

HOUSE/SENATE FINANCE COMMITTEE MINUTES - 1967-1982 2807

Building Pressure for an Oil-Price Drop

By S. FRED SINGER

The world price of oil more than doubled during 1979—and is still rising. The just concluded OPEC Conference would appear to ratify this surprising development. Nevertheless, one should consider the possibility of price declines, not only on a long time scale, but also quite suddenly, within a few weeks.

The more obvious price decline to be expected over a period of several years, would simply reflect an adjustment from short-run to long-run conditions of demand and of supply.

Such a decline was predicted by some after the price suddenly tripled at the end of 1973, and was actually observed during the period 1974 to 1978. The price in nominal dollars increased from \$10.95 in January 1974 to \$13.34 in January 1979, but the real price, after eliminating the effects of inflation, declined by about 25%.

This slow adjustment occurs in response to a price jump, as people adopt energy-saving devices and lifestyles, as fuel substitutions are made to save oil, and as higher-cost oil resources come on the market. This decline in oil prices could be deepened further by the onset of a worldwide recession which would produce an additional decrease in oil demand.

To understand the reasons for an additional sudden break in the price, one has to look to psychological factors, in addition to economics. Two lines of explanation suggest themselves.

—The instability in Iran, which led to cutbacks last winter, has raised uncertainties about Iran's continuing ability to export oil. And as happened so often in the past, panic buying set in to build up stockpiles in anticipation of further cutbacks. Indeed, world stockpiling increased by an unprecedented amount during 1979, rising to five billion barrels, nearly 100 days of oil consumption, and maintained spot prices at a high level. Of course, price increases and hoarding feed upon each other—as speculative buying drives up the price and price increases stimulate further hoarding. But this upward price spiral can reverse itself at anytime into a downward spiral.

As soon as prices stop increasing, the holders of stockpiles see no further gain in holding on to them—at a carrying cost of about five dollars per barrel per year. They may be tempted to dump them on the market while spot prices are still high. Barring the possibility of other supply uncertainties in major exporting countries around the world, this liquidation of excess oil invento-

ries would start as soon as hoarders perceive a stabilization of the price.

—A second, more important reason for the price rise was a fundamental change in the mode of operation of OPEC. From 1974 to 1978, production decisions which determine the price were made mainly by Saudi Arabia, joined by their junior partners on the Arabian peninsula. OPEC might just as well not have existed. During 1979, for the first time, we saw conscious cutback decisions by other OPEC countries which had normally been "price takers," i.e., selling all-out in order to maximize their immediate return. Their changed behavior probably stemmed from the realization that prices were increasing more rapidly than the interest rate. It therefore paid them to hold oil in the ground, rather than to convert it into cash. But as these countries reduced their production rate, prices increased further—creating a self-fulfilling prophecy. It even suggested to them a backward-bending supply curve, with their revenues actually increasing in 1979 as they reduced their production.

I believe that this changed mode of operation of OPEC is only temporary, and that it will revert to the old scheme whereby Saudi Arabia and its followers set the price by adjusting their production unilaterally. This will come about when producing countries suddenly realize that the price is not increasing any further, and may in fact be decreasing in real terms. (It must be recognized that the price cannot rise indefinitely; the demand curve for oil is not controlled by the producers, but by the consumers.)

This perception will trigger a reversal of the price spiral. As prices stabilize and then seem to collapse, producers will want to convert their oil into cash rather than let it depreciate. They will abandon slogans, such as "keep the oil in the ground for future generations." Immediate production gives larger revenues to the present rulers who are generally more interested in the here-and-now than in the welfare of the next generation.

Again, all of this assumes that there will be no production cutbacks due to revolutions, accidents or sabotage—beyond the control of the producing countries. Any of these events could delay a price break. And of course, if it so wished, Saudi Arabia could stem a sudden price break by reducing its oil output, but this would cause heavy financial losses.

There is an additional new factor operating now that may accelerate production,

and drive prices down further. That is the concern about property rights which many rulers of oil-producing countries must now have, after watching the events in Iran and the sorry fate of the shah. Uncertainty about property rights translates into a higher discount rate and a desire to raise production and "take the money and run" before the resource passes into other hands. The rulers of Kuwait may be feeling this way as they look at Iran and Iraq, and there are probably others who have similar fears. A straw in the wind may be the recently reported decision by Saudi Arabia to raise its sustained production capacity to 12 million barrels a day.

We can only guess at their reasons for this decision. But there is little doubt that this production "overhang" gives the Saudis the capability over time to make up cutbacks by other countries and thereby keep the world oil price from repeating its 1979 performance.

Mr. Singer served as Deputy Assistant Secretary of Interior before joining the University of Virginia in 1971. He has studied oil security problems as a Consultant to the Treasury Department.

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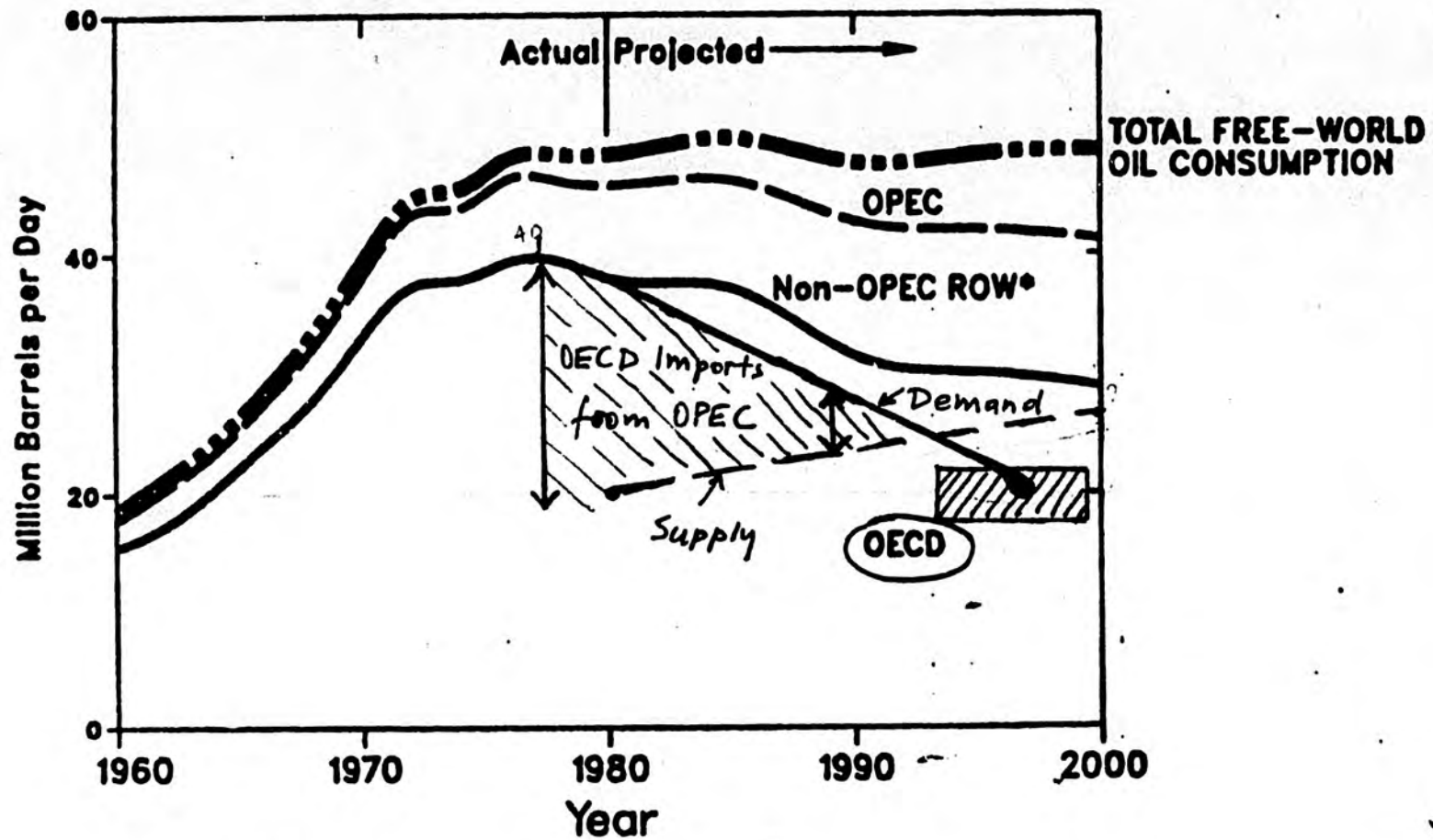
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Attachment #2

Figure 2-3
MIDRANGE FREE-WORLD OIL CONSUMPTION
(Million Barrels per Day)



2-11

LCB/PE-0029
Energy Proj. to 2000
July 1981

3/30/82

442

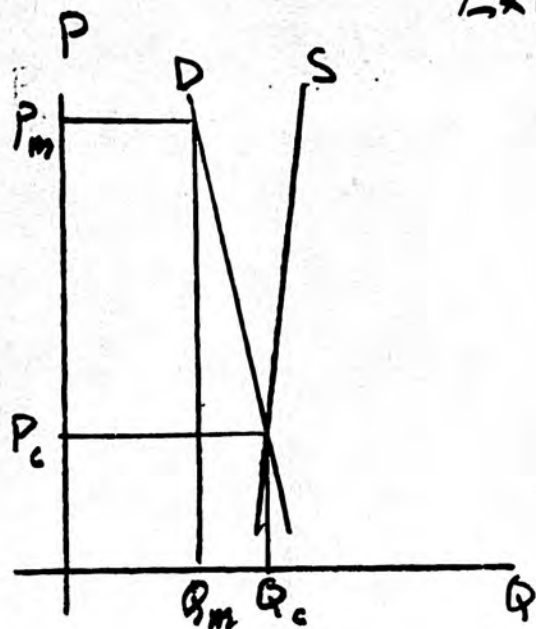


Exhibit I

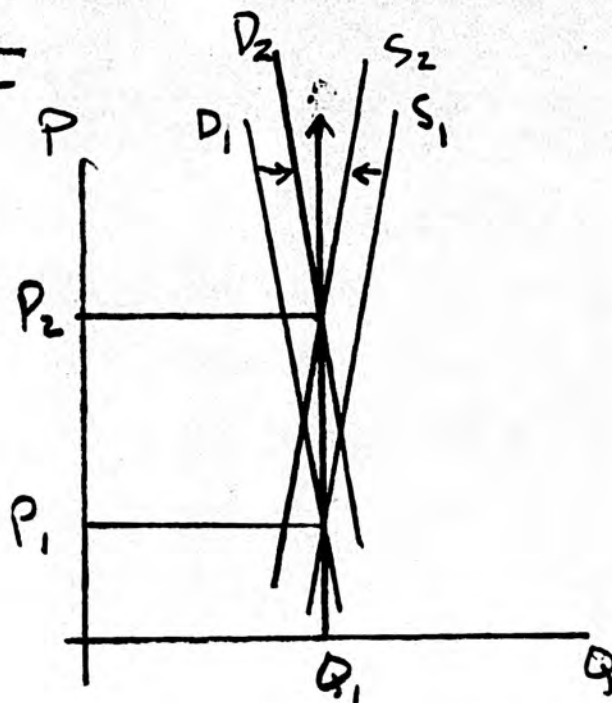


Exhibit II

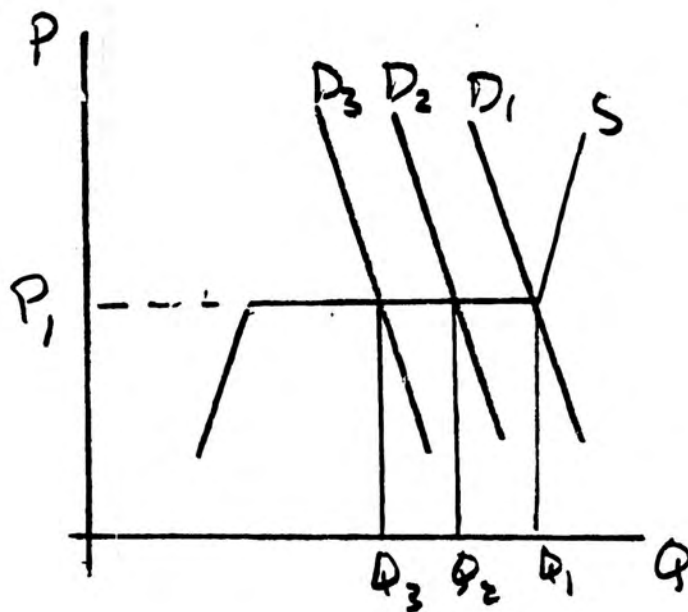
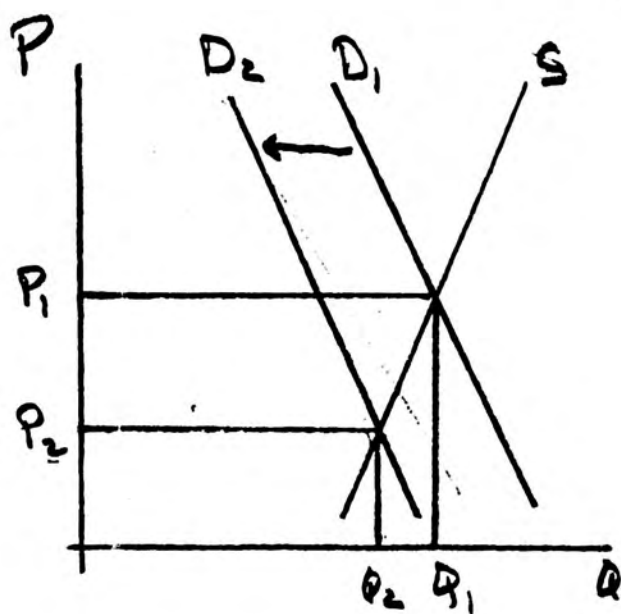
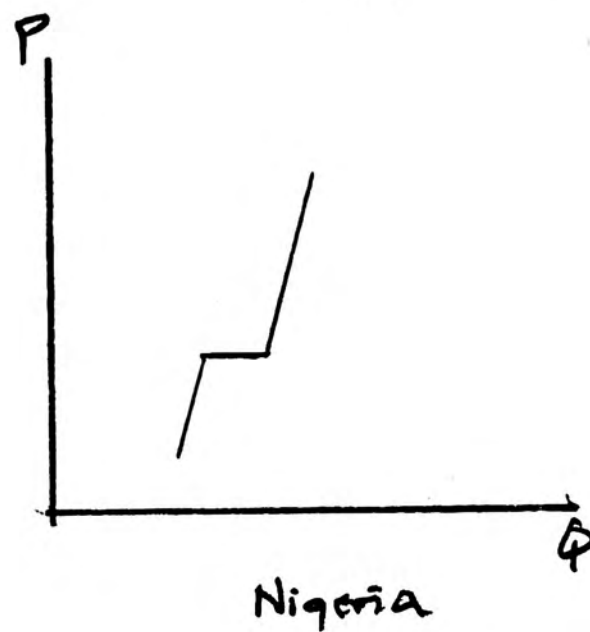
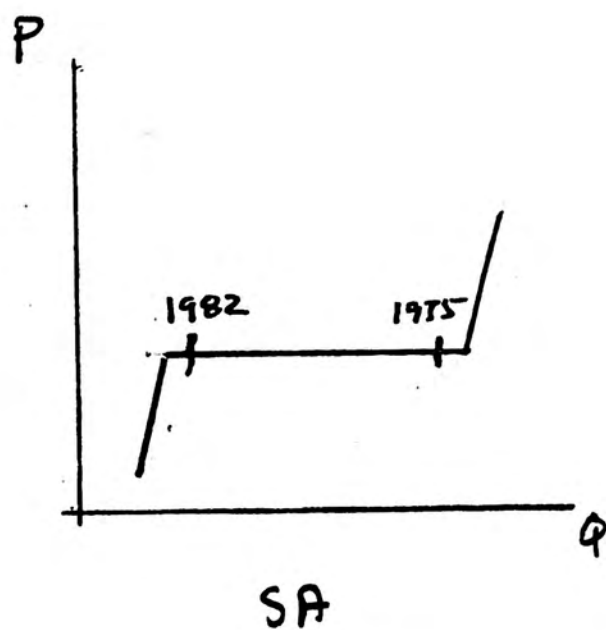
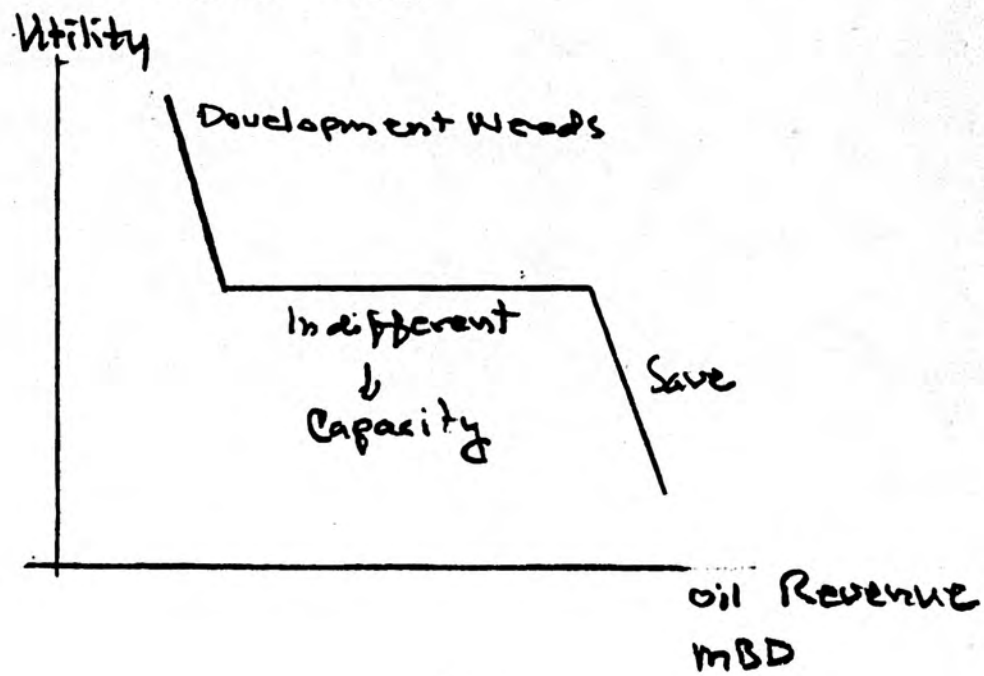


Exhibit III



eral Subject: (attached agenda)

Added to minutes book for informational purposes only. Description Not Part of "official minutes"

258 Call to order 8:35

Members present: Adams, Carney, Meekins
Bettisworth, Montgomery, Haugen
Cotten, Cuddy, Fuller

268 FRED SINGER - current state of oil situation
uncertainty - OPEC

(1) describe present situation

(2) what OPEC is doing

(3) what U.S. should do

330 Present situation: Because of '79 Price Rise

Example of how ^{world oil} prices are based on

economics & psychology. '77 - Carter's address, 2 years later speaking of supply of oil.

426 '78 - Fall of Shaw - no substantial change
in world supply or consumption

464 Danger in letting price go up? were not aware
(attached newspaper article)

180 - reasons price didn't come down

Experts saying price would go up 5%-10%
a year.

498 181 - no further increases developed.

People began "de-stocking".

OPEC made up of dispirited countries
acted on short-term basis

eral Subject: HFC

#	Description
538	Optimum Price explained Present price too high for Saudi Arabia Price up - people consider making adjustments
569	3 kinds of conservation can "back-out" $\frac{2}{3}$'s of world's oil
618	switch from oil / invest. in alternatives. i.e. Japanese situation oil would have to go to \$4 to convert a nuclear energy plant.
646	Cotton - for US to? yes
657	Meekins. Hydro? -
659	Singer - cont. testimony -
671	(2) what OPEC should do about this. Can ~~either~~ drop production OPEC has never been a Cartel; now (last month) they are attempting to act as one.
Tape change	
82-30 Side 1	
001	- Singer - OPEC. Don't know what world demand is. Consumption hidden by other things: recession, destocking. Hard to determine long term consumption. Oil is being backed out of many capital projects.

General Subject: HFC

#	Description
87	OPEC may have misjudged. may have to take another cut in production.
126	"Pays to cheat".
147	OPEC working as a cartel
	subsidizing to maintain OPEC as cartel
202	Iraq/Iran coming back into production need for OPEC may be small in OECD countries -
222	Cotten - price coming down do Saudis believe that? Politically impossible for them to do. Cotten - long term market: Keeping price up? response
	Cotten - internal/external pressures? response
	Cotten - external? Iran military force
265	Adams - normal price? Singer - theory Optimum in '79 would have been no increase
301	Cotten - stockpiling / excess holdings? Have to consider more for produce less? How important is stockpile situation? It is important right now.
337	Cotten - determining capacity? very difficult experts disagree
362	Meekins - stockpiling / de-stocking - response

eral Subject:

#	Description
405	Meekins - mean - 3 million barrels in demand?
	Singer Production has to equal demand.
	Difference between demand / consumption.
420	Bettisworth - Any given day certain amount of
	oil not sold.
430	Singer - Time Scale. inventories, us. govt
	inventory built at rate approx 300,000
	barrels a day. ^{Bettisworth - storage} 750 mill. barrels/storage
430	Singer - what we should be doing about
	the situation. what will happen if there
	is a supply interruption.
	Sensible thing to do - let price rise
	domestically.
442	Favor a system where a sudden price rise
	would trigger a Pet. reserve.
139	Carney - inventory?
519	Singer - should be doing. Any weakening in
	price is not permanent. Incentive for
	OPEC members to go after Saudi Arabia.
	Need means of insulating US from
	price fluctuations out of our control.
	Standard way is tariffs on imported oil.
	major purposes. nat'l security + A -
	would cut \$ in ports
	isolate domestic economy from price
	fluctuations.

eral Subject:

I.	Description
560	Conversions from oil to coal. Don't want to wipe out solar energy industry ^{want to} provide incentives to people who find oil.
580	Tariff - transfer rents from OPEC to U.S. Treasury. Methods of doing it: straight tariff; import license fees; excise taxes on gas/motor fuels (user fees).
617	let oil/gas be exported - measures should tie together with a tariff.
626	Cotten - exporting AK. oil? Singer have not heard it discussed. See not point in restricting export.
642	Singer - need to decontrol natural gas. have at same time a tariff scheme in reserve. Domestic oil would maintain price under this scheme. Dealing with probabilities

eral Subject:

#	Description
626	Montgomery - indication of Japan's plans? anticipate they will not step up.
694	Meekins
	Tape change - 82-30 Side 2.
691	Meekins - predictions of revenues
	Singer - whether or not US will institute tariffs system. This will maintain level of prices.
	If not - watch next OPEC meeting in May.
188	Cotten - your Potlial views, you seem to favor a decrease; end conclusion = OPEC will probably succeed? Singer.
	"free market" Point of view.
	I Speculated OPEC might be able to hold price for a month or two.
271	Carney - Price war? Singer: Price breaks can't last long - 2-3 months.
311	Carney - Getting tariff mechanism in place? Depends on constituency. Lower Prices good for consumer if they can stick. (Fuller arrived)

General Subject:

- | #. | Description |
|-----|--|
| 374 | Adams - foresee any changes world oil prices? S: Brink of stability; OPEC cartel. |
| 375 | Meekins - Assuming no tariff, not assuming the worst case, what looking at? Singer: must be conservative \$20 / \$25. |
| 390 | Bettisworth - feeling % world oil sold on long term / spot market
Singer: spot market 2-3% contracts on varied length conditions. |
| 414 | Bettis - AK. if nat. Gas is decontrolled; coal coming in to compete?
Singer: Comments on coal. |
| 514 | Fuller coal/water mixture in Arctic temps! |
| 530 | Robert SMITH
Recess 10:25 am |

General Subject: HFC 82-30, side 2 # 536

#	10:32 AM	Description
536		ROBERT SMITH - SPEAKERS ADDRESSED PRICE OF OIL / OPEC STABILIZE BENCH MARK PRICE: CONCLUSIONS (4) 1. OPEC is CARTEL, is effective is unusual (2) OPEC has Achilles heel - not development outside OPEC or altern. fuels.. Effecting (3) Over last 2 yrs OPEC has performed admirably (4) there is no answer. When will budget of gov't be completed, etc.

OPEC will fight hard to keep current level OPEC has more than \$1 AT stake. longer run marketing ?

- (1) IS OPEC A cartel?
- (2) What have they achieved?
- (3) how does OPEC

595 There are those who hold OPEC is not a cartel. Discussion of reasons. Effectiveness as a cartel. Smith views AS A cartel & An effective one. Not a traditional cartel.

626 What have they done. Discussion of formation

General Subject: _____

#	Description
	And rely, changes. Suggest it has been an effective cartel.
650	Types of cartels / Source of market power Production cartels AND price-setting cartel. Functions of a cartel. OPEC A price setting cartel. REFERRED TO exhibit I. (LEFT side) demand & supply curves. Intersection - supply = demand. This is what a traditional monopolist would do. Does not believe this is what OPEC did. Exhibit 1, (right side-top) supply curtailment buyer panic.
001	Tape change - 82-31 side 1
25	Exhibit II -
76	✓ Suggested that OPEC has type as shown on Exhibit III, ~~right~~ ^{top} side.
148	Saudi stabilization policy - Coordination / similar to OPEC is concentrated; OPEC does have difference in interests but they do have a common interest as well (list of common interests they share a common high priority to solidarity).

eral Subject: _____

#	Description
260	OPEC market Power Summary
298	OPEC AS a price setter - Summary
332	1981 - REASONS IT WON'T BE AS EASY FOR OPEC: (1) demand world wide has decreased (2) ~~drawing down~~ increase in non-OPEC oil (3) significant glut in market. (4) are closer to drop-off of supply curve.
376	Production Cutback / PRICE cutbacks (1) cut back prod. to 18mb - S.A cutback another 500,000 = 17.5 total (2) want to hold at \$34 - freeze on until 12/82
400	ISSUES Remaining (1) Can OPEC cut quantity by enough? (2) Do they have commitment to stay the course? They have drawn down output from 30m to 17.5m so may see need to pursue psychological reasons (pride, etc.) (3) steps to protect members which are vulnerable.

eral Subject: _____

#

Description

467 Long-term marketing power is reducing.

478 MEEKINS - There appears to be a lot of psychological effects involved. If expectations are so high, what can they do as a cartel.

498 Smith - people are waiting to see what will happen during May mtg - outcome may change some of the expectations.

(1) DPEC's psychological reasons may provide impetus for success; plus

(2) this is not the only cartel in problem (DEBEERS?) as a result of recession

(3) I would be very conservative in projections.

ADJOURN: 11:20 a.m. #541 82-31, side 1

Exhibit I

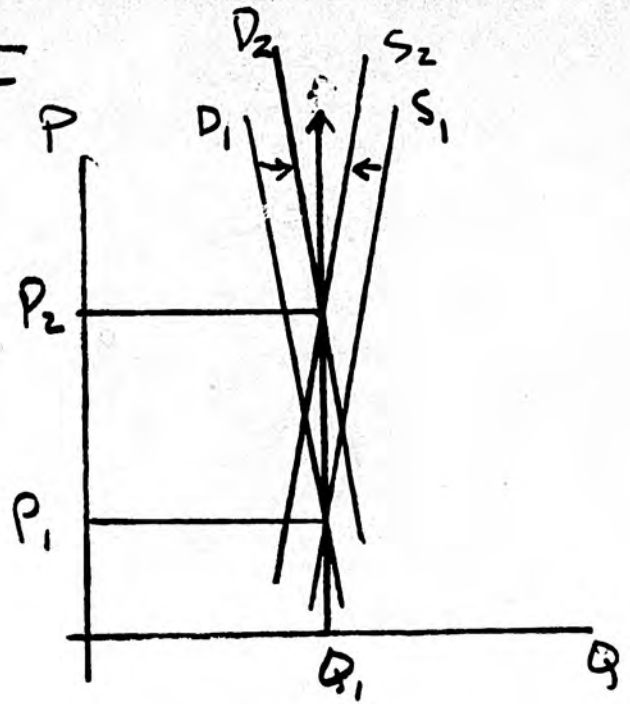
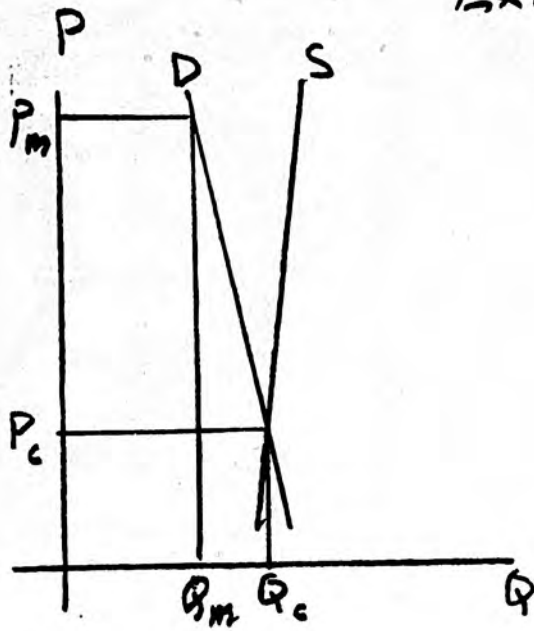


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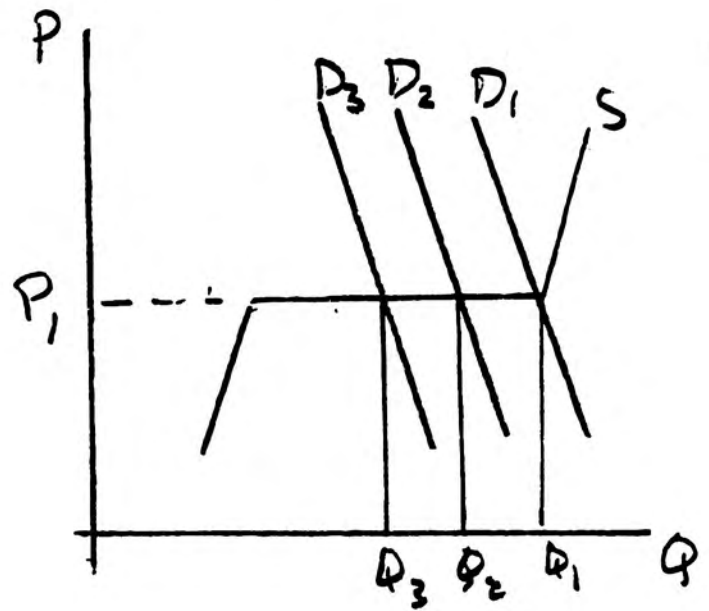
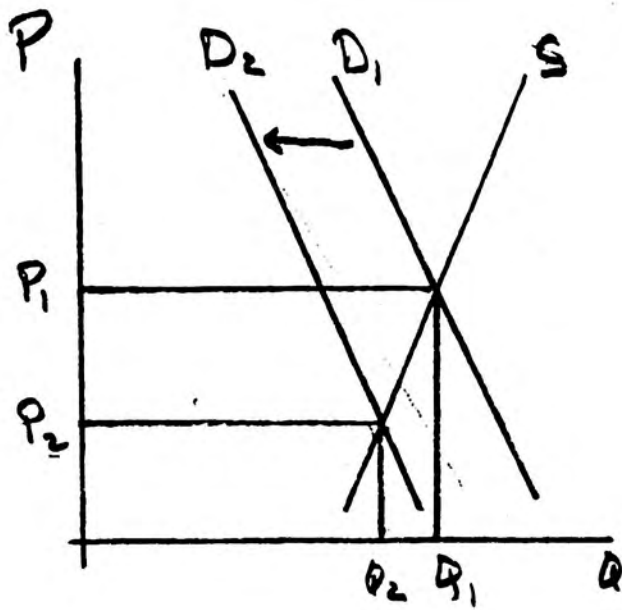
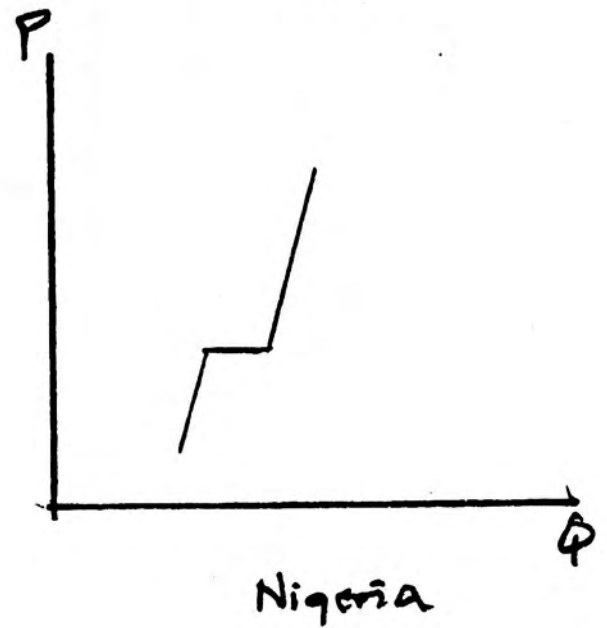
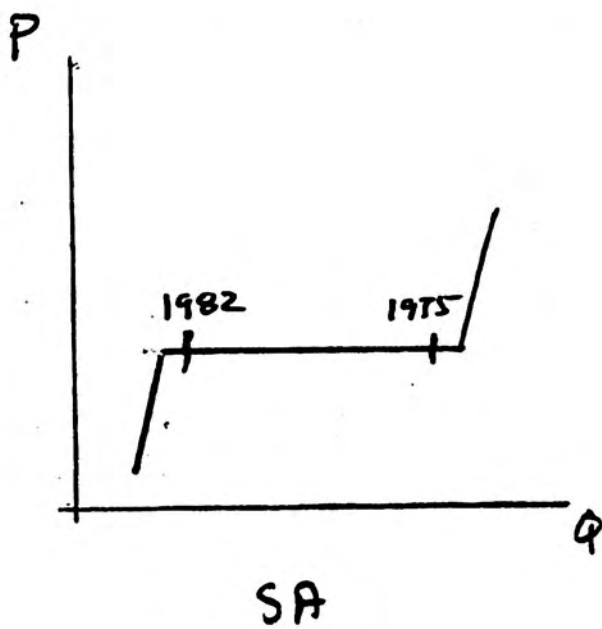
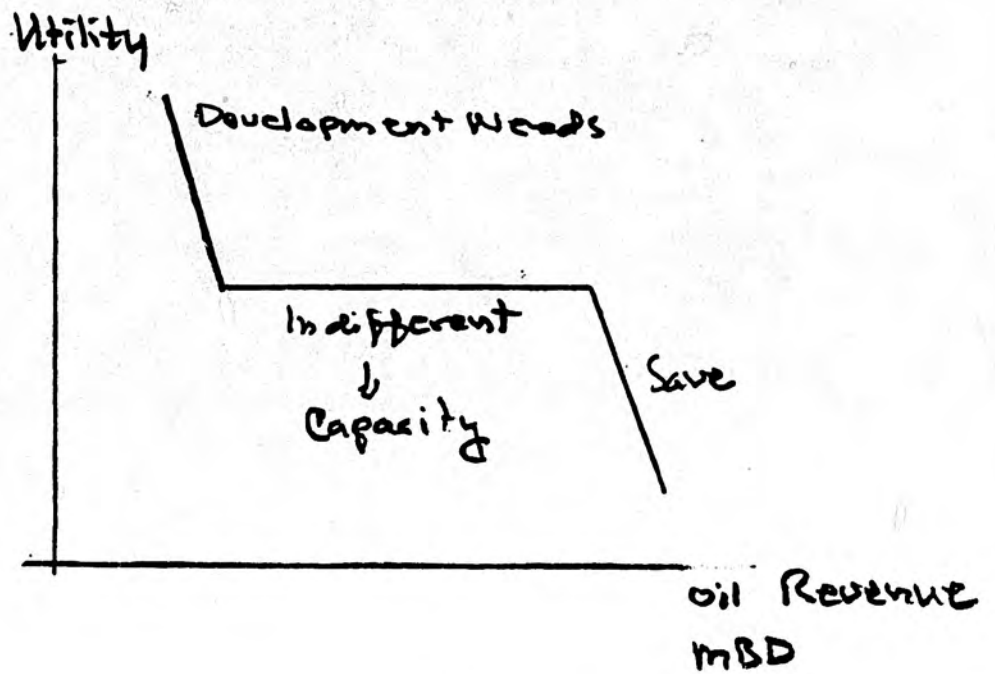


Exhibit III



HOUSE FINANCE COMMITTEE

March 30, 1982

1:32 p.m.

(Tape HFC 82-32, side 1 #001.)

PRESENT

Committee members present: Representatives Adams, Montgomery, Cotten, Haugen, Carney, Chuckwuk, Hurlbert, Cuddy, Fuller and Bettisworth. (Representative Meekins arrived later in the meeting.) PRESENT TO TESTIFY: Representatives Beirne, Phillips, Byslma, Abood and Moss; Kerry Romesburg, Executive Director, Alaska Postsecondary Commission; Ken Kirk, Alaska Statewide Student Association; and Joan Hurst, Executive Director, Campfire Girls.

BILL ASSIGNMENTS

Chairman Adams called the meeting to order and made the following bill assignments:

HB 878 -- providing for issuance of general obligation bonds in the amount of \$43,000,000 for University of Alaska dormitory facilities -- Adams

HB 862 -- repeal of AS 39.35.545 retroactive to July 1, 1968 -- Chuckwuk

HB 594 -- relating to state capital projects -- Meekins

HB 635 -- relating to operation of implements of husbandry upon the highway -- Bettisworth

HB 801 -- special appropriation for payment as a grant to the City of Kodiak for a day care center -- Cuddy

SB 830 -- extending time during which assistance for municipalities and unincorporated communities is paid under ch. 60, SLA 1981 -- Cuddy

SB 836 -- extending appropriations made for entitlements to municipalities and unincorporated communities and for extending appropriations for administering the entitlements -- Cuddy

HB 709

The first bill to be considered was HB 709.

SSHB 709 -- "An Act relating to scholarship loans; and providing for an effective date."

Chairman Adams gave a brief over-view of the bill. He advised that HESS has submitted a CS for HB 709. He invited the Chairman of the Health, Education and Social Services Committee to testify.

REPRESENTATIVE BEIRNE explained he didn't have the support for the original bill in the HESS Committee, so that bill was dropped and the CS was drafted. He said the CS is a more moderate bill. He commented that although this is really a student loan program, not a scholarship loan program, they didn't make that change in HESS. He explained the differences between the original bill and the CS. (Note: A comparison of the two versions is in the original bill file.)

Representative Beirne said during HESS meetings he tried to reduce the loan limit from \$6,000 to \$4,000 because he felt the program was needed to help students but not pay all their expenses. He said he was operating under the concept that the amount of money would be reduced substantially over what had been available in previous years.

Representative Carney said he thinks this is a good piece of legislation. However, he said the language in section 6 bothers him. Representative Beirne said that section is existing law. He explained the HESS Committee only deleted a small portion from that section -- "[FOR LOAN APPLICATIONS COMPLETED BEFORE MAY 15 OF EACH YEAR].

Representative Cuddy said that in comparing the original and CS, he is more impressed with the original bill.

Representative Montgomery advised that Representative Beirne did submit intent language that might be appropriate to include with this bill:

"It is the intent of the Legislature that there will be no supplemental funding appropriated to the Student Scholarship Loan Program for FY 83. It is also the Legislature's intent that the Postsecondary Education Commission make every effort to fund as many loan applications as possible. Given this task, we would instruct the Commission to lower the loan maximums if necessary to ensure that the greatest number of Alaskan students can participate in the program."

Chairman Adams asked why he didn't add the intent in the HESS Committee. Representative Beirne said the HESS Committee didn't agree with it.

Representative Cotten commented the intent language would have no meaning. He said if Representative Beirne is trying to accomplish something with the language, he doesn't think this will do it.

There was brief discussion on the amount available for student loans being based on need.

(Representative Meekins arrived at this time.)

Representative Carney MOVED AND ASKED UNANIMOUS CONSENT that the HESS CS for SSHB 709 be accepted. Representatives Cuddy and Chuckwuk OBJECTED.

Representative Chuckwuk asked why section 3 of the SS was taken out of the HESS CS. Representative Beirne said because he couldn't get a majority of the Committee to vote for it. He personally thinks it should be left in.

(Representative Cotten left at this time.)

Representative Cuddy said he would prefer adopting the original bill instead of the CS.

The question was called for:

IN FAVOR: (6) -- Adams, Fuller, Hurlbert, Meekins, Montgomery and Carney.

OPPOSED: (4) -- Cuddy, Chuckwuk, Haugen, Bettisworth.

The motion CARRIED.

REPRESENTATIVE PHILLIPS presented a proposed amendment to the bill (see attachment #1.)

(Representative Cotten returned at this time.)

Representative Phillips said he would like the Committee to consider this amendment so there would not be any confusion concerning the residency requirements for the loan program. He asked that Dr. Romesburg explain the amendment.

DR. KERRY ROMESBURG, Executive Director, Alaska Postsecondary Education Commission, said they had some real problems with the law as it was changed two years ago. He said they tried to address those concerns by regulation and the Attorney General said their regulations exceeded the law. He said this amendment tries to correct that. There was brief discussion on the amendment.

Representative Carney MOVED AND ASKED UNANIMOUS CONSENT that the amendment be Adopted. Representative Cotten OBJECTED for the

purpose of asking a question. He asked for a response from the student lobbyist on the amendment.

(Tape change, HFC 82-32, side 2.)

Representative Cotten said that apparently the student lobbyist has no objection to the amendment. He removed his objection. THERE BEING NO FURTHER OBJECTION, the amendment was adopted.

Dr. Romesburg advised the effective date of the bill is July 1, 1982. He said if they are going to change the application process to include those items listed in section 5, he would request that section not take effect until July 1, 1983.

Representative Carney MOVED that the effective date for Section 5 be July 1, 1983.

There was brief discusison on the residency requirement.

There BEING NO OBJECTION to the motion, it was adopted.

Chairman Adams said one of the things they are trying to do is reduce duplication. He said they were considering eliminating the WICHE program and having those student come under the student loan program. Dr. Romesburg commented WICHE is not a loan program. He said it is paid directly to the schools and the student doesn't pay that amount back. He briefly explained how the WICHE program works.

Representative Cotten asked what they anticipate the demand for loans will be in FY 82. Dr. Romesburg said \$61 million, assuming the requested changes are made. Representative Cotten asked what they would do if only \$31 million was appropriated. Dr. Romesburg said as a point of clarification, the \$61 million is not all general funds. He said they have estimated they will need \$54 million general funds. He said if they were to receive only \$31 million he would not recommend using the point system in the statute because the Attorney General has indicated he thinks it is unconstitutional. He briefly explained. Dr. Romesburg said they wouldn't plan on receiving a supplemental appropriation. He said he would instead try to pro rate the amount and ask students if they can get by on that level. He said the problem is they don't have a needs test to establish which students really need the funds. He said he would hope the appropriation doesn't come in at \$30 million.

In answer to a question from Representative Cotten, Dr. Romesburg said they have interpreted the point system to mean if they are ever short of funds they could use it. He said when they began looking at the point system they received that Attorney General's statement about it being unconstitutional. He said instead, their attorney's have told them the law says they can loan "up to \$6,000".

Chairman Adams said he would like to see that opinion in writing.

In answer to a question from Representative Hurlbert, Dr. Romesburg said they have about 900 graduate student borrowers right now. The average loan for a graduate student is \$4800. He said this is the "mean", the most commonly loaned amount is \$6000.

There was further discussion on the loan program.

Representative Cotten said he has turned around on the intent language suggested by Representative Beirne, and he thinks it is a good idea for the Legislature to make some statement. He asked if the intent language would make any difference to the Commission. Dr. Romesburg said he thought it would. He said so far they have always gone along with legislative intent statements, and he assumes they would again.

Chairman Adams questioned the fiscal note. Dr. Romesburg said the fiscal note was incorrectly prepared and he would submit a corrected a fiscal note.

MR. KEN KIRK, Alaska Statewide Student Association, advised that they support the CS. Mr. Kirk said it is a myth that there is an extreme amount of abuse in this program. He said certainly there is some abuse, but he doesn't think there is that much more than in any state loan program. He said the way to cut abuse is to enforce the current statutes and regulations. He said he knows of no student who can get through four years of school simply with the money for tuition, books, room and board.

On the issue of transportation, Representative Cotten said he has had some people contact him, saying they need the funds to commute back and forth to school. He asked if the Commission intended to prohibit loan funds being used for transportation. Mr. Kirk said it looks as though they will have to go back and cut that out. He said hopefully in the future they will be able to come up with some way to get that in the statute. At the present time, it looks like it will go. Representative Cotten said he thinks commuting is being confused with outhter types of transportation -- like traveling from school in the Lower '48 back home to Alaska.

Chairman Adams asked what his feeling was about the point system on page 3 of the bill. Mr. Kirk said he thinks it would be very unfortunate if that had to be used. There was brief discussion.

(Representative Cuddy left at this time.)

Representative Meekins MOVED that Section 6 of the CS be deleted. He said that as a practical matter if the Attorney General says there is a constitutional question, even if the Legislature directed them to use it, they legally cannot. He said he didn't

think the point system made sense. Representative Carney said his thought is that it doesn't hurt to leave it in as a guideline. Representative Cotten said he supported the motion. He said prorating would be more equitable. However, he pointed out that since this is existing law, the motion would have to be more than just deleting the section from the bill.

Representative Meekins AMENDED HIS MOTION to state that the point system in AS 14.40.767 be deleted.

There was discussion.

The question was called for:

IN FAVOR: (2) Meekins, Cotten;

OPPOSED: (8) Bettisworth, Chuckwuk, Fuller, Haugen, Hurlbert, Montgomery, Adams, Carney.

The motion FAILED.

(Representative Meekins left.)

Regarding commuter transportation, Representative Cotten said he would like to propose an amendment. He said the problem is, if students living in the Mat-Su area are not allowed a transportation cost, they will have to move to Anchorage to go to school. There was brief discussion.

Representative Hurlbert MOVED to add to the CS an amendment which places a ceiling of \$5,000 on both the undergraduate and graduate loan amounts. Representative Fuller OBJECTED.

Representative Carney asked what the effect would be if this motion were adopted. Mr. Kirk said it would be largely felt by those students going to school out of state. Representative Carney said he OBJECTED to the motion. He requested that the question be divided and they vote on the amount for graduate and under graduate separately. Chairman Adams agreed.

The question was called for on REDUCING UNDERGRADUATE LOANS TO \$5,000:

IN FAVOR: (7) Bettisworth, Chuckwuk, Haugen, Hurlbert, Montgomery, Carney, Cuddy. OPPOSED: (3) Cotten, Fuller, Adams.

The Motion CARRIED.

The question was called for on REDUCING GRADUATE LOANS TO \$5,000:

IN FAVOR: (4) Bettisworth, Haugen, Hurlbert, Cuddy.

OPPOSED: (6) Cotten, Chuckwuk, Adams, Fuller, Montgomery, Carney.

The motion FAILED.

Representative Cotten MOVED to amend AS 14.40.765 (a) to include "commuter transportation within Alaska" and asked for UNANIMOUS CONSENT. Representatives Montgomery and Fuller OBJECTED.

The question was called for:

IN FAVOR: (5) Cotten, Carney, Adams, Hurlbert, Cuddy.

OPPOSED: (5) Chuckwuk, Bettisworth, Fuller, Haugen, Montgomery.

The motion FAILED.

Representative Montgomery MOVED AND ASKED UNANIMOUS CONSENT that a Finance CS for SSHB 709 be prepared incorporating the amendments made at today's meeting and CS SSHB 709 (HESS), and that the bill be reported out with the letter of intent and the new fiscal note being prepared by Dr. Somesburg. There being NO OBJECTION, it was so ordered.

HB 749

HB 749 -- "An Act making a special appropriation to the Department of Transportation and Public Facilities for the Girdwood-Alyeska pathway; and providing for an effective date."

REPRESENTATIVE BYLSMA, in response to a question from the Committee, stated that the annual maintenance cost should read \$15,500 which constitutes 30 hours monthly at \$25 a hour. The Girdwood Board of Supervisors has indicated that through community funds they will maintain the pathway.

Representative Bylsma indicated that he had introduced HB 749 in an attempt to get funds as rapidly as possible to build a pathway along the state highway in Girdwood. The community is quite a residential community and has a state highway that goes to the lodge which has heavy snowfall. He stated that there is lots of pedestrian traffic and the road is the only access for pedestrian traffic at this time. As a result there have been a number of accidents which have taken in the last few years four peoples lives and injured two others severely. Approximately three or four years ago there was some money funded for design and it was never followed through.

The cost of 1.765 million is a maximum cost. Representative Bylsma indicated that he had met with the Municipality of Anchorage, Department of Transportation and the Girdwood Board of

Supervisors about three weeks ago. They were going to do some revision on the design which is now complete and paid for by the Municipality.

Representative Cotten stated that he was aware of the problems faced by the community of Girdwood and in support of the bill.

Representative Carney stated that he would like to support the bill but asked why the committee was dealing with this bill differently than the other capital project requests? Chairman Adams indicated that it had come out of one of the subcommittees and instructed Representative Carney that he could introduce his requests and the Committee would consider them.

Representative Bettisworth stated that this bill was reported out of his subcommittee and he recognizes that it is a worthy project and one that he supports. He asked Chairman Adams if he would like to hold these capital project bills until such time as he determined what funds may or may not be available. He asked Chairman Adams if he wished to vote on the bills individually and let them take their chances on the floor? Chairman Adams indicated that he would like for all capital appropriatin bills to come before the Committee for hearing and let them be heard on the full floor based on their merits.

Representative Fuller MOVED to report HB 749 out of committee. There being NO OBJECTION it was so ordered. HB 749 was reported out of committee with a "do pass" recommendation.

HB 680

HB 680 - "An Act requiring issuance of distinguishing drivers' licenses to persons convicted of driving while intoxicated."

REPRESENTATIVE ABOOD, sponsor of the bill, stated that someone is killed in a drunken driving accident in the U.S. every twenty-three minutes. More than 26,000 people lose their lives annually with two million suffering disabling injuries. In 1980 there were 24 traffic fatalities in Anchorage alone of which 80% were related to alcohol abuse. According to National Safety Council figures 6.5 million families have seen at least one member of the family disabled in ten years.

Drunk driving related crimes are the most frequently committed crimes. Representative Abood indicated that some of the statistics were not available. With regard to the recidivism rate over a five year period; in the state of Alaska drunk drivers were charged with a total of 2,600 other offenses including 1,500 other traffic violations. 49% of these other offenses were attributed to drunk drivers who had been picked up on drunken driving charges on at least one other occasion. In 1980 the total number of persons booked for OMVI (operating a

motor vehicle while intoxicated) totaled 3,000 of which 1,400 or 48% were repeats. In a five year period over 16,000 individuals were booked. There were over 7,000 repeaters or 42%.

Representative Abood stated that you can detain a drunk driver and issue a penalty but the statistics show that they continue to repeat their behavior. He stated that when all other measures have been unsuccessful perhaps the drunken driver needs to be "shamed" into curtailing his actions. The bill would provide for the issuance of a special license which would bear a distinguishing design to alert individuals that the holder had been convicted of drunk driving. He indicated that he had left it up to the Department of Public Safety to design the license which must be carried by the drunk driver for a period of six months. If he has not further violations after that time, he then may apply to get his own license back, which he continues to pay for.

Representative Abood stated that he does not agree that there is a need for additional personnel since there is personnel currently trained to issue drivers licenses. He reminded the Committee that a drivers license is not a right but a privilege so this bill would not be unconstitutional.

Representative Cotten MOVED to add a new section which would require the issuance of a red license plate for individuals convicted of drunk driving in an attempt to forewarn other motorists. Representative Abood stated that is unconstitutional since it would label any individual who might be driving a red licensed vehicle as a drunk driver.

Representative Carney MOVED and ASKED UNANIMOUS CONSENT to add a new Section C which would charge the recipient of these licenses a \$100 fee. Representative Abood stated that he did not agree that it is going to cost three or four thousand dollars more to issue these licenses. He indicated that he liked the amendment but did not want to jeopardize the bill because of it. Representative Carney stated that his intention is not specifically with regard to the fiscal note but feels that the color of the license is not going to be too effective. However, if you charge a fee of \$100 the cost to the recipient is going to provide more impact.

The QUESTION was called for. The MOTION CARRIED.

Representative Montgomery stated that he is not opposed to the amendment however it will change the fiscal note. He stated that without the amendment the original fiscal note could have been passed with the committee eliminating the personnel services. However, if you are going to collect a \$100 fee for approximately 4,000 individuals it will change the fiscal note. He stated that the courts assess a penalty and then the committee would be adding a penalty and he was concerned that with the amendment the

original bill may be jeopardized. Representative Carney stated that he did not see how they would be jeopardizing the original bill. He stated that it was his understanding that Revenue goes into general fund and fiscal notes are the cost of administration. A new fiscal note would be necessary to indicate additional revenue which would be collected.

(Tape Change HFC 82-33, Side 2, #001)

Chairman Adams stated that the fiscal note from the Department of Public Safety dated February 22, 1982 should read 2,000 licenses changing the cost to half that amount. Additionally the part-time positions would be deleted and commodities left in.

There was a MOTION to delete the part-time position for the 2/22/82 Public Safety expenditures fiscal note. Representative Cuddy OBJECTED. The QUESTION was called for. The MOTION CARRIED.

Representative Carney MOVED AND ASKED UNANIMOUS CONSENT to change the 2/22/82 Public Safety revenues fiscal note to accurately reflect statistical information with regard to the number of licenses to be issued and duplicate license fee. There BEING NO OBJECTION it was so ordered.

Representative Carney MOVED AND ASKED UNANIMOUS CONSENT that a new fiscal note be prepared which will reflect the revenues to be generated as a result of the \$100 fee for license issuance. There BEING NO OBJECTION it was so ordered.

Representative Montgomery MOVED to report CSHB 680 (SA) as amended by the Finance Committee and accompanying fiscal notes out of committee. There BEING NO OBJECTION it was so ordered.

HB 370

HB 370 - "An Act making a special appropriation to the Department of Community and Regional Affairs for the Alaska Native Foundation 1981 summer enrichment program; and providing for an effective date."

Representative Cuddy stated that he is supportive of Section 2 which provides \$257,000 to teach rural people to swim; however he is not supportive of the \$109,000 for the summer enrichment program.

REPRESENTATIVE MOSS, sponsor of the bill, stated that the program was first offered in 1979. The program is a six week intensive academic training program designed to serve the needs of rural Alaskan native students. The method of training has shown significant positive impact on increasing the minority enrollment in different professions. Representative Moss stated that since the introduction of the Molly Hootch schools there are a lot of

young students in secondary school programs which never get into the urban areas. The summer enrichment program would allow these students an opportunity to become part of the mainstream assisting them in their postsecondary endeavors. Representative Moss stated that it is a good program and is beginning to show good results and asked that the committee approve the program.

Representative Carney asked how many students are in higher education foundations that have participated in the program since its inception in 1979? Representative Moss referred Appendix III, a three year summer enrichment program follow-up (see attached -- attachment #2).

Representative Montgomery stated that the summer enrichment program is in excess of \$170,000 and this last year there were 16 students. He asked how they were selected? Representative Moss stated that he was unfamiliar with the manner of selection. Representative Montgomery questioned the high student to teacher ratio and cost per student.

Representative Cuddy stated that there was \$188,000 expended with 10 people employed and a total of 16 students who participated in the enrichment program.

Chairman Adams MOVED that line 7 and 13 be changed to read 1982. There being NO OBJECTION it was so ordered.

Representative Cotten MOVED to report CSHB 370 (C & RA) out of committee. There being NO OBJECTION it was so ordered.

JOAN HURST, Executive Director of Camp Fire, stated that the program has been carried on in the past few years with contracts with regional corporations and school districts. She stated that currently there are diminishing federal funds. Ms. Hurst provided statistics on drownings in Alaska with special reference to rural Alaska. She stated that 90-95% of the children in rural Alaska are either beginning swimmers or non-swimmers.

Ms. Hurst stated that throughout the state of Alaska her agency has secured funds to provide summer enrichment programs for rural students. She stated that should funding be provided by the Legislature it probably would not be implemented in a summer enrichment program until 1983 due to the time delay in receiving the funding. She stated that in the future, consideration might be given to some mechanism structure that would address itself to these children in the villages who do not have access to recreation or water safety instruction because of lack of municipal funding and programming.

Representative Bettisworth asked what is the student/pupil ratio? Ms. Hurst stated that for a village of 100 to 150 children they send in two staff and maintain a 1-10 ratio for swimming instruction, the American Red Cross standard.

Representative Carney stated that the original director of the summer enrichment program is now directing a totally federally funded program in the amount of \$200,000 which does the same thing through the University of Alaska. He stated that if the committee funds this program there is a possibility that the funding which has already been approved for this coming year and the year following will be cancelled at the federal level since Alaska would have a totally funded state program.

Representative Carney MOVED to rescind the Committee's previous action and hold the bill until Thursday, April 1. There being NO OBJECTION it was so ordered. CSHB 370 (C&RA) was held in committee.

ADJOURNMENT

The meeting adjourned at 4:15 p.m.

Tape HFC 82-32, side 1 #001 to end
 side 2 #001 to end
HFC 82-33, side 1 #001 to end
 side 2 #001 to #524

from Kerry Romesburg's office:

student loans

AS 14.40.765 (b) is amended to read:

(b) In addition to the requirements of (a) of this section, to obtain a scholarship loan a person must have been a resident of the state for at least two years at the time he applies for the loan. For the purposes of this subsection, a person qualifies as a resident of the state if at the time he applies for the loan the person

(1) has been physically present in the state for at least two years [UNLESS HIS ABSENCE FROM THE STATE DURING ANY PART OF THE TWO YEARS WAS DUE TO MILITARY SERVICE]; or

(2) is a person who is dependent on a parent or guardian for his care, and the parent or guardian has been physically present in the state for at least two years [.] immediately preceding the loan application date; or

(3) is a person who has been physically present in the state for at least two years immediately before entering, and whose absence is due solely to:

(A) military service

(B) full-time student status, or

(C) full-time employment by the State of Alaska or its congressional delegation.



THE ALASKA NATIVE FOUNDATION

411 WEST 4th AVENUE, SUITE 314 • ANCHORAGE, ALASKA 99501 • PHONE (907) 274-2541

SUMMER ENRICHMENT PROGRAM

The Alaska Native Foundation Health Career Recruitment Program first offered the Summer Enrichment Program (SEP) in 1979. At that time, the Indian Health Service completely funded the program with a grant of \$154,000 for FY 1979. In 1980 the I.H.S. funding was reduced to \$92,000, and only an appropriation from the 1980 Alaska Legislature of \$29,000 enabled the SEP to be offered. Even so, the duration of the program was reduced to five weeks because of a shortage of funds. In 1981, the I.H.S. award was only \$56,000 and covered only the operational costs of the Health Career Program. Because no state support was received in 1981, it appeared the program may be lost. However, at the last minute, two private sources, the Josiah Macy Foundation and the ARCO Foundation, contributed the necessary \$94,000 for our third Summer Enrichment Program.

The Health Career Recruitment Program will be funded by the Josiah Macy Foundation in 1982. However, all I.H.S. funding is cut this year, and without state support, the fourth SEP will not take place this summer. House Bill 370 would provide funding for the 1982 S.E.P. and other necessary program expenses. Attached is a detailed description of this needed program and data from three years of excellent success.

1982 SUMMER ENRICHMENT PROGRAM

Proposed Budget

Staff

Director-full time, two months	5,200
Secretary-half time, six months	4,400
	<u>9,600</u>
Fringe Benefits (29% of salaries)	2,784
	<u>\$12,784</u>

\$12,784

Contractual

Three teachers @ 3,500	10,500
Three live-in tutor/counselors @ 3,000	9,000
One Coordinator @ 3,000	3,000
One Computer Programmer + Computer Lease	2,000
Program Booklet	1,800
	<u>\$26,300</u>

\$26,300

Summer Program

Student Room, Board and Classrooms	25,640
Student Travel-village to Anchorage + return	4,400
Student Supplies	1,900
Student Stipends	2,400
Faculty Supplies	1,500
University and Lab Fees	1,000
Local Transportation- inc. vans, gas + ins.	4,900
Phone, Duplication and office supplies	476
	<u>\$42,216</u>

\$42,216

Total Direct Program Costs

\$80,900

Indirect Costs (35% of direct costs)

\$28,315

Total Funding Request

\$109,215

* other operational program costs are to be covered
out of a grant from the Josiah Macy Foundation



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THE SUMMER ENRICHMENT PROGRAM

The Summer Enrichment Program has piloted intensive Summer academic programs in Alaska. The project was first offered in 1979 and has continued to the present. The Summer Enrichment Program was developed because of the need of rural Alaska Native students to be better prepared for postsecondary education. Statistics abound on the failure of the bush high school to provide an adequate education. Although state educators are aware of this problem, traditional approaches to its remediation have not met success. To this point, only the Summer Enrichment Program, and its recent 1981 spin off, the Della Keats Summer Program, have addressed the problem in such a way as to contribute to its amelioration. The success of the Summer Enrichment Program has been outstanding and a review of the following description will explain why.

Program Description

The Summer Enrichment Program (SEP) is a six week academic enhancement program aimed at the rural Alaska Native student. Its emphasis is to facilitate the transition from the small rural high school to post-secondary institutions. This change from a bush school to college is frequently devastating. In three years the SEP has served 55 Alaskan Native students with excellent results. The pre and post test data measuring incoming and outgoing skill repertoires, have shown excellent results. In addition, 45 of the 55 participants (82%) have completed the entire six weeks and have received college credits for their work. The basic structure of the program has evolved from modeling other successful summer programs, and by creating some innovative components of our own. The result has been a tremendous success.

It is important here to look at the unique program components in more detail. It is the combination of all of these components that make the SEP program so special. There are eight components of the program that set it apart from other intensive academic programs. These are explained in more detail below.

1. One of the most outstanding modules of the SEP curriculum is the use of minicomputers as instructional aids. The computers are used in a supplemental way to help drill students in academic areas they are studying. It is crucial to understand that these computers are used in the third phase of the learning cycle only. That is, after reading, lecture, laboratory sessions, and traditional homework, the computers drill the students to reinforce the "cementing" of the learning. We have found the machines are most useful in this way, as a supplement to our already excellent curriculum.

2. A second important program component is the use of live-in tutor/counselors for tutoring purposes. Each tutor/counselor works directly with a faculty member in one of the three academic disciplines we target: math, science, and study skills. In this way each tutor can work in study sessions with students in a specific area. In addition, they attend all classes in their discipline and serve as academic role models. This technique is a highly effective tool.
3. A third crucial component is personal contact. Our tutor/counselors live in the dorm with the students. They are college students themselves during the academic year. They understand dorm life, they are chosen for their counseling skills, and they serve as personal motivators. Alaskan Native students come from a cooperative society. The transition to our competitive culture is difficult. Many will not work to do better than others or to compete. They will do their best for a friend. That is us, our staff. Our teachers know this, our counselors know this, and we consciously use our personal contact to serve as a motivator. A slap on the back goes a long way, it works, and we care.
4. Another key ingredient is our use of a medical (a graduate) student in our program. Through a cooperative arrangement, through the University of Washington, we are getting a graduate student each year to work with our students and staff. This person serves as a role model, a lecturer, an adjunct faculty and as a tutor. In addition, they work individually with accelerated students.
5. Homework is of tremendous importance. Students have classes and labs five days a week. They have homework every night. Six days a week they have structured, supervised study sessions. Weekend homework loads are heavy. Students learn what is expected of them in college. It produces results.
6. The curriculum is designed to accelerate in complexity. As the student masters the initial workload, its amount and sophistication is increased. We increase the variable ratio schedule of reinforcement in appropriate increments. It works.
7. Teaching is done in an experimental manner. Students are initially given a diagnostic test. This elucidates their skill level and we begin teaching there. We individualize our approach to move the student forward no matter what the entry skill level. We do not teach specific grade level courses. Our criterion for success is significant skill acquisition in each discipline. This improves specific knowledge, confidence, and self-esteem in the student. This is our goal.
8. Observations of Alaskan Native professional role models is essential. We ensure each student has an afternoon with a professional in their field of interest. Guest speakers are brought in for group presentations. Whether the model be a nurse, lawyer, doctor, or geologist, they serve to reinforce the students perception that I can do it too.

These eight innovative components of the Summer Enrichment Program are not unique to education. It is the use of all of these ingredients in our package, along with our existing curriculum, that makes the SEP idiosyncratic. It is a program that can serve as a state and even a national model. This is our ultimate intention, to make this powerful educational program available to all who seek access to higher education and to replicate our success in new communities.

1982 will prove one of the most crucial in the history of the state rural education delivery system. Over the next 12 months, we can ensure there is a positive option for the rural Alaska student or we can miss this opportunity again. Replication of the SEP model is needed throughout Alaska. Our expertise in helping develop similar programs is needed throughout the state. The first steps have already begun. The Lower Kuskokwim School District and Kuskokwim Community College will be offering an "Academic Boot Camp" Summer Program in 1982 for the first time. They have modeled their entire project after our Summer Enrichment Program with our assistance. The State Department of Education is contributing to these efforts and is supportive of both programs. The continuance of the Summer Enrichment Program is essential to statewide implementation of successful regional summer intensive academic enhancement programs.

The Summer Enrichment Program started in 1979 with the support of the Indian Health Service. In the 1980 SEP, project funding was reduced by IHS due to general nationwide cut backs and was supplementally funded by the state of Alaska. In 1981, the IHS funding was severely restricted, but the Josiah Macy Foundation provided the bulk of the necessary funding. For 1982, all IHS funds are lost, the Macy Foundation is contributing, but state help is again essential. The attached funding request would support the 1982 summer session and provide for a transition of the Summer Enrichment Program model to be adopted and implemented in regional centers statewide. This would be the greatest contribution to improving successful rural education delivery the state has yet taken.

APPENDIX I
Cumulative Test Results for
The Summer Enrichment Program

The Houghton-Mifflin, Tests of Achievement and Proficiency, Form T, were administered to all Summer Enrichment Program students in a pre-post testing paradigm. These results reflect the cumulative results for the 1979, 1980, and 1981 programs (N=42). From the data below, it can be seen that 117 tests show an improvement (70%), 6 remained the same (3%) and 45 showed a decrease (27%). This shows a 2.6/1 increase to decrease ratio. Because a number of tests showed only a slight decrease and many tests increased a great deal, these figures are not completely representative. One method used to observe this more objectively, is to nullify the no difference and guess factor results by counting only raw scores that show a mean increase/decrease of five points or more. When we do this, we find 65 test scores show an increase and only 9 show a decrease. This shows a 7.2/1 increase to decrease ratio. The table below shows the breakdown by individual subtest.

<u>Subject</u>	<u>Number Increased</u>	<u>Number Decreased</u>	<u>Number Same</u>
Reading Comprehension	27	13	2
Mathematics	29	11	2
Written Expression	26	16	0
Science	35	5	2
N= 168	117	45	6

It is apparent from these data that there is an overall increase in student performance. To determine if there is a statistically significant increase, the Wilcoxon Sign Test was used for evaluative purposes. When this test is administered, we find a statistically significant increase in all four target areas because of the Summer Enrichment Program. The significance levels are as follows: In the Mathematics, Science, and Reading Comprehensive subtests, the statistical significance is at the 99 percent probability level. In the written expression subtest, the probability level is 90 percent significance.

From the data presented, we have scientifically demonstrated the positive impact of the Summer Enrichment Program. We have begun to identify and manipulate the crucial variables that contribute to the successful educational experience of the rural Alaskan Student.

Appendix II

Student Participants

<u>Year</u>	<u>Number Selected</u>	<u>Number Completed</u>	<u>Percent</u>
1979	20	17	85%
1980	17	12	71%
1981	<u>18</u>	<u>16</u>	<u>89%</u>
Totals	55	45	82%

Name and Hometowns of Participants

Kuvlela W. Andrew, Bethel	Dolly Apangalook, Gambell
June D. Barr, Deering	Charles Beans, Mt. Village
Eunice Beans, Mt. Village	Joanne Beck, Eagle
Tina M. Bronson, Nome	Victoria Delgado, Kodiak
Agnes Demientieff, Grayling	Robert S. Dickson, Jr., Nome
<u>Jesse Douglas, Ambler</u>	Mary Edwards, Holy Cross
Debbie J. Esai, McGrath	Perry Fawcett, Metlakatla
Rachel Forbes, Anchorage	Catherine Gray, Ketchikan
Carol Greenway, Fairbanks	Judy Gregory, Nickolai
Andrew Guy, Bethel	Carolyn Haakenson, Port Lions
<u>Ruth Harris, Kotzebue</u>	Janet Hunt, Kotlik
Roger Imgalrea, Chevak	Walton Irrigoo, Nome
April James, Gambell	Kimberly Johnson, Dillingham

Joyce M. Kameroff, Aniak	Sherry Kawagley, Hooper Bay
Gregory Kilbuck, Bethel	Loretta Lind, Chignik Lagoon
Nacy Luke, St. Mary's	Ray Masuleak, Barrow
Minnie McCarty, Anchorage	Cynthia H. Merculief, Nikolski
Linda Morgan, Aniak	Agatha Napoleon, Hooper Bay
Agnes Nicholai, Eek	Lisa Olson, Anchorage
Lydia Olympic, Igiugig	Lorrena Prince, Kotlik
Agnes C. Ryan, Unalakleet	Marvin Schumacher, Kodiak
Geraldine Simon, Allakaket	Dorothy Slats, Chevak
Grace E. Stalker, Buckland	Natasia Stephanoff, Russian Mission
Aline Tate, Kotzebue	Anecia Tugatuk, Dillingham
Karen Turner, Anchorage	Laura A. Vaska, Kalskag
Leslie Ward, Anchorage	Laurinda Weston, Mekoryuk
Rosemary Weston, Koyuk	Vera A. Workman, Shageluk

APPENDIX III

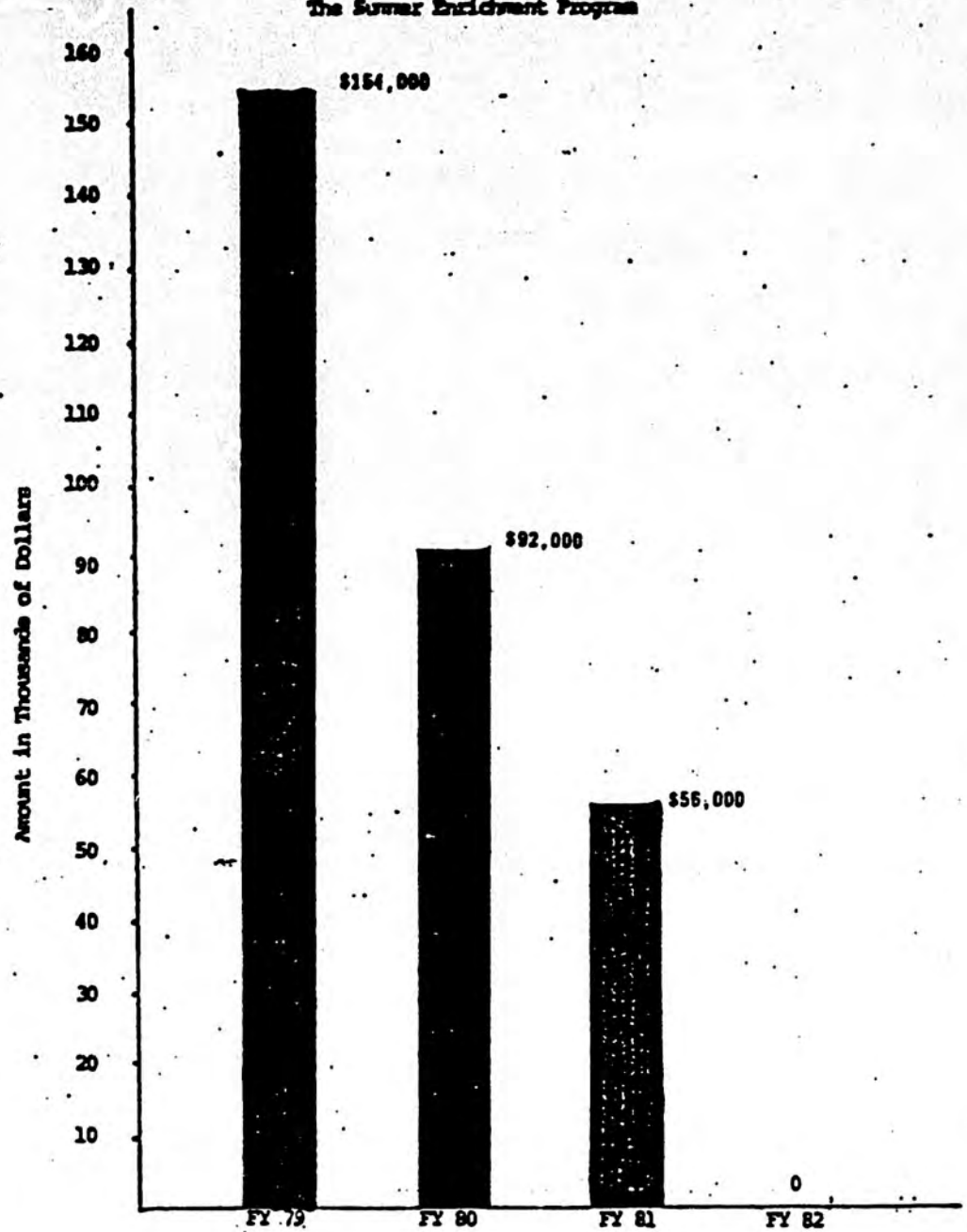
THREE YEAR SUMMER ENRICHMENT PROGRAM FOLLOW-UP

During October of 1982, follow-up contact was initiated to all previous students who participated in the Summer Enrichment Program, N=55. Of this, 40 (73%) of the students responded either to our letter or to follow-up phone calls. The data below outlines activity of former S.E.P. participants.

	<u>Number</u>	<u>% of Respondents</u>	<u>% of Total</u>
In College	19	48%	35%
In High School	14	35%	25%
Working in a Health Field	1	2%	2%
Not in School or Related Field	6	16%	11%
No response	15		27%

For these data, it shows that a full 85 percent of those who responded were either still in school or working in a medical field. We consider this excellent success. Looking at the entire sample, even if we assume that none of the 15 students we were unable to contact were in school, 62 percent of all previous Summer Enrichment Program students are still working toward their professional career goal. This is exceptionally good data for Alaska Native youths, as those familiar with the typical high school and college dropout data for this group are aware. These overall data are extremely encouraging and very complimentary of the Summer Enrichment Program.

Federal (Indian Health Service) Funding of
The Summer Enrichment Program



HOUSE FINANCE COMMITTEE

March 31, 1982

8:35 a.m.

Tape HFC 82-33, side 2 #524

PRESENT

Members of the Committee in attendance: Representatives Adams, Montgomery, Cotten, Bettisworth, Carney, Hurlbert, Meekins and Fuller. Representatives Haugen and Cuddy arrived later in the meeting. Representative Chuckwuk was not in attendance. ALSO PRESENT: Representative Halford; and Legislative Finance Division fiscal analysts Garrey Peska, Alison Elgee, Alison Farnan, Elmer Lindstrom, Bob Grogan, Bob Schroeder and J. H. Hogan.

HB 321

Chairman Adams called the meeting to order and brought HB 321 up for consideration.

HB 321 -- "An Act providing state aid for meals for students."

Chairman Adams gave a brief overview of the bill. He advised there is a HESS CS and the bill was assigned to Representative Montgomery. He said there is a proposed Finance CS.

Representative Carney advised the Finance CS simply states the State shall reimburse school districts 50 cents for each meal.

(Representative Cuddy arrived at this time.)

Chairman Adams asked which is the correct fiscal note. Representative Carney said the fiscal note dated 5/13/81 is the proper fiscal note.

Representative Cuddy MOVED AND ASKED UNANIMOUS CONSENT that the Finance CS for HB 321 be reported out with the fiscal note dated 5/13/81. There being NO OBJECTION, it was so ordered.

RECESS

Chairman Adams called for a recess at 8:40 a.m. and recalled the meeting to order at 8:45 a.m.

HB 666

The next bill to be considered was HB 666.

HB 666 -- "An act appropriating for operating and capital expenses of state government; and providing for an effective date." (BUDGET BILL)

Chairman Adams presented an up-dated cutsheet of the Finance Committee recommendations. He said he would like to make corrections as they review each page. He said the first motion would be to delete from the bill all funds for FY 83 salary increases from all categories. He said they have HB 684 and HB 685 to take care of the salary increases.

Representative Meekins MOVED to delete from CSHB 666 (Finance) all funds related to the pay raises for FY 83. Representative Cotten OBJECTED. He said those salary increases belong in the budget and should be noted as operating expenses for FY 83. The Question was called for: IN FAVOR: 8; OPPOSED 1 (Cotten). The MOTION CARRIED.

DEPARTMENT OF ADMINISTRATION

Chairman Adams requested that under Pioneers Homes -- Anchorage there be a motion to reduce the figure because the wing of the Pioneers Home has not been completed. Representative Montgomery MOVED to accept the figure of \$5576.8, a reduction of \$307.0, because of anticipated savings due to the fact that the wing will not be on line until the last of October. Representative Cotten OBJECTED.

(Representative Haugen arrived at this time.)

Representative Cotten asked how they arrived at that figure. Representative Montgomery said they received information from the fiscal analyst that this figure was accurate. Representative Cotten asked if Administration agreed with this figure. Representative Montgomery said the information he has received shows this will serve their needs with the completion date of the new wing. Representative Cotten said he would like to hear from Administration. Chairman Adams said they would FLAG this component. He instructed Representative Montgomery to obtain additional information.

Risk Management, Operations. Representative Montgomery MOVED the figure of \$177.9. He said it appears this figure is more realistic. Representative Cotten OBJECTED. He asked if Administration had requested this reduction.

MR. GARREY PESKA, Fiscal Analyst, Legislative Finance Division, advised that under PIONEERS HOME, the Department of Administration put together a new budget recommendation for the

Senate reducing the Anchorage Pioneers Home to \$5545, so they come in slightly more than this figure. Representative Cotten asked if he had talked to Administration. Mr. Peska said no. Representative Cotten said he would still like an opportunity to talk with someone from Administration.

Risk Management, Operations. Mr. Peska explained the Legislative Auditor was very critical of the management of Risk Management. He said this recommended number would cut their staff from 13 employees down to three. He advised the theory is to get them out of the business of risk management and into the business of paying insurance and seeing that the state is adequately covered.

(Tape Change, HFC 82-34, side 1.)

Representative Cotten REMOVED his objection to the Risk Management, Operations figure. There being NO FURTHER OBJECTION, the motion was adopted.

Representative Montgomery MOVED to accept the figure of \$7,428.3 for Risk Management, Premiums. Mr. Peska said the Department pointed out during Subcommittee hearings that there is \$10 million in reserve at the present time and they expect over the next 10-15 years there will be claims for accidents that have already occurred. He said the Legislative Auditor reviewed those claims. Mr. Peska said the first Subcommittee recommendation was to give them an additional \$7.2, which would give them \$2.2 million more in the reserve account. He said this recommendation would give them \$1.2 million. He said the figure doesn't cut out the \$6 million in premiums that are needed. There was brief discussion. Representative Cotten asked why they are giving them an additional \$1.2 million, why not take out the entire amount. Mr. Peska said he didn't know why. He said if the Committee wanted to reduce the figure further that he be given an opportunity to check with the Department and get the actual dollar amount. He said the Committee would want to be sure they weren't reducing any of the premium money.

Representative Cotten said he would wait until Mr. Peska makes his investigation on the correct figure before making a motion. Representative Montgomery restated his motion. The question was called for. There being NO OBJECTION, it was so ordered.

Public Broadcasting Commission. Representative Montgomery MOVED AND ASKED UNANIMOUS CONSENT to accept the figure of \$5,769.2. He said in times of revenue shortfall, he thinks this figure is fair. Representatives Adams and Cotten OBJECTED. Representative Cotten suggested cutting this budget was more of a political decision than a revenue necessity. He said if they can take \$1.2 million from Premium, Risk Management, he would recommend adding that amount to the Broadcasting Commission. Chairman Adams said he didn't think a reduction was necessary. He said he thinks the current level should be maintained. The Question was called for.

IN FAVOR: 4 (Bettisworth, Montgomery, Carney, Fuller); OPPOSED: 5 (Hurlbert, Haugen, Meekins, Cotten, Adams). The MOTION FAILED.

RECESS

Chairman Adams called for a recess at 9:00 a.m. and recalled the meeting to order at 9:05 a.m.

Public Broadcasting Commission. Representative Meekins MOVED TO RESCIND their action in failing to adopt the motion proposed by Representative Montgomery. Chairman Adams OBJECTED. The question was called for. IN FAVOR: 5 (Meekins, Haugen, Bettisworth, Montgomery, Fuller); OPPOSED 3 (Cotten, Adams, Hurlbert). The MOTION CARRIED. Representative Meekins said he make this motion because he wanted to erase his vote. He said he felt he had voted on the wrong side. Public Broadcasting Commission was HELD.

Representative Cotten pointed out that he may have recommendations for changes on many areas of the budget.

DEPARTMENT OF REVENUE

Representative Montgomery MOVED AND ASKED UNANIMOUS CONSENT that the figure for the Alaska Renewable Resources Corporation be zero. Representative Cotten said the motion made earlier was to reduce the appropriation by one-half. He said if they zero them out, what will happen to the investments the corporation owns. Chairman Adams said their feeling is that the Governor's Office will take over the responsibility for these on-going deals. He said they would like to reorganize the Renewable Resources Corporation, and the House figure is going along with the Governor's amended budget. Representative Cotten said he is not sure the Governor's Office has the statutory authority to do this. He asked who in the Governor's Office would be managing those investments. Chairman Adams said probably the Division of Budget and Management. Representative Cotten agreed that something has to be done with ARRC, but he didn't think the most business-like approach would be to zero them out and just say someone in the Governor's Office will handle the program. Chairman Adams said he thinks the House did handle this in a business-like manner. He said after looking at what the Governor is recommending they are going along with him. There was further discussion on ARRC. Representative Cotten said apparently there is a bill that has passed Senate Resources concerning ARRC that is probably a good resoution to the ARRC problem. The Question was called for. There being NO OBJECTION to the motion, it was adopted.

Shared Taxes, Municipal Assistance. Representative Montgomery MOVED to accept the figure of \$71,300,000. There was brief discussion. Chairman Adams said this is the number they got from Administration. Representative Cuddy said he personally objected

to the reduction. However, in trying to make budget reductions, they have to make compromises. The Question was called for. IN FAVOR: 9; OPPOSED: 1 (Cotten). The MOTION CARRIED.

Representative Montgomery MOVED to accept the figure of \$2,626,300 for Revenue Operations, Audit. Chairman Adams said their original recommended figure carried the employees on until next January. He said they should be terminated as of July 1. He asked for UNANIMOUS CONSENT. There being NO OBJECTION, it was so ordered.

Representative Montgomery MOVED to accept the figure of \$1,017,000 for Revenue Operations, Enforcement. Representative Cotten asked if it was for the same reason. Mr. Peska said yes. There BEING NO OBJECTION to the motion, it was adopted.

Representative Montgomery MOVED to accept the figure of \$1,009,300 for Revenue Operations, Public Services for the same reason. There being NO OBJECTION, it was so ordered.

Refundable Credits. Representative Montgomery MOVED to accept the figure of \$1,033,000. He said the amount left in will fund child care credits. Representative Cotten OBJECTED. He said there is a bill pending to answer this problem. He said if the bill doesn't pass the law is still there, and there is an obligation to make payments. Chairman Adams said the law says if the money is there. He said there has to be an appropriation. Representative Cotten said he thinks most people agree there should be some warning that the money isn't going to be there. He said if they are going to make a political decision to end the program, they should do it and give the people enough warning. He said he thinks it is immoral to take the money without warning. Chairman Adams said the law says if they don't appropriate money, refunds won't be made. There was discussion. Representative Meekins asked if there was any money left in the current fiscal year that could be utilized. Mr. Peska said they won't know until after the filing deadline has passed -- April 15. Representative Bettisworth said they could include intent that whatever funds may have lapsed from the current appropriation would be reappropriated to take care of those contributions.

Representative Meekins MOVED TO AMEND THE MOTION to extend the lapse date of the FY 82 appropriation so that if there are any funds left they could be used for refunds during the period between January 1 and July 1. Representative Cuddy OBJECTED. Representative Cotten said the motion is a move in the right direction, but what if the appropriation comes up short, will some people get refunds and some not? Representative Meekins said he didn't know. He suggested they could get a more accurate figure by the time the Free Conference Committee met. The Question on the Amendment was called for. IN FAVOR: 9; OPPOSED: 1 (Cuddy). The MOTION CARRIED.

The question was called for on the Main Motion as Amended. IN FAVOR: 8; OPPOSED: 2 (Carney, Cotten). The MOTION CARRIED.

Child Support Enforcement. Representative Montgomery MOVED to increase the figure by \$200,000 for a total of \$3,090,000. Representative Cotten OBJECTED. Chairman Adams advised the \$200,000 will be taken out of the Office of the Commissioner. Representative Meekins commented on the Child Support Program. Representative Cotten asked if the Fairbanks and Juneau offices will open with this \$200,000. Chairman Adams said that decision is left up to Child Support Enforcement. Mr. Peska said as the House figure stands today, those offices will be opened with one person each, and no clerical support. He said he doesn't know what they will do with the extra \$200,000. Representative Carney said he has heard nothing but bad reports on the Agency. He said his feeling is they are "throwing moeny down a rat hole." He asked that this component be HELD to give him an opportunity to obtain additional information. The category was HELD.

Representative Montgomery MOVED to delete \$200,000 from the Office of the Commissioner budget. Chairman Adams said this motion would also be HELD.

DEPARTMENT OF EDUCATION

Representative Montgomery MOVED that Community Schools be moved out of this component and placed under Adult and Postsecondary Support. He said that is where the program actually belongs. Representative Cotten asked if this had been discussed with the Commissioner. MS. ALISON ELGEE, Fiscal Analyst, Legislative Finance Division, said no. Representative Cotten requested this be HELD. Representative Montgomery OBJECTED TO HOLDING this component. He said he thinks keeping it in this budget is poor fiscal managment. Representative Cotten said that may be, but he has some questions about it. The Question was called for: IN FAVOR: 9; OPPOSED 1 (Cotten). The MOTION CARRIED.

State Contract Programs. Representative Montgomery MOVED to accept the figure of \$27,079,100 with legislative intent that \$250,000 is for the Vocational Summer Program. There being NO OBJECTION, it was so ordered.

Fine Arts Camp. Representative Montgomery advised the Fine Arts Camps were previously in the Arts Council budget and his recommendation is that they be placed here in the amount of \$115,600. He so MOVED. There being NO OBJECTION, it was so ordered.

Rural School Vocational Ed Program. Representative Montgomery MOVED the figure of \$394,500, reducing grants by 50%. Representative Cotten OBJECTED. The Question was called for. IN FAVOR: 9; OPPOSED 1 (Cotten). The MOTION CARRIED.

DEPARTMENT OF REVENUE

Child Support Enforcement. Representative Carney requested that they go back to the Child Support Enforcement Category. He said in thinking it over he has decided he doesn't want to get involved in reviewing this category. Representative Montgomery MOVED to accept the figure of \$3,090,200. Representative Cotten OBJECTED. The Question was called for. IN FAVOR: 6; OPPOSED: 2 (Cotten, Adams). The MOTION CARRIED.

Office of the Commissioner. Representative Montgomery MOVED to reduce the figure by \$200,000. Representative Cotten asked what they are taking out of the budget. Representative Montgomery said he has not designated the place.

(Tape Change, HFC 82-34, Side 22.)

REPRESENTATIVE HALFORD pointed out that 90% to 95% of the people getting public assistance are not getting child support. He said the agency doesn't go after non-AFDC cases. He suggested the additional funding would aid them in pursuing those cases. There was further discussion on the recommendation. In answer to a question from Representative Cotten, Mr. Peska said he would have to call the Commissioner and ask him where he would allocate the \$200,000 cut. Representative Cotten asked if the intent was to take the funds from the Commissioner and let him decide where to make the cut. Chairman Adams said that was correct. Representative Cotten said he didn't object to the cut, he just thinks the reason it was done was to increase Child Support Enforcement by \$200,000, and he doesn't know that adding the \$200,000 will accomplish what Representative Halford indicated would be accomplished. The Question was called for. IN FAVOR: 8; OPPOSED 1 (Adams). The MOTION CARRIED.

ADJOURNMENT

The meeting recessed at 9:45 a.m.

Tape HFC 82-33, side 2 #524 to end
HFC 82-34, side 1 #001 to end
side 2 #001 to #119

hf0331821400

HOUSE FINANCE COMMITTEE

March 31, 1982

2:00 p.m.

(Tape HFC 82-34, Side 2, #119)

PRESENT

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

ALSO PRESENT: Representative Cato; Representative Abood; Bob Ward, Commissioner, Department of Transportation and Public Facilities; Ron Lind, Deputy Commissioner, Department of Transportation and Public Facilities; Bob Rehfeldt, Administrative Assistant, Department of Administration; and Dick Smith, Deputy Commissioner, Administrative Management, Department of Administration.

Chairman Adams called the meeting to order at 2:00 p.m. and made the following bill assignment:

HB 866 - Establishing special investment tax credit - CUDDY

Representative Meekins requested that the following loan bills be added to the schedule in the next couple of days: SB 593, SB 666, and SB 322.

HB 648

HB 648 - "An Act transferring certain functions of the Department of Transportation and Public Facilities to the Department of Administration; establishing the Department of Transportation; and providing for an effective date."

REPRESENTATIVE CATO, Chairwoman of the House Transportation Committee, stated that her comments would be addressed to the entire package of bills which include HB 648, HB 649, HB 650, HB 651, and HB 654. She stated that these bills represent an interim work that was performed by the House Transportation Committee plus work that was done by a consultant through the interim and testimony from individuals interested in the programs and operations of the Department of Transportation and Public Facilities. Representative Cato indicated that the bills were brought about as a result of a follow-up study on five phase audits performed by the Legislative Budget and Audit Committee, audits performed by different sectors of state government and the federal audit on the Department's use of federal ADAP funds. These audits are performed for the purpose of operational analysis to gauge the relative efficiency of an operational

system and to make recommendations for positive changes within that system. These audits have been done with a lot of expertise and time to find out what areas need specific improvement. To date, very little has been done though these deficiencies have been pointed out.

Representative Cato indicated that the bills represent positive changes necessary to effect efficient operation of the state's largest agency which employs the largest number of state employees. The Department currently handles all capital improvement construction in the state. Representative Cato stated that in the recent past; legislators, policy makers and the general public have all been disillusioned with regard to the Department. She stated that they have looked for some reason as to why transportation modes have been inefficient and ineffective in Alaska. Maintenance has been poor, no new roads have been planned and nothing has been done to look at future development. She stated that the Department indicates that these things are being done but a thorough look at some of the reports that have been generated for the regional plan will show that these may not turn out to be as effective and worthwhile as they originally were thought to be. She stated that nothing new has been pointed out in the reports that have been done while a lot of state money has been spent.

Representative Cato stated that with regard to the bill package there are some which will show a zero fiscal note and others have a significant fiscal impact on the fiscal operations of the state. She stated that while these fiscal notes are necessary and very valid for the amount of impact which these bills may have, they are inflated. She indicated that the state agencies which prepared these fiscal notes state that they represent the "absolute" most that it could cost.

HB 648 separates non-transportation functions from the Department of Transportation and Public Facilities and places public facilities in the Department of Administration. Additionally, a Department of Transportation would be created to handle transportation related projects. Representative Cato stated that the Department's deputy commissioners are all highway people and there is no advocate for public facilities in the upper management of the department. She stated that the fiscal note will transfer only eight administrative support personnel, four of which are supply clerks, to the Department of Administration. She stated that there currently is no administrative support for public facilities. The fiscal note assumes an organization which would be similar to the Department of Transportation and while these are necessary functions an organization scheme may not require individuals of the associated staff to handle the public facilities process. Representative Cato stated that many agree that with public facilities in the Department of Transportation you have an agency that is too large to be adequately handled by one commissioner.

BOB WARD, Commissioner of the Department of Transportation and Public Facilities stated that the Department is in opposition to the entire package. He stated that the package purports to solve deficiencies in the Department that have been identified over several years. He stated that much of the information upon which the bills are based was first brought to the attention of the Legislature in a legislative audit report one year ago and was based on information which was gathered over the proceeding 18 months. Commissioner Ward stated that many of the deficiencies have already been addressed and corrected therefore the Department's comments and opposition is in two areas. He stated that in his opinion out of the seven bill package, five of them will have impact on the operating budget and can identify no benefit that will be gained from the additional impact. Commissioner Ward stated that at a time when every effort is made to curtail the operating budget he can see no justification for these bills which will substantially increase the operating budget.

With regard to HB 648 he stated that it is going to have a significant fiscal impact and will place in a different agency a new function and operation which they have never had before to solve some problems which he does not see exists. He stated that he sees no justification in the statement that the Department is too large for one commissioner to administer and that by many standards it is small. He stated that it may or may not succeed but not because of its size. Commissioner Ward stated that some day it may be well for the legislature to consider, if in fact it is so important to get public facilities out of the Department of Transportation, the other agencies that already have a public facilities type of function.

Representative Cotten asked Commissioner Ward if he thought it was a problem that the University and Court System has control over their own public facilities construction projects. Commissioner Ward said he did not think it is a particular problem however it is not particularly necessary.

Chairman Adams asked if Commissioner Ward agreed with the statement that the bill is going to separate all non-transportation functions? Commissioner Ward stated that he did not agree and that there are non-transportation functions in the department but they are public works type functions.

DICK SMITH, Deputy Commissioner of Administrative Management with the Department of Administration, testified that the Department's fiscal note is more likely to be understated than overstated. He stated that the Department has received over the past few years many programs which they are not familiar with and are divorced from other administrative functions. Mr. Smith stated that the Department did not deliberately try to be liberal with regard to the fiscal note; however, not being familiar with public facilities nor with what problems are attempting to be corrected,

it is the most realistic number which they could provide. He stated that he could not believe that the problems which the legislature is aiming at is to satisfy accounting recommendations which have been reported in audit reports. He said that the purpose of the program has significance. He stated that the Department is not for the change since they do not believe that Transportation has done a poor job.

Representative Montgomery MOVED to report out CSHB 648 (Transportation) with two fiscal notes dated 3/31/82 (DOTPF) and 2/20/81 (ADMINISTRATION). There being NO OBJECTION it was so ordered. CSHB 648 (Transportation) was reported out of committee with "no recommendation".

HB 649

HB 649 - "An Act relating to regions in the Department of Transportation and Public Facilities; prescribing the duties of regional transportation and public facilities directors; and providing for an effective date."

Representative Cato read the testimony which was provided by Walter B. Parker, an Anchorage resident (see attached -- attachment #1). Representative Cato said that the new structure of five regions with regional authority would allow various modes to report to the district engineer, or regional director, who would in turn report to the Commissioner. She said that these people would be able to directly communicate with the commissioner instead of going through a deputy commissioner. Although the boundaries are important; regional authority and accountability are essential. The regional director would be more accessible to the local concerns and legislators would be able to have direct contact with the regional director who would be far more familiar with regional needs.

Commissioner Ward responded that the only difference with opinion to the bill is the number of regions, whether it be three or five. He indicated that there are currently five maintenance regions with headquarters at the same principal places. He stated that the department has been operating very near to the way this bill prescribes. The only difference is that there would be five regions instead of three.

Commissioner Ward said that when design and construction was organized along five regional lines there never was more than a highway mode of design and construction in five regions. No other mode touched Valdez and Nome except highways. Until the organization of the three regions that are now in place, particularly in Nome, Valdez had design and construction and highways, but Nome had very little in design but some construction elements. Both of these regions in the present organization do provide for construction activity and some design. However, if all five regions are going to have full

responsibility for all modes, as the three regions do now, they need an enormous amount of support so they can solve the problems they identify in their own regions. Commissioner Ward said it is a matter of whether the need justifies the additional cost to put support people in the regions to provide that strong concept of five regions. He stated that it is his firm opinion that the work load in those regions does not justify the substantial additional request to create five regions. There are still five maintenance regions.

Representative Bettisworth asked when the governor issued the executive order which established these departments, didn't he intend that there be deputy commissioner level positions in these three regions? Commissioner Ward responded that he finds no evidence which suggested that was the case. Currently there are four deputy commissioners of which one resides outside of Juneau.

Representative Montgomery MOVED to report CSHB 649 (Transportation) out of committee along with the fiscal note dated March 30, 1982 from the Department of Transportation and Public Facilities. There being NO OBJECTION it was so ordered. CSHB 649 (Transportation) was reported out of committee with "no recommendation".

HB 650

HB 650 - "An Act relating to legislative additions to capital improvement projects proposed by the governor."

The committee had previously considered HB 650 and a committee substitute was submitted to the committee for review.

Representative Cato stated that the finance committee substitute adds "pre-engineering" and deletes "project that is determined by the governor". She said that she thinks this is an excellent bill and will help the legislature in determining capital improvement projects and provide a true cost by the time the pre-engineering was complete. Representative Cato stated that in the past the Department of Transportation and Public Facilities has not been able to give a true and accurate cost for capital improvement projects, through no fault of the Department.

(Tape Change HFC 82-35, Side 1, #001)

Representative Meekins MOVED AND ASKED UNANIMOUS CONSENT to report CSHB 650 (Finance) out of committee with a zero fiscal note. There being NO OBJECTION it was so ordered. CSHB 650 (Finance) was reported out of committee with a "do pass" recommendation.

HB 651 - "An Act relating to ferries and ferry terminals and establishing the Alaska Highway Authority."

REPRESENTATIVE ABOOD, Vice-Chairman of the House Transportation Committee, stated that the purpose of this act is to establish an authority for the operation, management, and planning and construction of facilities for the marine highway system that is independent of state government. The authority shall be the exclusive state agency directly associated with the operation, management, planning and construction of facilities for the marine highway system. Representative Abood stated that there are many items of testimony concerning the treatment of residents by the staff of the marine highway system, why it doesn't work better, etcetera. The bill would add a new chapter which would create the Marine Highway Authority, directors, officers, powers of authority, etcetera. Representative Abood stated that the ferry system is one of the most important links to the people in the state of Alaska, particularly coastal residents, and the Transportation Committee feels it should be under a separate organization more responsive to the needs of the traveling public.

Representative Abood proposed an amendment to CSHB 651 (Transportation) (see attached amendment -- attachment #2). Representative Mackins MOVED AND ASKED UNANIMOUS CONSENT to approve the amendment. There being NO OBJECTION it was so ordered.

Commissioner Ward said that this legislation might be the most significant of all the transportation bills included in the package with the major issue being the cost. Commissioner Ward stated that the ferry system operates with the cost of the system appropriated from the general fund with revenue collected from the system going into the general fund. The revenues are generally about one-half of the operating costs. The Department has tried to strike a balance over the years to keep that spread from widening. This has not been an easy task.

Commissioner Ward commented that there are complaints which are valid and justified; however, most of the complaints for service and accomodation of the system relate very directly to cost. For example, it is much more pleasant to ride the ferries when they are half full and more convenient for people living along the system to have increased frequency of service. These are directly related to cost and the effort has been to decrease the cost instead of increase the service.

He stated that since the Port of Seattle operates very efficiently, effectively and makes a lot of money, people think the way to solve our problems is to have an authority. However, there is no similarity or comparison. The Port of Seattle does

not run the Washington ferry system in Puget Sound for the same reason as the state of Alaska which is the the existence of social values addressing some needs which require subsidization.

Even if the system is separated from state government a budget still must be prepared and receive an appropriation from the legislature. Commissioner Ward asked how this can be considered a separation from state government. An Authority would have to have its own accounting system, data processing system, purchasing system, design and construction function, etcetera. Commissioner Ward said that the fiscal note before the committee is not the top of the line but still assumes that several of these functions are operated as state functions the way it is now. Commissioner Ward stated that in his opinion the purpose which seems to be gained will never be achieved by an authority and the cost will exceed more than any benefit which might be gained.

RON LIND, Deputy Commissioner of the Department of Transportation and Public Facilities provided an overview of the fiscal note prepared by the Department. There was discussion concerning existing problems with the ferry system and programs implemented by the Department to address the problems.

Representative Meekins MOVED AND ASKED UNANIMOUS CONSENT to report CSHB 651 (Transportation) out of committee with the fiscal note dated March 31, 1982 prepared by the Department of Transportation and Public Facilities. There being NO OBJECTION it was so ordered. CSHB 651 (Transportation) was reported out of committee "without recommendation".

HB 652

HB 652 - "An Act authorizing the transfer of certain municipalities of responsibilities of the Department of Transportation and Public Facilities for maintenance of state highways; and providing for an effective date."

Representative Abood stated that this act provides the municipality the option for local control for maintenance of state highways and airports. It amends existing law to allow the responsibility for maintenance to be transferred to a municipality. It states how the agreement between the department and the municipality shall be made, will allow the commissioner direction as to the amount of monies to the municipality and authorize a municipality the power to maintain highways and to enter into an agreement for such. The fiscal impact is estimated at zero and should represent a savings to the state once enacted, as well as provide for better maintenance. The bill is supported by the Alaska Municipal League and Department of Community and Regional Affairs.

Representative Meekins MOVED to report CSHB 652 (Transportation) out of committee with a zero fiscal note. There being NO OBJECTION it was so ordered. CSHB 652 (Transportation) was reported out of committee with a "do pass" recommendation.

HB 654

HB 654 - "An Act relating to the Department of Transportation and Public Facilities and establishing the Board of Transportation and Public Facilities at the head of the Department; and providing for an effective date."

Representative Cato said that the suggested committee substitute would set up a board similar to the Board of Education. The bill would allow the board to make policy for adoption by the legislature, may engage in experimental projects, and supervise the execution by the commissioner of the statutory powers and responsibilities granted by the commissioner by law.

Commissioner Ward responded that he thinks this would be a step backwards in government organization in the state. Everything we do in this direction weakens what people at one time in Alaska felt, through the constitutional convention, was a good form of government to provide for a strong executive. This would further erode that. Commissioner Ward indicated that there is a transportation planning council that does exist now, under the auspice of Executive Order 39. They might wish to embody their activity in statute to give them some more clout.

Representative Montgomery MOVED to report CSHB 654 (Transportation) out of committee along with the fiscal note dated March 24, 1982 prepared by the Department of Transportation and Public Facilities. There being NO OBJECTION it was so ordered. CSHB 654 (Transportation) was reported out of committee with "individual recommendation".

ADJOURNMENT

The meeting adjourned at 3:20 p.m.

HFC 82-34, Side 2, #119
82-35, Side 1, #682

TESTIMONY ON CS HB 648, CS HB 649, CS HB 651,
CS HB 652 and CS HB 654

My name is Walter B. Parker. I am a resident of Anchorage, Alaska residing at 3724 Campbell Airstrip Road. I have been active in Alaskan transportation operations and planning since 1946.

CS HB 649

I strongly support the primary concepts contained in this bill. The original idea of a state DOT envisioned regional transportation directors who would be responsible for coordinating planning, programming, operations and maintenance in their regions and who would report directly to the Commissioner. The director for each region could be selected for a background that most suited the problems of that region.

Normally, it is bad practice to place administrative boundaries in the statutes as this bill does. However, it is not a major problem and if other regions were created it could be accomplished at the next legislative session.

I would hope that we would soon have another region for Kodiak, the Aleutians, the Alaska Peninsular and Bristol Bay. I believe that the unique transportation requirements of western Alaska can best be met by having two regions which are devoted solely to those problems and staffed to handle those problems.

I also believe that the AMATS and FMATS structures could be separated out from their regions and handled as independent entities with liaison and coordination staff from DOT. This would leave Central Region and Interior free to handle the state concerns and the intent of AMATS and FMATS for maximum municipal control would be further enhanced. In the same manner, there is no particular reason why the Anchorage and Fairbanks International Airports could not be independent entities for administrative purposes. This would ensure that the regional director would focus most of his energies on regional concerns rather than on the major units for which he has responsibility. Obviously, planning would relate to all of the above both at the regional and statewide level but it would be planning for systems and not for day to day operations and maintenance.

Finally, the structure proposed in this bill would enable the Commissioner's office to become a lean planning, auditing and evaluating function. This would leave the Commissioner free for interaction with the regional directors, other state and federal agencies, the Governor and the legislature to maintain overall policy direction. The main point is that the relationship between regional directors and the Commissioner would be uninterrupted by other staff levels. Overall system direction for highways, aviation, marine, transit and other systems could be maintained through assignments in the Commissioner's office. 484

This amendment is suggested so that the authority will have seven voting members instead of six and so that southeast Alaska that has the highest dependence on the marine highway system, as well as the largest budget allocation, have adequate representation.

A M E N D M E N T

Offered in the HOUSE

By Cato

TO: CSHB 651(Trsp)

Page 1, line 24:

Delete "seven" and insert "eight"

Page 1, line 27:

Delete "six" and insert "seven"

Page 1, line 29:

Delete "three" and insert "four"

Page 2, line 1:

Delete "with one" and "each of the following"

Page 2, line 2, following "highway":

Insert "as follows"

Page 2, line 2, following "(1)":

Insert "two members from"

Page 2, line 3, following "(2)" and following "(3)":

Insert "one member from"

Page 9, line 9:

Delete "six" and insert "seven"

Page 9, line 12:

Delete "two" and insert "three"

SENATE FINANCE COMMITTEE

April 1, 1982

8:30 a.m.

(Tape SFC, # 10, Side 1, 512-end)
(Tape SFC, # 10, Side 2, 000-end)
(Tape SFC, # 11, Side 1, 000-378)

CALL TO ORDER

Co-chairman Bennett called the joint House/Senate Finance Committee meeting to order at 8:30 a.m.

PRESENT

All members of the Senate Finance Committee were present with the exception of Senators Ferguson and Stimson. All members of the House Finance Committee were present. Also in attendance were Elmer Rasmusson, Chairman of the Board of Trustees of the Alaska Permanent Fund; Tom Williams, Commissioner of Department of Revenue and Vice-chairman of the Board of Trustees of the Alaska Permanent Fund; Peter McDowell, Trustee of the Alaska Permanent Fund; Robert Greeley, Manager of Corporate Investments of Hewlett Packard; and members of the press Todd Hardesty, John Greeley, Mark Kelly, Patty Ginzburg and Karen Davies.

SS SB 684

Co-chairman Bennett stated the first order of business would be consideration of SS SB 684 (AN ACT RELATING TO THE INVESTMENT AND MANAGEMENT OF THE ALASKA PERMANENT FUND AND TO THE COMPUTATION OF INCOME OF THE FUND WHICH IS AVAILABLE FOR DISTRIBUTION; AND PROVIDING FOR AN EFFECTIVE DATE), and requested that Senator Sturgulewski present the legislation to the committee.

Senator Sturgulewski introduced the bill, saying that according to the legislation that set up the management of the Permanent Fund back in 1930 (Free Conference Committee Report for SB 161) there were three areas addressed - 1) safety of principal, 2) accountability, and 3) legislative oversight. She stated that the Legislative Budget and Audit Committee had set up a special committee that worked with the Board of Trustees over the last 8 or 9 months, and had talked to economists and members of the public as well as special interest groups about the major issues dealing with the Permanent Fund. The result was that the Board of Trustees recommended to the Governor, and he in turn had introduced the legislation before the committee at this time (SS SB 684). There were the three following major areas regarding the Permanent Fund in the bill:

1. Public members would comprise the majority of the Board of Trustees; right now there is a balance of commissioners and public members.

2. There would be a revision of the allowable investments for the Permanent Fund. The major issue here was "inflation-proofing" as there would be a serious decrease in the ability of the Fund to maintain its capital unless there are changes made.
3. A portion of the Permanent Fund earnings would be re-invested, again as an "inflation-proofing" mechanism.

Senator Sturgulewski concluded by saying that she felt this important piece of legislation should be passed this session.

Co-chairman Bennett noted that there was a Labor and Commerce Committee Substitute for the bill in the file, and he also stated that staff was presently distributing Committee Substitute for Sponsor Substitute for SB 684 (Finance). (AN ACT RELATING TO THE INVESTMENT AND MANAGEMENT OF THE ALASKA PERMANENT FUND AND TO THE COMPUTATION OF THE INCOME OF THE FUND AVAILABLE FOR DISTRIBUTION; AND PROVIDING FOR AN EFFECTIVE DATE). He then invited the Trustees of the Permanent Fund to join the members at the table, and to speak on any matter regarding the Permanent Fund so that management and benefits of the Permanent Fund could be improved.

MR. ELMER RASMUSSEN, Chairman of the Board of Trustees for the Alaska Permanent Fund came forward and proceeded, at the request of Co-chairman Bennett, spoke to the changes proposed in CS SS SB 684 (Finance). He said the changes were "simple and yet significant" if the objective of the legislature in first setting up the Permanent Fund was to be achieved.

The first change would enable "an independence" of the trustees. He said they had not yet observed difficulties in the present operation, nor had they been restricted in any way by other groups. However, independence had a broad connotation - being able to find in one place what it costs to run the Permanent Fund, and what the income of the Fund was. Presently, he said that information was not available because the basic costs of running the Permanent Fund are in the Alaska Department of Revenue. So, this bill was requesting that all financial transactions having to do with the fund be concentrated and centralized on the Fund's books. That would mean that all the transactions were visible, but also the source of the money to pay the costs would be charged to the income from the Fund. At the present time, all of the money earned by the Permanent Fund goes into the General Fund; the Constitution makes that mandate unless otherwise directed by the legislature. So, this bill requests that 50% of the income be allowed to be re-invested in the principal of the Permanent Fund. He stated that without this provision, the Permanent Fund "will fail". He explained by saying that regardless of how much is earned on an investment, the fund will never grow if that earning is paid out every year. If there was 1% inflation, the capital as well as the income would decrease by 1%. He said that the Ford Foundation as well as the Rockefeller Foundation have "dismal records", and the true value of one of those funds is less than halved today. He

concluded that one of the most important factors to building a fund with a defense against inflation, was to have this re-investment capability. He reflected on how this would effect the General Fund, saying that he did not think it would effect the General Fund at all. If the bill was passed and became effective by July 1, 1982, all the revenue accrued in the Fund up to that date, would go into the General Fund. That would be the difference between the cash basis and the accrual basis - that being the "lag" in time for the money to be collected as most of the Fund today is invested in security instruments on which interest comes in on certain periods. That money would be considered "in excess" of the amount accrued into the principal of the Fund and redeposited as he had suggested. So, he did not think there would be a burden on the General Fund. As a matter of fact, he thought the General Fund would receive more money if the re-investment activities were operated wisely. Speaking to the use of the word "independence", he wished to eradicate the connotation of "separate", and instead see it as just giving the responsibility to a specially designated professional group as manager of the principal for income.

The second major change was to add one public member and subtract one commissioner on the Board of Trustees. That would allow for more public participation. As well, since the incoming Governor 6 months from now will change the commissioners, there would still be a majority of the Board operating at all times. Stating the the Board of Trustees was an "operating" Board rather than a "policy-setting" Board, he said that most of the members spend about one half their time working for the Board.

The third change dealt with a weakness in the Permanent Fund provisions that they all saw as soon as they got the operation going - this was the inability to safeguard against inflation. This was because the qualifying investments presently were all money instruments - bonds, certificates of deposit, treasury notes, etc. These investments return the money loaned out, but do not reap any additional value to the earnings of the assets. So, in the bill before the committee, they had asked for the same authority the legislature had granted to the Alaska State Employees Retirement Fund and the Teachers Retirement Fund - namely that they be allowed to invest in equity securities - generally called common stocks. He said that request was deleted in the Labor and Commerce Committee Substitute, but he appealed to the House/Senate Finance Committees to re-instate that provision.

BEGIN SIDE 2, Tape SFC # 10

Mr. Rasmussen said the request that the Permanent Fund be allowed to invest in common stocks, also included foreign instruments. He pointed out that through investment in Euro dollars as opposed to U.S. dollars (though they are all actually U.S. dollars), they would get about 1/4 of 1% more on a 90 day instrument (CD or open account), and about 1/2 of 1% on a 6 month instrument. He said the sizes of those institutions were bigger than almost any bank

in the U.S. - there are four or five banks in Canada and Great Britain that do 95% of the business of those countries. So there would be no problem with the safety. They would be able to pay more basically because they are not subject to the federal reserves like regular CD's are. The same concept would apply when dealing with international securities - they need the authority to invest in foreign as well as U.S. securities. Actually, allowing them to go to foreign exchanges would yield higher incomes and tend to offset changes. He said that Japan, for example, would probably be the only nation in the western world this year that would show a positive increase in its gross national product. He concluded by urging passage of the Finance Committee Substitute for SB 684, and said he would try to answer any questions asked by committee members.

CO-CHAIRMAN DANKWORTH, pointing to Section 9 of the Committee Substitute dealing with disposition of income, asked about 50% of the earnings being returned to the principal, with the other 50% going into an undistributed income account. He asked if this section was actually saying that there would be no more income going into the General Fund from the Permanent Fund. Mr. Rasmusson answered "no", the concept already written into the existing Permanent Fund Act would be maintained. One half of the income would go into the Dividend Fund (a separate section in the law). The Act states that it should be the average of the last five years but not more than the current income. To illustrate this he said there is about \$3 billion in the Fund principal at this time. There has been reduction in interest rates this year, but if it earned 13%, there would be about \$400 million in earnings in one year. The bill before the committee would say that \$200 million of that would go into the principal, and the other \$200 million would go into the undistributed income account and would be available for legislative control. The legislature has already said that this money would go out as dividends. As the Fund increases in size from the 25% minimum, or with any other extra amount the legislature decides to put in, the earnings on the fund will also increase. But in order to give stability to the pay-out, the legislature has provided that it should be the average of the last five years. Since the income will be a little higher than the average, there will be a "cushion" built up (a reserve), which will be re-invested. So there would still be 50% available for distribution according to the determination of the legislature.

CO-CHAIRMAN DANKWORTH noted that there seemed to be a tendency to take the interest off the principal and find uses for it other than the operation of State government. Originally, when the people of Alaska voted on it, they wanted the money to go for the operation of state government. Twenty or thirty years from now when the oil revenues decline, this money was seen as a source of income for the operation of government. He was worried that since 50% might be distributed to the people of the state, with the other 50% going back into the principal, there might not be money left to benefit the State of Alaska in future generations. Mr. Rasmusson said there was a choice. If all the money is paid

out as it is earned, there will be nothing left in the Fund except what is earned in principal, so it will go steadily down in value. That was the mistake the Ford Foundation made - now they have about 45% in value left. Say no more money is added to the \$3 billion and it earns about \$400 million at 13%. All that would be paid out, there would be 10% depreciation in inflation, and the Fund would only be worth \$2.7 billion next year. He reiterated there was only one way to offset the depreciation in value - and that would be by retaining in the Fund at least 1/2 of what is earned. He said it was up to the legislature to decide what to do with the other 50%.

REPRESENTATIVE MEEKINS, referring to Section 9 in the Finance CS as well as AS 37.13.140, noted that it appeared there would still be some monies left over after each 50% was put in its proper place. Mr. Rasmusson responded no, that the net income was just the net income in the ordinary accounting sense on a realized basis. And that was the 1/2 they wanted to go into the principal. The other 1/2 of the same type of income would go into the account called "available for distribution". All of the money could be distributed out if the legislature chooses to do so; however, it has already been established that it would be distributed on a moving average basis. That is the only place where the average comes in, not on the classification of the income.

REPRESENTATIVE COTTEN stated that one of the decisions to be made this year had to do with the independence of the Permanent Fund operation. At the present time the Department of Revenue is actually the staff of the Permanent Fund Corporation. Originally, it was intended to be independent, and he thought they should be able to determine the income and the cost of the operation. He asked Mr. Rasmusson to discuss this aspect further. He also asked what would happen to the Department of Revenue positions if the independence were given. Mr. Rasmusson responded first that the Fund could not be run with their normal staff. Going into how much money it cost for each of the functions, he said that an accompanying resolution was passed with the original bill that provided for the transfer of all the assets from the Department of Revenue over to the Permanent Fund Corporation. That indicated that the legislature had "already anticipated" giving independent status by giving that authority in the resolution. Last year, that step was taken, and the ownership and the title for those assets are now in the hands of the Permanent Fund. When the decision was made for independent ownership, that necessarily assumes the legislature wanted independent management. He said there was a substantial amount of the budget request that was the "carve-out" of what was already in the Department of Revenue, and that would not change. The additional amounts requested were made under the "top case" (assuming there would be about \$4 billion in the Fund by the end of this year). If the Fund income is going to be increased, some money will have to be spent.

REPRESENTATIVE CUDDY asked, assuming there was the 50% re-investment capability, what effect there would be on the value of the Permanent Fund if there were such constraints such as an 8% mortgage, state health insurance, and the mandate that 100% of the Fund be invested in the State of Alaska. Mr. Rasmussen responded he thought it would have two effects. One could be quantified, and the other effect, though real, would be difficult to put numbers to. In the first place, the rules would have to be changed in order to go into an investment posture that would assume reduced income and an allocation of funds that would not be (according to the single objective test) of maximum income with safety. He said the legislature decided it wanted the "prudent man rule". Secondly, he said that presently the rules say that investments shall be made within Alaska on the same terms as with any other place. The Board has taken that to mean that they are to try to invest within the constraints of the investment parameters already set up. And that was why they have set up a mortgage program (about \$30 million is in mortgages now). At the last meeting of the Board, regulations were approved for a new mortgage program - one that was worked out with a task force of realtors, builders and mortgage bankers - and the Fund would accept the first \$50 million of that. Under the present law, that is the only way they can invest in Alaska. If the law is changed so that there is a different criteria than what is in the existing bill, there would be an impossible task of making decisions if there is a departing from the objective of wanting a good return with the safeguards required by these funds. The subjective decision-making creates problems. He cited the Heritage Fund of the Province of Alberta as an example. They were given that impossible task by their provincial parliament, and as a result they not only have investment responsibilities but they development, research and contribution responsibilities. In short, he said, "they are in a mess." Their earnings have dropped so far that they are barely equal to their inflation, etc. Singling out the question of investing in Alaska, he said he had never heard anyone suggest going any farther than having a loan program. A loan program is not quite as obvious as a loss, but it is done at a subsidized rate and for a certain class of people. If instead, the money is invested to maximize the income (commensurate with safety) so that the income can be enjoyed by everybody - then there is no class gaining from the Permanent Fund.

REPRESENTATIVE ADAMS stated he thought the Permanent Fund Corp. would need about \$6 or \$7 million to hire outside expertise to assist in securing stable investments. He asked if this was done, what difference in investments would be made for the State of Alaska. Mr. Rasmussen qualified that the budget could be a lower figure, but nevertheless, since that budget would come out of the income from the investments, money would only be spent as needed. He said it would take some time to develop this organization however, since "you know we're not planting radishes here, we're planting oaks." He said he happened to be on the conservative side, and thought it would take some time to perfect the organization that the trustees have informally discussed.

The type of investments would be of two classes: 1) equities (securities or pooled investments in real estate), and 2) stocks (selection of equities). He said these types of investments cost money. He said he thought they would do a better job because they would spend more time on the fixed income side of investment. He said that on the purchase of mortgages, they would just contract with the Department of Revenue. He said that no steps would be taken until they checked back with the House/Senate liaison committee.

REPRESENTATIVE MEEKINS asked, in terms of purchasing mortgages within the state, if it would make sense to purchase mortgages from Alaska Housing Financing Corporation. He said AHFC goes to the bond market at about 17%, and the Permanent Fund is getting less than that (about 15%). AHFC subsidizes that rate upwards - now between 12 3/4% and 17%. If the Permanent Fund were to purchase those mortgages, he thought everyone would be better off. It would cost the state less than subsidy and the Permanent Fund would be guaranteed the average rate or above. Mr. Rasmussen responded that he had been approached on this idea by others. He said that there is a reason for paying higher rates of interest. It isn't as desirable an investment. The rate of interest is not just a factor of safety, but also the maturity of the obligation. The AHFC has 30 year, fixed rate loans. The "prudent man rule" would have to be repealed, because, he said he did not know of any investment advisor who would advocate investing substantial amounts of an endowment fund at a fixed rate. There is no marketability of these kinds of instruments anywhere near that price. He said that the only monies that would be saved would be the costs of marketing them in New York, bond fees, etc. He thought that would be more than made up by the loss in liquidity and in marketability. He stated he thought there would be more fiscal discipline if the legislature says they have to meet the market test in New York. He concluded that he did not think it could be done anyway under the present law, and also it would not be in keeping with the investment policies of the Permanent Fund.

REPRESENTATIVE MEEKINS qualified that he was mainly interested in case the Permanent Fund could get a greater return than in its alternative investments. In that case, the risk would be the main factor, and he did not understand why the risk would be any greater buying an AHFC bond than it would be making a regular mortgage. Mr. Rasmussen responded by first explaining the mortgage fund they now have implemented. He said when they started their mortgage program, they used a fixed rate based on the daily quotations of a certain issue of the "Jenny May". It was a higher rate than AHFC at the time they instituted, but there came a period later on when interest rates were going down when their program was lower, and they started getting flooded by realtors looking for a cheaper mortgage. They felt in any event, they wouldn't be less than 1/4 above AHFC. Then, due to "Rogers' ratchet" decided last year, at the lowest rate, they were higher; and at the higher rate, they were lower. And that is why they currently have about \$30 million in mortgages. One of the

weaknesses with that was that it was a 30 year fixed rate. After meeting with the realtor groups, they came up with a program with adjustable rates based on "option A" which is quoted every day in the Wall Street Journal on the most recently closed mortgages. Currently he thought it was around 15.2%. The "Jenny May" doesn't buy at that rate, and they have a "load" of 2 to 4 points. So, they decided not to put a load on it and plan to buy it at that rate. Coupled with that was the "due on sale" clause put in by the AHFC last year. That returns the life of the mortgage - even though it's 30 year - back to what used to be the rate, prior to the escalation of interest rates, to around 7.5 years. So, they put in a clause that the rate would not change enough so that the payment would rise up more than 7.5% per year - which translates to an interest fluctuation of 1.1% allowing for the principal and interest. Contrasted, is the federal 2%. In summary, it is a program which is adjustable in rates, tends to be short term mortgages, and though it doesn't have the lowest rate it is available for higher mortgages of good quality. He said he thought other modifications might be instituted later such as rental housing or recreational housing, which cannot be done under AHFC.

BEGIN NEW TAPE, SFC # 11, Side 1, 000-378

COMMISSIONER TOM WILLIAMS of the Department of Revenue also responded to Representative Meekins' questions surrounding the Permanent Fund buying AHFC mortgages. He said that last year the Permanent Fund earned 16% while the General Fund earned around 13%. That doesn't mean that they did a worse job with the General Fund, it only means the investments were diversified. Last year the General Fund contained over \$100 million of 7% veterans' mortgages. It also contained another \$100 million of other types of mortgages with rates down to 5%, etc., which pulled the average performance down. The Permanent Fund, if it invests in stocks, will not get 14% dividends per year if interest rates are 14%. It will get capital appreciation of the value of the stock as well as the dividends that are paid that will be counted as income of the Fund. So, to compare the average performance of the portfolio and say that is what is being earned and what this type of investment should be tagged to, is to "mix apples and oranges."

CG-CHAIRMAN BENNETT asked Commissioner Williams what his estimate would be to manage the Permanent Fund. Commissioner Williams said that would not be a separate cost from what it costs to manage the General Fund and the pension funds, other than there is an unquantifiable lost opportunity cost. Department of Revenue staff in the Treasury Division that manages the Permanent Fund are not union employees and they are partially exempt. They come to work at 6:00 a.m. so that they are at work when the markets open in New York City. They are still there at 4:00 and 5:00 p.m. in the afternoon. He said there weren't many union employees who do that. He said they spend about 2/3 to 3/4 of their time managing the General Fund because that has to be liquid, short-term investments, always having enough cash on hand

for needed checks each following day. So, necessarily, with the time remaining, they are investing Permanent Funds or retirement funds in larger chunks of money, because they simply cannot handle a \$3 billion portfolio for the Permanent Fund or a \$950 million portfolio for the pension funds in \$3 or \$5 million increments. He said that both funds are being handled adequately, but they could be managed better if the Permanent Fund were divided out with its own staff. In conclusion, he stated that since the staff was dealing with investments for the General Fund too, it was difficult to divide out what it cost to manage the Permanent Fund investments.

CO-CHAIRMAN BENNETT asked if anyone had traveled to Juneau to testify on the Permanent Fund bill. Mr. Rasmusson requested that Mr. Robert Greeley, Manager of Corporate Investments for Hewlett-Packard, be allowed to speak to the committee on equity investment.

MR. ROBERT GREELEY stated he had been a Trustee and General Manager of the General Electric Pension Trust. Then in the mid '70's he joined the Saudi Arabia Monitoring Agency as part of the North American Team. When the Whitewell/Merrill Lynch merger came up, he "went West." Now he was with Hewlett-Packard. He said the Permanent Fund has a classic problem, and is being experienced across the country. He said that many groups are coming close to the same solutions. He said a fund this size needs a staff to take care of all the analytics and reports and audits needed. To beat inflation he thought many things would have to be done differently than they were 10 years ago. 10 years ago, they probably would have been mostly into equities and possibly some into bonds - all in the U.S. Now Euro-dollars should be involved. He thought the Permanent Fund would have to compete in the market place against a lot of other financial institutions. In doing such the Trustees would have a great responsibility, requiring an adequate staff to insure maximum return.

CO-CHAIRMAN DANFORTH, again pointing to Section 9, stated he thought the people of Alaska voted for the Permanent Fund thinking the proceeds would go back into the General Fund. But so far, money has been invested outside the State of Alaska, and the other 1/2 would be distributed to the people of the state. He was concerned that it was no longer seen as a source of income to operate state government when Alaska's non-renewable resources were depleted. He asked Mr. Rasmusson how the Permanent Fund would do that. Mr. Rasmusson stated the decision had been made to distribute 50% in cash payments to the people of Alaska. Therefore, he did not really see how it could be said that it was a fault of the Permanent Fund that there would be no dipping into the capital, because if all the income was distributed, all the capital of the fund would be depleted. As an example, he said the reason why Yale University has about 1/3 of the endowment of Harvard was because they fell into that trap and were distributing out income including unrealized appreciation. So, with the Permanent Fund, the legislature has within its power to

make any distribution it wants of the other half of the income. If that half is not left in the fund, not only will it not be available for the General Fund, but it will always be going down.

CO-CHAIRMAN DANKWORTH wished to extend his compliments on behalf of the State of Alaska to Mr. Rasmusson and the Trustees for their work on the Permanent Fund. He added that his questions were not meant to be critical of their work. Mr. Rasmusson urged that the bill be passed.

COMMISSIONER TOM WILLIAMS, in response to Senator Dankworth's question, stated that if the Permanent Fund were throwing off \$150 million in income today, and if for some reason oil production ceased to continue today, and if inflation ran at 10% a year, and if all the money was going into the General Fund, then 30 years from now the State of Alaska would be "able to buy \$8.9 million worth of groceries" with the income. He said the real problem was not with the concept of returning some of the money back to the Permanent Fund so that the income as well as the Fund retains buying power against inflation. He said the real problem was the distribution program. In response to that, as Commissioner of Department of Revenue and not as a Trustee, he said there is no way capital projects, state employees, grants, etc., would have as large an effect on the Alaskan economy than a direct distribution of money to the people.

CO-CHAIRMAN BENNETT thanked those testifying, and stated the Senate Finance Committee would meet again at 1:15 p.m. to consider other matters. SB 684 would be taken up at a later time.

ADJOURNMENT

The meeting adjourned at 9:55 a.m.

(Tape, SFC 82, # 10, Side 1, 612-end)
(Tape, SFC 82, # 10, Side 2, 000-end)
(Tape, SFC 82, # 11, Side 1, 000-378)

HOUSE FINANCE COMMITTEE

April 1, 1982

1:30 p.m.

(Tape HFC 82-35, side 1 #682)

PRESENT

Members of the Committee in attendance: Representatives Adams, Fuller, Montgomery, Carney, Cotten, Cuddy, Bettisworth and Hurlbert. Representatives Chuckwuk, Meekins and Haugen arrived later in the meeting. PRESENT TO TESTIFY: Representatives Halford, Beirne and Moss; John Katz, Commissioner and Jeff Haynes, Deputy Commissioner, Department of Natural Resources; Jack Coghill, Mayor of Nenana; Jackie McClintock, Deputy Director, Division of Workers Compensation, Department of Labor; Judy Knight, Special Assistant, Department of Labor; Art Snowden, Alaska Court System; Richard Aks, Deputy Commissioner, Department of Community and Regional Affairs; Lynn Asper, Legal Services; and Legislative Finance Division fiscal analysts Garrey Peska, Alison Elgee, Bob Schroeder, Bob Grogan, Alison Farnan, Elmer Lindstrom, and J. H. Hogan, Director.

HB 2

Chairman Adams called the meeting to order and brought HB 2 up for consideration.

HB 2 -- "An Act relating to the use and disposal of state land."

Chairman Adams gave a brief overview of the bill.

(Tape change, HFC 82-35, side 2.)

Representative Bettisworth MOVED AND ASKED UNANIMOUS CONSENT that the bill be reported out.

Representative Carney said he thinks this is a good piece of legislation. He said he didn't think they could do anything to improve it.

Representative Cotten said he would like to at least hear from the Commissioner of the Department of Natural Resources before approving the bill.

COMMISSIONER JOHN KATZ, Department of Natural Resources, said they generally support the legislation as it has been modified. He said they do have one concern about the acreage. He asked that his Deputy Commissioner explain.

MR. JEFF HAYNES, Deputy Commissioner, Department of Natural Resources, explained there is a maximum of 160 acres for homestead alternatives, whereas under the existing remote parcels program, the maximum limit is for 40 acres. He said the applicant will have a choice of either proceeding under the existing remote parcels program or they would have the option of going into the homestead alternative. The problem they see is that by having the latter alternative being a maximum of 160 acres, probably a lot of people are going to be tempted to take that, simply because the acreage amount is greater, and perhaps not follow through on the requirements. Their concern is to satisfy the actual number of potential purchasers as well as simply give people an opportunity to get land. They felt that since 40 acres is a considerable portion of land, they would prefer the maximum acreage limitation on the homestead option be 40 acres as well -- the same as the remote parcel.

(Representative Chuckwuk arrived at this time.)

Mr. Haynes briefly explained what kinds of land are classified as agricultural lands.

(Representative Meekins arrived at this time.)

(Representative Haugen arrived at this time.)

REPRESENTATIVE HALFORD said there were a number of things that people wanted to change in the bill. He said the bill, as it came out of the Resources Committee, avoided as much as possible those conflicts dealing with agriculture rights versus fee simple, and as many things as possible were used out of existing law. He said what they did is provided two alternatives -- one in remote parcels and one in subdivided agriculture land, to be combined with the overall package of land disposal types available. He believed both those alternatives are cost effective in terms of what has to be allowed in the capital budget for land disposal as it applies to the amount of acreage they can get out.

Representative Halford presented a proposed amendment to HB 2 (see attachment #1) that deals with the data that is generated on exploration for geological information of unleased land. Basically, he said, the federal law provides that when an exploration permit is granted the information generated is provided back to the federal government on their lands. He said in the State that doesn't happen. He said there is a substantial request in the capital budget for the purchase of information that is necessary for the on-going leasing program, and DNR has proposed that an amendment be offered which provides that information gained shall be provided to the state in its unprocessed form, which is unlike the federal law which requires all the processed information. He said the state doesn't have to buy it, which would result in a savings of \$3- or \$4 million in

this year's capital budget request from the Governor. Representative Halford said the information is essential to the on-going lease program.

COMMISSIONER KATZ said he is firmly committed to the state's five year oil and gas leasing program. He said one of the essential elements of that program is the acquisition of sufficient geophysical and seismic data so they can evaluate certain aspects of their lease sales. He advised the Attorney General's Office has ruled that as a matter of law under the State's statutes they must have sufficient information to evaluate bidding methods and the adequacy of bids that they receive. He said recently they had certain dislocations in their seismic acquisition efforts. For one thing, they had a chronic problem of underestimating the costs of seismic data acquisition. The second problem, he said, concerns pending litigation. They have two separate lawsuits. Commissioner Katz advised that some time ago the Department promulgated regulations requiring seismic permittees on state land to supply not only the unprocessed data which this amendment provides for, but also interpretative data. The oil companies objected to that and pursued their remedies in court. He advised the State prevailed in the first trial court test; the oil companies prevailed in the second; those cases are now on appeal to the Alaska Supreme Court.

Commissioner Katz said he became concerned about the State's ability to hold future lease sales in light of the quantity and quality of seismic data they have; for that reason they recommended in their capital budget almost \$8 million for the acquisition of seismic data. He said that data pertains mainly to two major sales -- Beaufort Sea 3 and Beaufort Sea 4 -- that are as high value sales as they have remaining in their five year program. He said that since their original budget submission the revenue projections of the state have gotten worse, they have since continued to consider an amendment that would agree with their philosophy and the oil industry might be able to live with. He advised the approach they have chosen, the amendment presented by Representative Halford, is to request only unprocessed data, not interpretive or analyzed data. In so doing, he said, they are asking for less than oil companies now provide to the federal government as a matter of law and regulation. He believes they have the in-house capacity at DNR to do their own interpretational analysis. He said he shares the philosophical concern the oil companies have with the State getting access to their interpretative and analytic data. Since they understood the amendment would be coming up, he said they have been in consultation with the oil companies, four of the five that do pay for seismic data acquisition in Alaska, and they are in the process of contacting their management lawyers. He said they will be in a position to speak for themselves. Commissioner Katz said the reaction they have gotten thus far, particularly from two companies, has been very good. He said they don't seem to have any particular problem with the State's effort to obtain raw

data, so long as they don't also seek to obtain interpretations and analysis.

Commissioner Katz said the amendment consists of three parts. The first part is the effort to obtain unprocessed seismic data. The second part will assure the confidentiality of that information. He said he is determined this sort of information remain confidential as required by statute. The third section of the amendment would provide a Class A misdemeanor penalty for leaking this confidential sort of information.

Commissioner Katz said the only problem he could foresee perhaps might be a philosophical problem. He suggested some people believe it is not necessary for the State to undertake this sort of analysis prior to leasing areas, or to be able to undertake its own analysis of the sufficiency of bids which they receive. He said the alternative they would prefer is that the State rely on the competitive bidding process to determine what the fair market value of a tract is and act accordingly. Commissioner Katz said he disagrees. He believes the State must be in a position to evaluate intelligently what bidding methods it chooses to pursue. He said the State has to have access as the same kind of information as the oil companies. He said given the budget projections, it would seem to them by reducing the kind of demand they are making, they could save the state's royalty owners at least \$3.5 million in their capital budget.

Chairman Adams asked if the sponsor of HB 2 had seen the amendment. REPRESENTATIVE BEIRNE said he has not, but he doesn't think he has any objection to it.

Representative Halford said he thinks the amendment is a pretty good compromise.

Representative Bettisworth asked if the Commissioner could state positively that under current federal law such data as he referred to earlier, they do have full access to it. Commissioner Katz said yes, he asked his staff to check that, and under federal law more data is required, both the interpretative and analyzed data would be required in addition to the raw data.

Representative Bettisworth asked to hear from company representatives on this subject. Chairman Adams agreed.

Commissioner Katz said he thinks the concept of the amendment is right. He is not wedded to any of the language in the amendment.

Representative Cotten questioned the litigation currently in process and the existing state law. Commissioner Katz explained they contend in their litigation that state law does require the submission of geophysical and seismic data. He said a regulation was promulgated before his time that made that explicit. The oil industry objects, citing a cannon of statutory construction --

leasees are specifically required by statute to provide this sort of information but seismic permittees are not mentioned. They argue the Legislature could have included both if they so chose. He said his understanding is those two cases are now up on appeal to the Alaska Supreme Court and it is likely that a year would go by before there is a resolution. He said he thinks it is agreed by all concerned that they don't have a year, the state needs that period of time to begin the analysis of this data, particularly in reference to Beaufort 3. He commented further.

Representative Cotten said they are actually backing off on their requirement that the state have access to the industry's interpretative data. Commissioner Katz agreed. Representative Cotten asked why they are doing that. Commissioner Katz said he thinks there are two reasons. One, he thinks they have the in-house capacity. He would put their geologists up against any in the country. Secondly, he has a philosophical problem with requiring interpretative and analyzed data from the industry. He said he can see the raw data requirement because it is very important for them to do the evaluation. He said he is not comfortable with asking them to give their work products.

Representative Cotten suggested the State will be at a disadvantage compared to the federal government in their ability to analyze lease sales. Commissioner Katz said the only disadvantage he can see is the state will not be exposed to a set of interpretations from a company geologist. He agreed that is helpful, but said his experience with geologists is the same as lawyers -- you get four in the same room, you have six opinions -- therefore, he is content to rely on the opinions they are likely to receive.

Representative Bettisworth asked what the amendment would do to independent seismic companies who go out and get a seismic lease from the State and do work and try to sell it to interested parties. Commissioner Katz said he asked that question of his staff people, and he is advised that it would have no detrimental impact on them because they basically do their work for four or five major oil companies that purchase it either individually or as a group. He said the principal impact, if any, would be on the oil companies themselves.

There was further discussion on federal requirements.

Representative Bettisworth said he talked briefly with people from the industry and they were very surprised this amendment came up. He said it is a major change to the State's policy. He said it sounds like a good amendment, but the industry really hasn't had a chance to respond. He requested the bill be HELD 24 HOURS to give the industry an opportunity to respond. There being NO OBJECTION, HB 2 was HELD.

HB 370

The next bill to be considered was HB 370.

HB 370 -- "An Act making a special appropriation to the Department of Community and Regional Affairs for the Alaska Native Foundation 1981 summer enrichment program; and providing for an effective date."

Representative Carney requested they rescind their action and bring the bill back before the Committee based on additional information he has received on section 1. He said it would be a mistake to fund this program.

Representative Carney MOVED AND ASKED UNANIMOUS CONSENT that a Finance CS be prepared deleting section 1 from the C&RA CS, and that the bill be reported out. There being NO OBJECTION, it was so ordered. CSHB 370 (Fin) (NEW TITLE: Making a special appropriation to the Department of Community and Regional Affairs for rural Alaska recreation and leadership programs) was reported out with individual recommendations.

(Representative Cuddy left.)

HB 333

The next bill to be considered was HB 333.

HB 333 -- "An Act making special appropriations for development in the Nenana-Totchaket area; and providing for an effective date."

MR. JACK COGHILL, Mayor, City of Nenana, testified the CS would appropriate for design and construction of 23 miles of resource road in the Nenana-Totchaket area. He commented there are three seismic groups in the area doing seismic work, and there is an oil and gas lease sale scheduled in that area in 1982. He said this road is not just an agricultural road. He explained what the bill will provide for. He said the amount for acquisition of steel can be deleted if the Committee wants. He explained the bridge construction is about \$3.8 million, but they put in the request for the acquisition of steel because they were told the cost of steel will increase about 20% a year in inflation. He said they thought if they had the steel on hand they could save money down the line. He requested the Committee consider this legislation favorably. He said if they don't put an access into this area he would recommend that they put the oil and gas lease sales in the area off. He said otherwise it could end up causing problems to the city and the state.

(TAPE CHANGE HFC 82-36, Side 1)

Representative Carney asked what sort of problems could be created. Mr. Coghill said if they don't have an access road, it could really create some problems with the environment.

REPRESENTATIVE MOSS agreed with Mr. Coghill's statements and said \$968,000 for the acquisition of steel for the Nenana River bridge could be deleted from the bill.

Representative Bettisworth MOVED that line 20 be deleted from CSHB 333 (Trsp).

There was discussion on the cost of constructing access roads. Representative Bettisworth said DOT/PF would ask for \$500,000 a mile to put these roads in. He said he thinks \$85,000 a mile is very optimistic.

(Representative Cuddy returned.)

The question was called for. Six in favor. The MOTION CARRIED.

Representative Bettisworth MOVED that CSHB 333 be reported out. There being NO OBJECTION, it was so ordered.

HB 126

The next bill to be considered was HB 126.

HB 126 -- "An Act making special appropriations for agricultural development in the Nenana-Totchaket area; and providing for an effective date."

Chairman Adams gave a brief over-view of the bill.

REPRESENTATIVE MOSS said they cut this bill down to \$600,000 in the Resources Committee, and the funds are basically for a survey of farm lots.

(Representatives Meekins and Hurlbert left.)

Mr. Coghill said at this time the only thing that is really necessary is to have the Division of Technical Services do a survey of farm lots in the Nenana-Totchaket area.

Representative Cuddy MOVED AND ASKED UNANIMOUS CONSENT that CSHB 126 (Resources) be reported out. There being NO OBJECTION, it was so ordered. The Bill was reported out with individual recommendations.

HB 159

The next bill to be considered was HB 159.

HB 159 -- "An Act relating to workers' compensation; and providing for an effective date."

Representative Carney said this legislation is the result of work done during the interim. He said the Subcommittee's

recommendation is that this bill be reported out and moved to the floor of the House. He said there are people from both the industry and the Department present if the Committee has any questions. Representative Cotten asked if the proposed amendment (attachment #2) should be incorporated into a Finance CS. Chairman Adams said yes.

Representative Cotten MOVED to adopt the amendment and incorporate it into a Finance CS for HB 159. There being NO OBJECTION, it was so ordered.

Representative Fuller asked which fiscal note they were addressing. Chairman Adams said the one dated 3/2/82.

Representative Carney MOVED AND ASKED UNANIMOUS CONSENT that CSHB 159 (Fin) be reported out of Committee with the fiscal note.

(Representative Hurlbert returned.)

In answer to a question from Representative Chuckwuk, MS. JACKIE McCLINTOCK, Deputy Director, Division of Workers' Compensation, Department of Labor, said they believe this legislation will result in a long term savings because of the portion that deals with vocational rehabilitation. She said they also believe there will be a decrease in premium costs. She advised that both management and labor feel there will be a savings.

There was brief discussion on the letter submitted by Dr. Barber.

The Question was called for. There being NO OBJECTION, it was so ordered. CSHB 159 (Fin) was reported out with a "do pass" recommendation.

HB 590

The next bill to be considered was HB 590.

SSHB 590 -- "An Act increasing the number of superior court judges."

Chairman Adams gave a brief over-view of the bill.

Representative Haugen explained the request was originally to increase the judge position at Wrangell to a Superior Court level.

Representative Cotten asked which fiscal notes are the correct ones. Chairman Adams said there should be two fiscal notes -- one in the amount of \$374.2 for the Alaska Court System, and a new fiscal note from Adult Corrections which they have not yet received, but the amount will be less than the \$253.3 indicated on the fiscal note in the bill file.

(Representative Meekins returned.)

Chairman Adams said he would like to move the bill out of Committee with the \$374.2 fiscal note and a fiscal note for the Division of Adult Corrections for two probation officers. Representative Haugen SO MOVED. There was brief discussion on the fiscal note.

Representative Chuckwuk asked if the new judges would speed up the process. ART SNOWDEN, Alaska Court System, said not only that. He said the Barrow area has a tremendous caseload, and they don't want to have to send in judges that are not familiar with the community.

Representative Chuckwuk said there is a reaction for every action the Legislature takes. He asked if they would need additional jail space as a result of this legislation. Mr. Snowden said no, these people would be going to jail anyway.

Representative Montgomery asked if these positions were requested in the Governor's budget last year. Mr. Snowden said no. He said a judgeship could not be created in the budget document.

The question was called for. There being NO OBJECTION, it was so ordered. SSHB 590 was reported out with a "do pass" recommendation.

SB 593

SB 593 - "An Act relating to bonds issued by the Alaska Housing Finance Corporation and the Alaska Industrial Development Authority; and providing for an effective date."

Representative Meekins indicated that there are four bills which are part of the loan package and in order to explain SB 593 it is important to provide an overview of the loan package which includes SB 593; SB 666; SB 322; and HJR 71. He explained that SB 666 is a bill which started out as a bill for the mining fund. The loan committee added on a committee substitute which is essentially an omnibus loan bill so the loan package will go directly to the free conference committee. Since SB 666 will be going to free conference committee, there are a couple of areas which have timing problems and therefore have been included in SB 593. SB 593 clarifies language. Last year the legislature approved a concept which stated that noone could receive more than \$90,000 totally subsidized by the state. There was a first mortgage program which allowed up to \$90,000 of what was borrowed as subsidized rate. When the second subsidized program was started for rehabilitation and for purchase; the question was brought up concerning individuals who already had \$90,000 of their loan subsidized and then received a \$15,000 second mortgage then that individual would have more than \$90,000. The committee

and legislature last year approved that noone could get more than \$90,000. Representative Meekins stated that the inclusion was drafted incorrectly and the statute is now confusing. This would clarify the language by stating that noone could get more than \$90,000 but everyone has the right to access up to \$90,000 on any of the programs, be it first or second mortgage. The concept is that if you don't have seconds for re-purchase the individual is going to re-finance the whole thing and access the total \$90,000. Representative Meekins indicated that there are not a lot of loans that are assumable, many have "due on sale" clauses. In the future almost all of them are going to have "due on sale" clauses which mean that they are not assumable but an individual will have to re-finance the whole thing. To the extent that there are mortgages that are assumable, this would allow that.

Section 2 increases the bond authorization. He stated that there are alot of constraints on HFC. One of the ways is that the legislature gives them a limit of how much they can borrow from the bond market. They were given a strict limit last year and are now asking to go \$210 million above that limit. HFC indicates what they need to borrow from the bond market and the legislature adjusts the limit.

Section 4 is the limit for the next fiscal year which is an increase from the \$850 million to \$980 million due to the use of illiquid assets. It is necessary to borrow more from the bond market when using illiquid assets because when you appropriate cash they can invest the cash in loans as well as use the cash for subsidy.

Representative Cotten asked if there will be any additional appropriations made of a supplemental nature for the remainder of FY 82? Representative Meekins stated that the amount which was appropriated last year worked correctly. He referred to a letter from Mark Cameron with the Alaska Housing Finance Corporation (see attached -- attachment #3). Representative Meekins explained that last year the legislature didn't give a bond limit, the bond limit was essentially how effectively they could stretch their subsidy.

Tape Change HFC 82-36, Side 2, #001

With regard to Section 1, Representative Cotten asked if you could or could not have over \$90,000 of subsidized money from the state? Representative Meekins stated that under this statute you could not. He provided examples of methods of receiving subsidy on first and second mortgages.

In response to a question from Representative Cotten concerning the intent of Section 2, LINN ASPER, with the Legislative Affairs Agency, explained that the language which was enacted last year set up an automatic bond authorization. Each year the Corporation would know that it had the authority to issue bonds

up to the extent of the amount it issued the previous year which was seen as desirable rather than having them come back every year to try to get their bond authorization. The only change, in changing the date from 1982 to 1983, is to allow them to pick up the larger bond authorization which is proposed in Section 3 so next year the bond authorization will be \$592 million plus \$210 million. He stated that according to Section 2 the legislature can authorize any amount it wishes. This section provides the Corporation with the right to issue bonds up to the amount they issued in the previous year. He stated that the legislature could follow section 2 or section 4 but would not be required to follow both sections.

Representative Cotten stated that he feels the legislature should authorize each year. Mr. Asper indicated that section 2 would limit the ability to do that to some extent. He stated that you could authorize each year but the corporation could still proceed with the bond sales. Mr. Asper stated that it would not be necessary to enact Section 2 each year.

Representative Bettisworth stated that he would agree with Representative Cotten that the legislature should look at authorization for the corporation each year. Representative Meekins stated that what convinced him of the need for some level of automatic funding is the need by the Corporation for knowledge of their authorization level to begin to prepare their bonds in preparation for the construction industry.

Representative Bettisworth MOVED AND ASKED UNANIMOUS CONSENT to report HCSSB 593 (Finance) out of committee. There being NO OBJECTION it was so ordered. Representative Meekins MOVED to rescind the committee's previous action to report out HCSSB 593 (Finance). There being NO OBJECTION it was so ordered.

Representative Meekins MOVED to amend HCSSB 593 (Finance) to add a new Section to allow G.O. bonding for veteran's loans. There being NO OBJECTION it was so ordered.

Representative Meekins MOVED AND ASKED UNANIMOUS CONSENT that a new committee substitute be drafted incorporating the amendment and a new HCSSB 593 (Finance) be reported out of committee. HCSSB 593 (Finance) was reported out of committee with a "do pass" recommendation.

SB 666

SB 666 - "An Act relating to the mining loan fund (AS 27.09); and providing for an effective date."

Representative Meekins provided an overview of a memo dated March 29, 1982 from Carl Nelson (see attached -- attachment #4). He stated that one of the important changes made is that the Housing Finance Corporation would be empowered to finance tri-plexes and