

ALASKA STATE LEGISLATURE
HOUSE LABOR AND COMMERCE STANDING COMMITTEE

May 8, 2002

3:25 p.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

CS FOR SENATE BILL NO. 215(FIN)

"An Act relating to licensing common carriers to dispense alcoholic beverages; and providing for an effective date."

- MOVED CSSB 215(FIN) OUT OF COMMITTEE

CS FOR SENATE BILL NO. 270(L&C)

"An Act extending the termination date of the Board of Dispensing Opticians; relating to the regulation of dispensing opticians; and providing for an effective date."

- MOVED HCS CSSB 270(L&C) OUT OF COMMITTEE

CS FOR SENATE BILL NO. 191(JUD)

"An Act relating to insurance pooling by air carriers."

- MOVED HCS CSSB 191(L&C) OUT OF COMMITTEE

PREVIOUS ACTION

BILL: SB 215

SHORT TITLE: COMMON CARRIER LIQUOR LICENSE

SPONSOR(S): SENATOR(S) COWDERY

Jrn-Date	Jrn-Page		Action
04/30/01	1357	(S)	READ THE FIRST TIME -

			REFERRALS
04/30/01	1357	(S)	TRA, FIN
01/22/02		(S)	TRA AT 1:30 PM BUTROVICH 205
01/22/02		(S)	Moved CS(TRA) Out of Committee
01/22/02		(S)	MINUTE(TRA)
01/23/02	2017	(S)	TRA RPT CS 3DP 2NR SAME TITLE
01/23/02	2017	(S)	DP: COWDERY, WILKEN, TAYLOR;
01/23/02	2017	(S)	NR: WARD, ELTON
01/23/02	2017	(S)	FN1: (REV)
03/04/02		(S)	FIN AT 9:00 AM SENATE FINANCE 532
03/04/02		(S)	Scheduled But Not Heard
03/05/02		(S)	FIN AT 9:00 AM SENATE FINANCE 532
03/05/02		(S)	Moved CS(FIN) Out of Committee
03/05/02		(S)	MINUTE(FIN)
03/06/02	2382	(S)	FIN RPT CS 5DP 3NR SAME TITLE
03/06/02	2382	(S)	DP: KELLY, HOFFMAN, WILKEN, WARD,
03/06/02	2382	(S)	LEMAN; NR: DONLEY, GREEN, OLSON
03/06/02	2383	(S)	FN2: (REV)
03/26/02		(S)	RLS AT 11:00 AM FAHRENKAMP 203
03/26/02		(S)	MINUTE(RLS)
04/19/02	2858	(S)	RULES TO CALENDAR 4/19/02
04/19/02	2859	(S)	READ THE SECOND TIME
04/19/02	2859	(S)	FIN CS ADOPTED UNAN CONSENT
04/19/02	2859	(S)	ADVANCED TO THIRD READING UNAN CONSENT
04/19/02	2860	(S)	READ THE THIRD TIME CSSB 215(FIN)
04/19/02	2860	(S)	PASSED Y14 N4 E1 A1
04/19/02	2860	(S)	EFFECTIVE DATE(S) SAME AS PASSAGE
04/19/02	2863	(S)	TRANSMITTED TO (H)
04/19/02	2863	(S)	VERSION: CSSB 215(FIN)
04/22/02	3058	(H)	READ THE FIRST TIME - REFERRALS
04/22/02	3058	(H)	L&C, FIN
04/29/02		(H)	L&C AT 3:15 PM CAPITOL 17
04/29/02		(H)	Heard & Held MINUTE(L&C)
05/06/02		(H)	L&C AT 3:15 PM CAPITOL 17
05/06/02		(H)	Heard & Held

05/08/02 (H) MINUTE(L&C)
L&C AT 3:15 PM CAPITOL 17

BILL: SB 270

SHORT TITLE:DISPENSING OPTICIANS:EXTEND BD/REGULATION

SPONSOR(S): RLS BY REQUEST OF LEG BUDGET & AUDIT

Jrn-Date	Jrn-Page		Action
02/01/02	2089	(S)	READ THE FIRST TIME - REFERRALS
02/01/02	2089	(S)	L&C, FIN
02/14/02		(S)	L&C AT 1:30 PM BELTZ 211
02/14/02		(S)	Moved CS(L&C) Out of Committee
02/14/02		(S)	MINUTE(L&C)
02/19/02	2222	(S)	L&C RPT CS 3DP 1NR SAME TITLE
02/19/02	2222	(S)	DP: STEVENS, DAVIS, TORGERSON;
02/19/02	2222	(S)	NR: AUSTERMAN
02/19/02	2222	(S)	FN1: (CED)
03/25/02	2517	(S)	FIN RPT CS(L&C) 5DP 3NR
03/25/02	2518	(S)	DP: KELLY, AUSTERMAN, OLSON, WILKEN,
03/25/02	2518	(S)	LEMAN; NR: DONLEY, GREEN, WARD
03/25/02	2518	(S)	FN1: (CED)
03/25/02		(S)	FIN AT 9:00 AM SENATE FINANCE 532
03/25/02		(S)	Moved Out of Committee
03/25/02		(S)	MINUTE(FIN)
03/28/02		(S)	RLS AT 8:30 AM FAHRENKAMP 203
03/28/02		(S)	-- Time Change --
03/28/02		(S)	MINUTE(RLS)
04/02/02	2586	(S)	RULES TO CALENDAR 4/2/02
04/02/02	2588	(S)	READ THE SECOND TIME
04/02/02	2588	(S)	L&C CS ADOPTED UNAN CONSENT
04/02/02	2589	(S)	ADVANCED TO THIRD READING UNAN CONSENT
04/02/02	2589	(S)	READ THE THIRD TIME CSSB 270(L&C)
04/02/02	2589	(S)	PASSED Y18 N- E2
04/02/02	2589	(S)	EFFECTIVE DATE(S) SAME AS PASSAGE
04/02/02	2593	(S)	TRANSMITTED TO (H)
04/02/02	2593	(S)	VERSION: CSSB 270(L&C)
04/03/02	2770	(H)	READ THE FIRST TIME - REFERRALS

04/03/02	2770	(H)	L&C, FIN
04/12/02		(H)	L&C AT 3:15 PM CAPITOL 17
04/12/02		(H)	Heard & Held
04/12/02		(H)	MINUTE(L&C)
04/17/02		(H)	L&C AT 3:15 PM CAPITOL 17
04/17/02		(H)	<Bill Postponed>
05/01/02		(H)	L&C AT 3:15 PM CAPITOL 17
05/01/02		(H)	Heard & Held
			MINUTE(L&C)
05/03/02		(H)	L&C AT 3:15 PM CAPITOL 17
05/03/02		(H)	Heard & Held
			MINUTE(L&C)
05/08/02		(H)	L&C AT 3:15 PM CAPITOL 17

BILL: SB 191

SHORT TITLE: INSURANCE POOLING BY AIR CARRIERS

SPONSOR(S): SENATOR(S) TAYLOR

Jrn-Date	Jrn-Page		Action
04/12/01	1094	(S)	READ THE FIRST TIME - REFERRALS
04/12/01	1094	(S)	L&C, JUD
04/17/01		(S)	L&C AT 1:30 PM BELTZ 211
04/17/01		(S)	Heard & Held
04/17/01		(S)	MINUTE(L&C)
04/19/01		(S)	L&C AT 1:30 PM BELTZ 211
04/19/01		(S)	Scheduled But Not Heard
04/24/01		(S)	L&C AT 1:30 PM BELTZ 211
04/24/01		(S)	Heard & Held
04/24/01		(S)	MINUTE(L&C)
04/28/01		(S)	L&C AT 9:30 AM BELTZ 211
04/28/01		(S)	Scheduled But Not Heard -- Time Change --
05/01/01		(S)	L&C AT 1:30 PM BELTZ 211
05/01/01		(S)	Moved CS(L&C) Out of Committee
05/01/01		(S)	MINUTE(L&C)
05/02/01	1431	(S)	L&C RPT CS 4NR NEW TITLE
05/02/01	1431	(S)	NR: PHILLIPS, AUSTERMAN, DAVIS,
05/02/01	1431	(S)	TORGERSON
05/02/01	1431	(S)	FN1: ZERO(CED)
05/04/01		(S)	JUD AT 4:45 PM BELTZ 211
05/04/01		(S)	Heard & Held -- Time Change -
05/04/01		(S)	MINUTE(JUD)
05/05/01		(S)	JUD AT 8:45 PM BELTZ 211
05/05/01		(S)	Moved SCS(JUD) Out of

			Committee -- Time Change --
05/05/01		(S)	MINUTE(JUD)
05/06/01	1574	(S)	JUD RPT CS 2DP 3NR NEW TITLE
05/06/01	1574	(S)	DP: TAYLOR, COWDERY;
05/06/01	1574	(S)	NR: ELLIS, THERRIault, DONLEY
05/06/01	1574	(S)	FN1: ZERO(CED)
05/02/02		(S)	RLS AT 10:30 AM FAHRENKAMP
			203
05/02/02		(S)	-- Time Change --
05/02/02		(S)	MINUTE(RLS)
05/06/02	3182	(S)	RULES TO CALENDAR 1OR 5/6/02
05/06/02	3184	(S)	READ THE SECOND TIME
05/06/02	3184	(S)	JUD CS ADOPTED UNAN CONSENT
05/06/02	3184	(S)	ADVANCED TO THIRD READING
			UNAN CONSENT
05/06/02	3184	(S)	READ THE THIRD TIME CSSB
			191(JUD)
05/06/02	3184	(S)	PASSED Y20 N-
05/06/02	3189	(S)	TRANSMITTED TO (H)
05/06/02	3189	(S)	VERSION: CSSB 191(JUD)
05/07/02	3415	(H)	READ THE FIRST TIME -
			REFERRALS
05/07/02	3415	(H)	L&C
05/08/02		(H)	L&C AT 3:15 PM CAPITOL 17

WITNESS REGISTER

DON SMITH, Staff
to Senator John Cowdery
Senate Transportation Standing Committee
Alaska State Legislature
Juneau, Alaska 99801
POSITION STATEMENT: Testified on behalf of the sponsor of CSSB
215(FIN), Senator Cowdery.

BILL MACKAY, Vice President
Public and Government Affairs
Alaska Airlines - Seattle
(No address provided)
POSITION STATEMENT: During discussion of CSSB 215(FIN),
answered questions.

DOUGLAS GRIFFIN, Director
Alcoholic Beverage Control Board
Department of Revenue
550 W 7th Avenue, Suite 540
Anchorage, Alaska 99501-3510

POSITION STATEMENT: Testified on SB 215.

HEATHER BRAKES, Staff
to Senator Gene Therriault
Joint Committee on Legislative Budget and Audit
Alaska State Legislature
Capitol Building, Room 121
Juneau, Alaska 99801

POSITION STATEMENT: On behalf of the Joint Committee on
Legislative Budget and Audit, explained Version R of SB 270.

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

POSITION STATEMENT: Answered questions during discussion of SB
270.

PAT DAVIDSON, Legislative Auditor
Division of Legislative Audit
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: During discussion of SB 270, informed the
committee of the schedule for renewals of boards and commissions
in the coming years.

CAROLYN THOMAS, Staff
to Senator Robin Taylor
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented SB 191 on behalf of the sponsor,
Senator Taylor.

KIP KNUDSON
Alaska Air Carrier's Association
Anchorage, Alaska

POSITION STATEMENT: Testified in support of SB 191 with a few
caveats.

VICKI TURNER MALONE
PO Box 2178
Bethel, Alaska 99559

POSITION STATEMENT: Testified in opposition to SB 191.

JIM WILSON
Coastal Helicopters

2355 Ka-See-An Drive
Juneau, Alaska

POSITION STATEMENT: Testified in support of SB 191
conceptually.

JOHN GRUMMETT, President
Alaska Independent Insurance Agents & Brokers, Inc.;
Shattuck & Grummett Insurance
301 Seward Street
Juneau, Alaska

POSITION STATEMENT: Testified in opposition to SB 191 as
currently written.

KEVIN HAND, Staff
to Representative Andrew Halcro
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: As staff to the subcommittee on aviation
insurance, answered questions during discussion of SB 191.

ACTION NARRATIVE

TAPE 02-73, 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 Kott arrived
as the meeting was in progress.

SB 215-COMMON CARRIER LIQUOR LICENSE

CHAIR MURKOWSKI announced that the first order of business would
be CS FOR SENATE BILL NO. 215(FIN), "An Act relating to
licensing common carriers to dispense alcoholic beverages; and
providing for an effective date."

CHAIR MURKOWSKI reminded the committee that this legislation was
set aside at a past hearing because committee members had
questions for which there were no answers at the time.

Number 0107

DON SMITH, Staff to Senator John Cowdery, Senate Transportation
Standing Committee, Alaska State Legislature, announced that
Representative Rokeberg was correct in his interpretation of

Title IV in that this legislation would raise the fees for the seasonal licenses from \$700 to \$1,000. However, the fiscal note would be less because the [seasonal] carriers would pay a slightly higher rate. He noted that seasonal license holders pay 50 percent of the fee. In response to Chair Murkowski, Mr. Smith related that a lobbyist for Alaska Airlines informed him that there are no additional fees [imposed] in other states.

CHAIR MURKOWSKI noted that the committee packet should include an e-mail from Doug Griffin dated with today's date. Chair Murkowski asked if Mr. McKay could shed any light as to why Alaska is unique with regard to the amount assessed on the common carrier licenses for Alaska Airlines.

Number 0318

BILL MACKAY, Vice President, Public and Government Affairs, Alaska Airlines - Seattle, testified via teleconference. Mr. MacKay related that he had confirmed with [Alaska Airlines'] finance group that the charges on the systemwide state-to-state license fee page are only charges associated with liquor licenses. Illinois did want to amend [its fees], he noted, to a flat \$60 charge rather than the previous \$1,260. Illinois only requires Alaska Airlines to license one aircraft. He also noted that Colorado and Maine are missing from the list because those contracts were recently initiated. Mr. MacKay said that he had no idea how Alaska's formula has gotten so out of line in comparison to the other states.

REPRESENTATIVE ROKEBERG asked if Mr. MacKay has seen a fee schedule of all the 50 states and other jurisdictions. He asked if there are any fees in Mexico.

MR. MACKAY answered that he hasn't seen such a spreadsheet and didn't know the answer regarding fees for Mexico, but offered to provide that information as well as the information regarding Colorado and Maine.

Number 0462

DOUGLAS GRIFFIN, Director, Alcoholic Beverage Control Board, Department of Revenue, testified via teleconference. Mr. Griffin pointed out that Alaska Airlines is unique due to the number of licenses it holds. Beside the 104 common carrier licenses held by Alaska Airlines, only 111 others are held. Alaska Airlines pays full price for those 104 common carrier licenses. Of the other 111 licenses, 89 are seasonal and 22 are

year round license, which is why this fee increase doesn't generate much additional revenue. Mr. Griffin pointed out that AS 04.11.680 is the provision that provides the seasonal common carriers a break.

MR. GRIFFIN said that with this legislation, the offset does cost the state a little less, although it doesn't make up all the breaks Alaska Airlines receives. Mr. Griffin related his belief that this is an area in which the board realizes that Alaska's statutes are probably in need of comprehensive revision. Mr. Griffin, in response to Representative Rokeberg, confirmed that the board will submit a revised fiscal note.

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

Number 0727

REPRESENTATIVE MEYER moved to report CSSB 215(FIN) out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSSB 215(FIN) was reported from the House Labor and Commerce Standing Committee.

SB 270-DISPENSING OPTICIANS:EXTEND BD/REGULATION

CHAIR MURKOWSKI announced that the next order of business would be CS FOR SENATE BILL NO. 270(L&C), "An Act extending the termination date of the Board of Dispensing Opticians; relating to the regulation of dispensing opticians; and providing for an effective date."

Number 0782

REPRESENTATIVE ROKEBERG moved to adopt Version 22-LS1382\R, Lauterbach, 5/8/02, as the working document. There being no objection, Version R was before the committee.

Number 0813

HEATHER BRAKES, Staff to Senator Gene Therriault, Joint Committee on Legislative Budget and Audit, Alaska State Legislature, explained that Version R retains the mandatory licensure of dispensing opticians and retains the board with the original extension date of 2005. Version R includes some intent language in Section 1, which addresses the board's deficit by directing the Division of Legislative Audit to review the board's progress at the next sunset review date. This version

includes a career progression program, which is a study course that the board wanted included as a licensing requirement. The hours of training under a licensed professional was decreased to 1,800 hours, which is approximately one year. Version R provides for a dispensing optician's assistant, which is someone who wants to be employed under another licensed professional. A dispensing optician's assistant wouldn't be mandated to work toward licensure. The language relating to the dispensing optician's assistant is based on an amendment presented by the department on behalf of the board.

MS. BRAKES pointed out that on page 4, line 16, of Version R the language "direct supervision of a" was deleted. She requested that the committee consider reinserting the language "supervision of a".

CHAIR MURKOWSKI inquired as to why the word "direct" wouldn't be included. Isn't "direct supervision" important, she asked.

MS. BRAKES said the recommendation was made by the Division of Legal and Research Services.

CHAIR MURKOWSKI inquired as to how in debt the Board of Dispensing Opticians is and a realistic idea of [when] the board could break even.

Number 1079

CATHERINE REARDON, Director, Division of Occupational Licensing, Department of Community & Economic Development (DCED), noted that other programs and boards have, over time, accumulated insignificant deficit and thus fees are raised such that the group ultimately pays itself back. Last year, before the Board of Dispensing Opticians' renewal, the board had a \$28,000 deficit. The renewal will be up in a year and Ms. Reardon expected the board to have fallen further into deficit, perhaps to \$32,000. Therefore, paying the deficit all at once would result in about \$360 more [per dispensing optician] plus the approximately \$12,000-\$14,000 biennial under collection. Generally, the division doesn't ask professions to pay back deficits all at once, rather a payment plan is utilized.

CHAIR MURKOWSKI directed attention to page 1, line 9, which specifies that during the board's next review there will be an analysis with regard to the board's compliance. However, Version R provides that the board [won't be renewed] for three

years. Chair Murkowski inquired as to whether that timeframe should be shortened.

Number 1206

MS. REARDON noted that she shares significant responsibility for letting the board be in a situation in which it hasn't paid back its deficit. It won't simply be left to the board to increase fees, she said, but rather it will be the decision of the division. She pointed out that in February or March there will be the opportunity to reset fees. Ms. Reardon said she didn't believe three years was too long [because it] will allow the Legislative Audit Division to review the impact of the fee increase.

MS. REARDON turned to the difference between "direct supervision" versus "supervision." She pointed out that current statute includes a definition of "supervision" as follows: "the provision of any needed direction, control, consultation, instruction, evaluation, and personal inspection of the work being performed." The legislation specifies that the unlicensed assistants must be supervised by a licensee and thus the licensee must provide any needed direction, which is a fairly general term that wouldn't necessarily mean on-site supervision. "Direct supervision", which is currently used in the apprentice statute, has been defined in regulation to mean that "the supervisor is physically present at the same site as the supervisee while dispensing optician tasks are being performed." Therefore, she suggested that the reference to "direct supervision for apprentices" probably does mean that the board wants the apprentices to be under direct supervision so that they can be trained. She related her belief that the board would also want the unlicensed assistants to be under direct supervision.

Number 1397

REPRESENTATIVE ROKEBERG reminded the committee that there have been concerns with regard to the 2005 date. He mentioned that [the legislature] wants to have [the board] come before the legislature again and have another audit.

CHAIR MURKOWSKI recalled that during testimony, the issue of the practical exam was brought up repeatedly. [Version R] doesn't include it, although the progression program is included. Some folks expressed concern that the practical exam is important and

perhaps with a shorter time period for legislative review, the legislature could review the practical exam at that time.

REPRESENTATIVE ROKEBERG asked if the board could act on its own through regulation [and include the practical exam].

MS. REARDON said she didn't believe that the board could require the practical exam by regulation because the exams that need to be passed are specified in statute.

REPRESENTATIVE ROKEBERG turned attention to Section 6(a)(4) and asked if the board could [by regulation] require an applicant to pass a course in operating the machine with which everyone has difficulty.

MS. REARDON related her understanding that [Section 6(a)(4)] refers to an academic or training course of study. However, she supposed that at the end of the course one must pass a test showing [the individual can operate the machine]. Still, she said she believes that there would have to be a regulation that would pass legal muster. She expected the board to adopt in regulation the need for completion of the career progression program, which includes written exams and requirements that demonstrate to the supervisor that the individual can do certain things. It would be very difficult to have a regulation requiring the practical exam since the practical exam has been removed from statute.

Number 1589

REPRESENTATIVE HALCRO moved that the committee adopt Amendment 1, as follows:

Page 4, line 16:
Following "the"
Insert "supervision of a"

There being no objection, Amendment 1 was adopted.

REPRESENTATIVE MEYER returned to the 2005 date and asked if there had been a decision on that.

CHAIR MURKOWSKI said that although changing the date has been discussed, no decision has been made yet.

Number 1631

PAT DAVIDSON, Legislative Auditor, Division of Legislative Audit, Alaska State Legislature, informed the committee that in 2005 there will be ten occupational-related boards and commissions going through the legislative process. This year there were only five [boards and commissions] that the committee had to address. The proposal to combine the psychologist and social workers will also occur in 2005, she noted.

Number 1697

REPRESENTATIVE MEYER moved that the committee adopt Amendment 2, as follows:

Page 1, line 14:
Delete "2005"
Insert "2004"

There being no objection, Amendment 2 was adopted.

REPRESENTATIVE ROKEBERG said that the letter of intent needed to be revisited because it refers to the board reporting its findings in 2004. Representative Rokeberg moved that the committee amend the letter of intent such that it refers to June 30, 2003, rather than June 30, 2004. There being no objection, the letter of intent was amended as specified.

Number 1751

REPRESENTATIVE HALCRO moved to report HCS CSSB 270, Version 22-LS1382\R, Lauterbach 5/8/02, as amended out of committee with individual recommendations and the accompanying fiscal note and amended letter of intent. There being no objection, HCS CSSB 270(L&C) was reported from the House Labor and Commerce Standing Committee.

SB 191-INSURANCE POOLING BY AIR CARRIERS

CHAIR MURKOWSKI announced that the final order of business would be CS FOR SENATE BILL NO. 191(JUD), "An Act relating to insurance pooling by air carriers."

Number 1826

CAROLYN THOMAS, Staff to Senator Robin Taylor, Alaska State Legislature, read the following portions of the sponsor statement:

SB 191 would allow Alaska's air carriers to pool for property/casualty insurance. This is not a new concept. Since 1988, the pooling concept has been working effectively for the majority of Alaska's local governments and school districts, and has reduced insurance costs and increased loss control and safety.

The effects of the September 11th attacks threaten the viability of many of Alaska's air carriers as aviation insurance rates have risen even further than previously predicted. Although the aviation insurance market has been hardening for many years, the cost of insurance has reached a crisis point since last fall, increasing 20-300 percent depending on a company's claims. Many insurance companies have left the Alaska market, making the purchase of aviation insurance even more difficult. Increased insurance costs mean higher costs of transportation for all goods and services in the majority of Alaska's communities.

SB 191 permits air carriers to group together to self-insure, purchasing reinsurance of a large self-insured retention. With this large "deductible", air carriers share a financial stake in each other's claims. This motivates the industry to police itself, with more focus on loss prevention, safety, and training. Pools produce not only cost relief, but also increased passenger and pilot safety.

Patterned after the very successful statute which allows cities, boroughs, school districts and REAA's to pool, this bill imposes stricter financial requirements on a joint aviation insurance arrangement to further protect Alaskans and ensure the financial strength of the pool. SB 191 is a necessary tool for keeping Alaska's transportation network safe and viable while positively affecting the economy.

REPRESENTATIVE HALCRO inquired as to how much money will be required to capitalize this pool. He also asked from where the money is going to come.

MS. THOMAS answered that statutorily SB 191 will require \$1.5 million. However, it is believed that [the pool] would be better capitalized with at least \$5 million. She reminded the committee that last year Congressman Don Young pledged support for funding this pool and until the funding source is in place

the pool won't happen. She informed the committee that it has never been the intent to fund the pool with state funds.

Number 1965

REPRESENTATIVE HALCRO clarified that last year Congressman Young clearly said that it's the state's responsibility to find the money to fund this pool. Congressman Young further said that Alaska shouldn't look to him to find federal funds to fund this pool. Representative Halcro turned to reinsurance and asked if there have been any discussions with the industry regarding the availability of reinsurance if the pool came to fruition. He pointed out that the committee packet doesn't include any letters of support from the air carriers or any background information with regard to how the pool would work. Representative Halcro related his understanding that the legislation establishes a structure and leaves several unanswered questions.

MS. THOMAS confirmed that the legislation does establish a structure so that this option is available. She noted that the air carriers are in support of the legislation.

Number 2021

REPRESENTATIVE ROKEBERG inquired as to Senator Taylor's understanding of Congressman Young's commitment [to this pool]. Representative Rokeberg related his understanding that Congressman Young would work to obtain funding [for this pool].

MS. THOMAS agreed with Representative Rokeberg's understanding and added that Congressman Young hasn't withdrawn that commitment.

REPRESENTATIVE ROKEBERG related his further understanding that there was an endeavor to lobby support in Congress to establish this.

MS. THOMAS informed the committee the funding for this first came up in February 2001 in Ketchikan and it was discussed again when Congressman Young was in Juneau.

REPRESENTATIVE HALCRO said that he remembered the conversation, which was held in the House caucus room, very clearly. He recalled bringing up the subject of obtaining federal money for improvements at rural airports. The aforementioned subject dovetailed into the availability of insurance for air carriers.

Representative Halcro reiterated that he clearly remembered Congressman Young saying that he found it difficult to find \$20-\$30 million to put into a pool for private aviation companies and it should be the state's responsibility to find the money. He pointed out that Congressman Young repeated the aforementioned sentiment in a recent closed caucus. Representative Halcro expressed concern with passing this legislation with some expectation [that the federal government will provide the funds]. He reminded the committee that last year there was significant research on pooling, which found that there would need to be a capitalized pool of at least \$20 million. A \$1.5 million capitalized pool doesn't provide very much, when the average payout of an aircraft accident can be upwards of \$10 million. He expressed concern with passing legislation that's a hollow statement.

CHAIR MURKOWSKI inquired as to whether the air carriers can do this presently.

MS. THOMAS related her understanding that without legislation such as SB 191, the air carriers can't pool for insurance.

CHAIR MURKOWSKI recalled that when this issue was discussed in the aviation subcommittee, the Division of Insurance clearly stated that this is not insurance and not subject to regulation by the director. The aviation subcommittee recommended a reinsurance pool as opposed to the joint pool being suggested in SB 191.

Number 2220

KIP KNUDSON, Alaska Air Carrier's Association, testified via teleconference. Mr. Knudson announced that the association does support the legislation with a few caveats. Currently, the aviation industry can form a reciprocal insurance arrangement. Although a reciprocal insurance arrangement is similar to the proposal embodied in SB 191, a reciprocal insurance arrangement would require the pool's group to register with the state's Division of Insurance as an insurance company. Under SB 191, the risk pool wouldn't have to register which would probably result in a little less paperwork and a smaller overhead requirement. Mr. Knudson explained that although [the air carriers] do have the option to pool their risk, it hasn't been done because of the reserve requirements for the pool to work adequately. From discussions with the Division of Insurance, Mr. Knudson related his understanding that reserves should match losses. The Division of Insurance [reported that] in 2001 the

aviation industry statewide caused insurance companies to payout a total of \$45 million. Therefore, the air carriers pool would want to have a minimum of \$45 million [in reserves]. He questioned whether the \$45 million figure included air carriers operating in Alaska that insure all of the fleet outside.

MR. KNUDSON turned to Congressman Young's position and noted that the association has contacted his office with regard to his support for feeding this money into the insurance pool. To date, there has been no response. This legislation is enabling legislation which the industry will review closely. He noted that since no one in the [aviation industry] is familiar with running an insurance company [such pooling] will require quite a bit of leg work.

TAPE 02-73, SIDE B

REPRESENTATIVE ROKEBERG recalled another meeting in which Mr. Knudson discussed the Medallion Program. Representative Rokeberg asked if creating a pool that isn't regulated by the Division of Insurance would allow the adoption, as part of the standards in underwriting criteria for that pool, of some provisions of conformance to the Medallion Program.

MR. KNUDSON answered that under SB 191 that would be possible. However, he wasn't sure whether that isn't possible under the reciprocal arrangement. In forming an aviation pool, having a higher standard of operation through the Medallion Program would be required.

REPRESENTATIVE ROKEBERG asked if there has been any change in Mr. Knudson's testimony regarding availability of insurance.

MR. KNUDSON answered that he continues to hear from operators that are about to go through the renewal process. Apparently, aviation insurance companies had a conference recently and the word was "we ain't seen nothing yet." The problem brewing is that a host of carriers haven't had to renew since the September 11th tragedy.

Number 2250

VICKI TURNER MALONE, testifying via teleconference, informed the committee that she is a lifelong Alaskan who has had ownership interest in an air taxi operation in Bethel during the 1970s. She also informed the committee that since 1983 she has owned and is the president of Malone Company, an independent

property/casualty insurance agency. She said that she doesn't currently write any air taxi accounts nor is she courting them. Ms. Malone announced her opposition to SB 191 because the insurance industry already provides one of the largest incentives for air carriers to maintain a good safety record. Ms. Malone related that she had spoken with a gentleman in Bethel who purchased a small air taxi company a year ago because the company was going under due to several fatalities. This gentleman said that his insurance premium decreased by half due to a good safety record over the last year. Ms. Malone said that she had a lot of sympathy for the post-September 11th insurance environment, however she didn't believe that SB 191 will provide a long-term fix to the problem. Furthermore, Ms. Malone expressed concern that this risk retention association will fail. Unlike other public entities, air carriers don't have to exist and the losses the aviation industry experience are generally catastrophic. While it's predictable that the losses will be catastrophic, she didn't believe that the number of losses are predictable. She said that she didn't believe there is enough actuarial data, which is what provides an insurance company with its ability to predict losses and that results in its success or demise. Ms. Malone related her belief that the joint insurance association will fail because the well-managed carriers will leave and the premiums for those left will be too high due to their adverse loss records. Meanwhile, there will be more serious disruption in the marketplace. Ms. Malone mentioned that she believes the Alaska Independent Insurance Brokers Association has gone on record opposing SB 191 because it's severely undercapitalized and it doesn't come under the same form of regulation that other insurance companies do. In conclusion, Ms. Malone said that she didn't believe SB 191 is in the best interest of the public at this time.

REPRESENTATIVE ROKEBERG inquired as to the impact the September 11th tragedy has had on property and casualty line premiums.

MS. MALONE answered that in general Alaska has been very fortunate to have two carriers, one of which is Alaska National, that are domiciled within the state. These carriers weren't impacted by the September 11th tragedy.

REPRESENTATIVE ROKEBERG asked if Alaska National writes property/casualty insurance besides workers' compensation.

MS. MALONE replied yes, but noted that Alaska National doesn't write aviation risk.

Number 2074

JIM WILSON, Coastal Helicopters, announced that he conceptually supports SB 191. However, without funds he didn't see how it could be successful. He echoed earlier comments that it would take about \$50 million to set up a pool adequate to fund an insurance program of this nature. Mr. Wilson agreed that something needs to be done about insurance. The Medallion Program is an important element as is HB 271 and HB 319. The combination of the aforementioned and SB 191 will assist in decreasing insurance rates. Mr. Wilson noted that yesterday testimony was given in the Senate regarding SB 271 and compensatory and punitive damages. He pointed out that most insurance policies today are silent on punitive damages, although those can be covered. The problem is that most insurance companies settle before cases reach a court-awarded settlement and thus there is no knowledge as to what portion of the settlement would be punitive and what portion would be compensatory.

Number 1952

REPRESENTATIVE HALCRO acknowledged that Mr. Wilson sat in on yesterday's Senate hearing on HB 271. Representative Halcro ascertained that the sponsor of SB 191 doesn't "think too much of HB 271 that we passed." However, he related his understanding from Mr. Wilson that HB 271 and HB 319 create a better chance for the aviation industry getting through the tough insurance times than SB 191 without a funding mechanism.

MR. WILSON agreed with Representative Halcro's understanding taken in the context [it was presented]. However, a combination of any of the earlier mentioned legislation would be of great assistance. A [limit on] punitive damages will also be of great assistance.

Number 1876

JOHN GRUMMETT, President, Alaska Independent Insurance Agents & Brokers, Inc. (AIIAB); Shattuck & Grummett Insurance, announced that AIIAB opposes SB 191 as it's currently written. He pointed out that the legislation states that a joint aviation insurance arrangement isn't considered insurance, and therefore wouldn't be regulated by the Division of Insurance. The aforementioned is cause for concern with regard to fair claims and complaints and the recourse for those. Furthermore, joint aviation insurance arrangements don't pay a premium tax and thus wouldn't

contribute to the general fund and aren't part of the [Alaska Insurance Guaranty Association Act], which is also specified in the legislation. The [Alaska Insurance Guaranty Association Act] protects the public against insolvencies.

MR. GRUMMETT highlighted that over the years there have been attempts, which weren't well thought out, to create various self-funding mechanisms. As has been stated, SB 191 doesn't address the substantial amounts of money to fund the pool let alone pay the aviation losses. He stated that \$1.5 million isn't close. The difference between this proposed joint insurance arrangement and municipalities and school districts is that the municipalities and school districts have a tax base on which to rely when reserves are low. He surmised that SB 191 implies that the owners will put up the equity of the fund other than the state contribution. Furthermore, air carriers are competitive while municipalities and school districts aren't inherently competitive with one another. Therefore, Mr. Grummett said that he didn't know the impact of such on the marketplace. Mr. Grummett urged the committee to review some of the above before passing SB 191. He directed attention to page 4, lines 9-12, and urged the committee to establish reserves for losses of the joint aviation insurance arrangement prior to the enactment of SB 191.

Number 1701

REPRESENTATIVE HAYES asked if AIIAB has testified on this legislation during the legislative process.

MR. GRUMMETT replied no and specified that [AIIAB] has been watching the legislation. In response to Representative Rokeberg, Mr. Grummett noted that [Shattuck & Grummett] does underwrite aviation on a case-by-case basis. He informed the committee that currently he writes a small private noncommercial carrier who hasn't experienced any increase. However, he knew that some people have experienced modest to moderate increases while others have experienced large increases. Still, he submitted that the aforementioned was directly related to loss experience as well as the rate. He deferred to the representative from the air carrier's association for a true assessment.

REPRESENTATIVE ROKEBERG recalled that Mr. Grummett thought there are problems with SB 191 with regard to fair claims and the actuarial determinations. However, Representative Rokeberg

asked if it would be logical that a third party administrator would be retained if this pool was created.

MR. GRUMMETT said that he didn't know.

REPRESENTATIVE ROKEBERG turned to the issue of adverse losses and remarked that there have been significant losses in Alaska, which he characterized as a statewide problem. He asked if Mr. Grummett felt that a limit on punitive damages would lower the underwriting premiums.

MR. GRUMMETT answered that he believes it would go toward that and is a good start.

REPRESENTATIVE ROKEBERG characterized the three bills as measures trying to impose limitations or immunities. The problem with passing these bills is the lack of an answer with regard to the true impact of these proposals. Representative Rokeberg said [the intent] is to establish something that would help [brokers] help underwriters moderate their premiums.

MR. GRUMMETT said he was just as frustrated. For example, his office lost the remaining three large air carriers that it wrote. The aviation portion of the package was lost because "we" don't have an effective market to compete for them.

Number 1450

KEVIN HAND, Staff to Representative Andrew Halcro, Alaska State Legislature, noted that he was staff to the subcommittee on aviation insurance. He turned to an earlier question regarding what is legally available to these aviation insurance pools. He informed the committee that under current statute the following is available: a risk purchasing group, a joint underwriting association, a state-based joint reinsurance plan, reciprocal insurance arrangements, and risk retention groups. The options requiring new statutory provisions are as follows: assigned risk plans, risk sharing plans, market assistance plans, and joint insurance arrangements. He noted that assigned risk plans and the joint insurance arrangement are basically what HB 270 and SB 191 propose respectively.

REPRESENTATIVE HALCRO noted that Mr. Hand worked with Neil Webster, a private individual attempting to gather participants for a pool similar to that proposed in SB 191. He asked Mr. Hand to share Mr. Webster's experience.

MR. HAND informed the committee that in December 2000 there was an informal community meeting in Anchorage and it was highly attended by a number of aviation operators and the Division of Insurance and various insurance interests in the state. This meeting sought to create a grass roots, independent of government, pool situation. This would basically be a joint insurance arrangement in which everyone came together and paid an upfront premium to join a pool and create a capital securitization and pay an annual premium, and therefore it would be a joint self-insurance arrangement. This group actually brought in folks to discuss how these funds would managed. Forms were distributed inquiring of pilot experience, technological advancements, and use of safety programs. This was sent out to all interested parties and the information was correlated and sent to the underwriter that was located out of state. The underwriter said the pool could work but the premiums would have to be double what was originally intended. The premiums being sought were in the range of \$260,000, which was the case two to three years ago. Therefore, the cost is the problem.

CHAIR MURKOWSKI related her understanding that all the information was gathered before the September 11th tragedy and thus she presumed that the numbers will be higher.

MR. HAND replied yes. Mr. Hand related that there is talk that a \$40 billion hit on the insurance market will have impacts beyond aviation.

Number 1138

MR. HAND, in response to Representative Rokeberg, said that much of the information is anecdotal and difficult to grasp with regard to the hard and fast numbers that can be obtained from actuaries and underwriters regarding the possible impact of any of the proposed legislation. Mr. Hand noted that he inquired as to the numbers and the findings of this particular private pool, however the underwriter is one who would've likely been the administrator of the pool and thus the information was proprietary. One of the main concerns with a pool is that even if one could find a joint insurance arrangement, reinsurance is unlikely to be available at any price.

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

REPRESENTATIVE HALCRO noted his support of SB 191, although he expressed the need to be realistic. Certainly pooling is a good tool, however it won't help the aviation industry get its feet on the ground.

Number 0953

REPRESENTATIVE KOTT stated his reluctance to move SB 191 from committee. However, since this provides one more tool he said he would move the legislation with the understanding that the two other components, SB 271 and HB 319, should be [moved] to the Senate floor.

CHAIR MURKOWSKI echoed the "luke warm endorsement" of SB 191, which is meaningless without the funding. However, she expressed the hope that with the structure being available maybe the money will follow.

REPRESENTATIVE MEYER agreed that SB 191 is only as good as the funds that are received from Congressman Young.

Number 0758

REPRESENTATIVE ROKEBERG recalled that there was testimony that the legislation fails to require any actuarial review prior to operation. He directed attention to page 4, lines 9-12. He asked if that [annual determination] would occur before operations begin.

CHAIR MURKOWSKI pointed out that the language is under the financial provisions of the agreement. She specified that the agreement has to include a provision regarding an annual determination, although the language doesn't specify that it must be done upfront.

Number 0639

REPRESENTATIVE ROKEBERG moved that the committee adopt conceptual Amendment 1, which would include a provision requiring what is specified on page 4, lines 9-12, to be determined prior to the commencement of operation [of a joint aviation insurance arrangement]. He explained that this determination will determine the amount of funds required. There being no objection, conceptual Amendment 1 was adopted.

Number 0497

REPRESENTATIVE ROKEBERG moved to report CSSB 191(JUD), as amended, out of committee with individual recommendations and the accompanying zero fiscal note. There being no objection, HCS CSSB 191(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 4:55 p.m.