911,699	212,699
Dillingham	1997590	18424					163297	284088	2,463,399	465,809
Fairbanks	22904738	632952	19	728365	5	191675	1,981,076	—	26,438,806	3,534,068
Galena	217249	2970					98837	142188	1,461,244	243,995
Haines	1557342	17138					127533	—	1,702,013	144,671
Hoonah	955370	3005					77628	196909	1,232,912	277,542
Hydaburg	552698	1292					44913	94600	694003	141,305
Juneau	10151581	151047	7	239596			853920	550204	11,946,348	1,794,767
ake	885780	1404					71862	152760	1,111,806	226,026
Kenai	16960370	524548	12	443592	3	110898	1,461,192	1,052,265	20,552,865	3,592,495
Ketchikan	6066450	94590	6	205368	1	34228	518452	—	6,919,688	852,638
Kung Cove	714429	4309					58222	61953	838,963	124,484
Klawock	257789	973					20960	63344	343,066	85,277
Kodiak	7986116	113500	3	119112	3	119112	675365	842983	9,856,188	1,870,072
mat su	12248192	246355	8	284776	3	106791	1,043,775	—	13,929,889	1,681,697
Nenana	1065077	2847					86502	165672	1,320,098	255,021
Nome	3953804	25171					322297	545076	4,846,348	892,544
North Slope	9057208	280120	2	106106	2	106106	773513	—	10,323,053	1,265,845
Pelican	264404	3941					21736	23606	313,687	49,283
Petersburg	1723233	21020					141285	135240	2,020,778	297,545
Sand Point	578402	3474					47132	—	629,008	50,606
Sitka	4434453	86366	4	142388			377720	484942	5,525,869	1,041,416
Skragway	686435	15919					56891	104940	864185	177,750
St. Mary's	700131	1770					73054	79470	1,054,425	154,294
Unalaska	1060300	17882			1	51342	91491	6,600	1,227,615	167,315
Valdez	3245397	100373					271007	—	3,616,777	371,380
Wrangell	1547128	19140					126868	114552	1,807,688	260,560
Yakutat	857020	5534					69867	122304	1,054,725	197,705
TOTALS	187749950	3968646	158	5,589,419	61	2,210,781	46,323,022	9,142,233	226,984,051	37,234,101
FY82 Cumulative		193718596		199,308,015		201,518,796	217,841,818	226,984,051		

-69-

Attachment 2

FY82 IMPACT

HSC 553199

4/8/80

Prepared By	Initial	Date
Approved By		

	FY82 Initial Foundation	Less PL-874	Net FY82 Foundation	Secondary Increased # Units	Formula Cost	Elementary Increased # Units	Formula Cost	Increase Unit Value 8.1%	Total FY82 Revised	Increase With Proposal		
Adak	2,300,112	1,256,533	1,043,579					84,530	1,128,109	84,530		
Alaska Gateway	2,628,936	367,925	2,260,811					183,126	2,443,937	183,126		
Aleutian Chain	1,694,286	191,507	1,502,779					121,725	1,624,504	121,725		
Annette Island	1,352,626	780,958	571,728					46,310	618,038	46,310		
Bering Strait	5,199,194	896,210	4,302,984			1	53,053	352,839	4,708,876	405,892		
Chatham	1,108,980	337,509	771,471			1	36,966	65,483	873,920	102,449		
Chugach	369,666	46,411	323,255					26,184	349,439	26,184		
Copper River	2,597,892	331,687	2,266,205	1	39,362	3	118,086	196,316	2,619,969	353,764		
Delta/Greely	3,244,846	1,117,502	2,127,344	1	41,074			175,642	2,344,060	216,716		
Iditarod	3,024,021	543,202	2,480,819					260,946	2,681,765	200,946		
Kuskokwim	3,501,498	536,980	2,964,518					240,126	3,204,644	240,126		
Lake & Peninsula	4,191,187	699,817	3,491,370			2	106,106	291,396	3,888,872	397,502		
Lower Kuskokwim	13,369,356	2,399,432	10,969,924	2	106,106	3	159,159	910,051	12,145,240	1,175,316		
Lower Yukon	7,904,897	1,926,712	5,978,185					484,233	6,462,418	484,233		
Northwest Arctic	10,186,176	2,276,210	7,909,966			2	106,106	649,297	8,665,309	755,403		
Pribilof	1,232,208	374,998	857,210					69,434	926,644	69,434		
Railbelt	2,053,700	301,929	1,751,771			1	41,074	145,220	1,938,065	186,294		
Southeast Island	2,587,620	771,300	1,816,320			6	221,796	165,087	2,203,203	386,883		
Southwest Region	4,774,770	1,027,692	3,747,078			4	212,212	220,703	4,279,993	532,915		
Yukon Flats	3,448,445	554,062	2,894,383			1	53,053	238,742	3,186,178	291,795		
Yukon/Koyukuk	4,774,770	1,134,913	3,639,857			2	106,106	303,423	4,049,386	409,529		
TOTALS	81,545,046	17,873,549	63,671,497	4	186,542	26	1,213,717	5,270,813	70,342,569	6,671,072		
FY82 Cumulative		63,671,497	63,671,497		63,858,039		65,071,756	70,342,569				

Attachment 2

HOUSE CS FOR CS FOR SENATE BILL NO. 199 (Finance)

IN THE LEGISLATURE OF THE STATE OF ALASKA

ELEVENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to support for schools and amending the public school foundation program; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

*Section 1. AS 14.08.111 is amended by adding a subsection to read:

(9) submit to the Commissioner by June 1 of each fiscal year, a report describing the improvements which will be made in the quality and/or quantity of instructional services provided to students in attendance in the district for the following fiscal year. The report submitted for fiscal years beginning after June 30, 1981, shall include an evaluation of the extent to which the improvements proposed for the prior fiscal year have been achieved.

*Section 2. AS 14.14.090 is amended by adding a subsection to read:

(7) submit to the Commissioner by June 1 of each fiscal year, a report describing the improvements which will be made in the quality and/or quantity of instructional services provided to students in attendance in the district for the following fiscal year. The report submitted for fiscal years beginning after June 30, 1981, shall include a detailed evaluation of the extent to which the improvements proposed for the prior fiscal year have been achieved.

*Section 3. AS 14.17.021 is repealed and re-enacted to read:

Sec. 14.17.021. BASIC STATE AID. (a) The amount of basic state aid for which each district is eligible is calculated by multiplying the instructional unit allotment of the district as established under AS 14.17.052 by the number of allowable

1 instructional units in the district as established under
2 AS 14.17.031 and 14.17.041.

3 (b) To the maximum extent permitted under sec. 5(d)(2) of P.L. 81-
4 874, as amended, (20 U.S.C. 240(d)) and the regulations adopted
5 under it (45 C.F.R. 115.60-115.66), the amount of basic state aid
6 to a district may be reduced by the entitlement of the district to
7 federal financial assistance under P.L. 81-874, as amended,
8 (20 U.S.C. 236-244), for the prior fiscal year.

9 * Sec. 4. AS 14.17.022 is amended to read:

10 Sec. 14.17.022. FUNDS FOR CENTRALIZED CORRESPONDENCE STUDY.
11 Funds for providing centralized correspondence study programs for
12 students not enrolled in an approved school district correspondence
13 study program (shall) may include an appropriation item (from the
14 public school foundation account) in an amount not to exceed the
15 amount calculated by multiplying the base instructional unit by the
16 total number of instructional units as determined by applying the
17 number of correspondence students to sec. 41(a) of this chapter.

18 * Sec. 5. AS 14.17. is amended by adding a new section to read:

19 Sec. 14.17.023. SUPPLEMENTAL EQUALIZATION AID. (a) In addition
20 to basic state aid under AS 14.17.021, each district is entitled
21 to supplemental equalization aid as determined in (b), (c) and
22 (d) of this section. (b) the amount of supplemental equalization
23 aid for a district is calculated by multiplying the ADM of the
24 district as reported for the prior fiscal year under sec. 180 of
25 this section times the amount per ADM calculated in (c) of this
26 section. (c) the amount per ADM of supplemental equalization
27 aid is calculated as the amount equal to the average local tax
28 contributions per pupil in average daily membership for school
29 operating costs in the city and borough school districts in the

1 prior fiscal year, or in the fiscal year ending ~~July~~^{June} 30, 1979,
2 whichever is higher. (d) the amount of supplemental equalization
3 ~~and~~^{aid} determined in (b) of this section shall be reduced in those
4 districts that provide local tax contributions, by the amount of
5 the average local tax contributions per pupil determined in the
6 district under (c) of this section.

7 *Section 6. AS 14.17.031(b) is amended to read:

8 (b) A school district shall compute separately the number of
9 allowable instructional units for each of its elementary and
10 secondary schools except as provided in (c) of this section.

11 *Section 7. AS 14.17.031(d) is amended to read:

12 (d) If the instructional units which a school district is entitled
13 to under (a) of this section decrease by 10 percent or more from one
14 year to the next, the school district may use the last year before
15 the reduction as a base year and offset its reduction according to
16 the following schedule: (1) for the first year after the base
17 year, the school district is entitled to the instructional units
18 determined under (a)(1) (~~{a}~~) of this section plus 75 percent of
19 the difference in instructional units between the base year and the
20 first year; (2) for the second year after the base year, the
21 school district is entitled to the instructional units determined
22 under (a)(1) (~~{a}~~) of this section plus 50 percent of the difference
23 in instructional units between the base year and the second year;
24 (3) for the third year after the base year, the school district
25 is entitled to the instructional units determined under (a)(1)
26 (~~{a}~~) of this section plus 25 percent of the difference in instruc-
27 tional units between the base year and the third (~~SECOND~~) year.
28 The schedule established in this subsection is available to a
29 school district for the three years following the base year only
30 so long as the entitlement to instructional units under (a)(1)
31 (~~{a}~~) of this section for each year is less than the entitlement
32 in the base year. This subsection does not apply to a decrease

1 in instructional units resulting from a loss of enrollment which
2 occurs as a result of a boundary change under AS 29.

3 * Sec. 8. AS 14.17.031 is amended by adding a new subsection to read:

4 (e) The commissioner may authorize a school district operating a
5 school in a remote area to calculate the number of instructional
6 units to which the remote school would be entitled if that school
7 were a separate school district and to include that number of in-
8 structional units in the total number of instructional units for
9 the district.

10 * Sec. 9. AS 14.17.041(a) is repealed and re-enacted to read:

11 (a) ELEMENTARY SCHOOLS:

ADM	No. Instructional Units
Under 32	3
33 -- 46	4
47 -- 62	5
63 -- 80	6
81 and over	6 plus 1 for each 18 pupils in ADM or fraction of 18

17
18
19
20 * Sec. 10. AS 14.17.041(c) is repealed and re-enacted to read:

21 (c) Secondary schools:

ADM	No. Instructional Units
under 30	4
30 - 59	6
60 - 89	8
90 and over	10 plus 1 for each 20 pupils or fraction of 20

26
27
28 * Sec. 11. AS 14.17.041(c) is amended to read:

29 (c) Secondary schools:

ADM	No. Instructional Units
under 30	4
30 - 59	6
60 - 89	8
90 and over	10 plus 1 for each <u>18</u> (20) pupils or fraction of <u>18</u> (20)

* Sec. 12. AS 14.17.051(8) is amended to read:

(8) for Pribilof Islands School Districts, Aleutian Chain School District, King Cove City School District, Sand Point City School District, and Unalaska City School District, the district or area is entitled to receive 150 percent of the base instructional unit allotment;

* Sec. 13. AS 14.17 is amended by adding a new section to read:

Sec. 14.17.052. INSTRUCTIONAL UNIT ALLOTMENT DIFFERENTIAL AND REVISION. (a) The commissioner shall establish by regulation, effective July 1, 1981, a table of differential instructional unit allotment values for all school districts, with the Anchorage district as the base unit value.

(b) The commissioner shall revise the table of differential instructional unit allotment values biennially by regulation. The revision shall be based on a biennial study made by the University of Alaska. The study shall establish the appropriate differential elements and weighting factors for instructional units and shall include a process for periodic revisions of the differential instructional unit allotment values.

(c) The commissioner shall use the table of differential instructional unit allotment values and the revisions to that table in determining state aid under this chapter.

1 * Sec. 14. AS 14.17.056 is repealed and re-enacted to read:

2 Sec. 14.17.056. BASE INSTRUCTIONAL UNIT VALUE. The base instruc-
3 tional unit value for fiscal years beginning on or after July 1,
4 1980, is \$34,228.

5 * Sec. 15. AS 14.17.056 is amended to read:

6 Sec. 14.17.056. BASE INSTRUCTIONAL UNIT VALUE. The base instruc-
7 tional unit value for fiscal years beginning on or after July 1,
8 1981 (1980) is \$ 37,000 (\$34,228).

9 * Sec. 16. AS 14.17 is amended by adding a new section to read:

10 Sec. 14.17.081. MINIMUM EXPENDITURE FOR INSTRUCTION. (a) Each
11 district shall budget for and spend a minimum of 55 percent of its
12 school operating fund in each fiscal year on the instructional
13 component of the district budget.

14 (b) The commissioner shall reject a district budget which does not
15 comply with this section, and shall withhold payments of state aid
16 from that district until the school board of the district revises
17 the district budget to conform with this section.

18 (c) The commissioner shall review the annual audits of each dis-
19 trict for compliance with the expenditure requirements of this
20 section. If a district does not meet those requirements, the
21 commissioner shall calculate the percentage of deficiency in re-
22 quired expenditures and withhold that percentage from state aid paid
23 to the district in the next fiscal year.

24 (d) The commissioner shall submit an annual report on state aid
25 payments withheld under (c) of this section to the Legislative
26 Budget and Audit Committee by January 15 of each year.

27 * Sec. 17. AS 14.17 is amended by adding a new section to read:

28 Sec. 14.17.082. DEDUCTION OF STATE AID FOR FUND BALANCE INCREASE.

29 (a) The commissioner shall review the annual audit of each

1 district to ascertain changes in the year-end operating fund balance
2 of the district. If an annual audit indicates that a district has an
3 increase in its year-end operating fund balance over the year-end
4 operating fund balance for the preceding year, and the resulting
5 balance exceeds 8% of the school operating fund expenditures, the
6 commissioner shall deduct 50 percent of that increase in calculating
7 state aid for that district under AS 14.17.021. The commissioner
8 shall submit an annual report of deductions made under this section
9 to the Legislative Budget and Audit Committee by January 15 of
10 each year.

11 * Sec. 18. AS 14.17.180 is amended to read:

12 Sec. 14.17.180. PAYMENT UNDER FINAL COMPUTATION. Before June 16
13 each district shall transmit to the commissioner a final computation
14 of the district's state aid. The commissioner shall process each
15 district's computation in the manner provided by AS 14.17.150(2).
16 However, in no event may the entitlement of a school district to
17 state aid under AS 14.17.021 be less than that computed under this
18 section for the preceding fiscal year, except as otherwise provided
19 in AS 14.17.031 (AS 14.17.170). Additional state aid shall be
20 obligated by the commissioner before June 30. If the district
21 received more state aid money than it was entitled to under this
22 chapter, it shall immediately, after notice from the commissioner
23 of the overpayment, remit the amount of overpayment to the
24 commissioner to be returned to the public school foundation account.

25 * Sec. 19. AS 14.17.190 is amended by adding a subsection to read:

26 (c) no district may be paid funds appropriated to the foundation
27 account in any fiscal year unless its board has submitted the
28 report required by AS 14.17.090(7) or AS 14.08.111(9).

29 * Sec. 20. AS 14.17.225 is repealed and re-enacted to read:

Sec. 14.17.225. CONSTRUCTION AND IMPLEMENTATION OF CHAPTER.

(a) This chapter may not be construed so as to create a debt of the state.

(b) Money to carry out the provisions of AS 14.17.021 - 14.17.023 may be appropriated annually by the Legislature into the public school foundation account.

(c) If the amount of money in the public school foundation account is insufficient to pay the state aid authorized under AS 14.17.021 - 14.17.023, the available money shall be distributed as follows:

- (1) first for full allocation under AS 14.17.021;
- (2) next for full allocation under AS 14.17.023;
- (3) next for full allocation under AS 14.17.022; and

(d) If the amount of money in the public school foundation account is insufficient to provide a full allocation under (c)(1) - (3) of this section, the amount of money available shall be distributed pro rata among the districts.

(e) Money necessary to carry out the provisions of AS 14.17.205 may be appropriated annually to the department. If the amount appropriated is insufficient to meet the allocation authorized under AS 14.17.205, the amount shall be distributed pro rata among eligible districts.

* Sec. 21. AS 14.17.250(3) is amended to read:

(3) "district" means any city or borough school district or regional educational attendance area;

* Sec. 22. AS 14.17.250(9) is repealed and re-enacted to read:

(9) "secondary school" means a school of grades seven through twelve, or an appropriate combination of grades within that range; when grades seven, eight, nine, or ten are organized separately as a middle or junior high school, or grades ten through twelve

1 are organized separately as a senior high school, each school is
2 considered a separate secondary school for the purposes of this
3 chapter if

4 (A) the school is conducted in a separate school plant
5 facility, or

6 (B) the school is accredited by the Northwest Accrediting
7 Association, or

8 (C) if a middle or junior high school, the school includes
9 a minimum ADM of 20 students in grades seven and eight;

10 * Sec. 23. AS 14.17.041(d) and AS 14.17.215 are repealed.

11 * Sec. 24. AS 14.08.121, 14.17.041(b), 14.17.051 and 14.17.071 are
12 repealed.

13 * Sec. 25. Section 12 of this Act takes effect immediately in
14 accordance with AS 01.10.070(c).

15 * Sec. 26. Section 8 of this Act takes effect July 1, 1978.

16 * Sec. 27. Sections 1, 2, 4, 6, 7, 10, 13, 14, 16-19, 22, and 23
17 of this Act take effect July 1, 1980.

18 * Sec. 28. Sections 3, 5, 9, 11, 15, 20, 21, and 24 of this Act
19 take effect July 1, 1981..

HOUSE FINANCE COMMITTEE

April 8, 1980

2:20 p.m.

[HFC 80-39, Side 2, #227.]

All members of the Committee were present except Representatives Moss, Meekins and Schaeffer. Also present was Bob Grogan, Fiscal Analyst, Legislative Finance Division.

PRESENT

Vice-Chairman Freeman called the meeting to order. The Committee continued with Budget Close-Outs of the NATURAL RESOURCE MANAGEMENT & ENVIRONMENTAL CONSERVATION category. [Representative Smith, Chairman, NRMEC Subcommittee.]

NRMEC
BUDGET

Department of Fish & Game:

Dept. of
Fish &
Game

Sport Fish, Investigation & Research: Mr. Grogan explained they allowed a maximum of 15% on the FY 80 budget, and they took a \$60.0 reduction from the part time increase. He said the Subcommittee did allow the new positions requested. In Miscellaneous there is an addition of \$163.2 for the sport fish King Salmon office. Mr. Grogan explained this is being transferred from the Sport Fish King Salmon Office component to this component with legislative intent.

Sport Fish, Management: Mr. Grogan advised they took \$254.0 in personal services from the total part time increase. He said all the line items were held to a maximum of 15%.

F.R.E.D., Operations: Mr. Grogan advised the Department shows some existing positions as new positions. He said the Subcommittee's recommendation doesn't say which of these existing positions should be cut, they just imposed a ceiling. He said there is also a reduction in the travel figure and contractual allows 15% over FY 80. In answer to a question from Representative Rogers, Mr. Grogan advised the performance audit of the F.R.E.D. Division (shown as last year's legislative intent) was not done.

F.R.E.D., Technology and Development: Mr. Grogan advised the Subcommittee held the increase in personal services to 15% over FY 80.

Administration & Support, Office of the Commissioner: Mr. Grogan advised the Subcommittee recommendation is the Governor's figure, accepting the three new positions requested. He advised the \$400.0 in grants are for regional aquaculture association grants. There was brief discussion.

4/8/80

Administration & Support, Public Communication: Mr. Grogan advised the Subcommittee did not allow the new position requested.

Administration & Support, Administrative Services: Mr. Grogan advised the only difference between the Subcommittee and Governor recommendations is that the Subcommittee deleted position #7 (Maintenance Man IV).

Game, Investigations & Research: Mr. Grogan advised the Subcommittee accepted the three positions requested, and made general reductions in personal services, travel and contractual.

Game, Non-Game Fish & Wildlife: Mr. Grogan advised this is the new component the Committee discussed earlier. Representative Smith advised the amount the Subcommittee put into this component may not be enough.

Limited Entry: Mr. Grogan explained they transferred four positions and their funds from this component to the new Fisheries Data Center component.

Limited Entry, Fisheries Data Center: Mr. Grogan advised this is a new component funded from Limited Entry. He said they also included legislative intent.

Habitat Protection, Land and Water Conservation: Mr. Grogan advised the Subcommittee did not accept the three positions requested. He said the reduction is the deletion of those positions and their associated costs.

Habitat Protection, Administration & Support: Mr. Grogan advised the Subcommittee made a \$73.0 general reduction.

Habitat Protection, Environmental Monitoring: Mr. Grogan advised the new position and its related costs were deleted.

Habitat Protection, Special Federal Projects: Mr. Grogan advised the Subcommittee accepted the governor's figures and included the same legislative intent as last year regarding no general funds being used to fund the positions if federal funds are not forthcoming.

Habitat Protection, Gas Pipeline Monitoring: Representative Rogers suggested adding the legislative intent that no general funds be used to fund the positions if federal funds are not forthcoming.

Habitat Protection, North Slope Haul Road: Mr. Grogan advised the Subcommittee is recommending this component be deleted with intent that should legislation pass authorizing the opening of the Haul Road, this budget request should be approved.

4/8/80

Fish & Wildlife Protection, Enforcement: Mr. Grogan advised the Subcommittee added \$400,000 under miscellaneous with the intent that it is to fund 5 new enforcement officers in Ketchikan, Juneau, Anchorage, Fairbanks and Kodiak.

Fish & Wildlife Protection, Aircraft Section: Mr. Grogan advised the Subcommittee accepted the Governor's figures and added monies under contractual and commodities to reinstate the aircraft surveillance program.

Department of Environmental Conservation:

Dept. of
Environmental
Conservation

Administration, Advisory Board: Mr. Grogan advised the Subcommittee recommended this component be deleted.

Environmental Quality Operation, Northern Region: Mr. Grogan advised the Subcommittee deleted position #4 (environmental field officer II) and its associated costs.

Gas Pipeline Surveillance: Mr. Grogan advised the Subcommittee's recommendation is the Agency's revised request. He said if the program receipts don't materialize the program will not continue.

Department of Natural Resources:

Dept. of
Natural
Resources

Oil and Gas Management, Lease Sale Administration: Representative McKinnon presented a proposal concerning unitization negotiation and administration (see attachment #1 -- Memo dated 3/12/80). He explained this is a proposal the Department put forth for items not anticipated when the original budget was submitted. Representative McKinnon recommended that the Accountant position not be included. He moved to include \$93,000 in the budget for this program. Representative Smith objected. The question was called for: six in favor, one opposed. The motion carried.

Representative McKinnon presented a proposal dealing with implementing regulations concerning land use permits. He explained the proposal (see attachment #2 -- Memo dated 3/18/80). He said there could be a substantial cost savings in the long run by implementing this program. He said the cost of the proposal is \$213.9.

[Tape Change HFC 80-40, Side 1.]

In answer to a question from Representative Montgomery, Representative McKinnon said that generally, he would think the oil industry is opposed to this legislation.

4/8/80

Representative McKinnon moved to include the funds for this proposal in the budget. The question was called for. Five in favor. The motion carried.

Representative Smith moved that NRMEC the subcommittee recommendations be accepted. There being no objection, it was so ordered.

The meeting adjourned at 3:00 p.m.

ADJOURN

Tape HFC 80-39, Side 2 #227 to end
HFC 80-40, Side 1 #001 to end

4/8/80

MEMORANDUM

State of Alaska

TO: Mark Wittow

DATE: March 12, 1980

FILE NO:

TELEPHONE NO:

FROM: Kay Brown

SUBJECT: Cost of new positions for
unitization negotiation and
administration

<u>Position</u>	<u>Range</u>	<u>Costs to State</u>
Economist II (DNR, Division of Research and Development)	20	\$34,140 -- annual salary \$ 1,975 -- FICA \$ 5,111 -- benefits \$ 1,524 -- health <u>\$ 1,000</u> -- miscellaneous (travel, furniture, commodities) \$43,750 -- TOTAL
Accountant IV (Revenue, Division of Petroleum Revenue)	20	\$34,140 -- annual salary \$ 1,975 -- FICA \$ 5,111 -- benefits \$ 1,524 -- health <u>\$ 1,000</u> -- miscellaneous (travel, furniture, commodities) \$43,750 -- TOTAL

Attachment #1

- 706 -

4/8/80

MEMORANDUM

State of Alaska

TO: Rep. Russ Meekins, chairman
House Finance Committee

DATE: March 5, 1980

FILE NO:

TELEPHONE NO:

FROM: Robert LeResche, commissioner
Department of Natural Resources

SUBJECT: Proposed budget for
unitization administration

The net profit share leasing system, used in Alaska for the first time in the December Beaufort Sea lease sale, will involve additional management responsibilities for the State. Among these is the need to participate more actively in the negotiation of unit agreements. At your request, this memorandum outlines a possible budget structure to cover these increased responsibilities.

Pre-negotiation tasks -- Within the next year, basic unit agreement forms must be revised and designed to cover the eventualities of net profit share lease accounting under unit agreements, as well as to reflect recently proposed changes in unitization regulations (promulgation has been postponed until after the legislative session at the request of the House Interim Committee on Oil and Gas Leasing Policy) and possibly in the unitization statutes (HB 800). Forms that must be revised include the State Unit Agreement Form; the State-Federal Unit Agreement Form; Unit Operating Agreement Form (under a royalty lease, the State is not a party to this cost-and-production sharing agreement between the lessees because it is indifferent to the allocation of production and costs; in a net profit share unit, however, the state's revenue is affected by the formula used to allocate costs and production among lessees) and its exhibits (which specify the accounting system and procedures to be used by the Unit Operator).

Unitization negotiation and approval -- In any proposed unit (a unit normally covers one potential structure or one known oil and/or gas pool) containing one or more net profit share leases, the Commissioner of Natural Resources will be an active party in the negotiation process, which can take several years. Each oil company commonly assigns at least four professionals (a geologist, a lawyer, an accountant and a tax expert) to represent it at negotiations.

Initial negotiations on Beaufort Sea unitization probably will begin no later than mid-1982, although timing is somewhat uncertain. All net profit share leases contain a "work commitment" requiring the lessee either to commence drilling a well by the end of the fifth or seventh year of the lease or to commit the lease to an exploration unit approved by the commissioner. Timing of unitization negotiations will be affected by how quickly exploratory drilling begins and by whether and how quickly oil is discovered.

In addition to initial negotiation (and continuing renegotiation as more is learned about the reservoir) of net profit share units, the commissioner has the authority under AS 38.05.180 to renegotiate the terms of any lease when committing it to a unit if he finds it is necessary to protect the public interest.

Proposed budget:

Estimated cost:

Economist -- A full-time position in DNR's Division of Research and Development. Primarily, this person would do policy analysis and research on issues affecting unitization negotiations and approvals (such as determining actual production costs of lessees, whether to renegotiate royalty rates, what work commitments should be required, determining "paying quantities," etc.) and would coordinate, through the Division Director, contact with the industry and activities within state government on unitization negotiations. This person could also provide general oil and gas policy analysis on other issues (such as leasing and royalty oil sales).

\$40,000

(BRU: management and administration; Component: research and special projects; Project: general policy research)

Accountant -- A full-time position in the Division of Petroleum Revenue. Under the administration's HB 904, auditing of lease and net profit share payments would be consolidated in the Department of Revenue. This person would establish procedures for net profit share accounting, help with form revisions, and participate in unitization negotiations.

\$40,000

Contractual -- Additional contractual funds could be appropriated to the DNR Commissioner's Office for:

- a. legal assistance on form revisions and unit negotiations (RSA to Department of Law) \$20,000
- b. review of forms and procedures by an outside accounting firm \$10,000
- c. assistance in the field of geology and other technical aspects \$10,000

(BRU: management and administration; Component: Commissioner's Office; Project: Commissioner's Office)

SUBTOTAL (immediate needs)

\$120,000

Geologist -- A full-time position eventually will be needed in the Division of Minerals and Energy Management to participate actively in negotiations on the Unit Operating Agreement in net profit share units. (The formula by which production and costs are allocated in the Unit Operating Agreement is based primarily on geologic characteristics of the reservoir.) This position probably would be needed in FY 1982 or FY 1983, depending on the timing of Beaufort Sea negotiations. (\$50,000)

TOTAL (including geologist) \$170,000

cc: Rep. Hugh Malone
Senator John Sackett
Rep. Sally Smith

MEMORANDUM

State of Alaska

TO: Rep. Joe McKinnon

DATE: March 18, 1980

FILE NO:

TELEPHONE NO:

FROM: Kay Brown *Kay*

SUBJECT: Cost of implementing MLUP regulations

The latest version of the draft regulations (2/29/80), which would require the oil industry to submit to the State all noninterpreted geophysical data and information acquired under a Miscellaneous Land Use Permit (MLUP), are in the mail and should be here in a day or two.

The draft regulations provide that the State will reimburse the permittee for all reasonable costs incurred by the permittee due exclusively to the required submission of geophysical exploration data and information to the State.

The attached memorandum from Tom Cook estimates the additional costs to the State from handling, storing and filing the data, as well as the costs of reimbursing permittees for the direct costs they incur.

The first four items on the attached memorandum (Cost for Reels, Cost for Tape Copy, Copying of Maps and Xeroxing of Data Documentation, and Shipping) are costs that would be incurred by permittees and reimbursed by the State. The remaining costs would be incurred by the State for handling and storage.

Following is an explanation of each cost category:

Cost for Reels -- These are blank magnetic data tape reels that the permittee will have to purchase in order to make a duplicate for the State.

Cost for Tape Copy -- This is the cost of transcribing the original magnetic data tape onto a duplicate for submission to the State.

Copying of Maps and Xeroxing of Data Documentation -- This is the cost of copying or xeroxing the maps showing the location of the seismic lines and other auxiliary information (such as field conditions), which will be necessary for the State to process and interpret the noninterpreted data.

Shipping -- This is the cost of shipping the duplicate reels, maps, and supporting documentation to a receiving company, which will receive, store and process the data under a contract with the State.

Attachment #2

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Contract Storage Receiving and Storing -- The State will contract with an Outside company to receive and store the magnetic data tape reels.

Contract Reel Storage -- This is the cost of keeping the reels in storage, and is based on volume.

(The cost of processing the data tapes into "seismic sections" is not included here, but is covered in the department's Capital budget request for FY 80 and FY 81.)

To Prepare Files for DNR -- Once the data has been processed by the receiving company, seismic sections will be sent to Alaska. The costs listed here are for the salary of a geophysical technician to file and catalogue the information and for a storage workroom.

Cook believes these estimates, which were prepared by Ted Fons of the DMEM staff, are "modest and conservative."

Please let me know if you need more information or explanation.

cc: Rep. Meekins
Rep. Smith
Senator Sackett

MEMORANDUM

State of Alaska

DEPARTMENT OF NATURAL RESOURCES
DIVISION OF MINERALS & ENERGY MANAGEMENT

TO: Robert E. LeResche
Commissioner

DATE: March 13, 1980

FILE NO:

TELEPHONE NO:

FROM: Thomas Cook, Director *TC*

SUBJECT: MLUP Regulations
Annual Cost

As requested by Kay Brown, I have attached an estimate of the incremental annual cost to the Department of Natural Resources which will result from public compliance to MLUP revisions currently being drafted.

The annual cost to DNR is about \$250,000 to receive, handle, and store seismic data obtained on state land in a year of average industry activity as provided in the MLUP draft regulations dated February 29, 1980.

Attachment

cc: Geoffrey Haynes ✓
Kay Brown
Ted Fons

COST TO DNR PER YEAR IF 2/29/80
MLUP REVISIONS ARE IMPLEMENTED

Expected Data Volume (from approximate 1979)

Seismic Line Miles: 2125
Magnetic Tapes: 3000
Future Volume: $\pm 25\%$

Cost for Reels

High: \$15.00
Low: \$10.00
Expected: \$13.00 \$ 39,000

Cost for Tape Copy

High: \$60.00
Low: \$30.00
Expected: \$40.00 \$120,000

Copying of Maps and Xeroxing of Data Documentation

Estimate from Past Data Purchases \$ 6,000

Shipping

Air Freight @ \$25/10 Reels \$ 7,500

Contract Storage Receiving and Storing

\$15/hr @ 30 Reels/hr \$ 1,500

Contract Reel Storage

For 5760 Reels, \$300 + \$160/month \$ 2,200
(should hold two years' work)
\$2,200 first year
\$1,900 second year
\$4,400 third year, etc.

To Prepare Files for DNR

Geophysical Technician Salary
and Benefits \$ 30,000

18' x 24' File and Workroom @ \$1.50/foot² \$ 7,776

TOTAL COST TO DNR* \$213,976

*DNR still would have to purchase regional surveys.

Spent Outside Alaska (± 25%)

\$176,200

Spent in Alaska (± 10%)

\$ 37,776

Ballpark Figures per Year

Cost \$200,000 to \$275,000

for 2,100 miles of data

If state purchased same data, approximate
cost

\$30,000,000

APPROXIMATE FIVE-YEAR COST TO DNR

\$1,200,000

MEMORANDUM

State of Alaska

TO: Mark Wittow

DATE: March 17, 1980

FILE NO:

TELEPHONE NO:

FROM: Kay Browne *Kay*

SUBJECT: Cost of new positions for
unitization negotiation and
administration (revised)

On March 12, I submitted to you a breakdown of costs for two new positions in the Department of Natural Resources and the Department of Revenue. Since doing further research, we have determined that the economist position for DNR should be higher than a Range 20 in order to attract a highly qualified person with experience. We believe that the level of responsibility this person would have justifies a higher range, and we therefore submit this revision for your consideration:

<u>Position</u>	<u>Range</u>	<u>Costs to State</u>
Economist IV (DNR, Division of Research and Development)	23	\$42,216 -- annual salary
		\$ 1,975 -- FICA
		\$ 6,320 -- benefits
		\$ 1,524 -- health
		<u>\$ 1,000</u> -- miscellaneous (travel, furniture, commodities)
		\$53,035 -- TOTAL

To summarize, the total package we are suggesting is as follows:

Economist (DNR)	\$53,035
Accountant (Revenue)	\$43,750
Contractual (DNR)	<u>\$40,000</u>
	\$136,785 -- TOTAL

attachments: memos of March 12 and March 5

HOUSE FINANCE COMMITTEE

April 9, 1980

8:45 a.m.

[Tape HFC 80-40, Side 1 #085.]

All Members of the Committee were present except Representatives Moss, Guy and Smith.

PRESENT

Chairman Meekins called the meeting to order. There was brief discussion on how the various budget categories stand in comparison to the Governor's figures. The Committee considered the Subcommittee's recommendations on the DEVELOPMENT budget category. [Representative Duncan, Chairman, Development Subcommittee.]

DEVELOPMENT
BUDGET

Representative Duncan advised that overall the Subcommittee's recommendation on the Development budget is approximately \$1 million less than the Governor's figures.

Department of Revenue:

Dept.
Revenue

Alaska Renewable Resources Corporation: Representative Duncan explained the Subcommittee's recommendation. He advised the House funded five new positions for ARRC in the supplemental budget (HB 60), and the Subcommittee's recommendation is that those positions not be allowed in FY 81. There was discussion on the current audit and investigation being done, and the loan made to TEPA. Representative Rogers said instead of just letting ARRC limp along on a partial appropriation, it would be better to cut them out completely. Representative Duncan said the management of the Corporation has to be straightened out. He said the Legislature would look foolish if they fully funded ARRC when they don't have all the facts. Representative Rogers recommended that the position of chief executive officer (position #1 in short form) be accepted. Representative Duncan explained the Subcommittee's recommendation is partially a continuation budget, plus \$350.0 for the expenditure analysis program. There was further discussion. Representative Rogers moved to accept the figure of zero at this time, and that this component be looked at again at the close of the budget process if additional information is available. Representative Schaeffer requested a list of grant investments made to date. The motion was accepted.

Shared Taxes: Representative Duncan said the Subcommittee accepted the Governor's figures for all the shared taxes. Representative Rogers said he thinks there should be some increase due to inflation in some of the shared taxes areas, such as municipal assistance. Chairman Meekins commented a 10% increase would be \$1.1 million. He said he would like to look at revenue sharing and municipal assistance at the same time. There was brief discussion.

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Department of Commerce & Economic Development:

Dept.
C&ED

Economic Enterprise, General Operations: Representative Duncan advised the Subcommittee's recommendation is to take \$82.7 from the contractual figure for a petrochemical development specialist.

Economic Enterprise, Asian Office: Representative Duncan said the Subcommittee recommended the Governor's figures. There was discussion on the Asian Office. Representative Duncan explained this office is located in Alaska and coordinates with the Asian office. Chairman Meekins moved the figure of zero. The question was called for. Five in favor; three opposed (McKinnon, Duncan and Schaeffer). The motion carried.

Loan Fund Administration: Representative Duncan said the Subcommittee took out only for vacancy. He said they should wait to see what happens to the loan bills before making any major changes.

Energy and Power Development. Representative Duncan advised under Administration they requested three new positions which the Subcommittee did not allow. There was brief discussion. Under Conservation Mr. Barker advised the figure should be \$342.9, and it is all federal funds.

Alaska Power Authority: Representative Duncan advised the Subcommittee's recommendation is \$98.6 above the Governor's figure. He said they allowed the two positions APA requested that the Governor did not allow. There was discussion on the positions. Representative Rogers recommended that one of the positions be a project engineer/economist. There was discussion. Representative Duncan recommended adding that as another new position, rather than changing one of the positions the Subcommittee approved. Mr. Barker said the amount for that position would be at the same level as the amount included for an engineer. There was no objection to adding the new position.

Department of Natural Resources:

DNR

Agricultural Management, State Fairs: Representative Duncan advised they increased grants by \$125.0.

[Tape change, HFC 80-40, Side 2.]

Department of Community & Regional Affairs:

C&RA

Community Assistance Grants, Community Legal Asst. Grants: Representative Duncan advised the Governor's had this at zero and the Subcommittee is recommending \$50.0. Mr. Barker explained that as of February the balance was \$19.0 and they have had requests for \$35.0. He said the \$50.0 figure would cover the requests and give them an extra \$15.0.

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Local Government Assistance, Training, Development & RDA:
Representative Duncan advised they added a new position for Dillingham. He said this gives them three positions -- two full time and one part time.

Community Planning Assistance: Representative Duncan advised they deleted the bottom fish funds. He said there is \$1.8 million in CZM money and \$500.0 in CEIP money, and the Subcommittee felt that was sufficient. He said the Subcommittee approved three positions funded from HUD that are federal funds, and deleted the six position requests funded from Bottomfish.

Municipal Lands Trustee: Mr. Barker explained they need additional people because of lands that will be transferred to the Trustee for supervision. He said they are requesting six new positions, for a total of nine positions. Representative Duncan requested this be held open until he received further information.

Administration, Administrative Services: Representative Duncan advised the decrease is a vacancy assessment.

Representative Haugen requested they go back to the Community Planning Assistance component, and moved that legislative intent be added stating that \$25.0 of the existing appropriation is to be made available to the city of Kake for road planning. There was no objection.

The Committee accepted the Development Subcommittee's recommendations (see attachment) with the changes indicated above.

The meeting adjourned at 9:45 a.m.

ADJOURN

Tape HFC 80-40, Side 1 #085 to end
Side 2 #001 to 317

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STATE OF ALASKA -- OPERATING BUDGET SUMMARY

17:02

4/08/80

***** DEVELOPMENT *****

PORT
FORM
AGE

BUDGET COMPONENT	FY80 SUP	REQUEST	GOV AMD	GOVERNOR	HOUSE	HOUSE - GOVERNOR COMPARISON
OFFICE OF THE GOVERNOR						
INTERNATIONAL AFFAIRS						
FISHERIES COMMISSIONS		239.7	- .6	240.7	240.7	
ASIAN OFFICE	196.8	322.8		324.4	324.4	
EUROPEAN OFFICE	75.0	293.6		295.5	295.5	
*** PROGRAM TOTAL ***	271.8	856.1	- .6	860.6	860.6	
DEPARTMENT OF REVENUE						
AK RENEWABLE RESOURCES CORP	271.4	1470.9		1476.1	547.9	-928.2 -62.8%
SHARED TAXES						
MUNICIPAL ASSISTANCE		11400.0		11400.0	11400.0	
AMUSEMENT AND GAMING TAX		36.0		36.0	36.0	
AVIATION FUEL TAX		134.0		134.0	134.0	
ELECTRIC & TELEPHONE COOP TAX		2000.0		2000.0	2000.0	
LIQUOR LICENSE TAX		600.0		600.0	600.0	
FISHERIES TAX		2500.0		2500.0	2500.0	
*** PROGRAM TOTAL ***		16670.0		16670.0	16670.0	
MUNICIPAL BOND BANK AUTHORITY		333.5		334.3	334.3	
*** AGENCY TOTAL ***	271.4	18474.4		18480.4	17552.2	-928.2 -5.0%
*** FUNDING IMBALANCE					-547.9	
DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT						
ECONOMIC ENTERPRISE						
GENERAL OPERATIONS		1314.3		1354.4	1271.7	-82.7 -6.0%
EDA PLANNING		345.0		359.2	359.2	
ASIAN OFFICE		243.8		151.9		-151.9 -100.0%
*** PROGRAM TOTAL ***		1903.1		1865.5	1630.9	-234.6 -12.5%
LOAN FUND ADMINISTRATION		875.1	78.3	916.5	905.4	-11.1 -1.1%
VETERANS LOAN FUND		902.5		936.2	903.6	-32.6 -3.5%
TOURISM	20.0	2537.6		2566.8	2566.8	
ENERGY & POWER DEVELOPMENT						
ENERGY ADMINISTRATION		497.0		513.7	308.7	-205.0 -39.8%
ENERGY CONSERVATION		456.5		468.7		-468.7 -100.0%
ENERGY EXTENSION SERVICE	225.2	413.9		419.6	419.6	
WEATHERIZATION		2480.0		2488.0	2488.0	
*** PROGRAM TOTAL ***	225.2	3847.4		3890.0	3216.3	-673.7 -17.2%
ALASKA POWER AUTHORITY		430.7		332.1	430.7	98.6 29.6%
*** AGENCY TOTAL ***	245.2	10496.4	78.3	10507.1	9653.7	-853.4 -8.0%
*** FUNDING IMBALANCE					3.9	
DEPARTMENT OF NATURAL RESOURCES						
AGRICULTURAL DEVELOPMENT						
STATE FAIRS						
PLANT MATERIALS CENTER						
ADMINISTRATION AND SUPPORT	41.2					
AGRICULTURAL LOAN FUND						

4/09/80

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Attachment

STATE OF ALASKA -- OPERATING BUDGET SUMMARY

17:02

4/08/80

* * * * * DEVELOPMENT * * * * *

HORT ORM AGE	BUDGET COMPONENT	FY80 SUP	REQUEST	GOV AMD	GOVERNOR	HOUSE	HOUSE - GOVERNOR COMPARISON	
	*** PROGRAM TOTAL ***	41.2						
	AGRICULTURAL MANAGEMENT							
66	AGRICULTURAL DEVELOPMENT		354.3		160.6	160.6		
68	AG FINANCING & PROMOTION		252.1		263.1	263.1		
70	AG RESEARCH/EXTENSION SERVICES		545.5		370.4	370.4		
72	STATE FAIRS		287.5		162.3	287.5	125.2	77.0%
74	DIRECTORS OFFICE		131.5		113.1	113.1		
	*** PROGRAM TOTAL ***		1570.9		1069.5	1194.7	125.2	11.6%
	*** AGENCY TOTAL ***	41.2	1570.9		1069.5	1194.7	125.2	11.6%
	DEPARTMENT OF FISH & GAME							
76	KING CRAB QUALITY CONTROL BD		395.6		395.6	395.6		
	DEPARTMENT OF COMMUNITY & REGIONAL AFFAIRS							
	COMMUNITY ASSISTANCE GRANTS							
80	MUNICIPAL REVENUE SHARING	8825.2	20236.0		26565.0	26565.0		
82	AGRICULTURAL LAND EXEMPTION		189.6		189.6	189.6		
84	NATIONAL FOREST RECEIPTS		1200.0		1200.0	1200.0		
86	RURAL DEVELOPMENT GRANTS		900.8		900.8	900.8		
88	ORGANIZATIONAL GRANTS		25.0		25.0	25.0		
90	COMMUNITY LEGAL ASST GRANTS					50.0	50.0	100.0%
	*** PROGRAM TOTAL ***	8825.2	22551.4		28880.4	28930.4	50.0	0.1%
	LOCAL GOVERNMENT ASSISTANCE							
94	TRAINING, DEVELOPMENT & RDA		707.7		740.9	871.1	130.2	17.5%
96	STATE ASSESSOR		271.3		283.8	283.8		
98	LOCAL BOUNDARY COMMISSION		88.1		91.7	91.7		
00	REVENUE SHARING ADMINISTRATION		70.2		73.7	73.7		
02	COAST ENERGY IMPACT PROGRAM		582.3		585.2	585.2		
04	ADMINISTRATION							
	*** PROGRAM TOTAL ***		1719.6		1775.3	1905.5	130.2	7.2%
	COMMUNITY PLANNING SERVICES							
08	COMMUNITY PLANNING ASSISTANCE		4762.8		4799.7	4357.0	-442.7	-9.1%
10	HUD 701							
	*** PROGRAM TOTAL ***		4762.8		4799.7	4357.0	-442.7	-9.1%
12	MUNICIPAL LANDS TRUSTEE		245.2		254.6	488.4	233.8	91.7%
	ADMINISTRATION							
16	OFFICE OF THE COMMISSIONER		187.5		190.1	190.1		
18	ADMINISTRATIVE SERVICES		375.4		394.0	377.7	-16.3	-4.0%
	*** PROGRAM TOTAL ***		562.9		584.1	567.8	-16.3	-2.7%
	*** AGENCY TOTAL ***	8825.2	29841.9		36294.1	36249.1	-45.0	0.0%
	STATE BOND COMMITTEE							
	DEBT SERVICE							
20	REMOTE HOUSING		246.1		246.1	246.1		
22	PORT FACILITIES		2979.4		2979.4	2979.4		
24	NATURAL DISASTER		386.1		386.1	386.1		
	*** PROGRAM TOTAL ***		3611.6		3611.6	3611.6		

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STATE OF ALASKA -- OPERATING BUDGET SUMMARY

17:02

4/08/80

***** DEVELOPMENT *****

4/09/80

SHORT
FORM
PAGE

BUDGET COMPONENT

FY80 SUP

REQUEST

GOV AMD

GOVERNOR

HOUSE

HOUSE - GOVERNOR
COMPARISON

***** TOTAL EXPENDITURES

9654.8

65246.9

77.7

71218.9

69517.5

-1701.4

-2.3%

***** FUNDING

FED. RECEIPT

276.4

6900.3

6945.0

6602.1

-342.9

-4.8%

GENERAL FUND

9368.4

53762.9

77.7

59628.7

58146.9

-1481.8

-2.5%

OTHER FUNDS

10.0

4583.7

4645.2

4224.5

-420.7

-9.0%

*** FUNDING IMBALANCE

-544.0

-721-

HOUSE FINANCE COMMITTEE
APRIL 9, 1980
11:58 a.m.

[Tape HFC 80-40, Side 2, #317.]

All members of the Committee were present except Representatives Moss, Smith, Rogers, McKinnon, Duncan and Rogers. Also present were Representatives Phillips and Branson; Commissioner Bob Ward, Department of Transportation and Public Facilities; and Jay Hogan, Legislative Finance Division.

PRESENT

Chairman Meekins called the meeting to order and said the purpose of the meeting was to hear from Commissioner Ward about the federal government withdrawing \$40 million in federal highway funds the State was going to utilize this summer.

DISCUSSION
ON REDUCTION
OF FEDERAL
HIGHWAY FUNDS
FOR FY 80

Commissioner Ward explained that about a month ago the President indicated his emergency inflation initiatives; one of those was for a FY 81 balanced budget. Commissioner Ward said that as part of that it was felt the cash flow would have to be restricted in FY 80 to prevent a cycle where they couldn't keep from spending money in FY 81 because of commitments made in FY 80. He said there was \$8.5 billion for all state highway projects for FY 81 funded from the federal highway trust fund, and the thought was to reduce that to \$7.3 billion.

Commissioner Ward said the federal government then put a moratorium on all obligation authority. He said Alaska felt they would open up on obligation authority again; instead the federal government said they would allocate the remaining amount to each of the states based on the same percentage of federal funds that were allocated to start with. He said Alaska's balance was a \$29 million maximum. Then, Commissioner Ward explained, the federal government said they could only obligate \$22 million of that until August 1. Then, he said, the fed's said they needed month by month cash flow within the \$22 million, and they would only authorize \$11 million of the \$22 million obligation prior to August 1.

Commissioner Ward said that as of yesterday morning it was firm that they will allow the state to obligate \$22 million of the \$29 million right away. He said that for the remaining \$7 million of the \$29 million, the State will ask for it prior to August 1.

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Commissioner Ward presented a draft of a letter he will be sending to the Federal Highway Administration (see attachment). He explained the list of projects attached to the letter. There was discussion on the lists.

Chairman Meekins asked if legally federal money could be allocated to any of the projects on the list. Commissioner Ward explained the back-up list will go to Region X, but they will not send it on to Washington D.C. He explained they just send on the total. He said the State does have some flexibility and can make some changes within the projects if it is desirable.

Chairman Meekins asked how they picked which projects would be federally funded. Commissioner Ward said they picked the ones that were ready to go right away, and they tried for some regional balance.

Chairman Meekins asked if the Legislature could rearrange the Department's priorities, and Commissioner Ward answered they could.

Chairman Meekins asked if all the projects on the attached list will be ready to go this summer. Commissioner Ward explained the projects that are listed as federally funded (one star on list) will be under construction. He said the state funded projects (two stars) are ones they are requesting be started this year, and construction could be started. He said under the three star category, the only project that has a remote possibility of going is the \$11 million Alaska Highway project.

Commissioner Ward explained that they need to have the right of way certification before they can go to the federal government and request authority to advertise for projects. In answer to a question from Representative Phillips, Commissioner Ward said he didn't see how they could get the right of way certification for the Eagle River Bypass before this summer.

Concerning the Minnesota Bypass project, Commissioner Ward explained they have broken it into two phases, and are only asking for obligational authority on the first phase of the project at this time. He commented if that project were to be changed to state funding, the second phase of the project (paving) would have to be state funds too.

Chairman Meekins commented the question is in terms of allocating between state and federal money. He said that those projects listed as being federally funded will probably go, but it is yet to be determined that those listed as state funds will be

4/9/80

accepted. There was brief discussion. Chairman Meekins said he thought the caucuses should look at this list and make a determination. He said there may be one or two projects that legislator's would like to have switched from state to federal funds.

The meeting adjourned at 12:30 p.m.

ADJOURN

Tape HFC 80-40 Side 2 #317 to #800

4/9/80

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

OFFICE OF THE COMMISSIONER

POUCH 2
JUNEAU, ALASKA 99811
(TELEX 45-328)

Mr. Gene A. Hanna, Administrator
Alaska Division, Federal Highway Admin.
Federal Building
Juneau, Alaska 99801

Dear Mr. Hanna:

With respect to our meeting of April 4, 1980, I have attached this Department's plan for obligation of Federal Highway Funds for the balance of Fiscal Year 1980.

The schedule presented is in accordance with the guideline established under the reduced obligational authority.

The attached list indicates obligations of \$17,269,095 during the month of April and \$4,732,905 during the month of May for a combined total of \$22,002,000. The projected list shows \$7,000,000 in planned obligations in August when the final 25% of the authorization will be available and \$334,000 for funding of new phases.

We do feel that the 25% restriction of obligation authority does place an undue hardship on the State of Alaska. The two projects that are impacted by the 25% restriction in authority will be ready for obligation authority in June.

The delay in authority to advertise until August will effectively preclude any work being accomplished on these projects this year and will reflect high bid prices as contractors will anticipate the inflation for next years construction season.

I respectfully request that the State of Alaska be exempted from the 25% restriction in obligation authority and be allowed to obligate its full authorization at the earliest possible time.

Sincerely,

Robert W. Ward
Commissioner

25A-TTLB

Attachment

Attachment

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4/9/80

STATE OF ALASKA
DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES
FEDERAL - AID OBLIGATION
SCHEDULE FOR FY 1980

PROJECT NAME	FEDERAL ACTION	AMOUNT	OBLIGATION DATE
Minnesota Bypass	Utility & P.E. Agreement	268,908	April
Northern Lights/Maplewood	Utility Agreement	1,332	April
Peters Creek Interchange	Utility Agreement	32,739	April
Haines Hwy. 12.5 to 26	Utility Phase Agreement	2,142	April
Northern Lights/Benson	Design Phase Agreement	6,750	April
New Ferry Vessel	P.E. Phase Agreement	95,210	April
15th and Gambell	Construction Agreement	22,257	April
Central Region R/R X-ings	Construction Agreement	(1,542)	April
Fairview Loop R/R X-ing	Construction Agreement	37,909	April
Tickel Guardrail	Construction Agreement	32,257	April
Seldovia Slough Br. Appr.	Construction Agreement	90,690	April
Tongass Ave., Ketchikan	Authority to Advertise	203,793	April
Parks Hwy. Guardrail	Authority to Advertise	133,761	April
Farmers Loop Guardrail	Authority to Advertise	91,113	April
Bridge Replacement Projects	P.E. Phase Agreement	451,776	April
*Minnesota Bypass	Utility Agreement & Authority to Adver.	<u>13,400,000</u>	April
	TOTAL APRIL	\$14,869,093	
*Peters Creek Interchange	Authority to Advertise	2,400,000	May
HPR Program	Program Agreement	700,000	May
Glenn Hwy. Seeding/Guardrail	Authority to Advertise	642,400	May
Haines Hwy. 12.6 to 26	Authority to Advertise	\$ 3,237,100	May
P.E. R/W and Utility Starts		<u>153,405</u>	
	TOTAL MAY	\$ 4,732,905	
	TOTAL APRIL-JULY	\$22,002,000	
Wrangell Paving	Authority to Advertise	500,000	June
Delta S.E.	Utility Agreement & Auth. to Advertise	<u>6,500,000</u>	June
	TOTAL AUGUST	\$ 7,000,000	
	TOTAL APRIL-SEPT.	\$29,002,000	
	P.E., R/W & Utility Starts	<u>334,000</u>	
	TOTAL	\$29,336,000	
	OBLIGATION AUTHORITY	\$29,336,000	

* Funding of Peters Creek contingent upon deletion of base and paving from Minnesota Bypass.

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4/9/80

HIGHWAY DESIGN AND CONSTRUCTION
PROJECTS THAT COULD BE ADVERTISED BY OCTOBER 1, 1980

April 3, 1980

CENTRAL REGION

	<u>Project</u>	<u>Amount</u>	<u>Est. Adv. Date</u>	<u>Remarks</u>
**	RF-031-1(14), Moose Path Pathway	223,000	April	At FHWA for PS&E
*	F-042-1(73), HES-042-1(76), Glenn Hwy. Erosion Control and Guardrail	700,000	April	
*	F-031-2(45), Minnesota Drive Extension, Phase I	14,100,000	April	Ready to go to FHWA
**	F-M-0538(3), F-M-0545(5), Seward Hwy., Int'l Airport Road Erosion Control	270,000	April	
**	RF-021-2(16), Sterling Hwy. 72-84	4,900,000	June	
*	F-042-1(7), Peters Creek Interchange	2,400,000	May	
**	RRP-031-2(43), North Girdwood Overhead	3,400,000	July	Funding with State Fund Could Laps Money
***	RS-0558(1), Eagle River Urban	4,800,000	August	
***	F-031-2(29), Huffman Interchange	5,000,000	November	Could be Accelerated to September
TOTAL		\$35,793,000		

* Federal \$17,200,000

** Recommended State \$8,793,000

*** Federal Obligation After
October 1, \$9,800,000

4/9/80

Projects That Could Be Advertised by October 1, 1980, cont'd.

April 8, 1980

INTERIOR REGION

	<u>Project</u>	<u>Amount</u>	<u>Est. Adv. Date</u>	<u>Remarks</u>
*	HES-036-6(2), Ester West Guardrail; HES-0244(14), Farmers Loop Guardrail	270,000	April	At FHWA for PS&E Approval
***	Alaska Highway 1235 to 1256	11,400,000	Sept.	
**	RS-M-0625(2), Peger Raod Bikepath	94,000	April	At FHWA for PS&E Approval
*	F-062-3(20), Delta Junction	6,500,000	June or July	
**	HHS-000S(28), Fairbanks Area Signals, Phase 2	466,000	June	
**	Fairbanks Illumination	<u>175,000</u>	June	
	TOTAL	\$18,905,000		

* Federal \$6,770,000

** Recommended State \$ 735,000

*** Federal Obligation
After October 1, \$11,400,000

SOUTHEASTERN REGION

	<u>Project</u>	<u>Amount</u>	<u>Est. Adv. Date</u>	<u>Remarks</u>
*	RF-095-10(5), Haines Hwy Mile 12.5 to 26	3,400,000	May or June	
**	F-093-2(2), Auke Bay Ferry Terminal	3,700,000	May or June	
*	HES-M-0902(9), Tongass Intersections	124,000	April	At FHWA for PS&E Approval
*	SR-0943(17), RS-0943(16), X30117, Church St. Paving, Wrangell Staging Area and Sidewalks	570,000	June	
***	F-095-8(8), Cordova Street to Douglas	3,400,000	August	May be Delayed Due to Grave Relocations
**	SR-0935(4), Sitka Ferry Terminal	1,350,000	August	
**	Wrangell Paving	1,900,000	June	Forest Hwy. Proj
	TOTAL	<u>\$14,000,000</u>		
*	Federal	\$4,094,000		
**	Recommended State	\$6,950,000		
***	Federal Obligation After October 1	\$3,400,000		

SOUTHCENTRAL REGION

	<u>Project</u>	<u>Amount</u>	<u>Est. Adv. Date</u>	<u>Remarks</u>
**	F-071-4(10), Paxson - Fish Creek Paving	930,000	May	
**	F-071-2(22), Richardson Hwy. Mile 81-90	9,000,000	May	
***	RS-0871(1), Hazelet Avenue and Ferry Terminal Access	750,000	September	
	TOTAL	\$10,680,000		

* Federal

** Recommended State \$9,930,000

*** Federal Obligation
After October 1, \$ 750,000