

HOUSE/SENATE FINANCE COMMITTEE MINUTES - 1967-1982 2800

HOUSE FINANCE COMMITTEE

January 11, 1982

1:30 p.m.

(Tape HFC 82-1, side 1 #001).

PRESENT

All Members of the Committee were in attendance. Also present were Representatives Meekins, Carney and Grussendorf; and Milt Barker, Fiscal Analyst, Legislative Finance Division.

Chairman Adams called the meeting to order and said the purpose of today's meeting was to receive information on the constitutional limitation, revenue projections, the figures for the operating and capital budgets, and a review of bills in Committee.

CONSTITUTIONAL SPENDING LIMIT

Chairman Adams reviewed the constitutional spending limit passed by the Legislature during the Special Session last July. Since the majority approved the limitation, Chairman Adams stated he intended to follow it closely.

REVENUE PROJECTIONS

Chairman Adams requested that Mr. Barker give a brief overview of the revenue projections for this year.

MR. MILT BARKER, Fiscal Analyst, Legislative Finance Division, presented a chart showing the amount of General Funds Available for Appropriation (See Attachment #1). Mr. Barker advised these figures are based on Department of Revenue estimates that will appear in their January publication. Based on the Department of Revenue's numbers, Mr. Barker said the amount available for appropriation is \$3,333.8 for FY 83. He said a slightly higher figure would be available if illiquid assets were included. Mr. Barker stated the amount available for FY 83 is down substantially from last year -- \$5.9 billion for FY 82. The reason the amount is less, is that there was a short fall in revenue in FY 82. Also, Mr. Barker said, \$201.2 million has been appropriated from last session for FY 83. He said another reason the amount is down is that the price of royalty oil production on the North Slope has been falling. He explained the second page of his hand-out shows what has been happening with the oil prices for Alaska.

Mr. Barker said he thinks this estimate from the Department of Revenue is as good of an estimate as can be made. He said it may very well be that before adjournment the Department will come up with a lower estimate.

Because there is a possibility that there could be a lower revenue amount than has been projected, Mr. Barker suggested the Committee may want to base the budget on a figure less than the Department's estimate. He said one way to give them more flexibility might be to appropriate based on a revenue estimate somewhere below the 50 percentile used by the Department of Revenue. He said another way would be to assume a particular case for world oil prices.

There was brief discussion on Mr. Barker's figures.

Chairman Adams pointed out Mr. Barker's estimate for revenues is \$3333.8. He said the Governor's Office will be announcing they are looking at a figure of \$3390.1. He said he would like the House Finance Committee to follow these guidelines when considering this year's budget:

The operating budget will not go over \$1.6 billion.

There will be no new state employees.

There will be a capital budget of approximately \$1.2 billion.

For the operating budget, each subcommittee chairman will be given a figure to follow for each agency.

The Subcommittee chairman should review the agency's formula funding to see if cut's can be made.

The Subcommittee chairmen should evaluate the benefit of direct services that funds provide -- is the State getting it's dollars worth in services provided? The Subcommittee chairman should determine which programs are to remain untouched.

Subcommittee chairmen should look at the agency's where they can cut bodies and do so.

Subcommittee chairmen should determine if federal funds should be authorized for any existing programs. They should also determine if previously existing federally funded programs should be supplanted with general funds.

Rather than making a general reduction across the board, Subcommittee chairmen should work closely with the agencies to determine if there is a need to eliminate and reduce programs within state functions.

Subcommittee chairmen should give Chairman Adams their calendar of work for the subcommittee.

Chairman Adams announced the House will be completed with the agency budgets by March 25th, which gives them 30 days to work on problem areas that arise in Subcommittee and go to free conference.

Chairman Adams requested that Committee members listen closely to the Governor's budget message. Chairman Adams said the Governor's operating budget for this particular year will be in the neighborhood of \$1.87 billion. He stated House Finance's budget will be no more than \$1.6 billion -- which means they will have to cut \$267.0 from the Governor's budget. There was brief discussion.

Chairman Adams requested that Subcommittee chairmen also look closely at designated grants to see if the agencies are getting the grants out for the purposes indicated. He said Subcommittee chairmen should look to see if intent language should be put in the operating budget.

Regarding the proposal for joint House and Senate subcommittee meetings, Chairman Adams indicated he has not yet had an opportunity to meet with the Senate leadership.

Chairman Adams said the Governor has placed \$540 million aside in the FY 83 budget for capital projects.

BILLS IN COMMITTEE

Chairman Adams advised he is assigning all the bills in Committee to the respective subcommittee. He requested that if Committee members have any bills they would like to have on the agenda at either Friday's or next week's meeting, that they advise him by Wednesday. He requested that Committee members look closely at the fiscal impact of their bills. He said he intended to move all bills as long as there is at least one affirmative vote and the Report is signed by the Committee as a whole.

Chairman Adams advised the Finance Committee will be expanded from nine to eleven members.

GENERAL COMMENTS

Representative Meekins indicated Chairman Adam's proposal is very ambitious. He said this proposal has his support.

Representative Montgomery said he supports the \$1.6 billion operating budget figure.

Representative Bettisworth said he is happy with the attitude of the Committee and the Chairman. He said in his view they are taking a businesslike approach rather than a political one, and he is encouraged and looking forward to this Session.

Representative Chuckwuk advised his Subcommittee will be meeting with Commissioner Williams, Department of Revenue for a brief overview. He invited Committee members to attend that meeting. A memo will be circulated advising the time and place of that meeting.

ADJOURNMENT

The meeting adjourned at 2:15 p.m.

(Tape HFC 82-1, Side 1 #001 to #660.)

GENERAL FUNDS AVAILABLE FOR APPROPRIATION
(\$ Millions)

	Governor	
	<u>Liquid Gen. Funds</u>	<u>Total Gen. Funds</u>
General Fund Balance 6/30/80	1438.7	2221.6
<u>FY 81</u>		
Revenue	3716.8	3716.8
Appropriations		
From Cash	(4155.4)	(4155.4)
From Illiquid Investments		(452.0)
Illiquid Investments	<u>(18.0)</u>	
General Fund Balance 6/30/81	982.1	1331.0
<u>FY 82</u>		
Revenue	4335.9	4335.9
Appropriations	<u>(5916.7)</u>	<u>(5916.7)</u>
General Fund Balance 6/30/82	(598.7)	(249.8)
<u>FY 83</u>		
Revenue	4133.7	4133.7
Appropriations	<u>(201.2)</u>	<u>(201.2)</u>
General Funds Available for FY 83	3333.8	3682.7
<u>FY 84</u>		
Revenue	5005.3	5005.3
General Funds Available for FY 84 (Assuming all liquid FY 83 general fund balances are appropriated)	5005.3	5354.2

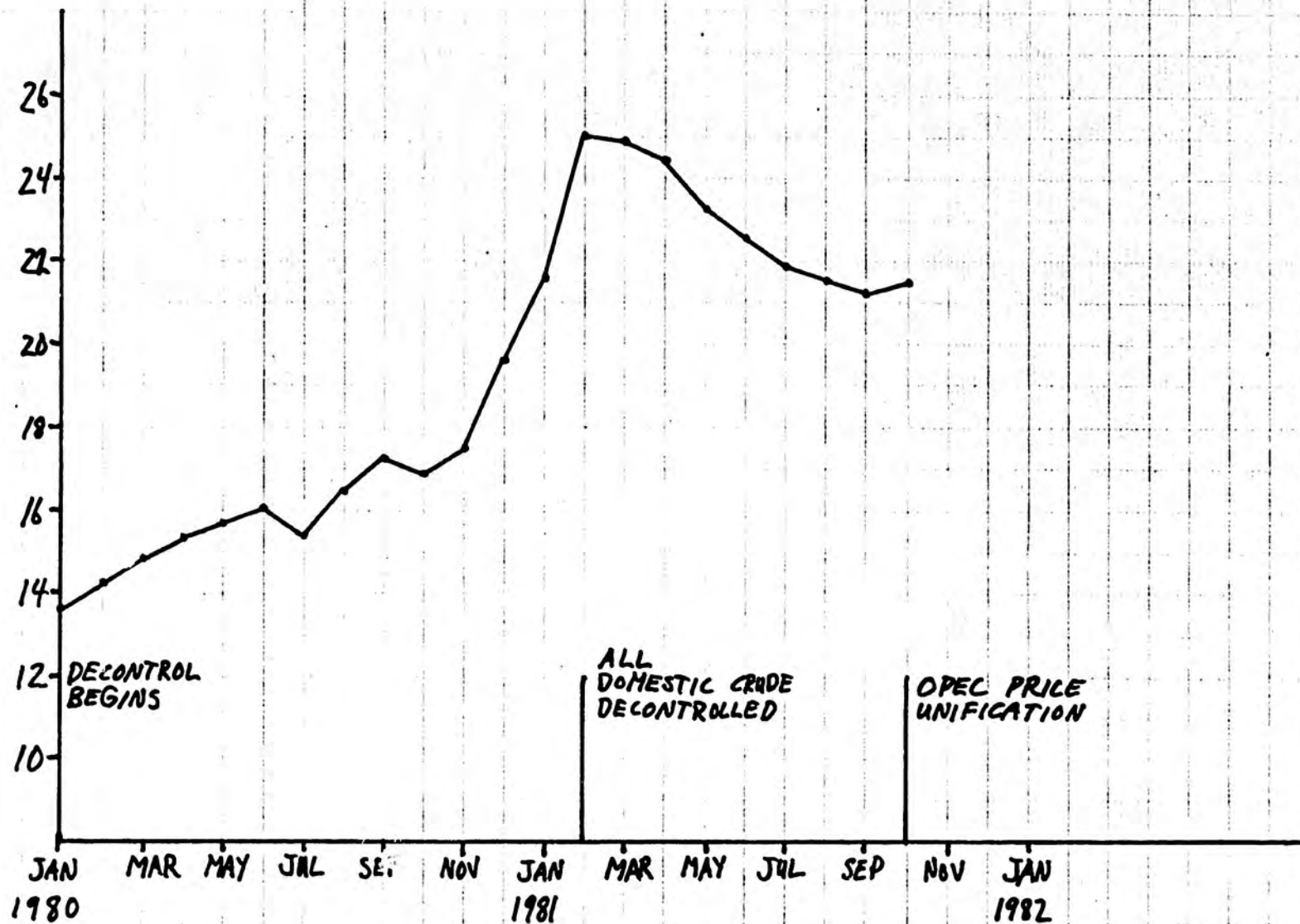
PREPARED BY:
Legislative Finance Division
January 11, 1982

Attachment #1

1/11/82

SADLERCHIT ROYALTY CRUDE WELLHEAD PRICE

\$ PER
BARREL



Prepared by:
Legislative Finance
1-11-82

1/11/82

Other Producers Likely to Follow OPEC Price Cut

Reduction Averaging 1/2 Cent
A Gallon Likely to Have
Little Effect on Consumers

By YOUSSEF M. IBRAHIM

Staff Reporter of THE WALL STREET JOURNAL

ABU DHABI—The decision of the Organization of Petroleum Exporting Countries to cut oil prices for the second time in four months is expected to put pressure on non-OPEC producers to also lower their quotes.

But consumers aren't likely to reap much benefit from the latest reductions, which average out to less than half a cent a gallon on all OPEC oil.

The OPEC price cuts, effective Jan. 1, will range from 20 cents to 70 cents a barrel on some heavy and light crudes, Mana Saeed al-Otaiba, the OPEC president and United Arab Emirates oil minister, said. The reductions will be in the so-called differentials that OPEC members are allowed to add to or subtract from the base price for oil, to reflect quality and market proximity.

The cuts will affect some of the oil of at least eight of OPEC's 13 members and will probably push such non-OPEC oil producers as Britain, Norway, Mexico and Egypt to ease their prices, as well.

Oil industry experts say the OPEC cuts will lower the average price of OPEC oil between 14 cents and 18 cents for a 42-gallon barrel.

The group's action comes against a background of slumping demand for oil, stemming partly from increased conservation and the world-wide economic slowdown, that has caused OPEC production to tumble to about 20 million barrels a day this year from a record 31 million barrels a day in 1979.

"We hope this will help settle the oil markets... and that demand (for OPEC oil) will start picking up by the summer of 1982," Sheik al-Otaiba said at a news conference.

Sheik Ahmed Zaki Yamani, Saudi Arabia's oil minister, who pressed other OPEC members all year to lower prices, called the decision a "blessing" for oil consumers, particularly those in industrialized countries.

He said the price cuts will apply mostly to heavy crudes produced by Saudi Arabia, Kuwait, Iran, Iraq and Qatar and to some light crudes from Algeria, Libya and the United Arab Emirates.

The decision pushes the price of Saudi Arabia's Arabian Medium down 60 cents a barrel, to \$32.40. The price of Arabian Heavy, another Saudi Arabian product, will go down 50 cents, to \$31. The price of Kuwait's heavy crude will be reduced 70 cents, to \$32.30. Iran's heavy crude, which is of a better quality than Kuwait's, also will be lowered 70 cents, to \$32.30.

Reductions in the top prices of Algeria and Libya also were expected, although neither country's oil minister would comment.

According to Sheik Yamani, both Libya and Algeria can lower their authorized maximum price by \$1, to \$37 a barrel. But Mr. Yamani noted that their chief competitor, Nigeria, has said it won't budge from its \$36.50 price, so Libya and Algeria may have to come down lower to match Nigeria's quote.

OPEC left intact the price of Arabian Light, the grade of oil that the group uses as its benchmark. Last October, the group effectively cut prices by unifying oil quotes around a \$34-a-barrel price for Arabian Light, upon which the differentials are based. The move lowered the maximum price allowed for OPEC oil to \$38 a barrel from \$41.

"Instead of going up—as usual—OPEC prices will be coming down," Sheik Yamani told reporters of the latest price change. For more than a year before the October meeting, Saudi Arabia had deliberately increased its production up to 10.5 million barrels to maintain the glut of oil that already was clogging world markets, in an effort to get other OPEC members to lower their quotes.

After the October meeting, where the decision to unify prices meant that the other 12 members cut their benchmark quotes \$2 a barrel, Saudi Arabia scaled back production to 8.5 million barrels daily. Sheik Yamani said Saudi output is likely to stay at that level unless "market situations force it down."

The decision to lower prices was a hard pill to swallow for many of the OPEC countries. Sheik Ali Khalifa al Sabah, the Kuwaiti oil minister, told reporters from his country who asked for an explanation that he had to go along "because we don't want to see a string of outbiddings in the markets. We accepted it out of fear that a rejection might have adversely affected us and other (oil producing countries)... We opted for the lesser evil."

Nigeria, which urgently needed revenue, counted its prices to \$36.50 a barrel, luring customers away from both Libya and Algeria, which sell the same sort of high-

quality light crude.

Similar discounts were being given by other OPEC members and price differences threatened to fragment the organization.

The latest accord tilts the structural balance of OPEC oil production in favor of heavy crudes. To date such crudes haven't been desirable at high prices because it is hard to break them down to refined products such as heating oil and gasoline. But by pushing down their prices, OPEC hopes to bring them into greater demand. It also hopes to stem the inroads that coal is making against fuel oil, one of the products refined from heavy crude.

Can OPEC Survive the Glut?

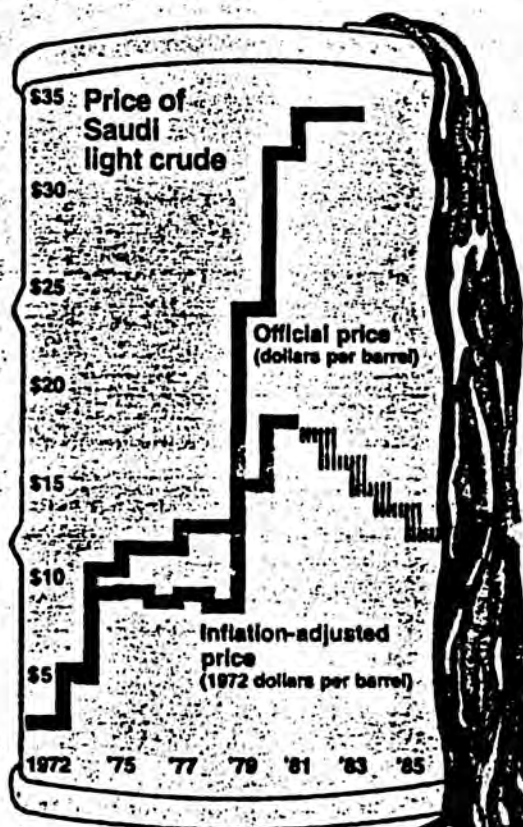
by WILLIAM M. BROWN

In *FORTUNE* last year, William M. Brown and Herman Kahn of the Hudson Institute presented a seemingly far-out analysis of the future of OPEC and oil prices ("Why OPEC Is Vulnerable," July 14, 1980). OPEC's oil exports, they argued, would shrink during the 1980s and oil prices would decline, not keep rising—almost everybody then believed. Rōsy though they seemed, the Brown-Kahn predictions derived from careful analysis, and they soon began coming true. In the following article, Brown, a physicist and director of energy studies at Hudson, takes an updated look at OPEC's prospects. His analysis suggests that they've grown even bleaker.

Despite the much-noted oil glut, Americans generally still appear to believe that oil prices will continue moving up in the years just ahead—that, after all, is what experts have been telling them. According to my analysis of the oil outlook, this picture of the future is quite mistaken. We are in for lower, not higher, oil prices. It is pretty safe to predict that world oil prices in 1985 will be lower in real terms than the unified official price of \$34 a barrel agreed upon at the OPEC meeting in Geneva in late October. The official price in 1985 may be higher than \$34, but inflation and discounts will probably bring real selling prices considerably below \$34 in 1981 dollars.

The glut has already reduced OPEC's oil exports from a 1979 rate of over 28 million barrels per day (mbpd) to less than 21 mbpd currently, and there is no reason to expect exports to get much higher than

that for at least a few years. Consequently, competition for market shares within OPEC is likely to increase and to result in further price declines in real terms. After two or three years, a downward price spiral resulting from these economic pressures could even bring an end to a pervasive illusion of the 1970s—that OPEC is a powerful cartel that can impose its will on the marketplace.



Some observers describe the current glut as a short breathing space that will end soon when OPEC gets its act together. OPEC did get its act together to some extent at Geneva, and afterward Sheikh Ahmed Zaki Yamani, the Saudi oil minister, announced that Saudi Arabia would cut its output to 8.5 mbpd to support the new \$34 price—a cut of about a million barrels a day. That, he predicted, will bring the glut to an end. Nonetheless, I expect that the glut will grow larger. There are at least seven reasons to think so:

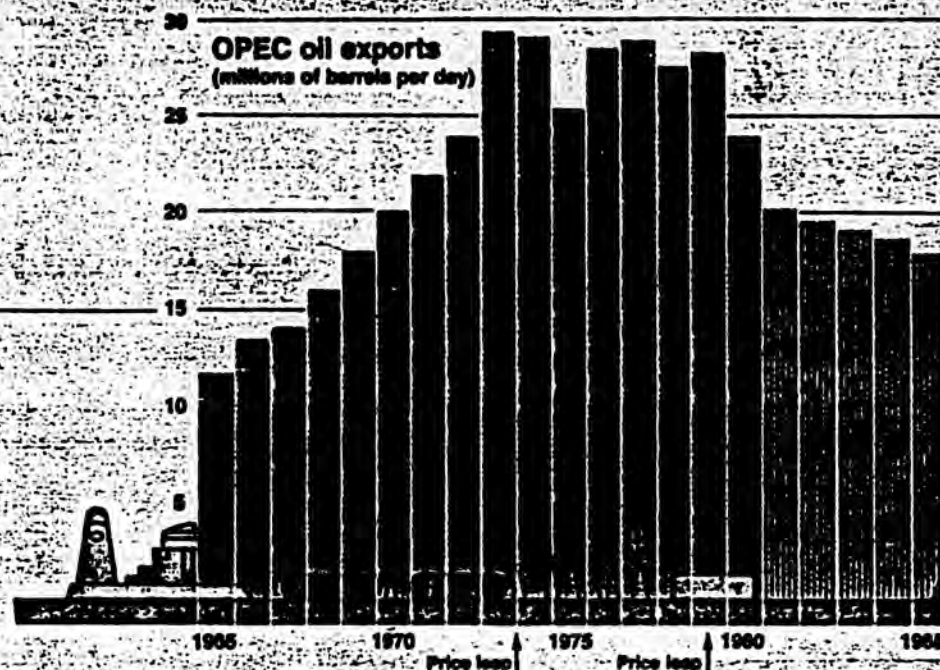
■ **Energy conservation.** Since the Arab oil embargo, the impact of energy conservation in the major industrialized countries has been impressive. Energy efficiency should continue to improve at least through the remainder of this century. Technological improvements already scheduled point to efficiency gains of 30% to 50% in motor vehicles and in energy-intensive industrial processes.

■ **Switching to alternative fuels.** For the next 20 years, significant growth is likely in the worldwide consumption of energy from sources other than oil—coal, natural gas, nuclear power, hydroelectric power. As a rough estimate, over the next two decades switching to alternative fuels may be equivalent to discovering each year a new giant oil field that would produce between 0.5 and 1.0 mbpd.

continued

Downhill from Here

Between the surges of 1973-74 and 1979-80, oil prices declined somewhat in real, inflation-adjusted terms. Now they're headed downward again. The chart shows year-end prices, so the official price for 1981 is \$34, the figure OPEC announced in October, adding that it would hold through 1982. Continuation of this price past 1982 is assumed in the projections of the inflation-adjusted price. These projections by author William Brown are based upon an average inflation rate of about 9%.



OPEC Pays a Price

During the Sixties, OPEC's export volume grew 10% a year, but growth stopped after the price leap of 1973-74. Exports never regained the 1973 high. After oil prices more than doubled in 1979-80, export volume went into what threatens to be an extended decline. In short, demand has responded to prices—just as basic economics says it should.

■ **Slowed economic growth.** For the industrialized countries as a whole, the OECD expects economic growth in 1981 to be a little more than 1%, about one-third of "normal." A return to the vigorous growth rates of the Sixties and early Seventies appears at least a few years off.

■ **Inventory reduction.** Early this year, stocks of petroleum in importing countries were close to their all-time peaks. The above-normal amounts held by governments, oil companies, and consumers might add up to as much as 1.2 billion barrels. Both oil companies and consumers can be expected to reduce inventories toward normal during a prolonged glut.

■ **Non-OPEC production.** Since soon after the Arab oil embargo of 1973-74, non-OPEC oil production has been climbing fairly steadily by 5% to 6% a year. Based on existing oil discoveries and investments in oil-field development, this growth appears sustainable over at least the next few years. Even beyond the next four or five years, there appears to be a reasonable chance of maintaining a 5% growth rate for a while, because of the current unprecedented level of effort in the worldwide search for new oil and gas fields.

■ **Production from Iraq and Iran.** As a result of the stalemated war between Iraq and Iran, oil production in those countries together is running about 4 mbpd below their 1979 output. In two or three years, if not earlier, it is quite possible that Iraq and Iran will find some face-saving exit from their conflict and that most of the war damage will be repaired. Any rise in their production would, of course, put addition-

al pressure on the other members of OPEC.

■ **Falling oil prices.** If oil prices are flat or declining in real terms over the next few years, as I expect, some OPEC countries will probably attempt to increase their export volumes as a way of keeping their income up. The dilemma facing each member is that the only effective way of accomplishing this is likely to be through price reductions. Each such action, however disguised, could then spur other OPEC countries to cut their prices (or increase discounts). A downward price spiral could follow, the bottom of which can only be conjectured.

One way for OPEC to counteract the impact of these seven factors would be to establish a system of production quotas. However, the outlook for effective agreements of this type in OPEC is dim.

A double burning

Without either quotas to hold down supply or a sharp drop in prices to lift demand, the only factor that could significantly ease the current oil glut would be an outbreak of serious disturbances involving oil-exporting countries. Thus, one can easily imagine a renewed escalation of fighting between Iraq and Iran or the eruption of mass riots, revolutions, or wars in other OPEC countries, or even a new war between Israel and some Arab country. But such events are not likely to alleviate the current glut enough to stabilize or increase prices for any extended period, as long as nothing comes along to close down Saudi production.

Declining prices in the early 1980s

would increase demand for oil, but by how much? I expect oil demand to be less responsive to declining prices than other commodities would be. After all, consumers and businesses in oil-importing countries were burned twice, by price surges in 1973-74 and 1979-80. Those experiences will linger in our minds for decades.

Lower oil prices over a few years are likely to be interpreted as a trap into which no alert nation, or business, should fall. Declining oil prices might induce government intervention—for instance, tariffs—to keep the domestic price of oil artificially high and ensure that dependence upon oil imports will not increase. Governments would be glad to get the additional revenue too, of course.

Gradual price erosion, then, is unlikely to reverse the declining trend in demand for OPEC oil anytime soon. With the already wide gap between OPEC production capacity and OPEC exports growing wider still, a Saudi production cut to about 5 mbpd might be required, even before the end of 1982, to maintain the \$34 price. Moreover, an additional cut of perhaps 2 mbpd might be needed by the end of 1983. Economic analysts believe that if Saudi exports should fall below about 6 mbpd, the government would probably have to cut back the country's economic-development budget—unless the Saudis are confident enough about the future to draw down their cash reserves.

If the Saudis choose to reduce their output to 5 mbpd during 1982 to defend the \$34 price, they could find themselves looking at 1983 and beyond with trepidation.

—continued

FOLLOW-UP

tion. My estimate for total OPEC exports for 1985 is 18 mbpd (see chart page 90). That level could be perhaps 12 or 13 mbpd below OPEC's maximum sustainable export capacity. Also, a constant \$34 price in nominal dollars for another four years implies roughly a 30% decline in real income even for OPEC members that maintain their export volumes. Unfortunately for OPEC, attempts to gain greater market shares for individual members would also tend to make oil prices fall more rapidly for them all. The situation suggests that oil prices have already reached their peak for the early 1980s, if not for much longer.

Trial by glut

Although OPEC is generally referred to as a cartel, it has never behaved like one. Any producers' association may appear to be in relatively strong control of pricing and production arrangements during a rising market. The crucial test of effectiveness, however, occurs when the organization is faced with a declining market—a glut, not a shortage.

On the record, OPEC was not successful from 1974 through 1978. During that span the inflation-adjusted price of petroleum actually declined, as the chart on page 89 indicates. OPEC was temporarily "saved" in 1979, not by its wisdom, but by the prolonged oil-buying panic that followed the revolution in Iran. After the market began to soften again in mid-1980, a new rescuer appeared in the form of the Iraq-Iran war. Now OPEC is facing the beginning of another major test—one that could threaten not only its income, but its existence.

A strategy of deliberately moving oil prices lower might help to save OPEC, if anything can. In the absence of an OPEC agreement on production quotas, the Saudis alone cannot be expected to cut their output enough to keep real oil prices from falling. To support the official price might require the Saudis to surrender their entire export market by 1985, an obviously unacceptable outcome.

What we can expect over the next few years, then, is gradual erosion in real oil prices, probably with official OPEC prices

remaining stable or going up very little. A faster price retreat, with actual cuts in official prices, would make sense on economic grounds, but that would stir up internal political troubles. Arabs tend to look upon their oil reserves as a precious national heritage; price-cutting can easily be interpreted as an outrageous act—like selling the family jewels to a pawnbroker.

In view of all this, the Saudis—indeed all OPEC members—may soon become enmeshed in a Catch-22 situation. To follow an intelligent long-range plan, deliberately lowering prices, may invite political ruin. But if the Saudis don't take that course, economic forces may make a shambles of the international oil market within a few years. After that, no one could confidently foresee how low prices might fall or what the political consequences would be.

The spot market is likely to remain soft for a long time. Within the next few months, some member countries will probably be offering oil at discounts from the \$34 "official" price, perhaps \$1 to \$3 per barrel. By 1985, and possibly much sooner, the official OPEC prices could completely unravel. The struggle for market shares may by then have caused prices to decline substantially—perhaps to less than \$20 per barrel in 1981 dollars. Indeed, they might even sink below \$15.

A road to de-escalation

Economists and businessmen generally agree that the prospects for long-term economic stability and prosperity worldwide become better if prices of important commodities vary gradually—in "small doses," as Sheikh Yamani put it—within a reasonable and predictable range. Saudi Arabia appears to be the only OPEC country that both understands this point and, for its own reasons, cares about it. The ideal Saudi strategy would help bring oil prices into such a range and keep them there over the long term—not out of altruism, but because the Saudis are convinced that it would be best for them.

Let us assume the Saudis conclude that their long-term economic and political in-

terests would be much better served by oil prices somewhat lower than \$34 per barrel (in 1981 dollars), perhaps \$25 per barrel. In the oil-importing countries, expectations of a stable real price equivalent to \$25 in 1981 dollars would probably cause the delay or cancellation of many of the high-cost energy projects now contemplated. For example, synthetic fuels from coal or oil shale are usually justifiable only at prices between \$30 and \$60 per barrel. And exploration for conventional oil and gas in many frontier regions could become only marginally interesting at the \$25 price. Lower oil prices would probably discourage the Alaskan natural-gas pipeline, postpone development of tar-sands projects, reduce the desirability of switching to coal, postpone some investments in conservation, and increase current appetites for petroleum fuels. Lower oil prices also would mean stronger economic growth in oil-importing countries, and that would help buoy demand for OPEC oil.

Preparing for the shock

If the Saudis undertake to bring oil prices down, how might they proceed? In early 1982, discounts and sinking spot-market prices may well push the effective price two dollars or more below the \$34 official price. The Saudis will then find that some of their market is about to slip away to OPEC competitors. A plausible scenario of what comes next might run as follows: In the spring of 1982 the Saudis—for political reasons—announce a small cut in output, 0.5 mbpd, and play it up as a move to support prices, even though they want the decline to continue. An OPEC meeting in May, let's say, fails to change the official price or to reach a production agreement. By August the Saudis have prepared their populace for the shock: they announce that widespread discounting and predatory practices of some exporting countries have forced the government to reduce the official price of Saudi light crude back to \$32. Again for political reasons, they also promise another 0.5-mbpd production cut late in the year. The Saudi cutbacks, however, barely match the decline in total

continued

FOLLOW-UP

OPEC exports. The formal Saudi price reduction dismays some members of OPEC, but those unwilling to face further shrinkage of their export volume have to match the new \$32 price, either openly or through discounts.

The Saudis repeat this process, letting market forces erode official prices through inflation and discounts, then lowering their official price to meet the competition and at the same time announcing a small production cut. Their goal is to establish by mid-1983 if not sooner a stable market for OPEC exports at stable real prices. This market, at, say, \$30 a barrel in 1983 dollars (about \$25 in 1981 dollars), should absorb about 21 mbpd of OPEC supplies, with the Saudis furnishing about 7 mbpd. At that point, OPEC, now clearly under Saudi leadership, meets and announces that future prices will be increased regularly to keep up with inflation—perhaps a little bit more. Presumably OPEC has learned the lessons necessary to maintain a reasonably stable long-term market.

The no-win prospect

While the numbers in this scenario are unavoidably somewhat arbitrary, they indicate how this phase of the Saudi strategy might be brought to a successful conclusion with minimum trauma to themselves and other OPEC members. If everything works out well for Saudi Arabia, OPEC's 21-mbpd export level would not decline any further during the 1980s, and should rise slowly during the following decade.

This ideal Saudi strategy, even if attempted, would not necessarily lead to a stable market. The Saudis would need luck as well as skill. A collapse of prices, and possibly of OPEC, seems a more likely outcome. However, it is just that kind of outcome the Saudis—and the oil-importing countries too—should want to prevent. The political turbulence following a price collapse might turn into chaos. And neither the OPEC countries nor the oil-importing countries are likely to profit from the unpredictable large swings in oil prices that could well follow. Over time we might all be losers.

PROPOSED GUIDELINES FOR FY 83 BUDGET

OPERATING	1,600.0
CAPITAL--including FY 82 obligation of 201.2	1,200.0
LOANS	
NEW LEGISLATION	
SUPPLEMENTALS	
SPECIAL APPROPRIATIONS	
TOTAL UNDER SPENDING LIMIT	2,800.0
PERMANENT FUND DIVIDENDS	173.0
DEBT SERVICE	135.0
TOTAL OBLIGATIONS	3,108.0

CAPITAL PROJECTS FOR VOTER APPROVAL
PERMANENT FUND CONTRIBUTIONS
RAINY DAY ACCOUNT
BOND DEFEASANCE
CAPITAL INVESTMENT FUND
PAYMENT OF BOND LOAN FUND (LB & A)
ETC.

HOUSE FINANCE COMMITTEE

January 15, 1982

2:50 a.m.

(Tape HFC 82-1, side 2, #001)

PRESENT

The following committee members were present: Representatives Adams; Bettisworth; Cotten; Chuckwuk; Cuddy; Fuller; Haugen; Hurlbert; and Montgomery.

ALSO PRESENT WERE: Representatives Meekins; Carney; O'Conner; Martin; and Phillips; and Kerry Romesburg, Director of the Commission on Post Secondary Education.

Chairman Adams called the meeting to order. He advised that Rule 23 had been waived and brought SB 629 before the Committee for consideration. He advised that it is the same as HB 646 (HB 646 - "An Act making a special appropriation to the scholarship revolving loan fund and providing for an effective date.") However, the appropriation level for HB 646 is 0.5 million higher.

SB 629

SB 629--"An Act making a supplemental appropriation to the scholarship revolving loan fund; and providing for an effective date."

Representative Montgomery indicated that the sub-committee has not met formally to discuss SB 629; however has no objection to the bill.

Representative O'Conner addressed the Committee stating that he was supportive of the bill which would expedite the receipt of loan funds to second semester students currently holding promissory notes and asked that the Committee move the bill as expeditiously as possible. Representative Cotten inquired as to whether adequate funds will be available to meet the needs for everyone currently attending school during the first semester and planning to attend during the second semester. Will funds be adequate to provide assistance for new students who may not currently be enrolled for the second semester? Representative O'Conner indicated that he was not able to directly answer that question; however, he is opposed to the loans being so high and although the loans are currently loosely controlled, anticipates that regulations will tighten the control of the loan funds.

Representative Martin testified before the Committee of his support for SB 629. Representative Martin indicated that the House HESS Committee had discussed the inclusion of 2.2 million dollars, in addition to the 7.0 million needed for the

scholarship loan fund, which would provide funding for the purchase of the Carrage House. The Carrage House would provide additional housing for Anchorage area students and rural students attending school in Anchorage. Representative Martin presented a work draft providing a breakdown of costs and inclusion of the purchase of the Carrage House. (see attachment #1).

Representative Fuller inquired as to whether the Committee was discussing one or two bills. Chairman Adams clarified that SB 629 and HB 646 are the same bill; however the appropriation level for HB 646 is 0.5 million higher.

Representative Martin continued his discussion stating that he felt all students should be treated equally with regard to student loans and that the alternative is for many students to go out-of-state although they would prefer to attend school in Alaska.

Representative Cotten disagreed with Representative Martin's point concerning the availability of the Carrage House for Alaska state students stating that out-of-state students participating on team sports would utilize the housing. Also that he hopes out-of-state students are not receiving loan fund assistance.

Representative Martin replied that scholarships would be limited to 25% to out-of-state students and feels that there is some misconception concerning the name of the loan fund. He felt that "student" loan fund would perhaps be a more appropriate title.

Representative Cuddy asked what Representative Martin felt the effects of the increase in loan amount would have on the increase in demand and what would be the effect if the loan amount was cut back to last year's level? Representative Martin responded that he feels that meaningful legislation tightening the scholastic requirements would help alleviate loan fund abuses.

Representative Phillips testified before the Committee that he supports the appropriation for student loans and suggested that a possible curtailment to abuses of the loan fund by students would be the initiation of a repayment interest rate of 5% on the first \$3,000 and 10-12% rate on the second \$3,000 of the loan.

There was some discussion of the abilities to enforce such requirements with limited staff available. At this point in the meeting, Representative Bettisworth requested that all discussion be pertinent to the bill being addressed.

Mr. Kerry Romesburg, Director of the Commission on Post Secondary Education, provided an overview of the loan fund program, scholastic requirements, number of loans approved and estimate of amount of loan funds to be returned to the program due to a student's discontinuance. (see attachment #2).

An inquiry was made by Representative Cotten concerning the administration's support of this bill. Mr. Romesburg indicated

that it was his understanding that the Governor would be supportive.

Representative Meekins MOVED that SB 629 be reported out of House Finance.

Representative Hurlbert MOVED TO AMEND the bill striking out "scholarship" and inserting with "student".

Representative Meekins MADE A POINT OF ORDER that to change the title of the bill from "scholarship" to "student" loan would require substantive law change and that due to the urgency in appropriating the funds, a title change should perhaps be discussed at a later date.

Representative Hurlbert WITHDREW HIS MOTION.

Representative Cuddy OBJECTED to not resolving some of the problem areas previously discussed before approving the supplemental appropriation.

Chairman Adams stated that Representative Meekins motion was not in order since he has not been formally appointed on the Committee.

Representative Cotten MOVED to report SB 629 out of committee.

Representative Cuddy OBJECTED TO THE MOTION.

THE QUESTION WAS CALLED FOR:

In favor: Representatives Adam, Bettisworth, Cotten, Chuckwuk, Fuller, Haugen, Hurlbert and Montgomery.

Opposed: Representative Cuddy.

The MOTION PASSED. (8-1). SB 629 was reported out with a "Do Pass" recommendation.

MEETINGS

Chairman Adams informed the Committee members that those wishing to meet to discuss bills to be presented to the Committee for consideration meet with him. Also, there is to be a meeting in Chairman Adam's office at 11:00 a.m. on January 16, 1982, to discuss Mt. Edgecumbe.

ADJOURNMENT

The meeting adjourned at 3:30 p.m.

(Tape HFC 82-1, Side 2, #001-#644)

12-2109

Lear

Funding Information

General Fund \$2,200,000
Other Funds -0-
\$2,200,000

IN THE HOUSE

Martin, Beeves, Barnes
~~BY THE HEALTH, EDUCATION
AND SOCIAL SERVICES
COMMITTEE BY REQUEST~~

CS HOUSE BILL NO. 646 - *Finance*

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWELFTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: *change in title* "An Act making a special appropriation to the University of Alaska for the purchase, renovation, and maintenance of the Carriage House for use as student housing, making a supplemental appropriation to the scholarship revolving loan fund; and providing for an effective date."

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

* Section 1. The sum of \$2,200,000 is appropriated from the general fund to the University of Alaska for the purchase, renovation, and maintenance of the Carriage House at Anchorage for use as *only as* student housing by the University of Alaska as follows:

purchase of the Carriage House	\$1,900,000
renovation and maintenance	300,000

* Sec. 2. The appropriation made by sec. 1 of this Act is for a capital project and is subject to AS 37.25.020.

● Sec. 3. This Act takes effect immediately in accordance with AS 01.10.-070(c).

ALASKA STUDENT LOAN PROGRAM
(Background for SB 629)

1. Loan Funds Available

<u>Source of Funds</u>	<u>Amount</u>
FY 82 General Fund Appropriation	\$15,432,100
FY 82 Loan Collections	4,067,900
SB 120 Fiscal Note	5,268,900
FY 81 Carry Over Revolving Fund	1,162,764
Sub Total	\$25,931,664
SB 88 Revolving Base	10,000,000
Total Available	\$35,931,664

2. Loan Demand

<u>Status of Loan Applications</u>	<u>Number</u>	<u>Amount</u>
Actual Awards 1-8-82	9,045	\$37,851,375
On-Hand Pending Additional	2,381	6,428,700
Projected Summer, Other	600	1,320,000
Total		\$45,600,075
Projected Cancels		2,700,000
Projected Adjusted Total		\$42,900,075

3. Additional Need

Projected Total	\$42,900,075
Funds Available	35,931,664
	\$ 6,968,411

4. Questions Regarding the Program

- a. Question: What caused the tremendous growth in demand for 1981-82 student loans?

Response: The growth of 70% in loan borrowers and over 200% in dollar volume is due to many factors, but the principal cause seems to be the increased loan amounts (SB 120). Alaskans are now able to attend school full time and are doing so in record numbers.

- b. Question: Why was the true fiscal impact of SB 120 so greatly understated?

Response: The fiscal note for SB 120 was estimated at \$5.3 million. The true impact, including the unprojected 70% growth, was (or could be) \$22.3 million. The \$10 million revolving base was used to off-set the cost, but the program ended up \$7 million short.

The \$5.3 estimated million impact was based upon the over 6,000 loans already filed at the time of the passage of SB 120. Over 90% of these persons (5,700), refiled loans after SB 120 passed. In so doing, they asked for the increased loan amount. This was unanticipated and cost the program about \$15 million. In re-applying, costs of attendance were adjusted upward, students' resources were adjusted downward, and schools signed off on the budgets.

- c. Question: What caused the long delay in processing loans this fall?

Response: The unexpected volume was a major contributor to the backlog. The office simply is not staffed to handle the current volume. However, the principal cause was the delay in finalizing the bill into law. No contracts could be awarded containing the new loan terms (SB 120) until the bill became law. The Governor, upon the advice of the Attorney General's Office, did not sign SB 120 into law. Rather, it was allowed to become law after the statutory 20-day limit. This delayed any processing until the last week of July/first week of August. By then, backlog was too great to overcome, and the office did not become current in processing until December.

- d. Question: What has been the impact of increasing forgiveness from 40% to 50%?

Response: There has been very little impact of a fiscal nature, but many retroactive adjustments still remain to be processed (162 processed through December). To date, the actual cost has only been around \$50,000 for retroactive forgiveness. The true impact will be in future years.

- e. Question: With the \$10 million revolving based used, does this need to be re-established?

Response: Yes. The same reasons for needing the base still exist and are even more urgent with the current volume. The base, to be truly effective, needs to be re-established and increased to \$25 million to accommodate spring processing.

- f. Question: Can a student borrow funds, drop school, keep the money, and keep repeating the cycle?

Response: No. The student can do this once, but it cannot be repeated as long as the school is complying with loan requirements.

- g. Question: Can a student use loan funds to buy a car, take a vacation, make investments, etc?

Response: No. the student accepts the funds for use for schooling only. If these funds enable the student to do both things (for example, both attend school and buy a car) rather than having to choose to do only one, there is nothing illegal involved. The program does not require one to deplete savings before borrowing.

1981-82 ALASKA STUDENT LOANS

1. Program Status (December 31, 1981)

<u>Student Level</u>	<u>Number</u>	<u>Amount</u>
Freshman	2,855	\$11,286,278.50
Sophomore	1,979	7,990,818.50
Junior	1,457	5,957,705.00
Senior	1,190	4,733,502.50
Vocational	700	3,259,429.63
Undergraduate	8,181	\$33,227,734.13
Graduate	887	4,801,869.00
Total	9,068	\$38,029,603.13

2. In-State/Out-of-State Attendance by Level (December 31, 1981)

<u>Student Level</u>	<u>Alaska</u>	<u>%</u>	<u>Out-of-State</u>	<u>%</u>
Freshman	1,451	50.8	1,404	49.2
Sophomore	936	47.3	1,043	52.7
Junior	655	45.0	802	55.0
Senior	529	44.5	661	55.5
Vocational	544	77.7	156	22.3
Undergraduate	3,851	47.1	4,330	52.9
Graduate	211	23.8	676	76.2
Total	4,062	44.8	5,006	55.2

3. Percent In-State Previous Years

	<u>Undergraduate</u>	<u>Graduate</u>	<u>All Loans</u>
1980-81	45.3	17.9	42.3
1979-80	36.1	12.3	33.3
1978-79	35.1	12.0	32.3

4. States of Attendance by Student Level (December 23, 1981)

<u>Freshman</u>	<u>Sophomore</u>	<u>Junior</u>	<u>Senior</u>	<u>Vocational</u>	<u>Undergraduate</u>	<u>Graduate</u>
AK-1,444	AK-993	AK-654	AK-527	AK-560	AK-4,118	AK-211
WA- 319	WA-277	WA-215	WA-163	CO- 78	WA-1,006	WA-147
OR- 269	OR-196	OR-148	OR-108	WA- 32	OR- 728	CA-107
CA- 135	CA- 72	CA 68	CA- 65	OR- 12	CA- 348	OR- 84
ID- 81	ID- 53	AZ- 45	CO- 37		CO- 249	MA- 24
AZ- 76	AZ- 46	ID- 39	UT- 27		AZ- 200	CO- 22
HA- 29	CO- 43	UT- 34	AZ- 26		ID- 199	HA- 19
CO- 65	UT- 43	HA- 27	ID- 26		HA- 158	IA- 16
UT- 43	HA- 40	CO- 26	MT- 23		UT- 139	IL- 16
MT- 30	MT- 34	TX- 24	HA- 21		TX- 110	AZ- 15
TX- 30	TX- 34					NY- 15
ZZ- 277	ZZ-198	ZZ-170	ZZ-162	ZZ- 15	ZZ- 884	ZZ-209
2,838	1,969	1,450	1,185	697	8,139	885

5. Age Distribution of Borrowers (December 21, 1981)

<u>Age</u>	<u>Number</u>	<u>%</u>	<u>Age</u>	<u>Number</u>	<u>%</u>
60+	7	.08	60+	7	.08
50-59	70	.76	50-59	70	.76
40-49	255	2.80	40-49	255	2.80
30-39	1,269	13.94	30-39	1,269	13.94
25-29	1,525	16.75	20-29	4,883	53.63
24	408	4.48	16-19	<u>2,621</u>	<u>28.79</u>
23	405	4.45		9,105	100.00
22	627	6.89			
21	891	9.79			
20	1,027	11.28			
19	1,344	14.76			
18	1,226	13.47			
17	45	.49			
16	<u>6</u>	<u>.07</u>			
Total	9,105	100.00			

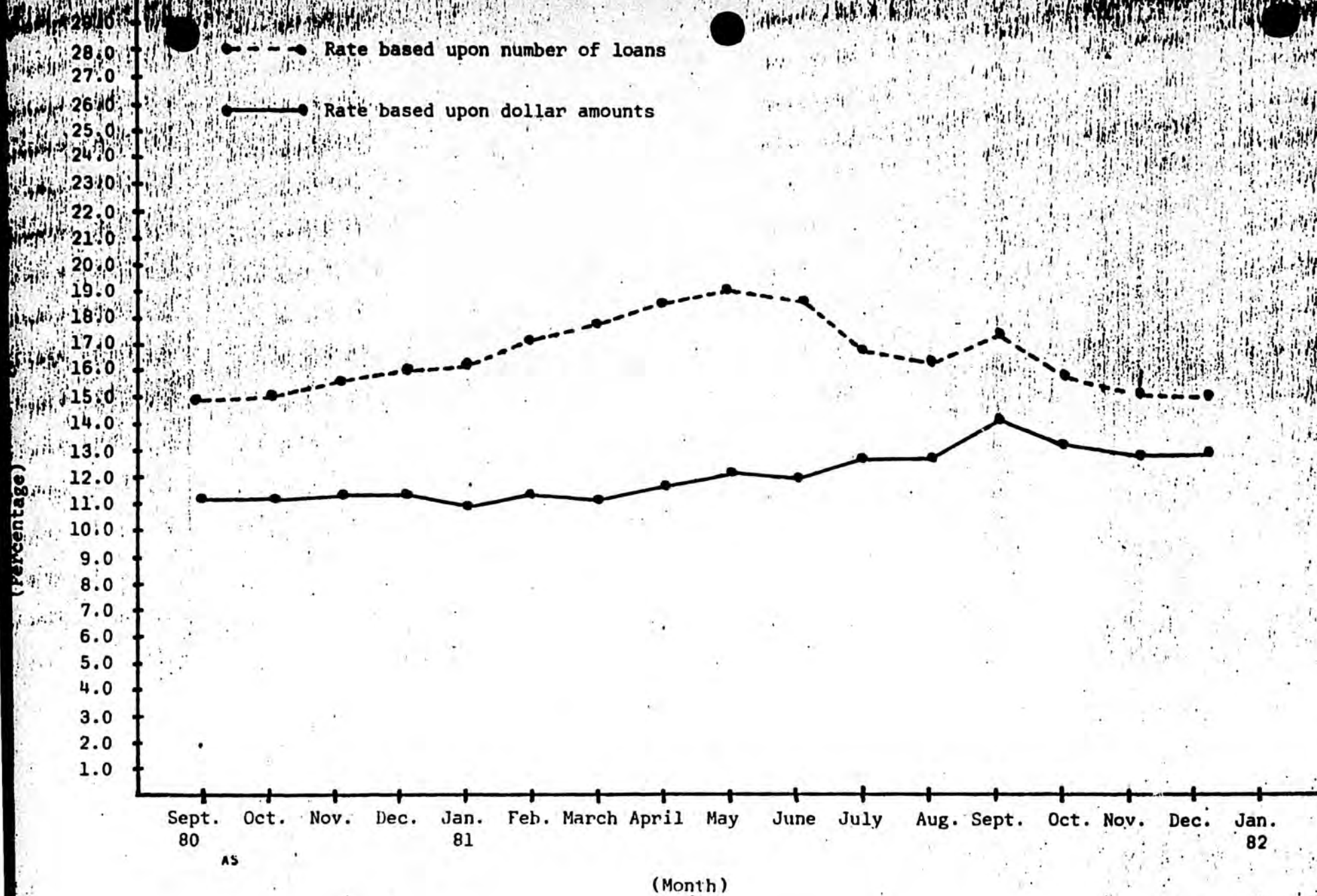
6. All account status (1-12-82)

<u>Status</u>	<u>Number</u>
Current Loan	9,045
Repayment	8,718
Grace Year	1,058
Student Status	383
Deferment	
Unemployment	24
Peace Corps/Public Health	2
Military	43
Internship/Residency	12
Disability	11
Hardship	123
Paid-In-Full/Other	<u>1,360</u>
Total	20,779

7. Default Rate: See attached chart

Rate as of (1-12-82)

Dollar Volume: 13.1%
Individuals: 15.2%



ALASKA STUDENT LOAN PROGRAM
DEFAULT RATE BY MONTH

HOUSE FINANCE COMMITTEE

January 19, 1982

1:28 p.m.

(Tape HFC 82-2, side 1 #001)

PRESENT

Members of the Committee in attendance: Representatives Adams, Fuller, Cuddy, Montgomery, Cotten, Hurlbert and Chuckwuk. (Representatives Bettisworth and Haugen arrived later in the meeting.) Other Legislators Present: Representatives Halford, Carney and Meekins.

PRESENT TO TESTIFY: Dr. Ron Lehr, Director and Jim Stey, Deputy Director, Division of Budget and Management.

OVERVIEW OF GOVERNOR'S BUDGET

Chairman Adams called the meeting to order and advised the purpose of the meeting was for Dr. Lehr to give a brief overview of the Governor's budget and answer questions from Committee members.

Chairman Adams asked if in Dr. Lehr's opinion, the state's revenue projections were dwindling or stabilizing. Dr. Lehr pointed out his Division doesn't actually do the revenue estimates -- the Department of Revenue does. He said they are assuming in real terms that prices will decrease, at least in the next year or two. He commented on the oil situation and said they are not assuming a real price increase; it is a price decrease.

Dr. Lehr commented that the actual revenue number is not as germane as what is available to spend. He presented and explained the following: a Memo from Commissioner Williams, Department of Revenue, Subj: Change in Revenue Forecasts for FY 82-83; "Changes in FY 82-83 Unrestricted Petroleum Revenues"; "Reasons for Changes in FY 82-83 Unrestricted Petroleum Revenues"; an untitled page showing the "carryforward Balance (cash) from FY81" and other figures (page 5); a one page "Budget Overview"; and a "Summary of Recommendations". (See Attachment #1.)

(Representative Bettisworth arrived at this time.)

Dr. Lehr continued his explanation of page 5 of the hand-out.

Representative Meekins asked, with a spending limit of \$2.8 billion, how much would be available for capital projects. Dr.

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Lehr said "2/3-1/3, so \$932.4 would be available". He said in the Governor's budget there is \$393.0 in for loans, and the rest is capital projects.

Representative Cotten asked how much he miscalculated the inflation amount in the \$2.8 billion figure. Dr. Lehr said that depends on what one actually uses as the inflation figure. Representative Cotten asked how much less the figures would be if the inflation figure was 8%. Dr. Lehr said it would be \$25 million less.

Representative Meekins asked if a bill was needed to extend the permanent fund contribution into FY 84. Dr. Lehr said they have a section in the budget bill that would extend it.

(Representative Haugen arrived at this time.)

Representative Cotten quoted the following from the Governor's budget address:

"From early August until budget preparation was completed, projected FY 82 and FY 83 revenues dropped by over \$2 billion. Primarily responsible was the oil glut, severe recession, and increased projection from other countries such as Mexico.

I am advised that last year's change in oil taxes played no role whatsoever."

He asked Dr. Lehr to comment. Dr. Lehr said obviously it played some role, he would say that was a mistake.

Representative Meekins commented that looking at discrete fiscal years, the figures look pretty similar. He asked how that could be reconciled with the statement that revenues are down \$2.4 billion. Dr. Lehr said the reason is they expected FY 83 revenues to be considerably higher. He said page 3 of his hand-out shows the forecasts for FY 82 and FY 83. Representative Meekins commented that although they are saying \$2 billion was lost, what really happened is that instead of receiving the expected increase, the state got a decrease. Dr. Lehr agreed and commented that \$4 billion next year isn't as much as \$4 billion this year because of inflation.

There was further discussion on the figures on page 4 of the hand out.

Chairman Adams commented that page 5 of the hand-out shows \$298.0 outside the spending limitation. He asked if they were expecting the Senate and House to use the same guidelines. Dr. Lehr said that would seem reasonable to him.

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Chairman Adams said he hoped they could find a definition both the Governor and House could agree to in defining capital and operating budget items. Dr. Lehr said they tried to line up the budget along the lines they felt were operating items. He said that is one of the reasons they moved the student loans from the operating budget. He said they assumed that if a project has a long term usefulness it could be defined as a capital project. He commented that a resource inventory could provide a service for a number of years. He said a capital project doesn't have to be just concrete and steel.

Representative Cotten suggested that when they get to designated grants for items like the Chugach Senior Citizen Center grant, it gets vague. Dr. Lehr agreed, and said the rule of thumb could be that if it were a grant for an operating purpose it should go into the operating budget. He advised that he has asked the Department of Law for a reading on "168 grants", but he hasn't received a response yet. Representative Meekins agreed this is a real problem, and is more critical because of the definition in the constitutional spending limitation of capital.

Chairman Adams asked why they moved loans and loan repayments from the operating budget to the capital budget. Dr. Lehr said because the capital budget under the ceiling is essentially loans and capital projects. He said they tried to put all the ongoing loan programs together.

Dr. Lehr continued his explanation of the last two pages of his hand-out.

Representative Cotten asked if the figure for new legislation was only operating. Dr. Lehr said that was right. Representative Cotten asked if the Governor has introduced those bills yet, or was that figure just an estimate. Dr. Lehr said that figure would probably cover what the Governor is asking for.

Representative Cotten asked if there was nothing left in the \$1812 figure that was undefined. Dr. Lehr said that was correct.

Representative Cotten asked where they put the money appropriated last year which becomes effective in FY 83. Dr. Lehr said it would come out of FY 83 funds. He said they didn't put it under the spending limitation; they treated it essentially as a one time deal.

Regarding the capital budget, Dr. Lehr explained they split loans and other capital appropriations -- \$390 million for loans and \$465 million for other capital projects. He advised that \$74 million in capital projects are not specified. He commented the Governor expects to send in appropriation requests for that \$74 million. There was brief discussion on the Governor's capital budget. Dr. Lehr commented that one of the things the Legislature has asked in the past is for them to come up with a

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full plan of how the Governor will allocate the funds. He said that is what they tried to do.

Dr. Lehr commented that the permanent fund dividend and debt service are exempt appropriations. He said for FY 83 they then have \$298.0 that is subject to voter approval.

Regarding debt service, Representative Cotten said the Budget and Audit Committee has been approving loan transfers, and they were told that money could be taken out of the general fund to pay off the bond anticipation notes without legislative approval. He asked how that might effect the figures they have been given at this meeting. He said once the funds are moved from the general fund to bond funds they are no longer available for appropriation. Dr. Lehr agreed. He said to the extent they have a lot of money tied up in loan transfers it would be money not available for appropriation. Representative Cotten said he would like to explore this in further detail at a later date. Dr. Lehr commented the plan is to actually issue bonds in April when the bond anticipation notes come due.

There was brief discussion on formula funding and the formula for municipal assistance funding which is 10% of the prior year's corporate income tax.

(Tape change, HFC 82-2, side 2.)

Representative Haugen asked if the state was getting its full apportionment of federal highway receipts. Dr. Lehr said the Federal government holds some of it back. He said they expect to get the full \$200 million. In answer to a question from Representative Haugen, Dr. Lehr said the State is putting in way more than they can get from federal matching funds because they are doing a lot more building.

Chairman Adams asked if the Governor will be putting in any amendments over the \$55 million amount. Dr. Lehr said in their mind any amendments that come down have to fit under that number.

Chairman Adams stated he supports the Governor's constitutional spending limit and he plans to follow it down to a figure the governor can live by. He said he would hope the agency's will cooperate with the Committee in meeting that goal. He said he hopes for a good relationship between the House Finance Committee and the Governor's Office.

ADJOURNMENT

The meeting adjourned at 2:20 p.m.

Tape HFC 82-2, side 1 #001 to end
HFC 82-2, side 2 #001 to #148

01/19/82

MEMORANDUM

State of Alaska

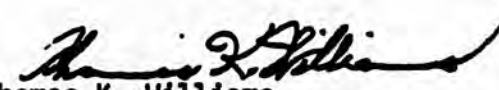
Department of Revenue

TO: The Honorable Jay S. Hammond
Governor of Alaska

DATE: January 13, 1982

FILE NO:

TELEPHONE NO:

FROM: 
Thomas K. Williams
Commissioner
Department of Revenue

SUBJECT: Change in Revenue
Forecasts for FY 82-83

The purpose of this memo is to answer the following three questions about the changes downward in our revenue forecasts since last June:

1. How much of the change results from lower price assumptions, and how much from last year's oil tax legislation?
2. Under the new oil tax law, will the State still receive a "30% share"?
3. Does last year's oil tax legislation still make as much sense as it did then?

1. Causes for the lowered revenues for FY 82-83. On the basis of unrestricted revenues (i.e., only 75% of the total royalty income is counted), the reduction in petroleum revenues from last June's forecast is a total of \$2.1670 billion for both fiscal years. Of this total reduction, 91.0% is due to lower price assumptions; in other words, had SB 524 not been enacted last year, unrestricted petroleum revenues during FY 82 and 83 would still total \$1.9715 billion less than we were predicting last June. Only \$211.1 million -- or 9.7% -- of the total reduction over the two-year period is the result of the tax law change. A very minor offset to these reductions (\$15.6 million, or 0.7%) comes from revised estimates for the oil and gas property tax, which is largely insensitive to short-term changes in wellhead prices. The following table summarizes the changes in total unrestricted petroleum revenues for FY 82 and 83 (attached are two tables showing more detail about where the changes come from):

Change in FY 82-83 unrest. pet. rev. due to price	-1971.5	(91.0%)
Change in FY 82-83 unrest. pet. rev. due to SB 524	-211.1	(9.7%)
Change in FY 82-83 unrest. pet. rev. due to AS 43.56	+15.6	(-0.7%)

TOTAL CHANGE	-2167.0	(100.0%)
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Incidentally, if we look at gross petroleum revenues (including the royalty income dedicated to the Permanent Fund), then the price change accounts for 92.0%, the statutory change for 8.6%, and the property tax for -0.6% (an offset against the reductions arising from the other two reasons) of a total reduction of \$2.4548 billion.

2. Does the State still get 30%? Yes. Using the weighted average assumptions for price and production rates in our latest forecast, the State's share in FY 82 will be 33.7 percent of the gross value of North Slope

The Honorable Jay S. Hammond
January 13, 1982
Page Two

production minus direct, non-tax expenses. Such expenses were also netted out from the gross value in the analyses last year about the respective shares of the State, the federal government and the oil companies. In FY 83 our share will be 31.2 percent, and as currently projected for FY 84, 30.6 percent. For the period FY 81-84, it will be 32.2 percent.

3. Does last year's oil tax bill still make as much sense today? Yes it does, and for basically the same reasons. The enormous, open-ended, potential liability being accrued under the old "separate accounting" approach has been quantified and kept from growing further, while it is still at a low enough level that the State should be able to afford to make the refunds if it ultimately loses on the constitutionality of such an approach. The retro-active technical changes to the separate accounting law and the recognition of the windfall profit tax as a deductible expense, together, significantly strengthen the State's case in the litigation over separate accounting. The new income tax law is safer constitutionally in its basic approach, and the legal questions that arose last summer all seem to be resolvable through regulations, rather than additional legislation this Session.

These are all good points to the legislation. Perhaps, however, those who opposed the legislation last year may still believe these advantages are not worth the reduction of \$211.1 million in State revenues during FY 82 and 83. In reply, I would point out that under the old tax laws, the State's total petroleum income (including the Permanent Fund's share) during these two fiscal years would have been \$8.508 billion, of which the \$211.1 million represents only 2.5 percent. But, in exchange for taking \$8.3 billion instead of \$8.5 billion, the State has greatly enhanced its chances of keeping more than \$1.8 billion during just these two fiscal years alone that would otherwise have been at risk in the lawsuit over separate accounting.

If I may resort to metaphor: Under the old law the State was claiming it was entitled to a 12-ounce glass of water filled to the brim (\$8.5 billion for FY 82 and 83), while the oil companies were asserting in their lawsuit that it could legally fill only a 9.4-ounce glass for itself (representing \$8.5 billion minus the \$1.8 billion that the oil companies claimed was being illegally collected under separate accounting). With the new law, the State keeps the 12-ounce glass but only fills it with 11.7 ounces of water (97.5 percent of capacity -- \$8.3 billion vs. \$8.5 billion). Those who would still criticize last year's legislation are saying, "This is our 12-ounce glass all right, but look here; it's 2.5 percent empty."

TKW:m11
Attachments

cc: Ron Lehr

CHANGES IN FY 82-83
UNRESTRICTED PETROLEUM REVENUES

	<u>FY 82</u>	<u>FY 83</u>	<u>TOTAL</u>
<u>Revenue's 6/81 Forecast</u>			
Royalty*	1547.4	1900.0	3447.4
Property Tax	144.8	152.3	297.1
Production Tax	1526.3	1868.8	3395.1
Income Tax	<u>1175.0</u>	<u>1303.1</u>	<u>2478.1</u>
TOTAL	4393.5	5224.2	9617.7
<u>Revenue's 1/82 Forecast</u>			
Royalty*	1258.8	1325.2	2584.0
Property Tax	155.0	157.7	312.7
Production Tax	1718.0	1819.0	3537.0
Income Tax	<u>713.0</u>	<u>304.0</u>	<u>1017.0</u>
TOTAL	3844.8	3605.9	7450.7
<u>Change In Forecast</u>			
Royalty*	-288.6	-574.8	-863.4
Property Tax	10.2	5.4	15.6
Production Tax	191.7	-49.8	141.9
Income Tax	<u>-462.0</u>	<u>-999.1</u>	<u>-1461.1</u>
TOTAL	-548.7	-1618.3	-2167.0

- 3.2
Billion

*Net of mandatory 25% contribution to the Permanent Fund

REASONS FOR CHANGES IN
FY 82-83 UNRESTRICTED PETROLEUM REVENUES

	<u>Royalty</u>	<u>Property Tax</u>	<u>Prod. Tax</u>	<u>Income Tax</u>	<u>Total</u>
6/81 Forecast (both FYs)	3447.4	297.1	3395.1	2478.1	9617.7
1/82 Forecast (both FYs)	<u>2584.0</u>	<u>312.7</u>	<u>3537.0</u>	<u>1017.0</u>	<u>7450.7</u>
TOTAL CHANGE	-863.4	15.6	141.9	-1461.1	-2167.0

Change Due to Changed Price Assumptions

Old Law with 6/81 Prices	3447.4	297.1	3395.1	2478.1	9617.7
Old Law with 1/82 Prices	<u>2584.0</u>	<u>297.1</u>	<u>2619.1</u>	<u>2146.0</u>	<u>7646.2</u>
CHANGE - \$ millions	-863.4	-0-	-776.0	-332.1	-1971.5
- as % of Total					91.0%

Change Due to Changed Tax Laws

Old Law with 1/82 Prices	2584.0	297.1	2619.1	2146.0	7646.2
New Law with 1/82 Prices	<u>2584.0</u>	<u>297.1</u>	<u>3537.0</u>	<u>1017.0</u>	<u>7435.1</u>
CHANGE - \$ millions	-0-	-0-	917.9	-1129.0	-211.1
- as % of Total					9.7%

Change Due to "Other"

With Old Assessed Values	2584.0	297.1	3537.0	1017.0	7435.1
With Revised Assessed Values	<u>2584.0</u>	<u>312.7</u>	<u>3537.0</u>	<u>1017.0</u>	<u>7450.7</u>
CHANGE - \$ millions	-0-	15.6	-0-	-0-	15.6
- as % of Total					-0.7%

X. *Lapse = 546,000,000*
usually
 Million

Carryforward Balance (cash) from FY81	490.8	
FY82 Revenues	4335.9	
FY82 Lapse	50.0	
FY82 Loan Repayments	24.0	
FY82 Appropriations: original	- 5209.1	<i>(includ 1.4 to Perm Fund)</i>
supplemental	- 50.0	
Carryforward Balance from FY82	(358.4)	
Prior Year Appropriations effective in FY83	- 409.2	
Balance - start of FY83	(767.6)	
FY83 Revenues	4133.7	
FY83 Loan Repayments	24.0	
Net Available Revenues, FY83	3390.1	
FY83 Spending Limit	- 2800.0	
FY83 Perm. Fund Dividend	- 150.4	
FY83 Debt. Service	- 141.7	
Excess Available for V.A. capital, FY83	298.0	

Carryforward Balance from FY83	0	
Prior Year Appropriations effective in FY84	- 200.0	<i>- Perm. F</i>
FY84 Revenues	5005.3	
Net Available Revenues, FY84	4805.3	
FY84 Spending Limit	- 3136.0	<i>+ 1240</i>
FY84 Perm. Fund Dividend	- 350.0	
FY84 Debt Service		
Excess Available for V.A. capital, FY84	1319.3	
Permanent Fund Contribution	660.0	
Voter Approval Capital	659.3	

BUDGET OVERVIEW

This section contains an overview of the Governor's FY 83 budget requests. The intent is to provide a summary of all expected requests, and to show the relationship of these requests to FY 82 appropriations and expected FY 83 revenues. The remainder of this book contains additional detail on the Governor's FY 83 operating budget request. A second book contains details of the Governor's FY 83 capital budget request, and six-year capital program.

The format used for presenting this information differs from the previous year because of the proposed constitutional spending limit that will be on the November, 1982 general election ballot. Although the spending limit has not yet been approved by the voters, the Governor's FY 83 budget is structured as if the limit were in place. The rationale for this approach is that if the spending limit is approved, it would be prudent to make adjustments as soon as possible to assure smooth compliance with these constraints.

The Budget Overview is divided into two sections - that which is subject to the limit, and that which is not. The limit is estimated to be \$2.8 billion for FY 83, which assumes 9% inflation and 3% population growth over FY 82. Changes in these assumptions will, of course, change the estimated limit. The imposition of a spending limit necessitates both more careful planning of expenditure needs, and a more careful selection process with regard to what is actually funded. This is particularly true with respect to the operating portion of the budget, since there is no alternative, as there is with voter approval of capital projects. It is believed that the Governor's FY 83 operating budget figures, along with the estimated future appropriations (i.e., supplementals), will be adequate to fund the operating plan described briefly in this document, and described in more depth in the Policy and Detail budget submissions.

One other major change in the Budget Overview is inclusion of figures for another fiscal year (FY 84). This change was necessitated by two factors. First, the spending limit requires that any capital project appropriation in excess of the limit be approved by the voters. Since general elections are held only every other year, if FY 84 projects requiring voter approval were not voted on in November of 1982, they would have to wait until November of 1984 (unless a special election were held). Second, it has been traditional to present the voters with a General Obligation Bond issue at every general election. Those G.O. Bond propositions are in essence a two-year capital budget. This year the Governor has decided not to request any G.O. Bonds, but rather has chosen a pay-as-you-go approach using general funds. This approach is believed to be more compatible with our expected revenue stream, and further requires us to live within our present means, rather than placing debt obligations on future Alaskans (our estimated FY 83 debt service is nearly \$150 million). Hence, rather than present a G.O. Bond two-year Capital Budget, the Governor is proposing a general fund voter approval two-year Capital Budget.

There are two further items of note about the FY 84 voter approval Capital Budget. First, it requires an estimate of FY 84 revenues and expenditure limit figure (see Explanatory Notes for these estimate calculations). Second, it reflects another policy which the Governor is proposing be instituted either by constitutional amendment or by statute. That is, the Governor is recommending that, commencing with FY 84, any funds in excess of the spending limit be divided equally between spending and saving - i.e., up to 50% of the excess could go for capital projects, and 50% would be deposited in the Permanent Fund to allow some retention of our finite oil wealth.

3
SUMMARY OF RECOMMENDATIONS
(Millions of Dollars)

	<u>FY 82 Adj</u>	<u>FY 83 Rec</u>	<u>% Increase (Decrease)</u>	<u>FY 84 Rec</u>
<u>Appropriations Subject to Spending Limit</u>				
<u>Allowable General Fund Appropriation Level, Total¹</u>	2,500.0	2,800.0	12.0	3,136.0
Operating	1,666.7	1,867.6	12.0	2,090.8
Capital Projects and Loans	833.3	932.4	12.0	1,045.2
<u>Operating Budget</u>				
<u>Formula Programs, Total²</u>	800.6	875.5	9.4	N/A
General Funds	738.9	809.4	9.5	
<u>Non-Formula Programs, Total</u>	1,337.2	1,415.5	5.9	N/A
General Funds	937.5	1,002.7	7.0	
<u>Total Appropriations, Total³</u>	2,137.8	2,291.0	7.2	N/A
General Funds	1,676.4	1,812.1	8.1	
<u>Additional Appropriations⁴</u>	52.0	59.5	14.4	N/A
General Funds	50.0	55.5	11.0	
<u>Total Operating</u>	2,189.8	2,350.5	7.3	N/A
General Funds	1,726.4	1,867.6	8.2	
<u>Capital Budget</u>				
<u>Loans Appropriations⁵</u>	490.8	392.6	(20.0)	N/A
General Funds	490.8	392.6	(20.0)	
<u>Other Capital Appropriations⁶</u>	1,453.3	715.1	(50.8)	N/A
General Funds	1,380.0	465.6	(66.3)	
<u>Additional Appropriations⁷</u> <i>mostly Hydro</i>	0.0	74.2	-	N/A
General Funds	0.0	74.2	-	
<u>Total Capital/Loans</u>	1,944.1	1,181.9	(39.2)	N/A
General Funds	1,870.8	932.4	(50.2)	
<u>Appropriations Not Subject to Spending Limit</u>				
<u>Exempt Appropriations</u>				
<u>Permanent Fund Dividends</u>	148.3	150.4	1.4	N/A
General Funds	148.3	150.4	1.4	
<u>Debt Service⁸</u>	102.4	141.7	38.4	N/A
General Funds	102.4	141.7	38.4	
<u>Appropriations Subject to Voter Approval</u>				
<u>General Funds Available for Voter Approval⁹</u>	N/A	298.0	N/A	1,319.3
<u>Capital Projects, Total (Book II)¹⁰</u>	N/A	297.6	N/A	523.2
General Funds		297.6		523.2
<u>Additional Appropriations¹¹</u> <i>mostly 7000</i>	N/A	0.0	N/A	136.1
General Funds		0.0		136.1
<u>Permanent Fund Contribution, Total¹²</u>	1,400.0	0.0	-	660.0
General Funds	1,400.0	0.0	-	660.0
<u>Prior Year Appropriations, Total¹³</u>	0.0	409.2	-	200.0
General Funds	0.0	409.2	-	200.0
<u>Total Appropriations</u>	5,784.6	4,531.3	(21.7)	N/A
General Funds	5,247.9	3,798.9	(27.6)	
<u>State Revenues</u>				
<u>Total State Revenues</u>	4,335.9	4,133.7	(4.7)	5,005.3
Petroleum Revenues	3,845.5	3,606.6	(6.2)	4,407.9

HOUSE FINANCE COMMITTEE

January 21, 1982

1:28 p.m.

(Tape HFC 82-2, side 2 #148)

PRESENT

Committee members present: Representatives Cotten, Cuddy, Hurlbert, Montgomery, Haugen, Adams, and Chuckwuk. (Representatives Fuller and Bettisworth arrived later in the meeting.) ALSO PRESENT: Representatives Carney and Anderson; Captain Lansbury, Alaska State Troopers; Lieutenant Warren Suttuck, Anchorage Police Department and President, Alaska Peace Officers Association; Michael Daugherty, Police Chief, Homer, and President, Alaska Association of Chiefs of Police; Dick Bradley, Attorney, Legislative Legal Services; and J. H. Hogan, Director, Legislative Finance Division.

HB 643

Chairman Adams called the meeting to order and advised that HB 643 ("An Act repealing and amending certain appropriations made in 1981; making an appropriation to the legislative finance division for a Bristol Bay Development Study; and providing for an effective date.") would not be considered at today's meeting. At the request of Representative Chuckwuk, the bill will be considered at Tuesday's Committee meeting instead.

HB 344

Chairman Adams brought HB 344 up for consideration.

HB 344 -- "An Act making a special appropriation to the Department of Public Safety for a computerized fingerprint system; and providing for an effective date."

Chairman Adams invited the prime sponsor of the bill to testify. REPRESENTATIVE ANDERSON advised HB 344 has to do with obtaining an automated fingerprint identification system in Alaska.

(Representative Fuller arrived at this time.)

Representative Anderson said that the AFINA (Automated Fingerprint Identification Network of Alaska) would tie together all the communities in the State. He explained this is a system that will put all the fingerprints on file in the state (some 2 million throughout the State) into a computer where they will remain, and a person will be able to go into the system and in a very short time be able to identify a single latent fingerprint.

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(Representative Bettisworth arrived at this time.)

Representative Anderson stated if a fingerprint were found at the scene of a crime at the present time, unless the investigating agency had some knowledge of who that fingerprint belonged to, there was a very slim chance of identifying the print.

Representative Cotten asked how many new State employees would be required in order to make use of this computer system. Representative Anderson said he couldn't answer that question. He said the Alaska State Troopers prepared the fiscal note. Chairman Adams commented the fiscal note he has shows two clerks to handle that function for FY 83. There was brief discussion on the fiscal notes. Chairman Adams said the bill had a fiscal note of \$2.3 million. He said they might just hold it to that particular figure at this point and not add any new state employees. He wondered if the Department could operate the computer with existing staff that is presently on board. Representative Anderson commented that would be a Department of Public Safety policy question, and he is not sure the person from the Department present at today's meeting could make that decision.

CAPTAIN LANSBURY, Alaska State Troopers, advised they have been in contact with Printrak, the company that handles this computer system at this point in time. Mr. Landsbury explained the system is currently manufactured by Printrak Company although the original estimate was prepared by Rockwell Company, the original supplier. He advised they are a wholly owned subsidiary of Dailarue in England (who are in the business of printing paper currencies). Captain Lansbury said they have indicated they intend to put between \$15- and \$20 million in research into the system over the next four-five years in order to keep it at the state of the art. Regarding the fiscal note, Captain Lansbury said they received verbal communication from Printrak that they would honor the bid submitted by Rockwell. He commented on the hard- and software associated with that contract.

Captain Lansbury said the system itself can be a great advantage to the State as a whole. He said there are facilities for in-put from rural communities to the centers that have the computer terminal. He showed Committee members samples of what the facsimile machines will send. He briefly explained how the system would work.

Representative Fuller asked if the package would cover all of the villages they have troopers in. Captain Lansbury said no, but it would cover a majority of the hub communities. He said they will have 13 facsimile machines and four main receivers and processors. He said two of the machines will be portable.

Representative Bettisworth asked if this was a sole source contract. Captain Lansbury said it was. He said as far as they

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know, there is no other source for this hardware. He commented that the Japanese are working on a system and there are indications that in 1984-1985 they will come out with a competitive system.

Representative Cotten asked if these systems are being used elsewhere. Captain Lansbury said yes, they are being used in Minneapolis/St. Paul; the FBI is in the process of implementing a system that should come on-line in October; there are two in Maryland; one in California; Houston, Texas; South America; Ottawa, Canada; and Switzerland.

Representative Cotten asked if the amount Captain Lansbury mentioned earlier - \$15 million in research - was included as part of the contract. Captain Lansbury said no. He said their concern was that if the company really wasn't dedicated to the system, in four or five years they might not be able to get adequate parts and maintenance. He said the \$15 million in research indicates they are interested. He said to his knowledge there is nothing in the contract that would give them a new piece of equipment in four or five years. He commented the system can easily be expanded by obtaining additional disk storage units.

Chairman Adams asked what the state would realize as a savings if this equipment were purchased. Captain Lansbury said if they were able to do what the system could do, they would realize an extensive savings. The problem is that they are not physically capable of doing what this system can do. He explained the value of the system is that once the input is made, any latent they don't get a "hit" on stays in the system, and that print can be compared to all the other unclassified latents in the system.

As far as actually saving money is concerned, Captain Lansbury said it will take as much personnel time as for the people doing the manual system now. However, they will be one hundred times more effective. He said they will be able to do things they can't presently do.

Captain Lansbury said they can realize one savings in the maintenance contract -- Rockwell will train the person on the job for \$50,000 which will reduce on the job maintenance on the system. He said a savings of \$300,000 could be realized a year.

Representative Hurlbert questioned the 2 million prints presently on file. Captain Lansbury explained that is a combination of the Alaska State Troopers and Anchorage Police Department prints, and consists of sets of prints of 10 fingers.

Representative Hurlbert referred to information indicating they had 25,000 unidentified latents from scenes of crimes. He asked if the system went on line they foresaw the solving of previously unsolved crimes. Captain Lansbury said they foresee that. He said of the 25,000 unidentified latents they have on file, some

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of those might not "hit". He said maybe only 15,000 of those are good enough to run through the system. He said the last question is whether or not a 10-print card for any of those prints is already in the system for them to compare with. He said that is where the percentages drop off.

Captain Lansbury commented on the amount of time it will take to get the system fully operational.

There was brief discussion on the cost of maintaining the system in future years. Chairman Adams stated the fiscal note is out of date, and it is his intention to hold this bill until next Tuesday in order to give the Subcommittee Chairman (Representative Hurlbert) an opportunity to get a new fiscal note. There was further discussion on the cost of the system.

Chairman Adams asked about the installation time. Captain Lansbury said initially Rockwell indicated it would take about 18 months. He said Printrak indicated it will be about 12 months.

LIEUTENANT WARREN SUTTUCK, Anchorage Police Department and President, Alaska Peace Officers Association, said this bill is of particular interest to him as a street cop. He said he is not a believer in a lot of high technology in police work.

(Tape change, HFC 82-3, side 1.)

Lt. Suttuck commented on a case where if they had had the fingerprinting system it would have put a repeat offender away before he had an opportunity to repeat his crime. He said he thinks the fingerprinting system will have an impact on crime. He said with the computer they are looking at the ability for the State to send an investigator to Anaktuvik Pass and pick up a print, and have the ability to have identification of that print within a matter of hours.

Lt. Suttuck said the system is a proven piece of equipment. As a street cop, he said he thinks it would be money well spent.

Representative Cotten asked if this sytem could be tied in with other fingerprinting systems. Lt. Suttuck said as a long range plan, it could be. He said the technology is there. Representative Carney asked if there was any possibility that the equipment would not be compatable with the one the FBI is installing. Lt. Suttuck said his understanding is they would be compatable. Captain Lansbury said at this point in time there is no problem with compatability. He commented further.

MR. MICHAEL DAUGHERTY, Police Chief, Homer and President, Alaska Association of Chiefs of Police, advised that he is trained in fingerprint identification. He said he can see what this system will do for the State in terms of apprehending more criminals. He said he can also appreciate the rapidity of the system.

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Mr. Daugherty said basically the instrument will allow them to expect a 10- to 20% better apprehension rate in crimes in the violent crime neighborhoods, particularly in burglaries. Mr. Daugherty advised that on a national average at 50% of all crime scenes fingerprints are developed. He suggested that figure would be higher if there wasn't such an apathy towards obtaining the fingerprints. He explained at this time officers at a crime scene realize that even if they pick up a print it is generally impossible to find the person unless they have someone in mind to check. As officers realize there is a considerable possibility of coming up with a "hit", he thought a great deal of that apathy would be lost.

Mr. Daugherty said national statistics indicate that in those cases where fingerprints are picked up, 60% are left by recidivists.

Mr. Daugherty said, additionally, the system would allow for a much more rapid apprehension of criminals. He gave as an example a case from Houston, Texas where a person who committed a brutal crime left a thumb print on the rear view mirror of his victims car, and they had the name of the person committing the crime within one hour and 23 minutes. He commented that generally the person committing a crime in an Alaskan community lives in that community.

Mr. Daugherty said that police today, with developments such as Miranda, require more and more emphasis on physical evidence. He said a fingerprint is probably one of the best forms of physical evidence that could be obtained.

He commented further on the benefits of the system, and said the old way of going through fingerprints manually is 25 years behind its time.

Representative Hurlbert asked what they would get in the way of solving crimes with just one central system. Mr. Daugherty said one central system would be of help. However, he said the biggest cost will not be the fascimile machines in the communities; it will be the main computer. He said having the fascimile machines will give them the advantage of time -- instead of having to send a print in the mail and wait for the results, they could have the results in a matter of hours. He said in many cases time is of the essence.

Chairman Adams questioned the life span of the equipment. He asked if they would be coming back in 4 or 5 years saying this equipment is out of date. Mr. Daugherty commented on Printraks commitment to keep the equipment up to the state of the art. Captain Lansbury said it could be in 1984 the Japanese will come up with a system that is better. However, he said the Printrak system is designed so that it can be upgraded in a piece meal fashion. Mr. Suttuck said equipment may be developed in future

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years that is faster, but he thinks the ability of this system will not change in the near future. He said he didn't think they would have to change the system to improve it.

Representative Cotten wondered why more cities or states weren't using the system. He asked if anyone was against using the equipment. Captain Lansbury commented the equipment hasn't been available until recently. He restated those areas where a system is being used. There was brief discussion.

Representative Chuckwuk asked if they had approached any other sources of funding for this program. Mr. Daugherty said no, the Department of Public Safety has taken care of the financial management. Mr. Suttuck said the sources they considered last year, LEAA, etc., were not available for funds.

Representative Fuller said he is convinced of the need. He suggested they get to the mechanics of obtaining the money. Chairman Adams directed Representative Hurlbert to work with Representative Anderson on the Fiscal Note for HB 344, and report back to the Committee on Tuesday.

HB 344 was HELD until next Tuesday.

HCR 14

The next bill to be considered was HCR 14.

HCR 14 -- "Proposing an amendment to the uniform rules establishing a limitation on the authority of committees on conference to consider and report on bills on appropriations."

Representative Chuckwuk said it appears to him that the contents of this resolution will become law in the future anyway, even without action today, because of the bill they passed last year relating to uniform rules.

Chairman Adams asked if it was correct that under the Uniform Rules adopted by the Legislature last year, this particular piece of legislation will be adopted on June 30, 1982. MR. DICK BRADLEY, legislative attorney, Legal Services, said that was correct. He said what the Legislature did last year incorporated the language of this Resolution into Rules 42(a) and (c).

Representative Cotten said the question is what happens with this year. Chairman Adams agreed. Representative Cotten said if they passed this resolution, the Uniform Rules would become effective this year. He suggested that if any action was taken, this Resolution should have a Rules Committee referral.

Representative Cuddy referred to a Memo from J. H. Hogan (copy in original bill file), and asked Mr. Hogan to comment. MR. J. H.

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HOGAN, Director, Legislative Finance Division, said his concern was purely historical. Sidestepping the question of whether or not it is also desirable, Mr. Hogan said the Committee might want to be aware that a slight liberalization of Rule 42(c) might be in order. He said perhaps it isn't necessary, but it seems the definition of an "item" of an appropriation bill is more strict than necessary. Mr. Hogan explained that line item means personal services, travel, contractual, etc., and his suggestion would be to use the two words that describe item as they appear in the appropriation bill -- appropriate or allocate -- and that there be some mechanism by which the conference committee could go and seek approval to put items in if it turned out to be necessary. There was brief discussion. Mr. Hogan explained "line item" has a meaning in budgetary jargon, meaning personal services, etc. He said those items are not normally included in the appropriations bill. He suggested including line item is more restrictive than the drafters had intended.

Chairman Adams called for a brief recess at 2:35 p.m. and recalled the meeting to order at 2:37 p.m.

Chairman Adams referred HCR 14 back to Representative Chuckwuk's Subcommittee for further review.

HCR 14 was HELD in committee.

BILL ASSIGNMENTS

Chairman Adams made the following bill assignments:

HB 666 -- Operating/Capital Expenses of State Government
-- Committee of the Whole

HB 137 -- Relating to tax credit for political
contributions -- Representative Chuckwuk

HB 675 -- Relating to limiting the number of state
employees -- Representative Chuckwuk

SB 238 -- Relating to the practice of Nursing --
Representative Cuddy

ADJOURNMENT

The meeting adjourned at 2:40 p.m.

Tape HFC 82-2, side 2 #148 to end
HFC 82-3, side 1 #001 to #577

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HOUSE FINANCE COMMITTEE

January 26, 1982

1:30 p.m.

PRESENT

Members of the Committee in attendance: Representatives Fuller, Montgomery, Adams, Chuckwuk, Cuddy, Hurlbert and Bettisworth. (Representative Cotten arrived later in the meeting. Representative Haugen was not in attendance.)

ALSO PRESENT: Senator Bradley; and Lou Banderola, Deputy Director, Division of Sport Fish, Department of Fish and Game. (Representatives Carney and Meekins arrived later in the meeting.)

HB 344

Chairman Adams called the meeting to order and advised that HB 344 (Special appropriation to Department of Public Safety for a computerized fingerprint system) would not be considered at today's meeting. At the request of Representative Anderson, it will be considered on Thursday, January 28th instead.

SB 145

The next bill to be considered was SB 145.

CSSB 145 (SA) -- "An Act providing for free resident hunting and sport fishing licenses for disabled veterans; and providing for an effective date."

Chairman Adams gave a brief explanation of the bill. He advised the Department of Revenue is requesting \$1.0 for additional printing costs; however, he thinks they can absorb that amount within their budget.

MR. LOU BANDEROLA, Deputy Director, Division of Sport Fish, Department of Fish and Game, stated the bill would be no detriment to the Fish and Game Fund. Representative Fuller asked if he had any idea how many of the 515 eligible disabled veterans were hunters and fishermen. Mr. Banderola said the Department of Revenue estimates 50% of the 515 eligible.

SENATOR BRADLEY testified the state of Alaska has more veterans per capita than any other state of the Union; it also has less state veterans than any other state in the Union. He commented on a meeting he had in Washington D.C. with the Veterans Administration. He said there are 515 veterans in the state with a disability of 50% or greater, and it is assumed that 50% of those eligible vets will apply for this license. Senator Bradley

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recommended the effective date be changed from January 1, 1982 to January 1, 1983.

(Representative Carney arrived at this time.)

Senator Bradley advised the cost of the program is (\$5,700).

(Representative Cotten arrived at this time.)

Representative Carney asked if he had a projection for giving free hunting and fishing licenses to anyone who is disabled, not just disabled veterans. Senator Bradley said the Committee could certainly do that. He said he didn't have that information.

(Tape Change, HFC 82-3, side 2.)

Representative Cuddy wondered how much it would cost to administer the program versus the savings it would get to the disabled veterans. Senator Bradley suggested the Department might have an answer to that question. He commented that many of these people are more than 50% disabled and they can supplement their livelihood by hunting or fishing.

There was brief discussion on other bills introduced relating to hunting and fishing licenses.

Representative Cotten asked if the procedure would be for the disabled veteran to apply to the Department for the free license and get some sort of verification from them. Senator Bradley said last session both houses passed a public records bill, so anyone can have his "dd-2-14" recorded free and within 30 days have it forwarded to the Department of Health and Social Services, Bureau of Vital Statistics, where they can get as many copies as they need to confirm their eligibility for veterans programs. Representative Cotten suggested since the vet is doing the legwork, it wouldn't cost the department anything. Senator Bradley agreed.

Representative Cuddy asked what the impact would be of doing away with the cost of licenses to all Alaskans. Mr. Banderola said at the present time the Fish and Game fund is bringing in just over \$4 million.

Representative Fuller MOVED to report out CSSB 145 (SA) with an amendment (changing the effective date from January 1, 1982 to January 1, 1983) and the fiscal note in the amount of (\$5.7). Representative Cuddy OBJECTED, stating he is not ready to act on the bill at this time, he would rather wait until the Thursday meeting. There was brief discussion. Representative Cuddy MAINTAINED HIS OBJECTION. There BEING NO FURTHER OBJECTION, CSSB 145 (SA) am H was reported out with a "do pass" recommendation.

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HB 643

The next bill to be considered was HB 643.

HB 643 -- An Act repealing and amending certain appropriations made in 1981; making an appropriation to the legislative finance division for a Bristol Bay Development Study; and providing for an effective date."

Representative Chuckwuk advised that he had funding for this project included last year in the amount of \$250,000, but it was vetoed by the Governor. He said the purpose of this bill is to bring the amount for the study back up to its original figure. He presented a proposed finance CS where the additional \$225,000 he is asking for comes from the capital budget of the Department of Fish and Game -- Fisheries Study budget (Sec. 1(a)).

Representative Chuckwuk presented a Memo from the Department of Fish and Game which indicates they would provide the additional funds. (Copy of Memo in original bill file.) There was brief discussion.

Representative Fuller MOVED AND ASKED UNANIMOUS CONSENT that CSHB 643 (Finance) be reported out of Committee. Representative Cotten OBJECTED, and asked if there was someone here from the Department to testify. Representative Chuckwuk said there wasn't. He said they are just reallocating the funds. Representative Cotten asked if the money being taken from Administration and Support under Fish and Game was a capital budget item. Chairman Adams said it was. Representative Cotten REMOVED HIS OBJECTION.

There BEING NO FURTHER OBJECTION, CSHB 643 (Finance) was reported out with a "Do Pass" recommendation.

BILL ASSIGNMENTS

Chairman Adams made the following bill assignments:

HB 685 -- Supp. Approp./salaries and benefits/FY 82 --
Chuckwuk

HB 684 -- Compensation of Public Officers/Employees --
Chuckwuk

HB 180 -- Revise Drug Law/Amend Criminal Laws --
Hurlbert. (Chairman Adams advised there are seven fiscal notes for this bill, and he requested that Representative Hurlbert review them carefully.)

HB 137 -- Re: Tax credit/political contributions --
Chuckwuk

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HB 669 -- Transferring '81 fish processing guarantee
account to the fisheries product revolving loan fund
-- Cuddy

BUDGET CUTS

Chairman Adams read and presented copies of a letter from Governor Hammond to members of the Cabinet concerning the House Finance proposed budget cuts (see attachment #1).

ADJOURNMENT

The meeting adjourned at 2:00 p.m.

Tape HFC 82-3, side 1 #577 to end
side 2 #001 to #396

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MEMORANDUM

State of Alaska

TO: The Cabinet

DATE: January 25, 1982

FILE NO:

TELEPHONE NO: 465-3500

FROM: Jay S. Hammond
Governor

SUBJECT: House Finance Proposed
Budget Cuts

At our recent Cabinet meeting we discussed how to respond to the House Finance Committee's requests for potential large budget reductions. As I indicated, I feel these are valid requests for information, and should be treated as such. However, since these requests represent significant changes from my FY83 budget, I intend to review any suggestions before they are sent to the House Finance Committee.

To facilitate my review, I am adopting the following procedure. First, the agency needs to receive its target reduction figure from the House Finance Committee. Next, please submit to the Division of Budget and Management a two part memo detailing your response to the proposed legislative reductions. The first part of your response will be a cover memo giving the proposed reduction figure, including any conditions placed on your response (e.g. reduce \$10 million, but do not take any funds out of program X), as well as any general comments which you wish to bring to my attention. The second part of your response will be a collection of individual sheets (see attached form) that will explain each proposed reduction, including the expected consequences of the reduction. You may prepare the "Legislative Reduction Sheet" by division, by BRU, or by any other program grouping you feel is appropriate -- just ensure that your figures correspond with your grouping. The main information that I need is to know the ramifications of the reduction -- what services would be deleted, where they would be reduced, etc. It is on this information that I will base my decision as to whether or not any proposed reduction is appropriate.

Budget and Management will review your proposals and pass them on to me for my review. In some cases, I may need to have a meeting with a Commissioner to discuss the proposed reductions. You will then be notified of my decisions, and may then proceed to present this information to the House Finance Committee. I do not intend that this review will become another budget process. Please keep your memos succinct and to the point, and I in turn will attempt to expedite my review.

Attachment

HOUSE FINANCE COMMITTEE

January 28, 1982

1:25 p.m.

(Tape HFC 82-3, side 2, # 396)

PRESENT

Members of the committee in attendance: Representatives Adams, Fuller, Carney, Cotten, Chuckwuk, Montgomery and Haugen. (Representatives Cuddy and Bettisworth arrived later in the meeting. Representatives Meekins and Hurlbert were not in attendance.)

ALSO PRESENT: Representative Grussendorf, Representative Zharoff, Representative Anderson, Tom Williams, Commissioner, Department of Revenue; Bill Berrier, Director, Division of Legal Services and J.H. Hogan, Director, Division of Legislative Finance.

Chairman Adams called the meeting to order and welcomed Representatives Carney and Meekins as members of the Finance Committee. Chairman Adams advised that the Community and Regional Affairs budget would come before the Committee on Tuesday, February 2, 1982.

HB 344

HB 344--"An Act making a special appropriation to the Department of Public Safety for a computerized fingerprint system; and providing for an effective date."

Chairman Adams gave a brief explanation of the bill and requested that the sponsor of the bill, Representative Anderson, provide the Committee with updated information concerning changes made subsequent to the Committee's meeting of January 21, 1982.

REPRESENTATIVE ANDERSON stated that the original bill, which would provide for the purchase and maintenance of an automated fingerprint identification system in Alaska, requested \$4.2 million and would involve a number of communities around the State. Following the January 21 meeting, the fiscal note has been reduced twice, (\$3,042,000 - \$2,718,200), and would have provided that the main system be located in Anchorage. The data base system would now be located in Fairbanks.

Representative Chuckwuk inquired as to whether the system had been intentionally scaled down to provide for a reduced fiscal note. Representative Anderson indicated that, in fact, this was the case. Representative Chuckwuk asked if other communities in

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Alaska would participate in the form of mailing or handcarrying the prints. Representative Anderson said that was exactly right. He referred to a chart which provided a drawing of the system placement whereby the central Printrak would be located in Anchorage with a sub-system in Fairbanks and Juneau and facsimile units in nine other communities. Since Anchorage would be a major contributor and to give them what was necessary to do the job, it gave the impression that the whole system would be located there. However, when the system is complete all of the communities listed will be able to provide latent prints.

Representative Cotten made an inquiry concerning the reduced cost of maintenance (\$424,000 FY 84 and \$100,000 FY 85).

Representative Anderson asked that Bob Schroeder, fiscal analyst with the Legislative Finance Division expound on the question. BOB SCHROEDER explained that the first maintenance contract includes funding for training of employees. Once the training is complete, a savings of approximately \$300,000 will be realized by the utilization of two state employees who will oversee maintenance of the system.

Representative Montgomery MOVED AND ASKED UNANIMOUS CONSENT to amend Section 1, line 10 to delete \$4,282,900 and insert \$2,718,200. There being NO OBJECTION it was so ordered.

Representative Montgomery MOVED AND ASKED UNANIMOUS CONSENT that a Finance CS be prepared incorporating the amendment and that the bill be reported out. There being NO OBJECTION CSHB 344 (fin) was reported out with a "do pass" recommendation.

HB 101

The next bill to be considered was HB 101.

HB 101--An Act repealing the tax on motor fuel used in or on watercraft; and providing for an effective date.

Chairman Adams began by giving a brief overview of HB 101 and asked that Representative Grussendorf and Representative Zaroff, sponsors of the bill, provide the committee with information concerning HB 101.

REPRESENTATIVE ZAROFF reviewed the Sectional Analysis document which contains information concerning the repeal of tax on a dealer who sells or transfers marine fuel, repeals the tax on consumers, and provides technical amendments to AS 43.40.010. (see attachment #1) Representative Zaroff suggested that the effective date be changed from July 1, 1981 to July 1, 1982.

Representative Fuller asked if the sponsors had considered repeal of tax on motor fuel for aircraft. Representative Zaroff indicated that the cost to the state for incorporation of a

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repeal on motor fuel for aircraft would total an additional \$4.0 million.

REPRESENTATIVE GRUSSENDORF further explained that the proceeds from the Marine Fuel Tax are currently deposited in the Watercraft Fuel Tax Account in the general fund to be appropriated for water and harbor facilities. He went on to state that this account is not tracked by municipalities so it is relatively impossible to compare the amount paid into the account by a municipality to what that municipality receives back for their water and harbor facilities. Additionally, the Division of Harbors, which received \$51.0 million in 1980, considers this a "nuisance tax" since it does not come close to meeting the actual cost of construction of facilities and associated administrative costs.

Representative Chuckwuk asked if this could be setting a precedent for taxes for the state by reducing the motor fuel tax. Chairman Adams suggested that Representative Chuckwuk's question be addressed by Commissioner Williams who would be testifying during the meeting.

Representative Carney asked if there were any figures on the cost to the state for elimination of all fuel taxes. Representative Grussendorf referred the committee to page 6 (attachment #1), General Fund Unrestricted Revenues, which provides a breakdown of 1980 actual, 1981 revised estimate and 1982 estimate of tax.

(Tape Change, HFC 82-4, side 1)

TOM WILLIAMS, Commissioner, Department of Revenue, testified before the Committee that the Department of Revenue was against HB 101. He said they disagree with the philosophy the bill represents. Commissioner Williams explained that the state currently is dependent upon one single resource. Of a sustainable income of \$100.0 million, only 3 percent is not petroleum related. Regarding Representative Chuckwuk's question on legal consequences, Commissioner Williams said oil companies look at other areas of the law in making arguments that apply to them. He commented that oil executives indicated during hearings on FCC SB 524 that they were working on a lawsuit concerning the states dependence on the oil industry for its entire income. Repealing the tax on other products only strengthens their case. He further stated the state income tax should not have been repealed but it should have been suspended instead.

Representative Haugen stated that he concurred with Commissioner Williams and feels that the state is making a mistake with tax repeal.

Representative Cotten MOVED AND ASKED UNANIMOUS CONSENT to amend Section 7, line 14 to delete 1981 and insert 1982. There being NO OBJECTION it was so ordered.

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Representative Cotten MOVED AND ASKED UNANIMOUS CONSENT that a Finance CS be prepared incorporating the amendment and that the bill be reported out with the fiscal note dated February 9, 1981. Representative Haugen OBJECTED. A voice vote was called for. Chairman Adams stated that only one "do pass" is necessary to report the bill out of committee. CS HB 101 (Fin) was reported out with a "do pass" recommendation. Committee members signing the report "do pass" included Representative Bettisworth. Other recommendations include: (Montgomery, no recommendation; Haugen, no recommendation; Carney, no recommendation; Cotten, no recommendation; Cuddy, no recommendation; Chuckwuk, do not pass; Fuller, do not pass, and Adams, no recommendation.)

HB 675

The next bill to be considered was HB 675.

HB 675--An Act relating to limitation of the number of state employees; and providing for an effective date.

Chairman Adams provided an overview of the bill. Section 7 of the 1981-82 general appropriation bill became law on January 16, 1982, following a vote of the Legislature to override the governor's veto of the section.

Representative Cotten, one of the sponsors of HB 675, asked that J.H. Hogan provide additional information on interpretation of the bill.

J.H. HOGAN, Director, Division of Legislative Finance, presented committee members with a copy of a memo dated March 17, 1981. (See attachment #2) Mr. Hogan explained that during the interim and throughout the budget year, the Legislative Budget & Audit Committee received, reviewed, and approved, where appropriate, revised programs establishing new positions. This process disintegrated in May of 1978 with the KELLY V.S. HAMMOND decision which held that the Budget & Audit Committee could not approve or veto the establishment of positions. As a result of the decision, new positions during the budget year via revised programs required approval only of the Director of Budget and Management.

Mr. Hogan indicated that both he and Billy Berrier, Director, Legal Services, came to the same conclusion that the Executive Budget Act allows the Legislature to state as a condition of its appropriations that the amounts budgeted for personal services are for a specified number of positions and that number may not be exceeded. Mr. Hogan felt that it is an acceptable idea to pass legislation which would exemplify the Legislature's authority to specify a number of positions as a condition of its appropriation.

BILL BERRIER, Director, Division of Legal Services, concurred with Mr. Hogan's comments concerning HB 675. He read the

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following portion of the Governor's veto message: "Section 7 is substantive law, and therefore, cannot be included in an appropriation bill. To avoid confusion as to its validity and to eliminate an invalid rider from the bill, it should be vetoed. It is a legal nullity, at any event, whether vetoed or not." bill. Mr. Berrier said the Governor's position is that this section is a nullity. He said HB 675 was drafted to take care of the substantive law difficulty. He said it would place the substantive law in a bill that is not an appropriation bill.

Representative Cotten stated that the Governors only argument is that the language is in the wrong bill and not that it cannot be done.

Representative Fuller MOVED AND ASKED UNANIMOUS CONSENT to report out HB 675. There being NO OBJECTION HB 675 was reported out with a "do pass" recommendation.

MEETINGS

Chairman Adams informed Committee members that beginning February 16 through March 25, Finance Committee meetings will be held on Tuesday and Thursday evenings beginning at 6:45 p.m.

ADJOURNMENT

The meeting adjourned at 2:10 p.m.

(Tape HFC 82-4, side 1, #384)

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House of Representatives

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DISTRICT 14:

BELLSFLATS
CHINIAK
KODIAK
OZINKIE

SECTIONAL ANALYSIS

HB 101 - Repeal Marine Fuel Tax

- Sec. 1. Repeals tax on dealer who sells or transfers marine fuel
- Sec. 2. Repeals tax on consumer
- Sec. 3. Technical amendments
- Sec. 4. Technical amendments
- Sec. 5. This excludes fuel used by watercraft from the definition of "motor fuel".
- Sec. 6. Repeals watercraft fuel tax account from the general fund.
- Sec. 7. Effentive date clause of July 1, 1981

Introduced: 2/4/81
Referred: Resources and
Finance

BY ZHAROFF, GRUSSENDORF AND
BETTISWORTH

1 IN THE HOUSE

2 HOUSE BILL NO. 101

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TWELFTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act repealing the tax on motor fuel used in or on
7 watercraft; and providing for an effective date."

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

9 * Section 1. AS 43.40.010(a) is amended to read:

10 (a) There is levied a tax of eight cents a gallon on all motor
11 fuel sold or otherwise transferred within the state, except that

12 (1) the tax on aviation gasoline is four cents a gallon, and

13 [(2) THE TAX ON MOTOR FUEL USED IN AND ON WATERCRAFT OF ALL
14 DESCRIPTIONS IS FIVE CENTS A GALLON, AND]

15 (3) the tax on all aviation fuel other than gasoline is two
16 and one-half cents a gallon.

17 * Sec. 2. AS 43.40.010(b) is amended to read:

18 (b) There is levied a tax of eight cents a gallon on all motor
19 fuel consumed by a user, except that

20 (1) the tax on aviation gasoline consumed is four cents a
21 gallon, and

22 [(2) THE TAX ON MOTOR FUEL USED IN AND ON WATERCRAFT OF ALL
23 DESCRIPTIONS IS FIVE CENTS A GALLON, AND]

24 (3) the tax on all aviation fuel other than gasoline is two
25 and one-half cents a gallon.

26 * Sec. 3. AS 43.40.010(g) is amended to read:

27 (g) The proceeds of the revenue from the tax on all motor fuels,
28 except as provided in (e) [, (f),] and (j) of this section, shall be
29 deposited in a special highway fuel tax account in the state general

1 fund. The legislature may appropriate funds from it for expenditure by
2 the Department of Transportation and Public Facilities [PUBLIC WORKS]
3 directly or as matched with available federal-aid-highway money for
4 maintenance of highways, construction of highway projects and ferries
5 included in the program provided for in AS 19.10.150, including ap-
6 proaches, appurtenances and related facilities and acquisition of
7 rights-of-way or easements, and other highway costs including surveys,
8 administration, and related matters. All departments of the state
9 government authorized to spend funds collected from taxes imposed by
10 this chapter [AS 43.40.010 - 43.40.100] shall perform, when feasible,
11 all construction or reconstruction projects by contract after the
12 projects have been advertised for competitive bids, except that, when
13 feasible, arrangements shall be made with political subdivisions to
14 carry out the construction or reconstruction projects. If it is not
15 feasible for the work to be performed by state engineering forces, the
16 commissioner of Transportation and Public Facilities [PUBLIC WORKS] may
17 contract on a professional basis with private engineering firms for
18 road design, bridge design, and services in connection with surveys.
19 If more than one private engineering firm is available for the work the
20 contracts shall be entered into on a negotiated basis.

21 * Sec. 4. AS 43.40.030(a)(2) is amended to read:

22 (2) the motor fuel is not aviation fuel [, OR MOTOR FUEL
23 USED IN OR ON WATERCRAFT]; and

24 * Sec. 5. AS 43.40.100(2) is amended to read:

25 (2) "motor fuel" means fuel used in an engine for the pro-
26 pulsion of a motor vehicle or aircraft, and fuel used [IN AND ON WATER-
27 CRAFT FOR ANY PURPOSE, OR] in a stationary engine, machine or mechanical
28 contrivance which is run by an internal combustion motor; "motor fuel"
29 does not include

- 1 (A) fuel consigned to foreign countries,
2 (B) fuel sold for use in jet propulsion aircraft op-
3 erating in flights to foreign countries,
4 (C) fuel used in stationary power plants operating as
5 public utility plants and generating electrical energy for sale to
6 the general public,
7 (D) fuel used by nonprofit power associations or
8 corporations for generating electric energy for resale,
9 (E) fuel used by charitable institutions, [OR]
10 (F) fuel which is at least 10 percent alcohol by
11 volume, or
12 (G) fuel used in and on watercraft for any purpose; [.]

13 * Sec. 6. AS 43.40.010(f) is repealed.

14 * Sec. 7. This Act takes effect July 1, 1981.
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REPRESENTATIVE
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House of Representatives

DISTRICT 14:

BELLSPLAT
 CHINIAK
 KODIAK
 OUZINKIE

A recap of the following pages from the Department of Revenue's Source Book publications shows the amount of Marine Fuel Tax collected for the past few years and the estimated tax for FY 81 and FY 82.

<u>Fiscal Year</u>	<u>Actual</u>	<u>Estimate</u>
1977	1,400	
1978	2,100	
1979	2,600	
1980	3,200	
1981		3,400
1982		3,600

The proceeds from the Marine Fuel Tax are deposited in the Watercraft Fuel Tax Account in the general fund and may be appropriated for water and harbor facilities. However, this account is not tracked by municipalities, so it is impossible to compare the amount paid into the account by a municipality to what that municipality receives back for their water and harbor facilities.

General Fund Unrestricted Revenues

In Thousands of Current Dollars

	FY 1980 Actual	FY 1981 Revised Estimate	FY 1982 Estimate
<u>Taxes</u>			
<u>Income</u>			
Corporate - General	17,900	35,000	36,000
Corporate - Petroleum	547,500	770,000	882,900
Fiduciary (1)	100	-0-	-0-
Individual (1)	100,500	-0-	-0-
<u>Gross Receipts</u>			
Alaska Business License	4,200	5,300	3,200
Fish - Canned Salmon (2)	4,300	12,100 (3)	6,600
Fish - Shorebased (2)	7,600	10,400 (3)	7,800
Fish - Floating (2)	2,700	4,000 (3)	3,100
Salmon Enhancement (4)	-0-	-0-	1,500
Insurance Companies	10,400	11,300	12,500
Other	2,100	2,600	2,900
<u>Severance</u>			
Gravel, Timber, etc.	1,600	1,300	3,000
Oil & Gas Production (5)	506,200	1,178,200	1,747,100
Oil & Gas Conservation	300	600	600
<u>Property</u>			
Oil & Gas	168,900	170,000	170,000
Vehicle Registration	100	200	200
<u>Sale/Use</u>			
Alcoholic Beverages	7,400	7,900	8,200
Fuel Taxes - Aviation	4,000	4,100	4,300
Fuel Taxes - Highway	18,900	18,500	20,900
Fuel Taxes - Marine	3,200 ✓	3,400	3,600
Tobacco Products	1,600	1,700	1,800
<u>Other</u>			
Estate	200	200	200
School (6)	2,600	-0-	-0-
Total Taxes	<u>1,412,300</u>	<u>2,236,800</u>	<u>2,916,400</u>
<u>Licenses & Permits</u>			
Business	8,100	8,300	9,700
Non-Business	10,700	12,000	12,500
Total Licenses & Permits	<u>18,800</u>	<u>20,300</u>	<u>22,200</u>
<u>Intergovernmental Receipts</u>			
Federal Shared Revenues (5) (7)	<u>4,800</u>	<u>19,400 (8)</u>	<u>8,000</u>
<u>State Resource Revenue</u>			
<u>Sale/Use</u>			
Bonus Sales	342,400 (7) (9)	6,400 (10) (11) (12)	-0- (11)

Unrestricted Revenues

In Thousands of Current Dollars

	<u>FY 79</u>	<u>FY 80</u>	<u>FY 81</u>
<u>TAXES</u>	<u>ACTUAL</u>	<u>REVISED ESTIMATE</u>	<u>ESTIMATE</u>
<u>INCOME</u>			
Corporate - General	24,800	15,000	28,000
Corporate - Petroleum ⁽¹⁾	232,600 ⁽²⁾	402,000	558,000
Fiduciary	100	100	100
Individual	117,200	122,000	161,000
<u>GROSS RECEIPTS</u>			
Alaska Business License ⁽³⁾	28,200	4,000	3,000
Raw Fish ⁽⁴⁾	6,700	8,600	13,800
Cold Storage ⁽⁴⁾	3,300	8,700	12,600
Freezer Ship ⁽⁴⁾	1,900	3,600	4,900
Insurance Companies	10,800	12,400	14,300
Other	1,900	2,000	2,300
<u>SEVERANCE</u>			
Gravel, Timber, etc.	1,700	1,500	1,200
Oil and Gas Production ⁽⁵⁾	173,800	432,900	1,045,200
<u>PROPERTY</u>			
Oil and Gas	163,400	175,000	178,000
Vehicle Registration	200	100	200
<u>SALE/USE</u>			
Alcoholic Beverages	7,400	7,700	8,000
Fuel Taxes-Aviation	3,400	3,600	3,700
Fuel Taxes-Highway	15,300	18,400	19,000
Fuel Taxes-Marine	2,600 ✓	3,100	3,200
Tobacco Products	1,700	1,700	1,800
<u>OTHER</u>			
Estate	100	200	200
School	2,500	2,500	2,700
TOTAL TAXES	<u>800,600</u>	<u>1,225,100</u>	<u>2,061,200</u>
<u>LICENSES AND PERMITS</u>			
<u>BUSINESS</u>	<u>7,500</u>	<u>8,500</u>	<u>8,500</u>
<u>NON-BUSINESS</u>	<u>12,300</u>	<u>11,300</u>	<u>12,400</u>
TOTAL LICENSES & PERMITS	<u>19,800</u>	<u>19,800</u>	<u>20,900</u>
<u>INTERGOVERNMENTAL RECEIPTS</u>			
<u>FEDERAL SHARED REVENUES⁽⁶⁾</u>	<u>4,100</u>	<u>4,000</u>	<u>4,000</u>

STATE RESOURCES REVENUE

SALE/USE

Bonus Sales (6)	-0-	-0-	-0-
Investment Earnings	44,200	42,000	45,000
Rents (6)	2,300	2,800	2,500
Royalties (6)	149,600	223,200	270,200
Sale of State Property	1,900	1,800	4,200

FACILITIES RELATED CHARGES

Airports	800	400	500
Ferry System (7)	15,600	19,600	23,100
All Other	4,000	3,600	4,000

SERVICE RELATED CHARGES

Court System	2,800	2,900	3,100
All Other	1,700	1,600	300

TOTAL STATE RESOURCES REVENUE	<u>222,900</u>	<u>297,900</u>	<u>352,900</u>
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MISCELLANEOUS REVENUE

Returns, etc.	<u>3,900</u>	<u>3,900</u>	<u>3,900</u>
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TOTAL UNRESTRICTED REVENUES	787,300	1,071,700	1,134,400
Less: Native Claims Payments	<u>22,400</u>	<u>41,600</u>	<u>50,800</u>

TOTAL TO THE STATE	<u>764,900</u>	<u>1,030,100</u>	<u>1,083,600</u>
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(1) Ch. 110 SLA 1978 Effective July 9, 1978.

(2) Sec. 3 of Ch. 144 SLA 1978 Effective January 1, 1979 amended AS 43.60.030 to remove the gross receipts levy on all businesses with the exception of the net income tax for banks, trust companies and savings and loan associations and the business license fee itself.

(3) <u>COMMERCIAL FISH TAXES</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
Raw Fish	5,500	6,900	6,700
Cold Storage	2,300	2,700	2,700
Freezer Ship	500	1,000	800
TOTAL	<u>8,300</u>	<u>10,500</u>	<u>10,200</u>

(4) Reserves tax credit applied.

(5) <u>FUEL TAXES</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
Aviation	3,300	3,400	3,500
Highway	17,900	22,100	23,400
Marine	2,100 ✓	2,300	2,400
TOTAL	<u>23,300</u>	<u>27,800</u>	<u>29,300</u>

(6) Net of 25% Permanent Fund contribution.

(7) <u>FERRY SYSTEM</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
Southeast	14,000	17,500	20,900
Southwest	1,600	2,100	2,200
TOTAL	<u>15,600</u>	<u>19,600</u>	<u>23,100</u>

General Fund

	1977	1978	1979
	ACTUAL	BUDGET ESTIMATE	REVISD ESTIMATE
INCOME			
Corporate	35,772.1	53,440.0	65,600.0
Fiduciary	92.4	55.0	111.0
Individual	210,378.3	93,403.4	145,000.0
GROSS RECEIPTS			
Alaska Business License	23,252.2	17,422.5	20,400.0
Commercial Fish	6,203.1	3,896.0	8,489.0
Insurance Companies	8,063.2	6,750.0	8,500.0
Public Utilities	1,192.7	975.0	1,532.8
Other	65.2	50.0	78.0
SEVERANCE			
Gravel, Timber, Land, etc.	1,002.4	807.0	578.0
Oil and Gas Production (1)	23,758.4	113,469.0	176,000.0
PROPERTY			
Oil and Gas	139,140.7	168,300.0	170,600.0
Reserves (2)	270,626.5	-0-	-0-
Vehicle Registration (3)	-0-	198.4	202.0
SALE/USE			
Alcoholic Beverages	7,977.7	7,470.0	6,700.0
Fuel Taxes-Aviation	2,503.7	2,940.0	2,300.0
Fuel Taxes-Highway	16,745.2	18,113.7	12,800.0
Fuel Taxes-Marine	1,358.2	1,460.0	1,800.0
Tobacco Products	1,817.7	1,562.6	1,500.0
OTHER			
Death and Gift	193.1	125.0	234.0
School	2,588.6	2,511.0	2,100.0
TOTAL TAXES	752,731.4	492,948.6	624,527.0
LICENSES AND PERMITS			
BUSINESS			
Alcoholic Beverages	949.3	992.3	1,007.0
Amusements	107.3	85.6	129.0
Commercial Fishing (4)	836.1	694.2	1,081.0
General Corporation	1,126.1	1,010.8	1,225.0
Professional and Occupational	672.4	779.0	721.0
Regulatory	1,729.8	1,743.5	1,769.0
Other	43.2	39.9	43.0
ON-BUSINESS			
Fish and Game	48.9	66.7	49.0
Motor Vehicle-Operators	584.0	531.5	550.0
Motor Vehicle-Titles/Registration	10,020.4	12,251.2	11,350.0
Other	2.0	6.9	6.0
TOTAL LICENCES AND PERMITS	16,119.5	18,201.6	17,934.0
INTERGOVERNMENTAL RECEIPTS			
FEDERAL SHARED REVENUE			
Lands	511.0	564.0	3,255.0
Mineral Rents and Royalties (5)	1,985.6	3,054.2	1,381.0
Other	2.2	2.5	2.0
TOTAL INTERGOVERNMENTAL RECEIPTS	2,498.8	3,620.7	4,639.0

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

FINANCE DIVISION
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JUNEAU, ALASKA 99811
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MEMORANDUM

TO: Senator Arliss Sturgulewski
Chairman
Senate Finance Transportation
Subcommittee

FROM: Jay Hogan
Director
Legislative Finance

DATE: March 17, 1981

SUBJECT: Position control through appropriations

This memorandum assumes two things:

- (1) There exists a desire to have some legislative control over the size and growth rate of the state operating budget, and
- (2) The size and growth rate of the operating budget are in large part related to the number of state employees.

During the early and mid 1970's, the legislature had some degree of control over the number of state employees assigned to various state operations. During the regular session the finance committees received, reviewed, and approved, where appropriate, agency requests for new positions. During the interim and throughout the budget year, the Legislative Budget & Audit Committee received, reviewed, and approved, where appropriate, revised programs establishing new positions. This process disintegrated in May of 1978 with the Superior Court decision in Kelley v. Hammond, in which the court held that the Budget & Audit Committee could not approve or veto the establishment of positions (see attached partial summary judgment). The decision opened the gates for the establishment of new positions during the budget year via revised programs requiring approval only of the Director of Budget and Management.

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The shortcomings of the currently-existing system are nowhere better illustrated than in RP 81-14x (attached). Through this RP, Central Region, Highways, established ten new positions for the current budget year, FY 1981, four days following adjournment of the Second Session of the Eleventh Legislature. According to the new rules of the game, legislative approval of these ten positions is now requested of this legislature in the FY 82 DOT operating budget.

At the request of the Senate Finance Committee, I sent a memo dated February 10, 1981, to all departments and agencies, requesting among other things the numbers, salaries, and positions requested in the FY 82 budget that had been established by revised program. I further requested an indication as to whether or not these positions were currently filled (memorandum attached). The responses to this request are still trickling in, but of particular interest is a memorandum from the Director of Budget and Management to all agencies, the first paragraph of which reads as follows:

The Governor's Office is concerned about the rapid growth of new positions in State Government. Many of these positions have been established by revised program. This fact reveals that many agencies have not done an adequate job of estimating their FY 81 staffing requirements. Ultimately this reflects on the quality of the Governor's budget.

(copy of memorandum attached).

Obviously, as long as the governor's budget office can authorize the establishment of new positions at will, there is no way the legislature can effectively control the number of state employees. In my view, the Executive Budget Act as currently written allows the legislature, if it wishes, to state as a condition of its appropriations that the amounts budgeted for personal services are for a specified number of positions and that that number may not be exceeded. In support of this AS 37.07.080(d) (attached) states:

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(d) No state agency may increase the salaries of its employees, employ additional employees, or expend money or incur obligations except in accordance with law and properly approved operations plan.

If adopted by the legislature, a policy of legislative position control would require the insertion of language conditioning those portions of appropriations budgeted for personal services with language similar to that shown in Sec. 3 from a State of Maine general appropriation act (copy attached). For all appropriations or allocations that include budgets for positions, we have for the past several years--for informational purposes only--included a parenthetical reference to the total number of permanent full time and part time positions approved. Under this proposal that parenthetical reference would shift from an "informational" item to a permanent position ceiling not to be exceeded except through an additional authorization for personal services contained in some other appropriation approved by the legislature.

Attachments

HOUSE FINANCE COMMITTEE

February 2, 1982

1:30 p.m.

(Tape HFC 82-4, side 1 #384.)

PRESENT

Members of the Committee in attendance: Representatives Adams, Montgomery, Cuddy, Chuckwuk, Cotten, Bettisworth and Fuller. (Representatives Carney, Haugen, Hurlbert and Meekins arrived later in the meeting.) PRESENT TO TESTIFY: Representative Clocksin; Commissioner Helen Beirne, Department of Health and Social Services; Commissioner William Nix, Department of Public Safety; Kermit Humphries, Department of Health and Social Services; Dan Hickey, Chief Prosecutor, Department of Law; Harry Treggor, Director, Division of Occupational Licensing; and David Allison, attorney.

HB 180

Chairman Adams called the meeting to order and brought HB 180 up for consideration.

HB 180 -- "An Act revising the drug laws and making amendments to the criminal laws of the state; and providing for an effective date."

Chairman Adams advised there is a Judiciary CS for HB 180 before the Committee (same title).

(Representative Carney arrived at this time.)

Chairman Adams asked if Representative Barnes, Chairman, House Judiciary Committee was present. An Aide to Representative Barnes indicated she was not able to be present at this time, she is chairing a House Judiciary Committee meeting.

(Representative Haugen arrived at this time.)

REPRESENTATIVE CLOCKSIN stated he would be speaking on the Judiciary CS for HB 180, and his desire would be to limit his testimony to the fiscal impact of the bill, based on his philosophical view of the role of the finance committee. He said he believes the finance committee should be limited to considering fiscal matters. He said there are other substantive committees that should address the substantive portions of the bill.

Representative Clocksin stated that in reviewing the fiscal notes he has had available to him, he believes the fiscal impact to the

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state is being seriously miscalculated. In order to understand the fiscal impact of the bill, Representative Clocksin said members should look at each of the stages of the criminal justice process: First, there is the arrest; second, the person is booked into a jail facility; third, a bail proceeding would be held and the person would have an opportunity to plead. He said the charge is tied into the booking process. Fourth is the actual trial itself, with the selection of the jury, court room costs, etc.; fifth, assuming there is a conviction, there is the sentencing process. He said the person could be placed on probation pending the sentencing, which causes the monitoring of a person placed on probation. He said they then have the actual placing of a person in jail and the expenses involved in jailing, including treatment or rehabilitation/training as necessary for the person while in jail. Representative Clocksin said there are a number of phases the criminal justice system goes through, and he submitted that the fiscal notes he has seen do not take that into account.

(Representative Hurlbert arrived at this time.)

Representative Clocksin said he understands they are talking about 80-90 additional prison beds. He said if you use the figure of 10% of those arrests that get jail time, then you can extrapolate from the 80-90 bed figure and assume there will be approximately 1000 new arrests from this legislation per year. He said looking at that information, you can see there is substantial fiscal impact.

Representative Clocksin said the fiscal note from the Alaska State Troopers dated January 12, 1982 indicates a zero impact. He asked how they will investigate 1000 or more alleged drug crimes and deal with the new arrests that may occur.

Representative Clocksin said the Court System also appears to have a zero fiscal note dated this January. He said you would have to assume there would be some impact to the court system. He suggested the Committee ask if they intended to delay the existing court proceedings in order to present these criminal cases. He said they needed to look at whether it is in fact a zero fiscal note, or will it backlog the courts.

Representative Clocksin said the Office of Alcohol and Drug Abuse has also indicated a zero fiscal note. He asked how that was possible when they are given specific responsibilities under Sec. 17.30.140, page 45 of the CS.

Representative Clocksin commented on the two fiscal notes provided by the Department of Law last year -- one for criminal justice planning and one for prosecution. He said last year's fiscal notes indicated that the first five years of implementation of this legislation would cost the Department of

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Law \$2.5 million. He suggested the Committee compare that estimate with what has been submitted today.

(Representative Meekins arrived at this time.)

Representative Clocksin said he understands Occupational Licensing submitted a fiscal note for \$152.5, yet last year they submitted a fiscal note for \$319.0. He suggested the Committee inquire why the cost is much less.

Representative Clocksin said a number of questions have been raised concerning the fiscal impact of the legislation. He said if the Committee finds they are not going to need more funds to implement the bill, the Committee should look at where they are going to take the resources from. He asked if they would be taking away from enforcement against violent offenses in the State, and if so, the Committee should look into that.

Representative Chuckwuk asked why he believes the figures will be higher than what the fiscal notes indicate. Representative Clocksin referred to the Alaska State Troopers' fiscal note and said it is hard to believe that metro drug will not spend any more time on the enforcement of this drug legislation. He said there are a substantial number of people that will get arrested and put in jail because of this legislation, and it is hard to believe the troopers are not going to do it. He said his belief comes from two sources -- their fiscal note and his knowledge of the criminal justice system and what the troopers are doing in the area of drug law enforcement right now.

Representative Hurlbert asked him to compare his statement concerning log jams in the courts and prisons with the period several years ago when drug laws may have been harder, yet it didn't log jam the courts. Representative Clocksin referred to the crisis they have right now in the prison system. He said this is a perfect example of where increased new enforcement activities in years past backed up the prisons because it was not planned for. In answer to Representative Hurlbert's question, Representative Clocksin said the answer is they didn't plan back then, there was increased enforcement, and we now have a crisis.

Representative Hurlbert said his understanding of the legislation is that in the area of marijuana it increases the penalty for people selling drugs on school grounds. He said that generally speaking under this law marijuana would still be decriminalized because it will allow up to 4 ounces in the home. He said essentially the legislation will just be hard on people that sell drugs on the school grounds. He said it is hard for him to believe there are that many people selling on school grounds that it would log jam the courts. Representative Clocksin responded that the Anchorage Crime Commission has compiled statistics indicating that in the Anchorage area there are 36,000 drug users. He said using that figure, they can assume there are

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70,000 drug users statewide, and this legislation will make most of those people criminals. Representative Clocksin said the legislation allows for possession of 4 ounces of marijuana in the privacy of your own home with the following exceptions: (1) on school grounds. He said it doesn't prohibit the sale of marijuana, it prohibits the possession of any amount on a school ground. He suggested this section be eliminated. He said it goes way beyond the sale of drugs on a school ground. He said people participating in community school programs could be criminals. (2) It provides that the delivery of any amount of marijuana to a person is a felony. He said delivery means handing or attempting to hand it to someone, even in the privacy of your own home.

(Tape change, HFC 82-4, side 2.)

Representative Clocksin said this applies to growing plants as well. He said if a plant weighs more than 4 ounces a person would be committing a criminal act, even in the privacy of his own home. Representative Clocksin said this is the recriminalization of marijuana. He said he didn't think anyone should be allowed to suggest that it isn't. He said that is why he has serious questions concerning the legislation. There was further discussion.

Representative Meekins asked if Representative Clocksin was advocating changing the fiscal notes to a higher figure or taking that as an indication to change the legislation. Representative Clocksin said that should be left to the Committee to decide. He said once they establish that the fiscal notes are wrong, they can either pump up the fiscal notes to what they should be or they can inquire of the agencies why they don't think they will be spending anything more -- is it because they are taking people away from prosecuting hard drug crimes or other crimes?

Chairman Adams asked COMMISSIONER WILLIAM NIX, Department of Public Safety, to comment on the Troopers zero fiscal note dated January 12, 1982. Commissioner Nix said the reason for the zero fiscal note is that their drug enforcement activity is included in the operating budget. He said last year the Troopers substantially raised their budget. He said the Troopers' positions authorized last year will be in place April 1st of this year. He said the budget was \$1.5 million for drug and narcotics activity. He said the impact they see will be insignificant in the sense that if there are an additional 1000 people, they will be misdemeanor arrests for possession of marijuana. He said if there are 1000 arrests, it will average one additional arrest per trooper per year.

As far as the need to incarcerate people outside facilities owned by the State, Commissioner Nix said there is sufficient money to absorb any amounts that may be needed in the rural areas. Commissioner Nix said he thinks there is sufficient contractual

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money and he doesn't see the need to ask for more money at this point.

Chairman Adams asked if the Public Safety Subcommittee didn't increase the number of troopers from one to six. Commissioner Nix said yes. Chairman Adams asked if they gave them more state troopers than they requested. Commissioner Nix said "close to 15". Chairman Adams asked if it was true that the legislature increased Public Safety's budget for the village public safety officers. Commissioner Nix said the legislature doubled the budget in that area. Chairman Adams asked if they had enough law enforcement people throughout Alaska and that is the reason they are not requesting more positions today. Commissioner Nix said yes.

Representative Carney asked if the metro drug units were increased last year. Commissioner Nix said they added a statewide coordinator. Representative Carney asked how many people were involved with detecting the importation of drugs in Alaska. Commissioner Nix said between ten and fifteen. Representative Carney asked if that was enough. Commissioner Nix said he thought so. He said he didn't think more manpower would increase their ability to stop the importing of drugs. Representative Carney asked what the legislature could do to limit the importation of drugs. Commissioner Nix said he didn't have the slightest idea. He said he didn't think the legislature could pass a law that would stop the importation or use of a controlled substance. Representative Carney said his concern is this bill will not get at the basic problem of available of drugs. Commissioner Nix said they are doing all they can. He said their focus is on the importation and distribution.

Representative Carney asked if he had a figure indicating the amount of drugs coming in that the troopers are not picking up. Commissioner Nix said he would have to guess, but he doubts they catch 50% of what comes in. Representative Carney asked what percentage he would guess they catch. Commissioner Nix said he would guess somewhere between zero and ten percent. Representative Carney said they have no way of controlling 90% of the drugs coming into the state, yet the Commissioner says they don't need more people? Commissioner Nix said if they were to stop and strip search every car, airline passenger, piece of cargo, and put a screen around the coastal areas, then they could probably stop drugs coming in. Representative Carney asked how much they were spending for the 0-10% estimate. Commissioner Nix reminded him that figure was a guesstimate, and said last year's budget was \$1.578 and this year they have requested \$1.835. He said that is a substantial increase over what they had two years ago. He said last year this Committee doubled their drug enforcement budget. Representative Carney asked if Commissioner Nix had said earlier that they had no way of controlling the importation of drugs. Commissioner Nix said he thinks they are doing everything they can to stop as much as they possibly can.

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Representative Cotten said last year their budget was increased substantially so they need no more people; he asked if this bill didn't pass, could they let some people go. Commissioner Nix said no, not at all. He said if there are 1,000 arrests, a great majority will be misdemeanors, and it will average out to one arrest per trooper per year. Representative Cotten asked if the new arrests would be for the possession of marijuana. Commissioner Nix said he would think that would be the greatest number.

Representative Cotten asked what kind of people they would be arresting. He asked if a trooper were in someone's home and noticed a marijuana plant in the person's living room, what would happen. Commissioner Nix said if he could estimate that it weighed more than 4 ounces he would probably go for a search warrant. Representative Cotten asked what the determining factor would be in deciding to make an arrest. Commissioner Nix said it would be up to the officers' discretion. He said that often discretion is an important part of police work. There was brief discussion. Representative Cotten said he is concerned about selective enforcement. Commissioner Nix said they are focusing on the importing and possession of drugs. He said they don't spend a lot of time searching a person. Representative Cotten said his point is, if this bill were to pass, the person with a marijuana plant in his home could go to jail.

Representative Cotten said in some parts of the State people have green houses, and questions have been raised regarding the marijuana plants they have in those green houses and the right of privacy. He asked if they anticipated troopers troopers would be out looking at green houses. Commissioner Nix said he didn't.

Regarding the fiscal note and the concern raised about diverting the effort away from violent crimes like rape and murder, Representative Meekins asked if the Committee could get a commitment of whether or not that will happen. He asked for a commitment that they will not divert people from other activities. Commissioner Nix said that is a fact. He said they will not divert people from other activities, other than to keep going what they have now, which is the area of organized drug use. He pointed out there is a lot of violent crime connected with drug use.

Representative Meekins asked if under current law there wasn't some thresh-hold on the number of plants allowed for personal possession. Commissioner Nix said his experience has been that even though they have arrested and tried people, the way the law is now, they have a tough time convincing a jury that 250 plants aren't for personal use.

Representative Clocksin asked if Commissioner Nix said earlier that there would be few new arrests for hard drug crimes with the passage of this legislation. Commissioner Nix said he doubts

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seriously they would be working on any more new hard drug cases. However, he said if this law passes it may be easier for them to develop a case. He commented that instead of going to federal court they could use state courts.

Representative Clocksin asked about the number of arrests. Commissioner Nix said if there were 1,000 arrests, about 1/3 of those would be made by troopers. He said he would expect the arrests would be incidental to their other activities.

Representative Chuckwuk commented on the situation in Bethel when the town voted to go dry, and he wondered if the same thing might happen with the passage of this law, where there was a dramatic decrease in the number of arrests and the standard of living improved. Commissioner Nix said he thinks people don't want to violate the law. He said he thinks there will be an increase in arrests. He said there might be a decrease in the number of people using drugs.

Representative Cotten asked what an alcohol related crime was. Commissioner Nix said alcohol is a direct mechanism that causes them to commit an act of violence. Representative Cotten asked if there was such a thing as marijuana related crimes. Commissioner Nix said he didn't know. Representative Cotten asked if he thought marijuana use would decrease if this bill passes. Commissioner Nix said he would hope so.

Representative Carney said this bill is designed to help control the use of illegal drugs in the State. He said the Commissioner said they need no additional funding to implement the activities in this bill. In addition to this legislation, he asked what the legislature could do to help them cut down on the importing of drugs. Commissioner Nix said if he could answer that he would have had it in his budget this year. There was further discussion. Representative Carney said his understanding is the Commissioner said giving him more people would not allow him to do a better job of controlling the importing and trafficking of drugs. He asked if he misunderstood. Commissioner Nix said "no, you didn't. If we needed more people we would have asked for it in our budget."

Chairman Adams requested that COMMISSIONER HELEN BEIRNE, Department of Health and Social Services testify at this time. Commissioner Beirne presented information concerning the "bed needs of the State". (See attachment #1.)

In answer to a question from Representative Cotten, Commissioner Beirne said in 1979 eleven new beds were needed, in 1980 they needed an additional 100, in 1981 they needed 200. She said the projections are there will be 200 more beds needed every year from now on. She said they don't know all the reasons for the increase, but some they have identified include the new criminal

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code, more troopers are on the streets, and the conservative attitude of the people and judges.

Representative Cotten asked who directed the state to remove its prisoners from the federal prisons. Commissioner Beirne said the federal government put a ceiling on them of 200, and they have been directed to take them back as soon as possible. Representative Cotten asked what happens since the state can't do that. Commissioner Beirne said they stay where they are.

There was brief discussion on when the facilities presently under construction would come on line.

(Tape change, HFC 82-5, side 1.)

Representative Hurlbert questioned the reason for the increase in prisoners from 1979. In addition to the reasons previously mentioned, Commissioner Beirne said alcohol played a big part. She said the passage of the mandatory 3-10 day drunk driving law had a large impact.

Representative Cuddy asked if there were any requests in for additional jail space. Commissioner Beirne said in their budget they have requested \$47 million for a 300 bed facility within a 45-50 mile radius of Anchorage and an 80 bed facility in the Fairbanks area. She commented further on those facilities, and said their projections indicate that even with those additional beds they will not be able to bring the federal prisoners back. Chairman Adams asked if that request was in the Department's FY 83 capital budget. Commissioner Beirne said that was correct.

In answer to a question from Representative Carney, Commissioner Beirne said they have 190 prisoners outside the state.

Commissioner Beirne said they have indicated in their fiscal note that bed construction cost is \$125.0 per bed, depending on the type of service to be provided. She indicated that doesn't mean all the drug related offenses would go to that facility. There was brief discussion on the cost of facilities.

Representative Meekins asked if there was any other legislation pending that would impact the prisons. In addition to this legislation, Commissioner Beirne said their projections indicate that passage of HB 293 (estab/parole system/correct fac/furlough/sentencing) would require about 80 beds; HB 632 (provide waiver of jurisdiction/ASd47.10/minors) would require 87 beds; and several other pieces of legislation would require about 24 beds. Commissioner Beirne said they are already 250 over capacity, and it is hard to say where they can absorb any of these requirements.

Representative Cotten commented the Legislature is passing a lot of legislation that requires more people to go to prison. He

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asked if even without that they are estimating the state will be needing an additional 200 beds each year. Commissioner Beirne said that is what their projections are showing. Representative Cotten asked if it was a matter of them having to prioritize who they want to go to jail. Commissioner Beirne said she doesn't think they are anticipating that many marijuana users using the beds. She said it is going to be the heavy users. Representative Cotten said Commissioner Nix indicated they are not expecting that many more arrests for hard drugs. Representative Meekins commented the Department of Health and Social Services is talking about convictions, while the Department of Public Safety is talking about arrests. Commissioner Beirne said they don't expect that many on marijuana. There was further discussion.

MR. KERMIT HUMPHRIES, Department of Health and Social Services, presented corrected figures for the fiscal note dated January 19, 1982 for the Division of Adult Corrections (\$6026.5 for land and structures, and a new total of \$6188.2). He explained the difference from \$6.4 million to \$6.1 million was made to agree with the Department of Law estimate that there would be 83 additional felons and 2 misdemeanors. He said they worked with the Department of Law's figures because from their historical data they have no way of assessing what the impact of the bill will be. He explained that in arriving at the cost figure they used the figure of \$70.0 for adding on to existing facilities instead of building a new facility. He commented on the different fiscal notes they prepared. Representative Meekins asked what the penciled in figure was doing in the FY 82 column. Mr. Humphries said that should be in the FY 83 column. Representative Meekins asked if he was talking about no new construction costs after FY 83, but some heavy operating expenses. Mr. Humphries said that was correct. There was brief discussion.

MR. DAN HICKEY, Chief Prosecutor, Department of Law, advised the Department of Law's fiscal note is \$270.4. He explained it is similar to the one they submitted last year with some modified costs. He said the primary difference is that in this year's fiscal note they deleted a request to fund a statewide coordinator. He said they were able to fund that position in the present fiscal year. Mr. Hickey commented that when the criminal code passed the Department of Law put together a comprehensive training program. He said this bill is similar in that if the kind of changes it makes in law are going to work properly, training has to be provided. He said the first fiscal impact of the bill is for a training program for law enforcement officers in the area of \$40.0. He said the second area is a follow-up on their request for a statewide coordinator -- it is funding for sufficient support staff to adjust for the changes made by the bill and in working with the Alaska State Troopers statewide and drug enforcement units in the Anchorage and Fairbanks metro. He said the final area of fiscal impact is the expenses associated

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with the controlled substance advisory committee. He said the total is \$270.0 for the next fiscal year.

Representative Cotten said he has been concentrating on the part of the bill that would recriminalize marijuana. Mr. Hickey said he takes exception to that term. Representative Cotten said that under this bill people charged with the possession of marijuana could end up in jail. Mr. Hickey said that was right, but in most cases those same people can presently be charged with a misdemeanor, the difference being the maximum penalty is \$1,000 under present law whereas this bill ties it into the criminal code classification making those offenses a class B misdemeanor which carries, in addition, a possible penalty of 90 days in jail. Representative Cotten said right now if a person had 4 1/2 ounces of marijuana in his own home, there is no chance he would go to jail, unless he was obviously selling it to someone. Mr. Hickey said that was correct. Representative Cotten said under this bill that person would be eligible for a jail sentence. Mr. Hickey said that was also correct. Representative Cotten said that is what he means by recriminalization.

Representative Cotten asked if under this bill a person had 3 1/2 ounces, he wouldn't be eligible for a jail sentence. Mr. Hickey said that was correct. Representative Cotten asked how a person got 3 1/2 ounces of marijuana. He said if this bill passes, a person would be in violation of law if he grew it. Mr. Hickey said potentially, depending on how much it was. Representative Cotten asked if 4 ounces was realistic. Mr. Hickey said he didn't want to quarrel with Mr. Cotten over the line as it is drawn in the bill. He suggested that if they disagree with the 4 ounce limit, that is the kind of line the legislature has the responsibility of drawing.

Representative Cotten asked if Mr. Hickey is supporting the bill as it stands right now. Mr. Hickey said the bill was introduced by the Governor last year, the Governor drew those lines, those are his suggested lines, and Mr. Hickey said he stands behind them. He said if evidence submitted before the legislature suggests that more rational lines be drawn, then the Legislature should make the change. He said he believes that within the ambiguity created by the Raven decision, that the 4 ounce line makes sense.

Representative Cotten said it is most likely that a person having 3 ounces of marijuana didn't grow it himself, he probably went out and bought it. Mr. Hickey said that is probably true. He said there are obviously a lot of people in this state that grow marijuana. Representative Cotten asked if he would agree that an average marijuana plant weighs more than 4 ounces -- it would take more than a 4 ounce plant before a person could have "good stuff". Mr. Hickey said with the average mature plant, taking into consideration the entire plant, yes. Representative Cotten said then the only way a person could have less than the legal

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amount of marijuana is to have either bought it or received it some other way than growing it. Mr. Hickey said he wouldn't concede that. He said he wouldn't argue the opposite because he didn't know enough about how big a plant has to be before you can cultivate it and produce usable marijuana.

Mr. Hickey said his policy for all of their prosecution offices statewide if this bill passes, "with respect to the growing of plants, and there is no question that that is a difficult and troubling area in this bill, and it's a difficult area to address. On the one hand you can say x-number of plants as has been suggested by a number of people, on the other hand you can you can try some different type of approach. But my policy will be, that plants that are in question must produce 4 ounces of usable marijuana in order for us to bring a prosecution under the statute."

Representative Cotten said that is different than what the law says. Mr. Hickey said the law says that if you possess 4 ounces or more you may be prosecuted with a class B misdemeanor, and it defines how you arrive at that weight. He commented further. Representative Cotten commented this law is going to last longer than Mr. Hickey will be in that job. Mr. Hickey agreed and said someone else can come along and decide they are going to start prosecuting people if a plant that produces one cigarette weighs in its total 4 ounces.

Representative Cotten said according the law you have to go out and commit a felony in order to get it into your home and be legal and in possession of it. Mr. Hickey agreed. He said the present scheme is very irrational.

Representative Hurlbert asked if it was illegal to receive marijuana. Mr. Hickey said there is nothing in the law that makes the act of buying or the act of receiving a crime in and of itself, other than the crime of possession. He said someone who buys marijuana, by legal definition, is not an accomplice to the sale itself. Representative Hurlbert said the person doing the selling would be illegal, the receiver would not. Mr. Hickey said that was right, depending on where the receiver has the marijuana -- for instance if the transaction takes place while the receiver is operating a vehicle, the receiver would be guilty of a misdemeanor.

Representative Meekins asked him to comment on his earlier statement about the present scheme being rational or irrational. Mr. Hickey said he is suggesting the difference between this bill and existing law is that it provides the public, law enforcement agencies and prosecutors in the state with guidelines. He said what they have right now is no lines. They have the Supreme Court striking down the 75 changes through the Raven decision, and leaving the State without any guides as to what a small amount is. Representative Meekins said he understands the need

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to draw lines. Mr. Hickey said he didn't believe the Governor was wedded to the lines in this bill. He said he certainly is not.

Representative Meekins said, assuming the main thing is the department's policy will be unless there is 4 ounces of usable marijuana they wouldn't prosecute, then he is very concerned because he doesn't want to pass a law that is irrational. If Mr. Hickey's statement seems to be where rationality is drawn from his point of view, maybe that is where the legislature should draw the line. Mr. Hickey commented on how the bill was put together. He said one thing the legislature could consider is saying 4 ounces of marijuana or 4 ounces of usable marijuana production from marijuana plants. There was brief discussion.

Mr. Hickey said 4 ounces is, in his judgment, a lot of marijuana. He said an ounce of marijuana produces between 30 and 40 cigarettes. He said what Raven addresses from the prospective of section 22, Article I of the constitution, is an amount that is indicative of personal use. He said the Legislature is elected to make these kinds of judgments based on testimony brought before them. He said he thinks 4 ounces is a reasonable line.

Concerning questions raised earlier about green houses and 230 pounds of plants, Mr. Hickey asked what their view would be of someone who possess 239 plants of an average size of 6 feet in their green house. He asked if that would be for personal use. He said he is tired of spending state resources taking those kind of cases to jury trial with the existing laws of this state. He said judges don't know how to instruct juries, they don't know how to interpret Raven. There was brief discussion.

Representative Meekins agreed that possession of 240 plants for personal use should be illegal from his point of view. He said if they assume that some amount is going to be legal to possess, then the question is how does a person get that amount -- they are either going to purchase or grow it. He said if that is the case, from a law enforcement point of view would they rather see them grow or purchase it. He said the bill seems to give an incentive to buy it. Mr. Hickey said that from a societal prospective, encouraging people to grow it is undoubtedly preferable. He said either activity remains illegal under federal law.

Representative Meekins said Mr. Hickey has indicated he sees some potential problems with this general area -- he allowed he wouldn't prosecute the bill, etc. Representative Meekins asked if this was something the Committee should look at in terms of changing the legislation. Mr. Hickey said he wouldn't discourage the committee from considering it.

Representative Clocksin said Mr. Hickey didn't enforce federal marijuana laws. Mr. Hickey said they didn't. Representative

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Clocksine said then it really doesn't make much difference in terms of Mr. Hickey's job what the federal laws are.

Representative Clocksin referred to statements from Representatives Hurlbert and Meekins and said he didn't want them walking away from this testimony believing that it would not be a crime to buy marijuana, but only a crime to sell marijuana. He said that is not the testimony made by Rhonda Butterfield who works for Mr. Hickey, before the Judiciary Committee. Representative Clocksin said Ms. Butterfield said, in response to that exact same question, that it would be a crime for someone to buy marijuana under the aiding and abetting statutes that are presently on the books.

(Tape change, HFC 82-5, side 2.)

Mr. Hickey said he strongly disagrees. There was discussion between Mr. Hickey and Representative Clocksin. Mr. Hickey said in his view Rhonda Butterfield is wrong. Representative Clocksin asked if he was saying it is not a crime to buy marijuana under this bill. Mr. Hickey said unless it is a crime to possess it. Representative Clocksin said there appears to be confusion between the two people in the Department of Law. Mr. Hickey commented that happens between lawyers. Representative Clocksin agreed.

Concerning the rationality of the legislation, Representative Clocksin asked if it was a felony under this legislation for one adult to pass a single marijuana joint to another adult in the privacy of their own home. Mr. Hickey said it is today. Representative Clocksin asked if it was under this legislation. Mr. Hickey said it is the same under this legislation as it is today.

Representative Cotten asked if the Department of Law was interested in cutting out the commercial activity when it comes to marijuana. Mr. Hickey said absolutely. Representative Cotten commented further and asked if Mr. Hickey had indicated he wouldn't go by the strict letter of the law, instead he would interpret how he thought it would be more rational. Mr. Hickey agreed. Representative Cotten said this isn't the case in the bill. Mr. Hickey said a constrained technical reading of the aggregate weight test is going to mean that if a plant weighs in its entirety 4 ounces and has THC content, it could conceivably support prosecution under the bill. Representative Cotten asked if Mr. Hickey's intent wouldn't be to prosecute, but somebody else's might. Mr. Hickey agreed. Representative Cotten suggested the law ought to be rewritten. Mr. Hickey said maybe it not only ought to but can be better written. Representative Cotten asked if he had any suggestions. Mr. Hickey said one thing was to say 4 ounces or x-plants, but then you get into the battle of how big can the plant be. There was further discussion. Mr. Hickey said a more reasonable approach would be

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to attempt to define the thing in terms of 2 ounces of a substance, the aggregate weight of which contains marijuana, and the substance of the whole is in some kind of usable form, or can be reduced to usable form that has that weight.

Chairman Adams questioned the Alaska Court Systems fiscal note. Mr. Hickey said he is not responsible for the preparation of that fiscal note. In terms of the kind of impact, Mr. Hickey said the fiscal note his department submitted has the same kind of impact. He said there is no question that this kind of bill has the potential for an impact. He said there will be additional cases, but to be honest and come in every time a bill has some kind of potential impact is crazy. He said they simply have to absorb that in their day to day case load. He said he thinks that is what the court system's fiscal note does.

Concerning the Department of Law's fiscal note, Representative Clocksin asked if any new attorneys were being added. Mr. Hickey said they are adding a para-legal and a secretary. Representative Clocksin asked if he had any idea how many new cases will be prosecuted. Mr. Hickey referred Committee members to information handed out (see attachment #2) and said they anticipate 5 additional felons, 100 additional misdemeanors and 35 misdemeanors that under this bill become felons.

Representative Clocksin asked how many misdemeanors they expect to prosecute. Mr. Hickey said they expect to look at 250 new referrals, and it is safe to say that 100 of those will go to prosecution.

Representative Clocksin asked if he agreed with Commissioner Nix that they will only arrest a very few new felons and will be arresting primarily misdemeanors. Mr. Hickey said he didn't think that is what the Commissioner said. Representative Clocksin said the Commissioner said there will be very few new arrests for felons. Mr. Hickey said he didn't believe that. There was brief discussion.

Chairman Adams asked MR. HARRY TREGGOR, Director, Division of Occupational Licensing, to testify at this time. Mr. Treggor said he is testifying on the fiscal note dated 2/2/82. He explained that at the time the previous fiscal note was prepared they only had two hearings on which to base their figures. He explained he is addressing strictly the licensing issue and the pharmacy board. He explained the differences between the fiscal notes. Mr. Treggor advised the original fiscal note was based on hearings held by doctors which is more expensive; this fiscal note is based on hearings that were held in December 1981 in Anchorage. Chairman Adams asked if the fiscal year should be changed from FY 82 to FY 83. Mr. Treggor said that was correct.

Chairman Adams asked if there was anyone present who wished to testify. MR. DAVID ALLISON, an attorney, speaking as an

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individual, said he believes the fiscal implications that have been referred to are inaccurate in terms of costs to the State. He commented further.

(Representative Meekins left at this time.)

Representative Chuckwuk asked if he had any information on the situation in other countries where drug laws are harsher than they are in America. Mr. Allison said the only comparisons he did had to do with a case he handled where a person had glucoma. He said they found that in Turkey, Greece and France there were a lot more people in prison for minor drug offenses. In answer to a question from Representative Chuckwuk, Mr. Allison said all the data he has seen indicates that increasing the severity of drug laws has no direct effect on reducing drug offenses. It only increases the number of people in prison. He commented further on the impact of the legislation.

Chairman Adams said he would entertain a motion at this time to amend the fiscal notes. Representative Carney MOVED to amend the fiscal note for the Division of Adult Corrections from the figure of \$6.4 million to \$6188.2, and to change the fiscal year for the Division of Occupational Licensing fiscal note from FY 82 to FY 83. There being NO OBJECTION, it was so ordered.

Chairman Adams said he would entertain a motion at this time to report out CSHB 180 (Jud) with the following fiscal notes (as amended): Alaska State Troopers fiscal note dated 1/12/81; Alaska Court System fiscal note dated 1/12/81; Public Safety fiscal note dated 2/6/81; Office of Alcohol and Drug Abuse fiscal note dated 2/16/81; Department of Law fiscal note dated 1/18/82; Occupational Licensing fiscal note dated 2/2/82; and the Adult Corrections fiscal note dated 1/19/82. Representative Montgomery SO MOVED. Representative Cotten OBJECTED.

Representative Cotten said it is clear there is an admirable goal to move the bill out, but he didn't think they were ready to move the bill to the floor. He recommended the bill be returned to the Health and Social Services or Judiciary committee. He said the chief prosecutor has indicated he reads the law one way, and others have indicated they read it another way. He said the chief prosecutor has indicated he will not prosecute certain portions of the legislation, but others may. Representative Cotten said the legislation is too broad.

Representative Cotten MOVED TO AMEND THE MOTION to return HB 180 to the Health and Social Services Committee. Representatives Haugen and Montgomery OBJECTED. The question was called for. Chairman Adams called for a voice vote and ruled that the MOTION FAILED.

The question was called for on the MAIN MOTION. Representative Cotten maintained his objection. Chairman Adams called for a voice vote and ruled that the MOTION CARRIED.

CSHB 180 (Jud) was reported out with a "do pass" recommendation and the seven fiscal notes.

ADJOURNMENT

Chairman Adams called for a recess at 4:05 p.m.

Tape HFC 82-4, side 1, #384 to end
 side 2, #001 to end
HFC 82-5, side 1, #001 to end
 side 2, #001 to #684

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DIVISION OF ADULT CORRECTIONS
CAPACITY OF CORRECTIONAL CENTERS
FEBRUARY 1982

STATE INSTITUTIONS	NORMAL OPERATING CAPACITY	EMERGENCY OPERATING CAPACITY	01/27/82 PRISONER COUNTS
Anchorage - 3rd Ave.	70	80	81
Anchorage - 6th Ave.	100	115	133
Eagle River	80	100	112
Alaska Women's Fac/ER	28	30	21
Palmer	113	113	107
Ridgeview Post #6	50	50	46
Fairbanks	110	118	164
Juneau	90	100	111
Ketchikan	22	30	21
Nome	30	34	32
DAC Inst. Capacity			
* Totals In-State	693	770	828
Alaska Prisoners in Federal Institutions			190
Prisoners Housed in Contract Community Facilities (Halfway Houses)			63
Total Number of Prisoners In-State & Federal Institutions			1081

*In March 1982 additional beds will be available as follows:

Ridgeview Post #6 - 40 new beds for a 90 bed capacity
Palmer (existing facility) - 24 new beds for a 137 bed capacity
Palmer Addition (new facility) - 100 new beds

In-State confinement capacity by March 1982:

NORMAL OPERATING CAPACITY	EMERGENCY OPERATING CAPACITY
857	934

Attachment #1

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DIVISION OF ADULT CORRECTIONS

SUMMARY OF CAPITAL PROJECTS AFFECTING BED SPACE (DOES NOT INCLUDE CORRECTIONAL INDUSTRIES, CODE UPGRADE OR RELATED PROJECTS)

FUNDED PROJECTS:

<u>Bed Space Increase</u>	<u>Project</u>
-0-	<u>Ketchikan Correctional Center</u> - Scheduled Completion 9-1-82. New Institution, 30 single rooms. Current Status - ahead of schedule - Contractor's estimated completion - 4-30-82. Staffing Available to operate 9-1-82. Since this is a replacement facility no system increase will result.
180	<u>Anchorage Pre-Trial</u> - Scheduled Completion - 12-31-82. New Institution, 180 single rooms. Current Status - ahead of schedule - Contractor's estimated completion 12-1-82.
60	<u>Eagle River Correctional Center Expansion</u> - Scheduled Completion 7-31-82. New single rooms = 80 - Post Construction Capacity = 180. Current Status - ahead of schedule - Contractor's estimated completion - 7-1-82. Upon completion of this project, it will be necessary to remove 20 inmates from 3rd Avenue in order to approach compliance. Therefore, the system capacity in August will only increase by 60, rather than by a full 80 beds.
100	<u>Palmer Addition</u> - Scheduled Completion - 3-1-82. New Institution, 100 single rooms. Current Status - nearly completed - Contractor's estimated completion date - 3-1-82.
40	<u>Juneau Expansion</u> - Scheduled Completion - October 1983. New single rooms = 56, Post Construction Capacity = 130. Current Status - on schedule - In design development stage.
67	<u>Fairbanks Expansion</u> - Scheduled Completion - October 1983. New single rooms = 77, Post Construction Capacity = 177.
Between 4 and 22	<u>Nome Replacement</u> - Scheduled Completion - Fall of 1983. New Institution, 32-50 single rooms, Post Construction Capacity = 32-50. Now in design phase. This project replaces 28 beds, so system increase will be minimal.
-0-	<u>Bethel Jail</u> - Scheduled Completion - Fall of 1983. New Institution, 40 single rooms, Post Construction Capacity = 40. Current Status - Now in design phase. While Bethel beds will be new to the DOAC system, we will also be assuming the current local jail function. No system increase will be realized.

FY'83 PROJECT REQUESTS AFFECTING BED SPACE:

Bed Space
Increase

Project

300

Long-Term Facility - Secure institution for sentenced male felons to be located in Southcentral Alaska. \$41 million has been requested for this 300 bed facility with a core capacity enabling future expansion to not more than 400 beds. Through P.F.P.F. funds, an architectural firm has been selected to begin planning and preliminary design. Completion is projected for early 1985.

80

Fairbanks Addition - Minimum to medium custody facility to be located adjacent to the existing Fairbanks Correctional Center. This facility would be similar to the new Palmer Addition and would permit those requiring less secure conditions of confinement to remain in the Northern Region.

SUMMARY OF BED SPACE INCREASES

451 Beds - Funded projects under design or construction

380 Beds - FY'83 Capital Request.

831 Beds - Funded or Requested