

**ALASKA STATE LEGISLATURE
HOUSE LABOR AND COMMERCE STANDING COMMITTEE**

April 22, 2002

3:25 p.m.

MEMBERS PRESENT

Representative Lisa Murkowski, Chair
Representative Andrew Halcro, Vice Chair
Representative Kevin Meyer
Representative Norman Rokeberg
Representative Harry Crawford
Representative Joe Hayes

MEMBERS ABSENT

Representative Pete Kott

COMMITTEE CALENDAR

SPONSOR SUBSTITUTE FOR HOUSE BILL 315

"An Act allowing employers that are small businesses, small nonprofit organizations, or small associations for insurance purposes to join state employee insurance coverage as a group; and providing for an effective date."

- MOVED CSSSHB 315(L&C) OUT OF COMMITTEE

HOUSE BILL 520

"An Act relating to business licenses, business license endorsements, and business license and license endorsement fees, to a trade and business development fund, and to the international trade and business endowment; and providing for an effective date."

- MOVED HB 520 OUT OF COMMITTEE

HOUSE JOINT RESOLUTION 49

Relating to preparation of a joint state-federal research and development plan.

- MOVED CSHJR 49(L&C) OUT OF COMMITTEE

PREVIOUS ACTION

BILL: HB 315

SHORT TITLE:GROUP HEALTH INSURANCE FOR PRIVATE GROUPS

SPONSOR(S): REPRESENTATIVE(S) ROKEBERG

| Jrn-Date | Jrn-Page | | Action |
|----------|----------|-----|---|
| 01/14/02 | 1957 | (H) | PREFILE RELEASED 1/11/02 |
| 01/14/02 | 1957 | (H) | READ THE FIRST TIME - REFERRALS |
| 01/14/02 | 1957 | (H) | STA, L&C, FIN |
| 02/15/02 | 2281 | (H) | SPONSOR SUBSTITUTE INTRODUCED |
| 02/15/02 | 2281 | (H) | READ THE FIRST TIME - REFERRALS |
| 02/15/02 | 2281 | (H) | STA, L&C, FIN |
| 03/21/02 | | (H) | STA AT 8:00 AM CAPITOL 102 |
| 03/21/02 | | (H) | Scheduled But Not Heard |
| 03/26/02 | | (H) | STA AT 8:00 AM CAPITOL 102 |
| 03/26/02 | | (H) | Heard & Held |
| 03/26/02 | | (H) | MINUTE(STA) |
| 03/28/02 | | (H) | STA AT 8:00 AM CAPITOL 102 |
| 03/28/02 | | (H) | Heard & Held |
| 03/28/02 | | (H) | MINUTE(STA) |
| 04/02/02 | | (H) | STA AT 8:00 AM CAPITOL 102 |
| 04/02/02 | | (H) | Moved CSSSHB 315(STA) Out of Committee |
| 04/02/02 | | (H) | MINUTE(STA) |
| 04/03/02 | 2773 | (H) | STA RPT CS(STA) NT 5DP 2NR |
| 04/03/02 | 2773 | (H) | DP: WILSON, CRAWFORD, STEVENS, FATE, |
| 04/03/02 | 2773 | (H) | HAYES; NR: JAMES, COGHILL |
| 04/03/02 | 2774 | (H) | FN1: (ADM) |
| 04/08/02 | 2839 | (H) | COSPONSOR(S): WILSON, SCALZI |
| 04/10/02 | 2871 | (H) | COSPONSOR(S): DYSON |
| 04/22/02 | | (H) | L&C AT 3:15 PM CAPITOL 17 |

BILL: HB 520

SHORT TITLE: BUSINESS LICENSE FEES/BUS DEVELOPMNT FUND

SPONSOR(S): LABOR & COMMERCE

| Jrn-Date | Jrn-Page | | Action |
|----------|----------|-----|------------------------------------|
| 04/16/02 | 2953 | (H) | READ THE FIRST TIME - REFERRALS |
| 04/16/02 | 2953 | (H) | L&C, FIN |
| 04/22/02 | | (H) | L&C AT 3:15 PM CAPITOL 17 |

BILL: HJR 49

SHORT TITLE: STATE-FEDERAL JOINT RESEARCH PLAN

SPONSOR(S): LABOR & COMMERCE

| Jrn-Date | Jrn-Page | | Action |
|----------|----------|--|--------|
|----------|----------|--|--------|

| | | | |
|----------|------|-----|------------------------------------|
| 04/12/02 | 2906 | (H) | READ THE FIRST TIME - REFERRALS |
| 04/12/02 | 2906 | (H) | L&C, FIN |
| 04/22/02 | | (H) | L&C AT 3:15 PM CAPITOL 17 |

WITNESS REGISTER

JANET SEITZ, Staff
to Representative Norman Rokeberg
Alaska State Legislature
Capitol Building, Room 116
Juneau, Alaska 99801

POSITION STATEMENT: Testified on behalf of the sponsor of SSHB 315.

GUY BELL, Director
Health Benefits Section
Division of Retirement & Benefits
Department of Administration
PO Box 110203
Juneau, Alaska 99811-0203

POSITION STATEMENT: During the discussion of SSHB 315, discussed the process the department would follow were the legislation enacted.

MARY RAYMOND
The Ark
259 E. Bayview Avenue
Homer, Alaska 99556

POSITION STATEMENT: Expressed excitement with regard to SSHB 315.

MARY ROSENZWEIG, Director
Substance Abuse Directors Association
4111 Minnesota Drive
Anchorage, Alaska 99503

POSITION STATEMENT: Testified that passage of SSHB 315 is a solution to the serious problem of affordable health insurance for Seaview Community Services.

SUSAN SCUDDER, Executive Director
Council on Domestic Violence & Sexual Assault
Department of Public Safety
PO Box 111200
Juneau, Alaska 99811-1200

POSITION STATEMENT: During the discussion of SSHB 315, expressed the need to offer benefits in order to recruit qualified individuals for community-based nonprofit programs.

MARIE DARLIN, AARP
(No address provided)

POSITION STATEMENT: Testified in support of SSHB 315.

MARGIE BAUMAN
(No address provided)

POSITION STATEMENT: During the discussion of SSHB 315, suggested that on page 3, line 26, subparagraph (C), be changed such that legitimate owners of small businesses who have only themselves as an employee can be included.

JACK McRAE, Senior Vice President
Blue Cross Blue Shield of Alaska
P.O. Box 327

Seattle, Washington 98111-0327

POSITION STATEMENT: During discussion of SSHB 315, expressed concern with regard to the state becoming involved in personal health care.

WILLIAM CRAIG
Alaska Independent Blind;
Alaska Information Radio Reading Service
613 Degroff Street
Sitka, Alaska 99835

POSITION STATEMENT: Testified, under discussion of SSHB 315, as to the difficulties in finding insurance that is priced at a reasonable cost and provides a reasonable plan.

AMY ERICKSON, Staff
to Representative Lisa Murkowski
House Labor and Commerce Standing Committee
Alaska State Legislature
Capitol Building, Room 408
Juneau, Alaska 99801

POSITION STATEMENT: Presented HB 520 and HJR 49 on behalf of the House Labor and Commerce Standing Committee, sponsor by request, chaired by Representative Lisa Murkowski.

JEFF BUSH, Deputy Commissioner
Office of the Commissioner
Department of Community & Economic Development
PO Box 110800
Juneau, Alaska 99811-0800

POSITION STATEMENT: Testified that the department is supportive of HB 520 because it would stabilize the funding source for the department's economic development and trade activities.

CATHERINE REARDON, Director
Division of Occupational Licensing
Department of Community & Economic Development
PO Box 110806
Juneau, Alaska 99811-0806

POSITION STATEMENT: During discussion of HB 520, answered questions.

BARBARA PROPES, Scan Home
2490 Belmont Drive
Anchorage, Alaska

POSITION STATEMENT: Testified that the increase embodied in HB 520 is reasonable.

SCOTT McMURREN
McMurren & Goodman
6040 Yukon
Anchorage, Alaska 99507

POSITION STATEMENT: Testified in support of HB 520.

ACTION NARRATIVE

TAPE 02-62, SIDE A
Number 0001

CHAIR LISA MURKOWSKI called the House Labor and Commerce Standing Committee meeting to order at 3:25 p.m. Representatives Murkowski, Halcro, Meyer, Rokeberg, and Crawford were present at the call to order. Representative Hayes arrived as the meeting was in progress.

HB 315 - GROUP HEALTH INSURANCE FOR PRIVATE GROUPS

CHAIR MURKOWSKI announced that the first order of business would be SPONSOR SUBSTITUTE FOR HOUSE BILL 315, "An Act allowing employers that are small businesses, small nonprofit organizations, or small associations for insurance purposes to join state employee insurance coverage as a group; and providing for an effective date."

Number 0076

REPRESENTATIVE HALCRO moved to adopt Version 22-LS1177\B, Craver, 4/18/02, as the working document. There being no objection, Version B was before the committee.

REPRESENTATIVE ROKEBERG, speaking as the sponsor of SSHB 315, informed the committee that [Version B] incorporates changes in intent language in the legislation. He highlighted the following substantive change: on page 2, line 17, the language "stop loss" was deleted and "lower cost options including limited benefit and high deductible" language was inserted.

JANET SEITZ, Staff to Representative Norman Rokeberg, Alaska State Legislature, testified on behalf of the sponsor of SSHB 315. She explained that this legislation would allow the State of Alaska to obtain a policy or policies of group health care insurance for small businesses defined as two to fifty employees, nonprofit organizations, small associations for insurance purposes as a group, and special service organizations. Special service organizations can be an individual employed in one of these entities, corporations, or nonprofit organizations who deal with childcare facilities, operating a residential childcare facility, foster home, maternity home, assisted living home, community-based center, and home care. She noted that the aforementioned entities are all licensed by the state and the licensing authorities to which the bill refers.

MS. SEITZ specified that this legislation is an effort to form a pool of people who would be able to provide insurance. The state would put out a request for proposals (RFP) and thus the state wouldn't self-insure this group as it does its own employees. This would be offered through private insurance carriers and the businesses and nonprofit organizations could join. As specified in the bill, the entities would have to submit a written request to the department, receive confirmation from the commissioner, and pay the premiums.

Number 0311

CHAIR MURKOWSKI asked if there is any procedure in which an entity could be rejected. She related her understanding that the application has to be filed and those groups defined in the legislation would be [in the pool].

MS. SEITZ replied yes. She pointed out that on page 3, subsection (d) states that a qualified entity must certify that it's going to meet the definition, agree to pay the premiums,

sign a statement under penalty of unsworn falsification and fraud in order to register.

REPRESENTATIVE ROKEBERG pointed out that in his eight years serving on the House Labor and Commerce Standing Committee he has fought to allow private insurance companies to enter the State of Alaska. However, there has been a great deal of frustration with regard to the escalation of insurance costs. The affordability of health insurance costs for nonprofits in this state is coming in to question now, which is also the case for small businesses. This has become a very serious problem, he said. Representative Rokeberg expressed his hope that having a larger number of people covered and a well designed menu with a potentially higher stop loss deductible and various other menus, will allow a lower cost, more affordable, and higher quality plan to be offered. He noted that the state is redefining what it takes to be a multiple employer welfare arrangement (MEWA). Therefore, this legislation attempts to bring together those people who can't readily join together and offer them a mechanism to lower their health costs.

REPRESENTATIVE CRAWFORD recalled the discussion with regard to [the definition of "association for insurance purposes"]. He also recalled that the House State Affairs Standing Committee discussed eliminating the upper limit defining how many employees an entity could have and be considered [an association for insurance purposes].

REPRESENTATIVE ROKEBERG related that it would probably work to amend the language such that it referred to business enterprises with two to fifty employees, which would be consistent with the state's insurance statutes. Then nonprofit organizations could be exempt from the cap.

MS. SEITZ pointed out that Version B only limits the two to fifty employees for an association for insurance purposes and businesses. Nonprofit organizations don't have an employee cap included in the definition on page 4, lines 2-4.

CHAIR MURKOWSKI directed attention to page 3, line 15, which refers to "composed of businesses or nonprofit organizations or both". Therefore, she questioned how the employee cap wouldn't be required for nonprofit organizations.

MS. SEITZ pointed out that page 3, lines 14-19, is the definition of "association for insurance purposes". In that particular group the combined total can be two, but not more

than fifty employees. An "association for insurance purposes" can be a group of businesses or nonprofits or both. However, if an entity is simply a nonprofit, then that entity would fall under the definition on page 4 that doesn't specify an employee limit. In response to Representative Rokeberg, Ms. Seitz reiterated that the definition on page 3, line 19 is the definition of the "association for insurance purposes" if the groups come together.

CHAIR MURKOWSKI interjected that an "association for insurance purposes" is different than a nonprofit organization.

REPRESENTATIVE HAYES inquired as to whether there is anything under the [definition of] "association for insurance purposes" that [would allow] a self-insured individual to join under the large umbrella of "association for insurance purposes".

MS. SEITZ explained that a business that wants to join an "association for insurance purposes" could be a group of people who come together and form an association for insurance purposes. Furthermore, a special services organization that is a single employee and meets the definition would qualify.

Number 0815

GUY BELL, Director, Health Benefits Section, Division of Retirement & Benefits, Department of Administration, said that he would discuss the process were this legislation enacted. He informed the committee that it would be the department's intent to work with interested groups and a professional benefits consultant to design a plan(s) that would meet the identified needs of those groups with which the department is working. The plan would be developed by either a survey or focus groups or a combination of the two. With the assistance of [the survey and/or the focus groups], the department would develop an RFP for a fully insured product(s). The best proposal would then be selected. There is a process of approval of the participants through the commissioner of the department. At that point, those who participate would pay premiums directly to the insurance company and the participants would work directly with the insurer. He noted that the premiums wouldn't be paid through the State of Alaska. The department would have a limited role as a continuing liaison [in plan design] with nonprofits and businesses that participated.

MR. BELL informed the committee that [this legislation] doesn't contemplate a state subsidy. The fiscal note reflects the funds

necessary for startup costs. Furthermore, there is no state liability for this because the liability would be taken on by the insurance company insuring the health plan. This proposed plan would be completely separate from any state health plan. He explained that this proposed plan would effectively be private insurance subject to the Employee Retirement and Income Security Act of 1974 (ERISA) and would be fully insured.

Number 0955

REPRESENTATIVE MEYER surmised then that this proposed plan may be similar to what the state employees have, but may be better or worse depending upon what is negotiated between the parties; the state won't have any involvement.

MR. BELL agreed and pointed out that when the department issues the RFP it will have specific plan designs in mind, which may include an array of options. There will also be a price scheme that will be anticipated before issuing the RFP.

REPRESENTATIVE MEYER related his understanding that the savings to the nonprofits or associations will be in regard to the ability of various groups to come together as one in order to obtain more affordable rates.

MR. BELL replied yes. By pooling, risk is reduced as would administrative overhead, he said. In further response to Representative Meyer, Mr. Bell confirmed that the cost to the state would be for the one staff person overseeing the program and some contractual services for a benefits consultant for plan design.

Number 1052

REPRESENTATIVE HALCRO inquired as to whether the \$133,000 of upfront costs would be reimbursed over the course of the coming years.

MR. BELL answered that the department doesn't contemplate a reimbursement to the general fund (GF) for that. The costs in future years would be a small assessment that the department would make against the plan in order to cover the department's modest ongoing costs.

REPRESENTATIVE HALCRO asked what would happen if no one responds to the RFP; would the \$132,000 worth of work be for naught.

MR. BELL agreed, but indicated that the cost could be less than the full amount. He related his belief that if there were no responses, the department would try to determine why there were no responses and then put out a modified RFP.

Number 1139

REPRESENTATIVE MEYER inquired as to how many people this legislation would cover.

MR. BELL answered that potentially this could cover quite a large number of people, although it's hard to say how many will participate. In further response to Representative Meyer, Mr. Bell said that the department believes there should be enough interested people that there should be some interest in bidding on the RFP.

Number 1188

MARY RAYMOND, The Ark, testified via teleconference. She remarked that this [legislation] is something to be excited about because health insurance is of grave concern. Ms. Raymond informed the committee that she is a coordinator for a small assisted living home for which this matter is of concern. The premiums [for the small assisted living home] are small in light of what individuals receive in payments. Ms. Raymond concluded by thanking the committee for this legislation, which she hoped would [come to fruition].

Number 1250

MARY ROSENZWEIG, Director, Substance Abuse Directors Association, testified via teleconference. She began by saying that this legislation comes along at a very critical time for those agencies delivering substance abuse treatment and prevention programs around the state. Ms. Rosenzweig informed the committee that the association has approximately 57 programs statewide. That membership was surveyed with regard to insurance premiums [which produced the following information]. Over a two-year period, insurance premiums on average have increased 36 percent per employee. The premiums for health insurance amounted to about 5.8 percent of the agency's operating budget in the year 2000. In 2002 health insurance premiums are 7.6 percent of the [association's] operating budget. Ms. Rosenzweig said, "This means that the state is not getting good value for its dollar; it means less services that they're able to purchase for the same dollar." These sudden

increases have resulted in reducing the level of benefits by cutting prevention and screening programs and dental and vision coverage. Furthermore, deductibles are increasing. Over the past two years deductibles have risen from an average of \$300 to \$408. Ms. Rosenzweig stated, "For our industry, we have not been able to increase the wage scale in years because the payors are not paying any more for the services." This industry is at a critical time with work force retention; employees can't stay where there is no health insurance. Ms. Rosenzweig urged the committee to provide relief and assistance that costs the state little. In response to Representative Rokeberg, Ms. Rosenzweig agreed to provide her information to his office.

Number 1412

SANDY TURLEY, Seaview Community Services, testified via teleconference. She informed the committee that Seaview Community Services is a nonprofit human services agency in Seward. Ms. Turley read the following testimony:

Seaview employees were covered by Humana and so Humana withdrew their insurance coverage from all of Alaska in 2000. As a small agency with 40 employees, finding an alternative was difficult. We were fortunate to be eligible to join the United Way Nationwide Group - Blue Cross Blue Shield plan out of Maryland. In FY [fiscal year] '01 while we were on the United Way's Blue Cross Blue Shield, our rates were the best we had ever had. The Alaska United Way agencies were forced out of the national BCBS [Blue Cross Blue Shield] plan as of December 31, 2001, in the middle of our fiscal year, without expenses and revenues already budgeted. As we begin looking for alternatives, there were few options and the rates we were quoted were astronomical. The best rates were 150 percent more than the United Way Blue Cross Blue Shield rates. We worked for three months to come up with an affordable plan. We were forced to drop dental, prevention, prescription, mental health, and chemical dependency coverage in order to be able to continue to offer health care to our employees that we could afford [and] that was within our budget. The additional cost was shared by the employees with an increased copay and by the agency with an increased premium cost. We could not maintain the same level of coverage because neither agency or the employees could bear the cost of the increase. We had 22 employees on insurance in

December and now, in April, we only have 13. We are currently at risk of not qualifying for group rates because of not enough enrollees. The rise in health care costs and decrease in coverage are an immediate and serious threat to recruitment and retention. I fear that dissatisfied employees will start looking for other jobs with better insurance and that we will be unable to hire new people because our insurance is just not competitive. As a small agency, losing one or two key positions can threaten our ability to provide services for an entire program. Passage of House Bill 315 is a solution to the serious problem of affordable health insurance for our agency.

Number 1529

SUSAN SCUDDER, Executive Director, Council on Domestic Violence & Sexual Assault, Department of Public Safety (DPS), explained that the Council on Domestic Violence administers state and federal funds to more than 21 programs around the state. These are community-based nonprofit programs that have experienced amazing increases in their health insurance costs over the past few years. The increases have reached the point at which staff positions have been cut in order to maintain the same level of health insurance, which results in fewer services to the community. Ms. Scudder emphasized the importance of these programs having qualified staff that can obtain benefits. She noted that these jobs aren't the best paying jobs and thus when the benefits are cut, it becomes nearly impossible to recruit good people for these jobs.

Number 1664

MARIE DARLIN, AARP, said that AARP is thankful that this legislation has been introduced because this has been of concern in reviewing the long-term care needs. Many small organizations are attempting to meet [long-term care] needs and often [these small organizations are] home and community-based care. These home and community-based care organizations have always had the concerns surrounding employee benefits. [Without benefits], these organizations lose employees and the organization's ability to provide services is lost. Therefore, AARP urges the committee's support of HB 315.

Number 1664

MARGIE BAUMAN testified via teleconference and noted that she is the owner and sole employee of her own business. She suggested that on page 3, line 26, subparagraph (C) be changed such that legitimate owners of small businesses who have only themselves as an employee can be included. She informed the committee that the insurance carrier that held the group professional policy with which she participated dropped the entire group after the company was found not to be in compliance with insurance laws. She noted that although she is in good health, no one wants to insure her [because] she has had cancer and her doctor has done additional testing and may want to again. Therefore, she has no insurance and when she goes to the hospital she pays "top dollar" because she isn't represented by an insurance company that has a deal with the hospital. Furthermore, the state comprehensive plan is cost prohibitive for her. Ms. Bauman said that she wants a health care plan in which she can participate and pay her fair share of the costs. In conclusion, Ms. Bauman pondered why this legislation hasn't garnered any comments and testimony from hospitals and medical organizations.

REPRESENTATIVE ROKEBERG pointed out that if Ms. Bauman joined with someone who performs similar work, then the two could become an association and qualify to join.

Number 1793

JACK McRAE, Senior Vice President, Blue Cross Blue Shield of Alaska, testified via teleconference. Mr. McRae noted that the company is very sympathetic to the large rate increases. He said he would address the insurance carrier that left the state and the large increases due to that insurance carrier leaving the state. He related his understanding that an insurance carrier came into the state and sold a product that wasn't a licensed product in the state. Furthermore, the product was priced on a national basis rather than looking at health care costs in Alaska. That combination of not being licensed in the state and the costs of health care in Alaska would have resulted in that carrier having to increase its rates substantially in order to stay in the state. When that carrier moved out, the nonprofits had to come to other carriers in Alaska which price the product as it would be for any other group in Alaska. He attributed much of that large increase to the [fact] that there was a carrier that had under priced a product for the marketplace and when the insurance was rewritten, the price became consistent with the marketplace in Alaska.

MR. McRAE expressed concern with regard to the state becoming involved in personal health care. Many of the individuals have the ability to become associations. As a matter of fact, Blue Cross Blue Shield writes quite a few associations in Alaska. Mr. McRae also expressed concern with regard to the state being a conduit for the RFP. He posed a situation in which [Blue Cross Blue Shield] contracts with a company that becomes insolvent and there are claims that need to be paid. He inquired as to who would pay for those claims. Would the premium be collected from the state because the state was the conduit for the RFP, he asked.

MR. McRAE informed the committee that Blue Cross Blue Shield isn't afraid of competition, but legislation such as SSHB 315 could impact carriers wanting to come to Alaska and sell products. Mr. McRae concluded by stating Blue Cross Blue Shield's supports the concept of the association business, which seems to be a viable approach. He reiterated the question as to whether the state wants to become involved as a conduit for insuring private entities.

Number 1938

REPRESENTATIVE ROKEBERG asked whether there would be an insolvency situation if there is a third party underwriter actually underwriting the group.

MR. McRAE answered that it would be possible, although he noted that he didn't have [Version B] before him.

REPRESENTATIVE ROKEBERG interjected that Version B specifies that [the RFP] goes out to a private sector underwriter. He related his belief that [under the current language] the state wouldn't be liable. With regard to expectations [of low cost], Representative Rokeberg noted his agreement with Mr. McRae. In regard to associations, Representative Rokeberg asked if Mr. McRae was referring to MEWAs or any other type of association that's allowed.

MR. McRAE related his belief that Blue Cross Blue Shield of Alaska writes other types of associations other than MEWAs. Whenever pooling occurs, there are winners and losers because some will have a lower rate that will increase while others will have a higher rate that will decrease.

REPRESENTATIVE ROKEBERG asked if that would be due to the experience of the employee.

MR. McRAE clarified that in theory the experience of the pool should be different than that of the individuals. However, if there is one group that's a fairly high risk group, then it would be rated higher and pay a larger premium than would a low risk group. When those two groups are put together, one [group's rate] increases and one [group's rate] decreases.

REPRESENTATIVE ROKEBERG inquired as to the underwriting difference if there was a group of child care workers and a group of drug and alcohol counselors.

MR. McRAE said that he wasn't qualified to answer an actuarial question.

CHAIR MURKOWSKI related her understanding that Mr. McRae is concerned with the state being the conduit for the RFP and the possibility of the state having some liability in that regard.

MR. McRAE replied yes.

CHAIR MURKOWSKI echoed Representative Rokeberg's belief that [Version B] addressed his concern.

Number 2088

WILLIAM CRAIG, Alaska Independent Blind; Alaska Information Radio Reading Education Service, explained that the Alaska Information Radio Reading Education Service reads papers to blind people over a special radio band in the Anchorage and Fairbanks areas. This organization employs 10-15 disabled people. Mr. Craig said that although the organization isn't necessarily seeking lower cost insurance, this [legislation] would allow the organization to provide better insurance than it currently provides. Under the insurance the organization has now employees frequently have to wait six months before using it and there's a high deductible. Furthermore, aging employees face increased insurance costs, including the deductible. He pointed out that as a small group, the organization finds it difficult to find insurance that is priced at a reasonable cost and provides a reasonable plan.

CHAIR MURKOWSKI, upon determining that no one else wished to testify, closed public testimony on SSHB 315.

Number 2160

REPRESENTATIVE ROKEBERG informed the committee that he has a few small amendments. He moved that the committee adopt conceptual Amendment 1, which read:

Page 2, line 20
After "a policy"
Insert "or politics"

There being no objection, conceptual Amendment 1 was adopted.

Number 2187

REPRESENTATIVE ROKEBERG moved that the committee adopt Amendment 2, which read:

Page 4, line 31
Delete: "January 1, 2003"
Insert: "July 1, 2002"

REPRESENTATIVE ROKEBERG recalled Mr. Bell's testimony that, upon passage, the department would perform a poll and attempt to develop something. Therefore, the earlier effective date would provide the department with six months to organize the program and potentially be in place at the first of the year.

REPRESENTATIVE HAYES objected for the purpose of discussion. He inquired as to why an immediate effective date wouldn't be used because even an effective date of July 1, 2002, might be too late due to when the legislation is actually signed.

REPRESENTATIVE ROKEBERG said that secondary [effective dates] are usually at the first of the fiscal year which coincides with the new fiscal year for the state.

REPRESENTATIVE HAYES expressed concern that the legislation might not be signed until after July 1, 2002. Therefore, an immediate effective date would seem to make more sense.

REPRESENTATIVE ROKEBERG said that he would consider an immediate effective date as a friendly amendment to Amendment 2. [Therefore, the Amendment 2 was changed such that "January 1, 2003" was replaced with an immediate effective date.]

There being no objection to Amendment 2 as amended, it was adopted.

Number 2300

REPRESENTATIVE ROKEBERG moved that the committee adopt conceptual Amendment 3, which read:

Page 3, line 16,
Delete "and"

Page 3
Delete lines 17-19

REPRESENTATIVE ROKEBERG explained that [conceptual Amendment 3] would eliminate the confusion with regard to what an association is and the distinction with regard to the number of [employees required for an association for insurance purposes].

CHAIR MURKOWSKI objected for the purpose of discussion.

TAPE 02-62, SIDE B

CHAIR MURKOWSKI related her understanding that an "association" is a nonprofit organization that has no limitation on the number [of employees] while a business does. Furthermore, an "association" is comprised of either a business or nonprofit or both.

REPRESENTATIVE ROKEBERG agreed.

CHAIR MURKOWSKI asked if that would alleviate Ms. Bauman's concern.

REPRESENTATIVE ROKEBERG replied no and explained that Ms. Bauman, as an individual [owner and employer], would have to [form an] association with someone else.

CHAIR MURKOWSKI asked if there is a concern that an association could have 1,000 people and become problematic.

REPRESENTATIVE ROKEBERG said, "The more the merrier, it should lower costs."

CHAIR MURKOWSKI removed her objection. There being no other objection, conceptual Amendment 3 was adopted.

Number 2253

REPRESENTATIVE HALCRO expressed concern that by the division absorbing a \$132,000 fiscal note, the [legislature] is, again,

expecting state government to do something for free. Therefore, he expressed the need for the legislation to include a mechanism in which to recapture the \$132,000.

REPRESENTATIVE ROKEBERG remarked that he tended to agree. However, most of those [impacted by this legislation] are nonprofits that are directly or indirectly impacted by the state's various budgets, including the general fund budget. Therefore, the case for a modest contribution up front could be made. He indicated that [he would suggest that] the House Finance Committee review recapturing the cost without having too much negative impact.

REPRESENTATIVE HALCRO noted that his aforementioned concern isn't enough for him to object to moving the legislation. However, he recommended that the House Finance Committee review the possibility of mitigating [the fiscal note].

REPRESENTATIVE MEYER mentioned that many of the individuals who can't obtain insurance may have some serious health problems that could have been avoided had these individuals been able to see a physician earlier. People in such situations may now be on Medicare. Therefore, the \$96,000 a year that this will cost the state isn't of too much concern because of his belief that there should be a reduction in cost elsewhere. He characterized the legislation as a good bill offering help to some people who desperately need it. However, he hoped that the expectations of these people are realistic.

REPRESENTATIVE ROKEBERG informed the committee that there are still discussions with the Mental Health Trust [Fund] in order to take on the [initial cost]. The ongoing \$95,000 would be for the administrative costs.

REPRESENTATIVE HAYES announced that he has a conflict of interest because of his employment in the insurance industry.

Number 2101

REPRESENTATIVE MEYER moved to report CSSSHB 315, Version 22-LS1177\B, Craver, 4/18/02, as amended out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSSSHB 315(L&C) was reported from the House Labor and Commerce Standing Committee.

HB 520 - BUSINESS LICENSE FEES/BUS DEVELOPMNT FUND

CHAIR MURKOWSKI announced that the final order of business would be HOUSE BILL, "An Act relating to business licenses, business license endorsements, and business license and license endorsement fees, to a trade and business development fund, and to the international trade and business endowment; and providing for an effective date."

Number 2061

AMY ERICKSON, Staff to Representative Lisa Murkowski, Alaska State Legislature, informed the committee that HB 520 was actually brought to [the committee] by Representative Lancaster, the Finance subcommittee chair for the Department of Community & Economic Development. This legislation seeks to implement a secure funding mechanism to pay for the administrative costs of the business licensing program and the international, trade, and economic development activities, including tourism development. This legislation doubles the business licensing fees from \$25 to \$50 per year, which will generate approximately \$3.6 million each year. She noted that the fees haven't been changed since 1949. This legislation also creates a new Trade and Business Development Fund into which all the business licensing fees will be deposited and from which the legislature can appropriate to fund the administrative expenses of the business licensing programs and operating the department's business development and international trade activities. Ms. Erickson pointed out that the fund would also allow the division to continue the Alaska Economic Information System, which is a digital system that brings together state, federal, and private data about the state's economy, resources, and committees in order to promote economic development by both public and private entities.

MR. ERICKSON highlighted that HB 520 repeals the International Trade and Business Endowment Fund because funding for these programs would now come from the new Trade and Business Development Fund created by HB 520. The \$5 million balance in the [International Trade and Business Endowment Fund] will be deposited in the general fund and will be available for appropriation by the legislature July 1, 2002. Therefore, [HB 520] will ensure a steady funding source for economic development in the state. Those benefiting from this service will fund the program.

CHAIR MURKOWSKI related that Representative Lancaster has been concerned that the licensing fees have remained unchanged since pre-statehood days, which she indicated was probably the initial [impetus] for HB 520.

Number 1933

JEFF BUSH, Deputy Commissioner, Office of the Commissioner, Department of Community & Economic Development, informed the committee that the department is supportive of HB 520 because it would stabilize the funding source for the department's economic development and trade activities. Several year's ago the International Trade and Business Endowment was set up with a \$5 million endowment from the "University Endowment," which was supposed to fund some of the department's economic development and trade activities. However, the difficulties with the stock market and investments has left the Division of International Trade with a huge hole in its funding. Although there was an authorization for almost \$500,000 from the [International Trade and Business Endowment], the reality is that the amount available for expenditures is much less. Therefore, the fiscal note for HB 520 realizes that the \$500,000 was never a realistic number for the [International Trade and Business Endowment] and thus the endowment earnings are replaced with \$300,000 of constant and predictable income through the business licensing program. Mr. Bush said that HB 520 is particularly appealing because it recognizes that businesses in the state can pay for business support services. Furthermore, the amount paid for the business license would support business support activities such as for economic development and trade.

MR. BUSH turned to the fiscal notes. The fiscal note with the BRU (Budget Reserve Unit) of the Division of Occupational Licensing shows a change in revenue of \$1.7 million, which would be the additional funds that would be received by the increase in the business license fee. Furthermore, the fiscal note shows a reduction of general fund (GF) program receipts (PR) in the amount of \$554.7, which is replaced with the [International] Trade and Business Endowment Fund; these are the funds necessary to administer the business license program.

MR. BUSH moved on to the fiscal note with the Community & Business Development component. This fiscal note shows operating expenditures of \$270,000 in contractual funds, which is the amount necessary to run the Economic Information System program discussed by Ms. Erickson. Furthermore, this fiscal note shows that [the Economic Information System program] reduces the GF by \$1.275 and substitutes the funding for both of the \$270 of contractual and the \$1.275 GF with the [International] Trade and Business Endowment Fund.

MR. BUSH then addressed the fiscal note with the International Trade & Market Development component. This fiscal note shows a reduction in the contractual line in the amount of \$196.4, which is the difference between what is in the Trade Endowment down to a \$300,000 amount if HB 520 is passed. Furthermore, \$1.2 million in GF is substituted plus a loss of \$496.4 in the [International] Trade and Business Endowment, and therefore that endowment would go away. "And substitutes all of that with \$1.5 million in the Trade and Business Development Fund," he pointed out. Mr. Bush echoed Ms. Erickson's testimony that the \$5 million [International] Trade [and Business] Endowment disappears and is immediately deposited in the GF, which isn't illustrated in any fiscal note.

Number 1648

CHAIR MURKOWSKI asked whether the business community is going to cry out due to an increase in the business fees.

MR. BUSH answered that he didn't believe so. He informed the committee that the department anticipates some loss of business licenses because those people who have carried business licenses for many years but have not used them may view [this increase in fee] as a reason not to apply for a new business license. Mr. Bush related his belief that there are witnesses via teleconference that believe the increase in fee is quite reasonable given the services one receives.

REPRESENTATIVE ROKEBERG asked if, when [proposing] eliminating the [International Trade and Business] Endowment Fund, any thought was given to returning the money to the businesses.

MR. BUSH replied no. Mr. Bush said, "We would be happy to find a place to spend that money, but we didn't think that that was really our place to do."

Number 1569

REPRESENTATIVE ROKEBERG inquired as to the original idea that gave way to the Alaska business license fee.

MR. BUSH informed the committee that the Alaska business license fee was created as part of the gross receipts tax program, which was repealed in 1979 or 1980. He related his understanding that the fee was essentially a registration for the gross receipts tax that was used as an assessment/auditing tool by the Department of Revenue in order that the department would know

which businesses should file [gross receipts] returns. Other services were associated with the fee, which is still the case today.

REPRESENTATIVE ROKEBERG pointed out that the business registration is used in various ways. For example, this registration is a way that the Department of Labor & Workforce Development can track tax receipts for unemployment taxes through business registration. Furthermore, entities such as the Municipality of Anchorage use the business registration in order to track down businesses that need to file for personal and real property taxes. Representative Rokeberg inquired as to the cost to administer and collect the license fee.

MR. BUSH answered about \$550,000 annually. He confirmed that the state would take about \$3.6 million.

REPRESENTATIVE ROKEBERG recalled that the testimony before the House Labor and Commerce Standing Committee in the past has been that there is no known use of the funds, which go directly to the GF. Therefore, this is really a GF tax.

MR. BUSH said that this is clearly a fee.

REPRESENTATIVE ROKEBERG asked whether, from an economic definition, increasing the fee wouldn't be [considered] a tax. He surmised that the department is trying to use an unconstitutional semi-dedicated fund to finance a portion of the department, although this activity is generally funded by the GF.

MR. BUSH agreed that most of the [business licensing] functions are paid for by the GF. Furthermore, the business license receipts are all placed directly in the GF. Although some of the receipts are accounted for as GF program receipts, the remainder is deposited as GF revenue.

REPRESENTATIVE ROKEBERG surmised that would change under HB 520.

MR. BUSH clarified, "It would be deposited into this account within the general fund, and accounted for separately within the general fund."

REPRESENTATIVE MEYER explained that in his job outside the legislature, he was assigned the task of obtaining a list of all the businesses owned by minorities and women in the state. He thought that would be an easy task because he thought business

owners probably marked whether they were owned by a minority. However, it doesn't seem as if such information is solicited.

MR. BUSH responded that he didn't believe such information is tracked.

Number 1326

CATHERINE REARDON, Director, Division of Occupational Licensing, Department of Community & Economic Development (DCED), explained that businesses are tracked by a description of their activity that's pulled from the North American Industrial Classification System (NAICS). She related her belief that DOT [Department of Transportation & Public Facilities] maintains the minority business activity [list].

REPRESENTATIVE MEYER noted that the information from DOT was very limited. He also noted that the federal government, through the small business association, kept track when it was provided with the information. He inquired as to why such information couldn't be asked when a business applies for a business license.

MS. REARDON answered that additional questions can be asked at the time of licensure or renewal, if the legislature so specifies. She said that she would want to know what meets the definition. Furthermore, there is a limit to how many questions she would advocate adding to this form because the [division] likes the form to be simple for people to do.

REPRESENTATIVE MEYER asked if the passage of the minimum wage, the unemployment compensation tax, and now an increase in the business license, is too hard on commerce.

MR. BUSH responded that he didn't believe so. Furthermore, he didn't believe that the current administration would feel that any of the aforementioned is too harsh on commerce in Alaska. However, he acknowledged that there is quite a bit of debate regarding the minimum wage, which is probably the item with the strongest impact. He said he didn't believe that \$25 a year is a significant amount of money for most businesses.

REPRESENTATIVE HAYES asked if, last year, legislation was passed that increased the license [fee] for those folks who sell cigarettes. He inquired as to how HB 520 will impact that [increase in the license fee for those who sell cigarettes].

MR. BUSH explained that the tobacco endorsement is a program that's operated by DCED and associated with the Business Licensing Program. He said that businesses engaged in tobacco activities will be required to pay more. However, that's not impacted by HB 520. In fact, those fees charged for tobacco are accounted for separately and dealt with as a completely independent program.

REPRESENTATIVE HAYES recalled that with the increase in the fee for a tobacco endorsement there was discussion that some people would drop [the tobacco endorsement because of the increase]. Therefore, he questioned whether these people would now be impacted by HB 520 as well.

CHAIR MURKOWSKI recalled that the endorsement procedure is different than the business license procedure. Therefore, although a business may have various endorsements for its outlets, only one business license would be required per business.

Number 1012

MS. REARDON, in response to Representative Rokeberg, confirmed that the business licenses are biennial licenses, per AS 08.01. Therefore, the \$25 annual increase under HB 520 will mean that for a two-year license one will pay \$50 and when the increase to \$50 a year occurs, one will pay \$100 for the two-year license.

REPRESENTATIVE ROKEBERG inquired as to why this statute isn't fixed [to parallel the biennial licenses under AS 08.01].

Number 0930

BARBARA PROPES, Scan Home, testified via teleconference. Ms. Propes related her belief that this is a reasonable increase. She noted her intrigue with the notion of the fee going into a Trade and Business Development Fund. She said she believes that it's the state's responsibility to try to attract trade and development in the state. Much of [the state's] revenue is derived from international trade. She said she believes that most businesses would be willing to pay this fee knowing the need to continue to increase their client base. The state's current office does fulfill an essential need and it's frustrating to wait and see how much the office will be funded each year. Ms. Propes viewed this as having a ripple affect with regard to the job opportunities in the state.

REPRESENTATIVE ROKEBERG noted his concern with regard to the constitutional prohibition against dedicated funds, which is what this legislation is basically.

Number 0756

SCOTT McMURREN, McMurren & Goodman, testified via teleconference. Mr. McMurren announced his support of HB 520. He informed the committee that he has witnessed first hand what DCED has done for seafood marketing, film development, tourism development, and international trade. The consistent battle to fund [the business license program] impedes his ability to do business with [DCED] for about four months out of the year, he noted. Mr. McMurren explained that [this program and the department] is building incremental business and money for Alaska.

REPRESENTATIVE ROKEBERG requested explanation as to why the endowment fund was established.

Number 0519

MR. BUSH explained that Senator Drue Pearce was frustrated with the endowment and the activities of the Center for International Business at the university and wanted to see more business advocacy with the aforementioned fund. Therefore, a portion of the fund was taken to create an endowment, the proceeds from which were used to partially fund international trade activities by the department.

REPRESENTATIVE ROKEBERG inquired as to why the endowment is going to be destroyed, although the returns are down.

MR. BUSH said, "We don't really view it as a destruction of the endowment as much as we see it as a method of creating a more consistent funding source."

REPRESENTATIVE ROKEBERG pointed out that there is no connection because the money is placed in the GF, where he was sure someone would find a use for it. Representative Rokeberg turned to the Alaska Economic Association, which he didn't recall being funded in the budget. He asked if the Alaska Economic Association is related to HB 520.

MR. BUSH answered that one of Representative Lancaster's motivations with this bill was to find a way to fund the program and Legislative Finance advised him that the business license

may be a method of funding for this program. Mr. Bush said that this program was created through a lot of work of the past several years and it still isn't operational on a statewide basis. Although everyone who has viewed demos of the program or has worked with program have received it well, it's impossible to maintain without an ongoing funding source.

REPRESENTATIVE ROKEBERG surmised then that the endowment would [generate] about \$250,000 a year.

MR. BUSH confirmed that would be the case at 5 percent. In further response to Representative Rokeberg, Mr. Bush said that the program's budget was to be \$496[,000].

Number 0255

REPRESENTATIVE HAYES recalled that the Senate proposed using the \$5 million currently in the endowment for tourism. Therefore, this endowment isn't really protected.

MR. BUSH acknowledged that there is a proposal to use the endowment's funds to pay for the emergency funding that the tourism industry requested after the events of September 11, 2001.

CHAIR MURKOWSKI, upon determining there was no one else to testify, closed public testimony.

REPRESENTATIVE HAYES remarked that it's sad when entities with no vision take money and fill a void elsewhere rather than where the money is necessary. He expressed the need [for legislators] to be truthful with constituents with regard to the state of Alaska's budget. He indicated his dislike of the "shell game" with the budget. Therefore, he recommended that if the money in the endowment is going to be used for something else, then it should be laid on the table. Furthermore, in such a case the endowment should be eliminated and a steady stream of money should be created for the [programs] desired.

Number 0110

REPRESENTATIVE HAYES moved to report HB 520 out of committee with individual recommendations and the accompanying fiscal notes.

REPRESENTATIVE ROKEBERG objected.

TAPE 02-63, SIDE A

REPRESENTATIVE ROKEBERG commented that many [business owners] don't like the business tax, although they know it's necessary and serves a purpose. Therefore, the fees should reflect the cost rather than be a source of revenue, he said. He expressed the need to classify this for what it is. He related his belief that [HB 520] sets up a bogus designated fund for designated receipts, which is unconstitutional. He then noted his support of the Alaska Economic Information System.

Number 0189

CHAIR MURKOWSKI remarked that she wasn't sure whether Representative Rokeberg supported or opposed the HB 520.

REPRESENTATIVE ROKEBERG said that these things should just be funded in the budget. "If you want to have a bill to raise the license fee, let's talk about that but it shouldn't be hooked something else," he stressed. He announced that he was opposed to HB 520.

REPRESENTATIVE MEYER said he didn't think business is overwhelmingly opposed to increasing the license fee or there would have been testimony to indicate so. Furthermore, the [Alaska Chamber of Commerce] usually puts out something for the businesses.

REPRESENTATIVE ROKEBERG interjected that he had not heard of HB 520 until the folks from the department came to his office. He related his belief that no one in the state knows this is happening; small businesses are working.

REPRESENTATIVE MEYER indicated that businesses join the [Alaska Chamber of Commerce] so that someone watches out for things such as this.

Number 0336

REPRESENTATIVE HALCRO agreed that folks are tired of piece meal approaches. "The fact is until such time as we get some leadership in this building to ... chart a course for the future and determine how we're going to pay for some of these programs like the information services, we're left with this as our only device," he charged. He pointed out that the prior legislation, SSHB 315, that was reported from this committee had a \$132,000 fiscal note. Therefore, he saw two options. One of which would

be to start asking people to pay their fair share now or stop trying to solve the world's problems for nothing.

REPRESENTATIVE CRAWFORD noted his agreement with Representative Rokeberg in that HB 520 is a tax. He pointed out that he voted against HB 3 and would vote against HB 225 and anything else that doesn't come as part of a [long-term fiscal] plan.

REPRESENTATIVE ROKEBERG, with regard to SSHB 315, assured Representative Halcro that he is having discussions with AMTAR (ph) and hopefully [the fiscal impact] will be addressed. Furthermore, HB 4 has been stripped in order to have a zero fiscal note.

Number 0569

REPRESENTATIVE HAYES restated his motion to report HB 520 out of committee with individual recommendations and the accompanying fiscal note(s).

REPRESENTATIVE ROKEBERG withdrew his objection.

There being no objection, HB 520 was reported from House Labor and Commerce Standing Committee.

HJR 49 - STATE-FEDERAL JOINT RESEARCH PLAN

CHAIR MURKOWSKI announced that the final order of business would be HOUSE JOINT RESOLUTION 49, Relating to preparation of a joint state-federal research and development plan.

AMY ERICKSON, Staff to Representative Lisa Murkowski, informed the committee that this legislation, sponsored by the House Labor and Commerce Standing Committee, was brought to the committee by Mead Treadwell, Artic Research Commission. She provided the following testimony:

This [resolution] acknowledges the importance of research and development as a means to drive and diversify Alaska's economy. It further recognizes that Alaska's economy is heavily dependent on the research and development activities of public, private, and academic sectors to attract investment, jobs, and revenue to the state. This resolution requests that state and federal agencies work in tandem to develop a joint research and development plan to help expand and diversify Alaska's economy,

strengthen and maintain its research institutions, and protect the health of Alaskans and Alaska's environment, and request the plan be presented to the legislature in 2003 to identify areas of high economic potential from resource development and tourism on state and federal lands.

MS. ERICKSON noted that the companion bill in the Senate to which there were two amendments in Senate committees. She pointed out that the acronym WAMI was used and is incorrect because it's now WWAMI (Washington, Wyoming, Alaska, Montana, Idaho Medical Education Program). Furthermore, she wasn't sure how well known the program is to merely use the acronym.

MS. ERICKSON, in response to Chair Murkowski, explained that one of the amendments in the Senate deleted "and the Conservation and Reinvestment Act" on page 2, line 8, after "Oil Spill Recovery Institute". She indicated that there was confusion regarding whether that is actually in law. Furthermore, on page 2, line 30, the language "in the state" was replaced with "waters and the air space of Alaska".

Number 0785

REPRESENTATIVE HAYES noted his support of HJR 49. However, he conveyed his fear that the Senate is looking at doing things that will hurt or even make the Alaska Science & Technology Foundation disappear.

CHAIR MURKOWSKI indicated that the committee must do what it can with the knowledge it has at the time.

Number 0863

REPRESENTATIVE ROKEBERG moved conceptual Amendment 1, as follows: page 1, line 13, spell out the name of WWAMI. There being no objection, it was so ordered.

REPRESENTATIVE ROKEBERG moved [conceptual Amendment 2], as follows:

Page 2, line 8,
Delete "the Conservation and Reinvestment Act"

There being no objection, it was so ordered.

REPRESENTATIVE ROKEBERG moved conceptual Amendment 3, as follows:

Page 2, line 30,
Delete "in the state"
Insert ", water and the air space of Alaska"

There being no objection, it was so ordered.

Number 0938

REPRESENTATIVE HAYES moved to report HJR 49 as amended out of committee with individual recommendations and the accompanying zero fiscal note. There being no objection, CSHJR 49(L&C) was reported from the House Labor and Commerce Standing Committee.

ADJOURNMENT

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 5:15 p.m.