

HOUSE / SENATE FINANCE COMMITTEE MINUTES - 1967-1982 2731

of individuals who keep boats or have other recreational property in the Whittier area.

He advised that the project contemplated by SB 585 would provide better access to Prince William Sound and 1800 miles of scenic coastline not before accessible, resulting in an unparalleled recreational area. The actual project is a highway from Portage to Bear Valley. Bear Valley lies within two mountains. It is possible to provide access around the first mountain, but the road would have to go through the second mountain. Several proposals have been considered for dealing with the second mountain:

1. Use of a shuttle through the existing railway tunnel
2. Bore a new highway tunnel.

Mr. Marsh stated that it is important that a road be constructed into Bear Valley, and said road can be constructed using 95% federal money, but the right-of-way must be dedicated and federal funding requested. The road would cross National Park Service land, and the Park Service would have to give the right-of-way. Mr. Marsh advised that he did not know how the D-2 lands issue would affect the bill, but recommended the bill be enacted into law so that work could begin on the project, adding that an engineering feasibility study has already been prepared.

Senator Orsini advised that he had been involved in the feasibility study done in connection with the military pipeline running through the existing tunnel, adding that the pipeline project encountered problems with the park service. He further stated that one of the problems with the tunnel would not be the boring, but the ventilation which is very expensive. Mr. Marsh acknowledge that a 28 ft. tunnel allowing two lane traffic would have to be lined and ventilated, but advised that the Park Service had, to date, been very cooperative and had offered to work with the Dept. of Highways in effecting an aesthetic roadway.

Mr. Marsh advised that the \$250,000 included in SB 585 represents the state's 5% share of the project cost, adding that the land within Bear Valley belongs to the National Park Service. He further stated that he felt the project would eventually be done sooner or later, but it would never be less expensive than now because federal funding is available at the present time.

Referring to the first alternative for dealing with the second mountain (use of the railway shuttle through the existing tunnel), Senator Orsini asked if in effect the project would simply shorten the shuttle service should it not make it through the second mountain, and Mr. Marsh replied, "yes" the service would be shortened, adding that the existing shuttle service is very poor.

Vern Metcalf appeared on behalf of the Department of Transportation, advising that to date there is not enough information available concerning the project to establish it within the Department's statewide priorities. Mr. Metcalf submitted correspondence from Commissioner Harris and a memorandum from Maurice Wilson relating to the project (copies attached to these minutes) Mr. Metcalf advised that it is estimated the proposed tunnel will cost approximately 130 million dollars, and the Portage Pass Road would cost 35 million dollars, although it is unknown at this time whether the site would support the road because existing surveys have been made by helicopter. Construction would be to state standards for secondary highways, and the road would be two lanes. It would require that two bridges be constructed, one 280 feet long across Portage Creek, and another 160 feet across Placer Creek.

VERN
METCALF

Senator Orsini asked whether anything could be done on the project this year should it be enacted by the legislature, since the project is not included within the Department's priorities. Mr. Metcalf replied that he did not know; he would obtain the information and return to committee.

Senator Orsini asked if an environmental impact statement would be required prior to commencement, and Mr. Metcalf replied that if one were not, the proposed project would be one of the first projects constructed without one. He added that he would check into the need for a statement and respond to the committee. Action on SB 585 was delayed pending receipt of Mr. Metcalf's replies.

SB 585
HELD OVER

Chairman Sackett moved that SB 521 (Act relating to state participation in the costs of construction of developmental access roads) be brought up for discussion, advising of the committee substitute and that Mr. Holdsworth was present to testify concerning the substitute.

MR.
HOLDSWORTH

Mr. Holdsworth advised that during prior consideration of the bill, questions were raised by Senators Croft and Orsini concerning maintenance and liability. He added that the committee substitute removes state maintenance from the bill and (referring to page 2, sections (f) and (g)) makes it clear that a road constructed under this program would be available for state use while the applicant indemnifies the state from claims of liability. Also, should the road become of interest to the public, it may be opened at state option (the state to assume its share of maintenance costs) provided public use does not interfere with the applicant's operation.

Senator Orsini asked if it is possible to include language within the bill saying that if the function of the road ceases to exist, the state may close the road. Mr. Holdsworth replied that such closure is currently effected on logging roads wherein the contractor is required to close the road and remove all bridges, etc., unless the state wishes to make the road public which can be accomplished by regulation.

Senator Orsini asked if the state could assume ownership without payment for the road, and Mr. Holdsworth replied that it could as long as the state participates in construction.

Senator Hohman moved that the committee substitute pass from committee with individual recommendations. No objection having been voiced, CSSB 521 passed from committee, all members present signing do pass.

MOTION
CSSB 521

Chairman Sackett moved that SB 431 (Act making special appropriation to the Department of Natural Resources for state participation with mineral resource developers in the construction of developmental access roads) be brought up for discussion, advising that the subject bill appropriates 1 million dollars in funding for roads constructed under CSSB 521. Senator Orsini asked Mr. Holdsworth if applications were pending against the funding, advising that he preferred not to add 1 million dollars to the budget if it was not going to be used. Mr. Holdsworth replied that at present no applications are pending because of Native Land Claims and the D-2 Lands issue, adding that he believed there would be applications when land is available.

SB 431

Senator Hohman moved that the bill pass from committee with a do pass recommendation. No objection having been voiced, SB 431 passed from committee, all members present signing do pass.

MOTION
SB 431

Chairman Sackett moved that HB 901 (Supplemental appropriation to Department of Health and Social Services, community developmental disabilities, family support) be brought up for discussion, and Mr. Robert P. Gregovich appeared to testify concerning the bill. HB 901

Mr. Gregovich advised that while the bill contains funding for upgrading expenses and salaries (as previously stated by Mr. Swain), it is the Department's contention that means other than running to the legislature every year to cover program costs should be devised. ARCA's operation has gone beyond its budget, and for that reason, the Department does not support the bill. In addition, Mr. Gregovich added that the Department is presently not satisfied with the number of people and quality of the service provided for the amount of money spent. For the number of people, and the amount of money expended, the quality of the service should be much better.

Senator Meland inquired concerning charges for back wages, and Mr. Gregovich replied that ARCA owes approximately \$50,000 in back wages to clients because it wasn't using the proper ratio and paying the minimum required for work performed. He added that if the back wages are not paid, ARCA will probably be involved in a lawsuit filed by its clients. Mr. Gregovich again stated that it was his belief that ARCA's needed funding could be obtained elsewhere, adding that ARCA should be more efficient in its management of money.

Referring to the need for a sprinkler system and other upgrade items, Mr. Gregovich advised that past audits have indicated that ARCA certainly has valid bills to be paid, adding that the people operating the program are good people, but they could be better money managers.

Senator Meland moved that the bill pass from committee with a do pass recommendation. Senator Hohman advised that he wished to sign "no recommendation." CSHB 901 passed from committee, all members present signing do pass with the exception of Senator Hohman who signed "no recommendation."

MOTION
HB 901

Chairman Sackett moved that SB 534 (Act relating to Compensation of certain public officers) be brought up for discussion, advising that the bill changes compensation for APUC, ATC, and various other commissioners and sets up a new section with a salary schedule. The cost according to the fiscal note is \$91,900. The last salary increase was effected three years ago. Senator Tillion inquired concerning whether or not commissioners were paid cost of living increases, and Chairman Sackett replied that they were not, they are currently tied in with judges' salaries at the district court level. Mr. Hogan responded that while commissioner salaries had started at the district court level, the judges salary level has steadily increased, and commissioner salaries are now at Range 27, Step C, which is in the pay area for a superior court judge.

SB 534

Senator Orsini stated that his understanding of the bill was that it removed the commissioners from review by the State Salary Commission. Chairman Sackett replied that last year the Salary Commission recommended an increase in these salaries. Discussion ensued regarding contributions made toward commission activities by lay people vs. professionals, Senator Orsini advising that his problem with the bill is not that some people are under paid, but that others are over paid. Chairman Sackett advised that he believed a lay person had just as much to contribute as a professional, and Senator Tillion agreed that if the vote was equal, the pay should be also.

Senator Meland asked if the commissioners had requested the bill, and Mr. Hogan replied that they had. Senator Orsini asked if the pay could be raised slightly while maintaining Salary Commission jurisdiction, and Chairman Sackett replied "no." Senator Orsini suggested tabling the bill, while Senator Hohman moved that it pass from committee with individual recommendations. Senator Orsini objected, but upon a show of hands (Senators Meland, Hohman, Butrovich, and Sackett voting in favor), SB 534 passed from committee with individual recommendations, all committee members present signing do pass with the exception of Senator Orsini who signed "do not pass."

MOTION
SB 534

There being no further bills to come before the committee at this time, the meeting adjourned at approximately 9:30 a.m.

ADJOURN

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

OFFICE OF THE COMMISSIONER

POUCH 2 JUNEAU 99811
(TELEX 45 378)

May 8, 1978
000H

Honorable John C. Sackett
Senator
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Senator Sackett:

Following is the information you requested on SB 585, the Act which would appropriate \$250,000 for the State share of the project cost of the Portage to Bear Valley Road.

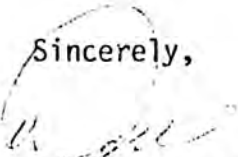
The right-of-way involved is National Park Service land.

The project has not been included in the proposed Capital Improvement Projects of our Department.

The 1972 study of this proposed road showed a cost of \$2,348,000 to build 7,650 feet of highway and 440 feet of bridges. The 1978 cost update would total \$4,250,000.

Construction should be to state standards for secondary highways using six inches of select material, six inches of crushed aggregate base course, and three inches of hot bituminous pavement. There would be two driving lanes of 12-foot width with 2-foot shoulders. The two bridges would be (1) approximately 280 feet long across Portage Creek, and (2) 160 feet long across Placer Creek.

Sincerely,


Donald Harris
Commissioner

MEMORANDUM

State of Alaska

TO: Vern Metcalfe,
Special Assistant
Legislative Liaison
Commissioner's Office
Juneau

DATE: May 4, 1978

FILE NO:

TELEPHONE NO:

FROM: Maurice Wilson *MW*
Manager, Central Region
Transportation Planning

SUBJECT: Portage to Bear Valley
Roadway Cost Estimate
S.B. 585

The 1972 study indicated a cost of \$2,348,000 to build 7,650 feet of highway and 440 feet of bridges from Portage to Bear Valley. The 1978 cost update is \$4,250,000.

The road to Bear Valley would be of little use without the rail shuttle portion of the proposal.

Project scope is as follows:

The new roadway construction for this project would begin on the Portage Glacier Road approximately 1700 feet east of the Portage Glacier Observatory. The alignment curves to the east away from the observatory area to cross Portage Creek approximately 200 feet downstream from the Portage Lake outlet. From this point the alignment curves around the base of the mountain at the northwest end of the lake and crosses Placer Creek with a structure about 400-feet north of the inlet into Portage Lake. The roadway alignment then parallels the mainline tracks of the Alaska Railroad and would terminate at a parking lot 1300 feet west of tunnel door number two.

Construction of the new roadway should be to State Standards for Secondary Highways using six inches of select material, six inches of crushed aggregate base course and three inches of hot bituminous pavement. There would be two driving lanes 12-feet wide with two-foot shoulders and 4:1 side slopes. The first 2000 feet of construction would consist of building a new fill eight to ten feet high to raise the elevation of the proposed roadway to the level of the existing roadway at the beginning of the project. After crossing Portage Creek 3250 feet of rock excavation will be necessary to construct the road into Bear Valley. From this point, an additional 2400 feet of fill, 10 to 12 feet high, will be necessary for constructing the roadway to its termination point at the proposed parking lot.

Two bridges would be required on this project. The first one would be approximately 280 feet long across Portage Creek while the second one crossing Placer Creek would be about 160 feet.

SENATE FINANCE COMMITTEE

May 10, 1978

8:27 a.m.

Chairman Sackett called the meeting to order at 8:27 a.m. All members were present. Also present were Judy Crondahl, AA to Senator Sackett, fiscal analysts Scott, Grogan and Schroeder; Jay Hogan, Director of Legislative Finance; Rep. Lisa Rudd, Sue Green, special assistant, Office of the Governor; Bill Hueners, Dir. Aviation, DOT; Palmer McCarter, Dir. - Local Gov't Ass't, C&RA; Sandra J. Borbridge, Dir. Div. of Ec. & Soc. Dev., Tlingit-Haida Central Council; Jane Yamashiro, Chair Alaska Delegation, Int'l Women's Year.

PRESENT

Chairman Sackett advised the committee that the first order of business would be SCSHB 303 (an Act creating the Alaska Commission on the Status of Women). He requested that Lisa Rudd, author of the bill, give her views on the bill. SCSHB 303

Mrs. Rudd stated that the bill would form a Commission for the status of women which would allow research in 17 areas that she and other women of the state feel need to be taken into consideration. The Commission would be set up on a five-year basis and would be totally funded by the State. Mrs. Rudd suggested that the bill be amended to take effect immediately and that the Governor call the first meeting in 30 days rather than the 60 days as indicated in the bill.

Jane Yamashiro said that one third of all families in Alaska are being raised by single family members - mostly women. She stated that there is a wide discrepancy in pay with only a limited number of women in top paying positions. She hoped that the creation of a Commission for the Status of Women would help the women of the state to know what rights they have.

Sandra Borbridge from the Tlingit-Haida Central Council gave a brief report on the meeting of women in Anchorage in November 1977, and the meeting held in Hoonah in April 1978. She also asked that the committee support the bill.

Sue Green from the Office of the Governor asked that the amendment being asked by Mrs. Rudd regarding the Governor call the first meeting within 30 days after passage of the bill be left at the 60 days. She said their office would need the 60 days to make the necessary appointments to the Commission. She said 30 days would not be ample time to process all the applications they would receive. After having been told by Mrs. Rudd that the bill allows 60 days for application processing, and that the 30 days would be in addition to that, Ms Green stated that the amendment would be satisfactory to their office.

Senator Hohman requested information as to which fiscal note in the file is the correct one. That information will be forth coming.

Senator Croft indicated that he would like to pass the bill out of committee. Chairman Sackett responded that the committee was only receiving testimony today.

At this time Chairman Sackett brought CSHB 622 (Fin) (spec. approp. to DOT for North-South runway at Anchorage Int'l Airport) up for discussion. Again Mrs. Rudd gave testimony. (Fin) CSHB 622

The North-South runway in Anchorage was started last summer, Mrs. Rud said. The work was halted almost as soon as it was began, because a homeowner in the area filed a law suit.. The trial began just this week and possibly will be concluded this week. Mrs. Rudd said that whoever loses the trial will probably appeal. If the State wins the case, there is a possibility that the federal government will reimburse the state. Mrs. Rudd indicated it is important to get the bill out as soon as possible. The Department of Transportation needs 30 days to advertise to get work out this year and an additional two weeks for bids.

Senator Orsini raised a question concerning the cost per year of delay in the work. Mr. Clayton Hueners responded by saying that with a little over \$30 million worth of work remaining to be done, at 8% a year, they were talking about a little over \$200,000. a year. Mr. Hueners continued that the Dept. did not go along with Sec. 3 in that the unexpended portion of the funds would lapse on Dec. 31, 1978. He said they couldn't guarantee that the construction work would be completed by the end of the year. He suggested that that provision should be deleted.

Senator Tillion stated that he understood what they were saying, but it was his feeling that he didn't want to expand another program with the funds allocated for this particular purpose. He suggested that the funds be allowed to lapse into the International Airport fund and not be allowed to be used for any other purpose.

At this time Jay Hogan asked of Mr. Hueners whether or not the International Airports received the authority last year to have a depreciation reserve. Mr. Hueners replied that the recommendation submitted by his department was not approved.

Senator Ferguson was concerned as to whether or not this particular job would stop the Dept. from other jobs around the state. Commissioner Dick Holden replied that it would not stop them.

Senator Hohman moved and asked unanimous consent that Sec. 3 be deleted and that CSHB 222 (fin) be passed from committee with a do pass recommendation. There being no objection, it was so ordered. All members voted do pass. MOTION

At this time SB 592 ("Lifeline" electrical service to residential consumers of electrical energy) was brought up for discussion. SB 592

Senator Ferguson again gave testimony on this bill as he had done on Monday, May 9, 1978. He briefly summarized his testimony of Monday.

Chairman Sackett proposed a cut-off date on the bill in order to give the Administration an opportunity to get things in order. Senator Ferguson recommended two fiscal years for the program.

Senator Tillion said 300 kwh seemed a little high to him as his own home averaged 182 kwh during the last year. Senator Ferguson said the average in picking out the lifeline rate by the researchers in Legislative Affairs was found to be 284 kwh. He stated he would not be in favor of reducing that figure. Senator Orsini stated that the average for Anchorage was 1000 kwh. Senator Ferguson said this is a conservation measure, with the customer paying the first 10¢ per kwh and the State paying the balance.

Senator Sackett proposed an amendment that the bill be effective October 1, 1978, and terminate June 30, 1980. Senator Ferguson said he felt that would be ample time to take care of the matter. After that period of time the legislature would find a better solution than this bill provides - perhaps hydro-electric.

AMENDMENT

Chairman Sackett moved and asked unanimous consent to put out SB 592 with amendments and a do pass recommendation. It was so ordered. Senators Sackett, Hohman, Croft and Meland voted do pass. Senators Tillion, Orsini and Butrovich voted do not pass.

MOTION

SB 593 (special appropriation to residential electrical energy lifeline rate fund) was brought up for discussion. SB 593 is a companion bill to SB 592. Chairman Sackett informed the committee that this bill carried a fiscal note for \$4.5 million to put SB 592 into effect. Senator Sackett made a motion to move SB 593 out of committee with a do pass recommendation. It was so ordered. Senators Sackett, Hohman, Croft and Meland voted do pass. Senators Tillion, Orsini and Butrovich voted do not pass.

SB 593

MOTION

Senator Tillion moved that SB 434 (special appropriation to City of Nome to reimburse Nome Joint Utilities) be brought up for discussion. He explained that this bill would reimburse Nome Joint Utilities for replacing their equipment after a storm that hit Nome in 1974.

SB 434

In response to questions by Senator Orsini regarding the kind of equipment replaced, Senator Tillion explained that it was generators, etc., somewhat upgraded from the original and that in addition there was a device to turn on subsidiary generators to avoid future disasters.

Senator Tillion stated that the amount requested in the bill should be amended to \$444,613.48. Senator Hohman moved that SB 434 as amended be passed from committee with a do pass recommendation. There being a majority, it was so ordered. SB 434 am passed as follows: Senators Sackett, Hohman, Croft, Meland, Tillion and Butrovich voted do pass. Senator Orsini voted do not pass unless amended.

MOTION

SB 208 (an Act relating to municipal organization grants) was brought up for discussion. Palmer McCarter, Director, Local Govt. Asst. for C & RA gave testimony. Seventy-five percent of the land mass of the State exists in unorganized boroughs. Sales tax and property tax are the means of revenue for organized cities and boroughs. The unorganized ones do not have this revenue. Mr. McCarter felt that the State should pay the initial cost of property assessment within the boroughs.

SB 208

Senator Orsini raised a question regarding the back-up material in the files and asked when the amendments came from the Department. (J. Orsini, chm. CRA had previously had this bill in his committee). Mr. McCarter stated that the CRA committee acted on the bill before he had a chance to get the amendments to Senator Orsini's attention.

The fiscal note in the file shows a figure of \$175,000. However, there is a new fiscal amount of \$473,000 which includes the one-time property assessment.

Chairman Sackett requested that Mr. McCarter provide the committee with the back-up material and a new fiscal note. It was noted that this bill would be taken up at another session when this information would be available.

Senator Croft said he opposed the portion of the bill that called for police protection, fire protection, and health services. He felt that a city should be able to determine why they wanted to organize and not be told that they had to do it a certain way.

HB 851 (an Act relating to bilingual education) was brought up for discussion. Mr. Rich Ryan, SW Regional Schools was before the committee for testimony.

HB 851

Mr. Ryan said in the past schools were run by BIA and at a later date by SOS. Teachers were mainly white and used textbooks written by people in the Lower 48. The teachers stated that the children were indifferent about education. However, that is not the case at the present time. The parents are willing to enter the schools and the students feel better about school and try to excel in their work.

In the past regarding funding, REAA redirected funds from other programs for this program which was inadequate funding. They attempted to use federal funding because there

5/10/78

was not enough funding from Dept. of Education. The problem now is that the Board of Education has passed regulations which detail what each REAA is to do in regard to their bilingual and bicultural students. They can no longer use federal monies that they used in the past. The federal funds are only for supplementing, not supplanting.

Senator Hohman questioned Mr. Ryan if his program is under federal mandate. Mr. Ryan replied in the affirmative. They must provide equal education for each student. Senator Hohman then inquired what would happen if we ignored the federal mandate. Mr. Ryan responded that they could do that, but then they would lose their federal funding.

Senator Hohman indicated that the fiscal note was for 5.2. He also noted that it has been reduced and wondered why. Mr. Ryan said the bill had been reduced by one third by an amendment in the House HESS committee.

Senator Orsini wondered how long each student had to be in this special bilingual program. Mr. Ryan explained that after a couple of years the child should be able to learn the English language. They were usually taught in their native language until they gained proficiency in the English language. Then they were taught partly in their native language and partly in English. However, there would be new children coming into the program.

The meeting adjourned at 10:00 a.m.

ADJOURN

SENATE FINANCE COMMITTEE

May 11, 1978

8:05 a.m.

Chairman Sackett convened the meeting at approximately 8:05 a.m. All committee members were present with the exception of Senator Croft who arrived later in the meeting. Also in attendance were Senators Colletta and Hackney; Robert Cole, Coordinator, Office of Alcoholism & Drug Abuse; Joe McLean of the law firm Ely, Guess & Rudd, Lobbyist; Fiscal Analyst Milt Barker; Judy Crondahl, Administrative Assistant to Senator Sackett; and members of the press including Joe LaRocca.

PRESENT

Chairman Sackett advised that prior to review of the alcohol package, the committee would consider a "housekeeping measure," CSHB 947 (Act making supplemental appropriations to the Legislative Affairs Agency and legislative finance division). He stated that the committee substitute changes the amounts appropriated under sections 1 and 2 to \$429,000 and \$32,500 respectively, adding that \$6900 had originally been budgeted for travel but was deleted in the substitute since travel has tapered off (the travel fund also has \$6000 remaining from a prior appropriation). In addition, the original bill budgeted \$50/per day per diem for 60 legislators. Since only 57 legislators are receiving per diem, \$4500 has been deducted. CSHB 947 funds the legislature through the end of May. Senator Orsini moved that the bill pass from committee with a do pass recommendation. Senator Tillion advised that he intended to sign "do not pass." Senate CSHB 947 thus passed from committee, all members present signing do pass with the exception of Senator Tillion who signed "do not pass."

CSHB 947

Chairman Sackett advised that the committee would next consider Senate Bills 540 through 547 (Alcoholism Package), advising that Senators Hackney and Colletta and Mr. Cole were present to testify.

ALCOHOLISM
PACKAGE

Senator Colletta prefaced discussion of individual bills with a brief history of committee activity, advising that the special interim committee was assigned the administration's alcoholism package, and toured the state conducting hearings. As a result of these hearings, the pending senate legislation evolved. Senator Colletta advised that there are many reasons

COLLETTA

for the approach taken in the bills, but the import issue is that the measures contain opinions from around the state as to how alcoholism should be addressed. He added that, basically, dealing with the problem requires four components:

1. Education
2. Prevention and Treatment
3. Enforcement
4. Local Option (design and designation of programs to meet local needs and cultural circumstances)

Senator Colletta advised that the committee had not interjected its own opinion when dealing with the problem, and further stated that there is great support throughout the state for licensing of anyone in direct control of dispensing commodities, as well as support for curtailment of a practice known as "six packing" where a great amount of alcohol is brought to a patron, violating his tolerance level and producing intoxication.

Senator Colletta again stressed the importance of the four above-stated components when dealing with the problem, adding that it was gratifying to see the support the bills have received to date.

Referring to SB 540 (Act making special appropriation to the Office of alcoholism in the Dept. of Health & Social Services for treatment of alcohol abuse and alcoholism), Chairman Sackett questioned the 8.2 million dollar appropriation. Senator Colletta advised that testimony received throughout the state indicates citizens believe that alcohol should pay for treatment of alcoholism, hence the bill would appropriate the 8.2 million dollars the state currently collects on alcoholic beverages for treatment programs. He added that the department is confident the 8.2 will be more than sufficient, if not in excess of need for the first year.

SB 540

Mr. Cole advised that the department has spent a great deal of time attempting to determine what it would cost to implement the subject bills and legislative intent with respect to:

1. Community need
2. Current programs and their continuation and reorganization

3. Potential for successful implementation of new programs based on the number of offenders.

No fiscal note has yet been prepared because of the large range of activities available, and department interest in the fate of the excise tax on the House side.

The Department is currently working with the Alaska native health board and department of mental health to effect a better working relationship between native health service corporations and the state in rural areas. In addition, the department has recently received correspondence from Senator Stevens, stating that he has introduced at the federal level, legislation appropriating 7 million dollars to the Indian Health Service for alcoholism in rural areas. The state should receive at least 1/2 million dollars through the proposed federal legislation.

Chairman Sackett asked what the 8 million dollar state appropriation would be used for, and Mr. Cole replied that, given present criteria, the department does not believe it could spend 8.2 million dollars well during the coming year, but he added that he believed there are things that could be done to implement the intent of the legislation, such as:

1. Increasing the budget for ABC Board enforcement
2. Continuation of the court program in Anchorage which diverts OMVI offenders from the criminal justice system, not in the sense that they don't have to serve their time for driving offenses, but in the sense that it separates those with severe drinking problems from simply social drinkers. (The department had approximately \$80,000 for the current year and dealt with approximately 1500 OMVI offenders.
3. Department needs a vehicle to move individuals out of the criminal justice system after the sentence has been served, approximately \$475,000 would benefit the program.
4. There is universal agreement on the need for K through 12 grade preventative

5. Department concern regarding insurance coverage for centers. Better coverage is available through the private sector than through Title 19.
6. Problems encountered in getting people into hospitals for detoxification.
7. Biggest need statewide is for training people to work in alcoholism programs. Current program effectiveness is low because of lack of training.

As tentative funding for the above programs, Mr. Cole set forth the following figures:

K through 12 grade preventative education (statewide trial effort using three training teams and materials to cover 54 schools)	\$500,000
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Trial hospital detoxification effort	\$250,000
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Training funds for statewide implementation of alcoholism programs	\$274,000
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ABC Board enforcement	\$200,000
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OMVI diversion program for the first year	\$475,000
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8. Department would also like to initiate an early identification program for state employees, similar to those operated by the military and larger private businesses \$ 25,000

9. One of the biggest complaints concerning alcoholism programs is that the programs really don't do anything. The Department does not believe the above statement to be true and has budgeted \$100,000 for program evaluation by a third party conducting follow-up research on clients who have been through the program. The study would include a survey sampling of approximately 200 former clients.

Mr. Cole added that the Department would like to have the funding appropriated as contractual line items in order

to effect better programs with more free control over the money.

In addition to the above programs, Mr. Cole advised the Department would require \$135,000 for additional personnel, including 1 drug abuse coordinator, 1 planner, and 1 clerk, half-time, bringing the total for proposed programs and personnel to \$2,466,700. The Department has also received applications for projects totaling \$4,276,000 for the coming year, about \$1,000,000 of which is from Fairbanks.

Chairman Sackett stated that it appeared the department did not have sufficient programs to use the 8.2 million dollar appropriation. Senator Tillion advised that when the Governor suggested that alcoholism pay its own way, he meant police enforcement, court time, etc., everything related to the alcoholism problem. Senator Colletta added that implementation of current and proposed programs for the coming year would necessitate expenditures of approximately \$5,000,000.

Senator Hohman addressed the difference between the suggested appropriation figure and the 4.2 million dollar request from statewide agencies, advising of his concern for setting up a larger bureaucracy than necessary. He further advised Mr. Cole that he (Senator Hohman) believed the department was over estimating the importance of T.V. and radio programs and under estimating the use of personal contact. Senator Colletta stated that he did not concur with Senator Hohman, adding that department programs will be evaluated in terms of what is needed in each individual community.

Mr. Cole advised that what the department needs most is an approximate amount of money and control over the money, stating that part of the funding is for new approaches such as motivating school boards, teachers, and parents into action. Senator Hohman objected to sending out motivators to deal with alcoholism problems, advising that reform should come from within. Chairman Sackett advised that it is difficult to talk about program areas without being able to see exactly what the department is going to do. Senator Hackney stated that the desire is present in each community; what the communities want to know is where and when they will get the money.

Chairman Sackett commenced the following review of specific alcoholism bills:

SB 541 - Act relating to Health Education in Public school .

SB 541

Chairman Sackett asked Mr. Cole how the department had arrived at the \$489,000 fiscal note, and Mr. Cole replied that the Anchorage area has a group which will be providing primary services throughout the state. The department simply asked what was needed to implement the program and get people trained. The request also includes retraining funds needed because of turn-over, travel costs to go to outlying areas and work with teachers, plus the cost of materials used in the program.

The Chairman question the \$5,200.00 fiscal note line item, and Mr. Cole advised that the funding deals with a health curriculum for K through 12 grade alcohol education, adding that in areas where the curriculum has been adopted without teacher training, the result has been poor, while trained teachers have produced good results.

Chairman Sackett questioned the discrepancy in educational funding between the Department of Education's \$1,500 cost for a teaching kit entitled "Here's Looking at You," and the cost of the program by Dr. Glasser. Mr. Cole stated that he believed Dr. Glasser's program to be directed toward teacher training rather than student education, adding that he would check into it, but he believed the two to be separate programs.

SB 542 - Act adding to the powers and duties of the
Office of Alcoholism

SB 542

Chairman Sackett advised that the bill contains an accompanying fiscal note in the amount of \$776,000. Mr. Cole stated that the fiscal note has been altered somewhat because the department wants school aid to education funded up to \$500,000. Chairman Sackett advised that the department's practice of requesting the whole 8.2 million dollar appropriation and then presenting fiscal notes for specific bills and program areas is confusing in that when the legislature passes a bill with a fiscal note attached, the funding is appropriated, while the department's practice would appear to appropriate the funding twice.

Mr. Cole advised that SB 542 provides a grant period of 2 years (not presently allowed under the Executive Budget Act), and the advisory board can, by policy intent, designate money for specific programs.

Paragraph (7) deals with organization and standards for training programs. This function is needed because each agency is legally responsible for its patients and insurance companies are reluctant to insure programs that do not have certified or trained personnel.

Paragraph (4) deals with implementation of hospital facilities for detoxification. Mr. Cole advised that it is often difficult to get a hospital to provide detoxification services for clients. Hospitals generally don't feel detoxification is one of their functions. He added that while the detoxification center in Fairbanks is non-medical, the department does not feel the program should be responsible for individuals in need of medical assistance, yet it is difficult to get a hospital to take these people.

Senator Tillion suggested the state revert to the "drunk tank" system, advising that the system was not bad if properly administered. He added that while a policeman should not be able to hold one against his will, the policeman needs some way of incarcerating intoxicated persons for their own protection. Mr. Cole advised that there is a provision in the bill whereby the police may detain an individual in protective custody for 48 hours. Currently, some policemen take the position that if they cannot take the individual to jail, they will not bother with him, while the medical profession seems to despise the alcoholic. Prior to changing the law, approximately 1/2 of police time was spent dealing with alcoholics, but with more serious crime on the rise, dealing with intoxicated individuals is not an efficient use of police time. While it is cheaper to use detoxification centers to deal with these people, unoccupied hospital bed space is running at 88%, so hospitals could contribute to a solution for the problem also.

Senator Colletta advised that while metropolitan areas have activities available providing enjoyment of free time, this is not true of rural Alaska where social activities are not readily available. He added that rural Alaska needs social centers, and the rural areas feel that if they could borrow long term, low interest money, they could provide social activities and ease the alcoholism problem.

SB 543 - Act relating to alcoholism grants-in-aid.

SB 543

Senator Colletta advised that while prior grants were based on population, the program proposed in SB 543 would be funded on the basis of need, adding that it represents a new approach different from revenue sharing.

Senator Orsini question the manner in which community need would be determined, and Senator Colletta advised that if a community has need of assistance with alcoholism, it will let the department know. Mr. Cole advised that such need could be demonstrated by statistics such as OMVI arrest numbers, accidental death rate from boating, home fires, etc., arrest rates for violent crimes etc. In addition, medical records such as gastro-intestinal problems, battered women and children would provide evidence of program need.

Senator Tillion asked if the fact that Bethel has "gone dry" has had any affect on its alcoholism problem, and Senator Hohman replied that it has in that alcohol is high and there are less dollars available to purchase it. He added that it would help more if law enforcement would crack down on bootlegging.

Senator Tillion advised that he didn't believe a lot of the alcoholism programs were going to solve the problem. Senator Colletta stated that perhaps programs would not solve the problem, but the committee had received such overwhelming response that it was certainly encouraged. Senator Hohman suggested making in-service training in alcoholism mandatory for teachers upgrading their certificates, and that officials insist that law enforcement officers "bust" bootleggers and those dealing in drugs. Senator Colletta advised that the new bootlegging bill will remove the profitability from bootlegging because the fine will be so high, one arrest will put the operation out of business.

Senator Tillion moved that HB 630 (Supplemental appropriation to the Dept. of Commerce and Economic Development, Alaska Transportation Commission) be brought up for discussion. HB 630
He advised that the supplemental relates to CAB Docket 30170. The department needs \$18,000 to continue the case expected to close during the year. One-half the funding has been found in the existing budget. Senator Tillion added that the funding deals with:

1. The Western Airlines Route Case
2. Protest against fare increases.

Senator Colletta requested that \$18,900 be added to fund travel for 10 people to the Johnson Institute in Minneapolis.

A doctor at the institute has developed a program (now in its seventh successful year) for dealing with alcoholism.

The theory behind the program is adopted from the AA practice of crisis treatment, that being that nothing can really be done for an alcoholic until he wants to help himself. Usually some crisis in his life brings about the desire for self-help. The program at the Johnson Institute is entitled "crisis inducement." and involves a counselor working with the family to create the needed crisis years in advance of normal occurrence. The funding would allow 10 individuals to attend the institute for 3 weeks of training.

Proposed
Johnson
Institute
Funding
as CS

Senator Hohman moved for passage of a committee substitute for HB 630 containing the requested alcoholism funding.

MOTION
CSHB 630

Senator Tillion objected to placing the funding within the bill, advising that it would be better placed in the budget. There being no objection to placing the Johnson Institute finding in the budget, Senator Tillion moved that HB 630 pass from committee with a do pass recommendation. No objection to passage of the bill having been raised, HB 630 passed from committee, all members present signing do pass.

MOTION
HB 630

There being no further matters to come before the committee ADJOURN at this time, the meeting adjourned at approximately 10:00 a.m.

SENATE FINANCE COMMITTEE

May 12, 1978

9:07 a.m.

Chairman Sackett' called the meeting to order at 9:07 a.m. Those members present were: Senators Sackett, Butrovich, Hohman, Meland and Orsini. Senators Croft and Tillion had been excused. Also present were: Joe McClean, Bob Cole, Coordinator, Office of Alcoholism & Drug Abuse, Harold Joe, Judy Crondahl and Joe LaRocca.

PRESENT

Chairman Sackett informed the committee that the Alcohol bills would again be the order of business for the day.

ALCOHOL
BILLS

The first bill brought before the committee was SB 544 (Act relating to standards for alcohol treatment facilities). Mr. Cole began his presentation by telling the committee that this bill was introduced in response to concerns of a number of rural people who said that they do not need quite as rigid standards as in other areas. The original bill was to establish centers for areas of more than 5,000 population.

SB 544

Mr. Cole stated that there is a committee substitute for this bill. To date there have been no alcohol centers in Alaska sued, but across the country they are being sued just like doctors and dentists. There would be no financial impact on this bill.

SB 545 (an Act relating to health insurance) was brought up for discussion. Mr. Cole began testimony on this bill. He stated that this bill has been introduced in the legislature in years past. It requires that health insurance companies recognize alcohol as an illness. The committee substitute has a waiver clause in it.

SB 545

Mr. Joe McClean at this point began testimony. He began by saying he urged the committee not to pass this bill as it is presently drafted. He did not care for the wording "all policies . . . shall contain provisions providing benefits for the treatment of alcoholism." He stated that companies pay for disability income in illness but not treatment. Policies also have a provision for exclusion for drug abuse.

Senator Butrovich wanted to know how many companies take care of alcohol under health insurance. Mr. McClean said as far as he knew only Blue Cross had that coverage. However, Mr. Cole named a few more: Blue Cross, AEtna, Metropolitan and Teamsters Health Fund. Mr. Cole said he believed that AEtna paid up to 45 days for in-patient care.

Mr. Cole suggested that there could be written a one-line amendment that provides this type of disability insurance. Mr. McClean said he would like to talk to the directors of the insurance companies before he could make a statement regarding that matter. He also felt that that type of insurance could continue being written by those companies who already write it, and not mandate to other companies that they too must write it.

Senator Butrovich was concerned as to what this provision in an insurance policy would do to the rates. He felt it was not fair to saddle non-drinkers with higher rates on health insurance just to provide treatment for those who have a drinking problem. Mr. McClean said he had had no experience in this area and therefore did not know what the additional cost would be. Mr. Cole felt that it would not increase the cost.

Senator Butrovich said he objected to the wording in the last sentence of the bill. He felt that if an individual wanted to purchase a health insurance policy and wanted a waiver of benefits for the treatment of alcoholism, he should be allowed to have it. Under the wording of the bill, only individuals purchasing a group policy could request the waiver.

SB 546 (Act establishing a tax credit for contributions to alcoholism programs) was brought up for discussion at this time. Mr. Cole said the intent of this act was to allow individuals to make contributions to alcoholism programs. The Department of Revenue does not support the bill. The comments from the Department are that loss of revenue times the number of people who might make contributions would mean loss of funds to the State treasury. SB 546

Senator Butrovich wanted to know if IRS would allow this as a deduction of the federal tax return. Judy Crondahl said that this is just for Alaska, not federal.

SB 547 (Act making special appropriation to the Department of Revenue to increase the number of enforcement personnel employed by the Alcoholic Beverage Control Board) was brought up for discussion. Mr. Cole stated that that this need was acute across the state. They have received many complaints that there has actually been little if any enforcement by the Alcoholic Beverage Control Board. There are presently five investigators for 1200 to 1300 retail license holders in the State. He stated that there needs to be a stronger attempt to see that Title 4 is enforced. SB 547

Senator Butrovich asked Senator Sackett if there had been any money plugged into the budget for this. Senator Sackett said there had been none, but that travel had been increased.

Senator Orsini said that in his research he found that the ABC Board felt if they had too many people, it would be hard for them to do their work.

Chairman Sackett asked that the committee members who had been assigned the various Alcohol bills continue to work on them. He said he would like to take them up again next Tuesday or Wednesday.

SB 412 (supplemental appropriation to Department of Public Safety, Drive Vehicle Services) was brought up for discussion by Senator Orsini. He informed the committee that Motor Vehicles had up-graded their computer. The new computer wasn't good enough and they had to up-grade that one too. A substantial part of the fiscal note was for personnel to hand process while they were up-grading the computer - \$93,000 in the Fall and \$40,000 in the Spring.

SB 412

Senator Orsini reported that with the up-grade of the computer, that should reduce the need for additional people in the future. In fact, he stated that \$20,000 could be cut out of the FY 79 budget.

Senator Orsini moved that SB 412 be passed from committee with a do pass recommendation. It was so ordered. All members present voted do pass.

The meeting adjourned at 10:00 a.m.

SENATE FINANCE COMMITTEE

May 15, 1978

8:10 a.m.

Chairman Sackett convened the meeting at approximately 8:10 a.m. All committee members were present with the exception of Senator Butrovich. Senators Croft and Hohman arrived shortly after the meeting began. Also in attendance were Commissioner of Revenue, Sterling Gallagher; Deputy Director of Revenue, John Messenger; Frederick Boness; Dale Merrill, General Manager of the Municipality of Anchorage Water and Sewer Utility; Elke Kallab from Legislative Affairs; Susan Fowler, Administrative Assistant to Senator Hohman; and Judy Crondahl, Administrative Assistant to Senator Sackett.

PRESENT

Chairman Sackett moved that SB 601 (Act making a special appropriation for power and water projects) be brought up for discussion. Commissioner Gallagher advised that the bill dealt with hydroelectrical projects, specifically the Green Lake Project for Sitka which would hopefully make sufficient power available by 1990. He added that Sitka is the right size for the project, and the administration supports the bill.

SB 601

[Senator Hohman entered the meeting at this time, 8:15 a.m.]

Mr. Dale Merrill appeared before the committee advising that as General Manager of the Municipality of Anchorage Water and Sewer Utility, he supports the bill. He stated that paragraph (3) of the bill would provide for a loan of 2.3 million dollars to cover the following projects:

Reservoir construction	1 million
Production Well	420.0
Resource Development	530.0
Upgrade Transmission Facilities	350.0

The bill will also provide 50% funding for a transmission main from the existing Ship Creek Dam to the treatment facility. The new main would give Anchorage the additional water to supply the growing need. He further added that the proposed projects represent capital improvements and are not revenue-producing.

Chairman Sackett inquired concerning where the matching 50% funding for the Ship Creek Dam transmission project would come from, and Mr. Merrill replied that it would come from a state grant under water and sewer grant funding,

where repayment is guaranteed by the PUC.

Chairman Sackett asked how much the Municipality of Anchorage charges for water, and Mr. Merrill replied that the charge is \$9.50 per month.

Chairman Sackett moved to amend the bill, deleting the figure \$15,330,000 at Line 9, and inserting \$16,430,000. He further moved to amend Line 19, changing 2.3 million dollars to 3.4 million.

Senator Tillion moved that SB 601, as amended, pass from committee with a do pass recommendation. No objection having been voiced, SB 601, as amended, passed from committee, all members present signing do pass. MOTION SB 601am

Chairman Sackett next moved that SB 538 (New jobs tax credit under Alaska Net Income Tax Act) be brought up for discussion, advising that Mr. Messenger was present to testify concerning the bill. Mr. Messenger advised that the bill incorporates provisions of the new jobs credit which Congress incorporated into the revenue code last year. Essentially what it does is provide employers a credit for two years for 50% of the wages paid to employees in new positions, the total amount of the credit not to exceed 100.0. In addition, the wages subject to this credit are wages subject to the federal unemployment tax or the first 42 hundred dollars of each year. Also, wages have to increase by 5% from the previous year for the total employment base. SB 538

Mr. Messenger advised that the Department of Revenue is supporting the bill. Chairman Sackett inquired concerning the cost of the bill, and Mr. Messenger replied that it would be difficult to estimate the number of new jobs that might be created next year, but based on Dept. of Labor figures, loss of state revenue should not be more than 100.0.

Chairman Sackett asked if new businesses would qualify for the credit, and Mr. Messenger replied that he was not sure, but he did not think a new business would qualify because it would not have a wage base from the previous year.

Chairman Sackett moved that the bill pass from committee with individual recommendations, adding that it has a long ways to go. No objection to passage having been voiced, SB 538 passed from committee with individual recommendations, Senators Sackett and Hohman signing do pass, Senators Meland, Tillion, and Orsini signing no recommendation. MOTION SB 538

Chairman Sackett moved that SCR 84 and 96 (Approving the sale of royalty oil to Tesoro-Alaskan Petroleum and Approving amendments to the royalty oil sales agreement between the State of Alaska and Golden Valley Electric Association) be brought up for discussion, advising that Commissioner LeResche had previously appeared before the committee concerning these resolutions, but was unable to answer questions in several specific areas. The Commissioner subsequently forwarded correspondence to the committee, attempting to satisfy inquiries in these areas, but, unfortunately, the correspondence did not address areas of committee concern. Chairman Sackett set forth the following inquiries.

SCR 84
SCR 96

1. Primary term of the contract. We extended the contract for a year. We have now extended it for 5 years. Was it the administration's intention to extend the contract for 6 years, as referenced in the Tesoro contract?

Mr. Boness replied that the result of the extension is not an automatic implementation of extension terms of the contract, but rather an extension of the terms by which the parties agree. He added that the philosophy behind the agreement to extend is that in a number of years, because of personnel fluctuation during administration changes, the people within the state with whom the company has been dealing, will no longer be there. The current agreement at least places the company in a position of being able to say, this agreement represents the intent of the previous administration to extend the contract.

Mrs. Kallab questioned why Tesoro stated that if it is not given a 5 year extension, it will exercise its two year extension under the contract? Mr. Boness replied that the statement embodies, essentially, an agreement to agree, which in law is really unenforceable.

Mrs. Kallab asked if it would be possible to take paragraph 3 out of the contract since it doesn't mean anything. She added that removal would simply clean up contract language, adding that it is not a controversial item, but in terms of understanding, this item will be more difficult to understand five years hence. The section could simply be deleted and initialed by all parties. Mr. Boness replied that he thought that this could be done. Chairman Sackett advised that the committee is not opposed to the contract, only the discrepancy in that section.

Mrs. Kallab inquired concerning whether Article 15 of the contract could be amended so as not to duplicate Article 17. Mr. Boness replied that he had discussed the Articles with the Department of Law and it was determined they presented no real problem. Mrs. Kallab replied that while they might not present a problem, they were not necessary to the contract. Mr. Boness advised that he would look into these areas again and report back to the committee.

Chairman Sackett next moved that SB 562 (Act relating to Alaska Land Policy) be brought up for discussion. Mr. Patrick Conheady appeared before the committee, advising that the bill contains methods by which the Department of Natural Resources will be able to administer state lands. He distributed a handout compiled by the Federal Land Use Planning Commission for committee review, adding that the bill contains interpretations of areas from the State Constitution dealing with land. It would set forth guidelines to be followed when administering state lands. Since statehood, Alaska has had basically an ad hoc policy for such administration.

SB 562

One section of the bill mandates disposal of 50,000 acres of state land during the first year. In succeeding years, the department would come to the legislature with 3 proposals for legislative consideration. The legislature would make the determination as to what level of disposal should be made during each year. Senator Orsini asked how difficult it would be to make the number of acres 90,000 rather than 50,000. Mr. Conheady replied that it would cost about 2/3 more than the 50,00, but it could be done.

Senator Orsini asked if passage of the bill would have any effect on the Beirne initiative, and Mr. Conheady replied "no," the effect would be psychological in saying that the legislature is taking an active hand in dealing with state land.

Chairman Sackett referred to the fiscal notes pertaining to the bill, requesting 59 full time people, asking how the department had come up with its figures. Mr. Conheady replied that most of the costs are related to adding people through contractual services, adding that a major portion of the cost pertains to surveying. Chairman Sackett asked if the state employs surveyors, and Mr. Conheady replied that it employs some, but most of the necessary surveying would be contracted out. Chairman Sackett then asked if his understanding was correct, that costs associated with the disposal of 50,000 acres of state land would be approximately 1.5 million dollars, and Mr. Conheady replied "yes." Chairman Sackett asked how many acres the state would

dispose of this year, and Mr. Conheady replied 65,000 to 80,000 acres, a great amount of which is agricultural land and a part of the three-year plan. Some of the land will be large tracts such as those in the Delta Junction area. Mr. Conheady added that large tracts of land are much less expensive to survey than smaller tracts.

Senator Orsini referred to page 2 of the bill, inquiring concerning the fair market value of land, suggesting that the amounts indicated appear to be low. Mr. Conheady replied that he didn't think indicated amounts take into account the survey costs which would be reimbursed by the buyer.

Senator Tillion moved that Committee Substitute for Senate Bill 562 pass from committee with individual recommendations. MOTION CS SB 562
No objection having been voiced, CS SB 562 passed from committee with individual recommendations, Senator Tillion signing do pass, Senators Sackett, Croft, Meland, and Orsini signing no recommendation.

Chairman Sackett moved that SB 456 (Act relating to agricultural and industrial fairs) be brought up for discussion. SB 456
Mr. Conheady testified concerning the bill and distributed his list of proposed amendments, suggesting:

1. The grants be made available to all communities sponsoring such activities.
2. Allow for matching contribution in time, labor and materials.
3. Department is currently funding 11 programs under this section. Bill would limit the use of funding for specific purposes.

Mr. Conheady concluded by stating that the department currently assists the 5 major fairs, (1) Matanuska Valley (2) Fairbanks (3) Kodiak (4) Bethel (5) Haines. The administration favors the bill.

Chairman Sackett inquired concerning committee feeling regarding Mr. Conheady's recommendations, and Senator Croft advised that he would like to see wording included within the bill which would cover the Anchorage Fur Rendezvous. Agreement between committee members concerning acceptable wording could not be effected, and SB 456 was returned to committee files.

Chairman Sackett moved that SB 594 (Act extending the effective period for persons holding an industrial incentive tax credit) be brought up for discussion. Senator Tillion advised that the bill applies mainly to Prinz Brau, stating that Prinz Brau believed it would have the tax credit from the day it began operation rather than from commencement of planning and construction. Prinz Brau now has only 3 remaining years of tax credit instead of the 10 years anticipated by current law, since 7 years of the credit were consumed by planning and construction. Chairman Sackett inquired concerning the cost of the bill, and Senator Tillion replied that he would conduct further research prior to bringing the bill back to committee. SB 594

Senator Tillion moved that HB 171 am be brought up for discussion, advising that his proposed committee substitute has no cost to the state at all, and removes the initiative from the ballot. It also does not anticipate the 59 positions contained in prior versions, and the CS would cover the whole state with no exceptions. HB 171am

Chairman Sackett inquired concerning what would be done with bottles in the outlying areas of the state, and Senator Tillion replied that bush areas should ship the bottles back to the distributor, adding that the cost for doing so in the bush would just about equal out, while larger cities can make a profit on their bottles. All prices are calculated for shipping the bottles outside. The bush areas will show a slight loss on bottles, but should show a slight gain on cans.

The CS would not finance any redemption centers within the state, but would require that anyone selling beverages make redemption arrangements. The CS will add 10¢ to the cost of beverages which will be refunded upon return of the container. Senator Tillion further stated that new cans and bottles will be stamped, so that one would not be able to return old, unstamped cans or bottles, and the bill applies only to soft drinks and beer.

Senator Tillion concluded his testimony stating that, at this point, he assumes the initiative would pass, and he believes the CS to be a whole lot better than the initiative. He moved that the Senate Committee Substitute for CS HB 171 (Fin.) pass from committee with individual recommendations. No objection having been voiced, SCS CS HB 171(Fin.) passed MOTION SCSCSHB 171(Fin)

from committee with individual recommendations, Senators Sackett, Croft, Tillion, and Orsini signing do pass, Senator Hohman signing no recommendation, and Senator Meland signing do not pass.

Senator Orsini moved that SB 423 (Act making supplemental appropriations to the Department of Public Safety, Public Protection) be brought up for discussion, advising that the bill concerns 3 separate appropriations and shifts in funding, but no additional appropriation of funding. Chairman Sackett inquired concerning why the department had overspent, and Senator Orsini replied that the overspending resulted from an apparent change of goal levels. Senator Hohman moved for addition of a new section to the bill, in response to law passed last year, appropriating 480.0 for new license plates for passenger vehicles. SB 423

Chairman Sackett moved that CS SB 423 pass from committee with individual recommendations. No objection having been voiced, CS SB 423 passed from committee with individual recommendations, Senators Sackett, Hohman, Meland, and Croft signing do pass, Senator Tillion signing no recommendation, and Senator Orsini signing pass original bill. MOTION CSSB 423

Chairman Sackett made the following bill assignment:

SJR 50	-	Hohman
SB 373	-	Sackett
SB 393	-	Orsini
SB 413	-	Butrovich
SB 575	-	Meland
SB 583	-	Hohman
HB 442	-	Hohman
HB 511	-	Hohman
HB 589	-	Meland
HB 606	-	Tillion
HB 667	-	Orsini
HB 797	-	Butrovich
HB 923	-	Tillion
HB 927	-	Croft
HB 953	-	Croft

BILL
ASSIGNMENT

There being no further matters to come before the committee at this time, the meeting adjourned at approximately 9:55 a.m.

ADJOURN

SENATE FINANCE COMMITTEE

May 18, 1978

9:10 a.m.

Chairman Sackett convened the meeting at approximately 9:10 a.m. All committee members were present with the exception of Senators Tillion and Croft. Also in attendance were Representatives Haugen and Gruening; Commissioner Sterling Gallagher; Allan Garfinkle of Kutak, Rock & Huie; Alfred A. Wiesner, Vice President of E.F. Hutton, and Leonard E. Matz of E. F. Hutton; David Nease, Manager, Kodiak Electric; Bill Berrier, Ken Vassar, and John Williams of Legislative Affairs; Robert Dupere from the Senate Permanent Fund Committee; Tom Singer from the House Permanent Fund Committee; Jim Rhode, representing Mr. Cowper; Kay Brown, representing Senator Rader; Fiscal Analyst Milt Barker; Administrative Assistant to Senator Hohman, Rob Kocsis; Administrative Assistant to Senator Sackett, Judy Crondahl; Joseph A. McLean and Martin B. Moore.

PRESENT

Chairman Sackett advised that, yesterday, the Free Conference Committee on the Budget decided to complete the operating budget and work on the capital budget at a later time. He proposed that the committee sign out its Senate Finance Committee Capital Budget as a separate bill, SB 628, and that Free Conference Members sign out the Free Conference Operating Budget later in the afternoon. No objection having been voiced to passing out the Senate Finance Committee Capital Budget as a separate bill from its Operating Budget, SB 628 passed from committee, all members present signing do pass.

SB 628
CAPITAL
BUDGET

FCC
OPERATING
BUDGET

Chairman Sackett advised that the committee would next hear testimony on permanent fund legislation, turning the meeting over to Senator Hohman. Senator Hohman requested that Mr. Dupere introduce the permanent fund consultants and commence testimony.

PERMANENT
FUND

[A copy of the transcript of the testimony is attached to these minutes and shall serve as the remainder of these minutes.]

5/18/78

SENATE FINANCE COMMITTEE

May 18, 1978

9:10 a.m.

TRANSCRIPT OF TESTIMONY BY REPRESENTATIVES FROM E. F. HUTTON
& CO., INC.

RE: PERMANENT FUND

SF-78 # 48 (1137 - end)

Mr. Dupere introduced Messrs. Alfred A. Wiesner and Leonard E. Matz from E. F. Hutton & Co., Inc., and Mr. Allan Garfinkle of Kutak Rock & Huie, advising that they would be speaking on proposed permanent fund legislation, Mr. Garfinkle to address IRS implications and legal aspects of the fund while Messrs. Wiesner and Matz address the marketability of this pioneer-type legislation.

LEGAL ASPECTS AND IRS IMPLICATIONS

GARFINKLE: I will discuss the purpose and rationale of

fund bonds with respect to the IRS Code. The state can issue tax free bonds, but there are exceptions which limit the state's power built into the IRS Code. One limitation is the purpose, the other limitation is the dollar amount of the bonds designed to help private companies (Industrial Development Bonds).

Since the purpose of the committee is to assist in commerce within the state, I will discuss the limitations with an attempt to see if they can be used more easily and with fewer constraints. There is a benefit in having one agency which can issue bonds for many purposes, most of which are non-industrial

development. Provisions of the IRS Code are such that as long as the proceeds of the bond sale are not more than 25% Industrial Development loans, they are not considered Industrial Development loan funds. Also, arbitrage bonds are not exempt. These are bonds invested at a yield which is materially higher than the bond yield. One-eighth of 1% is the usual figure for measuring yield. If other governmental programs are involved, such as housing or education, the spread can be as much as 1-1/2%. It would be envisioned that non-commercial use of the fund would be program obligations so the 1-1/2% should apply. The non-obligation percentage should not be a problem because veterans' loans and agricultural loans carry preferred interest rates. The fund would allow issuance of both obligation and non-obligation projects.

ORSINI: What advantage would the fund be to municipalities?

GARFINKLE: One advantage is that the bond issuance is so structured that substantial amounts would go to the municipality. On a bond sale of 100 million dollars, 75 million dollars would go to the municipality, while 25 million dollars would be available for fisheries, etc.

ORSINI: This takes the place of the municipal bond bank?

GARFINKLE: Yes, but municipalities don't have to sell their bonds to the fund. The fund would have to bid for

municipal bonds. A schedule is set forth to insure that there will be reasonably low bids. The municipality can sell to the lowest bidder. Statute says that the bid must be at a certain level and cannot be unreasonably high or unreasonably low.

HOHMAN: How will this save money for the state in terms of percentage or interest rates?

GARFINKLE: Generally speaking, rates for tax exempt bonds run 2% lower than rates for taxable bonds. Sometimes the differential is even greater than that. It could be with this legislation and the protection built into it, the differential could be even greater because of the state credit rating.

ORSINI: (Senator Orsini raised a question regarding issuance of municipal bonds through the bond bank versus the permanent fund.)

DUPERE: The municipal bond bank deals more strictly with industrial loans while the permanent fund would provide "spin-off" money for the private sector.

GRUENING: (To Garfinkle) Were you involved in drafting this legislation?

GARFINKLE: I was asked to comment on certain aspects, and I have read the bill.

GRUENING: I understand that part of the purpose is to make large amounts of money available to every Alaskan. Is the ratio now set between industrial versus non-industrial

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bonds set by statute?

GARFINKLE: Yes.

GRUENING: How much leeway is there by the department as to what is allowable and what is not.

GARFINKLE: Depends, basic bonds for industrial development are 75% - 25%, the ratio set by the IRS Code. There is not much flexibility there. There can be changes by regulation. I don't think there will be a change in the definition. I think there may be regulations which change the definition of some facilities that qualify.

On arbitrage bonds the statute is very vague. The Department of Treasury has a great deal of leeway in determining what constitutes these bonds and changing its regulations.

GRUENING: Because no other state has this type of bonding capacity, is there a chance that we will find the regulations tightened down on us?

GARFINKLE: No, not really, because the concept of major portion/minor portion is so built into the statute, it would be difficult for the department to change it. That would have to be a congressional act. I would be loath to guess what congress may do. There is provision, in any event, for tax exempt industrial development bonds for certain things, like dock and wharf financing. Large projects have been done on this

basis without congressional interest.

GRUENING: Alaska is perceived as a very rich state, and if congress were to feel that Alaska was getting tax exempt status which creates a drain on the treasury -

GARFINKLE: That is a possibility which would result in having to rewrite the legislation. I don't think that this is going to happen. Really, if Alaska is going to issue 25 million dollars in bonds to develop the state, that is just such a tiny drop in the bucket that I can't see anyone getting upset by it. If every state did it, then there might be problems, but I don't foresee those now.

MARKETABILITY

WIESNER: My name is Fred Wiesner, I am with E.F. Hutton Company. I handle underwriting as well as distribution out of Denver, Colorado. If I may sit down and discuss this bill a little. The bill before you is, at least in my experience, unique. Possibly in the Lower 48 the closest you could come to it is some of the bond banks. You have one up here, and a number of the other states have them. The bond banks are, however, essentially oriented to financing municipal improvements. A few of them are involved in housing, and a few are involved in small issues of bonds where they feel that a better

market can be achieved through the bond bank concept rather than individually. I think the jury is still out on whether a more economical basis has been achieved through the bond bank.

Probably a slightly closer concept of this bill is one presently being considered in New Mexico and one in Wyoming. Both states are going to be impacted to a considerable degree in terms of coal extraction, etc., and have extractive taxes, and intend to take a goodly sum of that and use it in part to build roads, water systems, etc. in the impacted area, and a bit of it will be used to assist in house financing, etc. in these same areas. However, in terms of the industrial revenue aspect of this financing, it is not generally prevalent in either one of those situations.

In the case of the issues in the bond bank, the security is somewhat different than what you are looking at in this case. The bond bank deals are generally no better than the weakest link or the weakest issue in the bond bank. Most of them do not have preferral security provisions to bolster the security behind the bond bank. Some of them do, but most of them, to the extent they do, are very limited. In this case, however, you are looking at not only the security considerations in terms of loans made, but

you are looking at the income that is to be derived off of this permanent fund as an additional security behind this loan, and that is what makes the entire difference, really. Many states would, I think, like very much to set up a bill similar to what you are doing here, but the demand for loans would be heavy in the states of Colorado, New Mexico, or some of the energy states in the Lower 48, but the source of income, the source of revenue, will be nowhere near the amount of money that you are talking about up here. You are looking here at a permanent fund of somewhere between 150 and 250 million dollars a year as net addition to the permanent fund. And at that net addition, the income gets to be substantial. Unfortunately, most of the Lower 48 won't be taking in that kind of money under extractive taxes.

The bill is going to assist housing. It will assist municipalities on their water, sewers, schools, you name it. It will help the fishing industry. It will help virtually all areas of the industrial complex in Alaska in terms of its ability to borrow money from this bank (if you want to call it that) on a long term debt financing basis at rates that are more attractive than they could get in the private sector, for probably

those rates will be cheaper for two reasons. Mr. Garfinkle mentioned earlier that tax exempt versus taxable, you could probably look for a 2% savings in interest. I think that is true, 2 to 2-1/2, for credit per credit, but we are not talking about credit per credit. For a gentleman that is anticipating moving into the lumbering or perhaps fishing area, it might be a question whether he gets any money at all because in the case of this bank, you have got the security of the income of the permanent fund that is behind this loan. So, I think in terms of your small industrial borrowers, you are going to see substantially greater interest savings to them, and/or the difference between the ability to borrow any money at all versus not borrowing it.

In looking at this bond as such would emanate from this program, you've got a bond that is secured by two sources of revenue: the borrower's and the interest income from the permanent fund. The borrower's will vary probably fairly widely. To the extent that there is a lot of housing involved in any specific borrowing, your borrowers will probably be fairly strong (a fairly strong security aspect behind the bonds). To the extent that you have a lot of small industrial borrowers, your credit probably will be weakened to that extent. However,

the credit is essentially identical in all of the loans in that the anticipated source of revenue from the permanent fund will be very, very substantial.

Obviously, if you were to borrow under this program presently, under one of these bond issues presently, you are borrowing in anticipation of the security you are going to have in the future--the security from the permanent fund. I don't see that as any difficult problem in terms of marketing. You are, in terms of marketing this kind of issue, selling, in my opinion, a well secured obligation, and you are selling an unknown obligation; unknown to the extent that the investor, the institution, and the underwriter for that matter, has never been faced with a "critter" quite like this before. That doesn't mean that our industry hasn't been able to move enough to recognize a deal occasionally, but we are a little slow. It is different. It is unique. It is going to take some education on the part of the investors. I see no reason why that educational process, however, cannot commence and be successful in convincing the large institutional investors, as well as the individuals, that this "animal," this "creature" of the state legislature is one that is beneficial to an investment portfolio, and would be beneficial to the people of the state of Alaska.

A question was asked before in terms of congressional intent on changing, possibly, these ratios as to the amount of money that can be "diverted" to private enterprise. I think that if Alaska were to implement this type of program, it would be one of few states, if any other states, implementing it, and I have found, at least in my experience in the advanced refunding area, that until a program becomes highly visible and is utilized nationwide, the Treasury Department's interest in doing anything about it has been really insignificant. I think an example is the whole concept of advanced refunding which is under some change right now. I've been doing advanced refundings for 20 some years. We have never heard from the Treasury Department, and they never heard from us for many, many years until the large issues in Tennessee, Florida, Mississippi, and the East Coast started to be done, and then the Treasury Department felt there was a problem. I don't see a change in regulations in connection with those dollars that can be utilized in private industry.

I would like to try to answer some questions.

HOHMAN: Any questions of Mr. Wiesner?

GRUENING: Are you aware of what the present earnings from the permanent fund are?

WIESNER: Insignificant, because the permanent fund is so small. You'll not see earnings of any consequence until about 1981 or 82.

GRUENING: So that borrowings made in the next couple of years will be in anticipation of income. I am wondering whether - isn't the ultimate security the amount of the reserve whether it's permanent fund income or a cash reserve that is committed?

WIESNER: Define, if you will.

GRUENING: Well, there is nothing magic, is there, about the use of permanent fund income. If you allocated the same amount that you are estimating, but you don't know is going to accrue, but you think is going to accrue, actually allocate that in terms of cash to a reserve fund, aren't you providing a greater security in that the borrower doesn't have to anticipate--he's got it.

WIESNER: Well, to the extent that money is in hand versus promised, you know one in hand is always worth two in the bush, but -

GRUENING: In this case it's two in bush!

WIESNER: But in this case I think you are looking at something a little - (laughter in response to Rep. Gruening's previous statement precludes answer) In the sense that if money is needed now, and is borrowed now, the permanent fund is not in a position, now, of securing bonds of a substantial cash balance unless they were to use permanent money. A lender, a municipal lender, is lending money

on a longer term view. He is not lending on the basis of what is going to happen in Alaska next year or the year after. He is lending money, say for 20 or 25 years, and he is looking essentially at what the permanent fund is going to look like in years to come, and what reasonable sources of cash flow can he see out of the interest earnings off that fund. The fact that there is no yield this year, or very little, or next year, is not nearly as of great a consequence to him as how much does he think is going to be there 5 or 10 years from now, because that is what is going to pay him off--not the money that is there tomorrow.

GRUENING: Doesn't it require him to look at the underlying security of the permanent fund? In other words, the projects, incidentally, are based not on the security of the permanent fund, but on our oil income largely, so if the pipeline blows up or springs a leak, or there is a drop in the price of oil, these have the greatest impact on earnings at this point anyway, because we don't have a real investment plan developed for the permanent fund. My point is, wouldn't a reserve fund that we could set up today in larger quantity than could be established by flow of the income from the permanent fund help to get this program off the ground quicker then?

In other words, your suggestion is to establish, I think, a track record since there is no "critter" of this nature, you say, and perhaps starting a reserve fund to begin with so we can see whether establishing a track record might be better than anticipating income and having it materialize -

WIESNER: Let me paraphrase it, perhaps, in how I could look at an issue in two different categories. If you were to issue 100 million dollars in bonds today, and say we will put into a cash reserve today 25 million dollars (a good size figure or whatever) say 30 million dollars as security behind that bond, and that is what we are going to put up (no more, no less) but you've got 30 million to play with--versus buying a 100 million dollar issue and give me the security of the income from the permanent fund (admittedly not there today, or of any consequence, but over the next 20 years is going to amount to hundreds of millions of dollars) I will, if you will, take the two in bush versus the one in hand. I would rather have the security of the permanent fund (the total permanent fund income) than a cash balance in hand today, unless you were going to make the cash a hundred million dollars, assuming that is what the bond issue is.

GRUENING: (Question inaudible.)

WIESNER: Well, if you put up a hundred million, and you are going to secure the entire issue, I guess I'd rather take the hundred million, but you are going to have a lending program that will be of minor consequence because you won't have that many hundreds of millions to put up.

SACKETT: Senator Rodey.

RODEY: What is the impact of the oil industry on the investment market? Oil is very important in Alaska, how much impact does the oil industry have on the investment market--combined oil industry?

WIESNER: On a bond issue of this type?

RODEY: On general perceptions. Do they have any impact at all, and are they an important part of the investment market place?

WIESNER: The oil industry is a significant part of our American economy and as such it would have impact on it.

RODEY: We are told that Alaska has an extremely unstable investment climate, and is looked upon by the oil industry as an undesirable place, or less than desirable place to invest. How will this affect our permanent fund in terms of perception of being secure and sound and being able to pay the necessary interest and having the necessary amount of money?

WIESNER: So far as the permanent fund is concerned, once the moneys are in the permanent fund, this bill, so to speak, has no call on the permanent fund principal, it is only

the income. The principal is not violated.

RODEY: My point is that, you know, we're told that oil production is in jeopardy because of the investment climate in Alaska. If there is no oil production, there is no permanent fund. How will this perception (and the perception is important) affect the sale of our bonds for the proposed Senate version?

WIESNER: Well, let me answer, if I may, in this way. The pipeline is in place. There is oil running through the pipeline. I cannot envision a situation where the oil companies, feeling that Alaska is an unstable investment climate, elect to turn it off. I think the oil will still continue to run, and the State of Alaska will still continue to receive moneys into their permanent fund. Now, will that unstable investment climate have an impact on the oil companies' future development in the state--possibly, but can you see them plugging the existing well?

RODEY: On the other hand, the strength of the permanent fund is in the future when that oil exploration, or whatever other petroleum that will flow from the State of Alaska, will become a part of the permanent fund. My concern is that the perception we've been told exists will have an impact on the sale of bonds. These bonds are, of course, long term instruments, and investors look at them in a long term manner. And perception is, perhaps, as

important as reality in many areas, including investments, and for that reason I am wondering, will this perception hurt Alaska in terms of increasing the amount of money that we have to pay for bonds?

WIESNER: To the extent that Alaska were not in the market at all, or say, far less frequently, the interest rates you will pay will generally be somewhat lower. This technique is going to increase the volume of debt financing of the State of Alaska--no question about it. It will make more bonds available in the State of Alaska. I think it will make more bonds available emanating from the State of Alaska with better security than the normal Alaska credit. And, I think the issuance of those bonds, particularly those where the proceeds are going into private industry, will have a positive effect on Alaska in terms of the Alaskan economy--be it fishing, be it timber, be it whatever--broadening the base of the economy from oil to a broader base.

RODEY: No more questions Mr. Chairman.

HOHMAN: I would like to return to what I understood Representative Gruening to be asking about, and that is security for the sale of the bonds. He was saying, which would you rather have, the potential of the oil development in the State of Alaska and the revenue that comes from it, or (and I'm going to ask Bob Dupeyron a question here, pay attention)-

DUPERE: What was the backup?

HOHMAN: Either the potential from the development of oil and the revenues that come from that, or 100 million dollars in reserves. I don't think it is a question, the way we set this up, that it would be an either/or situation. And, my question to you, sir, is what to we envision under the bill as being capitalization for loan programs, and could you put that into a time frame.

DUPERE: One part of the bill, 429, has as of June 30, 1977, lapsing the -

HOHMAN: 78?

DUPERE: It says 77, but [inaudible] lapsing the available fund balance that is in the general fund. That was over 600 million dollars. Of course, that balance is tied up in that there are 350 million dollars in existing loan programs. It is 300 million dollars and that balance is being eaten away by the normal small business loans that are going on, veterans' loans, and so forth.

If that provision stays, then we have what we call "transitional" money to continue the loan programs from existing state funds and start building a marketing and bond program. Two reserves are set up from proceeds of our permanent fund. A 5% loss reserve because we don't know how risky these loans are going to be in a broadened market [inaudible]. And, a 5% debt service reserve. Now, that is our first 10% reserve. Then, we

build a reserve from the proceeds of the bonds, which is a normal revenue bond procedure. It can be possibly as high as 15%. So, you really almost have a 25% reserve backup. Now, you have a thing called a "further funneling." If the loss reserve is not sufficient, and we have abnormal losses, we have income from the permanent fund filling that up from the unallocated reserves. If any one of these other reserves is depleted, we have available the balance of the unallocated reserve, which is the income from the permanent fund, to fill it up. That is the future security that Mr. Wiesner indicated. But, before we issued the bond issue, we had to have 10% set up--and we have it.

HOHMAN: What do we expect as the figure for the money available in a fiscal year for lapse and so forth?

DUPERE: It was over 600 hundred million, but I haven't seen an updated figure [inaudible], and they have been running supplementals through it and so forth, so we don't know what it is.

HOHMAN: [Question to the Commissioner of Revenue.] What would you anticipate being the general fund balance at the end of the fiscal year.

GALLAGHER: [Reply inaudible.]

HOHMAN: 600 hundred million dollars, down from 650. [inaudible]

GALLAGHER: 331 million dollars [inaudible].

HOHMAN: So we deduct that?

GALLAGHER: Not necessarily, it's still a general fund asset. It's just that salaries don't pay very well with veterans' loans.

[Partially inaudible discussion between Dupere and Gallagher re: market fluctuation.]

HOHMAN: Getting back to my line of questioning, then you would have one-fourth of a billion dollars (250 million dollars) that would lapse back under the mechanism we have here?

DUPERE: That is the first seed money.

HOHMAN: And we envision building up or leveraging that on a ratio of 10 to 1. I would like to find out from Mr. Wiesner if that is a realistic expectation. I would like to find out, also, what Mr. Wiesner thinks will be the cost that we have to pay for the money that provides the capitalization for the loan program.

WIESNER: Let me answer in reverse order, if I may. Any issue sold here, I think, should mature (any bond should mature(probably starting in the 6th or 7th year hence, and run out 15 or 20 years--maybe a little longer--certainly no short bonds. You haven't got any money anyway of any consequence, so in today's market, if your credit were an "A" credit, and I think that's about where it would come in - Mr. Dupere, I think, has different views, he thinks it would be higher (would be rated better than that), I do not. On today's market

you would be selling bonds maturing in 5 to 20 years at possibly somewhere between 6-1/4 and 6-1/2. Now, that is up, possibly, a half over what I would have said it would be 2 weeks ago, but we have had a huge amount of financing; we have had a change in the discount rate; we have had a change of prime; so I think that's what you're looking at in the cost of money on today's market--6-1/4 to 6-1/2 for that maturity range.

Now, if you're looking at a multiplier effect on your money, if you are looking at a permanent fund that 5 years from now is worth approximately 700 million dollars -

DUPERE: No, a conservative estimate is 1 billion dollars, plus.

WIESNER: You're looking at probably a source of revenue off of that fund in the area of 70 million. That would be an average 7% rate on the deal. You are looking at 70 million. You probably, on that basis, could support a debt service figure (annual debt service), to give any kind of coverage, of 150 million. That means you could probably have outstanding, probably in 5 years, a billion bonds (a billion dollars) and be able to support it. Now, we're quoting figures out pretty fast, but that shouldn't be unrealistic because, after all, if you had a billion dollars worth of debt outstanding in

5 or 6 years, and you had a billion dollars in the permanent fund, and you sold your municipals at municipal rates, then the permanent fund income, in and of itself, should be able to service all of the interest and all of your debt and the interest and principal payments that the borrowers' would have. You would be handling the repayment of principal on the loan. I looked at it last night and I think you could look at whatever your principal amount was in this permanent fund (you can't touch the principal, you can only touch the interest), but you ought to be able to look at debt that gets up somewhere between 1 and 3 times that amount. You could go, you know, anywhere from 1 to 3 billion dollars.

Now, it depends a lot on the mix of that debt. If there is a lot of housing in that (if you have a lot of housing borrowers under FHA or VA), if you've got a lot of student loans that are guaranteed by the government, if you've got a lot of municipalities that are borrowing in this deal and are borrowing moneys where the borrowings are secured by taxes or water and sewer revenues - In effect what I am saying is that if you have quality loans in your portfolio, your multiplier will be higher. If you have a lot of (now I don't mean to imply that all your fishermen are broke up here) but if you have got a lot of fishermen, small loans, or timbering loans, or small business loans

in there, where the chance of loss is greater than in some of these larger ones, obviously your multiplier effect will not be quite so high.

HOHMAN: Mr. Chairman, we had envisioned 1 to 10 as part of our plan.

WIESNER: I think you're too high.

HOHMAN: 1 to 3 or 3-1/2?

WIESNER: Yes, I think you could go there. You know, that is a God awful lot of money.

HOHMAN: We had also thought, 6, 7, or 8 months ago whenever it was that we worked on the bill, that the cost of money would be, maybe, under 6, 5-3/4.

WIESNER: Oh, I think you could have looked at 5-1/2 in like 2 months ago. We have had a significant change in interest rates, particularly the last 2 or 3 weeks. Perhaps I'm overly pessimistic on the rates because it seems like in the last two weeks everything we have looked at we've bought, and we are beginning to wonder whether we're the only buyers in the world out here, but we think that will change.

SACKETT: Senator Hohman, what do you see for tomorrow? A continuation of this?

HOHMAN: Lets see, we have quite a few more. Mr. Nease from Kodiak Electric. Mr. Haugen has some questions, and Mr. McCormick is here. I would like to take advantage of these consultants who have traveled so far.

DUPERE: Mr. Wiesner is going to leave, but Mr. Matz will be here tomorrow.

SACKETT: What do you want to do? I just imagine I am going to get a note pretty soon from Rader.

HOHMAN: I think this is more important than the Free Conference session on the budget.

SACKETT: Why don't we continue then until we hear, go ahead.

HAUGEN: I've been listening and not saying anything. I heard all kinds of talk about industrial bonds, housing bonds, fishing bonds, dock bonds, and everything else, and you did talk about some municipals, . . . but it has always been my purpose and interest here on the permanent fund committee to develop the energy of this state. I think two important things that we seem to get kind of in the background, which we need before a lot of these other things, is power or energy . . . and transportation. And, it has always been my feeling, because I was born and raised in the northwest states, I would kind of like to see the permanent fund used on kind of the basis of the old REA Act where we had long term, low interest, bonds available to power authorities or municipalities to borrow money. I think the biggest problem in Alaska is that every time we turn around we hear about these consumer costs and things like that. I hear especially from the bush area and areas like mine about the high rates for

utilities. I would like to see some consideration for setting up priorities, first, of what the permanent fund ought to be used for. I've heard it said that outside the Susitna Project, we need something like 1 billion dollars to swing these projects. In my case, they are beyond the reach of the normal money markets, and these municipalities (with their load rate and stuff) are not capable of swinging these big projects. I could go into a lot more depth because case by case they're all different, but it has been my motive to get attention given to these areas first (energy), and second, transportation, then the others can fall into place. Housing can't be cheap; if you give them a break on the housing loan, you've still got the utility costs and developmental costs in these communities.

When you talk about the fishing industry and building docks, I think private enterprise can fairly well take care of those areas if they have cheap power. Going back again to the Northwest, I think the aluminum industry in the Northwest employs something like 60 to 70 thousand people, and Boeing is there because they've got cheap power. I think if we are going to develop our fishing industry in Alaska, and I know in my own community, they are asking right now for half again as much power as they can produce. But, if they do produce it, they are going to have to produce higher

cost power which is diesel generation. If you can get into a one time substantial hydro project, they know the power is there, and they'll come there are the revenue will increase. And, if you have the full faith and credit behind the state, and the long term, low interest loan (if to be so generous as to say we'll pay a early low rate of interest and graduate the income to the state off that interest over the long haul), I think the Commissioner of Revenue could have an earning to the state that he could say is something in line with what he tries to accomplish.

HOHMAN: I know we didn't mention in any of the discussion today the term "hydroelectric project," but we do have a provision in the bill to do that, on page 17. If I understand Ernie's question, he is wondering whether we aren't going to have to prioritize the projects to be funded under our concept, and whether it might not be appropriate to subsidize the interest rates to provide for low interest rates over a long period of time.

DUPERE: Remember, during the planning state, I had to direct attention to the hydro projects, etc. Part of SB 429 marries up the permanent fund income and the 5% renewable resources (p. 41, SB 529, re: 37.11.10).

HOHMAN: [Question re: updated page number.]

DUPERE: [Not verbatim.]

Hydroelectric projects and renewable resource projects,

these projects can defer interest payments, can defer principal payments, can subsidize interest payments, and (if a municipally-backed project) it can be put before the legislature for a grant. The R & R people can tailor the payment of principal and interest, or put it before the legislature. There is a maximum amount of flexibility to develop a project in the R & R section. It takes care of projects which need a huge amount of cash, but the users aren't yet on line.

BUTROVICH: [Referring to Mr. Wiesner.] I would like to ask this gentleman a question while he is here. The thing that concerns me about this is the solvency of what we are doing here. I have no question about going out and selling bonds, but what concerns me is what a governmental entity will do with the proceeds from the bonds. If you are talking about large future moneys that we will get off the pipeline, and we will, but eventually they'll start to taper off and go the other way, and we'll need new finds or some other way to supplement our state requirements. Are you completely familiar with the bill as it is now?

WIESNER: Yes.

BUTROVICH: Realizing that we are going to make a lot of loans that aren't bankable loans, unless we change our ways, are you satisfied that - Would our qualifications say that there are sufficient safeguards in this bill to keep us out of trouble?

WIESNER: That's a pretty broad statement you just made.

BUTROVICH: It's a pretty broad field we're getting into.

WIESNER: To the extent that the loans that are being made are being made pursuant to this bill, in housing, municipal financing, student loans -

BUTROVICH: Our track record on some of those you have enumerated already hasn't been too good.

WIESNER: All right, and with the interest on the permanent fund behind it, I don't see a problem with the repayment of that outstanding indebtedness.

BUTROVICH: That's a pretty solid statement. That is what I wanted you to say, however.

WIESNER: Now, I'm not implying a 10 to 1 ratio of debt to the permanent fund.

BUTROVICH: I would hope not.

WIESNER: I was looking at this - I think, as I indicated earlier, 1 to 3 isn't any big problem.

BUTROVICH: Because, if it was 20 to 1, we would use it.

DUPERE: We use a ratio of 10 to 1 of the money we are putting in reserve. In other words, if we put 10 million dollars in reserve, 5% of it is capital reserve, 5% is loss reserve, then we've got a 100 million dollar sale. That is the 10 to 1 ratio. He is saying they are going to look at the ratio of the borrowing to the permanent fund that gives the feeling of security to the whole loan program.

BUTROVICH: My concern with the amount of the reserve is what would an insurance company or banking institution use for reserves if they were making that type of loan, I want to be almost as prudent as they would be.

WIESNER: If you were a commercial banking institution (if I can compare you to a commercial banking institution), the normal (and I am being a little on the conservative side for the bank), but the normal bank with 100 million dollars worth of deposits will have a net worth, capital and surplus, somewhere in the 8 to 10 million dollar range. And, that 100 million dollar bank will have loans (as opposed to governmental securities, etc.) of probably 60 to 70 million dollars in today's market (60 to 70 million dollars worth of loans supported by a 10 million dollar capital base--that's the bank). Now, if in this program you were to loan money at a 2 to 1 type of ratio (where the permanent fund was at least half as large as your total borrowings), you are operating, at least to that extent, on a far more conservative basis than the normal commercial bank.

Now, if you have inefficient, incompetent loan officers in your permanent fund -

BUTROVICH: We will have.

WIESNER: Your security isn't as good as it might otherwise appear, but it is still pretty solid in light of the

substantial size of the permanent fund supporting the loan program.

HOHMAN: Is there anything in the bill that violates banking principles? I know the question of who was hired to do [inaudible] - But, is there anything that violates good banking principal in our legislation?

WIESNER: No, I think that your loan program has to have a loan committee that is using good logic and good sense in the making of loans. I was on what we call the Colorado Business Development Corporation, a corporation that we set up in Colorado just to make loans to small businesses -

SACKETT: Senator Rader wants one Senator so they can advance bills. Who wants to go?

HOHMAN: Those questions that were asked when we were considering the supplemental that added positions to the Division of Loans in the Department of Commerce earlier this year, and the figures that we got in the past - In the past there have been some rather bad examples as far as adhering to good banking principles; there have been some bad loans made. But, in the last 3 years, the delinquency on VA loans is 1.9%. How does that compare with normal banking practices?

GALLAGHER: The pension fund is somewhat lower than that, but that's pretty consistent.

HOHMAN: And, the VA people have approximately 5,000 loans out, representing how much money?

GALLAGHER: A little over 200 million dollars.

HOHMAN: The small business people indicated that they have had to eat some bad debts. The ratio is about \$1 to every 10 thousand dollars they put out in loans, and they had about 500 loans.

GALLAGHER: [Reply inaudible.]

BUTROVICH: They're going to eat some more pretty soon.

HOHMAN: They are?

BUTROVICH: Yes, some of the rural housing.

HOHMAN: That is a separate corporation. I think what we have done in our bill is provide for monitoring of that loan program on a monthly, quarterly, and annual basis. The recent history of the state loan programs in the last 3 or 4 years is that they have been stabilized, and they are on solid ground now.

BUTROVICH: I won't argue about that, but I go back quite a few years and we had quite a few bummers. It is free money, you know, and if it becomes more available, people are inclined to be a little more careless. You are not talking about glassy-eyed bankers, you're talking about [inaudible].

I thought about a question I wanted to ask you concerning the discourse about this ratio of 10 to 1 and 2 or 3 to 1. Is there anything in the legislation that governs that?

WIESNER: The legislation presently provides that, in the event a bond issue is sold, there are 2 accounts that are set up. There is an account called (page 8) capital reserve account. It is under Sec. 45.96.140. Now, that account is set up at, in effect, 5% of the then outstanding balance of the bonds you have outstanding. On the next page (page 9) you also have a loss reserve account which is also established at 5% of the then outstanding bond. Those two accounts will, obviously, total 10%, so that in those accounts you will have identified dollars in the 10% of your outstanding debt that is set aside in those two accounts. Now, if there is a draw on either one of those accounts for the payment of debt, etc., that must must be replaced out of the income as derived from the permanent fund. Now, to the extent that you have 10% in here, it's a 10 to 1 ratio (for every 100 million you've got, you've got 10 million lying around some place) in these two accounts.

But, you know, I don't mean to imply that this is the ratio you should use in terms of how many bonds you should issue against the permanent fund, or against the income of the permanent fund. At no time would I like to see the income from the permanent fund being in an amount where it couldn't pay at least half of the debt outstanding as it comes due, assuming every loan you had went bad.

BUTROVICH: On demand?

WIESNER: On demand.

BUTROVICH: Well, that is fine, but I am still a little bit vague about this ratio. In the bill they were talking about 10 to 1, and you are talking about 3 to 1.

WIESNER: Let me go a little bit farther. The way the bill is drafted presently, you have these two reserve accounts that must be established. There is in the present bill no restriction on the issuance of additional debt as it might relate to earnings off of the permanent fund, or the size of the permanent fund. Any indenture, however, that issues bonds is going to have in it certain kinds of restrictions on this fund, insofar as the number of bonds it can sell, because no investor is going to be interested in buying the first 100 million when everything is in fine shape, and to find out a year later they sold another (God knows how many more), in effect diluting his security provisions. There will be limitations in the bond contracts themselves as to the amount of debt that can be contracted by this entity, but it's not in the act.

BUTROVICH: In other words, what I don't want to get into is the situation that a municipality or a state would normally get into, and that is going out and selling bonds until, finally, the bonds won't sell, or if they

are sold, they sell at such a high rate that it wouldn't be practical to sell them. What is the protection we have that would prevent the state from doing exactly that.

WIESNER: The act as I read it in present form does not have such a limitation on that issuance of additional [inaudible].

DUPERE: Senate Bill 510 is a companion bill to this, and SB 510 provides for financial planning, not only in the operating budget, but also the bond committee. And, these guys have to give long range financial planning against this program, against the revenue of the state, against the capital programming, and any investments coming out of treasury. Against that planning is budget and audit, which is even on a monthly basis so you can perceive the problem. If you had a Double A credit and found you were moving down to less than Double A, you could generally perceive that the market was rejecting the volume of the bonds. You have an outside group that is saying that the bond committee is overreaching, and then you have restraints. That is the practical program to do it.

BUTROVICH: Well, it may be practical, but it doesn't satisfy me. Now, I think there should be something there, because a municipality or a state, I don't care which it may be, will go out and they will sell, because of the pressures

of the people, they will sell bonds until the rate either gets too damn high, or there is no market for the bonds, and it isn't something new, it's a historical fact of life. You can't give away some of the bonds, and I heard you say 10 to 1, and I heard you say 3 to 1 -

HOHMAN: We are talking about different things.

BUTROVICH: I don't think we are. Aren't you talking about what you can lever in the way of money?

HOHMAN: Yes.

BUTROVICH: Well, that is what I thought you were talking about.

WIESNER: But, I do think that my 3 to 1 ratio, 1 to 3, somewhere in that ratio -

BUTROVICH: Well, I like yours.

WIESNER: Is predicated on the anticipated size of the permanent fund, say a year or two down the road. I don't anticipate the size of the fund today because the size today is nickels and dimes, relatively speaking. That is the ratio I was looking at. I cannot see leveraging the permanent fund 10 to 1, but I don't think Mr. Dupere was talking about 10 to 1 leveraging on the permanent fund.

HOHMAN: Maybe we should come back for an explanation of that. However, we do have a call of the Senate, and we are going to have to answer that call.

SENATE FINANCE COMMITTEE

May 19, 1978

9:05 a.m.

Vice-Chairman Hohman, in the absence of Chairman Sackett, convened the meeting at approximately 9:05 a.m. All committee members were present with the exception of Senators Sackett, Tillion, and Croft. Also in attendance were Senator Sumner; Representatives Gruening, Haugen, and Rhode; Dave Nease, Manager, Kodiak Electric; Leonard Matz of E.F. Hutton; Robert Dupere from the Senate Permanent Fund Committee; Tom Singer of the House Permanent Fund Committee; Allan Garfinkle of Kutak, Rock, & Huie; Fiscal Analyst Milt Barker; Administrative Assistant to Senator Hohman, Bob Kocsis; Administrative Assistant to Senator Sackett, Judy Crondahl; and members of the press including Joe LaRocca.

PRESENT

Senator Hohman advised that upon adjournment, yesterday, the committee was involved in a discussion concerning the leveraging ratio of the permanent fund. He stated that

PERMANENT
FUND

discussion on this subject would continue, and directed Mr. Dupere to begin testimony.

Mr. Dupere advised that in the statute proposed by the legislation, for every bond issue sold, the state would set up two reserves, one of which (unallocated reserve account) consists of interest earnings on the permanent fund and lapses in the general fund, and is established as a permanent savings account. Should the cash flow in the general fund begin going the other way, withdrawals could be made from the unallocated reserve account to balance it out over the next 25 years. The two reserve accounts (1) debt security and (2) loss security, give security to the bond holder. In the event bond payments fall short, the holders can draw on these reserves. This program is a mixed program (multiple purpose program) and an unknown. The 5% loss reserve will serve as an insurance account to reimburse the unallocated reserve account in the event of a draw.

MR.
DUPERE

By establishing these accounts, the state is securing its position at the rating bureau. The strength of the bonds will be the income from the permanent fund, but since the loan and bond program are untried, there should be a ratio of security for the investor between the total amount going out in bonds, versus projections

for the permanent fund. Projections for the permanent fund anticipate one billion dollars by 1983-1984. Mr. Wiesner's concern was that the state not sell over three times that one billion dollars in bonds.

This ratio between security and projection will affect how the rating bureaus look at the bonds, and whether they receive A or Double A rating. The state now has A bonds which the bureau rates as Double A. The reason for the difference between A bonds and Double A rating is the marketability and acceptability of the credit. Mr. Wiesner feels that even though we get Double A bonds, they may be rated A because they are new instruments. Everyone sees these things differently. Marketability is a difficult thing to establish.

BOND
RATING

Senator Butrovich expressed concern regarding how the state will amortize and pay back the bonds, advising that from discussion on leveraging he had no idea what the ratio should be. He acknowledged that municipal and state bonds have been pretty marketable over the last few years, but he didn't want what happened in New York happening in Alaska, advising that he felt the program needed constraints as to how far it could go. It needs safeguards.

Mr. Matz advised that current language in the bill states that the "prudent man rule" must be adhered to, adding that the problem with guidelines is that if they are established and the market is good, the program will not be able to expand. Should the legislature enact 3 to 1 or 10 to 1 leveraging at this time, what will happen when the program needs to expand?

PRUDENT
MAN RULE
IN
MARKETING

Senator Butrovich replied that the legislature meets every six months and could always expand the program, adding that if there isn't some limitation in the bill, he could not support it.

Concerning the conflict between the 3 to 1 and 10 to 1 leveraging ratio, Mr. Dupere stated that the two sets of figures deal with two different things, and he, in fact, had not considered the 3 to 1 ratio or thought about using it.

Senator Orsini asked Mr. Matz if he saw a difference in the market view when looking at bonds that contain a variety of things as opposed to bonds containing

5/19/78

specific projects or more narrowly defined language, when effecting the interest rate. Mr. Matz replied that he felt anything new like these cumulative bonds, would depend in part upon the educational material presented to the investors, but, he estimated that the first time out the bonds wouldn't enjoy a very favorable interest rate, simply because of the newness. He added that he believed the state would have to put together the best package for each bond, to insure that the lender will be available on a recurring basis, thus enabling the investor to give the state the best interest rate.

MARKET
VIEW

Senator Orsini asked if Mr. Matz anticipated groups of bonds being packaged together, such as fisheries bonds, housing bonds, etc. Mr. Matz replied "no, I think you are going to have a mixed, or umbrella-type," bond in which parts or percentages of the bond will go toward specific projects. An attempt to box up similar projects for one bond issue will not accomplish what the fund is attempting to do. He emphasized that his point is that in trying to put the umbrella bond together and making material available, there is going to have to be a breaking-in period.

PACKAGING
OF
UMBRELLA
BONDS

Senator Orsini inquired concerning whether other organizations have had experience with umbrella bonds and marketing which the state could draw upon. Mr. Matz replied that he knew of none that would have experience to the degree the program contemplates, but a southwest university has pledged part of its endowment fund as security for a varied construction program. The University enjoys a very good Triple A rating because the bonds are fully guaranteed. He further alluded to the services provided by a bond bank, adding that because of the need for loans provided through the contemplated program, it will have an acceptance in the market, but what kind of acceptance he could not say.

Senator Orsini asked if Mr. Matz felt that after a few years of exposure to this type of bond, the interest rates would be as good as those for any other type bond, and Mr. Matz replied that he felt the rates might even be better than average, advising that it is the underlying credit that lenders examine (the program's ability to meet demands against it).

5/19/78

Senator Hohman stated that the Permanent Fund Committee anticipated a 2 to 2-1/2% savings on interest rates for the bonds, asking if the savings would apply to the umbrella bonds also. Mr. Dupere replied that there is a disparity between the interest rates experienced by Mr. Wiesner and those prevalent in Alaska. Senator Hohman again asked what interest savings the bonds could expect the "first time out the chute." Mr. Dupere replied, "a minimum of 2-1/2%." When asked if he agreed, Mr. Matz replied that he didn't disagree, but he was having trouble determining what the base would be for effecting the difference.

INTEREST
SAVINGS

Mr. Dupere cited the following comparison for interest savings:

7% interest through fund loan on a \$50,000 loan over a 30 year life, results in a total payback of \$123,100.00.

9-1/2% Federal National Mortgage Association Loan on the same amount for the same time period, results in a total payback of \$171,220.40.

Representative Gruening advised that yesterday Mr. Wiesner mentioned that despite the reserve funds, the investors are going to look at the risks involved, such as student loans, etc., and the risk affect on leveraging. He questioned what would happen if the program experienced some defaults, asking if the reserve fund would not become less important, as security, should defaults occur. Mr. Matz replied that he thought the fact that the fund necessitates this loss reserve fund becomes very important, because the program includes steps for dealing with defaults, adding that the fund was probably going to experience some defaults. He further stated that what Mr. Wiesner was saying is that at no time should the state attack its capital position. The lenders realize that some of these loans are going to go bad, that is why the state should anticipate a mix. The state is selling the whole bond (the good and the bad) versus a piece of the pie. The lenders will assume the underlying credit to assure that the mix is not unbalanced by one side or the other.

RISK

Representative Gruening raised several questions concerning proposed elimination of specialized agencies such as the Power Authority, asking Mr. Matz if he didn't think investors would feel more comfortable dealing with a specialized agency rather than a department which deals in all types of bond funds. Mr. Matz replied that it was his understanding that the legislation would not

SPECIAL-
IZED
AGENCIES

bypass the experts. The experts are still going to have to submit the package, and that is what the fund is really going to be lending on. The umbrella bonding would even out the good and the bad and enjoy an average of good.

Representative Gruening raised a question concerning the possibility of student loan inclusion within a bond issue dragging down the acceptability of a hydroelectric project. Mr. Matz replied that possibly it could, but asserted that, again, one should look to the security, the permanent fund, adding that he believed this security to be what the investors would look to initially.

BOND
MIX
ON
MARKET-
ABILITY

Representative Gruening raised a further question, asking if there was a way of effecting compensation should security be looked to in the event of a default. Mr. Matz replied that he didn't believe any thought had been given to destroying the capital position. The earned interest income would pay the default. As an example, Mr. Dupere cited a loan on a farm in the Matanuska Valley going to default. The program would transfer \$100,000 from the loss reserve account to the operating account to cover the loss. The state would still have the property, and if the property were sold, the proceeds would go back into the fund as replacement for those withdrawn to cover the loss. Although the state may experience some loss, Mr. Dupere advised that he could not foresee that the state would lose 100% on a loan. The unallocated reserve will also fill in the loss reserve at the end of a year if it drops below 5%. Also, should the unallocated reserve be eaten up, the state would stop issuing bonds because it would no longer have the 10 to 1 ratio.

DEFAULT

Representative Gruening referred to page 7 of the bill, dealing with general fund contributions, advising that if the bill were in effect, the state would have a zero balance in the general fund unless and until it has built up an account to pay bad debts.

ZERO
GENERAL
FUND

Mr. Dupere stated that one of the themes the Senate used in SB 510 is that in the future, the Administration and Legislature are going to have the current operating budget matched up with current revenues, utilizing no lapsed funding from the prior year. Under the bill, the amount existing at the end of the year would lapse rather than show up as a balance, as the 600 million dollars does this year (the 600 million is not really there

BALANCED
BUDGET

because there are loan programs against it). These lapses would result in a savings account and be invested or used as security for future loan programs. SB 510 calls for a long range financial plan from the Governor. This savings account would be available for future use while the permanent fund would not be.

SAVINGS
ACCOUNT

Senator Hohman restated Representative Gruening's concern that the state will have a zero balance in the general fund and no funds available; they will all be locked up in the savings account or invested.

Mr. Dupere stated that the bill reflects what came from the Permanent Fund Committee. It wanted the operating budget for the year balanced against the revenue for the year. If a "bubble" of revenue occurs in a given year, it is put in a savings account rather than expended. The same would be true for lapses from the previous year. The intent is to encourage a balanced budget.

Senator Hohman asked if the legislature could retrieve funds should they be needed, asking what obstacles stand in the way of legislative retrieval. Mr. Dupere replied that should the legislature have to move against these funds, it would have to refinance new bonds or transfer funds tied up in the program to other funds, such as the retirement fund. These funds would have to work their way out, but they could be reached for emergency needs. Senator Sumner inquired concerning how long it would take to get the funds back, and Senator Hohman asked if the funds could be reached during a legislative session or special session. Mr. Dupere replied that the legislature would be able to get the funding back by the end of the fiscal year. Senator Hohman advised that the Permanent Fund Committee by design had placed obstacles preventing the tapping of this fund.

OBSTACLES
TO FUND
RETRIEVAL

Senator Butrovich inquired concerning responsibility for existing state G.O. bond repayment, and Mr. Dupere replied that the general fund serves as security for existing bonds, with 40% of the oil revenue remaining in the general fund as operating money and providing amortization for the bonds.

EXISTING
G.O. BONDS

Representative Haugen inquired concerning how much funding under the proposed plan would be available to fund energy bonds, advising that he believed the state should set priorities. He further advised that he believes mixing

ENERGY

the bonds dilutes the attractiveness of the bonds. The state needs energy and transportation; it needs something like the terms of the REAA Act. He advised that he couldn't see getting into such a complicated arrangement as the program contemplated by the proposed bill. Representative Haugen concluded his statement by advising that he believed the legislature and administration to be making a mistake by not taking the opportunity to really help the people of the state with energy needs.

Mr. Dupere referred to page 131 of the legislation, advising that it sets forth the yearly income for the R & R account. Hydroelectricity is an R & R project. If the state tries to finance hydroelectricity alone, Mr. Dupere advised that he didn't believe the project would "fly." If tied in with the loan program, the cost of these projects would be subsidized throughout the state.

R & R
PROJECTS

Senator Hohman asked if there is any problem providing adequate funds to meet hydroelectric needs, and Mr. Dupere replied that, in his opinion, the program possesses the machinery to do the job if it has competent operators.

Senator Hohman directed that a list of amendments proposed by committee consultants be distributed to finance members for review, advising that the meeting would recess briefly and then reconvene for review of the amendments.

AMEND-
MENTS

Senator Sumner inquired regarding the economic benefit of the loan fund money upon the state's economy, advising that the result of such benefit is one of the primary purposes of the program. He advised that it was his belief the program would effect a 10 to 15% increase in the state's economy, adding that he would like to see some indicators or forecasts flowing from this economic stimulus. Mr. Dupere stated that perhaps program figures could be given to the economists at the University of Alaska for placement against the University's economic models. Senator Sumner advised that he believed it would be exciting for the people of Alaska to be able to see program projections.

ECONOMIC
BENEFIT

RECESS 10:10 a.m.

RECESS

RECONVENE 10:30 a.m.

Upon reconvening, Senator Hohman advised that in an attempt to get permanent fund legislation to a free conference committee, action should be taken today on bills currently in Senate Finance.

Senator Hohman moved for adoption of the Senate Committee Substitute for CS HB 596 (Act relating to the Alaska loan programs fund, the Alaska permanent fund, the revewable resources development fund, and other state revenues) and passage of the SCS with individual recommendations. No objection having been voiced, SCS for CSHB 596 passed from committee with individual recommendations, Senators Butrovich and Meland signing no recommendation, Senator Hohman signing do pass, and Senator Orsini signing do not pass.

MOTION
SCS
CSHB 596

Senator Hohman next moved that Senate Committee Substitute for HB 222 (Act relating to public scrutiny of the budget formulation process) be adopted and pass from committee with individual recommendation. No objection having been voiced, SCS for HB 222 passed from committee, Senators Butrovich and Meland signing no recommendation, Senator Hohman signing do pass, Senator Orsini signing do not pass unless amended.

SCS
HB 222

Senator Butrovich moved that Senate Committee Substitute for CS for HB 365 (Act creating the division of energy and power development) be adopted and pass from committee with individual recommendations. No objection having been voiced, SCS for CSHB 365 passed from committee, Senators Butrovich, Meland, and Orsini signing no recommendation, Senator Hohman signing do pass.

SCS
CSHB 365

Senator Hohman moved that CS for SB 539 (Eligible costs for state grants for capital improvement projects) be brought up for discussion. Senator Orsini raised questions concerning the difference in definition of project cost contained within the bill, compared with the definition used by the agency, asking that the bill be held pending testimony from representatives of the agency. CSSB 539 was, thus, held in committee pending further testimony.

CS
SB 539

There being no further matters to come before the committee at this time, the meeting adjourned at approximately 12:30 p.m.

ADJOURN

SENATE FINANCE COMMITTEE

May 22, 1978

8:10 a.m.

Chairman Sackett convened the meeting at approximately 8:10 a.m. All committee members were present with the exception of Senators Butrovich and Tillion. Senator Croft arrived shortly after the meeting commenced. Also in attendance were Richard Holden from the Department of Transportation; Jay Hogan, Director of Legislative Finance; Leland Dalby from the Division of Corrections; Fiscal Analyst Bob Schroeder; Administrative Assistant to Senator Sackett, Judy Crondahl; Administrative Assistant to Senator Hohman, Rob Kocsis; and members of the press.

PRESENT

Chairman Sackett moved that HB 628 (Act making a supplemental appropriation to the Department of Health and Social Services) be brought up for discussion, advising that it contains a supplemental appropriation to the Division of Corrections. Mr. Dalby appeared on behalf of the Division, advising that the bill contains funding for the Anchorage Jail, payments to Bethel and Nome, as well as costs for Alaska prisoners housed in federal prisons, and funding for the parole board.

HB 628

MR. DALBY

Bob Schroeder stated that the Division of Corrections did not really know what it needed. In essence what has been effected is a scaling down of the bill in an attempt to determine need. A portion of the bill requests funding for items already expended.

The need at the Nome Jail came about with conversion of the facility from a city to a state facility. The increase is due to an increase in salaries between city pay and state.

Funding for Bethel will take care of a two month period when the state did not have a contract with the City of Bethel. The state owes Bethel for these costs.

While the Division of Corrections has not yet overrun its budget, it is without needed additional funding.

The bill also includes funding for rising costs of care for prisoners sent outside for incarceration, as well as money for the parole board for costs over and above what was originally planned.

In addition, funding is included for completion and implementation of the master plan relating to the Corrections Interim Committee which functioned during the summer. Chairman Sackett stated that he is on the Master Plan Advisory Committee and attested to the need for funding.

Senator Croft inquired concerning why some items had been included within the supplemental when a number of the projects appear to be budget items. Mr. Schroeder agreed that some items appeared to be budget rather than supplemental in nature, but further advised that they represent bills that the state owes, adding that in its handling of division finances, corrections has taken some big steps in that Commissioner Beirne has set up a special fiscal division in her office to handle financial problems for corrections in the future. While corrections has had financial problems in the past, the department is aware of them and is working them out. However, there is no doubt that the bills are owed.

Chairman Sackett moved that HB 628 pass from committee with individual recommendations. No objection having been voiced, CSHB 628 passed from committee with individual recommendations, all members present signing do pass with the exception of Senator Croft who signed no recommendation.

MOTION
HB 628

Senator Orsini moved that SB 522 (Act making a supplemental appropriation to DOT, Anchorage International Airport) be brought up for discussion, adding that in the event the North/South runway bill fails, he would like to have CSHB 522 out of committee. He advised that since the bill appropriating funding passed out of committee, the request for injunction has been denied, the feeling being that the denial will not be appealed. However, as protection to the project, Senator Orsini requested that the bill pass, and if appeal is taken, the project will have the funding to proceed anyway.

SB 522

Mr. Hogan advised that he understood Commissioner Harris would be coming in with another appropriation request in the area of 15 million dollars for Anchorage

terminal expansion, voicing concern regarding two appropriations if the 5 million dollars contemplated by SB 522 is funded. Senator Orsini replied that he was not concerned about the terminal, but he is worried about getting the runway finished. He added that the full cost of bonding the runway project is 9.7 million dollars. Anchorage needs 5 million to get this summer's work done. If the opposing party does appeal, Anchorage will use the 5 million, if he doesn't appeal, it will use the regular federal funding, but either way, the runway will be built.

Senator Orsini moved that CS for SB 522 pass from committee with a do pass recommendation. No objection having been voiced, CSSB 522 passed from committee, all members signing do pass.

MOTION
CSSB 522

Senator Hohman moved that SB 539 (Act relating to eligible costs for state grants for capital improvement projects) be brought up for discussion, and Mr. Richard Holden appeared to testify concerning the bill.

SB 539

Senator Orsini addressed the section of the bill making uniform the definition of construction project costs for state purposes, advising that he knew of at least one situation where the specific definition for these costs seemed to differ substantially. Mr. Holden replied that he was aware of a specific project where construction costs were in dispute by the legislature (specifically, hospital construction costs). He added that he didn't believe, so far as reimbursement for costs on construction projects is concerned, that the amendment to statute proposed by the bill would cause any problems, adding that as far as grants are concerned, the department has not had anyone say they have not been properly reimbursed.

DEFINITION
OF
CONSTRUCTION
PROJECT
COSTS

Variences existing now are in the area of pre-planning, such as legal fees, title search, etc. Normally, those expenses run 1/2 to 1-1/2% of project costs. Due to the fact that grant contracts are not reimbursing for these functions now, the bill may reduce the amount going into construction by 1/2 to 1-1/2%.

Senator Orsini advised that during last session, the legislature dealt with Dr. Beirne's hospital and revenue sharing for that facility. But, what the dispute centered

on was the definition of costs as related to construction of the hospital facility. He further advised that he thought the definition should be changed, but didn't feel it was being done within this omnibus bill.

Mr. Holden referred to page 4 of the bill, advising that lines 8 through 29 contains a list of costs normally funded under agency grant construction costs, advising that he is not aware of anything which is not covered by the language. He further advised that he felt a portion of the past problem resulted from the fact that when one ventures into revenue sharing, he is getting into an area where an individual is promoting something.

LIST OF
CONSTRUC-
TION
COSTS

Senator Orsini advised that at the time the project was considered, it was decided that the cost of land would not be included as a cost of the project, asking if SB 539 would cover hospital revenue sharing. Mr. Holden replied "yes, I believe so." Senator Orsini stated that if such is the case, then the legislature should be aware that it is changing the definition of what should be included in construction project costs. Chairman Sackett advised that he was aware that such action is contemplated by the bill.

REVENUE
SHARING?

Senator Croft stated that the fiscal note appears to simply codify the existing definition, and one cannot ascertain whether or not it will make any difference in construction costs.

Mr. Holden replied that Senator Croft's understanding concerning the effect of the bill is correct in that the department can see no increase in the operating budget. Most of the items affected would in in the capital budget. Rob Kocsis advised that the bill represents an attempt to provide uniformity where there has been none in the past. It is an attempt to examine what is currently being done and include such practices within the statutes. Senator Orsini suggested that agencies to be affected by the legislation be contacted, requesting that they examine the bill for possible impact, and Rob Kocsis was instructed to conduct such investigations.

FURTHER
RESEARCH

Senator Hohman advised that SB 539 represents the last piece of legislation to accompany the permanent fund.

MOTION
SB 539

He stated that if Mr. Kocsis' research indicates additional language should be added, it will be done, advising that he would like to move the bill out of committee with individual recommendations. No objection having been voiced, SB 539 passed from committee, all members present signing do pass, with the exception of Senator Orsini who signed no recommendation.

There being no further matters to come before the committee at this time, the meeting was adjourned at approximately 10:10 a.m.

ADJOURN

SENATE FINANCE COMMITTEE

May 23, 1978

8:10 a.m.

Vice-Chairman Hohman convened the meeting in the absence of Chairman Sackett at approximately 9:10 a.m. All committee members were present with the exception of Senator Butrovich. Also in attendance were Senators Hackney and Colletta; Patrick L. Sharrock, Director, Alcoholic Beverage Control Board; Dick Block, Director of Insurance; Joe McLean, Lobbyist representing various insurance companies; George Mandell from the Dept. of Health & Social Services; Harold Joe; Fiscal Analyst, Dave Scott; Administrative Assistant to Senator Sackett, Judy Crondahl; and members of the press including Joe LaRocca.

PRESENT

Vice-Chairman Hohman advised that the purpose of the meeting would be review of the Senate's alcoholism package, stating that committee review of SB 540 would be held until last, and review would commence with SB 541 (An act relating to health education in public schools).

ALCOHOLISM
PACKAGE

SB 540

SB 541

Senator Hackney advised that the intent through the bill is to provide educational material for the schools (all schools in the State of Alaska). The course, developed in the Seattle area (Here's Looking at You) is directed toward a K through 12 Grade curriculum, and it has been successfully introduced in Alaska. The entire appropriation under SB 541 would go toward education, the plan being to hire two specialists in each of the three regions: Fairbanks, Anchorage, and Juneau, to introduce this educational material.

Senator Croft inquired concerning the difference between comprehensive and categorical programs as defined in the bill, and Senator Hackney replied that he believed general health education to be comprehensive and a very broad definition which would, perhaps, not necessarily include alcoholism.

Judy Crondahl referred to the fiscal notes furnished with the alcoholism package, advising that the committee has received new notes for Senate Bills 541, 542, and 543, and a combined note for 551 and 552, dated May 12, 1978, adding that notes prior to the new date are outdated.

Senator Croft referred to correspondence to Senator Colletta from the National Alcoholism Council advising that alcoholism programs should be conducted in connection with other health programs, and moved to ammend SB 541 at Line 17, striking the period after education and adding "in coordination with other health education programs."

AMENDMENT
SB 541

Senator Croft moved that SB 541, as amended, pass from committee with a do pass recommendation. No objection to either passage or amendment having been voiced, SB 541, as amended, passed from committee with a do pass recommendation, all members signing do pass with the exception of Senator Tillion who signed no recommendation.

MOTION
SB 541

Vice-Chairman Hohman moved that SB 542 (An Act adding to the powers and duties of the office of alcoholism) be brought up for discussion. Senator Hackney advised that the intent of the bill is to provide methods for indoctrination of local personnel in alcoholism programs. A great number of the people working in alcoholism are not sure what the program is expected to accomplish. Mr. Mandell advised that 276.0 would be appropriated as the training budget. The existing training budget consists of 74.0 which is just not enough to get the training done. The 276.0 would be in addition to the 74.0 presently in the FY 79 budget.

SB 542

TRAINING
FUNDS

The 250.0 appropriation is for hospital detoxification. Mr. Mandell advised that in many instances throughout the state the program requires the services of the hospital. Some people have difficulty getting into a hospital because the hospital has had problems effecting payment from alcoholism patients in the past. A fund would be established within the alcoholism program which would pay the cost of hospital care when no other funds are available.

HOSPITAL
DETOX.

An appropriation of 25.0 is requested for a feasibility study on occupational alcoholism (sometimes called a troubled employee program). The program would train supervisors to be alert for signs of alcoholism in employees.

EMPLOYEE
ALCOHOLISM

Senator Orsini inquired concerning the degree of hardship imposed upon the program should the above mentioned figures be cut in half. Senator Hackney replied that the figures represent the program throughout the state, and he didn't believe them to be excessive and would hate to see them cut.

EFFECT
OF
REDUCED
FUNDING

Senator Croft raised questions concerning the hiring of individuals with advanced degrees in relation to budget cuts in the program, and Senator Hackney responded that the program would not be hiring individuals with substantial education, but it would be training local people to work within the program, and the program will probably have a fairly high degree of turn over.

ALCOHOLISM
PERSONNEL

Senator Croft advised that he did not understand the purpose of the legislation, advising that it appeared to him that if the Office of Alcoholism wanted to do most of the things included within the bills, it could do that now, without further legislation, i.e. modification of buildings for alcoholism purposes. Senator Hackney responded by advising that there is a great shortage of available buildings in rural Alaska. Hooper Bay, for example, needs a building within the community which could be used for alcoholism purposes where the activity will not conflict with school hours, which use of the school facility would do. Mr. Mandell stated that four years ago, grant funding was provided in the village areas. Some villages built community halls, but a number of these facilities are in need of remodeling and recreational equipment.

FACILITIES
IN RURAL
ALASKA

Senator Orsini inquired concerning repayment of construction loans, and Senator Hackney advised that repayment would be through charge for use of the facility, adding that these established recreational facilities are a part of the total program for alcoholism.

Senator Croft moved to pass the bill from committee with individual recommendations, adding that he does not support the bill and intends to amend it on the floor of the Senate. Senator Orsini moved to amend the bill in committee, setting forth the wording contained as (1) on the amendment attached to these minutes (dealing with contracts and grants). Senator Hackney, referring to deletion of the language, advised that the two-year period was proposed simply to lend continuity to the program, adding that the amendment is "kneecapping, but not fatal."

AMENDMENT
SB 542

Senator Orsini next moved to reduce the appropriation to 375.0 (one-half the requested appropriation). Senator Hackney objected to the reduction, advising that it would indeed reduce the program. Senator Orsini advised that he would like to see the new alcoholism programs start out at a lower level and work up. Senator Hackney advised that he would protest vigorously the proposed cut, advising that such funding would be "programming for disaster."

Senator Hohman advised that he agreed with Senator Hackney, stating that if the bill is going to pass, it should be given the best chance of succeeding. Senator Orsini advised that he didn't believe anyone would say alcoholism is not a problem, the problem with the bills is the solution, and he again moved his motion to reduce funding to 1/2 the request. Upon a show of hands his motion failed, Senators Croft and Orsini in support, Senators Meland, and Hohman voting against adoption.

Senator Croft next moved for adoption of the amendments set forth as numbers (2) and (3) on the amendment attached to these minutes, advising that he did not believe it was the intent under Sec. 4 that the program be limited to state employees who are working in alcoholism programs. Upon a show of hands, both of the proposed additions to the amendment were adopted, and Senator Croft renewed his motion to pass the bill from committee with individual recommendation. No objection having been voiced, SB 542, with amendment, passed from committee, all members signing no recommendation, with the exception of Senator Hohman who signed do pass.

AMENDMENT
SB 542

MOTION
SB 542

Vice-Chairman Hohman next moved that SB 363 (Act creating a state program for individualized reading instruction) be brought up for discussion, advising that the purpose of the bill is to allow the Dept. of Education to put together some material for the Right to Read Program presently funded on the federal level. He further advised that the original bill included funding for video taped programs, but that funding was deleted in the committee substitute.

SB 363

RIGHT TO
READ

Senator Hackney advised that the program provides services to those well past school age, and utilizes the services of volunteers on a one-to-one basis.

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Senator Croft stated that while the grant, or contract, portion of the bill requests 200.0, he assumes there will be some administrative costs, but he also believes the program to be desirable, and he, therefore, moved for passage of the bill from committee

Senator Orsini moved to amend the bill, deleting the word "nonprofit" on page 2, lines 13 and 21, and advising that he believed a private organization should be able to provide the same service should it wish to do so. Dave Scott proposed a further amendment changing language stating that the Department "shall" contract for services to "may" contract. Vice-Chairman Hohman moved that the proposed changes be effected through a committee substitute rather than by amendment. No objection having been voiced, the committee substitute was adopted and passed from committee with a do pass recommendation, Senators Hohman, Croft, and Meland signing do pass, Senators Orsini and Tillion signing no recommendation. Senator Croft further moved for adoption of a Letter of Intent and Fiscal Note pertaining to the bill. No objection having been voiced, the Fiscal Note and Letter of Intent to accompany CSSB 363 were adopted.

MOTION
CSSB 363

Vice-Chairman Hohman moved that CSSB 543 (An act relating to alcoholism grants-in-aid) be brought up for discussion, advising that the bill removes present language in the statute regarding the ratio of the grants. It also incorporates the concept of health system agencies under Public Law, in addition to laying out regulations for grants-in-aid and providing (on page 4) language which spells out facilities defined as approved public facilities.

CS
SB 543

Senator Croft referred to the definition included in Section 3 at Page 2, advising that he believed it would exclude such organizations as the National Council on Alcoholism and Anchorage Council on Alcoholism because these organizations do not provide for treatment, they only provide educational material. Senator Hackney stated that it was not the intent to exclude these organizations, advising that the Alaska Council on Alcoholism has developed a large library of available literature in addition to films and T.V. spots.

Senator Croft moved to amend the bill on page 2, line 16, by deleting the words "as well as" and inserting "or" instead. He further moved to strike Section 2 which changes the ratio. Removal of this section would leave the present designation. Senator Croft advised that he did not like the idea of leaving this matter entirely up to the Department.

AMENDMENT
CSSB 543

Mr. Mandell stated that the provision was included to assist small areas in getting the funding they need. Larger areas are able to put up local money on a 60% local to 40% state basis. Out in the rural areas it is difficult to find local money available for such programs. Funding for these areas at the present time is on an "in-kind" basis.

Senator Croft moved that CSSB 543, with proposed amendment, MOTION pass from committee with a do pass recommendation. Senator CSSB 543 Tillion advised he intended to sign no recommendation. No further objection having been voiced, CSSB 543, as amended, passed from committee with individual recommendations, Senators Meland, Tillion, and Orsini signing no recommendation, Senators Hohman and Croft signing do pass.

Vice-Chairman Hohman moved that CSSB 544 (Act relating to standards for alcohol treatment facilities) be brought up for discussion. Mr. Mandell advised that the bill gives the Department a bit more flexibility in dealing with alcoholism facilities. CSSB 544

Senator Orsini asked if the bill had a fiscal note, and Mr. Mandell replied "no, sir, it was felt this could be accomplished with present staff."

Senator Croft stated that he did not understand how the bill would provide more flexibility since it would appear to offer less. Senator Tillion advised that the bill does away with the double standard, and Senator Hackney added that Senator Tillion's statement was correct, sometimes the standards that apply in urban areas do not apply in rural areas. Senator Croft suggested language to the effect that the Dept. take into consideration transportation, economic situation, etc., when addressing facilities, adding that such an approach would appear to make more sense than attempting to establish regulations. Senator Hackney stated that he believed the language in the bill now allows the flexibility needed. Mr. Mandell added that the Department has adopted regulations for standards, but local units felt these standards are needed to establish credibility for client care. Senator Croft once again stated that it appeared to him that the Department already has sufficient standards. Senator Hackney responded that the bill would put into law what is presently regulation. A portion of the problem lies with other agencies such as the Fire Marshal and electrical standards. It is difficult