

HOUSE/SENATE FINANCE COMMITTEE MINUTES - 1967-1982 2809

An examination of historical ANS crude price suggests however that the occurrence of these conditions is the exception rather than the rule, and that they can occur only during periods of excessive world wide crude supply, such as that which we have experienced over the past few months. During periods of relative balance in crude supply and demand, Gulf Coast market prices for ANS crude have been in the range of \$2 per barrel higher than West Coast prices, and in times of very tight supply the differential has been even greater. We have not experienced a true shortage environment since crude oil was decontrolled a little over a year ago, but even under controls the crude supply crisis brought on by the Iraq/Iranian war in 1979 resulted in Gulf Coast ANS prices rising to the absolute maximum committed under regulations, which was to recover full transportation costs and net back to pump station one for sales on the West Coast and on the Gulf Coast were exactly the same. Royalties earned were exactly the same from sales in both markets. Even now prices are materially different from just a few days ago. Even from since when my associates spoke before these committees last week. When I testified before the joint House Resources Committee two weeks ago I acknowledged ANS on the Gulf Coast/on the West Coast were then about the same. Today with crude prices beginning to firm again, ANS crude is quoted about \$2 per barrel higher on the Gulf Coast than on the West Coast. With transportation on the Gulf Coast costing about \$4 per barrel more than the West Coast, the net impact on today's market has been to reduce \$2 per barrel, and even that will change in the future. The new Trans-Panama pipeline is expected to be in operation of this year, and with the future phase out of the windfall profits tax, it will further reduce the West Coast/Gulf Coast differential by about \$1 per barrel.

What does all this mean? It simply means that crude oil prices are dynamic, not static, and extremely difficult, if not impossible, to predict for even the short term. I think it is possible however to say that the world of the future will likely have more periods of tight supply than glut conditions, and that in such an environment the impact of taking royalty in kind is minimal or none at all. In Alaska's contracts the 46,000 barrels per day of ANS royalty crude committed to us is reduced by the volume of Cook Inlet crude we purchase which is currently slightly less than 10,000 barrels per day. The resulting net purchase of 36,000 barrels per day of ANS royalty crude is further reduced by the 4,000 to 5,000 barrels per day we can process in our existing refinery. That means we are exposing only 31- to 32,000 barrels per day to the possibility of a negative impact for having taken in kind. Further, it is possible that under certain market conditions Tesoro Alaska would place some portion of ANS royalty crude on reserve as provided for in the contract, in which case there would

be no penalty at all on that volume. As a matter of fact, there would be premium earned by the State since Tesoro Alaska would be required to pay a reservation fee.

If you were to assume the most pessimistic assumptions, that is the continued world wide crude oil glut, the net revenue depreciation of taking royalty in kind might be 3- to 3 1/2 million dollars per year. Under optimistic assumptions, that is tight or periodically interrupted world wide crude supplies, there could be an increase in revenues of comparable magnitude. Should crude supply and demand cycle between these extremes over the long term, as I think it is likely to do, the probability is there will be negligible impact over time. I think it is right to say that attempting to ascertain the magnitude of negative impact associated with taking ANS royalty crude in kind, if in fact there is one, is subject to a great many arbitrary judgments about the future, and perhaps the best way to assess the effect of our contract is to examine the positive benefits generated through the sale of royalty crude oil to Tesoro Alaska.

We have established a proven track record of analyzing the feasibility of expansion of projects, and on the unsubsidized merits of those economics. Not all the projects we have undertaken have been of the magnitude of the 60 million (unclear) complex we built in 1980-81, but let me give you an idea of Tesoro Alaska's capital investments and expansion projects since our refinery was brought on stream in 1969. The period 1970 to 1972, 8.6 million dollars. 1972 to 1974, 3.3 million dollars. 1974 to 1976, 11.9 million dollars. 1976 to 1978, 24.5 million dollars. 1978 to 1980, 6.4 million dollars. 1980 to 1982, 63.4 million dollars. And so far this year we have committed an additional 2.7 million in capital projects. In total we have made investments of more than 120 million dollars, and have asked for only one thing -- the right to buy royalty crude from the State at a price and under terms and conditions equal to that which the State sells to others, competing in-state refinery. Unfortunately, all our efforts to secure a long term contract direct from North Slope producers have failed because the producers, uncertain of their royalty crude supply liability, are reluctant to sell their domestic crude on any basis but short term. I might also add that our efforts to buy ANS royalty crude from the State began even before the pipeline was complete and were unsuccessful.

Not only has Tesoro Alaska made significant investments over the last 13 years, but our growth has fostered substantial economic benefit to the State. We have grown from 14 employees in 1969 to 153 today, with a payroll exceeding \$6.8 million per year. State income taxes paid have increased from \$4,000 in 1969 to \$1.8 million currently. Ad valorem taxes paid have more than tripled in 13 years to over one-

half million dollars per year. Annual Sales, use, and excise tax payments to the State have increased from \$8,000 in 1969 to almost \$6 million today. The purchase of goods, services and supplies in Alaska, excluding purchases for capital projects and payroll, has increased from \$1.6 million per year in 1969 to more than \$10 million this year. This represents a current direct economic impact of more than \$25 million per year compared to less than \$2 million in 1969. Through aggressive marketing over 100 dealers, jobbers and resalers are now affiliated with Tesoro providing in excess of 1200 additional jobs for residents of Alaska. Not only in the major metropolitan areas of Anchorage, Fairbanks and Kenai, but in the remote areas such as Delta Junction and (unclear). There are many other intrinsic, not bonifiable benefits Tesoro's Alaskan operations bring to Alaska. The competition created by our building and expanding our refinery to meet in-state product requirements as the State grows certainly has a moderating effect on product prices. Our refineries supported by a secure long term royalty crude supply is critical to maintaining a steady supply of refined products to support not only existing industries, but also attract new industries to Alaska.

I might add that in 1979 while large portions of the lower 48 were running out of heating oil and lines at service stations were blocks long, we were supplying 100% of the requirements of our Alaskan customers without interruption or even significant inconvenience. And it cannot be otherwise. In Alaska a shortage of diesel could be devastating to the \$600 million fishing industry, and a shortage of Arctic heating oil when it is minus 60. You can't put dollars and cents on things like this, but if you could, you would probably find that just these intrinsic benefits of using royalty crude to support in-state refining and marketing alone far outweigh long term, the highly speculative possible depreciation of revenue.

That is the end of my prepared statement, Mr. Chairman.

Representative Cotten said he supports the bill and the contract to Tesoro Alaska. He asked if Tesoro was to purchase crude from either Exxon, Arco or Sohio, wouldn't they expect to have to pay more than they are going to have to pay under the terms of this contract. Mr. Smith said that may be a moot question in that the contract they are talking about is a contract for 12 years. He said it is not possible, they believe, and they have tried very hard to make a purchase from any of the companies mentioned by Representative Cotten. Concerning questions raised at earlier meetings to the effect "what would the price be today", Mr. Smith said in the short term they were buying some spot crude, a small amount, from Sohio, and their price since at that time they had the highest price in the State, Tesoro was probably paying more than in the price of this contract. He said that is only a small

window in time, and he believes that over the long period of time they would not be paying any less under this contract than they would be paying. There was further discussion between Representative Cotten and Mr. Smith.

(Representative Cuddy left.)

(Tape Change, HFC 82-43, side 2.)

COMMISSIONER JOHN KATZ, Department of Revenue, explained they have followed a very arduous process in negotiating these contracts. The end result of that process is reflected in a Commissioner's Finding document which is in excess of 200 pages, and they have summarized that for the Committee in a 14 page document. Basically, he said they started with 29 requests for state royalty oil. They went through those over a period of time and entered into intensive negotiations with about 9. He said they ended up with two contracts to propose to the Legislature, and three other companies who showed them enough in the way of justification that they didn't feel comfortable rejecting their contracts, but neither did they feel comfortable at this juncture with entering into contracts with those three; therefore, those negotiations continue. He said if they are successful they would be presenting contracts to the next governor and legislature for review.

Commissioner Katz said they utilized several major principals in all their negotiations:

They followed the State's statutory preference for in-state processing and refining.

To the maximum extent they could, they sought to avoid governmental intervention in the marketplace. Commissioner Katz said that is a very real concern because all the existing refineries compete in one way or another with each other, and Doyon -- a potential new entrant -- would be competing as well.

They adopted a price term after consideration of every alternative they have ever seen utilized in any contract, including contracts between oil companies, which was the weighted average field price of producers on the North Slope adjusted in the future by whatever occurs in the Amerata-Hess litigation. He advised that litigation is on the current price term and because of the formula they have utilized, the State will recoup, if it prevails, 3% above the prime rate or the treasury rate whichever is higher, in addition to the base recovered.

They adopted a term for contracts of 12 years. Commissioner Katz explained Prudhoe Bay production begins to decline at the end of eight years; they felt at the end of 12 years that decline would be precipitous enough so they would not want to preclude the then governor and legislature from whatever options they might have.

He said they wanted to maximize the amount of oil that would be available at that critical juncture of the process for their consideration.

They wanted to retain from this solicitation a significant amount of uncommitted volume of royalty crude. He said they did not want to preclude in this solicitation the opportunity again for future decision makers to consider those possibilities. He said they also wanted to provide the opportunity to address changed circumstances. Commissioner Katz said in essence they negotiated these contracts at almost the worst time because of the softening world oil market and, therefore, it is likely that conditions will change to the State's benefit in the future.

They included a concept of a reservation fee or an option fee. He said they felt that once they had committed oil to a particular refinery that opportunity cost would cost the state something that was quantifiable. He said if they had not committed it to that particular use it would be available for other uses. He said they felt that the people who obtained that commitment from the State ought to pay something for it.

Commissioner Katz said they did have a strong policy against the interim taking of crude oil. He said they should only provide crude oil to projects which were imminent and seemed viable, and that a royalty contract should not be leverage for the financing of an otherwise unfinanced project. He said crude oil would begin to flow on the day the refinery door opens. He said they were willing to be the 100% supplier of an in-state refinery. They felt that by supplying less all they would be doing is forcing companies to go out on the open market to seek oil when the State wasn't really getting much in return. Commissioner Katz said they tried to maximize the amount available to the State by using the return oil from the pipeline refineries downstream for other uses. He said that policy hasn't panned out yet because the proposals before the Committee don't relate to that concept. In essence, Commissioner Katz said, they would make a commitment to these contracts of 46,000 barrels for one, minus Cook Inlet crude, and 50,000 barrels for the other.

Commissioner Katz said they sought in their negotiations to do whatever they could for rural Alaska. It is not likely at this point in time that anybody will be willing to construct a new refinery in Rural Alaska, but they sought to improve distribution and get certain other assurances. Unfortunately, Commissioner Katz said, they are in suspension right now pending their negotiations with Chevron. Chevron, given their distribution network, is in the best position to provide some of those benefits.

Commissioner Katz said they were concerned about the possibility of blending Alaska coal with petroleum coke, and the possibility that Alaska royalty oil could be utilized to assure a supply of

petroleum coke. He said that policy is also in abeyance. He said they feel there are certain significant questions that need to be addressed including technological questions.

Commissioner Katz said there is also an issue Mr. Smith referred to in his testimony -- there is a possibility because of the way the two-tier price system works between the West Coast and Gulf Coast, that by taking oil in kind instead of in value there will be a negative impact on the State in terms of severance taxes and other revenues. He said they estimate that negative impact could be up to \$4 million in the case of each contract. Commissioner Katz emphasized two things: (1) that kind of calculation is very speculative; and (2) they perceive very tangible benefits which in their judgment outweigh the detriments.

(Representative Hurlbert left.)

Commissioner Katz said they were very concerned about not permitting state royalty oil to be used as market leverage for unrelated projects. He said that is not a concern in these two contracts.

They sought in every instance to assure themselves of adequate security to avoid some of the things that have occurred in the Alpetco situation in the past. He said the State is very well protected through letters of credit at the front end and back end of these contracts.

Commissioner Katz said they present the Tesoro contract without qualification or reservation and believe it would be in the State's best interest to approve that contract. One issue has arisen in connection with the Doyon contract he feels obligated to bring to the Committee's attention. He explained at the time they negotiated the contract with Doyon they had construction financing for this project. Since then that financing has lapsed. Doyon is very actively trying to rectify that situation by finding a purchaser for its return oil and in sequence asking the banks to renew that financing; but right now it does not exist. Commissioner Katz said they believe that to approve the contract without condition would not be in the State's best interest. He said in their judgment it would not be fair to those people they have just negotiated with on the grounds that their projects had to be imminent and viable. For Tesoro, who is contemplating an expansion, it would create at the very least an uncertainty in their decision-making, not knowing whether Doyon would go forward or not. Perhaps most important from Commissioner Katz's point of view, it would be difficult for the State to say in the future to a proposer of a project, who had a promising concept but no financing, that they were able to distinguish for Doyon, but couldn't provide the same benefit to another company.

Recognizing that a lot of time and effort has been investigated in the Doyon negotiation, and that that contract has the potential of being of significant benefit to the State if a new refinery is constructed, they have worked with the House and Senate Resources Committee to achieve a compromise which he thinks reflects the public interest. Commissioner Katz said that would be a conditional approval by the Legislature of that contract, subject to either the Governor or commissioner of Natural Resources finding two things: that adequate financing has been obtained and all other elements that are now underpinnings of the contract remain in effect as they are at the present time. In other words, that the project is basically imminent and viable.

Commissioner Katz said the House and Senate have adopted different time frames for that finding to occur, one is September 1 and the other is October 1. He said he would prefer a slightly shorter time frame, but could live in good conscience with either of the others. He strongly recommended the Committee not go further than that because if they did he believes it would do injustice to the process they have just completed.

There was brief discussion on the State buying urea at a reduced price.

Representative Carney asked what is the total amount of fuel consumed in Alaska and how would that compare to the output of these companies that will be handling the royalty oil? MR. JEFF HAYNES, Deputy Commissioner, Department of Natural Resources, said the total for refined products in Alaska is somewhere around 70,000 barrels a day as a product. He said the in state refiners total 40%/50%. Mr. Smith said in their facility about 75% of the product they produce stays in the state of Alaska. That would be about 40% of the total consumption of the State.

Commissioner Katz said it would be difficult for the government to monitor and determine whether the price that any refinery offered its products at is a fair price or not. He said that would involve a level of government intervention most of them wouldn't feel comfortable with. He said for that reason they sought to use traditional marketplace economics to bring an adjustment to the refined price. He said that is one of the reasons they were so enthusiastic about getting Doyon into the situation and about helping Tesoro improve its supply situation so it would be a good competitor. He said the other way they sought to deal with that was to develop a price term they thought was fairly stable.

Representative Carney said he can see the idea of lower fuel costs probably wouldn't work, but he isn't convinced urea couldn't be made available to Alaskan farmers at a reduced rate without hurting the oil companies. Mr. Smith commented they

don't produce any urea. He said it would be very unusual for a refinery ever to produce urea.

(Representative Fuller left.)

Chairman Adams asked if the price in dollar amounts received in this type of sale either to Doyon or Tesoro will bring the State a greater price or a price equal to the price they receive in royalty in value. Commissioner Katz said yes. He said the question of what in value is is pending litigation, but he thinks this is the best approximation of what value is, and if they are wrong and the court rules in their favor in its interpretation of another price term in their current contracts, they will have the benefit of that decision in these contracts retroactively.

Chairman Adams noted the contracts were for 12 years. He asked if the State can fulfill the contracts after 1991. Commissioner Katz said they do all their contracting by percentage terms, so they don't promise a particular volume amount in barrels, they promise in percentages. He said if they are wrong about the projections relating to Prudhoe Bay wind-down, the customer must suffer that consequence.

Representative Cotten said in the Doyon contract, Doyon would be in a more advantageous position than anyone else trying to get a contract because they don't have financing in place now, and that was a requirement placed on everyone trying to get a contract. He asked how they could justify that. Commissioner Katz said that is a moral dilemma they have been wrestling with. This is how they rationalize it: Certainly if Doyon could assure everybody they had financing by the time the Legislature adjourned, he thinks it would be in the public interest to approve that contract. The day the legislature adjourns is arbitrary, it doesn't have any real relationship to royalty oil or to negotiations Doyon has underway. He said what has occurred is that another date has been chosen that is more rational in terms of the impact on royalty oil, on the definition of what is a viable and imminent contract, and on what Doyon is actually doing to obtain financing. Commissioner Katz said he would have preferred a shorter deadline. He would recommend July 1. He said it is stretching the concept of what is imminent and viable a little bit, but he doesn't think it does any real damage. One other thing, according to Commissioner Katz, is that Doyon was, in comparison to others that sought state royalty without financing, really head and shoulders above the others. Even without the financing, he said, they would be further ahead than any of the other proposal they dealt with.

Chairman Adams commented there is a safeguard in the legislation that the Governor will make a written finding that the financing has been obtained, and if it hasn't the contract can be cancelled. Commissioner Katz agreed.

Commissioner Katz said there is one other issue they might raise. He said at this point in time Doyon's only problem is financing, but there are other premises to the Doyon contract. He said they were hopeful for a formulation that would require two things: (1) that adequate financing be in place and (2) that all other elements now in place and constitute an imminent and viable project would also have to be found to be in place. He said it shouldn't be a problem, but this does address the concern they have that perhaps financing could be obtained and something else fall out of the equation.

Representative Cotten asked if Doyon will have an easier time finding financing if they have this contract. Commissioner Katz said yes. Representative Cotten said he thought it would be good if Doyon could get this contract, but he thinks this gives them an unfair advantage, and that puts him in a dilemma on how to vote on the legislation.

(Representative Hurlbert returned.)

Commissioner Katz said there is one other element, which as an ex-officio member of the Royalty Board he feels compelled to raise. He said they made one other concession to Doyon which he felt was a fair one but the Royalty Board didn't agree. He said they agreed to the suspension of the option or reservation fee for a period of four years so they would not have to pay it during that period. He said the amount of money is not all that great, but there is no question that it is a concession. He said they weighted two policy concerns against each other to arrive at their decision. One was the policy in favor of encouraging new entry and the other was the policy in favor of getting some consideration in exchange for making a commitment of royalty oil, even though they are not actually providing that royalty oil until the refinery opens. He said they concluded the former policy should prevail over the latter, but the Royalty Board did not agree.

Commissioner Katz said they would feel more comfortable if both the conditions they mentioned earlier were expressly stated in the legislation. Representative Cotten asked if they had that language. Mr. Haynes said they would recommend on line 18 of CSHB 889 (GP), after "obtain" strike the period, add a comma and "and the project is otherwise imminent and viable."

There was further discussion on the contracts.

Representative Chuckwuk asked for assurance they will not go through a demise like they did with Alpetco a while back. Commissioner Katz said they reflected on the Alpetco situation and determined there were several things they ought to do differently in the aftermath. One was in their judgment there should be no interim taking of oil. The financing ought to be in place independent of state royalty oil, and they didn't want to

see a royalty contract used as leverage to obtain financing. Secondly, they have included much more severe security arrangements, one is that a letter of credit would be required that would involve the cost of two months of oil. Third, in general terms, they undertook a total revision of their royalty oil contracts. There was further discussion.

Representative Cotten MOVED on page 1, line 18 after "obtained" to add "and that the project is otherwise imminent and viable." There being NO OBJECTION, it was so ordered.

Representative Cotten questioned the last sentence of that section, that provides that the contract is void. Ms. Haynes advised that originally there were two contracts with Doyon. He commented briefly on those contracts and advised the Doyon II contract was withdrawn. Representative Cotten asked if this language needed to be in the bill. Commissioner Katz said he thought it would be o.k. to remove it.

Representative Cotten MOVED AND ASKED UNANIMOUS CONSENT that the last sentence of section 1 of CSHB 889 (GP) beginning on line 18 through line 21 be removed. Chairman Adams OBJECTED. Representative Cotten said it didn't make any sense to include the language now that the other contract has been withdrawn. Chairman Adams said the Gas Pipeline Committee held hearings on this and they probably had sufficient reasons for keeping it in. Commissioner Katz commented it may have had an historic antecedent to justify the language but now it isn't necessary. He said he didn't think it hurt to have it in the bill. Chairman Adams asked if there was some reason why the Gas Pipeline Committee left it in the bill. Commissioner Katz said he didn't think it was even addressed. Chairman Adams REMOVED HIS OBJECTION.

There being NO FURTHER OBJECTION, Representative Cotten's amendment was adopted.

Representative Cotten MOVED on line 15 to delete "October 1" and insert "July 1". Representatives Hurlbert and Adams OBJECTED. The Question was called for: IN FAVOR: 2 (Cotten, Carney); OPPOSED: 5. The MOTION FAILED.

Representative Bettisworth wondered if the wording accepted in the earlier amendment -- imminent and viable -- might not be too ambiguous. Commissioner Katz commented those are the words they have been using in negotiations on the contracts. He said he would interpret the words to mean those other elements in the contract are largely in place. Representative Bettisworth asked why they didn't insert language requiring that the other terms and conditions of the resolution were still intact. Commissioner Katz said the resolution provides that all the elements of the contract itself be maintained. He said that wouldn't solve the problem. He said all they want to do is make sure all the

elements underlying the contract remain in place. Mr. Haynes commented it is either a go project or the project is on hold.

Chairman Adams commented there is the safeguard that the Governor makes the final decision.

(Tape change, HFC 82-44, Side 1.)

Commissioner Katz commented that if the legislative history were to be reviewed, he thinks the words would be interpreted to mean what he has indicated before the Committee.

Representative Bettisworth MOVED AND ASKED UNANIMOUS CONSENT that HB 888 be reported out. There being NO OBJECTION, it was so ordered. HB 888 was reported out with a "do pass" recommendation.

Representative Cotten MOVED AND ASKED UNANIMOUS CONSENT that the amendments adopted at today's meeting and the Gas Pipeline CS for HB 889 be incorporated into a Finance CS, and that CSHB 889 (Finance) be reported out. There being NO OBJECTION, it was so ordered.

SB 101

The next bill to be considered was SB 101.

SB 101 am -- "An Act relating to the Teachers' Retirement System and authorizing adoption of regulations by the Alaska Teachers' Retirement Board."

Chairman Adams presented and explained the proposed House Finance CS for SB 101. He advised there was a representative from the Department present to answer questions.

Representative Cotten asked if the Department favored the bill. MR. JOHN LOGAN, Deputy Director, Division of Retirement of Benefits, said the Department of Administration has no position on the Bill.

Representative Fuller MOVED AND ASKED UNANIMOUS CONSENT to report out HCS SB 101 (Fin) with the two fiscal notes (\$108.8 and \$44.0). There being NO OBJECTION, it was so ordered. HCS SB 101 (Fin) was reported out with a "do pass" recommendation.

SB 702

The next bill to be considered was SB 702.

CSSSSB 702 (Fin) -- "An Act transferring parts of certain fiscal year 1982 Agricultural Action Council appropriation allocations to the Nenana-Totchaket agricultural development project; making a special appropriation to the Department of

Commerce and Economic Development for distribution of additional salmon enhancement tax receipts to regional associations; and providing for an effective date."

Chairman Adams gave a brief overview of the bill. He advised the Department of Environmental Conservation is requesting that an additional \$355.3 be added to the bill, and there is a representative from the Department present.

(Representative Cotten left.)

MR. BILL LEITCH, Economist, Department of Environmental Conservation, explained why they are requesting the funds (NOTE: See fiscal note in Original Bill File.)

Representative Carney asked where the money would come from. Mr. Leitch said they are requesting general funds. He said the reason for the request is, because of the nature of the area, wells have to be drilled to obtain these samples, and that would exceed their operating budget.

Representative Carney asked what the connection was between the bill and the request. Chairman Adams said they are taking the appropriation from last year's money scheduled to go to Delta II. There was brief discussion.

MR. RON WENTE, Southern Southeast Aquaculture Association, advised he will only be addressing Section 3 (lines 25-29) of the bill. Briefly, he explained that the Salmon Enhancement Tax is a tax that was voted in by the commercial fishermen in three regions in differing amounts. Mr. Wente said last year the Legislature had before them a request from the Governor to fund \$1.3 million based on the Department of Revenue's estimate of what they anticipated receiving from this tax in the 1981 fishing season. He said the decision made last year was to take a lower amount recognizing there would probably be a supplemental request this year.

Mr. Wente said the amount in the bill reflects the adjustment necessary to bring the appropriation up to what was actually collected.

Representative Bettisworth MOVED to amend the bill to add a new section amending the \$43,000 appropriation in Chapter 50, SLA 1980, page 78, line 4 from "Tanana Valley Fair Association Community Cannery" to "Tanana Valley Fair Association Demonstration Kitchen/Community Cannery". He said this does not add funds, it is merely a transfer. He asked for UNANIMOUS CONSENT. There being NO OBJECTION, it was so ordered.

Representative Bettisworth MOVED AND ASKED UNANIMOUS CONSENT that the request from the Department of Environmental Conservation for \$355.3 be denied. There being NO OBJECTION, it was so ordered.

Representative Bettisworth MOVED to report out HCS CSSSSB 702 (Finance) incorporating the Resources CS and the amendment. There being NO OBJECTION, it was so ordered. HCS CSSSSB 702 (Finance) was reported out with a "do pass" recommendation.

ANNOUNCEMENTS

Chairman Adams announced the Finance Committee would be working on both Saturday and Sunday this week.

ADJOURNMENT

The meeting adjourned at 5:55 p.m.

Tape HFC 82-43, side 1 #504 to end
 side 2 #001 to end
HFC 82-44, side 1 #001 to #302

SB 824 am cont'd

The Transportation Committee has considered CS SB 824, relating to the establishment and operation of in bond merchandise businesses at state owned and operated international airports. The purpose of this report is to express the Committee's understanding of the purposes of the bill and to make clear the Committee's intent with regard to certain aspects of the bill.

In bond merchandise, which includes merchandise of foreign origin (not manufactured in the United States) and United States alcoholic beverages and tobacco products handled in bond, is sold to foreign-bound passengers. For a number of years, the state has entered into exclusive contracts authorizing the establishment and operation of an in bond merchandise business at each of the state's international airports. These exclusive contracts have been extremely beneficial to the state by providing substantial revenue to the state, increasing employment in the state, and aiding the tourism industry, while at the same time facilitating the orderly administration of the state's international airports. For the reasons stated in Section 1 of the bill and elaborated upon by the official of the Department of Transportation and Public Facilities who testified before the Committee in support of the bill, the Committee believes that conferring exclusive rights for the establishment and operation of an in bond merchandise business at each international airport is good state policy.

Recently, legal questions have been raised concerning the granting of exclusive in bond contracts. This bill is designed to resolve all legal questions once and for all with regard to all existing and future exclusive in bond contracts. In particular, CS SB 824 is designed to ensure that "state action"

SB 765 am cont'd

or villages."

and a majority of the committee recommends that it do pass. Members signing do pass were Barnes (Chairman), Buchholdt, Freeman, Phillips and Meekins. Anderson signed no recommendation.

A zero fiscal note is attached to the bill.

SB 765 am, was referred to the Rules Committee for placement on the calendar.

HB 93

The Finance Committee has had HOUSE BILL NO. 93 (making technical amendments relating to state taxation; eff. date) under consideration and recommends that it be replaced with COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 93 (Fin) (same title) and reports it back as follows: Adams (Chairman), Haugen, Bettisworth, Cuddy and Fuller signed do pass; Hurlbert, Carney, Chuckwuk and Montgomery signed no recommendation; Cotten signed "delete sec. 9".

A fiscal note appears in Supplement No. 41.

HB 93 was referred to the Rules Committee for placement on the calendar.

CSSB 744 (Fin) am

The Judiciary Committee has had COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 744 (Fin) am (making special appropriations for legal fees and litigation costs related to oil and gas matters; eff. date) under consideration and recommends that it be replaced with HOUSE COMMITTEE SUBSTITUTE FOR CS FOR SENATE BILL NO. 744 (Jud) (same title) and a majority of the committee recommends that it do pass. Members signing do pass were Barnes (Chairman), Anderson, Buchholdt, Freeman, and Phillips. Meekins signed no recommendation.

CSSB 744 (Fin) am, has a further referral to the Finance Committee.

SB 824 am

The Transportation Committee has had SENATE BILL NO. 824 am (relating to sale and delivery of in-bond merchandise at international airports; eff. date) under consideration and a majority of the committee recommends that it do pass. Members signing do pass were Cato (Chairman), Abood, Metcalfe, Moss and Duncan.

A letter of intent appears as follows;

SB 824 am cont'd

immunity from the operation of the federal antitrust laws [see, California Retail Liquor Dealers Assn. v. Midcal Aluminum, Inc., 445 U.S. 97 (1980)] exists with regard to the establishment and operation of in bond merchandise businesses at international airports in the State of Alaska, including the conferral of exclusive rights in this field. Thus, the bill clearly and affirmatively states that it is the policy of the State of Alaska that only an exclusive contractor be allowed to offer to sell, sell and deliver in bond merchandise at each international airport, and that the Department of Transportation and Public Facilities may not permit, nor confer any right upon, any person other than the exclusive contractor to offer to sell, sell or deliver in bond merchandise at an international airport. In addition, the bill requires the issuance of exclusive in bond contractors in the future, and requires that the Department actively supervise the operations under each exclusive in bond contract. CS SB 824 is also specifically intended to, and does, provide an express immunity and exemption for the activities required under this bill from the operation of Alaska's antitrust laws, AS 45.50.562 et. seq., and any other applicable state laws that would otherwise affect the validity of those activities. See e.g., Section 1(e) of the bill. By providing these immunities, CS SB 824 will enable in bond merchandise sales in Alaska to continue to be maximized, thereby maximizing the state's revenue from this source and providing the other substantial benefits described above.

The Committee also intends that the exclusivity mandated under Section 2 of this bill encompasses, with one limited exception, every aspect of the establishment and operation of an in bond merchandise business at an international airport.

SB 824 am cont'd

That limited exception is for the delivery of in bond merchandise as cargo to airlines. For purposes of this bill, cargo has been specifically defined. As defined in Section 4 of the bill, cargo is intended to have four characteristics. First, cargo is carried by an airline in return for payments made by the shipper to the airline, which payments are computed by reference to a specific cargo tariff; in contrast, the carriage of baggage is included in the price of a passenger ticket (with any additional charges computed on the basis of the excess number of pieces of baggage, or the excess weight of baggage, to be carried, according to an excess baggage schedule). Second, cargo is carried under an airway bill, rather than under a passenger ticket. The portion of the definition of cargo that refers to goods carried "under an agreement between the shipper and the airline other than a passenger ticket" is intended to require both of these characteristics. Third, cargo is accepted, carried and handled at facilities, and under procedures, different from those used for baggage. Finally, cargo is delivered by the airline at the destination airport to a facility (e.g., an air cargo terminal) separate from that which receives baggage to be delivered to deplaning passengers, and is not brought to a baggage claim area, but must be picked up by the consignee at the facility described above. For a delivery to qualify as cargo, it must satisfy all of these criteria.

Dated April 14, 1982

SB 824 am cont'd

Archie Cato
Representative Cato
Chairman

[Signature]
Representative

[Signature]
Representative

[Signature]
Representative

[Signature]
Representative

SB 824 am, was referred to the Rules Committee for placement on the calendar.

CSSB 547 (Jud)

The Judiciary Committee has had COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 547 (Jud) (permitting the exclusion of the public during testimony of young victims of sexual offenses) under consideration and recommends that it be replaced with HOUSE COMMITTEE SUBSTITUTE FOR CS FOR SENATE BILL NO. 547 (Jud), entitled:

"An Act permitting the videotaping of, or the exclusion of the public during, testimony of young victims of sexual offenses; and changing Rule 804, Rules of Evidence, relating to exceptions to the hearsay rule."

and a majority of the committee recommends that it do pass. Members signing do pass were Barnes (Chairman), Anderson, Buchholdt, Freeman and Phillips.

Two zero fiscal notes are attached to the bill.

CSSB 547 (Jud) was referred to the Rules Committee for placement on the calendar.

SB 736

The Community & Regional Affairs Committee has had SENATE BILL NO. 736 (relating to home rule municipalities; eff. date) under consideration and reports it back as follows: O'Connell (Chairman) and Grussendorf signed do pass; Bylana and Clocksin signed no recommendation.

SB 736 was referred to the Rules Committee for placement on the calendar.

CSSB 180 (C&RA) am

The Community & Regional Affairs Committee has had COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 180 (C&RA) am (relating to municipal government; eff. date) under consideration and recommends that it be replaced with HOUSE COMMITTEE SUBSTITUTE FOR CS FOR SENATE BILL NO. 180 (C&RA) (same title) and reports it back as follows: O'Connell (Chairman), Blyma and Grussendorf signed do pass; Clocksin signed no recommendation.

CSSB 180 (C&RA) am, has further referrals to the Judiciary and Finance Committees.

INTRODUCTION OF CITATIONS

The following citation was read:

In Memoriam - Hilda Jackinsky
by Representative Chuckwuk

This citation was referred to the Rules Committee for placement on the calendar.

Representative Grussendorf announced a Democratic Caucus in the Butrovich Room upon recess.

Representative Halford moved and asked unanimous consent that the House recess to a call of the Chair. There being no objection, the House recessed at 11:04 a.m.

SB 824 am cont'd

The Transportation Committee has considered CS SB 824, relating to the establishment and operation of in bond merchandise businesses at state owned and operated international airports. The purpose of this report is to express the Committee's understanding of the purposes of the bill and to make clear the Committee's intent with regard to certain aspects of the bill.

In bond merchandise, which includes merchandise of foreign origin (not manufactured in the United States) and United States alcoholic beverages and tobacco products handled in bond, is sold to foreign-bound passengers. For a number of years, the state has entered into exclusive contracts authorizing the establishment and operation of an in bond merchandise business at each of the state's international airports. These exclusive contracts have been extremely beneficial to the state by providing substantial revenue to the state, increasing employment in the state, and aiding the tourism industry, while at the same time facilitating the orderly administration of the state's international airports. For the reasons stated in Section 1 of the bill and elaborated upon by the official of the Department of Transportation and Public Facilities who testified before the Committee in support of the bill, the Committee believes that conferring exclusive rights for the establishment and operation of an in bond merchandise business at each international airport is good state policy.

Recently, legal questions have been raised concerning the granting of exclusive in bond contracts. This bill is designed to resolve all legal questions once and for all with regard to all existing and future exclusive in bond contracts. In particular, CS SB 824 is designed to ensure that "state action"

SB 765 am cont'd

or villages."

and a majority of the committee recommends that it do pass. Members signing do pass were Barnes (Chairman), Buchholdt, Freeman, Phillips and Meekins. Anderson signed no recommendation.

A zero fiscal note is attached to the bill.

SB 765 am, was referred to the Rules Committee for placement on the calendar.

HB 93

The Finance Committee has had HOUSE BILL NO. 93 (making technical amendments relating to state taxation; eff. date) under consideration and recommends that it be replaced with COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 93 (Fin) (same title) and reports it back as follows: Adams (Chairman), Haugen, Bettisworth, Cuddy and Fuller signed do pass; Hurlbert, Carney, Chuckwuk and Montgomery signed no recommendation; Cotten signed "delete sec. 9".

A fiscal note appears in Supplement No. 41.

HB 93 was referred to the Rules Committee for placement on the calendar.

CSSB 744 (Fin) am

The Judiciary Committee has had COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 744 (Fin) am (making special appropriations for legal fees and litigation costs related to oil and gas matters; eff. date) under consideration and recommends that it be replaced with HOUSE COMMITTEE SUBSTITUTE FOR CS FOR SENATE BILL NO. 744 (Jud) (same title) and a majority of the committee recommends that it do pass. Members signing do pass were Barnes (Chairman), Anderson, Buchholdt, Freeman, and Phillips. Meekins signed no recommendation.

CSSB 744 (Fin) am, has a further referral to the Finance Committee.

SB 824 am

The Transportation Committee has had SENATE BILL NO. 824 am (relating to sale and delivery of in-bond merchandise at international airports; eff. date) under consideration and a majority of the committee recommends that it do pass. Members signing do pass were Cato (Chairman), Abood, Metcalfe, Moss and Duncan.

A letter of intent appears as follows;

SB 824 'am cont'd

immunity from the operation of the federal antitrust laws [see, California Retail Liquor Dealers Assn. v. Midcal Aluminum, Inc., 445 U.S. 97 (1980)] exists with regard to the establishment and operation of in bond merchandise businesses at international airports in the State of Alaska, including the conferral of exclusive rights in this field. Thus, the bill clearly and affirmatively states that it is the policy of the State of Alaska that only an exclusive contractor be allowed to offer to sell, sell and deliver in bond merchandise at each international airport, and that the Department of Transportation and Public Facilities may not permit, nor confer any right upon, any person other than the exclusive contractor to offer to sell, sell or deliver in bond merchandise at an international airport. In addition, the bill requires the issuance of exclusive in bond contractors in the future, and requires that the Department actively supervise the operations under each exclusive in bond contract. CS SB 824 is also specifically intended to, and does, provide an express immunity and exemption for the activities required under this bill from the operation of Alaska's antitrust laws, AS 45.50.562 et. seq., and any other applicable state laws that would otherwise affect the validity of those activities. See e.g., Section 1(e) of the bill. By providing these immunities, CS SB 824 will enable in bond merchandise sales in Alaska to continue to be maximized, thereby maximizing the state's revenue from this source and providing the other substantial benefits described above.

The Committee also intends that the exclusivity mandated under Section 2 of this bill encompasses, with one limited exception, every aspect of the establishment and operation of an in bond merchandise business at an international airport.

SB 824 am cont'd

That limited exception is for the delivery of in bond merchandise as cargo to airlines. For purposes of this bill, cargo has been specifically defined. As defined in Section 4 of the bill, cargo is intended to have four characteristics. First, cargo is carried by an airline in return for payments made by the shipper to the airline, which payments are computed by reference to a specific cargo tariff; in contrast, the carriage of baggage is included in the price of a passenger ticket (with any additional charges computed on the basis of the excess number of pieces of baggage, or the excess weight of baggage, to be carried, according to an excess baggage schedule). Second, cargo is carried under an airway bill, rather than under a passenger ticket. The portion of the definition of cargo that refers to goods carried "under an agreement between the shipper and the airline other than a passenger ticket" is intended to require both of these characteristics. Third, cargo is accepted, carried and handled at facilities, and under procedures, different from those used for baggage. Finally, cargo is delivered by the airline at the destination airport to a facility (e.g., an air cargo terminal) separate from that which receives baggage to be delivered to deplaning passengers, and is not brought to a baggage claim area, but must be picked up by the consignee at the facility described above. For a delivery to qualify as cargo, it must satisfy all of these criteria.

Dated April 14, 1982

SB 824 am cont'd

Bette Cato
Representative Cato
Chairman

Robert Ward
Representative

Alvin Murr
Representative

Ray H. Hulse
Representative

Jim Duncan
Representative

SB 824 am, was referred to the Rules Committee for placement on the calendar.

CSSB 547 (Jud)

The Judiciary Committee has had COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 547 (Jud) (permitting the exclusion of the public during testimony of young victims of sexual offenses) under consideration and recommends that it be replaced with HOUSE COMMITTEE SUBSTITUTE FOR CS FOR SENATE BILL NO. 547 (Jud), entitled:

"An Act permitting the videotaping of, or the exclusion of the public during, testimony of young victims of sexual offenses; and changing Rule 804, Rules of Evidence, relating to exceptions to the hearsay rule."

and a majority of the committee recommends that it do pass. Members signing do pass were Barnes (Chairman), Anderson, Buchholdt, Freeman and Phillips.

Two zero fiscal notes are attached to the bill.

CSSB 547 (Jud) was referred to the Rules Committee for placement on the calendar.

SB 736

The Community & Regional Affairs Committee has had SENATE BILL NO. 736 (relating to home rule municipalities; eff. date) under consideration and reports it back as follows: O'Connell (Chairman) and Grussendorf signed do pass; Bylsma and Clocksin signed no recommendation.

SB 736 was referred to the Rules Committee for placement on the calendar.

CSSB 180 (C&RA) am

The Community & Regional Affairs Committee has had COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 180 (C&RA) am (relating to municipal government; eff. date) under consideration and recommends that it be replaced with HOUSE COMMITTEE SUBSTITUTE FOR CS FOR SENATE BILL NO. 180 (C&RA) (same title) and reports it back as follows: O'Connell (Chairman), Blyma and Grussendorf signed do pass; Clocksin signed no recommendation.

CSSB 180 (C&RA) am, has further referrals to the Judiciary and Finance Committees.

INTRODUCTION OF CITATIONS

The following citation was read:

In Memoriam - Hilda Jackinsky
by Representative Chuckwuk

This citation was referred to the Rules Committee for placement on the calendar.

Representative Grussendorf announced a Democratic Caucus in the Butrovich Room upon recess.

Representative Halford moved and asked unanimous consent that the House recess to a call of the Chair. There being no objection, the House recessed at 11:04 a.m.

HOUSE FINANCE COMMITTEE

April 15, 1982

2:05 p.m.

Tape HFC 82-44, Side 1, #302

PRESENT

Members of the committee in attendance: Representatives Adams, Fuller, Chuckwuk, Cuddy, Cotten, Carney, Hurlbert, Bettisworth, Haugen and Montgomery. Representative Meekins was not present at the meeting.

ALSO PRESENT: Representative Malone; Dick Branton, Deputy Director of Division of Mental Health, Department of Health and Social Services; Anselm Staack, Comptroller, Division of Treasury, Department of Revenue; John Katz, Commissioner, Department of Natural Resources; Mary Halleran, Special Assistant, Department of Natural Resources; Joyce Munson, Resource Development Council; David Allison, Alaska Environmental Lobby; and Molly Dent, Attorney, Sierra Club and Legal Defense.

Chairman Adams called the meeting to order and informed committee members that he would not be considering SB 830, or SB 836 at today's meeting. The first bill to be considered was HB 151.

HB 151

HB 151 - "An Act relating to state trust funds; and providing for an effective date.

REPRESENTATIVE MALONE, sponsor of the bill, stated that he is in support of the committee substitute prepared by the Finance Committee for HB 151. With regard to the funds which would be set aside to comply with the state and federal law for mental health purposes in Alaska; Representative Malone stated that the set aside would consist of a mechanism whereby a percentage of state income from all lands would be utilized for the purposes of meeting the mental health needs of the state as recommended by the mental health board and legislature. He stated that the balance in the account fund would be available for any public purpose which the legislature might consider.

Chairman Adams stated that at the request of Representative Malone the appropriation bill, HB 152 would not be needed. Representative Malone stated that the approach of the committee substitute is to start from this time on and to keep the accounts for the trust and trust requirements under state and federal law.

DICK BRANTON, Deputy Director of the Division of Mental Health with the Department of Health and Social Services stated that he

has been following the bill and is available for any questions concerning the program. There were no questions asked of Mr. Branton.

ANSELM STAACK, Comptroller of the Division of Treasury with the Department of Revenue stated that with regard to the fiscal notes for the CS, there are three which include the revenue reduction, needs assessment contractual and actual management of the funds.

Representative Carney MOVED AND ASKED UNANIMOUS CONSENT to report out of committee CSHB 151 (Finance) along with the fiscal notes dated April 12, 1982 by the Department of Revenue in the amounts of \$50,000 and (\$16.2). There being NO OBJECTION it was so ordered. CSHB 151 (Finance) was reported out of committee with "no recommendation".

The next bill to be considered was SB 84

SB 84

SB 84 - "An Act relating to the processing of permits by state agencies; and providing for an effective date."

Representative Cotton began by informing members that he has arranged for a teleconference on Saturday, April 17, to take testimony on SB 84.

Chairman Adams stated that there would be a total of 23 new positions located within the Department's of Natural Resource, Fish and Game, Public Safety and Environmental Conservation for an approximate cost of one million dollars in FY 83.

JOHN KATZ, Commissioner of the Department of Natural Resources and MARY HALLERAN, Special Assistant stated their support for the legislation. Commissioner Katz began by stating that he has not been comfortable with the process as he perceives it and stated that one must only look at the legislative findings to see the reason a change in the approach of permit issuance is necessary. Commissioner Katz stated that there are some people who would prefer to accomplish reform by regulation but he does not agree. He stated these are major public policy judgements about how executive branch agencies should function and it is his judgement that the legislature as well as the executive branch should have a voice in that process.

Commissioner Katz indicated that there are at least three major problems with the existing situation. The process in most instances does take too long to the detriment of permit applicants. The second problem is that there is no coherency among state agencies in some areas. Commissioner Katz stated that this has been a problem in every administration from the beginning. Additionally, the public does not know who to contact and a determination of the state's position. The third problem

Commissioner Katz referred to is that it is unclear as to how coastal zone districts and unincorporated communities should participate in the permit issuance process. He stated that the legislation would improve the input by local governments and coastal zone districts into the process. Commissioner Katz stated that it is the governor's position that while there should be strong local government and coastal zone district input; inevitably decisions of statewide consequence must be made after a thorough process by state decision makers without the possibility of a veto.

It was the perception of Commissioner Katz that the comments by individuals expressing concern with regard to the legislation fall into three or four categories. The first includes individuals concerned with the timeframe and lead agency concept. Commissioner Katz stated that the timeframes are relatively short; however, there are provisions which relate to an extension of timeframes. With regard to the lead agency approach; Commissioner Katz believes it is important to have a lead agency in the decision making process. An entity which is ultimately responsible for the decision and must bear the consequences, both good and bad, for the timing of the decision and the substance of the decision.

The next category of concern relates to certain issues which could be handled by statute or regulation. Commissioner Katz stated that in most instances with other legislation the proponents and opponents would be comfortable with permitting the regulatory process or a letter of intent to take care of their concerns. Because of the history of the bill, there is a lot of legitimate concern and some paranoia about what each word means. Commissioner Katz felt that in most instances, the regulation process should properly deal with those concerns.

The third category which Commissioner Katz felt the committee should consider and which could be addressed either in statutory language or in authoritative legislation history concerns aspects of the public notice process. The first concerns the relationship of the lead agency versus other resource agencies and local governments in the provision of notice. The bill does provide for deadlines for resource agency and local government input back to the lead agency. Commissioner Katz stated that there is the possibility that the lead agency can postpone the notification of those agencies to such an extent as to really jeopardize their consideration of the permit and the response back. He felt that it would be reasonable to mandate that the lead agency provide notice within a required period of time. Another concern is what type of generalized public notice might exist. The statute refers to "necessary" public notice.

Commissioner Katz stated that although the legislation is not perfect, it does provide a good outline for governmental action

in the future and is designed to rectify a very serious situation.

Chairman Adams asked how much weight would be given to municipalities with regard to a comment period? Commissioner Katz responded that under current law the burden of proof is really upon the local government or coastal zone district to show that the state agency decision was wrong. SB 84 does not impact other collateral and existing law respecting the functions and powers of local governments. He stated that it is his understanding that the attorney general's office has provided a legal opinion which expands on what substantive consideration means. In areas within the expertise of a local government or a coastal zone district, they were to provide documented data or make professional judgements or recommendations. The burden of proof would then be on the lead agency to show by evidence that the local government or coastal zone district was in error in making its recommendations. The lead agency would then be able to waive competing concerns and come up with a decision which was documented to be in the states best interest.

There was discussion concerning the appeal process and the role of the Department of Natural Resources if designated as the lead agency.

Tape Change, 82-44, Side 2, #001

Representative Cotten referred to the permit classification section, page 2 of the bill, and questioned the word "necessary" and its interpretation. Commissioner Katz stated that it was his concern that the word "necessary" public notice may be interpreted to mean only situations where hearing is required by statute and feels that it would be in the publics best interest to interpret it more broadly than that as long as the deadlines are maintained.

Representative Cotten referred to Section 44.62.635, Lead Agency, and asked what the difference between the first and second set of circumstances represents. Commissioner Katz stated that with regard to the second set of circumstances; he did not think that there was to be a difference between the primary expertise and expertise. He stated that he would not have any problem with making those two references consistent.

Chairman Adams referred to Section 44.62.635, subparagraph (b) and asked if this meant that a community must have a coastal zone management program? Commissioner Katz indicated that he thinks that is right. He stated that the only official sanction that a coastal zone plan has is when it is approved and goes through the process which is authorized and required by existing state law. Until that happens, it has the legal standing of a group of people who are making recommendations. If there is approval, then it has a special place in the state statutes and is entitled

to the differences provided in the bill. In response to a question from Chairman Adams, Commissioner Katz stated that organized units of government will not be affected by this requirement. If there is no coastal zone act there should not be any specific sanctions except in the case of coastal zone plans which have already been approved. However, should the legislature decide to eliminate the coastal zone management program, another look at the legislation would be necessary.

Representative Cotten referred to subparagraph (c), Section 44.62.635 and stated that this had been included because of past problems between lead agencies and commented that there should either be one lead agency or the governor designated as the final decision maker. Commissioner Katz agreed that the governor should be the final authority.

Representative Bettisworth stated that with regard to the fiscal note, there are different agencies which are performing these functions at the current time and asked why there is a need for additional personnel? Commissioner Katz responded that on behalf of the administration he had been asked to point out that this is based on the governor's request. As for the Department of Natural Resources, they are the "keeper" of public land and want to make sure that permits which are issued will not conflict with land issues. He felt that there will be a tremendous burden initially but will decline over time.

JOYCE MUNSON with the Resource Development Council stated that they are in support of the bill. She stated that there has been considerable confusion as to the permit applicants responsibilities and agencies responsibilities and this bill will provide some ground rules.

DAVID ALLISON testified on behalf of the Alaska Environmental Lobby which is a coalition of eleven groups. Mr. Allison stated that there are 4,000 members in support of the concept of permit reform and who have joined together in an attempt to draft legislation and regulations which would be acceptable to all groups concerned, not only the Alaska Environmental Lobby. He stated that the bill before the committee has not been subjected to such cooperative analysis and evaluation as a result of the comparatively narrow public participation in the drafting and review of the new bill. Consequently, a number of problems have arisen and fall into two general categories, those relating to substance and those relating to process.

Mr. Allison referred to the previous testimony presented by Commissioner Katz with relationship to the "Findings" section of the bill. He stated that the commissioner has endorsed the findings in that section and the Alaska Environmental Lobby believes that they are without factual support. He stated that there is no demonstrated accuracy to the findings which constitute perceptions of a relatively small group of extremists

within the state who are primarily based outside of Alaska and coastal rim communities most likely to be impacted by the proposed process.

With regard to Commissioner Katz' comment that the bill would improve the input of local governments and coastal zone agencies; Mr. Allison stated that the bill itself and the analysis which was done by the Department of Law belies that contention. Mr. Allison referred to Commissioner Katz' statement that the decisions of the statewide significance should be decided by the state rather than the locals. Mr. Allison stated that it has always been his understanding that the governor believes that the policies of the state should begin with the people and the local communities who should decide what will happen in the State of Alaska.

With regard to the fiscal note, Mr. Allison stated that given the current state government work force freeze and reductions; they believe that the additional staffing levels projected for the monitoring agency are probably inadequate. Mr. Allison stated that they believe that there should be some money allocated to the Department of Law to defend the lawsuits which this legislation is almost certain to generate.

Mr. Allison indicated that it appears that SB 84 will keep communities from implementing their coastal zone management plans since the power to implement the plans relies on all final decisions being made by the lead agency. Mr. Allison referred to the history of the bill and lack of adequate public notice and hearings on the proposed legislation. There was further discussion.

Tape Change HFC 82-45, Side 1

MOLLY DENT, Attorney with the Sierra Club and Legal Defense, referred to written comments on SB 84 which she had submitted to individual members. She stated that the Sierra Club and Legal Defense opposes the legislation as they have opposed previous permit reform legislation. The reasons for their opposition to the legislation include (1) the lack of public notice and participation; (2) failure of the bill to take advantage of resources through agency cooperation; (3) lack of attention to the coastal zone districts and local government's concerns with regard to planning; and (4) the need for continued approval of coastal zone management plans. Ms. Dent stated that their organization is concerned that without the development of coastal zone management plans, the federal government will not consider the state's plan adequate and therefore they will assume the decision making authority. Ms. Dent expounded on the lack of public participation, short deadlines, automatic issuance provisions and administrative appeals.

MEETINGS

Chairman Adams informed committee members that there would be a meeting beginning at 3:30 p.m. on Saturday, April 17 with a teleconference on SB 84 beginning at 4 p.m. There will be a meeting following session on Sunday, April 18 to consider amendments and further action on SB 84 and other bills.

ADJOURNMENT

The meeting adjourned at 3:43 p.m.

Tape HFC 82-44, Side 1, #302 to end
82-44, Side 2 to end
82-45, Side 1, #455

HOUSE FINANCE COMMITTEE

April 16, 1982

1:30 p.m.

(Tape HFC 82-45, Side 1 #455.)

PRESENT

All Members of the Committee were present except Representatives Meekins and Haugen. (Representative Fuller arrived later in the meeting.) PRESENT TO TESTIFY: Representatives Metcalfe and Zharoff; Tom Williams, Commissioner, Department of Revenue; Dennis DeWitt and William Brock, Alaska State Hospital Association; Judy Knight, Special Assistant, Department of Labor; and Art Zillig, Director, Division of Employment Security, Department of Labor.

HB 101

Chairman Adams called the meeting to order and brought HB 101 up for consideration.

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

Chairman Adams advised there is a new Rules CS for HB 101 (NEW TITLE: "An Act relating to the motor fuel tax (AS 43.40); and providing for an effective date."). He gave a brief overview of the Rules CS.

REPRESENTATIVE RAY METCALFE said he disputed the fiscal note on the Rules CS because the Department is assuming it will receive funds from an audit currently underway. He said in his opinion the Department has changed the rules in midstream. He said the Department's actions will probably be challenged in court and the challenge will prevail.

COMMISSIONER TOM WILLIAMS, Department of Revenue, said the Rules CS combines certain sections that earlier were in HB 37 and HB 101. He said he has been advised by staff that there is a proposed letter of intent. (Representative Carney presented the proposed letter of intent -- see attachment #1.)

Commissioner Williams said a question has been raised with respect to the certificate of use. He said it is a question of whether this needs to be a separate form or whether it can be on the invoice of receipt. He commented further. He said it would facilitate their enforcement and audit review if those invoices that show the certificate of use could be identified and kept separate from the others.

Regarding section 3 of the Rules CS, Commissioner Williams said he thinks it is unconstitutional for two reasons: First, it is tantamount to lacking public purpose because you have dealers in different positions -- some dealers who have complied and paid taxes, and other dealers who have been caught in a situation, not necessarily of their own creation, where the tax is unpaid and it does not appear that the fuel was used for an exempt purpose or by an exempt entity. So, there is a tax due on that fuel. Commissioner Williams said section 3 would prevent the Department of Revenue from enforcing the tax law with respect only to those people who have inadvertently found themselves failing to follow the tax laws of the state. Commissioner Williams said section 3 only benefits those who would not comply, it does not benefit those that have. Therefore, he said, it is not benefiting the entire class, and lacks public purpose.

Also, Commissioner Williams said, it divides class in an arbitrary fashion, treating those who have complied differently from those who have not complied. He said that denies equal protection under the law. For those two reasons, Commissioner Williams said if section 3 remains in the bill, and it is sent to the Governor, he would recommend a veto to the bill.

Commissioner Williams said the Department is working with the Audit Division to try to resolve the situation with the individual dealers involved. He said they are working with the dealers' attorney and are accepting affidavits about the fuel being used for exempt purposes. He said they are attempting to resolve this administratively, and section 3 is a gross way to attempt to make a situation go away. Unfortunately, he said, it fails to do so and even if it did succeed, it would attempt to do so in an unconstitutional fashion.

Representative Carney said AS 43.40.010 deals with the responsibility of dealers, and section (c) says that a dealer who sells or otherwise transfers motor fuel in the state shall collect a tax at the time of sale. Under the definition of dealer, Representative Carney said, it says it means a person who sells or otherwise transfers in this state motor fuel upon which the taxes imposed for this chapter have not been paid. He asked Commissioner Williams to explain to him why it wouldn't be the responsibility of the wholesaler, the person importing the fuel, to collect the fuels, as the definition plainly states that any fuel sold in the state that hasn't had the tax paid should be paid at that time. Commissioner Williams said he cannot, because his personal knowledge of this issue is of a general nature.

Representative Carney said he understands the gentleman responsible for all this activity is a new man in Alaska from North Dakota, and Representative Carney said he doesn't think he understands this issue either. Representative Carney said it is clear to him, and he is surprised someone didn't check with the attorney general to see if these people are responsible for the

collection of the taxes from the end user. He said the original statute plainly called importers and refiners users, and specified that they were responsible for the tax. He said because of some amendments they are down to a dealer, but the definition of dealer said when it is sold in the state of Alaska and the tax hasn't been paid, that person has to collect the tax. Representative Carney said he thinks this whole situation is unfortunate because he doesn't think these dealers who distribute fuel are responsible for determining whether or not it is put in a vehicle or not. He said their only responsibility should be to order and buy fuel from the person responsible for the tax. Representative Carney said if anyone is in violation of the law it would be the people who use the fuel bought as furnace oil and place it in internal combustion engines. He said he thinks this whole piece of legislation is unnecessary, but he is trying to get clarification from the Attorney General and the Legislative Attorney. He asked the Commissioner to work with him in determining if in fact, his staff is out of line.

Commissioner Williams said they are attempting to deal with this administratively. He said he would have to respectfully disagree with one statement made by Representative Carney that over-attributes blame to Mr. Kessler, who is the only person who has been brought in from outside the state in the last year. Commissioner Williams said Mr. Kessler is the director of the Audit Division, but he is not the one who initiated the audit. He is not the one who has made the audit findings. He is the director of the Division, and in that sense is probably responsible, as Commissioner Williams is as the Deputy Commissioner of Taxation. Representative Carney apologized for attacking Mr. Kessler, but said he does feel the Department is out of line in pursuing this action.

Chairman Adams invited Representative Zharoff to testify on CSHB 101 (Rules). REPRESENTATIVE FRED ZHAROFF, District 14, reminded the Committee he testified before them on HB 101 earlier, and at that time the contents were much different than what they are today. He commented he has more concern than objection to the way the bill is drafted now. He said his intent for appearing before the Committee is to ask that the Committee look at the work the Rules Committee did to the Bill passed out of the Finance Committee several weeks ago, and to ask if that is indeed the bill that was passed from this Committee. Representative Zharoff suggested it certainly is not the bill that is before the Committee, and to make it similar to what they had before them, he did have two amendments.

Representative Zharoff said what the first amendment (see attachment #2) would do is reinstate that portion of the Bill that was taken out by the Rules Committee dealing with the marine fuel tax repeal. He said there were not a lot of favorable responses to this language, but at least the intent would be

there to move it along as it was. He requested that the Committee consider favorably reinserting this language.

Representative Zharoff said the second amendment would deal with a problem that could be associated more with the bill as it is now in terms of some of the problems that oil suppliers are experiencing. The amendment is:

Following line 14 of Zharoff's proposed amendment, add a new subsection (d) with the intent that:

"(D) fuel used in stationary power plants generating electrical energy for private residential consumption."

Re-letter the succeeding subsections accordingly.

(Tape change, HFC 82-45, side 2.)

(Representative Fuller arrived.)

Representative Zharoff advised this amendment would expand the definition of what a non-fuel is. He further explained the amendment. He said there are a number of small house-holds that have auxilliary generators or people in remote areas that do have generators that are not covered under the exclusion. He said the definition of motor fuel leaves them paying a higher tax which, he understands, is rebatable from the State if an individual makes application to do so. He said in many cases, many people living in remote areas either don't go through the process or are not familiar with it. Representative Zharoff said this amendment would identify a stationary power plant generating electrical energy for private residential consumption as part of the non-motor fuels.

Representative Cotten said he thinks this is a good amendment. He said since that is not on the list, it seems like they wouldn't be able to get rebated. Representative Zharoff said his understanding is that they can get a rebate of up to six cents a gallon if they make application.

Representative Cotten MOVED to accept the amendment presented by Representative Zharoff that puts back in the original language the Committee approved, and he ASKED FOR UNANIMOUS CONSENT.

Representative Metcalfe said he has been advised there would be problems getting the bill passed if the amendment were adopted. He commented further.

Representative Fuller OBJECTED to the motion.

Representative Bettisworth said this may be a good idea. He said perhaps they do need to reduce taxes. He said if the Committee

adopts this amendment he will offer an amendment to reduce the highway fuel tax by two cents a gallon.

Representative Cuddy said he supports both amendments, but he is concerned about the "piggy-backing" issue. There was brief discussion.

The Question was called for. IN FAVOR: 1 (Cotten); OPPOSED: 8. The MOTION FAILED.

Representative Cotten MOVED to accept the second amendment offered by Representative Zharoff, adding a new section to the bill to amend AS 43.40.100. Representative Fuller OBJECTED.

The Question was called for: IN FAVOR: 5 (Cotten, Adams, Montgomery, Bettisworth, Hurlbert); OPPOSED: 4 (Fuller, Chuckwuk, Cuddy, Carney). The Motion CARRIED.

Representative Cotten MOVED to report out a Finance CS incorporating the amendment. Representative Carney MOVED TO AMEND the motion to also report out the Letter of intent and fiscal notes. There being NO OBJECTION, it was so ordered. CSHB 101 (2nd Finance) was reported out with a "do pass" recommendation.

(Representative Cuddy left.)

HB 464 and HB 465

The next bills to be considered were HB 464 and HB 465.

HB 464 -- "An Act relating to vision and hearing examinations in public schools; and providing for an effective date."

HB 465 -- "An Act making special appropriations for a vision and hearing screening program; and providing for an effective date."

REPRESENTATIVE ZHAROFF testified that HB 464 is the enabling legislation and HB 465 would make an appropriation to the program. He explained this legislation addresses a problem in the school system throughout the State. He said the problem deals with the hearing and vision of students. He commented that if the problems are not detected at an early stage a child can very easily fall behind and be left out. Representative Zharoff explained the legislation would set up a program throughout the public school system for vision and hearing examinations. He commented they considered an amendment in the HESS Committee that would also add private schools.

Representative Zharoff further explained the legislation. He said the funding required for the screening is approximately \$3

per student, and the total fiscal impact is approximately \$270,000.

Representative Carney asked if there was any consideration in the HESS Committee on the physical examination required before children entered school. Representative Zharoff commented that is a one time shot. He said the screening proposed under this legislation will occur, on a staggered basis, during the years a child is in school. He commented further.

Representative Carney wondered if the law requiring a physical examination couldn't be repealed if this legislation were enacted. He commented that many people can't afford the physical exam. Representative Zharoff said this wasn't discussed, to his knowledge, in the HESS Committee.

There was brief discussion on including private schools as well as public schools.

Representative Cotten MOVED AND ASKED UNANIMOUS CONSENT that CSHB 464 (HESS) and CSHB 465 (HESS) be reported out of Committee. There being NO OBJECTION, it was so ordered. CSHB 464 (HESS) and CSHB 465 (HESS) were reported out with "do pass" recommendations.

SB 548

The next bill to be considered was SB 548.

CSSB 548 (Fin) -- "An Act relating to the Medical Indemnity Corporation of Alaska (AS 21.88)."

Chairman Adams gave a brief overview of the bill and advised that MR. DENNIS DEWITT, Alaska State Hospital Association, was present to testify.

Representative Cotten asked if there was any controversy over this bill. Mr. DeWitt said there is no controversy. He said there was a small question on the language, but it was worked out in the Senate side. He said as far as he knows the Association supports the legislation, MICA supports it, the insurance companies support it, and all those receiving insurance through MICA support it.

Representative Cotten MOVED to report the bill out of Committee. There being NO OBJECTION, it was so ordered. CSSB 548 (Fin) was reported out without recommendation (Bettisworth, Carney and Montgomery signing do pass; Cotten, Chuckwuk, Fuller and Adams signing no recommendation).

HB 635

The next bill to be considered was HB 635.

HB 635 -- "An Act relating to the operation of implements of husbandry upon the highway."

Chairman Adams gave a brief overview of the bill.

Representative Bettisworth MOVED to report CSHB 635 (Transportation) out of Committee with the \$35.0 fiscal note. There being NO OBJECTION, it was so ordered. CSHB 635 (Trsp) was reported out with a "do pass" recommendation.

SB 746

The next bill to be considered was SB 746.

CSSB 746 (Fin) -- "An Act making a special appropriation to the Department of Commerce and Economic Development, office of mineral development, for production of a documentary film on Alaska's mining history and potential; making a special appropriation to the Office of the Governor for participation of the Alaska games unit in the Arctic Winter Games; and providing for an effective date."

Representative Bettisworth said the mining industry in Alaska and others are interested in preparing a film that will show that Alaska has natural resources other than oil and gas. He said the film will be shown before the American Mining Congress in October and after that it will be made available for documentary use nationwide. There was brief discussion.

Representative Bettisworth MOVED AND ASKED UNANIMOUS CONSENT that the bill be reported out of Committee. CSSB 746 (Fin) was reported out with individual recommendations. (Bettisworth, Hurlbert, Carney, Fuller and Montgomery signing do pass; Cotten, Chuckwuk and Adams signing no recommendation.)

HB 757

The next bill to be considered was HB 757.

HB 757 -- "An Act relating to unemployment insurance; and providing for an effective date."

Chairman Adams gave a brief explanation of the bill.

(Tape Change, HFC 82-46, side 1.)

MS. JUDY KNIGHT, Special Assistant, Department of Labor advised there are two fiscal notes with this bill, one regarding the implementation of section 8, and a minor cost for data processing

changes in order to change the system for paying benefits and for the child support section of the bill. She said there is also a fiscal note for the State for paying unemployment insurance benefits to ex-state employees. She said that fiscal note does show a decrease in the budgeted amount of \$105,000 because there would be that much less paid due to the restrictions of extended benefits.

Ms. Knight said the Department does have a concern with section 8 which was added in the Labor and Commerce Committee. She said it adds a state supplemental system to pay or continue the extended benefit program for those individuals who are disqualified by AS 23.20.406. She said their concern is there have been several other disqualifying sections, particularly in last year's legislation and included in this bill, and Section 8 in this bill only addresses this one group of claimants. She said that may be discriminatory or unfair to other claimants who are disqualified by other sections.

Representative Cotten asked if this legislation increases the schedule of benefits. Ms. Knight said yes. She explained.

Representative Cotten asked if the Department supported the L&C CS or would they prefer the original bill. Ms. Knight said the original governor's bill also added two weeks of benefits to the minimum of 16 weeks, and it changed the capitation for figuring the number of weeks an individual would qualify for. She said they certainly supported the Governor's bill. Due to the substantial restrictions that have been placed on extended benefits, Ms. Knight said, many claimants are exhausting in the State, and it was the Department's recommendation to add the two weeks.

Representative Carney commented during budget deliberations, they were told the fund was in very good shape financially at this time. He said the Commerce Committee may have been operating under misinformation that this bill had some effect on the budget. He said it doesn't, it comes out of funds set aside for this purpose, and if the fund is capable of paying the increased benefits, he thinks this Committee should consider approving the original bill.

Ms. Knight said the Labor and Commerce Committee did consider the Governor's bill and those amendments, and there is a slight increase to employers for the addition. She said the total effect, adding the two weeks of benefits and the increase to 166 combined with the E.B. restrictions, is about a 5% increase to employers. She said this would be spread over 3 years. Representative Carney asked what the effect would be of putting that 5% on the employee. Ms. Knight said currently the employee pays 18% of the total cost of benefits in the State.

Concerning the Labor and Commerce CS, Chairman Adams asked if the Department had a proposed amendment to address their concerns with Section 8. Ms. Knight said their recommendation would be to delete section 8. She said they have not gone out and said they want to do a special state program for certain claimants. She said if they did that, it is something the Department would want to review and study to see if these are the people who are most deserving, or the ones that need an increase or extended benefits the most. She said she has a concern because most of these claimants do have low income and they would be eliminated because they haven't earned the eligibility of forty times the weekly benefit amount. She said it could put them to where they are drawing more in unemployment insurance benefits than they have in actual wages. There was brief discussion.

MR. ART ZILLIG, Director, Division of Employment Security, Department of Labor, explained the federal requirements require that in order to receive extended benefits an individual must have had earnings of an amount equal to forty times his weekly benefit amount. He said if they applied that to the Alaska situation, it would eliminate 1150 claimants from eligibility for extended benefits. He said it is the ones that have the shortest period of work that would be eliminated from receiving benefits. He said the philosophy behind this on the national level is there should be some relationship between how long an individual could draw unemployment in relation to how long he worked. Mr. Zillig said if they pay without that consideration they could have a situation where an individual may draw more in unemployment than he actually received in wages. He said the purpose of section 8 in the L&C CS was to cover those individuals that would be eliminated when applying the forty times weekly benefit amount. On extended benefits, Mr. Zillig said, 90% of the cost is paid by the federal government and 10% by the state, so they are not covered any more or less than they are right now, except those 1150 claimants that would be eliminated by the federal provisions would be paid for entirely by state funds. Ms. Knight clarified that is state unemployment insurance trust funds, not general funds.

There was brief discussion.

Representative Montgomery MOVED TO REPORT CSHB 757 (L&C) out of Committee. There being NO OBJECTION, it was so ordered. The bill was reported out without recommendation (Adams, Bettisworth, Carney and Montgomery signing do pass. Cotten, Fuller, Chuckwuk and Hurlbert signing no recommendation).

ADJOURNMENT

The meeting adjourned at 2:45 p.m.

Tape HFC 82-45, side 1 #455 to end
side 2 #001 to end
HFC 82-46, side 1 #001 to #295

April 16, 1982

The Honorable Joe L. Hayes
Speaker of the House of Representatives

Dear Mr. Speaker:

It is the intent of the Finance Committee that the "certificate of use" provision in * Section 1 of CSHB 101 (Rules) be interpreted in accordance with the following:

Section 1 of CSHB 101(Rules) states that a motor fuel dealer need not collect the motor fuel tax if the dealer has a reasonable belief that the fuel that is sold or transferred is not to be used as "motor fuel" within the meaning of AS 43.40.100(2). In addition the dealer must obtain a certificate of use from the recipient of the fuel if the tax is not collected. The certificate is a statement by the recipient that the fuel has not been and will not be used in a manner that would make it "motor fuel", subject to the motor fuel tax. The Department of Revenue is to prescribe the form of the certificate of use by regulation.

It is the intent of the Finance Committee that a certificate of use may be a short statement printed on a fuel delivery invoice to be signed by the recipient of fuel at the time of delivery. To avoid unnecessary recordkeeping and duplication

Attachment #1

-604-

4/16/82

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It is the intent of the Finance Committee that a certificate of use may be a short statement printed on a fuel delivery invoice to be signed by the recipient of fuel at the time of delivery. To avoid unnecessary recordkeeping and duplication of forms the certificate of use should be printed on the delivery invoice or the fuel billing form whenever possible. The regulations adopted by the Department of Revenue to implement this section of the Act should allow the certificate of use to be printed on forms used by fuel dealers.

except in cases where a separate certificate of use is absolutely necessary.

Sincerely,

Al Adams
Chairman
House Finance Committee

except in cases where a separate certificate of use is absolutely necessary.

Sincerely,

Al Adams
Chairman
House Finance Committee

Asper ✓
4/14/82A M E N D M E N T

TO: CSHB 101 (Rules)

By Zharoff

Page 1, line 6:

After "motor fuel tax (AS 43.40);" insert "repealing the tax on motor fuel used in or on watercraft;"

Page 1, after line 8:

Insert new sections to read:

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

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

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

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

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

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

(b) There is levied a tax of eight cents a gallon on all motor fuel used in or on watercraft;

Asper ✓
4/14/82

A M E N D M E N T

TO: CSHB 101 (Rules)

By Zharoff

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

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

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

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

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

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

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

(g) The proceeds of the revenue from the tax on all motor fuels,

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

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16 carry out the construction or reconstruction projects. If it is not
17 feasible for the work to be performed by state engineering forces, the
18 commissioner of Transportation and Public Facilities [PUBLIC WORKS] may
19 contract on a professional basis with private engineering firms for
20 road design, bridge design, and services in connection with surveys.
21 If more than one private engineering firm is available for the work the
22 contracts shall be entered into on a negotiated basis.

23
24 Page 1, line 9:

25 Change "Section 1" to "Sec. 4"

26
27 Page 1, after line 21:

28 Insert new sections to read:

29 * Sec. 5. AS 43.40.030(a)(2) is amended to read:

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

3 * Sec. 6. AS 43.40.100(2) is amended to read:

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

9 (A) fuel consigned to foreign countries,

10 (B) fuel sold for use in jet propulsion aircraft op-
11 erating in flights to foreign countries,

12 (C) fuel used in stationary power plants operating as
13 public utility plants and generating electrical energy for sale to
14 the general public,

15 (D) fuel used by nonprofit power associations or
16 corporations for generating electric energy for resale,

17 (E) fuel used by charitable institutions, [OR]

18 (F) fuel which is at least 10 percent alcohol by
19

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

* Sec. 6. AS 43.40.100(2) is amended to read:

(2) "motor fuel" means fuel used in an engine for the propulsion of a motor vehicle or aircraft, and fuel used [IN AND ON WATERCRAFT FOR ANY PURPOSE, OR] in a stationary engine, machine or mechanical contrivance which is run by an internal combustion motor; "motor fuel" does not include

(A) fuel consigned to foreign countries,

(B) fuel sold for use in jet propulsion aircraft operating in flights to foreign countries,

(C) fuel used in stationary power plants operating as public utility plants and generating electrical energy for sale to the general public,

(D) fuel used by nonprofit power associations or corporations for generating electric energy for resale,

(E) fuel used by charitable institutions, [OR]

(F) fuel which is at least 10 percent alcohol by volume, or

(G) fuel used in and on watercraft for any purpose; [.]

Renumber Secs. 2 - 5 as Secs. 7 - 10

Page 2, after line 21:

Insert a new section to read:

* Sec. 11. AS 43.40.010(f) is repealed.

Page 2, line 22:

Change "Sec. 6" to "Sec. 12"

HOUSE FINANCE COMMITTEE

April 17, 1982

3:30 p.m.

Tape HFC 82-46, Side 1, #295

PRESENT

The following members of the committee were in attendance: Representatives Adams, Fuller, Meekins, Chuckwuk, Cuddy, Cotten, Carney, Hurlbert, Bettisworth, Haugen and Montgomery.

ALSO PRESENT: Senator Mulcahy; Representative Martin; John Haywood, Director of Risk Management, Department of Administration.

Chairman Adams called the meeting to order and informed committee members that they would be considering bills until 4:00 p.m. at which time they would break for a teleconference on SB 84. Following the teleconference, the committee would resume consideration of scheduled bills. The first bill to be considered was SB 552.

SB 552

SB 552 - "An Act exempting certain child care workers from the Alaska Wage and Hour Act."

Senator Mulcahy indicated that the bill has no fiscal note and is supported by the Department of Labor and is modeled after a federal statute. The bill takes care of a potential problem dealing with child care homes where people are hired on an annual salary and working 24 hours a day, seven days a week, 52 weeks each year. Senator Mulcahy explained that there are three child care homes around the state which could potentially be effected by suits as a result of the length of their working hours and payment on an annual salary. He explained that it will effect approximately 33 individuals located in Dot Lake, Constable and Kodiak.

Representative Cuddy referred to the Alaska Childrens Services in Anchorage and the suits which have been brought as a result of individuals who are working full time and later return for additional wages. He asked if this bill is going to protect Alaska Children Services in Anchorage? Senator Mulcahy stated that it is not geared to that type of situation; instead for individuals hired on an annual basis and living at the homes. He did not feel that it would alleviate that situation since the employees at the Children Services work on a 7 day, 24 hour a day basis for a week, then return to their home for a week prior to returning to work.

Representative Carney asked if it wouldn't be a good idea to include the type of situation as mentioned by Representative Cuddy. Senator Mulcahy stated that he is always hesitant to legislatively get in the middle of litigation and the bill would address the possible future problem of year round residency and not temporary residency.

Representative Cuddy responded that he believes that the suit has been settled and payments were made which will impact the state's budget as Alaska Children Services is reimbursed by the state. He agreed with Representative Carney that if there is a way to include that type of situation it would be a good idea.

Senator Mulcahy stated that he would be hesitant to make any changes at this time as the bill is modeled after a federal statute and there should be some consideration to the potential effects of this type of a change.

Representative Carney stated that it is his understanding that these individuals do stay at the Alaska Children Services overnight working 24 hours a day for seven days. They are actually residing at the facility while they are working. Consequently this should be considered the same type of situation. The question concerns the definition of "residency" in the bill.

Senator Mulcahy stated that in the situation as referenced in the bill, includes those individuals who live at the facility and have no other residency.

Representative Meekins MOVED AND ASKED UNANIMOUS CONSENT to report out of committee CSSB 552 (Finance). There being NO OBJECTION it was so ordered. CSSB 552 (Finance) was reported out of committee with a "do pass" recommendation.

SB 831

SB 831 - "An Act relating to insurance policies and contracts."

Chairman Adams explained that SB 831 is sponsored by the Labor and Commerce Committee and repeals several laws relating to the issuance of insurance contracts in Alaska. The House Labor and Commerce Committee adopted a committee substitute which includes provisions related to insurance requirements on state construction contracts. This version would disallow "rap-up" insurance programs. There is a fiscal note from the Division of Risk Management which indicates that the additional costs during FY 83 will be \$4,505.

REPRESENTATIVE MARTIN stated that the Labor and Commerce Committee made an amendment to the bill which prohibits the continuation of rap-up insurance programs. He stated that it

appears that the Director of Alaska Power Authority and Risk Management have circumvented state law and regulations which deviate from the normal procedures for bidding on construction programs. Representative Martin explained that they had brought this to the attention of the Governor's office and it appears that these agencies have gotten the state into a liability program which the committee could not ascertain when it would end. He stated that the open contract (Terror Lake) may mean as much as \$500,000 million to a sole contractor in Seattle and normal bid procedures were not allowed. The Labor and Commerce Committee evaluated the fiscal note, which really totals approximately \$65 million, and which normally would have been a zero fiscal note in that the legislature is asking the Department to stop something which they do not have the authority to do in the first place. Representative Martin stated that the Committee had asked the Department not to pursue any new contract of this nature and they did anyway last Tuesday for the Terror Lake project.

Representative Martin referred to a study done by the Division of Audit which he has requested the Legislative Budget and Audit Committee evaluate concerning risk management and their new programs. He stated that the Division of Risk Management is going ahead and doing exactly what Legislative Audit said not to do.

JOHN HAYWOOD, Director, Division of Risk Management, Department of Administration began by explaining his background experience in risk management. He stated that the state has had a risk management program since 1972 which puts the state in the same category as the major private corporations. Mr. Haywood stated that they are attempting to apply risk management as they have since 1972 in which time the state has saved over four million dollars in the past four years. He explained that they have been able to do that despite the fact that risk management is tied directly to the expansion of government operation, increase in the budget, increase in state employees, increased contracts, etcetera. Mr. Haywood explained that with the risk management program they have cut the cost to the state and their budget is tied to the state operations budget.

Mr. Haywood stated that with major projects it is necessary to put a coordinated insurance program (rap-up programs) into effect. Mr. Haywood explained that for a large job; safety, claims management and an insurance program is put together which saves the state money in reduced premium costs, provides a broad base of protection, reduces legal expenses, and reduces accidents and accident rates. Additionally, the reserves are held in the general fund instead of giving them to an insurance company to invest.

Mr. Haywood explained that the APA board voted this week in Anchorage to put conventional language into the Terror Lake

project and to hire an independent consultant to study the matter for future contracts. This concept would not be able to be used for either Terror Lake or the Anchorage-Fairbanks inter-tie. In effect, there are no projects to put this program into effect for the next year to year and one half. There was discussion concerning protection with regard to design errors. With regard to the rap-up program, Mr. Haywood said that a no fault insurance is put into effect to cover everyone, including the designer.

Mr. Haywood explained that he does not have a large staff and approximately 80% of their work is through contract. He explained that he would not be going into a program which is not tried and would increase administrative requirements at a later time.

Chairman Adams asked Mr. Haywood what the fiscal note was when he appeared before the Labor and Commerce Committee. Mr. Haywood explained that there was no bill at that time and the fiscal note was prepared subsequent to the Labor and Commerce meetings.

Representative Meekins asked if risk management has been mandating that contractors obtain insurance from a certain source? Mr. Haywood responded that with regard to the Power Authority, they went to a formal broker selection process in which the entire state risk management account was opened up to major national and international insurance brokers. A final selection was made by a formal panel with the intention that the broker of record agreement would stay in effect for a three to five year period. This does not mean that every project which comes along during that period would go to those particular brokers.

With regard to a question concerning rap-ups, Mr. Haywood responded that Alaska is perfectly acceptable for rap-up, meaning it has not been legislatively prohibited as it is in some states. The concept is not new and untried or illegal.

Chairman Adams asked what would happen if a zero fiscal note was reported out? Mr. Haywood responded that he did not believe that it would be an accurate representation of the effects of the bill.

Representative Meekins MOVED AND ASKED UNANIMOUS CONSENT to report out of committee HCS SB 831 (L & C) with a zero fiscal note. There being NO OBJECTION it was so ordered. (SECRETARY'S NOTE: During recess it was noted that an amendment was to be made to the bill and additional action would be necessary later in the meeting. SB 831 was held for further action.)

RECESS

Chairman Adams called a recess at 4:00 p.m. The meeting reconvened with a teleconference on SB 84 at 4:13 p.m.

Tape #

Person Testifying

Tape HFC 82-46
Side 1 #680

Recall to order 4:15 p.m. Purpose of Meeting: Teleconference regarding SB 84 (2nd House CSSB 84 (Fin) -- "An Act relating to processing of permits by state agencies, and to administration of the Alaska Coastal Management program; and providing for an effective date.")

Tape HFC 82-46
Side 1 #690

ANCHORAGE, Jim Derigo, ARCO, testifying in favor of the bill.

Tape HFC 82-46
Side 2 #169

BARROW, Michael I. Jeffery, City of Kaptovik and Alaska Legal Services testimony opposing the bill.

Tape HFC 82-46
Side 2 #304

BETHEL, Janet Shantz, Y.K. CRSA Board testimony opposing the bill.

Tape HFC 82-46
Side 2 #405

DILLINGHAM, Greg Peter, Executive Director Bristol Bay CRSA Board and Bristol Bay Native Association testimony opposing bill.

Tape HFC 82-46
Side 2 #514

FAIRBANKS, Rudy Vetter, representing himself testifying in favor of the bill.

Tape HFC 82-46
Side 2 #526

ANCHORAGE, Patrick Anderson, Municipality of Anchorage, Planning Department testimony opposing the bill.

Tape HFC 82-46
Side 2 #645

KODIAK, Linda Freed, Kodiak Island Borough, testimony opposing the bill.

Tape HFC 82-46
Side 2 #672

FAIRBANKS, Jim Drew, representing himself, testifying in favor of the bill.

Tape HFC 82-47
Side 1 #092

KOTZEBUE, Fred Wemark, Kotzebue CRSA Board and Maniilaq, testimony opposing the bill.

Tape HFC 82-47
Side 1 #138

SITKA, Kent Hansen, Sitka Conservation Society, testifying against the bill.

Tape HFC 82-47
Side 1 #245

ANCHORAGE, Ethel H. Nelson, Texaco, testimony in support of the Bill.

Tape HFC 82-47
Side 1 #448

BARROW, Eugene Brower, Mayor, North Slope Borough, testifying against the bill.

Tape HFC 82-47

BETHEL, Harold Sparck, YK CRSA Board,

Side 1 #563	testifying against the bill.
Tape HFC 82-47	FAIRBANKS, Tom Owen, Representing himself
Side 1 #586	testifying in favor of the bill.
Tape HFC 82-47	ANCHORAGE, Paul Lowe, Sierra Club
Side 1 #626	testimony against the bill.
Tape HFC 82-47	FAIRBANKS, James Messer, Chairman
Side 2 #064	Fairbanks Chamber of Commerce,
	testimony supporting the bill.
Tape HFC 82-47	ANCHORAGE, Bob Sutherland, representing
Side 2 #084	himself (from Fairbanks) opposes the bill.
Tape HFC 82-47	ANCHORAGE, David Finkelstein, representing
Side 2 #147	himself, testimony opposing the bill.
Tape HFC 82-47	ANCHORAGE, Patrick Rumley, representing
Side 2 #195	himself, testimony supporting the bill.
Tape HFC 82-47	ADJOURN: 6:10 p.m.
Side 2 #300	

Tape HFC 82-46,	side 1 #295 to end
	side 2 #001 to end
Tape HFC 82-47,	side 1 #001 to end
	side 2 #001 to #313

MSG 82-00021818 PRTY 1 04/17/82 18:11:29 ORIG: LA08 IN= 0009 OUT= 0009
FROM: CANDY/[REDACTED] TO: JUNEAU T/C
TARGET: LJ01 SUBJ: HOUSE FINANCE T/C PAGE 0001

SPEAKERS:

[REDACTED] P.O. BOX 360 265-6534
[REDACTED] P.O. BOX 4-650, ANCHORAGE 99502 243-7044
[REDACTED] P.O. BOX 4-1579, ANC 99509 278-9611
[REDACTED] 1603 ATKINSON DRIVE, ANC 99504
[REDACTED] P.O. BOX 80871, COLLEGE, AK 99708 474-7074
[REDACTED] 3911 PETERKIN AVENUE, 99504 272-9317
[REDACTED] 6106 PROSPERITY DRIVE, ANC 99504 333-6894

OBSERVERS:

DANIEL G. RODGERS/ARCO, P.O. BOX 360, ANC
STEPHAN M. WILLIAMS/ARCO
W.P. METZ, 4610 EDINBURGH, ANC 99502 243-7044
STEVE ELLIS/CHEVRON, 1001 W. THIRD, #400, ANC 99501 279-3581

MORE _ NXT MSG U/R/S _ PREV MSG U/R/S _ RESEND _ CANCEL _

MSG 82-00021818 PRTY 1 04/17/82 18:11:29 ORIG: LA08 IN= 0009 OUT= 0009
FROM: CANDY/[REDACTED] TO: JUNEAU T/C
TARGET: LJ01 SUBJ: HOUSE FINANCE T/C PAGE 0002

JAMES M. POSEY/ARCO, P.O. BOX 360, ANC 99510
DAVE HARBOUR, SRA BOX 62-R, ANC 99507 349-2787
SH[REDACTED] A ANJUM, 3201 C STREET, SUITE 602, ANC 99503 276-4374
JULIE HANZLER/RURAL CAP, 327 EAGLE ST., ANC 279-2511
JACK HESSION, 545 E. 4TH AVENUE, #5, ANC 99501 274-2318
ERIC MYERS, 3911 PETERKIN AVENUE, ANC 99504 279-6719
THOMAS M. DILLON, SRA BOX 599-D, ANC 99507 345-5894
HENRY MITCHELL, 805 W. 3RD, ANC 277-5845
D.E. GLASS, 1381 HILLOREST DRIVE, #201 99503
MATT ZENCEY, 1850 KUSKOKWIM, ANC 99508 277-3096
PEG KEHRER/AKPIRG, BOX 1093, ANC 99510, 278-3661
MILTON BYRD, SRA BOX 1423E, ANC 99502 279-1471
JEFF EUSTIS, TRUSTEES FOR AK, 833 GAMBELL ST., SUITE B, ANC 99501 276-42444
JOHN J. DURKIN, BOX 8-752, ANC 99508 279-0930
TOM FINK, 6359 COLGAK DRIVE, ANC 265-6532
JEFF PARKER, 545 E. 4TH, ANC 99501 274-2318

BACK _ NXT MSG U/R/S _ PREV MSG U/R/S _ RESEND _ CANCEL _

MSG 82-00021816 PRTY 1 04/17/82 18:09:38 ORIG: LR00 IN= 0012 OUT= 0010
FROM: FLORENCE IN [REDACTED] TO: TIM, JUNEAU
TARGET: LJ01 SUBJ: (H) FINANCE T/C ON SB84 4/14/82 PAGE 0001

LIST OF PARTICIPANTS AND OBSERVERS FROM BARROW:

PARTICIPANTS:

1. [REDACTED]
P.O. BOX 309, BARROW, ALASKA PH. 852 - 2311
 2. EYOR EUGENE BROWER, NORTH SLOPE BOROUGH, BARROW, ALASKA 99723 PH. 852-2611
- OBSERVERS:
1. RALPH ANDERSON, NORTH SLOPE BOROUGH, BOX 69, BARROW, ALASKA 99723 - 852-2611
 2. REBECCA REYNOLDS, NSB. BOX 69, BARROW, ALASKA 99723 852 - 2611
 3. HAROLD CURRAN, NSB. BOX 69, BARROW, ALASKA 99723 852-2611

Attachment

615

4/17/82

MSG 82-00021766 PRTY 1 04/17/82 15:49:20 ORIG: LS00 IN= 0005 OUT= 0043
FROM: THERESA IN [REDACTED] TO: T/C MODERATOR
TARGET: LJ01 SUBJ: 4PM T/C STATE REFORM PERMIT SYSTEM PAGE 0001

SITKA HAS ONE HERE TO PARTICIPATE:

1. [REDACTED] P.O.B. 4464 MT.EDGE CUMBE, AK 99835 747-6989

NXT MSG U/R/S _ PREV MSG U/R/S _ RESEND _ CANCEL _

MSG 82-00021774 PRTY 1 04/17/82 16:10:53 ORIG: LI00 IN= 0002 OUT= 0039
FROM: ANNA MAY/ [REDACTED] TO: JUNEAU LIO
TARGET: LJ01 SUBJ: 4-17-82 H.FIN.COMM. ON SB84 PAGE 0001

PARTICIPATE

[REDACTED]
BOX 189, DILLINGHAM, AK. PHONE 842-5257

OBSERVE

ELLYN DERMAN BOX 2894, DILLINGHAM, AK. 99576 PHONE 842-5699

NXT MSG U/R/S _ PREV MSG U/R/S _ RESEND _ CANCEL _

MSG 82-00021775 PRTY 1 04/17/82 16:12:43 ORIG: LF01 IN= 0004 OUT= 0038
FROM: ANNIE IN [REDACTED] TO: JUNEAU T/C
TARGET: LJ01 SUBJ: HOUSE FINANCE PERMIT T/C PAGE 0001

HERE TO TESTIFY:

1. [REDACTED] BOX 342, FBx 99707
2. JAMES V DREW, 4848 PALO VERDE, FBX 99701
3. DAVID BENTON, 700 W 18TH AVE, FBX 99503
4. [REDACTED] IN 3747 ERICKSON, FBX 99701

NXT MSG U/R/S _ PREV MSG U/R/S _ RESEND _ CANCEL _

MSG 82-00021776 PRTY 1 04/17/82 16:14:06 ORIG: LB00 IN= 0005 OUT= 0037
FROM: HELEN/ [REDACTED] TO: JUNEAU INFORMATION
TARGET: LJ01 SUBJ: SB 84 PERMIT REFORM T/C 4/17/82 PAGE 0001

BETHEL HAS TWO PARTICIPANTS THEY ARE:

1. [REDACTED] BOX 1169 BETHEL, AK. 543-2856 TO TESTIFY.
 2. NORMAN COHEN NUNAM KITLUTSISTI BOX 267, BETHEL, AK. 543-2956 TO OBSERVE ONLY.
- THE SPEAKER FEW MINUTES AGO WAS JANET SHANTZ.

NXT MSG U/R/S _ PREV MSG U/R/S _ RESEND _ CANCEL _

MSG 82-00021790 PRTY 1 04/17/82 16:43:38 ORIG: LR00 IN= 0010 OUT= 0026
FROM: FLORENCE IN BARROW TO: TIM, JUNEAU
TARGET: LJ01 SUBJ: (H) FIN T/C ON SB 84 - 4/14/82 PAGE 0001

BARROW WOULD LIKE TO HAVE AS OUR NEXT PARTICIPANT:
MAYOR EUGENE BROWER, NORTH SLOPE BOROUGH, BOX 69, BARROW, ALASKA 99723

NXT MSG U/R/S _ PREV MSG U/R/S _ RESEND _ CANCEL _

MSG 82-00021784 PRTY 1 04/17/82 16:28:06 ORIG: LR00 IN= 0009 OUT= 0030
FROM: FLORENCE IN BARROW TO: TIM JUNEAU
SUBJ: (H) FIN T/C ON SB 84 4/14/82 PAGE 0001

TO TESTIFY:J

1. MICHAEL JEFFERY
 2. HAROLD CURRAN, NORTH SLOPE BOROUGH, BOX 69, BARROW, AK 99723
- MAY WANT TO TESTIFY:
3. RALPH ANDERSON

NXT MSG U/R/S _ PREV MSG U/R/S _ RESEND _ CANCEL _

MSG 82-00021782 PRTY 1 04/17/82 16:21:38 ORIG: LR00 IN= 0008 OUT= 0032
FROM: FLORENCE IN BARROW TO: TIM, JUNEAU
TARGET: LJ01 SUBJ: (H) FIN ON SB84 4/17/82 PAGE 0001

PARTICIPANTS IN BARROW:

HERE TO TESTIFY:

MICHAEL I. JEFFERY, FOR CITY OF KAKTOVIK, ALASKA LEGAL SERVICES,
P.O. BOX 309, BARROW, AK

HERE AS AN OBSERVER, MAY WANT TO TESTIFY:

RALPH ANDERSON, NORTH SLOPE BOROUGH, BOX 69, BARROW, ALASKA 99723

NXT MSG U/R/S _ PREV MSG U/R/S _ RESEND _ CANCEL _

MSG 82-00021803 PRTY 1 04/17/82 17:31:15 ORIG: LF01 IN= 0008 OUT= 0017
FROM: MAXINE/ [REDACTED] TO: JUNO T/C
TARGET: LJ01 SUBJ: HOUSE FIN. T/C 4/17 SB 84 PAGE 0001

TO TESTIFY IN FAIRBANKS:

RUDY VETTER, BOX 342, FAIRBANKS, 99707 PH456-7269

JAMES V DREW, 4848 PALO VERDE, FAIRBANKS 99701 PH. 479-3947

DAVID BENTON, 700 W 18TH AVE. FBX 99703 PH. 276-5159

(MR. BENTON COULDN'T WAIT)

TOM OWEN, 3747 ERICKSON, FAIRBANKS 99701 PH. 479-2461

[REDACTED] BOX 870, FAIRBANKS 99707 PH. 452-3300

DONALD STEIN, AK MINERS ASSOC., 105 DUNBAR AVE., FAIRBANKS 99701 PH. 456-7642

JOHN M RETTERER, BOX 73662, FAIRBANKS 99707 PH. 456-7171, 452-5988

(OUR OFFICE SENDING DOWN WRITTEN TESTIMONY FOR MR. RETTERER)

OBSERVERS:

JACK WRIGHT, BOX 55717, N. POLE 99705 PH. 488-6108

CLYDE GERAGHTY, BOX 507, FAIRBANKS 99707 PH. 452-5191

NXT MSG U/R/S _ PREV MSG U/R/S _ RESEND _ CANCEL _

MSG 82-00021798 PRTY 1 04/17/82 17:06:36 ORIG: LB00 IN= 0010 OUT= 0021
FROM: HELEN/BETHEL TO: TIM/JUNEAU
TARGET: LJ01 SUBJ: ADDITIONAL PARTICIPANT PAGE 0001

BETHEL'S ADDITIONAL PARTICIPANT HAROLD SPARCKS WOULD LIKE TO TESTIFY INSTEAD OF
OBSERVE. THANK YOU.

NXT MSG U/R/S _ PREV MSG U/R/S _ RESEND _ CANCEL _

MSG 82-00021794 PRTY 1 04/17/82 17:01:47 ORIG: LB00 IN= 0007 OUT= 0023
FROM: HELEN/BETHEL TO: TIM/JUNEAU
TARGET: LJ01 SUBJ: ADDITIONAL OBSERVOR PAGE 0001

BETHEL HAS ONE MORE ADDITIONAL OBSERVER:

3. HAROLD SPARCK, YK CRSA BOARD, BOX 267, BETHEL, AK. 543-2856 JUST TO OBSERVE.

NXT MSG U/R/S _ PREV MSG U/R/S _ RESEND _ CANCEL _

MSG 82-00021791 PRTY 1 04/17/82 16:42:34 ORIG: LB00 IN= 0006 OUT= 0025
FROM: HELEN/BETHEL TO: TIM/JUNEAU
TARGET: LJ01 SUBJ: (H) FIN T/C ON SB 84 4/17/82 PAGE 0001

BETHEL HAS TWO PARTICIPANTS THERE ARE:

1. JANET SHANTZ, YUKON KUSKOKWIM C.R.S.A. BOARD BOX 1169, BETHEL, ALASKA 543-2856 HERE TO PARTICIPATE.
2. NORMAN COHEN, NUNAM KITLUTSISTI BOX 267, BETHEL, ALASKA 543-2956 TO OBSERVE.

NXT MSG U/R/S _ PREV MSG U/R/S _ RESEND _ CANCEL _

MSG 82-00021777 PRTY 1 04/17/82 16:13:31 ORIG: LZ00 IN= 0004 OUT= 0036
FROM: LORETTA/OTZ TO: TIM IN JUNEAU
TARGET: LJ01 SUBJ: NAMES PAGE 0001

I HAVE TWO PARTICIPANTS HERE FOR TODAY'S TELECONFERENCE.

DA WEINGARTNER- MANIILAQ/CRSA P.O. BOX 256 KOTZEBUE, AK 99752
P.O. BOX 256 KOTZEBUE, AK 99752

NXT MSG U/R/S _ PREV MSG U/R/S _ RESEND _ CANCEL _

MSG 82-00021778 PRTY 1 04/17/82 16:19:16 ORIG: L000 IN= 0006 OUT= 0035
FROM: LORNA / KODIAK TO: JUNEAU
TARGET: LJ01 SUBJ: H. FINANCE T/C PAGE 0001

PARTICIPATES: LINDA FREED, REP. KODIAK ISLAND BOROUGH
P.O. BOX 1246, KODIAK, AK, 99615PH. 486-5736

OBSERVERES: JERRY NEILL, REP. KODIAK AREA CHAMBER OF COMMERCE
P.O. BOX 1485, KODIAK, AK. 99615PH. 486-5557

NXT MSG U/R/S _ PREV MSG U/R/S _ RESEND _ CANCEL _

HOUSE FINANCE COMMITTEE

April 19, 1982

11:05 a.m.

Tape HFC 82-47, Side 2, #313

PRESENT

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

ALSO PRESENT: Representative Sutcliffe; Representative Gardner; Pam Neil, Lower Kuskokwim School District; Bob Green, Alaska School Boards; and Anselm Staack, Comptroller, Department of Revenue.

Chairman Adams called the meeting to order and informed committee members that the first bill to be considered would be SB 95.

SB 95

SB 95 - "An Act relating to election of school board members."

PAM NEIL with the Lower Kuskokwim School District stated that they are in support of the bill. Ms. Neil indicated that the Lower Kuskokwim REAA is growing at a rapid rate which requires that individuals vote on candidates who they are not familiar with. As a result, the name identification may actually carry the vote instead of qualifications.

BOB GREEN with the Alaska School Boards stated that they are neutral with regard to the bill. Several of the members are positive and many are negative with regard to the effects of the bill. He stated that in the city and borough school districts a majority feel that a designated seat approach to elections is a good idea and will help in the identification of seats which are coming up for election. In the REAA's some people feel that they would like to have the sections elected separately. The feeling of the Alaska School Boards is that as long as it is a local control issue there is no objection to the bill.

Representative Fuller MOVED AND ASKED UNANIMOUS CONSENT to report out of committee HCS CSSB 95 (C & RA) along with the fiscal note dated March 30, 1982 from the Division of Elections in the amount of \$25.0 for FY 83. There being NO OBJECTION it was so ordered. HCS CSSB 95 (C & RA) was reported out of committee with a "do pass" recommendation.

The next bill to be considered was SB 768.

SB 768

SB 768 - "An Act relating to residential loans administered by regional Native housing authorities; and providing for an effective date."

Chairman Adams provided an overview of the bill which is a vehicle for providing the fisheries production loan guarantee program. The Resource Committee adopted a committee substitute which establishes a fishery product revolving loan guarantee fund which will guarantee loans made to fish processors with facilities in Alaska. The purpose of the loans will be to finance the purchase and processing of fisheries products from Alaska fisheries or to pay the costs associated with the recall of Alaska fishery products processed in 1981. Chairman Adams informed committee members that the costs associated with the bill are to be handled in a separate appropriation bill.

REPRESENTATIVE SUTCLIFFE began by stating that this bill will hopefully address some of the major problems currently being faced by the Alaska fishing industry. The bill addresses the problems of those loans currently held by CFAB which speak to those companies which are 51% owned by Alaska companies. Representative Sutcliffe stated that there are currently four or five loans which are outstanding and individuals are not able to meet the deadline of the repayment of their 1981 pac loans. In order to allow them to process in 1982, it was felt necessary that the legislature should increase the guarantee to 70% from the current 40% level. This would apply only to those companies which show positive intent to operate in 1982.

Representative Sutcliffe stated that the second part of the bill addresses a guarantee program which will be open for all banks in and out of the state. An appropriated amount of funds will be placed in the revolving guarantee account for one year. It is the intent of the governor's office to encumber the "Rainy Day account" for up to \$100 million which will remain in the state's treasury for the year earning current interest and only be drawn upon by defaults next year. Once the loans become unencumbered through the pay back of the loan, this money immediately returns to the "Rainy Day account".

Representative Sutcliffe indicated that the loans will be made to any company operating in Alaska, with a 50% guarantee on the 1982 pacs. The state will be required to put up a guarantee since the banks will have to attempt to secure funding from lending institutions and the risk involved as a result of the recent botulism cases.

Representative Cuddy discussed the 1% borrower fee which is generally associated with loans and accrues as a protection for

the bank or asset to the borrower. He asked if this fee has been included in this loan guarantee program? Representative Sutcliffe responded that he did not think so. There was discussion concerning the borrower fee and the effects to the recipient and lending institution should it be considered as an inclusion.

Representative Cotten asked how many loans could be made?

Representative Sutcliffe responded that there is a limit of \$10 million per guarantee so conceivably you would be able to make 10 loans. However, the majority of the loans would not be at the maximum allowing for more loans. He stated that 20% of the \$100 million is going to be held until July 1 for Alaskan owned banks for Alaskan owned companies. In response to a question from Representative Cotten concerning current loans by CFAB;

Representative Sutcliffe responded that they still have approximately \$17.5 million dollars out and are expecting almost all of it to remain out. Representative Sutcliffe stated that under the new program the state would guarantee 50% and the bank 50% and they are not going to loan money to an individual who they do not expect will be able to pay the money back. There was discussion concerning the vehicle to be used for the appropriation.

In response to a question from Representative Meekins concerning the use of the "Rainy Day account"; Representative Sutcliffe responded that they knew there would be little chance of getting an appropriation from the legislature which took cash out-of-hand and the only other opportunity would be to encumber some funds from other sources in the state. Representative Meekins asked if there were additional cash available, would it be the preference to use cash versus the "Rainy Day account"? Representative Sutcliffe responded that he does not like to play around with the "Rainy Day account" ; however, since this is of an emergency basis it is preferable. The \$100 million will not leave the state treasury.

Tape Change 82-43, Side 1

Representative Cuddy referred to a situation two years ago where there was a \$75 million state loan program, called the Great Bank Bill, which allowed all the banks to pay off their marginal low interest loans. He asked if there was anything in SB 768 which would allow banks to pay themselves off for an old loan and come in for a new one. Representative Sutcliffe stated that the only refinance which will occur is the refinance of the 1981 pac loans which are out to CFAB and can only be used for salmon loans.

Representative Carney asked what percentage of companies involved would be foreign owned? Representative Sutcliffe stated that there is 20% of the loan that will be made to companies under foreign ownership.

REPRESENTATIVE GARDNER testified in support of the legislation. He stated that in terms of the crisis facing the canned salmon industry and rest of the salmon industry this is probably the minimum which can be done and expect any beneficial impact. He stated that even with this legislation certain companies are going to go bankrupt and it is only a matter of time. Representative Gardner said that the legislation does have some danger to the state in that it is only guarantees which do not solve the cash problems for the companies. The only thing which the legislation does is allow them to hold onto their existing financing, if the financial institutions agree, and allow them to get money to purchase fish. He stated that the companies are still going to be saddled with two years of inventory in one year so their expenses are going to be higher and they don't have profits from last year to offset their expenses. The question then will be where they will get the capital to start up this year?

With regard to the "Rainy Day account", Representative Gardner stated that it would have a more beneficial impact if they could utilize cash as an alternative. Under the guarantee, no state money would flow out of the treasury unless there is an actual loss which will mean a foreclosure on the company. He stated that if the cash was available, a safer approach would be for the state to go in on a targeted basis with those companies which are having the biggest problem and actually buy the canned salmon from them. This would give cash to the companies from the sale of their salmon allowing them to pay off their 1981 loans and be in a position to go to their financial institutions and borrow for the 1982 season. Additionally, this would help increase the market price since the real question is supply versus demand and this would help equalize the market demand.

Representative Gardner stated that since he does not feel the legislature would support a cash outlay, he is supporting this legislation. He stated that the important thing is for the legislature to take a position and implement action to assist the industry.

Representative Carney asked if those companies which will be faced with bankruptcy are American companies? Representative Gardner responded that more than likely they will be. There was discussion concerning support of Alaskan companies versus foreign concerns and the overall cycle effect which that would produce.

ANSELM STAACK, Comptroller with the Department of Revenue stated that no money goes out of the state accounts until someone defaults. There were no defaults in 1980 and there may be one small default for the 1981 program. Approximately one-half of the loans have been paid down. The guarantee program is a way that cash can be kept in-hand until it is actually necessary.

Representative Cuddy asked if it is possible for a financial institution with a problem loan to rewrite it incorporating the guarantee program and bail themselves out of a past loan? Mr. Staack responded that the language which applies to the 1981 program includes specific requirements as to what type of loans could be covered; are currently in existence and relate to canned salmon. Additionally, the person would have to process in the 1982 program otherwise the guarantee program is void. Therefore, the likelihood would be very small.

Representative Cotten MOVED to incorporate an amendment to HCS SB 768 (Resources) (see attached - attachment #1). There being NO OBJECTION it was so ordered.

Representative Cotten MOVED to report out of committee HCS SB 768 (Resources) as amended.

Representative Chuckwuk asked Mr. Staack additional questions concerning the total number of loans issued for 1980-81 and the possibility of non-Alaskans to become involved in the program.

Tape Change, 82-48, Side 2

ADJOURNMENT

Chairman Adams informed members that they would return and meet at 6:15 p.m. to complete action on SB 768 and today's agenda. The meeting adjourned at 12:17 p.m.

Tape HFC 82-47, Side 2, #313 to end
82-48, Side 1, #001 to end
82-48, Side 2, #001 to #28

House CS For Senate Bill No. 768 (Resources)

Page 1, line 27-28, Page 2, lines 1-2. Is amended to read:

Sec. 45.92.030. POWERS AND DUTIES OF THE DEPARTMENT.

(a) The commissioner may

(1) designate agents and delegate powers necessary to implement this chapter;

(2) adopt regulations to implement this chapter;

(3) make and execute contracts and other instruments to implement this chapter;

(4) acquire real or personal property by purchase, transfer, or foreclosure when the acquisition is necessary to protect an interest of the fund.

(b) The commissioner shall

(1) require that a loan guaranteed by the fund be secured by collateral.

HOUSE FINANCE COMMITTEE

April 20, 1982

3:55 p.m.

(Tape HFC 82-48, side 2 #029)

PRESENT

All members of the Committee were present except Representative Meekins. PRESENT TO TESTIFY: Representative Rogers and Dave Hutchins, Executive Director, Alaska Rural Cooperative Association.

Chairman Adams called the meeting to order and reminded the Committee that they were under a call of the House and were to remain in the House Finance Committee Room.

SB 768

The first bill to be brought up was SB 768.

SB 768 -- "An Act relating to residential loans administered by regional Native housing authorities; and providing for an effective date."

Chairman Adams stated there was a MOTION BEFORE THE COMMITTEE, made by Representative Cotten, that HCS SB 768 (Res) be reported out with the amendment. There being NO OBJECTION TO THE MOTION, it was so ordered. HCSSB 768 (Res) am was reported out without recommendation.

SB 769

The next bill to be considered was SB 769.

CSSB 769 (Fin) -- "An Act relating to the use of the power development fund for federal power projects under the energy program for Alaska; approving the Bradley Lake hydroelectric project under AS 44.83.384(c)(1); and providing for an effective date."

Chairman Adams advised there is a proposed Finance CS for the bill (HCS CSSB 769 (Fin) NEW TITLE: "An Act relating to power development projects under the Alaska Power Authority; and providing for an effective date.") He gave a brief overview of the proposed CS, and advised the bill was assigned to Representative Bettisworth.

Representative Bettisworth requested that Mr. Dave Hutchins be allowed to answer questions the Committee may have.

MR. DAVE HUTCHINS, Executive Director, Alaska Rural Cooperative Association, stated they are very much in support of the HCS. They think the various components are essential to this year. There are three sections in the bill that originally started out in SB 828, which are simply technical changes to the legislation adopted last year which are necessary to permit interim financing of various projects of the state, including the transmission inter-tie between Anchorage and Fairbanks, and the interim financing of various hydro-projects. Regarding the authorization for Bradley Lake, Mr. Hutchins said a cooperative development has worked out between the Alaska Power Authority and the U.S. Corps of Engineers to develop the project, and the language relating to the Susitna project came from a bill introduced at the request of the Governor (SB 826) to authorize the Power Authority to proceed with the preliminary work on that project. He said there is one additional phrase that was not in SB 826 originally, in Sec. 6 that states "in this section preliminary work means the preparation of plans and studies, and the preparation and submission of license applications as well as other type of work that must be completed before actual construction of the Susitna hydroelectric project may begin". He said the phrase "the preparation and submission of" is new language which was prompted by the Attorney General's opinion which was released this week, saying that contrary to everyone else's understanding the Power Authority does not presently have the authority to actually submit a license application to FERC, but they do have the specific authorization to prepare the application.

In answer to a question from Representative Cotten, Mr. Hutchins said the approval contemplated in .325 provides a mechanism whereby the Power Authority could proceed to construction of the project without any further legislative approval. He said once that approval is given, that approves construction. He explained what the legislation says is that they could proceed to the FERC license stage and do the design and engineering work, but not into construction without the Legislature looking at it.

Representative Cotten asked if what they were doing was specifically authorizing the Power Authority to submit a license application. Mr. Hutchins said to submit a license application and do the engineering and design work. Representative Cotten asked if they had money to do that. Mr. Hutchins said that was in the Governor's original budget request and he understands it will be contained in one of the bills coming out of Senate Finance.

Representative Cotten asked what they were doing in approving this license application. Mr. Hutchins said he thinks everyone assumed all along that the Power Authority had the authority to actually file the application with FERC, because they specifically had the authority to prepare the license application. He said the filing is kind of an administrative

duty, they mail it in. He explained the filing starts the clock running on the FERC consideration of the application.

Representative Cotten commented on an article in the Fairbanks paper where the Department of Fish and Game and the Governor's Office recommended not submitting the application to FERC. Mr. Hutchins said he wasn't sure if that was the case. He said he is not aware of any opposition to submitting the application. Representative Bettisworth said the two references made by Representative Cotten were correct. He said there was public statement by the Commissioner of Fish and Game that he didn't think they had enough information yet to pursue a permit. He reminded members that that Commissioner has conceded that only between 5% and 7% of the fisheries resource is involved in any way in the Susitna hydro-project, and that only a small percentage of that 5% to 7% would be in any way affected by the dam. He said the Committee could make their own determinations as to what value that small percentage of the fisheries resource is worth compared to a power project.

Representative Bettisworth said what prompted this bill is that three or four days ago, contrary to what the Legislature and the Power Authority has assumed (that the Authority had the authorization to go ahead and submit a permit if the Board of the Power Authority determined they should proceed) the Attorney General said, no they don't have that authority. He said this wording was put in to give legislative authority to the Power Authority to go ahead and submit a FERC application.

REPRESENTATIVE BRIAN ROGERS, District 20, asked the Committee to take time in looking at this piece of legislation. He said it creates some problems both for the Bradley Lake project and for the Susitna project. He said his first concern is in Section 2 which circumvents existing law setting out a process for the authorization of project. He said under existing law the Power Authority is supposed to prepare the feasibility study and the plan of finance for presentation to the Legislature. He advised this has not been done, and his concern is that if they want a process that allows the Legislature to make a rational decision, why do they want to circumvent that process. He said it is because of authorizing projects before knowing what they are going to cost that has gotten the State and other states into trouble in the past. He said this legislation leaves it up to Budget and Management.

Representative Rogers said he supports section 4 of the bill, on location of the transmission system in Denali State Park. He said this was an amendment he moved on the floor of the House last year. He thought the "may" language was better than the "shall" language in allowing the routing of the Fairbanks/Anchorage inter-tie.

Representative Rogers said he was concerned about the Bradley Lake project and the moves that are afoot to possibly kill the project by those who believe the Bradley Lake project threatens the feasibility of the Susitna project. He said Bradley Lake is one of the most feasible projects in terms of being one of the most economic projects around, yet the legislation "Christmas-treed" in the Senate -- HB 643 -- repeals the \$15 million appropriated last year for the project. He said he thinks it is important on Bradley Lake to wait for the feasibility work to be completed. He said a report done by House Research to Representative Malone indicates that natural gas will be cheaper than Bradley Lake, at least until 1995, and as a result, the project does not have to be on line in 1988 as now planned.

Representative Rogers said this bill was waived from the Resources Committee, and he thinks there are some resources issues that should be addressed. He said his biggest concern is on the amendments in section 6 of the bill. He said that section is primarily SB 826 which is now in the Resources Committee. He said this would essentially pull the guts of that bill and place it here; however there is a major difference. He said SB 826 allows the Power Authority to continue its preliminary work on Susitna, but not to apply for a FERC license or begin construction of the project. He said Resources Committee Co-Chairman Sutcliffe has asked to hold that bill because of some unanswered questions. He said the Power Authority Board is meeting this Thursday in Anchorage to make their recommendations to the Legislature on the best method of proceeding with Susitna. He said for this Committee to adopt and pass out the bill today circumvents the process. He said the bill would authorize submission of the license application prior to state authorization of the project. For those that support Susitna construction as quickly as possible, Representative Rogers said this may sound like a good idea, but the Federal Energy Regulatory Commission has been very resistant to what they call speculative applications -- an application for a project that does not yet have the authorization from the state in which it is going to be built. He said FERC may not want to take up the application because there is no State authorization for the project.

In addition, Representative Rogers said, the Susitna authorization at this time circumvents the process laid out in law. He said he has been waiting to see the recommendation from the Power Authority on the Susitna project. He said the change in oil prices is changing the economic feasibility, but if in fact it is the best project to build, the passage of this legislation in circumventing that process will lead to a lawsuit being filed, and will delay the project. He suggested that while the legislation was designed to speed up the project, the fact is it will delay the project. He urged the Committee to at least wait until the Power Authority has met on Thursday before taking up this bill.

Representative Rogers said the legal opinion referred to earlier is, he believes, one he requested from the Department of Law. He submitted a copy to the committee (see attachment #1). Representative Rogers said he received it from the Department yesterday. He said the opinion had to do with questions about SB 826 and the existing law. He commented briefly on what was included in his request.

Representative Cotten asked what the APA would be doing at their meeting on Thursday. Mr. Dave Hutchins said APA has been conducting hearings in Anchorage, Talkeetna, and Fairbanks, and they will be meeting to formalize their recommendations on Susitna. Representative Cotten wondered if it was advisable to move this bill before hearing their recommendation. Mr. Hutchins said he thinks it is advisable because if they don't have the authorization, they can't act. Representative Cotten asked if he already knew what they were going to say on Thursday. Mr. Hutchins said no. He said he didn't think they should wait before moving the bill because the point of the bill is to authorize the Power Authority to use their own judgment. He said they are not mandating that they submit the application. Representative Cotten said what the legislation is doing then is taking the Legislature out of the picture. Mr. Hutchins said he thinks the present language in .325 was drafted with the intent that it would authorize APA to proceed to the FERC license stage. Representative Cotten said he didn't remember that. He said it appears that it is a significant step to hand the license to the Commission. He said the timing seems kind of funny -- passing the bill today instead of Thursday when they will have the benefit of APA's recommendations.

Representative Rogers said he agreed with Mr. Hutchins that the Power Authority has the ability to prepare the FERC license application. He said the problem he sees with the timing is that if the Power Authority submits the license application before they receive the authorization of the Legislature, two things will occur: (1) a lawsuit will be filed to try and delay the project; and (2) FERC will not give the application the same weight they would to an authorized application. He believes they would be better off waiting until the Legislature has authorized the project to submit the application.

Representative Bettisworth said the interpretation of these actions would certainly be interpreted differently by those who oppose the project than they would be by those in favor of the project. He said if this legislation passes, authorizing the Power Authority to enter into preparation and submittal of a FERC licensing process, it does not mean they are mandating that they do it. He said it is merely the authorization, and the reason this is taking place now is that some of them believe they will adjourn in the very near future. He said because the Power Authority is going to meet on Thursday does not mandate that they are going to have a recommendation to the Legislature before they

adjourn. He said if APA recommend against proceeding with Susitna, and there is a possibility they could do it, this legislation is basically null and void. In relation to the lawsuit, Representative Bettisworth said there is going to be a lawsuit filed to stop Susitna whether this authorization is acted on by the Power Authority or not. In his opinion these reactions are going to take place regardless of the actions of this Legislature, and the sooner they get with the program -- if it is authorized by the Power Authority -- the sooner they initiate these negative actions that will take place, the sooner they can get on with the project. He said it is simply the intent of the Legislature to hedge its bets, to not run the risk of losing six to eight months in the timeframe of trying to get this project on line. He said it is a simple authorization they need to give to the Power Authority so they may proceed on their own recommendation, either pro or con.

Representative Cotten said he thinks he is a supporter of Susitna, he is not opposed to it, but he is curious about the way they are proceeding. He said they are saying a couple of different things here. He said maybe they should amend .325 to make it specific that they don't intent for it to mean they can't submit a FERC license. He asked if that wouldn't make more sense then making a specific exception for Susitna. He asked if there was a reason to have the law written the way it was. Representative Bettisworth said there are always alternative ways of doing things, this is the method they chose. He said Representative Cotten's method may work just as well; but this method is the one that happens to be before them. Representative Cotten said he thinks the constitution says they shouldn't have a special act if a general act would apply.

Representative Haugen commented this bill will go into the House and probably across. He said it will still be in the possession of the Senate after the Board meeting, so they have adequate time to address some of the questions that have been raised. He agreed with Representative Bettisworth that no matter what direction they proceed they are going to have an up-hill battle. He recommended moving the bill along.

Representative Rogers said he believes passage of this legislation, while designed to speed up the process, will provide the opponents of Susitna with an additional avenue for delay. He said he didn't believe the additional route to court is in the best interest of either those who support or oppose the project.

Representative Chuckwuk asked Representative Rogers if he has kept up with the progress of the Susitna studies. Representative Rogers said he hasn't read the entire report of the Power Authority on Susitna which is fairly thick. He said he read the Executive Summary.

Representative Chuckwuk asked if he was basically for the project. Representative Rogers said he believes a modified version of the project is in the best interest of the state and should be built. Representative Chuckwuk asked why he believed that. Representative Rogers said because of the needs for electrical power in the railbelt. Representative Chuckwuk asked why it should be scaled down. Representative Rogers said because he didn't believe the load forecasts contained in the earlier estimates are an accurate picture of the actual demand that is going to occur on the railbelt, number one. Number two, the change in energy costs that has occurred over the last several months, particularly the rapid drop in oil prices, has changed the point of time at which the trade-off between diesel and hydro is most effected. Thirdly, with the apparent failure of the Northwest Gas Pipeline project there is a substantial amount of natural gas that is available and uncommitted that could be used in a fairly shorter time period for natural gas fire generation, either at Prudhoe Bay or in Fairbanks, and provide significant amounts of electricity. Finally, the preliminary report indicated that even using the economic assumptions of petroleum prices of a month or two ago, that the price for Susitna power will not be competitive with that of natural gas fire generation until about the year 2010 to 2020, depending on your assumptions. Representative Rogers said he believes in the short term a scaled down version seems to be the best, and they should also proceed with natural gas fire generation, using the reserves of Prudhoe Bay natural gas.

Representative Chuckwuk asked if he felt a scaled down version would cause less detriment to the natural, forest, etc. Representative Rogers said a scaled down version would have fewer impacts and it would also cost less, which is a major factor here. He said a hydroelectric project is a major capital investment. He said the capital cost of projects designed as single projects are higher than those that can be built with off the shelf technology.

Representative Chuckwuk said basically Representative Rogers was opposed to the project itself in its current form. Representative Rogers responded he is opposed to the full scale construction as it now stands. He said he preferred a scaled down project.

Representative Chuckwuk asked if there were any reasons other than what he gave earlier. Representative Rogers said he thinks those are the main reasons.

Representative Chuckwuk said that statement alone seems to destroy the reasoning why this shouldn't be passed he thinks, since Representative Rogers is basically opposed to the project. He said that does not give any substance to the arguments if he is basically opposed to it. He said there are people in the Sierra Club that will oppose it for no apparent reason other than