

HOUSE / SENATE FINANCE COMMITTEE MINUTES - 1967-1982 2744



ALASKA ASSOCIATION OF SCHOOL ADMINISTRATORS

MEMORANDUM

EXECUTIVE COMMITTEE:

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TO: The Joint Session of the
Senate/House Finance Committee(s)

DATE: March 19, 1979

FROM: Ronald W. Hohman, President
Alaska Association of School
Administrators

SUBJECT: Superintendent's
Annual Legislative
Fly In, Legislative
Position Profile

PUBLIC SCHOOL FOUNDATION FORMULA

1. The Alaska Association of School Administrators voted without opposition to support the Finance Committee Substitute for Senate Bill 199 as offered by the Finance Committee on March 15, 1979. CS SB 199 (Finance) 3/15/79
2. The group also expressed concern about power equalization in any new bill before a statewide study could be completed.
3. The A.A.S.A. supports the concept of area differentials with a need for costs to be justified locally.

STUDENT TRANSPORTATION

A.A.S.A. supports 100% funding of D.O.E. approved transportation contracts between local education agencies and bus contractors.

IN LIEU OF LOCAL TAXES

The equity of State funding to school districts must be addressed. Reducing in lieu of local taxes compresses disparity.

Reducing in lieu of local taxes this year destroys forward funding concept.

Support existing in lieu of local taxes 100% with study to promote equity for action for next session.

UNEMPLOYMENT COMPENSATION

Most school classified employees are seasonal workers. As such the positions are advertised and filled on the knowledge that they exist from late August until early June. Allowing for the fringe benefits of this labor group is inconsistent with the certificated staff, and creates an inappropriate expenditure burden on the district and state budgets.

WORKMANS COMPENSATION

Large need for a definition of work related ailments.

TAX CREDITS

The association recognizes the dangers of any efforts which detracts from the principle of "Separation of church and state".

Tax credit for education is viewed as an encroachment upon this principle.

The association believes that the State meets its obligation to provide education through its system of public schools.

The association is opposed to any program of Tax Credit for education.

RECALL OF PUBLIC OFFICIALS

We support the original draft of HB 245 revising state statutes on the recall of public officials. Legislation is needed to:

- 1) balance the right of recall against a public official's right to defend their position,
- 2) make all state recall provisions more compatible with one another.

Specifically, any petition for the recall of a public official should clearly show:

- 1) that a successful recall will result in the removal of that official from office,
- 2) that only registered voters may sign the petition,
- 3) the charge against the public official, clearly stated,
- 4) the response of the public official to the charge,
- 5) by affidavit that the contents of the petition were not misrepresented by the person circulating it.

Such provisions would still preserve the right of recall. The public official, however, would have a fair opportunity to explain their position prior to the election. Such a law would be more consistent with some of the requirements for initiatives in Alaska and recall provisions in other states.

COMMUNITY SCHOOLS

The current law should at least be extended past July 1, 1979. Current funding levels enable districts to only help minimal programs operating, but at least current funding levels will keep community schools from dying in Alaska. We support the concept that the original community education legislation should be extended and that efforts should continue to fund community schools at the 2% of foundation level.

ACTIVITIES ASSOCIATION

The Activities Association needs to be a separate and independent agency because:

1. Operating costs of the association will be lower without the control of state public employee rules.
2. Member schools and their school districts control the association. Thus, district control can be utilized in making policy.
3. An appeals committee of a cross section of interested persons can be developed rather than the State School Board acting as the appeals committee.
4. The new bill does clean up the language used in the present regulations.

GENERAL FUND BALANCE

School districts, as well as any monetary based organization, need an operating surplus. There are numerous logical and rationale arguments to support this principle. During recent months much review has been made on the school districts general fund balance surpluses. This review has allowed some to make an interpretation conflicting with successful and prudent management. Space here does not allow for explanations of each case. However, we do hope you will ask for our interpretations and explanations when the issue is timely. Audit reports can best be used as a drunk uses a lamp post, "for support rather than illumination", and that, "what a bikini bathing suit reveals is very suggestive - but what it hides is vital".

3/19/79

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

NAME	TITLE	AGENCY
Ann Chase	Educ. Admin. Asst.	Sitka Area Sch. Dist.
Dale Lunsford	Supt.	Bristol Bay Borough School
Dick Bower	Supt.	Alutian Region S. D.
Bob Greene	EXEC.	Assn. of Alc. Sch. Bds.
Sum G. Murphy		Lower Kuskokwim S. D.
Hans Pardy	asst. super.	Dillingham City Sch. Dist.
Larry Zyland	Supt.	Railbelt Schools
Richard W. Heath	Supt.	Nome City Schools
Charles R. White	Supt.	La Sola & Peninsula Schools
PETER FLISOCK	Supt.	GALENA CITY SCH. DIST.
Norman Rousey	Supt.	Matanuska - Susitna
Walter G. Gans	Supt.	Kenai School Dist.
Robert McConnell	Supt.	WEAQUELL,
Bill Gregory	Supt.	Unalakaska City School District
Ed Gornion	Supt.	Bering Strait Sch. Dist.
Arvi A. Peterson	Supt.	Alaska Gateway Sch. Dist.
Alon Ruffner	Supt.	North Slope Bor. Sch. Dist.
Richard J. Haring	Supt.	Gratiot School District

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

NAME	TITLE	AGENCY
Stephen McPhetres	Supt.	Haines
Bob <u>Nave</u> Slyce	Supt	Southwest Region
John Anttonen	Supt	Kodiak

Subcommittee on SB 15

Subject: Alaska Longevity Bonus Increase

Sen. Hackney, John Lucas, Vern L. Perry (Pioneer Benefits)

Log #	Description
	Invited AARP representative who did not attend.

Memo submitted to Sen. Hackney by Fiscal Analyst John Lucas.

Bonus began at \$100, went to \$125 (July 1, 1976) and to \$150 (July 1, 1978) — Program commenced 1973

226 Vern Perry — Admin. is against Bill — it represents a greater increase than inflation

Last year program increased \$25.00.

Gov. last year sponsored legislation to tie bonus into cost of living

254 J. Lucas — wouldn't C-O-I be greater increase over time than periodic \$25 increases?

264 Perry — I have some reluctance from a program standpoint to seeing it go higher and higher when not many Alaskans are eligible.

287 Perry — if you started from beginning of program and calculated C-O-I, the income to individuals monthly would be greater than contemplated by SB 15.

Subject: Subcommittee on SB 15 - Alaska Longevity Bonus Increase.

g # Description

311 Unint. Due to cutoff date on bonus program all taxpayers are paying for a program which applies only to a small percentage.

329 If bill creates too lush a program, those who do not qualify may begin to question the program.

345 Original bill was to assist those who came to Alaska before statehood rather than simply to keep those over 65 within the state.

362 Sen. Hackney - question re individual within state before statehood returning after absence from state.

Those attending school, in the military, or prison do not lose residency status.

One present prior to statehood - leaving & returning - would have to begin the 25 yr. accumulation from second return.

413 Vern Lerry - cannot lecture Admin being against a-o-i increase - that would not be too far off a \$25.00 increase. (\$10.50)

414 Hackney - could we get these figures run out to the year 2000.

Subject: Subcommittee on SB 15 - Alaska Longevity
Bonus Increase

Pg #	Description
438	Lucas - we could use a 10% factor.
	Hackney - we could use 9%
	Lucas - it is anticipated to go to 12% this year.
	Hackney - let's use the 9%.
458	Vern Perry - statement re snowball effect of interest and payment increases.
468	Hackney - statement re disparity when increases are not regular or based on inflation.
481	Lucas statement re \$380 million increase based on 9%. This is based on participation through 2025.
497	Vern Perry - Bradley has bill to set aside cut off date.
	Gov. allowed the bill to become law w/o signature because Borsick (Att. Gen. at the time) questioned legality.
	For this reason, the bill was not tied into social services program which would carry residency requirements.
530	Vern Perry - Bradley's bill requires 25 years residency and 65 years of age. It simply sets aside cut off date.
545	this would not become effective until 1980 (1960 + 25 years) Bradley bill also raises

Subject: Subcommittee on SB 15 - Alaska Longevity Bonus Increase.

g #	Description
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amount to \$175.00.

539 Program benefits people in need. Hate to see the program under scrutiny.

I am in the same position; so are my children, we can live here all our lives, turn 65 and never qualify.

I do think the individuals who qualify under the cutoff should have at least been 18 at the time of statehood.

Vern have never given raises two years in a row. Admin. is 100% opposed

Vern if you tie it in w/ cost of living then it becomes a welfare program relying on residency and need.

Hackney - statement to effect that bonus payments are relied upon for remaining in Alaska

539 Vern Agreement that the program is definitely beneficial to a great many.

Need.
Lucas - legal opinion re: 59 date.

welfare question

Vern - statement re: danger in tying bonus into cost of living.

Adjourn 2:30 pm.

Tape #: SF 79-16-2RECORDER LOGDate: 2-28-79Beg. #: 555End #: SF 79-17-1 (1-358)General Subject: Natural Resources BudgetFish & Wildlife ProtectionPresent: Senators Hohman, Dankworth, Bennett, Hackney & Ray; Fred Walstead, Ray
Tramblay, & Jos MaPranath

Log #	Description
555	Introduction of Walstead, Trimblay & MaPranath
575	Walstead on vessels & budget
580	17 people to operate 3 large vessels
589	Question by Dankworth on 200 mile limit
598	Answer by Walstead
610	1.8 million lowest bid on vessel
616	used vessel market - crew potential 16 - 25 persons - too much crew for our needs
630	vessel built in Louisiana - not capable for Bering Sea
636	plans still exist for 120' to 140' class - would still like to build
640	Question by Bennett - Ans. by Walstead regarding vessels operating and location of vessels.
652	Bennett: weaponry on ships - Ans. by Walstead
660	Bennett: do personnel on these vessels carry hand guns? Ans. by Walstead - Yes. Not standard item.
669	Bennett: Question regarding personnel making arrests. Ans by Walstead
675	Amt. of sea time (days) per vessel
683	Dankworth: Question re. "Resolution" Ans. by Walstead
692	Dankworth: Do you have capability of protecting our shores? Ans. Walstead. Poor job because we are inadequately equipped.

General Subject: Natural Resources Budget

Log #	Description
710	Chemical by Japanese to keep crab good without cooking before freezing
720	Bennett: Foreign fisheries Fleet: Ans. by Walstad
730	Coast Guard not doing job of protecting our waters regarding fishing
739	Hackney: 4 troopers denied. Is this part of inadequate personnel?
745	Ans. by Walstad
CHANGE TAPE SF 79-17-1	
10	Fishing bottom fish for bait - 35¢ per pound in Kodiak
25	Ice build up - jeopardize boat
37	Dankworth - why did you give up \$1.8 million for boat? Ans. Walstad
	not a good year with money situation as it is
55	Dankworth: talking about bottom fish, but we need to protect it
74	Walstad - problems in seizing vessel - fishing in closed water
	penalty - \$10,000 fine
91	Hackney - should fines increase? Ans. Walstad - Yes with inflation
103	Hohman: money included in bond issue for new vessel? Ans. No.
115	Trimblay - Aircraft section - Fish & Wildlife getting 85% of
	services 23 aircraft & 2 helicopters
133	Trimblay: 142 pilots
140	2 commercial pilots
147	Troopers have 3 leased aircraft
154	8 mechanics & 1 electronic technician
165	Hohman - plane built in Alaska
174	Hohman - have you purchased some Cubs? Why was Alaska builder not
	taken into consideration in latest bids? Ans. Trimblay.

General Subject: Natural Resources budget

[illegible]

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SENATE FINANCE COMMITTEE MINUTES

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SENATE FINANCE COMMITTEE MINUTES

RESOLUTIONS

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MINUTES
SENATE FINANCE COMMITTEE
January 15, 1980
9:10 a.m.

Chairman Sackett convened the meeting at approximately 9:10 a.m. All committee members were present with the exception of Senator Hohman. Also in attendance were Senators Kerttula and Fahrenkamp; Legislative Finance Fiscal Analysts Alison Elgee, Bob Schroeder, Dave Scott, and Bob Grogan; Administrative Assistants to Senate Finance Garrey Peska and Bill Hogan; and representatives from the media including Joe LaRocca.

ATTENDANCE

The Chairman advised that the meeting was convened for assignment of unassigned legislation in committee and discussion relative to subcommittee work on the forthcoming budget. He stated that during the past three days he had met with fiscal analysts for review of budget recommendations from state agencies and the Governor's Office. It appears that while there remain some complications "in bringing the budget down," the budget appears to basically be "in pretty good shape," with the exception of NRMEC. A long standing argument between the Department of Natural Resources and Budget & Management concerning format has resulted in a FY 81 NRMEC budget which is "in bad shape."

FY 81
BUDGET

NRMEC

Further, the operating budget has in excess of 1,000 new positions. Some new positions represent CIP positions transferred to General Fund (approximately \$8,000,000 worth fall into this category).

NEW
POSITIONS

The Chairman set forth the following guidelines to be used for subcommittee budget review:

BUDGET
REVIEW
GUIDELINES

1. Committee position should be that no new positions are necessary. Since Alaska has a static population of approximately 400,000, no unusual increase in state employees appears necessary to continue state-provided services.
2. Vacancy and turnover factors have been "pumped back" into agency budgets. Subcommittees should look at each category in terms of vacancy and limit it to 3 to 5 percent.

3. If possible, travel should be reduced in the FY 81 budget as it was for FY 80. The Chairman advised that the FY 80 budget reduction for travel effected no apparent reduction in services statewide.

Supplemental requests must be submitted to Finance by February 25, 1980. After that date, Budget Amendments will be taken up by a Committee of the Whole. In order to have the budget completed on time, a deadline must be placed on such amendments.

Close-out of budget categories is to commence by April 10, 1980.

Subcommittee assignments for budget review are continued from last session:

EDUCATION	Hackney (Ch.), Dankworth, Hohman
U OF A	Committee of the Whole
HEALTH	Ray (Ch.), Hackney, Sumner
NATURAL RESOURCES	Committee of the Whole
PUBLIC PROTECTION	Bennett (Ch.) Dankworth, Ray
JUSTICE	Sackett (Ch.), Hohman, Bennett
DEVELOPMENT	Sumner (Ch.), Dankworth, Sackett
TRANSPORTATION	Hohman (Ch.), Hackney, Dankworth
GENERAL GOVERN- MENT	Dankworth (Ch.), Ray, Bennett
SOCIAL SERVICES	Ray (Ch.), Hackney, Sumner

The Chairman advised he is having all CIP positions researched, adding that he recommends budgeting all such positions regardless of funding. Such budgeting represents an opportunity to "get a handle" on CIP positions and perhaps decrease project costs.

Senator Ray attested to the fact that some new positions represent employees transferred from temporary employment to permanent positions. He suggested that subcommittees check with departments within their scope of review prior to disallowing new positions to be certain that the new position does not represent an employee who has previously been temporary and converted to permanent within the FY 81 budget.

Senator Ray further directed committee attention to the soon-to-be printed report by the Blue Ribbon Commission on Employment. The report defines some problem areas and recommendations which should allow the legislature to

better control classification and employment of state employees.

Chairman Sackett advised of his concern for state employees, stating that one of the first things he wants the committee to "take care of" is salaries. He added that he is also concerned about additions to the bureaucracy with no additional service to the public.

Bob Grogan, Fiscal Analyst for the NRMEC budget category, advised that he hoped to have something from the administration enabling him to commence analysis of the NRMEC budget within a week. Basically, NRMEC has "come in this year with an entirely new format;" the budget is more programmatic. Instead of a budget displaying line-item requests, committee members will be looking at NRMEC programs and asked to either fund or deny funding to specific programs.

The Department of Fish & Game budget shows a great increase for FY 81 in both the operating and capital budgets (approximately three times the Governor's previous budget).

Senator Ray attested to the fact that a number of capital budget positions within Fish & Game have not yet been filled. Such positions and funding have either (a) encountered problems with Budget and Management requirements or (b) been used to fund merit and in-step increases. Remaining funding only allows six-months employment. The Department has thus directly violated the intent of the Free Conference Committee. The Department has taken the position that it will use the funding in accordance with legislative wishes if it is not being used for something else.

Senator Dankworth further attested to "blatent disregard" of legislative intent by some state agencies.

The Chairman advised that the power delegated to the legislature is only that of appropriating funding and making law. It has no authority to administer.

The Chairman directed that each subcommittee chairman meet with personnel responsible for assigned budget categories to review agency requests and the Governor's recommendations. Such review should illuminate trends of change. The Chairman further advised the committee that the operating budget is "up from last year." Administrative attempts to slow down growth have apparently been unsuccessful.

The Chairman additionally advised that the Department of Labor, Health & Social Services, and Fish & Game have all effected some reorganization. It will be difficult in these departments to "find out where the bodies went."

The Chairman will check into the effect of short funding in Departments where such budgeting measures were employed.

The Chairman made the following bill assignments:

BILL
ASSIGNMENT

SB 67	-	Hohman
SB 92	-	Sumner
SB 122	-	Hohman
SB 124	-	Hackney
SB 168	-	Sumner
SB 221	-	Ray
SB 230	-	Sackett
SB 266	-	Ray
SB 271	-	Sackett
SB 290	-	Ray
SB 292	-	Sumner
SB 295	-	Sackett
SB 302	-	Bennett
SB 313	-	Sackett
SB 317	-	Dankworth
HB 18	-	Hohman
HB 36 am	-	Dankworth
CSHB 136		
(Fin)am	-	Hohman
HB 142	-	Bennett
HB 174am	-	Sackett
HB 207	-	Sumner
CSHB 220am	-	Ray
CSHB 243am	-	Hackney
HB 262am	-	Dankworth
HB 381	-	Ray

Chairman Sackett advised that the committee would meet the following morning, January 16, 1980, at 9:00 a.m., and that SB 313 (Act exempting property of air and motor freight carriers regulated by ATC from oil and gas exploration, production, and pipeline transportation property tax) would be brought on for hearing at that time.

The meeting adjourned at approximately 9:40 a.m.

ADJOURN

MINUTES
SENATE FINANCE COMMITTEE
January 16, 1980
9:10 a.m.

Chairman Sackett convened the meeting at approximately 9:10 a.m. All committee members were present with the exception of Senator Sumner who arrived shortly after the meeting commenced. Also in attendance were Senators Kerttula and Stimson; Joe Donohue, Deputy Commissioner of Taxation for the Department of Revenue; Fiscal Analysts with the Division of Legislative Finance; Administrative Assistants to Senate Finance Garrey Peska and Bill Hogan; and representatives of the media including Joe LaRocca.

ATTENDANCE

The Chairman moved to bring SB 313 (Act exempting property of air and motor freight carriers regulated by ATC from oil and gas exploration, production, and pipeline transportation property tax) before the committee for discussion, advising that he introduced the bill at the request of a friend, Neil Burke. Need for such legislation results from problems experienced under Egan-administration passed legislation. A number of exemptions from taxation are contained within the legislation. Included among those the Department of Revenue has determined are not exempt are carriers which haul oil rigs up to the North Slope. The Chairman stated that he didn't believe such vehicles were meant to be taxed under the law. If a rig is hauled from Seattle, SeaLand is not taxed; likewise, the railroad is not taxed for subsequent hauling, but the carrier thereafter is taxed in accordance with interpretation by the Department of Revenue.

Mr. Joe Donohue, Deputy Commissioner of Taxation appeared before committee to testify on behalf of the Department of Revenue. He advised that SB 313 represents legislation in response to the position the department has taken concerning the taxing of such carriers. The department has determined that such property is taxable. Such a determination has led to several lawsuits. The department feels it best to leave resolution of problems stemming from application of the tax to the courts. The department further believes that vehicles used to exploit state natural resources should be subject to taxation under existing law since transportation of such property (rigs) entails use of state facilities, airports, roads, etc.

JOE
DONOHUE
DEPT. OF
REVENUE

Mr. Donohue expressed the department opinion that SB 313 would undercut state oil and gas property taxation. The intent of such taxation is to capture as much revenue as possible, including transportation property. Under existing law there are two classes of exempted property: (1) permanent residences or office buildings and (2) intrastate pipelines. The transportation exemptions proposed by SB 313 lack justification when considered in light of the above classifications.

In addition, the revenue loss to the state would approximate \$190,000 with a similar loss of revenue to be experienced by municipalities. In fact the loss of revenue to municipalities may be even greater due to the elusiveness of the property. The state-administered tax permits greater revenue capture than municipalities would be able to effect.

In summary Mr. Donohue advised that the department has major substantive objections to the intent of the bill and some minor technical objections to its language.

Senator Ray raised questions concerning the classification of drilling rigs in relation to SB 313, and Mr. Donohue responded that if such property were owned by an air carrier which is regulated by ATC, it would fall within the exemption of SB 313.

Senator Ray raised questions concerning the leasing of equipment, and Mr. Donohue responded that if the leased property were owned by an ATC-regulated company, it would be exempt under SB 313. The bill would open a loophole for creation of numerous paper transactions in order that leased equipment be shown under the ownership of an ATC carrier, thus avoiding taxation.

Motion was made to amend SB 313, inserting "vehicular" between "or" and "property" on page 2, line 3. Senator Ray advised that he believed a carrier transporting wood or other such materials should be exempt, but if the carrier is being used by the oil companies, it should be taxed.

AMENDMENT
SB 313

Mr. Donohue advised that the department is seeking particular assets, aircraft, helicopters, etc., which are used more than 50% of the time under contract with the oil and gas industry.

The Chairman stated that his only concern was the fact that AIA had been in Alaska many years before the oil industry came in, and oil is just a small part of the company's total operation worldwide, yet AIA is being charged the oil and gas production tax by regulations which have been implemented by the department rather than by state law. Such a situation was never the intent of the original tax legislation.

Mr. Donohue responded that the department is not taxing AIA as a whole entity, but rather looking at particular assets which may or may not be dedicated to oil and gas use more than 50% in a given year.

The Chairman responded that it was never intended that aircraft be taxed under the oil and gas production tax. The Chairman advised that he had no objection to the amendment inserting "vehicular" into the language on page 2 of the bill.

Relative to property used under lease arrangement, Senator Sumner moved to insert "or leased" between "owned" and "by" on page 2, line 3 of SB 313, advising that he questioned the desirability of singling out one particular carrier for taxation simply because it happens to lease equipment to an oil company.

AMENDMENT
SB 313

Senator Ray stated his belief that since port facilities or airports leased primarily for oil exploration are taxed, a vehicle or aircraft used for the same purpose should also fall within the tax. The Chairman responded, "but aircraft and motor vehicles were never in the law," they were included by the department by regulation.

The Chairman advised that he had no objection to the two proposed amendments and moved for their adoption. No objection having been voiced, the amendments were approved as part of SB 313.

AMENDMENT
ADOPTED
SB 313

Senator Hohman then moved that SB 313 with attached amendment pass from committee with a do pass recommendation. No objection having been voiced, SB 313 passed from committee-- Senators Sackett, Sumner, Bennett, and Hohman signing do pass, Senators Dankworth, Hackney, and Ray signing no recommendation.

MOTION
SB 313
DO PASS

The Chairman advised that fiscal analyst Milt Barker would present to the committee a revenue forecast for FY 81.

REVENUE
FORECAST

Milt Barker distributed his handout, FY 81 Surplus (a copy of which is appended to these minutes), to committee members. The total estimate of revenues available for appropriation this year is \$5,131,000,000. If Veterans loans, CD's in Alaska banks and other illiquid assets are "knocked out," the remaining cash available is estimated at approximately \$4,200,000,000. Mr. Barker advised that since compiling the above estimates, he had been informed that \$110,000,000 for the Dinkum Sands Tract in the Beaufort lease should not have been included. Additional changes which have occurred since the above figures were gathered include:

- (1) The decontrol of Prudhoe Bay oil which started in January, 1980.
- (2) Escalation of oil prices the last few months of 1979.
- (3) Possible deduction of intangible drilling costs that would be allowed the oil companies under the Petroleum Corporate Income Tax (\$50,000,000).
- (4) Possibility of the Windfall Profits tax being applied to the state's royalty oil outflow. Congress is to resolve this issue shortly. The decision could have a \$300,000,000 a year effect on the state's revenue.

Senator Ray asked how much money is available for appropriation at the present time, and Mr. Barker replied that at the end of the fiscal year there would be an approximate surplus of "about a billion dollars after the budget and after all revenues have come in." The Chairman asked if the billion dollars included all supplementals, and Mr. Barker replied "no, that is based on appropriations to date."

Responding the Senator Ray's reasserted question concerning moneys available at the present time, Mr. Barker estimated slightly less than \$500,000,000, adding that revenue comes in faster during the latter half of the year. Mr. Barker further estimated that the state would have approximately \$1,500,000,000 on hand for appropriation as of July 1, 1980, "if we don't have Beaufort."

The Chairman advised that the budget is appropriated based on revenues estimated to come in during the year rather than actual cash on hand at the commencement of the fiscal year. The Chairman further advised that he wished to direct

committee attention to the fact that "although things look good," there are a number of factors looming before the state which could substantially alter its financial position, citing as an example the court proceeding involving the corporate income tax. Mr. Barker estimated that the suit could have possible impact of \$100,000,000 to \$1,000,000,000 upon the state.

Senator Ray attested to the fact that it is unconstitutional to propose a deficit budget (appropriate money the state does not have). He advised it might be valuable to get an opinion on this matter, not only from legislative staff but also from the Attorney General.

The Chairman announced that Dave Scott would conduct a budget overview of the University of Alaska budget at the next committee meeting.

The meeting adjourned at approximately 9:50 a.m.

ADJOURN

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

FINANCE DIVISION
POUCH WF-STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3795

MEMORANDUM

DATE: January 8, 1980

TO: Honorable Russ Meekins, Chairman
House Finance Committee

Honorable John Sackett, Chairman
Senate Finance Committee

FROM: Milt Barker, ^{MB} Fiscal Analyst
Legislative Finance Division

SUBJ: FY 81 Surplus

Current Legislative Finance estimates of general funds available for appropriation are:

General Funds
Available for Appropriation
(\$000)

\$5,131.9

Cash
Available for Appropriation
(\$000)

\$4,234.2

If the operating budget appropriation is 25% greater than FY 80 (the Governor is saying his submitted budget will be about 12% greater than FY 80) it would total \$1,219.4 million. If you assume a \$250.0 million capital budget you have total budget expenditures of \$1,469.4 million, leaving the following surplus available:

Surplus FY 81
General Funds
Available for appropriation
(\$000)

\$3,662.5

Surplus FY 81
Cash
Available for Appropriation
(\$000)

\$2,764.8

This being a year for bonds, the assumed capital appropriation of \$250 million may be a reasonable guess. It would be almost three times FY 80's capital budget of \$86.8 million.

January 8, 1980

The above estimates of revenue are based on the following assumptions:

1. (a) \$567.4 million Beaufort lease bonus revenue on state lands of which 25% goes to the Permanent Fund;
(b) No state revenue from disputed lands.
2. (a) Prudhoe oil decontrolled in increments of 4.6% per month starting January 1980;
(b) Assumed market price is \$25 per barrel through FY 81;
(c) 25% of royalty to Permanent Fund and 16% of royalty to Native Claims Fund leaves \$343.5 million to the General Fund from severance and royalty and \$143.6 million in additional corporate income tax receipts for the next 18 months.
3. Loss of \$150 million in petroleum corporate income tax receipts through FY 81 on the assumption that expensing of intangible drilling costs is permitted effective January 1, 1980. The Department of Revenue has proposed this change by regulation but it may require legislation. The Department has requested an AG's opinion to clarify this.
4. \$284 million increase in illiquid assets (loans and Alaskan CD's) in FY 80 as follows:
(a) \$90 million business loans;
(b) \$50 million to banks for housing loans;
(c) \$10 million credit union deposits;
(d) \$114 million AHFC bond guarantee;
(e) \$10 million AHFC rural housing;
(f) \$10 million AHFC mobile homes.
5. \$100 million increase in illiquid assets in FY 81.
6. No windfall profits tax on the state's royalty interest.
7. No direct investment in the gas line.
8. State petroleum corporate income tax sustained in courts.

MB:bf

MINUTES
SENATE FINANCE COMMITTEE
January 21, 1980
9:10 a.m.

Chairman Sackett convened the meeting at approximately 9:10 a.m. All committee members were present. Also in attendance were Senator Stimson, Fiscal Analysts Milt Barker, and Dave Scott, Administrative Assistant to Senate Finance Garrey Peska, and members of the press including Joe LaRocca. PRESENT

Senator Sumner moved that SB 292 (An Act requiring fiscal notes to be prepared for regulations having fiscal impact) be brought up for discussion. He advised that Section 1 of the bill requires agencies affected by amendment or repeal of a regulation to prepare an estimate of the fiscal impact of the regulation for the year following adoption or repeal and two subsequent years. Section 2 requires that the fiscal estimate accompany submission of the proposed regulation change. Section 3 requires that the Lieutenant Governor submit proposed regulation changes to the Regulation Review Committee at the time they are filed (present law requires submission 45 days after filing). Senator Sumner stated that the bill itself has no fiscal impact. SB 292

Senator Ray moved that SB 292 pass from committee with a do pass recommendation. No objection having been voiced, SB 292 passed from Senate Finance, all committee members signing do pass. MOTION

Senator Ray advised that he wished to bring the "pay bills" up for committee review at the next meeting. The Chairman assured him they would be placed on tomorrow's agenda.

The Chairman advised that Dave Scott would present to committee an overview of the University of Alaska budget. Mr. Scott distributed a listing of the six budget units submitted by the University: UNIVERSITY
OF ALASKA
BUDGET
OVERVIEW

Board of Regents/Statewide Administration
University of Alaska - Fairbanks
Organized Research
UA/Anchorage
University of Alaska, Juneau
Community Colleges, Extension & Rural Ed.

1/21/80

He advised that handwritten numbers beside budget request items represent overall statewide priority for the requested funding, while typewritten numbers represent priority within the budget unit.

The University is requesting a 19.3% increase in general funds. The Governor recommends a 17.7% increase. He has also asked the Regents to levy a student fee increase.

UNIVERSITY
GENERAL
FUND
INCREASE

Mr. Scott distributed a second handout breaking the University budget into two parts--continuation requests and requests above continuation (copy of the handout appended to these minutes).

Mr. Scott spoke specifically to resource reallocation within the University, advising that the University has moved around almost \$1 million throughout the budget. Most of the reallocated funding has come from community centers (urban areas) and has gone out to community colleges (\$290,000 was given to ACC). Mr. Scott expressed concern that since ACC enrollment has been static for the past few years, resource funds are being used to "prop up" ACC rather than cutting back on its programs in accordance with student demand. Since most students prefer to remain at one campus rather than enrolling and attending classes at both schools, a shift of students from ACC to UAA has occurred. While ACC's student population has subsided somewhat or at least become static, UAA's student credit hours are up 10 to 15%.

RESOURCE
REALLOCATION

Mr. Scott directed committee attention to underfunded salaries, advising that the University has requested \$1.7 million for this item. Mr. Scott further advised that to date he has been unable to obtain any helpful information from the University concerning its turnover.

UNDERFUNDED
SALARIES

Senator Ray inquired concerning rumored instances of professors whose salaries are paid by several programs earning as much as \$80,000. Mr. Scott responded that it would be possible for a professor to make \$60,000 to \$65,000 if he taught all year and a special summer program as well. He further advised that such a situation could theoretically occur, but he is aware of no specific case. In the research division, however, many professors are making over \$50,000. Information on the research division has been supplied by the University.

Senator Ray inquired concerning restricted grants and the use of general fund moneys to fill gaps left by such grants. Mr. Scott responded that the legislature is getting more and better information from the University concerning these grants.

RESTRICTED
GRANTS

Mr. Scott questioned the advisability of the requested \$2 million for increased instruction without development of a master plan. He added that his concern is not whether the request is valid, but the fact that the University does not have an overall master plan within which these requests might fall. Dr. Thrombley feels a master plan is at least a year away and has requested funding for further development of the plan.

NO MASTER
PLAN

The University is requesting \$4.2 million in general salary increases for the staff. Based on a lack of general salary increases in the past, this year the University is asking for a COLA increase as well. Mr. Scott stated he had not received any information from the University backing up or supporting these increases. Senator Ray asked if such increases would be "across the board," and Mr. Scott responded that during the past two sessions the legislature has authorized COLA increases. Under Regent-directed COLA distribution, those receiving higher salaries received a greater percentage increase, while lower salaried employees received an allowance of approximately 3%.

SALARY
INCREASES
& COLA

The New Facilities request represents primarily maintenance staff for new buildings which opened in the fall or will be opening this spring. In the instance of TVCC, and its anticipated take-over of the Hutchinson Career Center, the \$200,000 would provide maintenance for the facility should the transfer take place.

NEW
FACILITIES

Mr. Scott advised that the University is requesting a total of 96.7 new positions. In the instance of the University at Fairbanks, 6 positions were reduced through resource reallocation. Fairbanks is now seeking reinstatement of those 6 positions.

NEW POSITIONS
96.7

Concerning sabbatical leave, the University is requesting that the legislature fund all 25 eligible candidates. In the past the legislature has funded 10 such positions. The request for full support represents a sabbatical request increase from \$150,000 to \$341,000.

SABBATICAL
LEAVE FUNDING

Mr. Scott spoke to the issues of relocation and recruitment, advising that the past University practice of paying the cost of bringing out-of-state employees to Alaska as well as covering the cost of their return, has been stopped by the legislature. The legislature also requested that the University do more in-state recruitment. It appears the University is "going back outside again." Mr. Scott advised he does not have enough information in this area. While some outside recruitment will have to occur, Mr. Scott said he has requested that recruitment be broken down.

RELOCATION
& RECRUITMENT

The debt service increase represents new bonds floated specifically for Anchorage (the University's large centers in Anchorage). The interest on these bonds is now coming due. DEBT SERVICE

A \$1.2 million overall tuition increase has been scheduled for approval by the Board of Regents. The Board will be meeting January 24 and 25 in Fairbanks.

Upon conclusion of Mr. Scott's presentation, Chairman Sackett advised committee members of a joint meeting with House Finance at 1:30 p.m. this date for the purpose of discussing loan appropriations for emergency fuel costs in rural areas.

The meeting adjourned at approximately 9:50 a.m.

ADJOURNMENTS

SF-80, Tape 1
Side 2 (476-end)
Tape 2
Side 1 (000-240)

FY 81 - UNIVERSITY OF ALASKA - GENERAL FUNDS

1/16/80

Funding Request				Position Request	
Approp. Unit	Continuation Level	Above Continuation	Total Request	Permanent Positions	Temporary Positions
State Bond Committee		1403.5	1403.5	--	
Univ. Debt Service	14.3	340.2	354.5	--	
Board of Regents	20.9	648.7	669.6	3.0	
Statewide Admin.	577.7	1527.3	2105.0	8.0	
Organized Research	506.3	855.5	1361.8	13.6	
UA-Fairbanks	1109.2	2128.1	3237.3	23.6	
				(6.0)	
UA-Anchorage	(336.5)	1228.8	892.3	20.5	
UA-Juneau	253.4	561.3	814.7	11.5	
-Statewide	24.5	268.5	293.0	4.0	
Anchorage CC	1804.6	451.4	2256.0	--	+22.5 (12.7)
Chukchi CC	29.6	131.7	161.3	2.5	
Kenai CC	55.7	52.3	108.0	--	
Ketchikan CC	23.8	60.4	84.2	--	
Kodiak CC	50.9	65.0	115.9	1.0	
Kuskokwim CC	115.3	161.6	276.9	--	
MatSu CC	42.3	84.6	126.9	2.0	
Northwest CC	96.7	128.5	225.2	2.0	
Prince Wm. Sound CC	27.9	200.5	228.4	3.0	
Sitka CC	33.1	4.1	37.2	--	
Tanana Valley CC	106.5	327.2	433.7	4.0	
Rural Education	68.5	216.6	285.1	4.0	
Cooperative Extension	136.3	80.0	216.3	--	
Student Loans	1.5	--	1.5	--	
Auxiliary Services		--	--	--	
TOTAL REGENTS	4762.5	9522.3	14,284.8	96.7	
TOTAL CATEGORY	4762.5	10,925.8	15,688.3	96.7	

UNIVERSITY OF ALASKA
FY 81 GENERAL FUND REQUEST

January 17, 1980

1/21/80

Appropriation Unit	←-----Proposed Changes Continuation Level-----→							←-----Proposed Changes Above Continuation-----→								TOTAL REQUEST
	Salary Schedule	Inflation Adjust.	Resource Reallocation	Function Transfers	Fund Source	Equipment Replace	SUB TOTAL	Debt Service	Underfund Salaries	New Facil.	In-struction	Academic Support	Athletics	Other	SUB TOTAL	
State Bond Committee	-	-	-	-	-	-	-	1403.5	-	-	-	-	-	-	1403.5	1403.5
University Debt Service	-	-	14.3	-	-	-	14.3	340.2	-	-	-	-	-	-	340.2	354.5
Board of Regents	29.7	54.3	3.6	(66.7)	-	-	20.9	-	15.0	-	-	-	304.0	329.7	648.7	669.6
Statewide Administration	156.1	295.2	(21.6)	127.3	-	20.7	577.7	-	127.2	-	-	175.0	-	1225.1	1527.3	2105.0
Organized Research	414.7	231.4	(65.0)	-	-	(74.8)	506.3	-	179.5	-	-	-	-	676.0	855.5	1361.8
Univ. Center - Fairbanks	1057.8	391.3	(317.7)	(68.4)	20.6	25.6	1109.2	-	558.5	-	606.0	308.7	-	654.9	2128.1	3237.3
Univ. Center - Anchorage	461.7	136.8	(75.2)	(885.7)	(18.4)	44.3	(336.5)	-	218.2	59.7	350.1	430.5	-	170.3	1228.8	892.3
Univ. Center - Juneau	171.4	70.4	13.8	-	(2.2)	-	253.4	-	65.1	49.6	310.9	-	-	135.7	561.3	814.7
CC - Statewide Admin.	43.1	23.5	19.3	-	-	(61.4)	24.5	-	21.5	-	-	-	-	247.0	268.5	293.0
Anchorage CC	459.3	50.3	294.5	1000.5	-	-	1804.6	-	219.0	-	120.1	85.6	-	26.7	451.4	2256.0
Chukchi CC	12.6	4.4	6.2	-	-	6.4	29.6	-	1.5	31.0	74.2	-	-	25.0	131.7	161.3
Kenai Penin. CC	62.2	15.7	(10.9)	-	-	(11.3)	55.7	-	32.1	-	20.2	-	-	-	52.3	108.0
Ketchikan CC	35.0	10.5	(19.4)	-	-	(2.3)	23.8	-	17.5	-	42.9	-	-	-	60.4	84.2
Kodiak CC	37.2	10.7	2.0	-	-	1.0	50.9	-	17.0	48.0	-	-	-	-	65.0	115.9
Kuskokwim CC	90.2	26.4	19.3	-	-	(20.6)	115.3	-	49.6	112.0	-	-	-	-	161.6	276.9
Mat-Su CC	30.5	6.2	6.5	-	-	(0.9)	42.3	-	14.6	62.0	8.0	-	-	-	84.6	126.9
Northwest CC	18.0	10.3	39.8	-	-	28.6	96.7	-	10.4	-	49.0	-	-	69.1	128.5	225.2
Prince Wm. Sd. CC	9.4	3.8	14.7	-	-	-	27.9	-	-	-	165.5	35.0	-	-	200.5	228.4
Sitka CC	22.3	6.4	4.1	-	-	0.3	33.1	-	4.1	-	-	-	-	-	4.1	37.2
Tanana Valley CC	82.6	18.4	5.5	-	-	-	106.5	-	40.1	200.0	40.4	-	-	46.7	327.2	433.7
Rural Education	47.4	24.0	70.2	(107.0)	-	33.9	68.5	-	49.1	14.0	153.5	-	-	-	216.6	285.1
Cooperative Extension	103.5	38.3	(5.5)	-	-	-	136.3	-	80.0	-	-	-	-	-	80.0	216.3
Student Loans, Scholar.	-	-	1.5	-	-	-	1.5	-	-	-	-	-	-	-	-	1.5
Auxiliary Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL - REGENTS	3344.7	1428.3	-0-	-0-	-0-	(10.5)	4762.5	340.2	1720.0	576.3	1940.8	1034.8	304.0	3606.2	9522.3	14284.8
TOTAL - CATEGORY	3344.7	1428.3	-0-	-0-	-0-	(10.5)	4762.5	1743.7	1720.0	576.3	1940.8	1034.8	304.0	3606.2	10925.8	15688.3

CCC ENROLL. STATIC DR DOWN
UP ABOUT 15%

ASKING
FULL FUNDING OF
OPERATIONALS

COPY OF
ENROLLMENT
WILL BE COMING

ASKING
+ 42% INCREASE
19.9% INCREASE

MINUTES
SENATE FINANCE COMMITTEE
January 22, 1980
9:10 a.m.

Chairman Sackett convened the meeting at approximately 9:10 a.m. All committee members were present with the exception of Senators Sumner and Bennett who arrived shortly after the meeting began. Also in attendance were Senator Stimson; Thomas K. Williams, Commissioner of the Department of Revenue; Joseph Donohue, Deputy Commissioner of Taxation, Department of Revenue; Fiscal Analyst Milt Barker; Administrative Assistant to Senate Finance Garrey Peska; and members of the press including Joe LaRocca.

PRESENT

The Chairman advised he had requested that Mr. Williams appear before committee to speak on revenue projections and the manner in which they tie in with the corporate income tax suit currently being brought by the oil companies, as well as possible solutions contemplated by the administration.

DEPT. OF
REVENUE

Mr. Williams stated that the income tax suit resulted from the melding of two approaches to income tax on oil companies doing business in Alaska--a separate accounting system based on net income and an apportionment approach.

CORPORATE
INCOME TAX
SUIT

Yearly analysis under the first approach is difficult to determine because the department must take the net income of a company with worldwide operations and attribute a portion of it to Alaska, based on such items as company payroll in Alaska versus payroll outside the state. There has been much criticism directed toward this approach. The state currently uses a tax which for some types of income employs a separate accounting approach and for other types of income uses an apportionment approach.

(Senators Sumner and Bennett entered the meeting at this time, 9:15 a.m.)

The state taxes 9.4% of the taxable income except for the first \$50,000. A lawsuit containing many sweeping counts has been filed claiming the tax is discriminatory.

Commissioner Williams presented a revised revenue projection of \$402 million for FY 80 and \$558 million for FY 81. The original estimate for FY 80 and FY 81 was \$160 million yearly. Until recently, the department has not had returns upon which

REVENUE
PROJECTIONS

to base its projections, and the \$160 million was developed as a tentative figure.

The oil company suit is currently being brought in superior court in Anchorage. It is now in a preliminary stage. Discussions are also being had regarding changes in regulations and statutes which could be effected thereby rendering moot some of the issues involved in the lawsuit. However, a number of issues will remain which will have to be litigated. These represent issues upon which the department must not back down. The court must make the determination. Meanwhile, the department continues to collect the tax under protest. Collection to date totals "just a shade under \$200 million." Not all oil companies are participating in the court suit, it is being brought primarily by Atlantic Richfield and B. P. Sohio.

TAX SUIT

Senator Hackney raised a question concerning return of the collected tax should the court rule against the state. Mr. Williams replied that the status of collected taxes would depend upon the type of ruling rendered. Collected taxes might be credited against future taxes.

Senator Ray inquired concerning the time frame involved in the lawsuit, asking if one to two years represents a reasonable anticipation. Mr. Williams responded that one to two years appears to be about right. Senator Ray replied, "so two years from now we could be paying all this back?" and Mr. Williams responded "That is a possibility."

Chairman Sackett questioned Mr. Williams concerning department endeavors to work with the oil companies toward an out-of-court settlement. Mr. Williams responded that the department would settle what it could, adding that the technical issues in the case should indeed be settled. The department is hopeful for a partial settlement but believes there are some issues which should be litigated. When questioned further, Commissioner Williams expressed reluctance to lay out in committee strategy relating to matters currently under litigation.

Senator Ray asked what percentage of the tax is being contested, and Mr. Williams responded that the challenge is to the whole tax. Senator Ray then asked what percentage of the tax is going to be collectible? How much would the state have to pay back if it loses the entire suit?

Mr. Williams answered that one of the questions under dispute is acceleration of depreciation. Currently, the tax requires straight-line depreciation. The oil companies contend that straight-line depreciation does not allow them the consideration extended the average taxpayer through accelerated depreciation. If the court finds such depreciation denies the oil companies equal protection with other corporate taxpayers, it could strike down the whole tax as defective and direct that the legislature rewrite the tax law. In such an event, the department would have to pay back the entire \$160 million collected in FY 79, the first year of the tax, as well as revenues collected in subsequent years.

POSSIBLE
REPAYMENT
OF TAX
REVENUE

Senator Ray stated his understanding of the above to be that if the worst should occur, the state would have to repay \$1 billion to the oil companies. Mr. Williams responded "yes," that is a possibility. "I don't think that will happen, but it is a possibility."

Chairman Sackett asked if the department is proposing amendments to its regulations, and Commissioner Williams set forth the following proposed changes:

PROPOSED
REGULATION
CHANGES

1. Gross Production Income. The department proposes to determine this value based on the same items used to determine the production tax (currently prevailing price and value are determined by what is realized).
2. Expensing as an operating cost the cost of drilling in Alaska (Mr. Williams attested to situations wherein oil wells are drilled in Texas and the cost written off as an Alaska expense). In essence, wells drilled outside provide shelters for Alaska production. Changes in the regulations propose to recognize Alaska drilling costs, allowing such drilling expenses to be written off in the year incurred. Based on 1978 figures, \$600 to \$700 million in drilling costs were incurred. Regulations would allow 10% or approximately \$65 million to be recognized as an expense. The estimated level of drilling for 1979 would be approximately the same.
3. Production Facilities--Equipment in the Field. Currently such items are capitalized and depreciated on a unit of production basis.

New regulations would permit the writing off of certain deductions per barrel. In addition, the department proposes allowing accelerated depreciation over the life of the asset. The difference in tax income under the proposed regulation should be very slight. Tax will depend upon what type of accelerated depreciation the taxpayer chooses to use. The department anticipates a possible \$5 to \$10 million effect on revenue income.

4. Termination Costs. Companies in Cook Inlet have installed structures offshore. These structures must be removed once the operation is completed. Such removal costs are not now known. New regulations will allow reasonable charges to be deducted on an ongoing basis in anticipation of removal costs. At the end of the operation when removal has been effected, the state and the company will "settle up."

The total effect of the above proposed regulation changes is estimated to be between \$90 and \$100 million. Such amounts have been "tied in" to the \$402 million in expected income.

Responding to a question from Senator Ray concerning costs of the water ejection process, Mr. Williams advised that such costs would be shown as an expense.

Mr. Williams stated that while Department of Revenue forecasts have in the past been low, the department "has been coming closer" each year. It is difficult to anticipate revenue given the current world situation and fluctuating oil prices.

Chairman Sackett advised Mr. Williams that it appears the department, through the above-enumerated proposed regulation changes, has in effect "wiped out" the "first year's tax." Mr. Williams responded that in substance he would agree with the above statement although he would express it differently.

Senator Dankworth asked Mr. Williams if any other state has a tax program similar to Alaska's, and Mr. Williams replied that a suit brought by Exxon is currently before

the U. S. Supreme Court. There is also precedent in other jurisdictions. Louisiana has a case which is similar, and it is possible that the U. S. Supreme Court in its decision could set a precedent applicable to Alaska.

Mr. Williams spoke briefly to the effect of depreciation upon long-life assets (25 years), and discussed with Senator Ray price increases effected last June and in December which raised the cost of oil from \$14 a barrel to \$30.

Senator Ray raised questions concerning the general fund balance as of June 30, 1980, advising that the state does not have a "surplus" but rather a general fund balance. The word "surplus," the Senator stated, "gives the wrong connotation to the man in the street." Commissioner Williams agreed that the correct term is indeed "general fund balance," advising that the balance in June should be approximately \$924 million. He further stated that this \$924 million represents the "liquid portion" and does not reflect loans, etc.

The meeting adjourned at approximately 9:55 a.m.

ADJOURNMENT

MINUTES
SENATE FINANCE COMMITTEE
January 23, 1980
9:15 a.m.

Chairman Sackett convened the meeting at approximately 9:15 a.m. All committee members were present. Also in attendance were Senator Stimson; Commissioner of Administration William G. Hudson; Jeff Morrison from the Division of Budget & Management; Art Snowden and Rick Berrier from the Alaska Court System; Pat Murphy and Cherie Shelley representing the Alaska Public Employees Association; Alison Elgee, Fiscal Analyst, Legislative Finance; and representatives of the media including Joe LaRocca.

PRESENT

The Chairman advised that the meeting was convened for the purpose of discussing the state employee pay bills with the intention of including all such bills within a single committee substitute. He advised he had been working with Senator Ray and Alison Elgee to effect legislation which will hopefully be acceptable to the House. The Chairman acknowledged the presence of Commissioner Hudson and Fiscal Analyst Alison Elgee to testify concerning the subject legislation and requested that the commissioner begin his presentation.

STATE
PAY
BILLS

Mr. Hudson stated that as Commissioner of Administration he is charged with responsibility for negotiating all labor contracts for the State of Alaska. The department is now concluding negotiations for calendar year 1980-81 with General Government and supervisory units. It is anticipating negotiation with marine units--Masters, Mates, & Pilots, and the Inland Boatman's Union--on contracts expiring in June. Administration is in negotiation with the crafts and trades and hopes to have something concluded in the next few weeks. Negotiations with Public Safety employees have met an impasse and moved into mediation (negotiations are approximately two days into mediation). The department is also negotiating raises for non-covered people such as judicial people, etc.

MR. HUDSON

Senator Ray raised questions concerning the 47% increase for elected and appointed officials, and Mr. Hudson responded "these people have had no increase since 1976." The cost of living has risen 40%. Most of the requested increases level out at about 20%. The increases are a necessity

since some commissioners are currently some of the lowest paid among the people working for them. Based on the fact that there has been no increase in four years, the requests are "still under the cost of living increase."

Alison Elgee appeared before committee and presented a section-by-section analysis of the proposed Free Conference Committee Substitute for House Committee Substitute for SB 182 (An Act relating to the compensation of judicial officers, legislators, and public officers and employees, including legislative per diem) (copy of the section-by-section analysis appended to these minutes).

PROPOSED
FCCS for
HCS for
SB 182

Senator Kerttula, referring to the fact that elected and appointed officials had not received an increase in four years, asked if Administration has surveyed such salaries on a nationwide basis. Mr. Hudson responded that to his knowledge \$80,000 to \$85,000 represents a standard salary for governors on the eastern seaboard. Senator Kerttula next asked whether Alaskan salaries for such officials were high, low, or average four years ago. Mr. Hudson replied "I would guess we were slightly below the average."

Alison Elgee advised the committee that the University of Alaska salary schedule is set by the Board of Regents. The proposed FCCS would include funding for the University commensurate with non-covered employees.

The Chairman advised that review of proposed pay increases at this time was for discussion purposes only since the bill is not in committee. It is hoped that the bill can be put into free conference and the proposed all-inclusive legislation result from free conference committee deliberation.

Senator Ray attested to need for the legislature to either negate or approve contracts negotiated by the administration or a third party. It is incumbent upon the legislature to look at administrative recommendations and formulate legislation in order that the state is not again in a position where a negotiated contract is not approved by the legislature. The legislature must take affirmative or negative action of some sort.

Mr. Hudson responded that the administration has participated actively with the Blue Ribbon Council on Personnel. He added that it appears whoever is going to do the negotiating is going to have to have the necessary "muscle" and "be able to represent the state."

Senator Ray enumerated the following Council recommendations:

- (1) The legislature should either negotiate directly, or
- (2) Legislature should hire a professional negotiator to act on its behalf, or
- (3) Legislature should allow Dept. of Administration to conduct negotiations but set a time frame in which the legislature must respond affirmatively or negatively.

Under any of the above recommendations, the legislature will at least have acted one way or the other before the contracts run out.

The Chairman spoke to the fact that the legislature would probably draw criticism for increasing legislative salaries. Legislative increases are recommendations of the Salary Commission concurred on by the administration. With the proposed increase, legislative salaries are equal to that of a Secretary I, Range 10, Step A.

The Chairman next initiated discussion of fuel costs in rural communities, advising that Phil Smith, Executive Director of Rural Cap appeared before the House Finance Committee and stated that a total of 34 rural communities will be running out of fuel before the end of the year; four communities have already run out of fuel. The legislature is proposing to fund \$1.5 million to Rural Cap for emergency fuel supplies (an additional \$250,000 will augment the \$1.5 million for additional communities which might need help). Rural Cap will use the funding for a loan program to villages. Villages will order their fuel through Rural Cap. Rural Cap will administer a repayment program through which villages pay Rural Cap and Rural Cap repays the state. Part of the \$1.5 million will be used to pay transportation costs for purchased fuel.

EMERGENCY
FUEL
NEEDS
RURAL
VILLAGES

Rural Cap has conducted this program for the past four years using federal funding; the federal funding did not come through this year. Rural Cap loans demonstrate

a high rate of repayment (only 4% are delinquent).

The Chairman advised that the bill appropriating funding for rural fuel supplies would be coming to the floor of the Senate later in the morning and urged committee support of the legislation.

Senator Kerttula inquired concerning what caused the need for emergency fuel supplies, and the Chairman enumerated the following causes of rural fuel shortage:

- (1) During the last couple of years, winters have been mild and villagers had need of less fuel. This winter has been severe, and fuel supplies based on prior consumption have run short.
- (2) Problems surround the purchase of fuel for rural areas. It must be purchased in May to arrive in September or October.
- (3) Some fuel suppliers could not reach village communities because of low river water. In these cases even purchased fuel did not arrive where needed.

Senator Ray added that the increased price of fuel has also aggravated the problem, advising that "when fuel prices go up, purchasing power goes down." He further added that increases in fuel costs also increase transportation costs.

Responding to inquiries by Senator Kerttula concerning Rural Cap's previous federal funding, the Chairman advised that federal funding normally received by Rural Cap was included in President Carter's revised energy program wherein funding is directed through the U. S. Department of Health & Social Services for needy families. In Alaska, however, this program will only purchase two barrels of fuel per family.

The Chairman further advised that very few people in his area use oil for heat. It is used for electricity and the major users of electricity are the schools.

The meeting adjourned at approximately 9:45 a.m.

ADJOURNMENT

Recorder Malfunction
No tape for this meeting.

CORRECTION

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

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The meeting adjourned at approximately 9:45 a.m.

ADJOURNMENT

PROPOSED FREE CONFERENCE COMMITTEE SUBSTITUTE

for

HCSCSSB 182

Sectional Analysis

<u>Section No.</u>	<u>Effect</u>
1	Noncovered employee pay plan provides 7% increase top to bottom. Effective date - 1/1/79
2	Noncovered employee pay plan Same as negotiated for General Government employees Effective date - 1/1/80
3	Repeals section excluding those people formerly under the Alaska Salary Commission purview from the salary schedule set out in Sec. 2.
4.	Insures no loss in pay for accepting promotion or demotion to Deputy Commissioner or Division Director.
5	Substitutes "In other states" for "Outside the state"
6.	Allows Director of Personnel to set pay rates for employees in foreign countries to reflect differences in currencies.
7.	Commercial Fisheries Entry Commission \$32,372 to \$49,000 effective 1/1/79.
8.	Supreme Court Justices \$52,992 to \$65,000 effective 1/1/79
9.	Superior Court Justices (Ombudsman) \$48,576 to \$57,500 effective 1/1/79

SECTIONAL ANALYSIS

of

FCCS HCS CSSB 182

Section No.

Effect

10. District Court Judges
\$41,068 to \$49,000 on 1/1/79
11. Puts in statute legislative per diem
language per Alaska Salary Commission
recommendations.
12. Provides for reimbursement of moving
expenses to and from sessions. (Same
as state employees)
13. Legislators
\$11,750 to \$15,500 effective 1/1/79
14. Governor
\$52,992 to \$65,000 effective 1/1/79
15. Lt. Governor
\$47,304 to \$58,000 effective 1/1/79
16. Dept. Commissioners
\$47,304 to \$57,500 effective 1/1/79
17. Deputy Commissioners
\$42,372 to \$52,500 effective 1/1/79
18. Public Utilities Commission
\$39,372 to \$49,000 effective 1/1/79
19. Pipeline Commission
\$39,372 to \$49,000 effective 1/1/79
20. Transportation Commission
\$48,468 to \$49,000 effective 1/1/79
21. Commercial Fisheries Entry Commission
\$49,000 to \$54,480 (Range 26, Step C)
effective 1/1/80
22. Supreme Court Justices
\$65,000 to \$70,068 (Range 30, Step F)
effective 1/1/80

SECTIONAL ANALYSIS

of

FCCS HCS CSSB 182

<u>Section No.</u>	<u>Effect</u>
23.	Superior Court Justices (Ombudsman) \$57,500 to \$63,120 (Range 28, Step E) Effective 1/1/80
24.	District Court Justice \$49,000 to \$54,480 (Range 26, Step C) Effective 1/1/80
25.	Legislators \$15,500 to \$17,280 (Range 10, Step A) Effective 1/1/80
26.	Governor \$65,000 to \$70,068 (Range 30, Step F) Effective 1/1/80
27.	Lt. Governor \$58,000 to \$65,352 (Range 28, Step F) Effective 1/1/80
28.	Dept. Commissioners \$57,500 to \$63,120 (Range 28, Step E) Effective 1/1/80
29.	Deputy Commissioners \$52,500 to \$54,480-\$65,352 (Range 28, Steps A-F) Effective 1/1/80
30.	Public Utilities Commission \$49,000 to \$54,480 (Range 26, Step C) Effective 1/1/80
31.	Pipeline Commission \$49,000 to \$54,480 (Range 26, Step C) Effective 1/1/80
32.	Transportation Commission \$49,000 to \$54,480 (Range 26, Step C) Effective 1/1/80
33.	Provides that no elected or appointed official shall be required to take a cut in pay as a result of adopting this act. A "just in case" savings clause.

SECTIONAL ANALYSIS

of

FCCS HCS CSSB 182

Section No.

Effect

- | | |
|-----|--|
| 34. | Repeals the Salary Commission and reference to it as a "State Commission or Board" |
| 35. | Sections 1, 7-20, 33 and 34
Effective date 1/1/79 |
| 36. | Sections 2, 21-32
Effective date 1/1/80 |
| 37 | Act takes effect immediately. |

MINUTES
SENATE FINANCE COMMITTEE
January 28, 1980
9:15 a.m.

Chairman Sackett convened the meeting at approximately 9:15 a.m. All committee members were present with the exception of Senator Ray who arrived after the meeting began and Senator Summer who was absent. Also in attendance were Senator Stimson, Fiscal Analysts Milt Barker and Dave Scott, Administrative Assistant to Senate Finance Garrey Peska, and representatives from the media including Joe LaRocca and Jean Kisor.

PRESENT

The Chairman advised that the meeting was convened for review of Legislative Affairs' Memorandum dated January 21, 1980, concerning appropriation limits. Since the Legislative Affairs opinion was requested by Senator Ray and Senator Ray was absent from the meeting, the Chairman set aside discussion of appropriation limits and made the following bill assignment:

SB 310	-	Kerttula
SB 358	-	Bennett
SB 359	-	Hohman
HCR 33	-	Committee of the Whole

BILL
ASSIGNMENT

Responding to the Chairman's request that assigned bills be timely brought up for committee discussion, Senator Hackney advised he would bring Committee Substitute for House Bill 243 am up for review at the Wednesday, January 30, 1980, meeting. Senator Hackney further advised that the Department of Administration would provide a section-by-section analysis to assist committee review.

The Chairman announced that Tuesday morning, January 29, 1980, at 8:30 a.m. the Free Conference Committee on the "state pay bills" would meet in the Senate Finance Committee Room.

Responding to inquiries from Senator Kerttula concerning availability of the "red" budget books, staff advised that sets were complete for all categories but General Government.

Brief discussion was had between the Chairman and Senator Kerttula concerning subcommittee procedures and use of the committee room for subcommittee meetings.

(Senator Ray arrived at this time, 9:20 a.m.)

Senator Ray advised that while he had not yet had an opportunity to carefully review the Legislative Affairs Memo concerning appropriation limits, it appears "we can appropriate anything we want as long as we've got it." He further stated that, based on appearances before committee by Department of Revenue representatives, exact figures concerning the amount available for appropriation are not available.

The Chairman directed that committee members review assigned bills and decide whether legislation assigned them will be brought before committee for discussion. Timely review is especially important for bills from last session lest they be lost in the current session rush.

The Chairman advised that if the committee does not have many bills scheduled for review within the next few days, he would commence Committee of the Whole review of the University of Alaska budget. (He again reminded committee members of the March 10, 1980, deadline for commencement of budget close-outs.)

Responding to statements by Senator Kerttula pertaining to leadership involvement in important legislation such as the permanent fund, the Chairman advised of meetings between himself, the House Finance Committee Chairman, and the Administration, attempting to "work out a scenario" setting forth effects of various actions, i.e., "putting 'x' amount of money in the permanent fund, repealing the income tax, escalation of loan programs, increased capital expenditures, etc." Development of such a scenario will enable the committee to "look at the total picture." The Chairman further attested to the current psychological feeling of most people that the state is "rolling in dollars." Such a situation is not the case given proposed expenditures. While such funds may be available in the future, it is necessary to anticipate the effects of expenditures not only for this year but also for the future.

The Chairman stated that he would request that representatives of the Administration appear at the Wednesday meeting to speak concerning the above-mentioned scenarios.

The meeting adjourned at approximately 9:35 a.m.

ADJOURNMENT

MINUTES
SENATE FINANCE COMMITTEE
January 30, 1980
9:15 a.m.

Chairman Sackett convened the meeting at approximately 9:15 a.m. All committee members were present with the exception of Senators Ray and Sumner. Also in attendance were Senator Stimson; Mr. Paul Arnoldt, Director of the Division of Retirement Benefits; Mrs. Mary Carl, President of the Alaska State Retired Teachers Association; Administrative Assistant to Senate Finance Garrey Peska; and representatives from the media, Joe LaRocca and Jean Kisor.

ATTENDANCE

The Chairman stated the purpose of the meeting to be discussion of COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 243 amended, a bill relating to teachers' and public employees' retirement. In response to the Chairman's opening remarks, Senator Hackney requested that Mr. Paul Arnoldt, Director of the Division of Retirement Benefits, come forward with testimony.

CSHB 243 am

Mr. Arnoldt advised that the bill in question was introduced by the Governor at his request. He said that as a result of administering the Chapter for the Public Employees Retirement System (PERS) and the Teachers Retirement System (TRS), his division found certain parts of the chapter to be ambiguous. Two years ago a bill was introduced to primarily clarify problems concerning the PERS, but that this bill (CSHB 243 am) is primarily meant to resolve problems pertaining to the TRS with the intent being to establish definitions within the Chapter. He stated that there were also some changes in the benefits that have been granted under the two systems, and that these changes were addressed in the fiscal notes provided with the bill.

MR. ARNOLDT

Referring to page one of the fiscal notes, Mr. Arnoldt explained the reasoning for removal of the deadline for the claiming and varifying of military service under PERS (there is no deadline for claiming military service under TRS). He said that when the crediting of military service under the PERS was originally granted as a benefit, the Actuary recommended that a deadline of one year be established following vesting the claim and varifying that service. That way, the Actuary could make statistical determinations concerning how much service would be claimed and what the cost to the system would be. The purpose of

that deadline has been fulfilled, except that now there are people who have missed that deadline and are not eligible for the benefit. Since the intent of the deadline was not to preclude people from receiving the benefit, and since the Division of Retirement Benefits now has the data they need, Mr. Arnoldt felt it to be an appropriate time to remove the deadline. He stated that the removal of the deadline and the subsequent claims by those who are presently ineligible would have a fiscal impact of \$21,700.

Turning to the Teachers Retirement System (TRS) (pages 2 and 3 of the fiscal notes), Mr. Arnoldt proceeded to enumerate the three following changes in TRS they considered to be "housekeeping":

1. Spouse's Pension - Presently this is a supplemental coverage afforded a teacher who pays an additional 1% contribution over a five-year period. This 1% contribution provides benefits to the teacher's spouse upon the death of the teacher. If the spouse has children, the benefits will be payable at the time of death; however, if the spouse is without minor children, then the spouse must wait until he/she is age 55 to start drawing benefits. After considering the various circumstances surrounding that benefit, it was felt that the age limitation of 55 was inappropriate. The new bill would remove the age limitation so that benefits would be payable to the spouse at the time of death of the teacher in all cases, children or no.

There was general discussion following this first point concerning definitions of terms - "spouse's pension", "survival allowance" and "insurance". Senator Kerttula asked that this subject be explored further at a later time.

2. Deferred Vestment Status - This provision presently provides benefits for surviving spouses with minor children when the teacher was on "deferred vestment status". Again, the member (teacher) has paid into the fund 1% of their contribution while they were enrolled in the system. Then they terminated their employment within vested status and were awaiting retirement age. If they should die during that interim, the spouse with minor children does not receive the benefits, even though their husband or wife paid into it. Mr. Arnoldt stated that he felt that this provision creates a void in the law for several reasons. One, he felt, was that if there were no minor children, the benefit would be payable immediately upon the death of the teacher.

Senator Hohman asked for a more concise definition of a teacher under "deferred vested status". Mr. Arnoldt stated that this means a member has completed 8 years of membership service under the TRS, has terminated and has left the 1% contribution in the system. They are neither active nor retired, but are awaiting retirement benefits.

3. The final "housekeeping" measure proposed by Mr. Arnoldt was described as a "burial type" benefit. This provision provides benefits to a member's spouse upon that member's death. The present formula for this benefit payment is as follows: If the member has been in the system for 20 years, the spouse would receive a 100% lump sum of \$1000, and \$100 for each year of completed service. However, if the member has served less than 20 years, the spouse will receive only 75% of the \$1000 lump sum and 75% of the \$100 times the number of years of completed service. Mr. Arnoldt stated that since most members retire before completing 20 years, and since burial costs are the same no matter how long an individual works, an increase was made in this bill to remove the 75% limitation so that all spouses of deceased members would receive 100% of the \$1000 lump sum and 100% of the \$100 times years of completed service. He added that this new formula would still recognize what the number of years of service were, however. It was his feeling that for a variant type benefit, the proposed revision in the formula would be more appropriate.

Senator Bennett questioned the adequacy of this amount for covering burial costs and general discussion followed.

The Chairman referred to the military question (page one of these minutes) for further brief discussion. It was established that this change in the bill would take place in Section 31 - Military Service.

Chairman Sackett then requested that Mr. Arnoldt give a section by section analysis of all proposed changes. Discussion and questioning by section followed. (Please refer to Mr. Arnoldt's sectional analysis appended to the end of these minutes.)

Chairman Sackett advised the committee that they would meet at 8:45 a.m. the following morning to complete the review of this bill. He asked Mr. Arnoldt to separate out in writing the "substantive" changes and the "housekeeping" changes, and added that he felt there was some discrepancy between the committee and Mr. Arnoldt on whether or not certain changes were "substantive" or "housekeeping". He added that he wanted the committee to be absolutely familiar with any changes made.

The meeting adjourned at approximately 10:00 a.m.

ADJOURN

STATE OF ALASKA

DEPARTMENT OF ADMINISTRATION

DIVISION OF RETIREMENT & BENEFITS

JAY S. HAMMOND, Governor

POUCH CR
JUNEAU, ALASKA 99811

January 29, 1980

The Honorable Glenn Hackney
Senator
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Senator Hackney:

I have enclosed for your review a sectional analysis of HB 243, our "housekeeping" bill. As I have previously mentioned, our main intent with this legislation is to reorganize and clarify the statutes governing the Teachers' Retirement System, using common terminology throughout the chapter. Beyond the changes which are purely "cleanup", however, there are some significant amendments to both the Teachers' Retirement System and the Public Employees' Retirement System.

In recent years we have noticed an increase in the number of lawsuits being brought against the division, caused largely by ambiguous language in the statutes. Though our regulations have prevented some litigation and complaint, it would be preferable if we could provide our membership with a readable text that would avoid confusion at the onset of participation. Even the minor changes in our statutes have been drafted with this theme of communication in mind.

Upon review of our legislation, please be advised that I will be available to discuss HB 243 with you as much as you feel necessary. Your support of this legislation is greatly appreciated and gratefully received.

Sincerely,



Paul B. Arnoldt
Director

PBA/n1
Enclosure
R13/01

Sec. 1. AS 14.25.012. Purpose and Effective Date - This section gives the purpose and effective date of the Teachers' Retirement System (TRS). It is patterned after AS 39.35.010 of the Public Employees' Retirement System (PERS).

AS 14.25.015. Administrator - This section, patterned after AS 39.35.050, gives the Commissioner of Administration the authority to appoint the administrator of TRS.

Sec. 2. AS 14.25.030. Duties of the Administrator - This section is primarily cleanup, changing terms to agree with definition section terminology. An additional duty of secretary to the board is given to the administrator. In practice, this duty is currently being performed by the administrator.

Sec. 3. AS 14.25.035(e). Teachers' Retirement Board - There is no substantive change; terminology is updated.

Sec. 4. AS 14.25.035 (h) - This section grants the board the authority to waive an adjustment required under AS 14.25.173 in accordance with AS 14.25.175, passed in Chap. 81, SLA 1979.

Sec 5. AS 14.25.043 Reemployment of Retired Members - This section covers members who retire and then become reemployed under TRS. The substance of this section is currently covered under AS 14.25.120(a)(8), which we are proposing to repeal. The primary change is the mandatory rather than optional deduction of TRS contributions from the salary of an employee who has returned to active membership.

Sec. 6. AS 14.25.055, Supplemental Contributions by Teachers - This section is amended to require supplemental contributions for death benefits under AS 14.25.162 and AS 14.25.164, whenever mandatory contributions are required. The amendment was included specifically to cover persons who are on leave and making contributions to the system for service credit. Similar requirements already exist in TRS regulation 79-4.

Sec. 7. AS 14.25.060(a) - This section clarifies the fact that military, BIA and outside service for members joining before 1978 may be claimed using the "old" method of indebtedness calculation, i.e. $7\% \times \text{entrance salary} \times \text{years claimed}$.

Sec 8. AS 14.25.060(b) - This is a cleanup of a poorly worded paragraph. The intent remains the same. Indebtedness for BIA service is calculated as stated above (Sec. 7) with a 5 year maximum. Being vested under a military or federal retirement still requires an indebtedness calculation for BIA service which reflects the full actuarial cost of providing benefits.

Sec. 9. AS 14.25.061(a) - This section, which caused comment in the last session, is merely cleanup. There is no change to the intent of this statute: a person may purchase service credit, including membership service, retroactively. However, no contributions are required on membership service if it was rendered before July 1, 1955.

Sec. 10. AS 14.25.061(b) - Same as above (Sec. 9).

Sec. 11. AS 14.25.062, Reinstatement Indebtedness - The requirement to become reemployed before reinstatement of previously withdrawn contributions is eliminated. This is further qualified by Sec. 12.

Sec. 12. AS 14.25.063, Payment of Indebtedness - The language of this section is currently contained in AS 14.25.120 which we are repealing (Sec. 48). This section provides that a teacher may pay on an indebtedness as long as a balance remains in his TRS account. It delineates the procedure for crediting principal and interest to a member's account in accordance with current administrative policy.

Sec. 13. AS 14.25.065 (b), Transmittal of Contributions - This amendment, patterned after the PERS law, AS 39.35.610, will require an interest assessment on contributions from employers that are not in this office within 15 days after the close of a pay period. Presently, the system's only means of penalizing tardiness is to request that the Department of Education, in extreme cases, withhold foundation funds from the school district for payment of contributions. The current procedure is not necessarily a punitive measure and therefore not an effective deterrent to the employer.

Sec. 14. AS 14.25.100, Credit for Service in the Armed Forces.

a) This subsection contains mainly "cleanup" of terminology. However, it also permits members the opportunity of claiming that military service before WW II by eliminating a December 31, 1939, date. We are only aware of one individual that has pre-December 31, 1939, military service.

e) This amendment clarifies the intent of the legislation passed in 1976 under the PERS by placing a 5 year maximum on the total military service claimed under the Teachers' Retirement System and Public Employees' Retirement System by any one person.

Sec. 15. AS 14.25.110 - This repeal and reenactment combines AS 14.25.110 and 120 into a concise, readable form and is consistent with a similar provision in PERS, AS 39.35.370. Additionally, the words "actuarial adjustment" for the computation of the early benefit have been incorporated rather than setting out a specific formula in the law. This permits our actuary to modify the formula consistent with the actual cost of providing benefits.

Sec. 16. AS 14.25.125 (c) - This section permits a former member to reinstate contributions under TRS, if he is vested in the PERS regardless of his account balance. This is in keeping with the intent of the original legislation on Conditional Service Benefits, Chapter 174, SLA 1978.

Sec. 17. AS 14.25.130, Disability Benefits - This section takes two wordy sections, 130 and 140, and combines them into one clear passage describing how disability benefit eligibility is met and how benefits are paid. There is no change in the meaning of the text.

Sec. 18. AS 14.25.143(a) - There is no substantive change; terminology is updated.

Sec. 19. AS 14.25.160, Death Benefits - This section, rewritten for clarity, also makes a change to enable the survivor of a teacher who has died anytime after his appointment to disability, but prior to his normal retirement date, to take a lump sum benefit in addition to the return of contributions. Previously, the lump sum was payable within one year after the appointment date to disability, only.

Sec. 20. AS 14.25.162, Survivor's Allowance - This section has been repealed and reenacted primarily for clarity. The amendment also enables the surviving spouse and dependent children of a teacher on deferred status to claim death benefits in the event of a teacher's death. AS 14.25.164 already provides for the deferred member. This amendment to AS 14.25.162 further requires 5 years of contributions under the supplemental option before payment can be made to the survivors of a retired or deferred member.

The term "of credited service" after the word "year" has been inserted in reference to the time required for payment of contributions, implying that a teacher need not contribute for a calendar year, but rather only that portion of a school year in which he or she is making contributions. Instead of 10% being split among all of the guardians, each court-appointed guardian will receive 10%.

(b)(3) - The method of payment in the event that there is no longer an eligible recipient is simplified. Current statutes vary the benefit payment according to years of service performed by the deceased member.

Sec. 21. AS 14.25.164, Spouse's Pension - This statute has also been repealed and reenacted for organizational purposes. As in AS 14.25.162, the guardian payment is increased according to the number of guardians. The primary change, and perhaps the most significant one, is the elimination of the age requirement for the receipt of the pension by the spouse. Currently, the spouse must wait until age 55 to draw death benefits if there are no minor children.

Sec. 22. AS 14.25.175, Waiver of Adjustments - This section parallels a similar section in the PERS, AS 39.35.522.

Sec. 23. AS 14.25.177, Effect of Amendments - This amendment, designed to protect the system against an unfunded liability, adds a requirement that a statute specifically state if it is to be applied retroactively.

Sec. 24. AS 14.25.200, Exemption From Taxation and Process - Only terminology changes appear in this section with the exception of the insertion of the word "Alaska" before state and municipal taxes. We have no authority to claim exemption of Alaska benefits from other state tax law.

Sec. 25. AS 14.25.205, Time limit for Application - The intent of this amendment is to provide for purging the system of old data.

Sec. 26. AS 14.25.220, Definitions - Since this section is mainly "cleanup", I have included only those definitions which contain significant changes. The definitions have been rewritten and reorganized, alphabetically, to utilize a common terminology. The chapter has been amended accordingly. Significant changes are as follows:

5) "average base salary" - This definition now specifically states that a member cannot use a year of salary for retirement calculation purposes if the member was on disability for more than a third of the year. This parallels divisional practice for the last 25 years.

9) "compensation" - This definition allows us to differentiate between the amount actually paid to a teacher and the amount expected to be paid to a teacher. It is referenced in "average base salary" and prevents teachers from retiring using "promised" salaries for retirement purposes.

12) "dependent child" - Patterned after the PERS definition, it includes the adopted child as a minor child, a provision originally included with age restrictions under the death benefit sections (AS 14.25.162 and 164).

19) "mandatory Contribution Account" - This is a new definition using PERS terminology. The account is already in existence.

20) "membership service" - This definition adds a clear description of University of Alaska service that will be credited to TRS. Similar guidelines are in our proposed regulations, which have been approved by the TRS Board. Additionally, it includes part-time teaching at the University of Alaska.

21) "military Service" - The definition deletes restrictions on the time when service was performed.

25) "outside service" - This definition makes use of the same language which was enacted in Chap 174, SLA 1978.

Sec. 27. AS 39.35.010(a), Purpose and Effective Date - This is clean-up language to include political subdivisions and public and quasi-public organizations in the statement of purpose.

Sec. 28. AS 39.35.050(a), Administrator - This section eliminates obsolete language permitting the appointment of the Personnel Director as administrator. The language dates back to the early 1970's when retirement was under the Division of Personnel.

Sec. 29. AS 39.35.060(3), Powers and Duties of the Administrator. Similar to the TRS statute AS 14.25.030, the administrator is formally given the additional duty as secretary to the board; a duty which he currently performs.

Sec. 30. AS 39.35.300(a), Employment With the State - This section specifically states that the University of Alaska is not an agency of the state for retirement purposes. The University joined the PERS on February 1, 1969, as a political subdivision with its own past service liability - employer rate. The state joined the PERS on January 1, 1961. This clarification is currently covered in PERS regulation 78-2.

Sec. 31. AS 39.35.340 (b), Military Service - This amendment eliminates the deadline on the claim of military service by a vested member. Administrative problems and dissatisfaction by members who missed their deadline for various reasons suggest this change.

Sec. 32. AS 39.35.340(c). This amendment accomplishes the same purpose as Sec. 31 for retired members.

Sec. 33. AS 39.35.340(e). This amendment makes the same provision as Sec. 31 for deferred vested members. This section is especially necessary since it is difficult to reach many deferred members.

Sec. 34. AS 39.35.340(f). This is to clarify the fact that credit cannot be granted for the same period of military service in both the PERS and the TRS.

Sec. 35. AS 39.35.340(g). In keeping with the intent of Sec 31, the deadline for claiming military service of a deceased member by a surviving spouse is eliminated. In addition the increased benefit becomes effective on the first of the month following the date eli-

gibility is established; i.e., claim and verification are filed. This protects the system against payment of a massive amount of retroactive benefits at one time.

Sec. 36. AS 39.35.340 - This new subsection, similar to the amendment to AS 14.25.100(e), allows a member of PERS to claim military service under both PERS and TRS as long as the total amount claimed doesn't exceed 5 years.

Sec. 37. AS 39.35.385 (c), Conditional Service Retirement Benefits - Keeping with the intent of Chap. 174, SLA 1978, a vested employee in the PERS will be able to reinstate TRS contributions that were previously refunded for the purpose of drawing Conditional Service benefits. This section parallels AS 14.25.125(c).

Sec. 38. AS 39.35.410(h), Occupational Disability Pensions - This amendment corrects a mistake in the statute that refers to a retiree rather than a person on disability.

Sec. 39. AS 39.35.430 (c), Occupational Death Benefit - This subsection removes the word "eligible" since remarriage no longer precludes payment of a death benefit under this chapter.

Sec. 40. AS 39.35.495, Time Limit for Application - Similar to the TRS statute, AS 14.25.205, this new section allows us to purge the system of old accounts and records after a generous period of time has lapsed from the date of termination.

Sec. 41. AS 39.35.522, Waiver of Adjustments - This amendment, similar to Sec. 22, extends the right of an appeal for a waiver of adjustments to the beneficiary of a member. Both the member and beneficiary are given the right to appeal for a waiver on a portion of an adjustment, rather than an entire adjustment.

Sec. 42. AS 39.35.547, Effect of Amendments - Similar to the TRS statute, AS 14.25.177., this amendment requires that a statute specifically state whether or not it is retroactive. Again, this is a safeguard for the system.

Sec. 43. AS 39.35.615, Amendment of Agreement -

(a) This entire section was added to cover an employer who wishes to cease PERS coverage for only part of the membership of that employer.

(b) This subsection gives each employee whose coverage is terminated 60 days to decide whether or not he/she wants to be vested or desires a refund.

(c) This states that once the service is refunded, it may not be reinstated and that no partial refunds may be made.

(d) A reserve will be established which is composed of employee and employer contributions for each member who elects to vest.

(e) The employer will receive the balance of employer contributions after the reserve has been established.

(f) If the terminated group returns to PERS, only future service may be credited. This protects the PERS from an unfunded liability.

Sec. 44. AS 39.35.620(e), Termination of Participation - With similar intent to AS 39.35.615(b), a refunded member of a terminated employee may not reinstate service.

Sec. 45. Self-explanatory.

Sec. 46. AS 39.35.680, Definitions -

(4) "average monthly compensation" The amendment to this section is taking into consideration that the 120th day of the year may fall on Sunday. The state payroll and personnel departments refuse to terminate an employee on the weekend, hence the necessity for this adjustment on behalf of the employees.

Sec 47 - This section was created due to a misunderstanding between the Municipality of Anchorage and the Division of Retirement and Benefits in regards to the transfer of assets from the PERS to the Municipality Police and Fireman Retirement System (PFRP). The Municipality would like to transfer the service of its firemen from the PERS to the PFRP, along with the respective employee and employer contributions effective October 31, 1977. This amendment will permit them to do this. AS 39.35.500 currently prohibits the transfer of employer contributions.

The significant differences between this section and sec. 43 which covers termination of a group of employees are as follows:

1. There is another entity to which employer/employee contributions and service will be transferred.

2. Refunded employees can reinstate contributions to the PERS and receive the corresponding service credit, as long as they are not transferring employees. The municipality will retain necessary employer contributions in the event that the employee wishes to reinstate contributions.

This section is more lenient than Sec. 43, due to a prior commitment made by the Division to the Municipality.

MINUTES
SENATE FINANCE COMMITTEE
January 31, 1980
9:05 a.m.

Chairman Sackett convened the meeting at approximately 9:05 a.m. All committee members were present with the exception of Senator Sumner. Also in attendance were Senator Stimson; Paul Arnoldt, Director, Division of Retirement Benefits; Administrative Assistant to Senate Finance Garrey Peska; and representatives of the media including Joe LaRocca.

PRESENT

The Chairman announced that the meeting was convened for continuation of discussion concerning CSHB 243 am (An Act relating to teachers' and public employees' retirement). Mr. Paul Arnoldt appeared before committee and distributed copies of his correspondence of January 29, 1980, including a section-by-section analysis of the subject bill. Since the bill had been discussed at length at a prior meeting, the Chairman called for questions from members concerning areas previously not reviewed or previously-discussed sections in need of further clarification. Senator Bennett raised a question concerning prior discussion of military service to be claimed toward retirement, and Mr. Arnoldt advised that current statute allows military service to be claimed within one year of vesting. Under the proposed legislation, military service could be claimed at any time.

CSHB 243am

PAUL ARNOLDT

Senator Kerttula voiced concern regarding rumors that the state's retirement systems might be out of actuarial balance. Mr. Arnoldt advised that Alaskan retirement systems are funded on an actuarial basis which anticipates changes in the law. Such a system is different from a "pay as you go" plan. Senator Kerttula asserted his concern for retirement funding needs projected 20 years from now. Mr. Arnoldt responded that the department considers present assets when it attempts to anticipate future liability in order to assess what will be needed in the future to pay benefits. The state does not create a benefit without funding it.

Senator Kerttula again voiced his previously expressed uncertainty concerning language dealing with the 1% elective insurance benefit. Mr. Arnoldt responded that under the teachers' retirement system, a teacher may elect to contribute an additional 1% of his or her pay toward insurance coverage for the spouse and children should the teacher die. This coverage represents a benefit

provided by the system but paid for by the employee. Under current law, benefits from this coverage are paid to a surviving spouse when he or she reaches age 55. CSHB 243 am would allow the benefit to be paid immediately upon the death of the teacher. Such coverage essentially represents an insurance package that is purchased for the benefit of the surviving spouse. Immediate payment (contemplated by CSHB 243 am) would correct a quirk in existing law. Currently, a surviving spouse with children would immediately receive the insurance benefit, while a lone surviving spouse must wait until age 55 (a childless surviving spouse is thus discriminated against).

Chairman Sackett raised questions relating to proposed changes concerning surviving spouses with children, and Mr. Arnoldt replied that under current law:

1. If the teacher dies, the coverage is provided.
2. If the teacher is disabled and dies, the coverage is provided.
3. If the teacher is retired and dies, the coverage is provided.
4. But if the spouse paid into the system but later withdrew from it and accepted other employment, the surviving spouse must wait until age 55.

Senator Ray directed committee attention to page 26 of the subject committee substitute, line 6, raising questions concerning a viable definition of "quasi-public organization." Mr. Arnoldt responded that the existing statutes contain such wording. Quasi-public would include some fisheries organizations, ASHA, and other funded organizations which are not political subdivisions of the state. When Senator Ray advised that he had never before seen the term, Mr. Arnoldt replied "quasi-public organizations are already included under the law." For further definition, Mr. Arnoldt referred committee members to the definition of titles within the Alaska Statutes, advising that such wording would bring within the chapter a group of employees not previously included. Senator Kerttula expressed his desire to better "tie down" a definition of "quasi-public" advising of his concern that an entity such as the Palmer City Library Board might qualify for retirement participation under such wording.

The Chairman addressed further substantive changes included in the committee substitute, speaking specifically to death benefits, and Mr. Arnoldt again set forth the proposed change concerning issuance of burial payment. Under current statute if the teacher has 20 years in service, upon his or her death the spouse would receive 100% of a \$1000 death benefit, plus \$100 for each year of service. If the teacher has accumulated less than 20 years, the spouse would receive 75% of the death benefit, plus \$100 per year of service. The proposed committee substitute would permit payment of 100% of the \$1000 death benefit regardless of length of service.

Senator Ray questioned the need to insert "quasi" before "public organization" on page 32, line 6. Mr. Arnoldt agreed that such an insertion should be made.

Senator Hackney advised that HCS for HB 369 covers the intent accomplished within Sections 43 through 47 of CSHB 243 am. The Senator suggested that the committee delete the above-mentioned sections from CSHB 243 and allow the matter to be dealt with in HCSHB 369 (the deletion would also include Sec. 49 (4), on page 36 of CSHB 243 am). Senator Hackney further advised that he had this date received a message from the sponsor of HB 369, Representative Cotten, requesting that the above deletion be made in CSHB 243am.

Senator Ray raised a question concerning the 120 day requirement, and Mr. Arnoldt responded that such a requirement would correct a quirk in existing law. The change would hopefully effect wording which would require that one must work 120 days during any given year in order to have that year qualify as one of the high salary years for retirement compensation.

Senator Hohman moved that Senate Finance delete from CSHB 243 am Sections 43, 44, 45, 46, 47, and the effective date clause under Section 49.

Senator Kerttula asked Mr. Arnoldt if the proposed deletions would seriously damage CSHB 243 am should HCS for HB 369 not pass. Mr. Arnoldt replied that CSHB 243 am represents a compromise concerning transfer of assets, written to protect the system's liability in such transferred assets. If the above sections are removed from CSHB 243 am and HCS for HB 369 does not pass, the department will be faced with the problem wherein "employees of a municipality think they have made a transfer when in effect no transfer has occurred. We worked very closely trying to resolve this last year."