

HOUSE / SENATE FINANCE COMMITTEE MINUTES - 1967-1982 2733

SENATE FINANCE COMMITTEE
Sunday, June 11, 1978
10:21 a.m.

Chairman Sackett called the meeting to order at 10:21 a.m. All members were present with the exception of Senator Croft. Also present were: Judy Crondahl, AA to Senator Sackett, fiscal analysts Scott, Schroeder, Grogan, Barker and Farnan; Jay Hogan, Director of Legislative Finance; Sally Hanson, AA to Senator Kerttula; Henry S. Pratt, Alpetco; Senator Willis; Charles Belke, Capital Planning Commission; Pat Conheady, Special Ass't., Dept. of Natural Resources; Phil Holdsworth, S.E. Conference; John Devens, Director, U of A, Valdez Extension; Mark Lewis, City Manager, City of Valdez; and Elaine Mitchell and Joe LaRocca of the press.

PRESENT

Chairman Sackett moved that SB 147 (Efficient administration of fish and game) be brought up for discussion. He informed the committee that a CS had been prepared on the bill. Chairman Sackett introduced Keith Specking to speak on the bill.

SB 147

Mr. Specking informed the committee of the changes proposed by the CS. On page 3, line 29 and again on page 5, line 5, there is some controversial language that Mr. Specking said he would rather leave there than fight at this point. However, Senator Butrovich made a motion to delete those two portions of the bill. There was no objection. Very generally the other language is in the law or the authority to do what is being asked for there. Mr. Specking stated that he felt the committee wouldn't find anything controversial in the definitions.

Senator Butrovich made a motion to move SB 147 out of committee with a do pass recommendation. There being no objection, it was so ordered. Senators Hohman, Meland, Tillion, Orsini and Butrovich voted do pass. Senator Sackett voted no recommendation.

MOTION

Senator Hohman made a motion to bring CSHB 920 (FY appropriation adjustments for Dept. of Labor, OSHA) up for discussion. Mr. Jay Hogan gave testimony on the bill stating that it was from the Fisherman's Fund and the Second Injury Fund to the Department of Labor.

CSHB 920

Senator Hohman made a motion to move SCS CSHB 920 from committee with a do pass recommendation. Without objection it was so ordered. Senators Sackett, Hohman, Meland, Tillion and Butrovich voted do pass. Senator Orsini voted no recommendation.

MOTION

Chairman Sackett stated that the next order of business would be the Capital Move Issue and that they would be discussing CSHB 857 (Fin) (Act relating to planning for and development of the new Alaska capital, including incorporation of a new capital city) and HB 965 (G. O. bonds in the amount of \$966,000,000 for the purpose of paying capital construction costs of the new Alaska capital). Mr. Chuck Belke was introduced to give a brief review of the bills.

CSHB 857
(Fin)

HB 965

Mr. Belke informed the Committee that HB 857 provided for the Capital Development Corporation which would be the mechanism for all development, zoning, etc. for the new capital city. The CDC would be comprised of 11 members who would serve at the pleasure of the governor. HB 857 would take effect 30 days after the bond issue passed. There has been 100 squares miles of land set aside for the capital city, but, assuming the bond issue passed, there will be only 16,000 acres developed in the beginning. There has been a corporation hired to tell the CDC how to build the new city from the ground up.

There were questions concerning how some of the existing state laws might affect this bill. Mr. Belke stated that he felt the existing laws would not adversely affect the bill. However, he did feel that the state government would have to get with the program and make recommendations regarding state laws. There are some state laws that the CDC will be exempted from: the CDC will have the power to hire as many people at almost any price it wants to pay. According to page 16, line 13, the CDC does not have to abide by the Alaska Land Act. The CDC does have the power for planning, zoning and covenants for developing public lands. The CDC will receive \$153 million in loans to pursue its work in the 16-year time span. At that time the loan will be repaid to the State.

There were questions raised as to whether or not the bond issue passed in the November election if the plans for the new capital city could still be used. Mr. Belke said as far as he knew the plans could still be used. However, the key ingredient to any city is jobs and that would certainly have to be taken into consideration.

As far as the bonding bill was concerned, Mr. Belke stated they have suggested bonding the items that are normally bonded - with the exception of schools which will be 100% bonded rather than the usual 50%.

Mr. Belke stated that the concept of the move was to take the central state employees out Anchorage and Fairbanks as well as Juneau. By 1994 they expect to have 8600 central state employees and an equal number of secondary employees in the new capital city.

Mr. Belke said the Planning Commission is using the 8% inflation figure. For every day the project is delayed it costs the state \$400,000.

Senator Hohman made a motion to move HB 965 from committee with a do pass recommendation. There was an objection. The motion failed. Senator Hohman moved that HB 965 be passed from committee with individual recommendations. It was so ordered. Senators Sackett and Hohman voted do pass. Senators Meland, Tillion, Orsini and Butrovich voted no recommendation. MOTION

The meeting adjourned at 11:30 a.m.

SENATE FINANCE COMMITTEE

June 12, 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 Senators Hohman and Croft who arrived shortly after the meeting began. Also in attendance for various portions of the meeting were Senator Ferguson; Representatives Osterback, Gruening, and Chatterton; Lobbyists Henry Pratt and Phil Holdsworth; Patrick Conheady from the Dept. of Natural Resources; Greg Erickson from Legislative Affairs; George Shaginaw and Robert Walp from the Office of Telecommunications; Bob Hansford for RCA; Patrick Hunt, Director of Personnel; Fiscal Analysts Milt Barker, Bob Grogan, and Alison Farnan; Cherie Shelley, General Counsel for APEA; Judy Crondahl, Administrative Assistant to Senator Sackett; and members of the press including Mike Harmon, Elaine Mitchell, and Joe LaRocca.

PRESENT

Senator Tillion moved that CSHB 763am (Commercial fishing and agriculture) be brought up for discussion, advising that the bill would set up a branch bank associated with the Spokane Bank of Cooperatives, making funds available to agriculture, and most recently expanded to cover the fishing industry. The fiscal note is for 50.0 to set up the office. Funding represents a one-time only set up cost for the bank.

CSHB 763am

[Senator Hohman entered the meeting at this time, and Chairman Sackett departed, leaving the Chairmanship for the remainder of the meeting to Senator Hohman.]

Senator Tillion moved that CSHB 763am pass from committee with individual recommendations, advising that the cooperative bank represents a standard method of leveraging funding for agriculture, and the bank would issue 2 million dollars in stock over a period of 20 years.

Representative Osterback appeared before the committee in support of the legislation, advising that it represents a project which has been in the making for the past year, but the cooperative bank has been in operation in the states for approximately 50 years. If effected, the bill should ease demands on the state general fund for necessary fishery loans. He added that the interest rate on loans under the program is currently 7-3/4%, and the loan program is not a "give away" program in that an individual must come up with 35 to 40% "front end money."

[Senator Croft arrived at this time, 8:20 a.m.]

Senator Tillion moved for passage of CSHB 763 am with a do pass recommendation. Senator Orsini advised that he wished to sign no recommendation, but upon a show of hands, CSHB 763 am passed from committee with a do pass recommendation, all members present signing do pass, with the exception of Senator Orsini who signed no recommendation.

MOTION
CSHB 763am

Senator Hohman moved that HCR 112 (Approving the sale of royalty oil to Alaska Petrochemical Company) be brought up for discussion. Senator Orsini questioned the difference between the House and Senate version of the Resolution, and Mr. Pratt gave a brief summary of both pieces of legislation. Representative Chatterton referred to five house amendments, advising that he did not personally feel that these amendments achieved what was intended.

HCR 112

Senator Croft moved that HCR 112 pass from committee with individual recommendations. No objection having been voiced, HCR 112 passed with individual recommendations, Senators Hohman, Butrovich, Tillion, and Meland signing do pass, Senators Croft and Orsini signing no recommendation.

MOTION
HCR 112

Senator Hohman next moved that CSHCR 113 (Approving the sale of royalty oil to Tesoro-Alaskan Petroleum) be brought up for discussion. Senator Tillion moved that it pass from committee with a do pass recommendation. Senator Croft inquired concerning his understanding that the Resolution merely affirms the extension to December 31, 1978, and Mr. Chatterton replied that the Resolution would allow extension of the contract for a period of 5 years beyond the December date. Without objection, CSHCR 113 passed from committee with a do pass recommendation, all members present signing do pass.

CSHCR 113
MOTION
CSHCR 113

Senator Hohman moved that HCR 120 (Approving amendments to the royalty oil sales agreement between the State of Alaska and Golden Valley Electric Assoc.) be brought up for discussion. Representative Chatterton advised that the Resolution would permit sale of 5,000 barrels of oil per day to Golden Valley Electric. Senator Hohman moved that HCR 120 pass from committee with a do pass recommendation. No objection having been voiced, HCR 120 passed from committee with a do pass recommendation, all members present signing do pass.

HCR 120
MOTION
HCR 120

Senator Hohman moved that HCR 130 (Approving the sale of royalty oil to Earth Resources Company of Alaska) be brought up for discussion. Senator Butrovich moved that HCR 130

HCR 130

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pass from committee with a do pass recommendation. No objection having been voiced, HCR 130 passed from committee with a do pass recommendation, all members present signing do pass.

MOTION
HCR 130

Senator Orsini moved that HB 516 (An Act establishing the Office of appropriate technology) be brought up for discussion, advising that the bill would allow Alaska to partake in funding provided through the Office of Appropriate Technology at the federal level, giving financial support to small science and engineering studies. It would create a one-person office within the Department of Policy Development and Planning which would review research projects and attempt to secure federal funding. Senator Orsini advised that the Senator Committee Substitute for Sponsor Substitute for HB 516 contains a sunset provision allowing for a 5-year program which must be reviewed and approved by the legislature prior to continuation. The fiscal note contains approximately 50.0 for operation of the office, with a matching grant for demonstration projects.

HB 516

Representative Gruening added that establishment of the office would attract funds through grants from the national Office of Technology, and the bill is aimed more toward individuals rather than large research agencies.

Senator Orsini moved that SCS for SSHB 516 pass from committee with individual recommendations. No objection having been raised, SCS for SSHB 516 passed with individual recommendations, Senators Orsini, Meland, and Croft signing do pass, Senators Tillion, Butrovich, and Hohman signing no recommendation.

MOTION
SCS
SSHB 516

Senator Hohman moved that HB 908 (Act making special appropriations for television and telecommunication services) be brought up for discussion, advising that the committee had prepared a committee substitute. Mr. George Shaginaw appeared to testify concerning the bill, advising that it would provide television service to 176 Alaska communities through common carriers. Mr. Shaginaw advised that the Department of Telecommunications is concerned by use of the wording "common carrier," feeling that it would limit the ownership of earth stations by individual radio or T.V. stations similar to Roy Pascal's operation in the Juneau area. The Department recommends that a station be able to own its own earth station facility, and would object to the committee substitute because of this restriction.

HB 908

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Senator Tillion advised that he had no objection to local stations owning their own earth stations, just so Telecommunications does not operate them. Mr. Shaginaw responded that the department was not advocating state ownership, adding that the bill subsidizes the T.V. stations whether privately owned or not. The state would be subsidizing to a much greater degree if services are provided by a common carrier. For the above stated reasons, the department prefers the original bill to the committee substitute.

MR.
SHAGINAW

Mr. Robert Walp, Director of the Office of Telecommunications, further advised that the department is not advocating operation of the system itself, but it would ask that it be given the freedom of choosing the facilities which will supply the service. This type of selection in the past has resulted in substantial savings. Competition simply can't be beat, and the original bill would give the department the freedom it desires.

MR. WALP

Senator Ferguson advised that CS HB 908, permitting T.V. service to 176 communities, would provide a different funding mechanism than that suggested by the House bill. The CS would call for 6 million dollars in general fund for a period of 6 years, and provide four channels of television viewing. The current problem with T.V. service is brought about by the fact that RCA blames the state for its problems, while the state blames RCA. Senator Ferguson stated that he believed that if the state were to allow private facilities to provide this service through contract with the state, it would get better service. He offered a letter of intent to CSHB 908, entailing what the bill should accomplish.

SENATOR
FERGUSON

Both Mr. Shaginaw and Mr. Walp urged adoption of the original bill rather than the committee substitute, advising that the department is opposed to the transfer of earth stations to RCA, and opposed to the committee substitute in total.

Senator Butrovich advised that he preferred the committee substitute over the original bill, and Senator Tillion suggested that the committee hear from RCA concerning its position regarding the bill. He further stated that he objected to setting up a quasi-state operation which competes with private enterprise.

Both Senator Croft and Senator Orsini proposed amendments to the CS, but neither amendment was adopted.

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Mr. Robert Hansford next appeared before the committee to testify concerning the bill on behalf of RCA. He advised that RCA had earlier testified before the House, stating that it has no objection to stations owning their own earth stations. He suggested, however, that language be added on page 1, line 14 to the effect that earth stations can be secured through contract with other enterprises licensed by the FCC, adding that anyone owning an earth station must be licensed by the FCC. Senator Tillion suggested that the proposed language and CS be delivered to Legislative Affairs for proper drafting, and HB 908 was temporarily set aside pending redrafting.

Senator Croft moved that CSHB 560 (Act amending general requirements of state personnel rules to define temporary employment requirements) be brought up for discussion. Cherie Shelley appeared to testify concerning the bill, advising that basically the bill deals with the temporary hiring of employees, adding that a current tabulation evidences that the state now employs over 1,500 such employees. The state is using temporary status to hire non-residents over residents, and to hire friends of those already employed. She stated that the last section of the bill (e) places a limitation on the amount of time a position can remain temporary. Currently, some temporary employees have been in positions as long as 32 months.

CSHB 560

CHERIE
SHELLEY

Senator Tillion advised that should the bill pass, all the temporary employees would be placed on the state register. He also stated that a provision limiting the length of time a position could remain temporary would necessitate automatic classification of some of these positions as permanent, thus short circuiting the budget process.

Senator Hohman suggested that someone from the Division of Personnel be contracted to testify concerning the bill, advising that the committee would recess pending arrival of the division's representative.

RECESS 9:40 a.m.

RECONVENE 9:40 a.m.

Mr. Patrick L. Hunt, Director of Personnel, appeared before the committee, advising that one of the division's major concerns with the bill is the 10% limitation, not so much the level it sets, but the impact it might have upon emergency work that needs to be done by the state, such as summer work through the Dept. of Fish and Game and fire control.

PATRICK
HUNT

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Another division concern regarding the bill is the effect it would have upon examining and certification activities. He added that the division has been criticized for time delays in examining and getting names on the register. These activities would be greatly increased by having to process temporary as well as permanent employees.

Senator Hohman questioned Mr. Hunt regarding his concern that the 10% limitation would effect emergency hire, referring to personnel regulations dealing specifically with such emergencies, and advising that he did not believe these emergency situations would be affected by the subject bill. Mr. Hunt replied that under emergency situations, the division can hire without regard to qualifications at the site where the temporary emergency exists. Temporary hire is not hire in the field, however, and individuals are required to meet certain requirements.

Senator Orsini asked if the six-month limitation on temporary positions would pose any problem for the division, and Mr. Hunt replied that he believed there were occasions when temporary positions need to go beyond a six-month period. Responding to questions concerning temporary positions which exceed a period of nine months, Mr. Hunt advised that CETA positions are a good example of such a situations. Mr. Hunt concluded by stating that the division is reluctant to create more new state positions, so it relies on temporary positions in order to meet public need. He added that perhaps an answer to the problem would be establishment of seasonal positions in departments needing such staffing.

Senator Croft moved that the committee pass CSHB 560 out with individual recommendations. Senator Orsini voiced objection, stating that he did not believe the bill to be a priority issue in either the House or Senate. Upon a show of hands, CSHB 560 passed from committee with individual recommendations, Senators Hohman, Butrovich, and Meland signing no recommendation, Senator Croft signing do pass, and Senator Orsini signing do not pass.

MOTION
CSHB 560

Senate Committee Substitute for CSHB 908 was brought back before the committee, and Senator Meland moved that it pass from committee with the amended language proposed by RCA and the letter of intent distributed by Senator Ferguson. No objection being voiced, SCS CSHB 908

CSHB 908

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passed from committee with a do pass recommendation, all members present signing do pass, with the exception of Senator Orsini who signed no recommendation. Senator Croft asked for adoption of Senator Ferguson's letter of intent, and upon a show of hands, the letter of intent was adopted, Senator Orsini offering the only formal objection.

LETTER OF
INTENT

There be no further matters to come before the committee at this time, the meeting was adjourned at approximately 10:05 a.m.

ADJOURN

SENATE FINANCE COMMITTEE

June 13, 1978

8:05 a.m.

Chairman Sackett called the meeting to order at 8:05 a.m. All members were present with the exception of Senator Croft who arrived at 8:20 a.m. Also present were: Judy Crondahl, AA to Senator Sackett; Senator Ferguson, Joe LaRocca and Elaine Mitchell of the press; Howard L. DeVore, Dir., AK State Volunteer Services; Art Snowden, Dir., and Rick Barrier, Dep. Dir., AK Court System, Representative Chat Chatterton; Virginia del Piaz, Alaska Conservation Society; William Spear, Dep. Comm, Dept. of Labor; Janet Spear, Dept. of Labor; W. R. Hudson, Dir. Marine Highway, Vern Metcalfe, Legis. Liaison, Don Harris, Comm, Dick Holden, Dep. Comm., all from DOT/PF; Jim Rolle, Ex. Dir., AK Munileague; and Pete Froehlich, Attorney General's Office.

PRESENT

Chairman Sackett indicated to the committee that SB 454 (Act relating to volunteer services in the state government) would be the first bill that would be taken up. Chairman Sackett introduced Howard De Vore, Director for the Alaska State Volunteer Services to speak on the bill.

SB 454

Mr. De Vore stated that this bill is to authorize agencies to utilize volunteers. It would protect the volunteer should he be hurt while working on the job. In answer to a question by Senator Sackett regarding the fiscal impact, Mr. De Vore stated that the cost of the bill is zero.

Senator Butrovich wanted to know if the bill would be of any service if AS 39.05.220 were to be deleted. Mr. De Vore stated that the bill would still help even without that section.

Chairman Sackett thanked Mr. De Vore for his testimony.

SCR 113 (Two-factor financing of the trans-Alaska oil pipeline) was brought up for discussion. Senator Tillion stated that if this committee were to put the Resources version of the bill out, there would be a committee comprised of 2/3 legislative members so there wouldn't be anything go that the Legislature didn't know about. He stated that it would put a group together to actually gather information on whether there would be some system of ownership. He stated the cost would be approximately \$700,000 for the whole staff. He stated that he felt the results of this Resolution could bring some substantial dividends to the State. Senator Tillion said he would suggest sending the Resolution to the House and wouldn't worry about the funding. He said "maybe they can come up with some federal funds. I'm proposing a zero fiscal note.

SCR 113

Senator Butrovich stated "It's an SCR. It's an idea, and that's why I'm supporting it. All this does is let us take a look at it. It doesn't commit us to it."

Senator Tillion made a motion to move SCR 113 from committee with individual recommendations. It was so ordered. Senators Hohman, Meland and Tillion voted do pass. Senator Butrovich voted do pass with a zero fiscal note. Senators Sackett and Orsini voted no recommendation.

MOTION

AT this time CSHB 909 (Act making special appropriations to the Alaska Court System; the Office of the Governor, Public Defender's Office; and the Dept. of Hess and Law) was brought up for discussion. Art Snowden, Director and Rick Barrier, Deputy Director for the Alaska Court System gave testimony. Mr. Snowden gave figures to the committee explaining why the Department was requesting more funding. Chairman Sackett brought to the attention of the committee a letter from Governor Hammond urging reinstatement of the appropriation to the Dept. of HESS. Mr. Snowden discussed the 12 modular units in rural Alaska.

CSHB 909

Senator Hohman moved that the committee adopt amendment number 1 (Add a new Section 6. The sum of \$21,600.00 is appropriated to the Alaska Court System to provide for increased rental on village court buildings.) There was no objection. Senator Hohman requested that the bill be assigned to him as a sub-committee. It was so ordered.

MOTION

At 8:30 Chairman Sackett left the meeting. Senator Hohman took over the position as Vice Chairman.

Mr. Dan Hickey, prosecutor for the State of Alaska gave additional testimony on CSHB 909. He stated that there has been an extension of police service in three areas of Anchorage. There have been 51 additional officers added to the Anchorage area, and in July there will be 24 more officers added. Mr. Hickey suggested that the House Finance CS is a good deal more acceptable to them than the Judiciary CS.

CSSSHB 550 (unemployment insurance) was brought up for discussion. Senator Ferguson stated to the committee that the Labor and Management Committee had passed out a CS for HB 550 yesterday. He gave the changes that resulted from that CS.

CSSSHB 550

Bill Spear and Janet Spear from the Dept. of Labor explained to the committee the various versions of the bill and what each proposed. Mrs. Spear stated that \$88.00 is the average benefit paid per week at the current time. Under the Senate version of the bill the maximum would be \$117.00 per week, and the House version would pay a maximum of \$127.00 per week. There is a controversial section in the Governor's original bill concerning

interstate payments. The interstate payment will be based on the annual wage from the area where the claimant is claiming.

In answer to a question by Senator Butrovich regarding the conformity of the bill with the federal act, Mr. Spear stated that he felt the bill was in conformity.

Mr. Bob Green, Association of Alaska School Boards gave testimony regarding payment for any instructional, research or principal administrative capacity for an educational institution. Mr. Green stated that the House Finance included this in their version of the bill. It was not included in the Labor & Management version. Mr. Green requested that that provision be retained in the Labor & Management version of the bill.

Chairman Sackett moved that CSSSHB 550 as amended be passed from committee with individual recommendations. There was no objection. Senators Hohman, Sackett and Orsini voted do pass. Senators Croft, Meland and Butrovich voted no recommendation.

MOTION

CS SSB 830 (Fin) (Establishing the Alaska Oil & Gas Conservation Commission) was brought up for discussion. Representative Chat Chatterton stated to the committee that the bill provides for a Commission to serve for the purpose of administering Title 31, Chapter 5, ways and rights of oil and gas management. Since 1960 Title 31 has been administered by the Department of Natural Resources. Senator Orsini asked "Why change when we've had no trouble?" He stated that he felt there would be problems if gas and oil were "parcelled out". Mr. Chatterton said if it's not changed it might encourage increased prices in the field and that proprietary interests would run concurrent with each other. Mr. Chatterton stated that this bill would make a commission before which the State would have to appear with no more and no less rights than any other committee.

CSSSHB 830
(Fin)

Senator Croft stated that he didn't see the purpose of the bill. Mr. Chatterton said the State is indeed in the oil and gas business and it must up grade with people with expertise in the field.

Senator Croft made a motion to pass the bill from committee with a do not pass recommendation. Senator Orsini objected. The motion failed. Senator Croft moved to pass CSSSHB 830 (Fin) from committee with individual recommendations. There was no objection. Senator Orsini voted do pass. Senators Hohman, Croft, Butrovich, Tillion and Meland voted no recommendation.

MOTION

CSHB 838 am (An act relating to the North Slope Road) was brought up for discussion. Mr. Phil Holdsworth, S.E. Conference, began testimony on the bill. He stated he realized there had been some concern regarding Sec. 4 in the original bill because some of the vehicles could tear up the country side. This section would preclude existing useage. Winter roads are being used to Bettles and other towns in that area at the present time and any planned access westerly would be cut off if the language is left in that manner. The SCS does tend to clarify that. Mr. Holdsworth stated that about 99% of the land off of that right of way is under BLM. Jurisdiction of the State is only along the right of way.

CSHB 838

Senator Orsini raisde a question as to whether or not state law also meant state regulations. Mr. Holdsworth suggested changing the language to "under federal and state laws and state regulations." At this point Mr. Pete Froehlich from the Attorney General's office took the stand and made the following statement: "I would say that provided under State law includes state regulations. Regulations are adopted under law."

Mr. Ben Benedictson, Alaska Trucking System said they are in favor of the bill. The trucking industry derives some \$30 million worth of business. If the road is closed from October to May about half of their income is deleted. This bill is necessary, he said. That road should be open year around as any other road in the state.

Virginia del Piaz, Alaska Conservation Society, stated that the AK Conservation Society is very much opposed to the bill. There has been no comprehensive land use made, they are not able to justify what they are going to do with road, there is no set plan to control off-road vehicles, no agency has sufficient staff to enforce keeping people off the road, high cost of maintenance, no ability to control hunting, and sufficient opposition by natives to open road were the reasons she stated for her opposition.

Mr. Don Harris, Commissioner, Dept. of Transportation said he considered this bill to be an unnecessary piece of legislation as the Haul Road is still under contract with Alyeska. Mr. Harris said the Governor has said the road will be maintained on a year-around basis. Mr. Harris said if the bill is moved forward, he would suggest a number of amendments.

Senator Butrovich made a motion to pass the bill out with individual recommendations. Senator Tillion objected. Senator Tillion said he would like to amend the motion to include the fourth amendment proposed by DOT. The motion to adopt the amendment passed. However, the motion to move the bill from committee failed. It was decided to hold the bill for another committee session.

MOTION

The meeting adjourned at 10:00 a.m.

SF-78 #59 (1433-end)

SF-78 #60 (1-853)

SENATE FINANCE COMMITTEE

June 14, 1978

8:11 a.m.

Chairman Sackett called the meeting to order at 8:11 a.m. All members were present with the exception of Senator Croft who arrived at 8:20 a.m. Also present were: Judy Crondahl, AA to Senator Sackett; fiscal analysts Scott, Grogan and Schroeder, Joe LaRocca and Elaine Mitchell of the press, Representative Thelma Buchholdt; Earl Finkler, Planner, and Othniel Oomittuk, EPO, North Slope Borough, Barrow, Alaska.

PRESENT

Chairman Sackett informed the committee that CSHB 373 (creating net income tax deduction for child adoption expenses) would be the first order of business for the day. Senator Butrovich stated that there are 750 children adopted each year in this state.

CSHB 373

Senator Butrovich made a motion to move CSHB 373 from committee with individual recommendations. It was so ordered. CSHB passed as follows: Senators Sackett, Hohman, Meland and Butrovich voted do pass. Senator Tillion voted do not pass.

MOTION

CSSSHB 125 (establishing the Alaska education administration internship program) was brought up for discussion. Mr. Scott said the original bill, before it was amended in the House, was intended to provide scholarships for natives. Various native corporations in the state were willing to provide at least half of the funds. He said the fiscal note could possibly be reduced by \$115.0 and having 110.0 come from general funds.

CSSSHB 125

Senator Tillion made a motion to pass CSSSHB 125 from committee with individual recommendations providing the native corporations would fund 115.0 with 110.0 coming from general funds. It was so ordered. Senators Sackett, Hohman, Meland and Butrovich voted do pass. Senator Tillion voted no recommendation. Senator Orsini voted no recommendation printable.

MOTION

CSHB 838 am ((North Slope Haul Road) was brought up for discussion. Earl Finkler and Othniel Oomittuk from the North Slope Borough, Barrow, were in the meeting to give testimony. Mr. Finkler stated that the people from the North Slope Borough were strongly opposed to opening the North Slope Haul Road to the public. The Borough is currently spending \$1 million annually for maintenance of the Haul Road, and has spent \$7 million capital for the road. Mr. Finkler stated they would rather limit access to tour busses. North Slope Haul Road has been and still is an energy development road. There is no firm financial commitment from anyone to provide maintenance on the road.

CSHB 838
am

At the present time the road is for an industrial use, Mr. Finkler said. When the industrial phase winds down, then the road could be used as an access road to a park.

Mr. Oomittuk read memos from two persons who had recently taken a trip up the Haul Road. Both parties were strongly opposed to opening the road to the public.

Chairman Sackett was brought up to date on the action of the committee on their work of June 13, as he had been out of the meeting during that portion of the discussion. He was informed that amendment number 4 had been adopted. However, at this point, Senator Croft objected stating that this is a not a regular road and people should treat it as such. Senator Tillion felt the State should be liable only for gross negligence. There was a motion by Croft and Tillion to delete the second sentence in amendment number 4 and add the following sentence: This does not relieve the State of liability for gross negligence or willful misconduct. Without objection amendment number 4 was adopted.

Senator Tillion made a motion to adopt amendment number 2. MOTION
Senators Meland, Orsini and Butrovich objected. The motion failed.

Senator Tillion made a motion to adopt amendment number 1. MOTION
Senators Meland, Orsini and Butrovich objected. The motion failed.

Senator Butrovich made a motion to move the bill from committee. MOTION
There were not sufficient votes to move the bill from committee.

Representative Buchholdt was introduced to testify on CSHB 271 am (An Act relating to the motor vehicle license tax). She gave the committee a brief overview of the bill. CSHB 271
am

Senator Croft made a motion to pass the bill from committee with a do pass recommendation. There being no objection MOTION
it was so ordered. Senators Sackett, Croft, Meland, Tillion and Butrovich voted do pass. Senator Orsini voted no recommendation.

The meeting adjourned at 8:55 a.m. ADJOURN

SENATE FINANCE COMMITTEE

June 16, 1978

8:17 a.m.

Chairman Sackett called the meeting to order at 8:17 a.m. All members were present. Also present were: fiscal analysts Grogan, Farnan, Schroeder and Scott; Jay Hogan, Director of Legislative Finance; Elaine Mitchell and Joe LaRocca of the press, Kay Brown, AA to Senator Rader; Representative Lisa Rudd; Ken Cates, Research Mgr. Administration; Rick Barrier, Dupty Adm. Director, Alaska Court System; Ron Lind, Director of Budget & Management and Alison Elgee, budget analyst from the Governor's Office; Dick Holden, Dep. Comm. DOT/PF; Rupe Andrews, Director, Sport Fish, Dept. of Fish & Game; Jeff Morrison, Dir. F & G Adm.; Phil Holdsworth, S. E. Conference; Dan Hickey, Chief Prosecutor, Dept. of Law; Mike Barrow and Larry Golden, citizens.

PRESENT

Chairman Sackett indicated to the committee that he would like to combine a number of supplemental appropriations into one bill. Those bills included: HB 629 (An act making a supplemental appropriation to the Dept. of Transportation and Public Facilities, vessel operations); CSHB 683 (Act making a special appropriation to Dept. of Fish and Game, Fish and Wildlife Books); CSHB 721 (supplemental appropriation to pay miscellaneous claims against the state); HB 929 (Act making a supplemental appropriation to the Dept. of HESS, Violent Crimes Compensation Board); and CSHB 969 (Act making supplemental appropriations for the operating and capital expenses of the state government). All of the above bills would be included in a SCS CSHB 969 with a new title. Testimony was given on each bill prior to a motion for passage.

HB 629

CSHB 683

CSHB 721

HB 929

CSHB 969

HB 629 (An Act making a supplemental appropriation to the Department of Transportation and Public Facilities, vessel operations) was discussed by Ron Lind, Director of Budget and Management. Mr. Lind advised the committee that the total appropriation of \$409.0 would be broken down as follows: Southeast Vessel Operations \$347.4 and Southwest Vessel Operations 61.6. The above costs were associated with a contract that had been signed after the 1977 session and therefore had not been funded. Mr. Lind advised that this was strictly a 1978 supplemental.

HB 629

CSHB 969 (Act making supplemental appropriations for the operating and capital expenses of the state government) was also discussed by Mr. Lind. He reminded the committee that any federal receipts had to have legislative approval before they could be submitted for payment. Budget & Audit will continue to approve the expenditure of additional federal funds before the Governor places the grants into effect. This bill contains a number of items where the funds are federal receipts.

CSHB 969

Chairman Sackett brought Budget Amendment #117 to the attention of the committee. Mr. Lind advised that this amendment was for the Bering Sea Surf Clam Survey and the appropriation was \$230.0. Mr. Lind stated that the amendment would be funded as follows: \$100,000 in federal funds, \$60,000 Interagency receipts and \$70,000 in program receipts. Without objection BA #117 was added to the bill.

BA #117

CSHB 683 (Act making a special appropriation to the Dept. of Fish and Game, Fish and Wildlife books) was brought up for discussion. Rupe Andrews, Director, Sport Fish, Dept. of Fish and Game gave testimony on the bill. The Department is requesting a loan of 317.9 for the purpose of publishing 1,000 copies each of three volumes, one volume on wildlife and two volumes on fish. Mr. Andrews reported that the Department has had numerous requests for such books and that the funds should be repaid at an early date.

CSHB 683

HB 929 (Act making a supplemental appropriation to the Dept. of HESS, Violent Crimes Compensation Board) was brought up for discussion. Mr. Lind advised that the Violent Crimes Compensation Board would not make awards that had been processed and approved until they have the funding. \$250,000 had been included in their budget and they are requesting an additional \$75,000 in this appropriation.

HB 929

CSHB 721 (Supplemental appropriation to pay miscellaneous claims against the state) was brought up for discussion. Mr. Lind reminded the committee of a statute that is on the books that says if you receive a bill that is over two years old, it can't be paid with current monies. There have been occasions when payment has been made on a bill and the warrant hasn't been cashed. In both of the above cases, there has to be a special appropriation for the funds. That is the purpose of this bill, he said.

CSHB 721

Senator Croft moved that \$13,000 to pay to the Anchorage Neighborhood Health Center for Medicaid payments be added to this bill. Senator Hohman asked for unanimous consent. There being no objection it was so ordered.

CSHB 969 (Supplemental appropriation for operating and capital expenses of state government) was brought up for discussion. This is the bill that would include House Bills numbered 629, 683, 721 and 929.

CSHB 969

Senator Hohman moved that SCS for CSHB 969 be passed from committee with a do pass recommendation. There being no objection, it was so ordered. SCS CSHB 969 passed with Senators Sackett, Hohman, Croft, Meland, Butrovich and Tillion voting do pass.

MOTION

HB 933 am (compensation for state employees not covered by collective bargaining agreement) was brought up for discussion. Judy Crondahl explained to the committee the individuals who would be covered by the SCS bill which the Finance Committee had prepared: Alaska Public Utilities Commission, Dept. of Transportation, Commercial Fisheries, pipeline workers, University of Alaska, Judicial and Legislature. (Some of these employees had been left out in the HB 933 am. That explains the reason for the SCS).

HB 933 am

Senator Hohman moved that the Finance Committee accept SCS HB 933 am and pass it from committee with a do pass recommendation. There being no objection, it was so ordered. SCS HB 933 am was signed do pass by Senators Sackett, Hohman, Croft, Meland and Tillion.

MOTION

CSHB 909 am (Special appropriations to Alaska Court System; the Office of the Governor, public defender's office; and the Departments of Health & Social Services, and Law) was brought up for discussion. Mr. Dan Hickey, chief prosecutor for the State of Alaska, once again gave a very brief testimony on the bill.

CSHB 909
am

Senator Hohman made a motion to include an amendment to the bill to include the sum of \$21,600 to the Alaska Court System to provide for increased rental on village court buildings, and to pass the bill from committee with a do pass recommendation. Without objection, it was so ordered. Senators Sackett, Hohman, Croft, Meland, Tillion and Butrovich voted do pass.

MOTION

HB 253 (Special appropriation to fisheries enhancement revolving loan fund in Department of Commerce & Economic Development) was brought up for discussion. Chairman Sackett informed the committee that the original purpose for the bill was no longer needed and as a result the original need was dropped and new areas were added in the SCS. Chairman Sackett indicated three new areas to be added to the SCS. Senator Hohman brought up Bristol Bay. He said they needed 600.0 to retire indebtedness for past school construction. Senator Croft asked that language be included in the bill to indicate that that was the purpose of the appropriation to Bristol Bay.

HB 253

Senator Hohman made a motion to pass SCS HB 253 from committee with a do pass recommendation. Senators Sackett, Hohman, Croft, Meland and Tillion voted do pass. Senators Orsini and Butrovich voted no recommendation.

MOTION

Senator Butrovich moved and asked unanimous consent that CSHB 926 (An Act making a special appropriation to the Alaska Film Commission for costs of its operation for one year) be brought up for discussion. He introduced Mike Barrow and Larry Golden to comment on the bill.

CSHB 926

Mr. Barrow told the committee that the purpose of this bill was to set up a Commission of Film which would encourage film makers both from within the state and outside the state to make films on the State of Alaska.

Mr. Golden who is a film maker, stated that the bill would encourage film makers from all over the United States to come to Alaska to make films. Their being here would also encourage spending while the companies are here making their films. Hopefully when the films are aired it would encourage tourists to come here to visit. Mr. Golden felt that we need to let outsiders know about the people who live in Alaska, the type of lifestyle here, etc.

Senator Croft made the comment that although film making may be good, that he was against forming another commission.

Senator Butrovich made a motion to pass the bill from committee with individual recommendations. Senator Hohman objected for the purpose of asking if this bill appropriated funds to a non-existent commission. Mr. Golden explained that HB 925 set up the commission and HB 926 made the appropriation. HB 925 had just passed Commerce and was in Rules. Senator Hohman removed his objection.

MOTION

Chairman Sackett asked if there was an objection to the motion. There being none, it was so ordered. Senator Hohman voted do pass. Senators Sackett, Croft, Meland, Orsini and Butrovich voted no recommendation.

CSHB 442 (2d Fin) (Act relating to the Alaska Power Authority) was brought up for discussion. Mr. Phil Holdsworth reminded the committee that this bill broadens the authority of the present Power Authority. It also gives to the Authority the power to handle water projects. Without power given to the Alaska Power Authority, there will be no means by which improvements can be accomplished, Mr. Holdsworth said.

CSHB 442
(2d Fin)

Chairman Sackett stated that when this bill was brought up before there was some discussion as to whether or not the Power Authority should have additional power. It was the consensus of the committee at that time that they should not have that authority.

At this point Judy Crondahl went over the SCS that had been prepared by the Finance Committee, describing the various provisions that the new CS contained.

Mrs. Crondahl told the committee that the Finance Committee Substitute would stick more closely to existing statutes. She stated that the House Finance staff was in agreement with all the changes made by the Senate Finance staff. She said the changes were not major changes, but the Finance Committees were trying to make sure the Power Authority was not totally independent without having to answer to anybody.

Mr. Holdsworth was not in agreement with the change that would require the Power Authority to begin repayment within one year. He said it would take three of four years to get the project completed. And then it may be another year before there would be any returns on the project. He suggested paying interest only until the project had some returns.

Chairman Sackett said the above suggestion by Mr. Holdsworth was the change the Power Authority didn't want. Chairman Sackett made a motion to move SCS CSHB 442 (2d Fin) from committee with a do pass recommendation. Without objection, it was so ordered. Senators Sackett, Meland, Tillion and Butrovich voted do pass. MOTION

HB 406 (relating to donations of annual leave to the memorial scholarship revolving loan fund) was brought up for discussion. Representative Lisa Rudd gave a brief overview of the bill to the committee. HB 406

Senator Tillion made a motion to move the bill from committee with individual recommendations. It was so ordered. Senators Sackett, Butrovich, Tillion and Meland voted do pass. MOTION

The meeting adjourned at 10:00 a.m.

ADJOURN

JOINT SENATE AND HOUSE FINANCE COMMITTEES

January 16, 1978

9:10 a.m.

The meeting was called to order at approximately 9:10 a.m. by Senator Sackett serving as Chairman for the Joint Senate and House Finance Committees. All members of the House Finance Committee were present with the exception of Representatives Gruening and Schaeffer, and all members of the Senate Finance Committee were present with the exception of Senator Tillion. Also in attendance were: Senator Ferguson, Representatives Miles and Anderson; John R. Messenger, Deputy Commissioner of Taxation, Dept. of Revenue; Jim Edenso, Deputy Commissioner of Treasury, Dept. of Revenue; Vincent Wright, Chief of Research, Dept. of Revenue; Dept. of Revenue representatives William L. Means, Bob Democh, and Shirley L. Woolf; Fiscal Analysts Bob Grogan and Milt Barker; Kay Brown from Senator Rader's Office; Royce Willen from Representative Malone's Office; and members of the press including Mr. LaRocca.

PRESENT

Chairman Sackett advised that the purpose of the meeting was to enable the Department of Revenue to present its financial forecast to both finance committees at one time.

PURPOSE
REVENUE
FORECASTS

Mr. Vincent Wright spoke first on behalf of the Department of Revenue, advising that he would address revenue projections for fiscal year 1978-1979, while Mr. Messenger would discuss tax issues, and Mr. Edenso would speak on performance during the last year for the Treasury Department as well as the permanent fund.

Mr. Wright referred to the yellow booklet distributed by Revenue, drawing specific attention to Section (E), second page (copy of that page attached). He added that Revenue customarily issues a forecast each quarter, the next one being due March 16, 1979. He stated that the bottom line figure Revenue is forecasting for FY 78 is \$759,084.8 in unrestricted revenues. For FY 79 Revenue forecasts \$928,483.7 in unrestricted revenues, and Mr. Wright added that the above figures are net (after Permanent Fund and Native Claim Settlement payments have been deducted). Mr. Wright next began his review of ranking revenue sources.

UNRESTRICTED
REVENUES

Reserve Tax

Mr. Wright referred to the Reserve Tax as a two-year tax collecting a total of \$493.7 during the two year period. adding that the tax would no longer apply from 1978 onward. This tax is to be credited against the Severance Tax until the entire Reserve Tax has been taken care of. Representatives Rhode and Meekins raised questions concerning the tax credit, Mr. Meekins advising that it was his understanding the tax credit would expire in approximately three years.

Oil and Gas Property Tax

Concerning the Oil and Gas Property Tax, Mr. Wright advised that Revenue forecasts \$168.3 for 1978 and \$170.6 for 1979, stating that this tax is a 20 mill tax levied against the pumping station. Revenue forecasts in this area do not take into consideration the gas pipeline. Senator Orsini asked whether rebates for municipalities would be subtracted from the above figures, and Mr. Wright replied, "yes."

Individual Income Tax

Revenue is forecasting a drop in individual income tax for 1977-78. The reasons for the drop: (1) overall average wage rate has dropped since completion of the pipeline, (2) employment is leveling off since completion of the pipeline project. Chairman Sackett questioned Revenue's forecast in this area, stating that for 1976-77 Revenue had to re-evaluate its findings because it did not know how many people were working on the pipeline. He asked what basis Revenue had used in determining that individual income tax would be extremely low for next year. Mr. Wright advised that forecasted figures for this year have been compared with what was actually taken in last year. He further stated that Revenue is currently using an econometric model and no longer has to rely on so much outside data.

Corporate Tax

Corporate income tax is projected to increase from \$35.8 to \$44.6 in 1978, and to \$65.6 in 1979. Representative Meekins referred to the Revenue Sources FY 77-79 publication, page 2, and asked why the budget estimate had been revised downward. Mr. Wright replied that the downward estimate was based on existing corporate income tax law which contains many loop holes, adding that the revised figure may actually be an optimistic forecast based on existing law. Representative Meekins then stated his understanding

of the foregoing to mean that the downward revision of corporate income tax did not represent a lessening of corporate activity within the state. Mr. Wright replied that this understanding was correct, the revision was due to existing tax law.

Investment Earnings

Mr. Wright advised that Revenue is forecasting an increase from \$34.9 in 1977, to \$44.9 in 1978, and \$51.1 in 1979. The increase is due to a combination of better performance in the Treasury Department and larger revenues in the General Fund as a result of oil activities. Representative Cowper asked if this investment area includes veterans loans, and Mr. Wright replied that it did. He added that the overall area has a rate of about 6-3/4 per cent, which is a good rate of return due to the fact that it includes loans that other banks would not take.

Business License Tax

Mr. Wright advised that Revenue forecasts a downward trend in this area from \$23.2 in 1977, to \$21.8 in 1978, and \$20.4 in 1979. He added that declining figures represent a slight drop compared to 1977, and that 60 per cent of these funds go back to the municipalities.

Highway Fuel

Revenues for 1977 amount to \$16.7. The Dept. of Revenue is forecasting \$13.2 for 1978, and \$12.8 for 1979. The primary reason for the drop is completion of the pipeline and related drop in pipeline activity.

Alcoholic Beverage Tax

From revenues of \$8.0 in 1977, Revenue is forecasting \$6.8 for 1978 and \$6.7 for 1979. Mr. Wright added that the forecast was generated by the econometric model, and advised that the drop was due to a decline in economic activity. Representative Rhode asked Mr. Wright if he believed there would be a decline in population, stating that he believed people would continue to drink as much as before. Mr. Wright advised that the department was forecasting no reduction in residential population, adding that a number of those employed on the pipeline have remained within the state collecting unemployment while awaiting construction of the gas pipeline. These population figures have been incorporated within the econometric model.

Cigarette Tax

From 1977 revenues of \$4.8, the department projects \$4.3 for 1978 and \$4.0 for 1979. The total drop is \$800,000 between 77 and 79. Mr. Wright directed committee attention to the 60 per cent that goes to the school fund. Referring to the Revenue Sources booklet, Representative Meekins questioned figures within the Sale/Use area of the revenue forecast. Mr. Wright advised that funds in this category were divided between the Special Fund and the General Fund.

Discussion ensued regarding population figures and alcohol revenues. Mr. Wright stated that due to the inelasticity of alcohol, as employment drops so do alcohol revenues. POPULATION & ALCOHOL REVENUES

Representative Freeman raised a question regarding reduction in the permanent fund balance as a result of the pump station explosion on the pipeline. Mr. Wright stated that originally Revenue revised its overall figures downward by \$118.0 as a result of the explosion, adding that it had later revised the figures upward because of individual income tax. At this time, Revenue is forecasting a short fall of \$60.0, and estimates \$90.0 for FY 79. When questioned as to what the estimated balance would be had the explosion not occurred, Mr. Wright replied that he did not know; he would have to calculate the figures to determine the effect upon royalties. In 1979 the department assumes that the pump station will be back on in March, so the effect would not be too much. He added that a majority of the permanent fund money comes from royalties. EFFECT OF PUMP STATION EXPLOSION

Responding to a question from Representative Haugen pertaining to the net cost of a barrel of oil pumped through Valdez, Mr. Wright replied that the well-head value on the West Coast is currently \$6.20, and \$3.80 for the Gulf Coast, while the Severance Tax floor is \$6.53. WELL-HEAD COST FOR OIL

At this time Mr. Wright turned the meeting over to John Messenger who spoke concerning tax regulations.

Mr. Messenger advised that during the past year three individual income tax measures have been passed by Congress which the state has not adopted. These measures will require specific legislation to incorporate them within state income tax functions. He added that two of the measures relate to credits which do not apply to state MESSENGER INDIVIDUAL INCOME TAX

income tax for a period of two years unless the legislature incorporates these measures.

New Jobs - The first change enacted by Congress is related to new jobs. An employer receives a credit for new employees hired for positions created during 1977-78.

Retirement Income - The second federal change applies to the elderly and is similar to retirement income credit. The new legislation simply makes the credit apply to a greater number of people.

Standard Deduction - The third federal change relates to standard deductions. The 1977 federal act eliminated standard deductions in the federal income tax code and plugged in equivalent tax deductions in the federal regulations themselves. It simply effected a change in the deduction from one place to another. The change has impact upon the state because while the state incorporated the deductions, it also incorporated the elimination. Because the state has separate tax rates, it did not pick up these amounts on the state tax return. Revenue proposes to correct this fluke resulting from federal law change by a bill which would adopt a standard deduction for Alaska taxpayers on a permanent basis. The department would prefer to issue an automatic refund or rebate which would be mailed to the taxpayer based on the standard deduction which he lost, rather than change the present state tax tables. Revenue would like to be able to do this automatically. The average amount which would be rebated will be approximately \$160.00 per return. Revenue will be introducing a bill effecting this measure during this legislative session.

Responding to a question from Mrs. Buchholdt regarding her concern that the federal level tax credit applies only for a two-year period, Mr. Messenger advised that the deduction change in federal regulations would be effective for more than two years; the two-year credit applies only to new jobs, while the standard deduction applies to everyone (both to standard deductions and to those who itemize, so everyone benefits).

Mr. Messenger turned the meeting over to Mr. Edenso to comment concerning the general and permanent funds.

EDENSO
GENERAL &
PERMANENT
FUND

Mr. Edenso advised that the rate of return received under the general fund fluctuates given market conditions and moneys in the fund for management. In 1973 the general fund earned a 5.4% rate of return; in 1974, 8.76%; and in 1977, 6.0% overall. Average balances for the earnings are not time weighted rates of return. The general fund earned \$38.8 in 1978, \$36.6 in 1975, and \$43.7 in 1975. At the present, investment opportunities can be taken advantage of on a monthly basis where before this could not be done. In the past, all investments were lumped together, but now Revenue is able to distinguish which amounts are general fund and which amounts are loans.

GEN. FUND
BALANCES
& RATE
OF RETURN

Referring to the state loan program, Mr. Edenso advised that the program includes investments such as \$420,000 in agricultural loans, \$9.7 in commercial fisheries loans, \$1.4 in fisheries enhancement, \$8.6 in small business, and \$175.2 in veterans loans, etc. These loans are not liquid assets but are included in the total fund balance. They are classified as part of the long-term portfolio. Replying to a question from Representative Meekings concerning funds in the Alaska Housing Authority, Mr. Edenso advised that the funds total \$19.6 as of the end of November, 1977, that \$10.3 is invested in the Alaska State Development Corp., \$1.0 in mortgage insurance, and \$1.3 in University of Alaska notes. Chairman Sackett questioned figures shown as illiquid assets against the \$300.0 projected in the forecast. Mr. Edenso replied that the largest loan program is veterans loans, and that income coming into the state will increase at a greater rate than the veterans loan program. Representative Meekings asked if the veterans loan program would increase dramatically should the Alaska Housing Finance Corporation be cut back, and Mr. Edenso replied, "no."

STATE
LOAN
PROGRAM

Retirement Systems

Mr. Edenso testified regarding the increase in fund amounts for both the Public Employees Retirement System and the Teachers Retirement System, setting forth the following figures:

	<u>Teachers Retirement</u>	<u>PERS</u>
1973	66.2	68.7
1975	157.5	166.4
FY 77	173.5	190.4
Dec. 1977 actual average portfolio size	192.0	216.0

Regarding rates of return for retirement investments, Mr. Edenso stated that in 1973 the Teachers Retirement Fund received 4.8%, while PERS received 4.9%. In 1977 there was a dramatic rise to 8.6% as a result of investment in mortgage loans in the State of Alaska which yield as much as 9% return. Time weighted percentages for 1977 are 10.5% for PERS and 11.5% for Teachers Retirement. Time weighted rates of return include the amount earned, plus appreciation, inflation, and change in the portfolio structure. Actual increase in dollar amounts earned:

RETIREMENT
FUNDS

	<u>Teachers Retirement</u>	<u>PERS</u>
1973	\$2.2	\$3.4
1977	\$13.6	\$12.6

Mr. Edenso next directed committee attention toward his chart displaying projected permanent fund balances, advising that the chart reports net royalty only, stating that royalties account for 90% of the amounts received.

PROJECTED
PERMANENT
FUND
EARNINGS

1978	\$207.2
1979	\$348.8
1980	\$447.0
1981	\$717.0
1982	\$806.0
1983	\$1,020.0
1984	\$1,118.0

Annual contributions at the 25% contribution level would be:

1978	\$ 51.8
1985	\$304.9

Annual contributions at the 50% level would be:

1978	\$103.0
1985	\$610.0

Annual contributions at the 75% level would be:

1978	\$155.4
1985	Amount would be just under a billion dollars

The present total balance of the permanent fund, \$25.0, is currently invested in corporate and U. S. Government securities, and savings accounts, averaging investment yield of 7.0%.

Representative Cowper asked whether or not both Prudoe Bay gas and oil have been included within Revenue projections. Mr. Edenso replied that department projections include both gas and oil production, and added that a portion of the increase in the fund is due to the fact that by 1984 the state anticipates having completely paid all Alaska Native fund moneys.

PROJ.
INCLUDE
GAS & OIL

Representative Meekins inquired concerning possible projections beyond 1985, asking if decreases in the permanent fund had been calculated as a result of oil production decreases. Mr. Edenso replied that future decreases has not been calculated; the department had only projected figures through 1985. Representative Meekins referred to the ISER report, stating that according to the report, projections beyond 1985 did not look very promising. Mr. Edenso stated that he believed ISER had carried projections beyond 1985, adding that if one were to believe ISER figures, "then heaven help the legislators and the person who is governor in 1990."

ISER
PROJ.

Representative Freeman requested clarification concerning annual contribution figures for 1985 at 25%. Mr. Edenso advised that yearly contribution figures for all percentages were cumulative, and the total projected figure for 1985 at 25% would be roughly \$1.4 billion dollars.

Representative Rhode raised a question concerning the tariff per barrel of oil, and Mr. Wright advised that he would calculate this amount and furnish the information at a later time.

The meeting adjourned at approximately 10:20 a.m.

ADJOURN

RELATIVE RANKING OF NET REVENUE SOURCES
COLLECTED BY THE DEPARTMENT OF REVENUE
FOR THE FISCAL YEAR 7/1/76 TO 6/30/77

<u>CODE NUMBER</u>	<u>REVENUE SOURCE</u>	<u>NET TO FUND REVENUES FY 6/30/77</u>	<u>% OF TOTAL REVENUES COLLECTED</u>	<u>RELATIVE RANKING</u>
006	Oil & Gas Reserve Tax	\$270,626,502.33	34.38	1
036	Individual Income Tax	210,377,894.14	26.72	2
001	Property Tax	139,140,712.33	17.67	3
038	Corporation Income Tax	35,772,119.01	4.54	4
575-577	Interest on Loans, Investments & Deposits	34,931,852.81	4.44	5
065-068	Oil & Gas Production Taxes	23,705,205.16	3.01	6
046	Business License Tax	23,252,151.71	2.95	7
021	Highway Fuel Tax	16,745,209.07	2.13	8
016	Alcoholic Beverage Excise Tax	7,977,716.68	1.01	9
017-018	Cigarette Tax	4,850,739.63	0.62	10
062	Raw Fish Tax	3,830,280.26	0.49	11
120-218	Sport Fishing & Hunting Licenses	3,104,291.66	0.39	12
057	School Tax	2,588,594.16	0.33	13
022	Aviation Fuel Tax	2,503,709.28	0.32	14
063	Cold Storage Tax	1,855,358.39	0.24	15
023	Marine Fuel Tax	1,358,152.59	0.17	16
020	Electric & Telephone Coop Tax	1,192,751.18	0.15	17
106-119	Liquor Licenses & Fees	949,287.87	0.12	18
126	Vessel & Gear Licenses	654,220.00	0.08	19
064	Freezer Ship Tax	517,427.28	0.07	20
625	Prepaid Tax	248,200.39	0.03	21
138-845	Comm. Fish Lic. - Non-Resident	230,100.00	0.03	22
137-844	Comm. Fish Lic. - Resident	200,735.61	0.03	23
052	Estate Tax	193,676.18	0.02	24
402	Miscellaneous Revenues	144,607.83	0.02	25
037	Fiduciary Income Tax	92,438.60	0.01	26
145	Amusement Device Tax	92,091.24	0.01	27
061	Mines & Mining Tax	65,247.02	0.01	28
066	Oil & Gas Conservation Tax	53,201.58	0.01	29
146	Lottery Permits	15,168.70	0.00	30
140	Commercial Fishing Extension Fees	10,260.00	0.00	31
102	Embalmers Fees	300.00	0.00	32
051	Inheritance Tax	(567.35)	0.00	33
Totals		\$787,279,635.34	100.00	

Tape #: H/S 78-1RECORDER LOGDate: 1/16/78Beg. #: 000Time: 9:02 a.m.End #: 421Page: 1

General Subject: Joint House/Senate Finance Committee meeting regarding
revenue projections.

Present: Representatives Rhode, Guy, Swanson, Meekins, Cowper, Haugen,
Duncan, Freeman and Buchholdt. Senators Meland, Sackett,
Hohman, Butrovich and Orsini. The following representatives
from the Department of Revenue: William L. Means, Bob Democh,
Vincent Wright, Shirley L. Woolf, John Messenger, Jim Edenzo.

Log #	Description
000	Chairman Sackett called meeting to order 9:02 a.m.
002	Presentation by Vincent Wright Re; FY 78-9 Revenue Projections.
	Explanation of materials presented.
012	Department will issue new forecast each quarter
016	Unrestricted Revenue for FY 79
019	Reserves Tax
022	Severance Tax
025	Questions by Reps. Rhodes & Meekins concerning tax credit.
030	Oil & Gas Property Tax
030	Sen. Orsini question -- is rebate to municipalities included in this. Answer: Yes
038	Individual Income Tax -- decreased because high-income wages from pipeline dropped. Chairman Sackett question concerning reliability of projections. Answer: New method for figuring used, called econometric model, results in not relying on outside agencies so much.
058	Corporate Income Tax -
061	Meekins question: Why tax revised downward.

ral Subject: Joint House/Senate Finance: Revenue Projections

Log #	Description
064	Corporate Income Tax may be optimistic forecast.
069	Discussion on reduction. Meekins and Cowper questions.
074	Investment Earnings
075	Cowper question on what is included in this. Vetern loans, etc.
085	Business License Tax -- slight downward trend
092	Highway Fuel Tax -- sharp drop due to decrease in pipeline.
097	Alcohol Beverage Tax -- drop due to leveling off of economic activity.
102	Rep. Rhode question re: decline in population? no, but many who worked on pipeline are still here, but unemployed.
	Cigarette Tax
	Meekins question is this sale/use of tabacco products? Yes
130	Discussion on projections/population growth.
141	Freeman question How much estimated reduction due to pipeline pump station explosion. Answer \$118 million revised downward.
148	Discussion on explosion cost in income.
161	Haugen question net worth of each barrel of oil. Answer: Well-head value West Coast \$6.20; East Coast \$3.80; Severence Tax floor \$3.60.
177	Mr. John Messenger presentation regarding misc. items effecting individual income tax.
181	Tax credits (1) job credit; (2) elderly credit explained
192	Effect of Federal Standard Deduction on Alaskan tax-payer. Will require legislative action, requesting legislation making automatic rebate.
224	Meekins question: Does standard ^{deduction} apply to everyone? Yes.
235	Freeman requested state-by-state comparison of individual income tax. Mr. Messenger will provide.
240	Mr. Jim Edenzo presentation regarding General Fund rates of return and average balance.

ral Subject: Joint House/Senate Finance: Revenue Projections

Log #	Description
267	Meekins question: End of year surplus? ~~Goes~~ to next year's General Fund balance.
274	\$258 million total amount of loans as of Nov. 30, 1977 broken-out.
284	Meekins question regarding Alaska Housing Finance Corporation. Answer obligations of State corporation. Alaska State Housing Corporation \$10.3; Alaska State Development Corp. 553,000; Mortgage Insurance \$1 million; University of Alaska notes \$3.3 million.
291	Sackett question regarding liquid assets.
307	Meekins question: Did Vet loans increase as a result of AHFC problems? Answer: Vet loans increasing regardless of what happened with AHFC.
	Retirement System, Public Employees PERS & TRS.
336	Sackett question regarding reason for drop? Answer: reflects condition of market. Security market not performing well.
343	Time-weighted average explained.
352	Actual net dollar amount earned PERS/TRS.
358	Expected size of Permanent Fund.
376	Amount in fund and where invested.
388	Meekins question concerning projections of Permanent Fund.
402	Freeman questioned projection for 1985 at 25%. Answer \$304.9 million is contribution only--does not represent total amount in fund. This is projected income for year. Roughly \$1.4 billion estimated total income 1985.
421	ADJOURN 10:16 a.m.

A NARRATIVE ON SENATE BILL 429

by

The Senate Special Committee on the Permanent Fund

Dear Alaskan:

The following report explains the Senate proposed legislation regarding utilization and management of the Permanent Fund and the Renewable Resources Development Fund. Some key points of the Senate legislation are:

REDUCE BUREAUCRACY

PROVIDE GREATER CONTROL

MAXIMIZE BENEFITS TO ALASKANS

OPTIMAL PROGRAM ACCOUNTABILITY

LOWER HOUSING COSTS

CONTRIBUTE TO LOWER COST OF LIVING

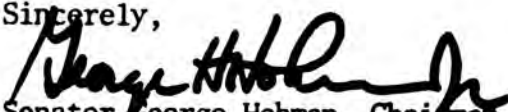
FINANCIAL DEVELOPMENT FOR
RENEWABLE RESOURCES

SECURE PERMANENT FUND MONIES
WITH HIGH GRADE INVESTMENT

Please feel free to submit any comments you may have regarding the Senate proposal to:

Senator George Hohman, Chairman
Senate Special Committee on the Permanent Fund
Pouch V
Juneau, Alaska 99811

Sincerely,


Senator George Hohman, Chairman
Senate Special Committee on the
Permanent Fund

INTRODUCTION

In November of 1976, Alaskan voters approved a constitutional amendment which provides that at least 25% of certain non-renewable resource revenues be placed in a permanent fund. The amendment requires that the money be used for income-producing investments designated eligible by the legislature. Unless the legislature otherwise stipulates, earnings from the permanent fund will go to the state's general fund.

Because of the impact of the permanent fund on Alaskans, various opinion polls have been conducted to assess public sentiment about state needs and priorities, with emphasis placed on the structure, management and use of the permanent fund (Dittman for the Senate Committee on the Permanent Fund, Dec., 1977; Rowan Group Report for the Office of the Governor, July, 1977; and the Alaska Public Forum Report, March, 1977).

In addition to using data generated by public hearings and public opinion polls, the Senate Committee on the Permanent Fund sent questionnaires to individuals in rural Alaska and the Alaska State Chamber of Commerce members for their input regarding permanent fund usage. From the responses received from both the questionnaires and the poll tabulations, various priorities surfaced. Many individuals feel there is a shortage of capital available for lending to business venture and for purchase and construction of housing. Development of renewable resources (including agriculture, timber, and fishing) is a high priority. Community development also received support. At the same time, the respondents strongly urged that the permanent fund principal be invested in hi-grade guaranteed securities, thus maintaining the integrity of the fund for future generations.

CORRECTION

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

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The Senate Committee on the Permanent Fund, chaired by Senator George Hohman, has submitted legislation designed to address the expressed concerns of Alaskan citizens. The committee's legislation proposes to invest 100% of the permanent fund principal in hi-grade securities and use the earnings as a guarantee for issuing revenue bonds. The proceeds of the bonds will be used to fund the Alaska Loan Programs Fund, which would expand, consolidate and administer the activities of existing state loan programs. The legislation also develops a plan for usage of the Renewable Resources Development Fund. The following report will address the Alaska Loan Programs Fund, the investment and management of the permanent fund, and the Renewable Resources Development Fund. There is also a section dealing with the Senate proposed Reserve for Capital Outlay Account which would be used to finance non-recurring expenditures.

MANAGEMENT OF THE PERMANENT FUND

Lombard-Wall, Inc., a New York management consultant firm, was assigned the task of making recommendations concerning the management of investment assets of the permanent fund. Lombard-Wall's senior Vice President, Mr. Fred Branditz, came to Alaska specifically to review the structure, management and personnel of Treasury in order to evaluate the role that group might play in managing the permanent fund principal. In a report presented to the Senate Committee on the Permanent Fund, Lombard-Wall recommended the permanent fund be managed and invested by the Division of Treasury for the following reasons:

- 1) The expertise already exists within the infrastructure for most, if not all, the activities currently contemplated for the permanent fund. The Treasury Division administers \$1/2 billion of fixed income securities for the general fund and an additional \$1/2 billion for 7 segregated funds.

- 2) Employing an entirely new staff to manage the permanent fund would present many difficulties and risks.
- 3) The combined resources of the permanent fund, the general fund and the pension funds will create a pool of assets sufficient to employ specialized, sophisticated investment techniques to a degree none could afford individually. Thus all areas will benefit from combined management.
- 4) The revenues accruing to the permanent fund derive from taxes and belong to all of the citizens of Alaska. Therefore, no conflict of interest can result from their management by an existing state agency.
- 5) Accounting techniques currently exist for allocating cost among the various funds.

The Lombard-Wall report also includes an analysis of the capabilities of the Division of Treasury. The report concluded that there is efficiency in management of funds currently assigned to Treasury and that the staff, in particular, appears capable of assuming greater responsibility. Braditz also recommends that the Treasury be reorganized to include delegation of line and staff duties, creation of several new positions, and improvement of certain support functions in order to maximize earnings from the larger pool of assets anticipated.

In addition to the study undertaken by Lombard-Wall, letters received from the Treasury Divisions in other states indicate that placement of all state funds in the State Treasury is sound public policy.

In accordance with the above recommendations, the Senate Committee on the Permanent Fund has proposed a reorganization of Treasury to assure a program of sound investment policy, continuity and accountability to the legislative branch of government. A Division of Treasury would be created by statute, headed by a director subject to the merit system. The

director would be solely accountable for investment policy and management of the general fund, the permanent fund, and all other state funds. Additionally, he would be responsible for the organization and staffing of the Treasury Division.

The proposed legislation specifies those areas authorized for permanent fund investment. Primarily, it limits investment in corporate obligations to those with an 'A' or better rating, and allows only those securities which are federally insured. It may also be invested in bank certificates of deposit which are secured as to the payment of principal and interest in accordance with Alaska Law.

In order to keep the Executive and Legislative branches informed, the Legislative Budget and Audit Committee would provide a quarterly report regarding the investment activity of the Division of Treasury to the legislature. The legislature may exercise its law-making power to statutorily change the authorized investments allowable in Treasury should the Budget and Audit report reveal a need for such revision. Additionally, investment policy shall be proposed to the legislature during the first ten days of any regular session and only becomes effective 60 days after presentation unless disapproved by a resolution concurred in by a majority of the members of each house.

Upon recommendation of the Commissioner of Revenue, the Governor may disallow an investment strategy or policy of the Division. Budget and Audit must also receive notification and rationale for such actions and present them to the legislature.

RATIONALE FOR ESTABLISHMENT OF THE ALASKA LOAN PROGRAM

Since statehood, the Alaskan legislature has created ten loan programs and six independent corporations to meet the capital needs of various groups or to enhance development of certain industries within the State.

Generally, these target groups were unable to obtain adequate financing (either loan dollar amounts, interest rates, or loans of sufficient duration) from private financial institutions within or outside Alaska. The loan programs were not created to compete with private lenders, in fact, bank participation is a requirement of one loan program. Rather, as a matter of public policy the loan programs were conceived to provide funds for Alaskan ventures at terms banks could not (i.e. long term money) or would not (i.e. higher levels of risk) capitalize. Most of the loan programs are administered by the Department of Commerce and Economic Development, exceptions being the Agricultural Revolving Loan Fund (Dept. of Natural Resources); the Scholarship Revolving Loan Fund (Dept. of Education); and the Senior Citizens Housing Loan Fund (Dept. of Community and Regional Affairs). The independent corporations - Alaska Housing Finance Corporation, the Alaska Power Authority, the Alaska Development Corporation, the Small Business Development Corporation, the Municipal Bond Bank, and the Industrial Development Authority are not within the direct purview of any state agency.

The history of the loan programs and independent corporations is somewhat dismal. Once created, these programs often fail to (1) remain operational; (2) comply with legislative intent; (3) operate in an efficient manner; (4) be known to the general population; and (5) come under legislative scrutiny in a timely and regular manner. In addition, there is little standardization among the programs with regard to eligibility criteria, interest rates and terms, and maximum loan amounts.

Two of the independent corporations, the Alaska Development Corporation and the Small Business Development Corporation, are no longer engaged in lending activity. The Alaska Power Authority, created in 1976 is still in the organizational phase, and the Industrial

Development Authority, created in 1967, has become operational only as a result of amendments passed during the 1977 session expanding its authorized areas of activity.

Failure to comply with legislative intent is illustrated by the Alaska Housing Finance Corporation, established in 1971 to meet the mortgage needs of low and moderate income Alaskans in blighted or remote areas of the state where normal bank financing for home purchases is difficult to obtain. AHFC issues its own bonds for lending capital; there is a yearly legislative appropriation for the necessary reserve requirements that such an issue entails. However, AHFC does not come under the Executive Budget Act, and its operations come under legislative scrutiny only when performance audits are done by the Legislative Budget and Audit Committee at three year intervals (AS 24.20.271(2)). An investigation by the Office of Ombudsman conducted in July, 1977, while not a formal audit, brought to light the facts that AHFC has promulgated no administrative procedures and had made loan policy changes without benefit of required public hearings beforehand. These facts were also noted in an audit performed by the Division of Legislative Audit, dated November 11, 1977, and released in February, 1978. The Ombudsman also stated that information concerning the policy changes had been selectively distributed to the state's financial institutions.

AHFC's current lending activity is distributed on a ratio of 90% urban, 10% rural counter to the corporation's statutory mandate that loan activity shall be concentrated in "remote, underdeveloped or blighted areas" (AS 18.56.010). Although, AHFC has developed a loan program for rural home improvements or building material loans, according to the November 15 audit (Division of Legislative Audit) the program has received no publicity.

Taken as a whole, internal operation of the various loan programs can be neither damned nor praised. There are instances of good management, very poor management, and the entire spectrum in between. Delinquency rates in the loan programs vary from 33% (Agricultural Revolving Loan Fund) to 2% (Veteran's Revolving Loan Fund). Characteristic of all loan programs is that loan granting, record keeping and collection functions occur within the same division. While an inherently sound practice for private financial institutions, whose goal is maximization of profit, within the bureaucracy of state government inattention to accounting and collection aspects have worked against the best interest of the state, both in loss of return on investment and diminished public confidence in the program. Recommendations issued by the Legislative Budget and Audit Committee after performance audits are almost exclusively in the areas of record keeping (accounting) and collection.

Currently, administrative costs for the state loan programs are in excess of \$2 million per year; both the Legislative Budget and Audit Committee and the Director of Business Loans have indicated that economies of scale, efficiencies of operation, and more equal opportunity for loan applicants would probably result were the state loan programs to be consolidated and/or streamlined in some manner.

The legislation proposed by the Senate Committee on the Permanent Fund would dissolve all the existing loan programs and independent corporations now in operation. In their place would be created the Alaska Loan Programs Fund, which would lend in all areas now served by these entities.

The lending arm of the Alaska Loan Programs Fund will be a division

in the Department of Commerce and Economic Development, with field offices initially established in Anchorage, Fairbanks and Juneau; others will be opened as volume dictates. These offices will provide, in addition to information about the Alaska Loan Program, information concerning state and federal grant programs, and federal and private sources of loans.

Provisions are made in the legislation for individuals and corporations to engage in borrowing through the Alaska Loan Program in cooperation or participation with the private financial institution of their choice.

The scope of activity includes; 1) educational loans of \$4,000 for undergraduates, and \$8,000 for graduate students; 2) commercial loans with a maximum of \$500,000 per individual and \$5 million maximum for no more than 10 individuals in a project, or a corporation where no more than 10 individuals owning stock assume a personal liability; 3) residential loans ranging from \$90,000 for a single residence to \$210,000 for a 4-plex; and 4) public purpose loans where the Alaska Loan Program will submit a bid for all GO and revenue bonds offered on a competitive basis by a home rule borough or city or general law borough or city under the laws of the state, loans to municipalities of less than 5,000 population through purchase of municipal bonds, industrial development projects conducting exempt activities under federal law, and revenue bonds issued on behalf of a non-profit corporation with approval of the municipality.

The interest rate charged for loans will be standardized, and depending on the cost of the revenue bonds issued, should be in the 7% range. In the event that a reduction in the basic interest rate is deemed desirable, as for veteran's or educational loans, the difference in interest rates charged to the borrower and that paid to the Alaska Loan Programs Fund would be paid on a yearly basis from the general fund.

The Senate legislation also addresses incentives for renewable resource loans. In 1974, the legislature passed a bill creating the Alaska Renewable Resources Development Fund. Not less than 5% of the receipts from revenues derived from certain renewable resources will be deposited in this fund. The proceeds of this fund are to be utilized to enhance and develop renewable resource programs.

The proposed legislation creates the Division of Renewable Resource Development, also within the Department of Commerce and Economic Development. This division will work hand in hand with the Alaska Loan Program by performing feasibility studies on renewable resource project loans and participating in one or more of three ways: 1) interest incentives; 2) equity participation; and 3) loan guarantees. They may also make grants for eligible projects with legislative approval.

Eligibility criteria will also be standardized, the main requirements for individuals being Alaska residency of five years duration and 18 years of age or older. For loans to corporate entities, more than 60% of its co-owner—shareholders must be Alaska residents for five years or more at the time of application, and the officers of the corporation must assume individual liability for the loan's repayment.

Length of experience will determine the maximum commercial loan amounts once basic eligibility criteria have been met. Percentages of the maximum amount available for borrowing will be reduced if the applicant has less than 5 years experience in the area of loan application.

Maximum loan amounts have, in most cases, been increased to more realistically reflect current costs of living, building, or doing business in the state. Additionally, a cost differential formula has been added to the maximum loan amounts to reflect higher costs incurred in rural areas.

Collateral requirements for commercial and real estate loans will be no less than 90% of the real property held as security, and no less than 80% of equipment held as security.

Should a loan become delinquent in excess of 30 days, a loan evaluation committee shall review the loan and consider reevaluation of its terms and conditions, provided the loan can be restructured in such a way as to protect the interests of the state.

Accounting for the Alaska Loan Programs Fund will be performed by the Dept. of Administration. Reports will be made by the Depts. of Commerce and Revenue to the Legislative Budget and Audit Committee on a monthly basis itemizing loans which are in excess of 30 days delinquent, and outlining the measures taken to insure compliance with conditions and terms of the loan.

Within the Dept. of Revenue, a division will be created to assume the collection function for all loans made by the Fund. Reports of collection efforts will be made to the Budget and Audit Committee.

The Budget and Audit Committee will do a quarterly review of the performance and status of the lending, accounting and collection procedures of the three agencies involved and will present their findings and recommendations to the legislature for review and action.

FUNDING OF THE ALASKA LOAN PROGRAMS FUND

Primary funding for the Alaska Loan Program will come from proceeds of revenue bonds. Revenue bonds are tax-exempt under Federal law, resulting in lower interest costs to the borrower. Loans from the Alaska Loan Program are limited to \$5,000,000 for any one project in a specific locality. There would, however, be no limit on the amount lendable for public purpose loans - those to local government units, public utilities, hospitals, etc. Due to the Federal restrictions, any violation of these

limits could result in the loss of the tax-exempt status of the bonds.

Because of the low bond interest to the Loan Program, loans can be made to Alaskans at an interest below market rate; the cost of money to the Loan Program plus a 1% service fee for administrative costs of loan processing. Additionally, this type of funding would place no budgetary limits on the amount of money available for lending in any of the loan categories. As the earnings of the permanent fund increase, additional bonds can be issued to meet the borrowing needs of Alaskans. Repayment of the bonds would come strictly from repayment of borrowers of the Alaska Loan Program. Following is a brief description of the Alaska Loan Programs Fund and organization of the reserve accounts to be established.

- 1) Alaska Loan Programs Fund - All bond proceeds except those designated in 2) of this section to be placed in this fund.
- 2) Debt Reserve Account - For the purpose of securing each issue of its obligations, the Alaska Loan Programs Fund will pay into this account the maximum amount permissible under Federal law and regulations for tax-exempt obligations. All money in this account may be used when required, when money is not available from the principal and interest account or the capital reserve account solely for the payment of the principal of obligations, the purchase or redemption of obligations, the payment of interest on obligations, or the payment of any redemption premium required to be paid when those obligations are redeemed before maturity. Any interest or income from this account and any amount remaining in the debt service reserve account when the issue secured by the account is fully retired shall be paid to the unallocated reserve account.
- 3) Unallocated Reserve Account - All earnings from the permanent fund will be placed in this account. The amounts necessary to fund the capital reserve account, the insurance reserve account, and the loss reserve account

will be furnished from this account. At such time as may be necessary, amounts in the unallocated reserve account will be transferred to the general fund.

4) Capital Reserve Account - the Commissioner of Revenue shall place an amount equal to 5% of all obligations issued and sold into this account. At the end of each fiscal year, the Commissioner will withdraw or add to the account that amount necessary to maintain the 5% of the obligations secured. Excess funds will be returned to the unallocated reserve account. All money in this account may be used as required for the payment of bond obligation principal, the purchase or redemption of obligations, the payment of interest on obligations, or the payment of any redemption premium required should obligations be redeemed before maturity.

5) Loss Reserve Account - A special account is established for the purpose of protecting the financial integrity of the fund. The Commissioner of Revenue shall pay into this account an amount equal to 5% of the estimated total amount of all loans to be made by the fund during the first fiscal year of operation. At the first of each succeeding fiscal year and thereafter, an amount necessary to bring the balance of the account up to 5% of the total amount of loans to be outstanding during the fiscal year shall be paid into the account. The 1% loan service fee will also be placed in this account and used to reimburse the unallocated reserve account.

6) Fire Insurance and Liability Reserve Account - The Alaska Loan Program may issue loans without requiring proof of insurance if an additional amount of .6% is made by the borrower. The account shall only be used for reimbursement to the Loan Programs Fund for losses of property having the insurance coverage.

RESERVE FOR CAPITAL OUTLAY ACCOUNT

The Senate proposal provides that 30% of the oil and gas receipts will be set aside in a reserve for capital outlay account within the general fund. Monies from this account will be used to finance non-recurring expenditures. Deducting the 25% for permanent fund, 5% renewable resources development fund, and 30% for the capital outlay account, the Governor will be required to prepare a balanced budget against the remaining 40% of current receipts (less until the Native Land Claims are paid off). The Governor will also be required to perform long-range capital programming and financial planning in conjunction with this program. A current inventory of all state facilities, including a projection of the serviceability of the facilities and projections of replacements and additions to facilities needed to provide the level of services programmed by the various user agencies, is also required in the Senate proposal.

Existing State Loan Programs and Independent Corporations

Lending Agency	Eligibility	Interest	Terms	Amount
Agricultural Loan Fund	AK resident farmer, homesteader or partner of same 2 - 3 years experience	6.0%	1 yr	\$ 25,000
Short Term		6.0%	30 yr	200,000
Farm Development		6.0%	7 yr	100,000
Chattel		4.0%	10 yr	no max
Irrigation				
AK State Development Corp (presently inactive)		legal rt	20 yr	750,000
Child Care Loan Fund	Certificate of need (CRA) required	6.0%	10 yr	10,000
Commercial Fishing Loan	5 yr AK resident; 3 yr license	7.0%	15 yr	150,000
Fisheries Enhancement	For non-profit hatchery permit holder	8.0%	25 yr	300,000
	For non-profit corporation	8.0%	25 yr	3,000,000
Small Business Dev. Corp.	Through Local Development Corp with/SBA	7.0%	25 yr	
Small Business Loan Fund	AK resident; less than 50 employees	8.0%	5-15 yr	300,000
Student Financial Aid	AK resident; full time	5.0%	6-10 yr	5,000
	graduate	5.0%	6-10 yr	2,500
	undergraduate			
Tourism Loan Fund	Requires bank participation for loans exceeding \$150,000	8.0%	20 yr	3,000,000
Veterans Loan Fund	AK Veteran; Veteran residing 5 years in state; 6 yr Nat'l Guard	7.5%	20-30 yr	10,000
Personal		7.5%	same	125,000
Business		7.5%	same	83,250
Vet occupied duplex		7.5%	same	68,250
Single family		7.5%	same	110,000
Multiple dwelling				
Water Resources Loan Fund	Public utilities	5.0%	7 yr	
Senior Citizens Dev. Fund	Municipalities and corporations	None Specified		
AK Housing Finance Corp.	Owner occupants; home improvement loans only in rural Alaska			
Conventional		7.75%	30 yr	65,000
Single family		7.75%	same	90,000
Duplex				
FHA/VA Insured		7.50%	same	65,000
Single family		7.50%	same	90,000
Duplex				
Home Improvement		9.50%	15 yr	15,000
Historical Loan Fund	Person, firm, or municipality	6.5%		100,000
AK Industrial Dev. Authority	Industrial development projects with approval of local governmental unit	Through Bond Issue		
Municipal Bond Bank	Municipalities	Through Bond Issue		
AK Power Authority	Not yet operational			

SENATE PROPOSED ALASKA LOAN PROGRAM

STANDARD ELIGIBILITY: Five year Alaskan resident
Eighteen years of age or older

STANDARD INTEREST: No more than 1% plus the cost of borrowing to the ALP

INTEREST INCENTIVES: Agricultural loans - standard interest less 1%
Veterans loans - standard interest less 1% (less additional 1/2% for twice qualifying veterans)
Renewable Resources loans - interest incentive to be determined by the Renewable Resources Development Division

TERMS: 30 yr. on loan secured by real property
15 yr. on life of equipment on loans secured by equipment
7 yr. or life of chattel on loans secured by chattel
1 yr. on a loan for working capital

<u>Category</u>	<u>Description</u>
Educational	1) Individual enrolled in full-time college, work study, or vocational program 2) \$4,000 per year for under-graduate; \$8,000 for graduate 3) \$16,000 maximum outstanding allowable
Residential	1) \$ 90,000 for single dwelling 130,000 for duplex 170,000 for tri-plex 210,000 for four-plex 2) Collateral requirements: 90% appraised value of real property 95% in areas lacking FHA mortgages
Commercial	1) \$500,000 maximum per individual \$5 million for group of no more than 10 individuals in project or corporation where 10 individuals owning stock assume liability 2) Collateral requirements: 80% appraised value of equipment 90% appraised value of real property
Public Purpose	1) ALP will submit bid for all G.O. and revenue bonds offered on a competitive basis by home rule or general law borough or city 2) Loans to municipalities with population under 5,000 through purchase of municipal bonds 3) Industrial development projects conducting exempt activities under federal law 4) Issue of revenue bonds on behalf of a non-profit corporation with the approval of the municipality in which it is located

ALASKA LOAN PROGRAM

ELIGIBILITY: 5 yr. Alaska resident, minimum 18 yrs. of age
INTEREST: Cost of borrowing to ALP plus 1% service fee
TERMS: 30 yr. on loan secured by real property
 15 yr. on life of equipment on loans secured by equipment
 7 yr. or life of chattel on loans secured by chattel
 1 yr. on a loan for working capital
COLLATERAL: 80% appraised value of equipment
 90% appraised value of real property
 95% for residential where FHA mortgage not available

EDUCATIONAL

RESIDENTIAL

PUBLIC PURPOSE

COMMERCIAL

\$4,000 per yr/undergraduate
 8,000 per yr/graduate
 16,000 maximum outstanding

\$ 90,000 single dwelling
 130,000 duplex
 170,000 triplex
 210,000 fourplex

Eligible Entities
 Boroughs and cities
 Municipalities
 Industrial development projects
 Non-profit corporations

\$500,000 max per individual
 \$5 million max per group or
 corporation assuming
 individual liability

ORGANIZATIONAL CHARTS

The following Organizational Charts A through D have been prepared by the Senate Special Committee on the Permanent Fund.

Organizational Chart A

Per existing state agencies

Organizational Chart B

Per House Bill 298, the Governor's Bill

Organizational Chart C

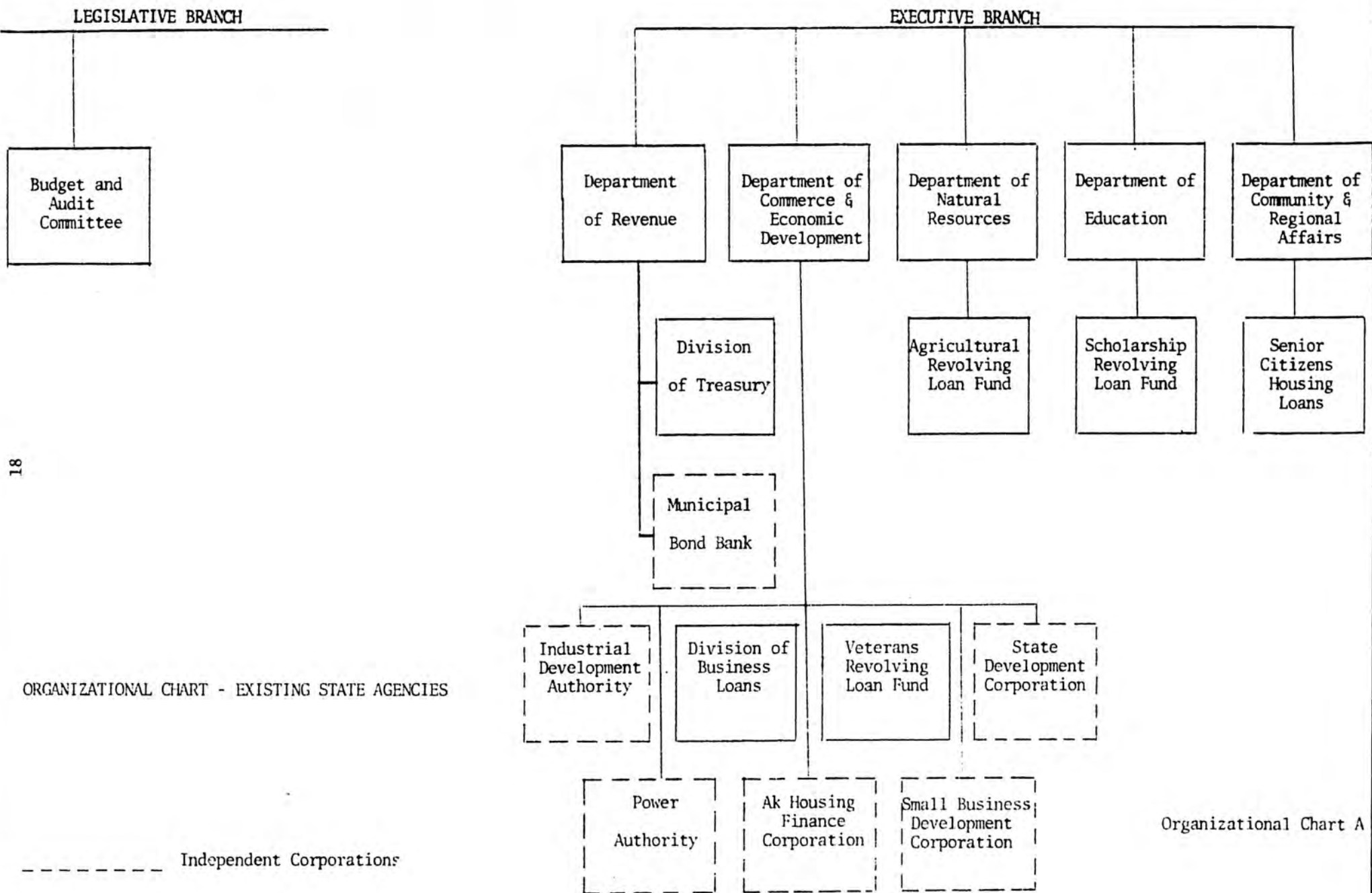
Per House Bills 596 and 682, by the House Special Committee on the Permanent Fund

Organizational Chart D

Per Senate Bill 429, by the Senate Special Committee on the Permanent Fund

Organizational Chart E

Organizational and flow chart of the permanent fund, renewable resources development fund and the general fund



LEGISLATIVE BRANCH

Budget and
Audit
Committee

EXECUTIVE BRANCH

Department
of Revenue

Department of
Commerce &
Economic
Development

Department of
Natural
Resources

Department of
Education

Department of
Community &
Regional
Affairs

Division
of Treasury

Alaska
Permanent
Fund
Corporation

Municipal
Bond Bank

Agricultural
Revolving
Loan Fund

Scholarship
Revolving
Loan Fund

Senior
Citizens
Housing
Loans

Industrial
Development
Authority

Division of
Business
Loans

Veterans
Revolving
Loan Fund

State
Development
Corporation

Power
Authority

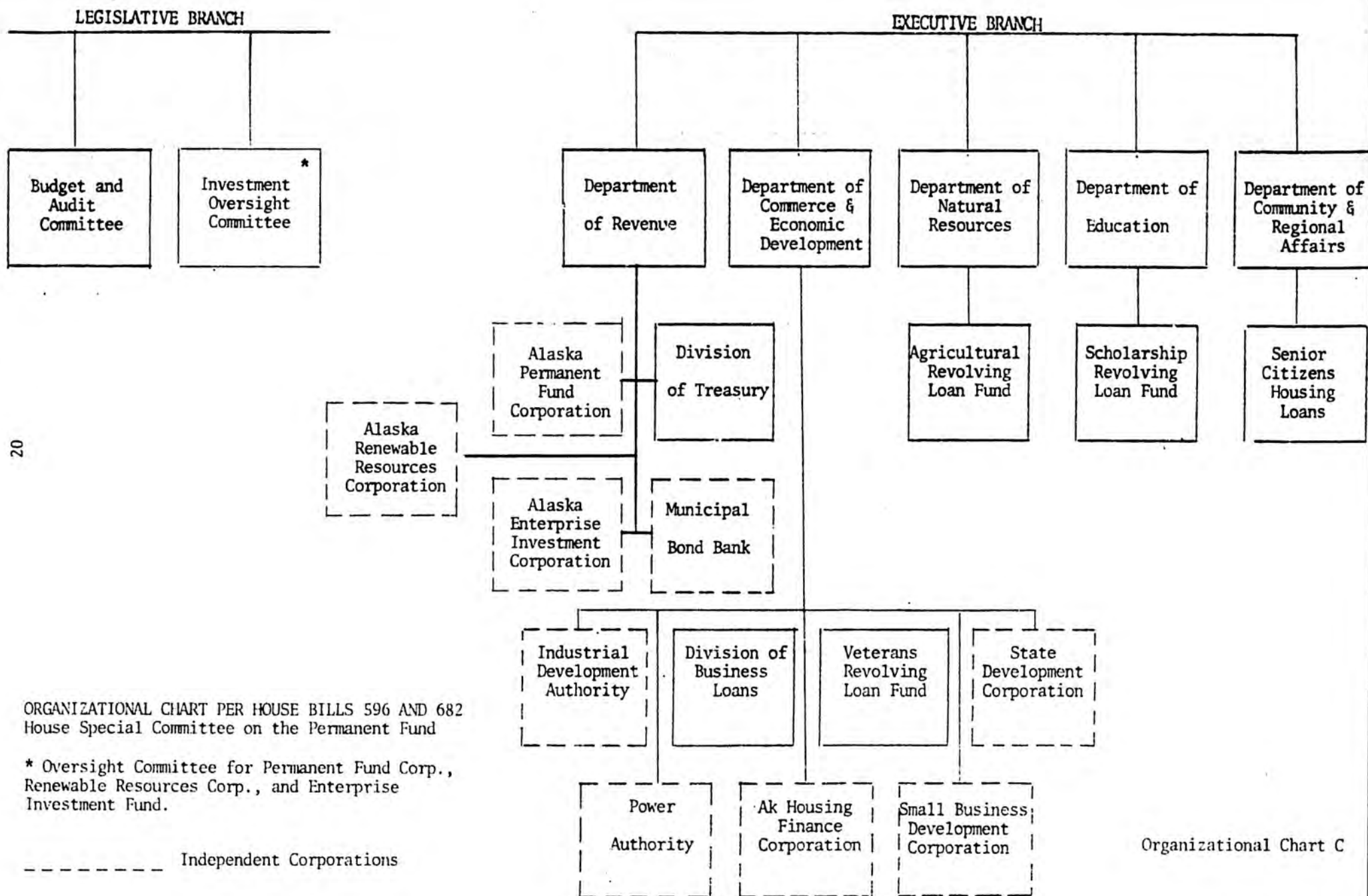
Alaska Housing
Finance
Corporation

Small Business
Development
Corporation

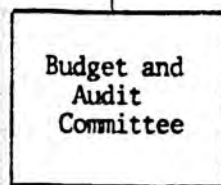
ORGANIZATIONAL CHART PER HB 298
Governor's Bill

----- Independent Corporations

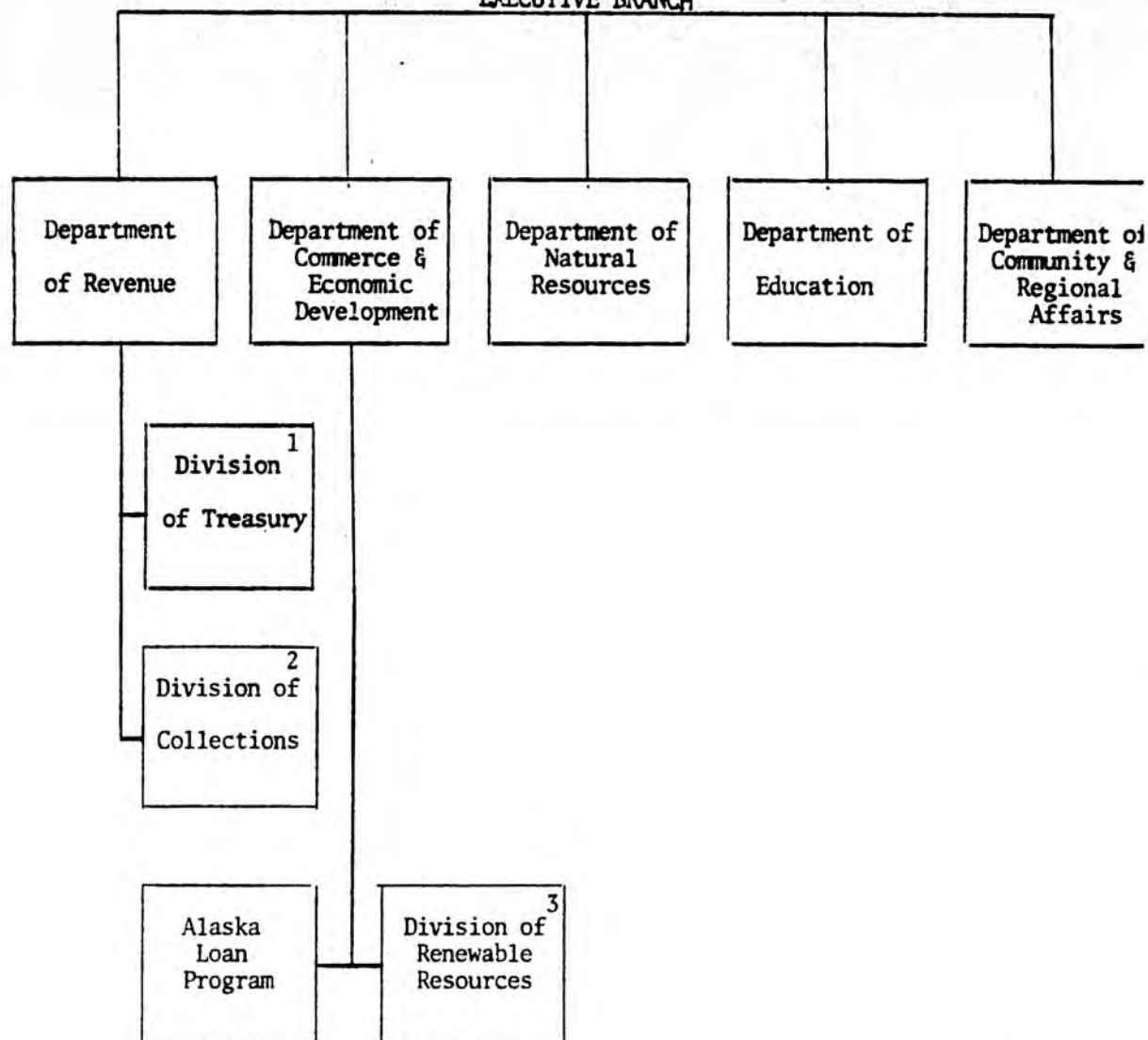
Organizational Chart B



LEGISLATIVE BRANCH



EXECUTIVE BRANCH



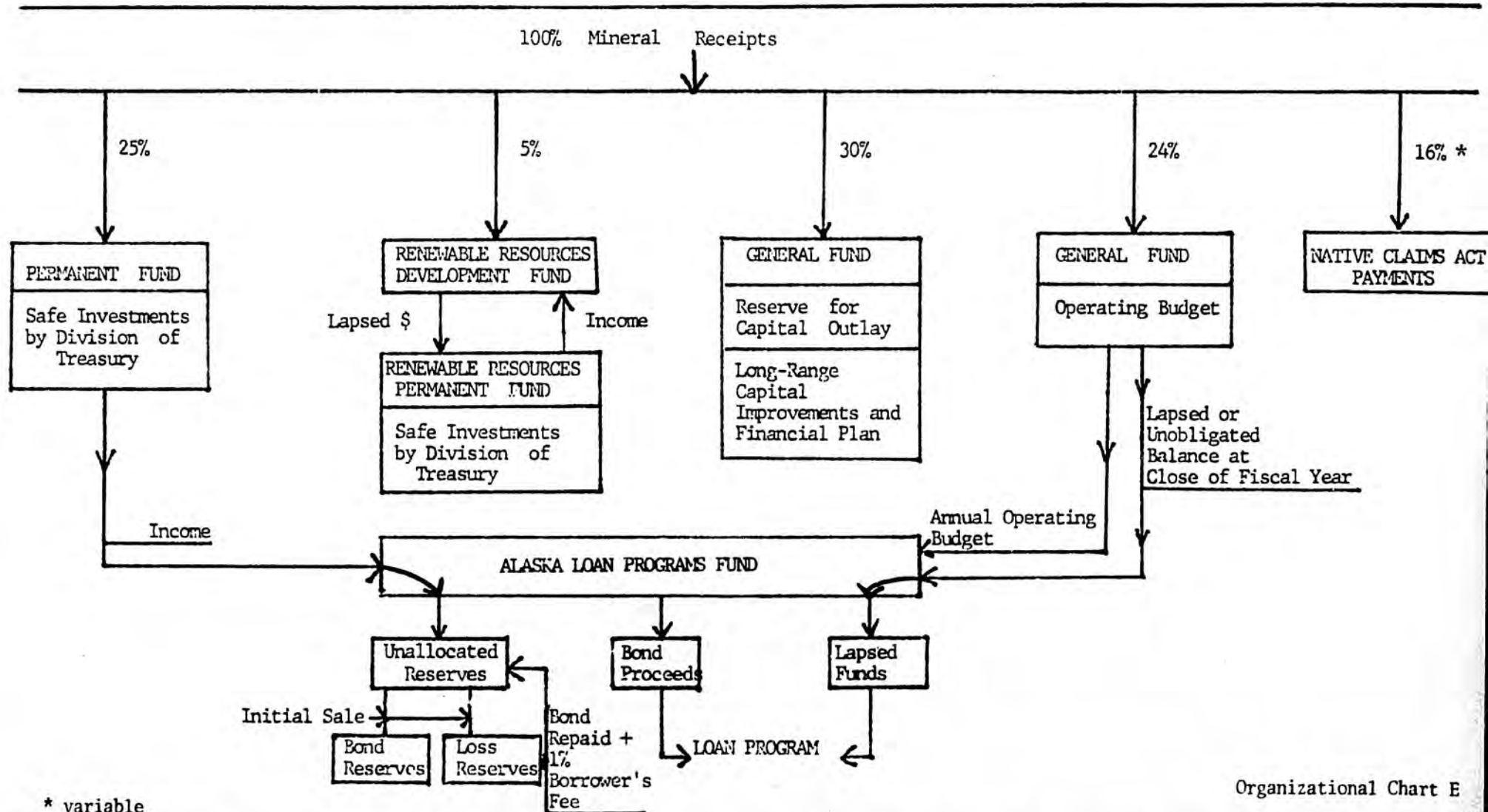
ORGANIZATIONAL CHART PER SENATE BILL 429
Senate Committee on the Permanent Fund

- 1 Manages all state funds including permanent fund
- 2 Collection agency for Alaska Loan Program
- 3 Provides equity participation or interest incentives through the Alaska Loan Program

Organizational Chart D

SENATE INTERIM COMMITTEE PROPOSED LEGISLATION

22



* variable

Organizational Chart E

Future needs of Alaska's citizens can be met from the savings accounts within the Alaska Loan Program, which are: all unallocated reserves (income from Permanent Fund), unallocated reserve subaccount (General Fund contribution account).

COMPARATIVE SAMPLES

The following Samples A through D have been prepared by the Senate Special Committee on the Permanent Fund.

Sample A

A Comparative Sample of Available Residential Loans and the Senate Proposed Alaska Loan Program in Urban Alaska

Sample B

A Comparative Sample of Available Residential Loans and the Senate Proposed Alaska Loan Program in Rural Alaska

Sample C

A Comparative Sample of Available Home Improvement Loans and the Senate Proposed Alaska Loan Program

Sample D

A Comparative Sample of Available Business Loans and the Senate Proposed Alaska Loan Program

A Comparative Sample of Available Residential Loans
And the Senate Proposed Alaska Loan Program
In Urban Alaska

TERM: 30 year loan

SAMPLE: \$50,000 home

Lending Agency	Downpayment	Interest	Monthly Pymts	Insurance	Total Cost
Federal National Mortgage Association	\$ 5,000	9.5%	\$ 378.39	\$ 7,500.00	\$ 148,720.40
State Veterans Loan Program	5,000	7.5%	314.65	7,500.00	125,774.00
Federal Housing Authority	1,500	8.5%	372.93	7,500.00	143,254.80
Alaska Housing Finance Corporation	5,000	7.75%	322.39	7,500.00	128,560.40
State Banks (not available; pro forma only)	5,000	9.2%	368.21	7,500.00	145,055.60
Alaska Loan Program	5,000	7.0%	299.39	6,699.60	119,480.00
Veteran Incentive	5,000	6.0%	269.80	6,192.00	108,320.00

- ¹ All the programs have a 10% downpayment with the exception of the Federal Housing Authority which requires 3%.
- ² Insurance fees are computed at a .5% of the value of the home over a 30 year period and are approximate averages only. The Alaska Loan Program insurance fee is based on an optional .6% added to the 7% interest cost and covers the mortgage only.
- ³ Interest quoted is taken from bank questionnaires received by the Senate Committee on the Permanent Fund

COMPARATIVE SAMPLES

The following Samples A through D have been prepared by the Senate Special Committee on the Permanent Fund.

Sample A

A Comparative Sample of Available Residential Loans and the Senate Proposed Alaska Loan Program in Urban Alaska

Sample B

A Comparative Sample of Available Residential Loans and the Senate Proposed Alaska Loan Program in Rural Alaska

Sample C

A Comparative Sample of Available Home Improvement Loans and the Senate Proposed Alaska Loan Program

Sample D

A Comparative Sample of Available Business Loans and the Senate Proposed Alaska Loan Program

A Comparative Sample of Available Residential Loans
And the Senate Proposed Alaska Loan Program
In Rural Alaska

TERM: 30 year loan

SAMPLE: \$50,000 home

Lending Agency	Downpayment ¹	Interest	Monthly Pymts	Insurance ²	Total Cost
Federal National Mortgage Association	\$ 5,000.	9.5%	\$ 378.39	\$ 30,000.00	\$ 171,220.40
State Veterans Loan Program	5,000	7.5%	314.65	30,000.00	148,274.00
Federal Housing Authority	1,500	8.5%	372.93	30,000.00	165,754.80
Alaska Housing Finance Corporation	5,000	7.75%	322.39	30,000.00	151,060.40
State Banks ³ (not available; pro forma only)	5,000	9.6%	381.69	30,000.00	172,408.40
Farmer's Home Administration	NONE	8.0%	366.89	30,000.00	162,080.40
Alaska Loan Program	2,500	7.0%	316.02	6,832.80	123,100.00
Veteran Incentive	2,500	6.0%	284.79	6,555.60	111,580.00

¹ All the programs have 10% down with the exception of Farmer's Home (none); FHA (3%); and the Alaska Loan Program (5% for most of rural Alaska).

² Insurance fees are computed at a 2% of value of the home over a 30 year period and is a low estimate. The Alaska Loan Program insurance fee is based on an optional .6% added to the 7% interest costs and covers the mortgage only.

³ Interest quoted is taken from bank questionnaires received by the Senate Committee on the the Permanent Fund

A Comparative Sample of Available Home Improvement Loans
And the Senate Proposed Alaska Loan Program

TERM: 15 years

SAMPLE: \$10,000 Home Improvement Loan

Lending Agency	Interest	Monthly Payments	Total Cost
Farmer's Home (Rural AK only)	8.0%	\$ 95.57	\$ 17,202.60
AK Housing Finance Corporation (Rural AK only)	9.5%	104.43	18,717.40
State Bank ¹ (not readily available; pro forma only)	9.6%	105.04	18,907.20 (Rural)
	9.2%	102.63	18,473.40 (Urban)
Alaska Loan Program	7.0%	89.89	16,180.20
Veterans Incentive	6.0%	84.39	15,190.20

¹ Interest quoted is taken from bank questionnaire responses received by the Senate Committee on the Permanent Fund

A Comparative Sample of Available Business Loans
And the Senate Proposed Alaska Loan Program

TERM: 15 years

SAMPLE: \$125,000 business loan
(no equipment costs)

Lending Agency	Value Limitation	Interest	Monthly Payments	Total Cost
Small Business Administration	90%	9.5%	\$ 1,305.30	\$ 234,954.00
Bank (pro forma only)	75%	9.5%	1,305.30	234,954.00 URBAN
	75%	9.8%	1,306.50	235,170.00 RURAL
Small Business Loan Fund (State)	75%	8.0%	1,194.60	215,028.00
State Veterans Loan Fund	75%	7.5%	1,158.80	208,584.00
Alaska Loan Program	90%	7.0%	1,123.60	202,248.00
Veterans Incentive	90%	6.0%	1,054.90	189,882.00

The actual maximum loan amounts for each program listed as follows:

SBA guarantees
Bank
Small Business (state)
Alaska Loan Program

None given
Varies statewide
\$ 300,000
\$ 500,000 per individual
\$ 5 million for group of 10
individuals per project

I L L U S T R A T I O N S

The following Illustrations have been prepared by the Senate Special Committee on the Permanent Fund and give examples of loans that could be made through the Alaska Loan Program and the Renewable Resources Division.

Loans Made in Conjunction with the Renewable Resources Division

Illustration A

Bottom Fish Processing Plant

Illustration B

Fishing Boat

Attachment 1

Cumulative amounts in the Renewable Resources Development Fund

Commercial Loans Made through the Alaska Loan Program

Illustration C

Retail Store and Housing Development Project

RENEWABLE RESOURCES DIVISION

Illustration A

PROJECT: Bottom Fish Processing Plant

		<u>Alaska Loan Program</u>		<u>Equity</u>
Real Estate	\$ 3,000,000	90%	\$2,700,000	\$300,000
Equipment	2,000,000	80%	1,600,000	400,000
	\$ 5,000,000		\$4,300,000	\$700,000

A 50% equity position by the Renewable Resources Development Fund = \$350,000

Interest Cost = 7% over the life of the loan.

Note: With section 284 of the Alaska Loan Program, included in the above cost are:

- 1) Interest during construction (12 - 18 months)
- 2) Interest, costs, and working capital for 30 months

Therefore, the project has not paid anything from earnings for 48 months.

RENEWABLE RESOURCES DIVISION

Illustration B

PROJECT: Fishing Boat

			Alaska Loan Program	Equity
Fishing vessel	\$ 150,000	90%	\$ 135,000	\$ 15,000
Equipment	30,000	80%	24,000	6,000
	\$ 180,000		\$ 159,000	\$ 21,000

Division of Renewable Resources may:

- 1) supply an interest incentive
- 2) hold 50% equity position equal to \$ 10,500.

<u>YEAR END</u>	<u>YEARLY INCOME</u>	<u>CUMULATIVE AMOUNT RENEWABLE RESOURCES DEVELOPMENT FUND</u>	<u>PERMANENT FUND</u>	<u>COMBINED TOTAL</u>
1977	.7	.7	3.3	4.0
1978	10.3	11.0	54.8	65.8
1979	19.4	30.4	152.0	182.4
1980	29.5	59.9	299.6	359.5
1981	32.0	91.9	459.4	551.3
1982	34.5	126.4	632.1	758.5
1983	37.2	163.6	818.2	981.8
1984	48.9	212.5	1062.5	1275.0
1985	52.3	264.8	1323.8	1588.6
1986	55.8	320.6	1603.0	1923.6
1987	59.6	380.2	1901.2	2281.4
1988	56.3	436.5	2182.5	2619.0
1989	51.3	487.8	2438.7	2926.5
1990	52.9	540.7	2703.5	3244.2
1991	38.9	579.6	2898.0	3477.6
1992	29.9	609.5	3047.3	3656.8
1993	23.8	633.3	3166.5	3799.8
1994	22.9	656.2	3280.7	3936.9
1995	31.0	687.2	3436.2	4123.4
1996	32.3	719.5	3597.6	4317.1
1997	33.6	753.1	3765.6	4518.7
1998	24.4	777.5	3887.5	4665.0
1999	23.5	801.0	4004.8	4805.8
2000	22.1	832.1	4115.5	4938.6
2001	21.5	844.6	4222.7	5067.3
2002	22.1	866.7	4330.3	5197.0
2003	22.1	888.8	4444.2	5333.0
2004	23.8	912.6	4562.8	5475.4
2005	24.9	937.5	4687.2	5624.7

Prepared by the Senate Special Committee on the Permanent Fund
Based on revenue projections from Milt Barker, Division of Legislative Finance

ALASKA LOAN PROGRAM

COMMERCIAL LOANS

Illustration C

PROJECT: Retail Store

		<u>Alaska Loan Program</u>		<u>Equity</u>
Real Estate	\$ 400,000	90%	\$ 360,000	\$ 40,000
Equipment	100,000	80%	80,000	20,000
	\$ 500,000		\$ 440,000	\$ 60,000

PROJECT: Housing Development *

		<u>Alaska Loan Program</u>		<u>Equity</u>
Real Estate	\$5,000,000	90%	\$ 4,500,000	\$ 500,000

* Project has participation of 10 individuals each assuming individual liability.

G R A P H S

The following Graphs A through D have been prepared by the Senate Special Committee on the Permanent Fund and are based on revenue projections prepared by Milt Barker, Division of Legislative Finance.

Graph A

Charts 30% Permanent Fund (includes the 5% for the renewable resources development fund) and the General Fund (minus the Native Claims).

Graph B

Same illustration as Graph A with a different set of assumptions.

Graph C

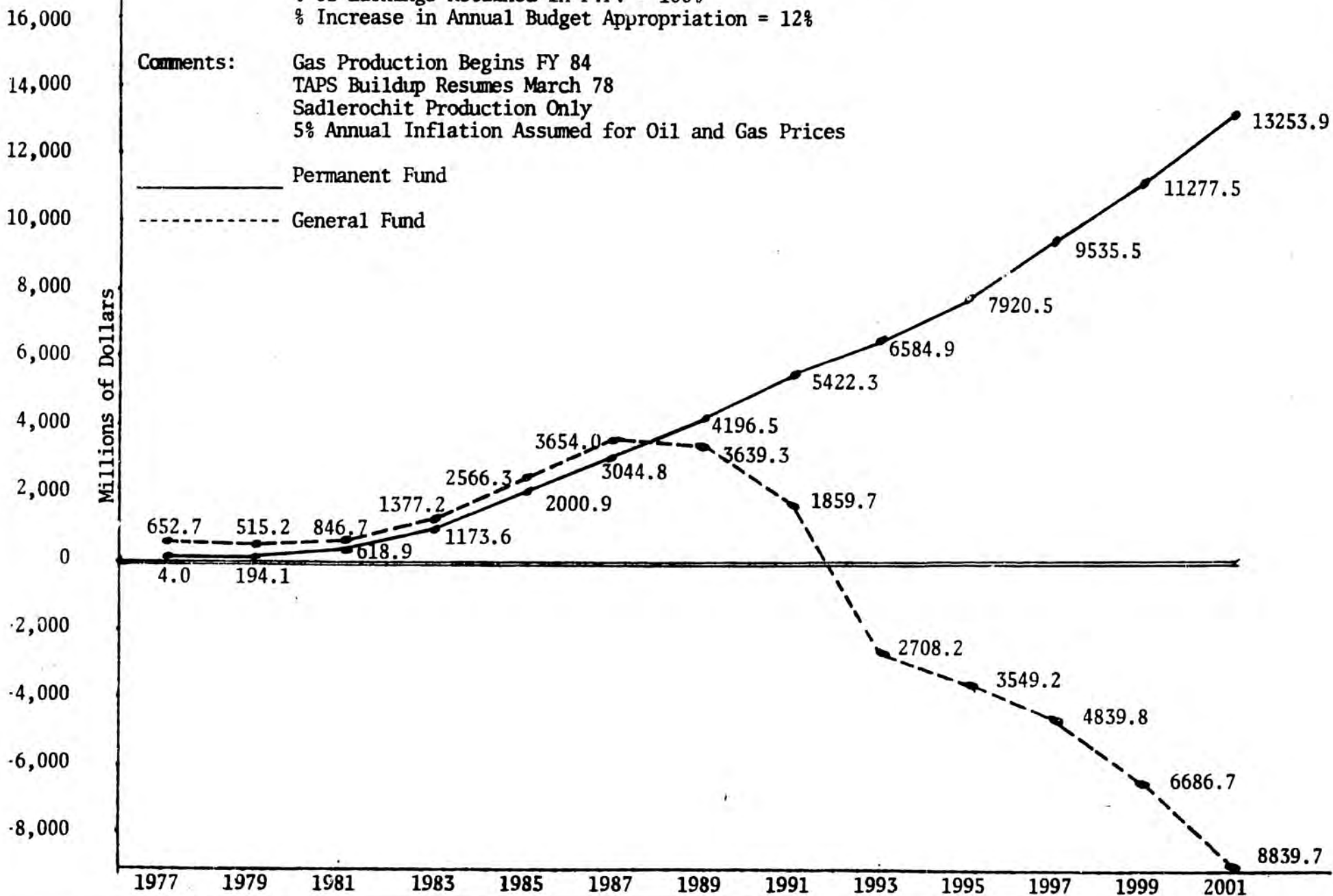
The Senate Permanent Fund legislation proposes that 30% of the oil and gas receipts will be set aside in a reserve for capital outlay within the General Fund and used to finance non-recurring expenditures. This graph illustrates projected growth of the capital outlay reserve and the General Fund (minus the Native Claims). Permanent Fund projections have not been included.

Graph D

Same illustration as Graph C with a different set of assumptions.

Assumptions: Annual Rate of Interest = 7%
 % of Current Year Expend. in G.F. Cash Balance = 20%
 % of Royalties, Leases, Bonuses Deposited in P.F. = 30%
 % of Earnings Retained in P.F. = 100%
 % Increase in Annual Budget Appropriation = 12%

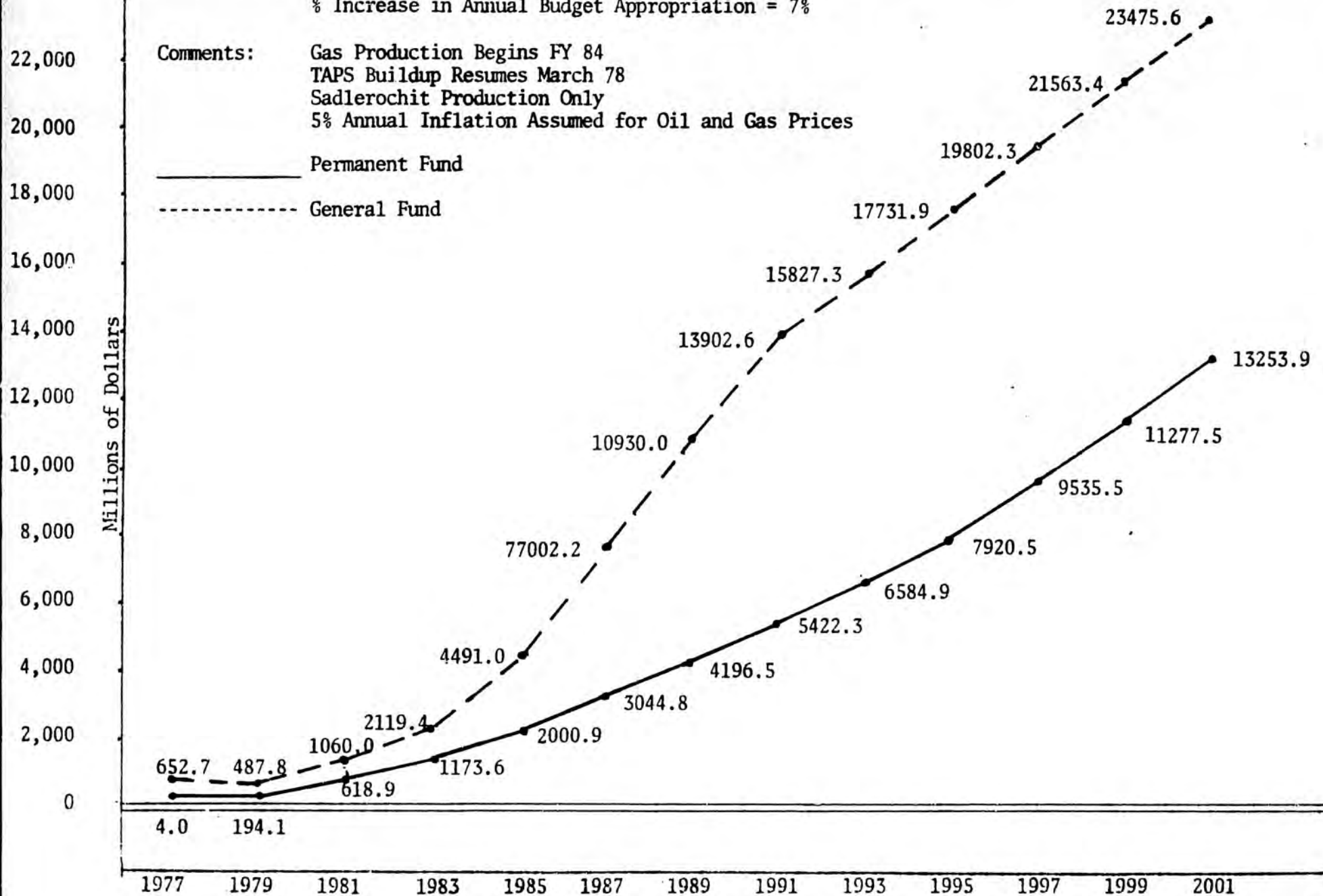
Comments: Gas Production Begins FY 84
 TAPS Buildup Resumes March 78
 Sadlerochit Production Only
 5% Annual Inflation Assumed for Oil and Gas Prices



Assumptions: Annual Rate of Interest = 7%
 % of Current Year Expend. in G.F. Cash Balance = 20%
 % of Royalties, Leases, Bonuses Deposited in P.F. = 30%
 % of Earnings Retained in P.F. = 100%
 % Increase in Annual Budget Appropriation = 7%

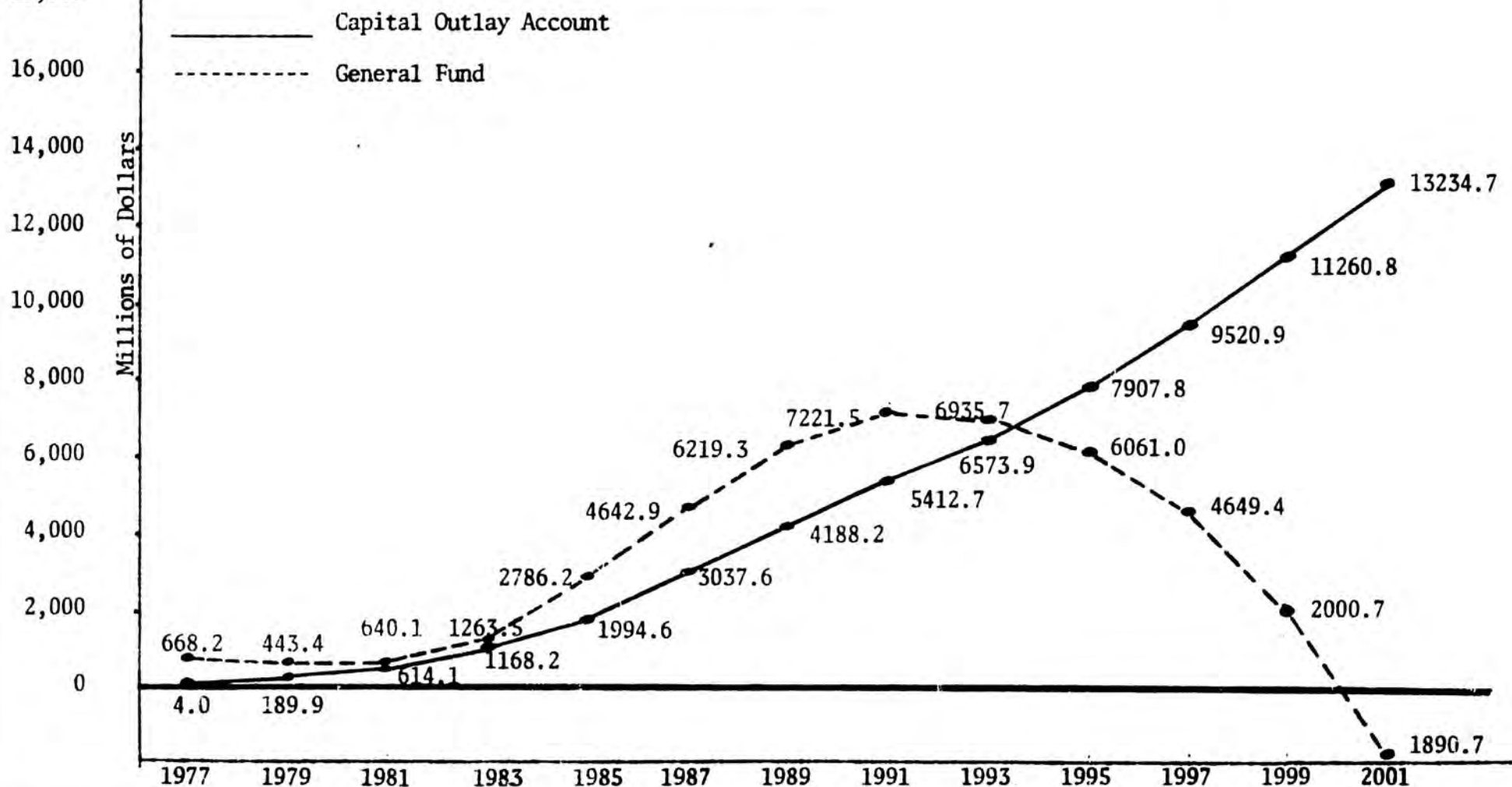
Comments: Gas Production Begins FY 84
 TAPS Buildup Resumes March 78
 Sadlerochit Production Only
 5% Annual Inflation Assumed for Oil and Gas Prices

———— Permanent Fund
 - - - - - General Fund



Assumptions: Annual Rate of Interest = 7%
 % of Current Year Expend. in G.F. Cash Balance = 20%
 % of Royalties Leases and Bonuses Deposited
 in Capital Outlay Account = 30%
 Annual % Increase in Budget Approp. = 7%

Comments: Gas Production Begins FY 84
 TAPS Buildup Resumes March 78
 Sadlerochit Production Only
 5% Annual Inflation Assumed for Oil and Gas Prices
 ICC Proposed Tariff and No Field Costs
 No Lease Bonus Revenue
 Native Claims Deducted from General Fund

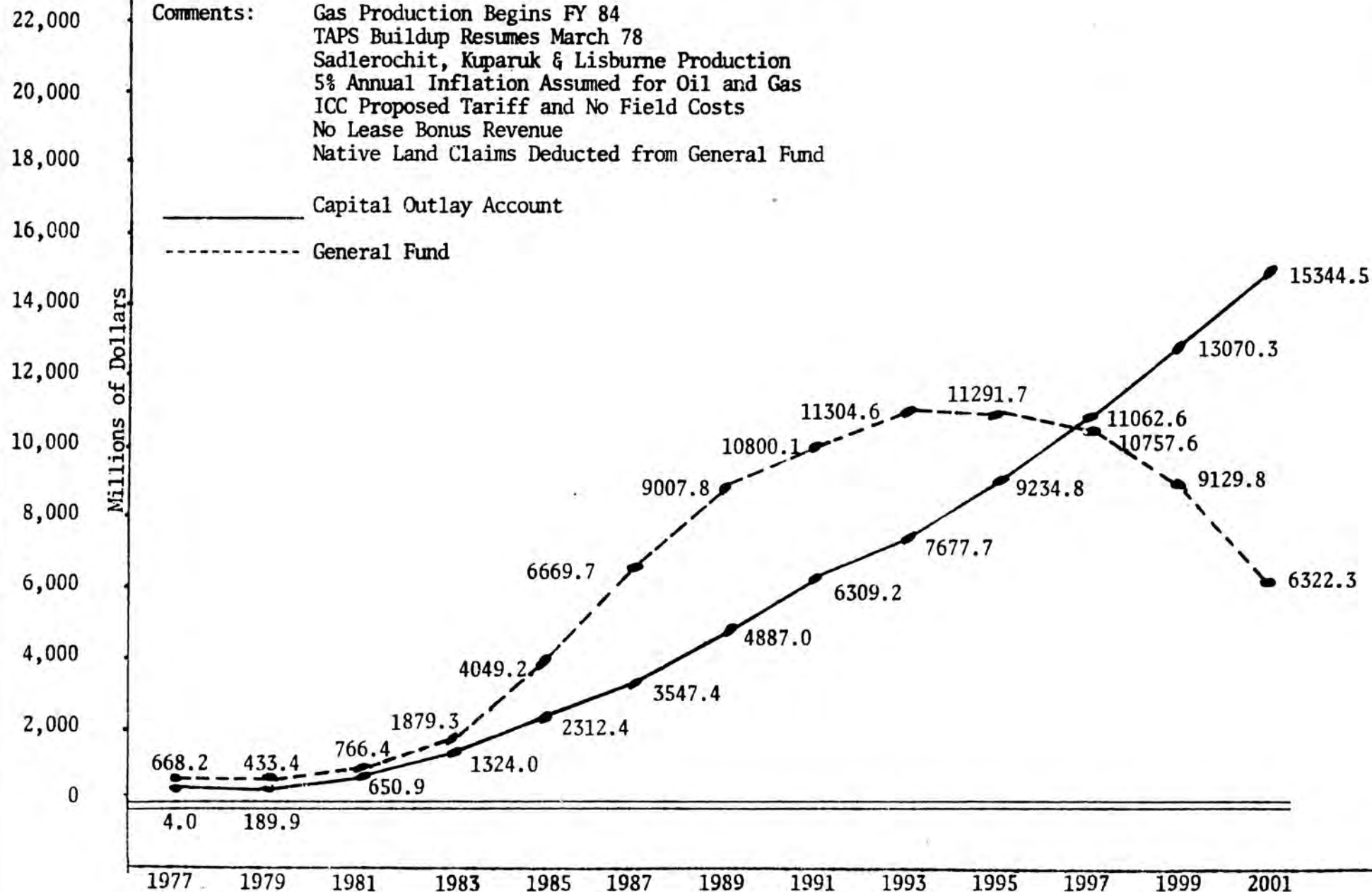


Assumptions: Annual Rate of Interest = 7%
 % of Current Year Expend. in G.F. Cash Bal = 20%
 % of Royalties Leases and Bonuses Deposited
 Capital Outlay Account = 30%
 Annual % Increase in Budget Appropriation = 7%

Comments: Gas Production Begins FY 84
 TAPS Buildup Resumes March 78
 Sadlerochit, Kuparuk & Lisburne Production
 5% Annual Inflation Assumed for Oil and Gas
 ICC Proposed Tariff and No Field Costs
 No Lease Bonus Revenue
 Native Land Claims Deducted from General Fund

Capital Outlay Account

General Fund



ERIC E. WOHLFORTH
ROBERT D. FLINT
TIMOTHY C. MIDDLETON

LAW OFFICES
WOHLFORTH & FLINT
A PROFESSIONAL CORPORATION
645 G STREET
ANCHORAGE, ALASKA 99501

TELEPHONE
AREA CODE 907
274-2519
272-9409

M E M O R A N D U M

TO: Commissioner Sterling Gallagher ✓
Department of Revenue

Alaska Housing Finance Corporation

Alaska Municipal Bond Bank Authority

FROM: Wohlforth & Flint

DATE: February 6, 1978

SUBJECT: Senate Bill 429 "An Act Relating to the Alaska
Bond Programs Fund, the Alaska Permanent Fund,
the Renewable Resources Development Fund, and
Other State Revenues; and Providing for an
Effective Date".

Pursuant to a request related to us by R. D.
Stevenson and Deputy Commissioner Edenso, we submit herewith
our analysis of the above bill.

Senate Bill 429 which was introduced in the Senate
on January 19, 1978 and referred to the Finance Committee, is
an extremely broad ranging bill which, among other things,
sets up a new Alaska Loan Programs Fund, sets the deposit
rate to the Permanent Fund at 25% of the receipts from the
delineated sources, outlines the criteria for investment of
Permanent Fund monies and creates various new State classi-
fied positions. In establishing the Alaska Loan Programs
Fund, SB 429 also effectively wipes out a major portion of
the present State loan programs without regard as to whether
such programs are being financed directly by the General
Fund or through the issuance of tax exempt bonds on the
public market. For example, it wipes out or curtails the
activities of the Alaska Housing Finance Corporation, the
Alaska Municipal Bond Bank Authority, the Alaska Industrial
Development Authority and the Veteran's Loan Program among
others. It also prohibits municipalities from issuing any
revenue bond which would be an industrial development bond
under Section 103 of the Internal Revenue Code. This pro-
vision, for example, would have prohibited issuance by the

Memorandum
February 6, 1978
Page Two

City of Valdez of the \$1.263 billion Marine Terminal Revenue Bonds issued during 1977, a program which added \$12,630,000 to the City's treasury last year. Further, the bill requires deposit of State funds in Alaska banks which offer the highest bid for State funds and sets some extremely stringent residency requirements on loan eligibility and on hire of residents on projects funded by these loans.

Given the broad scope of the bill, the following is an attempt to review in brief form each section.

AS 45.96.010. PURPOSE: The purpose clause recites that a single loan fund of the State will provide a strong reassurance of repayment of loans and thereby lower the costs of borrowing to the State.

AS 45.96.020. CREATION OF FUND: This section creates the Alaska Loan Programs Fund within the Department of Commerce and Economic Development. Further, within that department there is created a division of Alaska loan programs.

AS 45.96.030. REVENUE BONDING AUTHORITY: This section provides that the State Bond Committee may issue bonds and bond anticipation notes in order to carry out the fund's purposes. The details of the bond provisions which extend through Section 45.96.110 will be left for closer examination if it is anticipated that this concept shows signs of legislative acceptance.

AS 45.96.120. UNALLOCATED RESERVE ACCOUNT: This section creates a special account called the "unallocated reserve account" to secure obligations of the fund. This section provides that the income from the permanent fund shall be paid to the Commissioner of Revenue for the purposes of the account. This section further states that amounts necessary to fund the capital reserve account established under Section 140 of this chapter, the fire insurance and liability reserve account established under Section 160 of this chapter, and the loss reserve account under Section 150 of this chapter, are allocated to those accounts in the amounts certified as necessary for those allocations by the Commissioner of Revenue and are hereby