

HOUSE FINANCE COMMITTEE
January 20, 2004
2:31 PM

TAPE HFC 04-7, Side A

CALL TO ORDER

Co-Chair Harris called the House Finance Committee meeting to order at 2:31 PM.

MEMBERS PRESENT

Representative John Harris, Co-Chair
Representative Bill Williams, Co-Chair
Representative Kevin Meyer, Vice-Chair
Representative Mike Chenault
Representative Eric Croft
Representative Hugh Fate
Representative Richard Foster
Representative Mike Hawker
Representative Bill Stoltze

MEMBERS ABSENT

Representative Carl Moses
Representative Reggie Joule

ALSO PRESENT

Linda Hall, Director, Division of Insurance, Department of Community & Economic Development; Paul Lisankie, Director, Division of Workers Compensation, Department of Labor & Workforce Development; Edward Fisher, Deputy Commissioner, Department of Labor; Alaska Housing Finance Corporation; Dan Fauske, Executive Director, Alaska Housing Finance Corporation, Department of Revenue; Diane Barrans, Executive Officer, Alaska Student Loan Corporation, Alaska Commission on Postsecondary Education, Department of Education; Sheila King, Finance Officer, Postsecondary Education Commission.

PRESENT VIA TELECONFERENCE

None

GENERAL SUBJECT(S):

**OVERVIEW: WORKERS COMPENSATION/INCREASED COSTS/
SALARY ADJUSTMENTS**

BONDING:

**ALASKA HOUSING FINANCE CORPORATION (AHFC)
ALASKA STUDENT LOAN CORPORATION**

The following overview was taken in log note format. Tapes and handouts will be on file with the House Finance Committee through the 23rd Legislative Session, contact 465-2156. After the 23rd Legislative Session they will be available through the Legislative Library at 465-3808.

LOG	SPEAKER	DISCUSSION
	TAPE HFC 04-07 SIDE A	
000	Co-Chair Harris	Convened the House Finance Committee meeting at 2:31 p.m.
		WORKERS COMPENSATION
0012	LINDA HALL, DIRECTOR, DIVISION OF INSURANCE, DEPARTMENT OF COMMUNITY & ECONOMIC DEVELOPMENT	Discussed the insurance marketplace, the assigned risk market, profitability of insurance companies, the rate increases receiving publicity, and the current prices in Alaska's guaranty associations.
226	Ms. Hall	Stated the assigned risk plan has been losing money for about four years. The expenses become a major burden to businesses.
305	Ms. Hall	Discussed the expense and loss ratios range and the Alaska loss ratio for a six-year period.
428	Ms. Hall	Reviewed rate increases since 1988 and stated the cost of claims has gone up.
531	Ms. Hall	Discussed the number of claims, and the cost of individual claims and rate increases that affect employers across the state. Pointed to crisis in insurance guaranty association formed under statute as a safety net to minimize financial loss to claimants or policyholders because of the insolvency of the insurer. Noted that the costs are passed on. Described the Fremont Indemnity Company insolvency. Offered to provide a cash flow model.
743	Ms. Hall	Talked about three other insolvent insurance carriers whose claims are being handled through the guaranty association. Stated that the claims affect about 700 injured workers and approximately 400 employers.
828	Ms. Hall	Discussed the prorating of claim

		payments, "an unacceptable solution for everyone involved." Explained that injured workers receive lower weekly wage checks and partial payment for medical expenses.
913	Ms. Hall	Explained that when a carrier becomes insolvent, claims are transferred to the guaranty fund of the state, or to the employer. This additional, unanticipated cost could force small companies out of business.
1006	Ms. Hall	Continued discussing the Alaska Guaranty Fund and the potential for prorating claims, which was averted through 2003 and for the next few months.
1100	Ms. Hall	Emphasized need for a stable environment to attract new markets, and for a solution to the funding crisis.
1128	Co-Chair Harris	Asked about forthcoming legislation from the Administration.
1148	Ms. Hall	Described proposed sources of funding involving additional assessments and a guaranty of loans. Stated that new legislation will include streamlining the appeals processes.
1309	Ms. Hall	Continued answering questions relating to the first substantial rate increase since 1988, the assumptions that go into rate-making, and losses in the operation of the insurance industry.
1546	Vice-Chair Meyer	Asked if insurance companies prefer lump sum payments rather than paying for job rehabilitation of claimants.
1604	PAUL LISANKIE, DIRECTOR, DIVISION OF WORKERS COMPENSATION, DEPARTMENT OF LABOR & WORKFORCE DEVELOPMENT	Offered to research the question and provide a response.
1713	Vice-Chair Meyer	Expressed concern that an insurance company might prefer a lump sum payment that wouldn't help train the worker to reenter the workforce.
1757	Co-Chair Williams	Asked the cost to the state to cover the loss.
1815	Ms. Hall	Responded that it will not be a general fund request in the bills to be introduced this week.
1859	Ms. Hall	Continued to answer questions posed by the members of the Committee.
3151	Representative Croft	Asked, in relation to the data presented

		from 1997, how much loss is attributable to stock market performance versus inadequate premium levels.
3241	Ms. Hall	Replied that historically and in the mid-1990s there was an ability by insurance companies to offset underwriting losses with investment income.
2252		ALASKA HOUSING FINANCE CORPORATION (AHFC)
3508	DAN FAUSKE, EXECUTIVE DIRECTOR, ALASKA HOUSING FINANCE CORPORATION, DEPARTMENT OF REVENUE	Referenced AHFC's bonding authority and capacity to generate money. Explained that the State has proposed [in SB 279] that AHFC issue two additional bond series to fund state capital projects totaling \$45 million. In the housing loan fund, \$480 million are not currently leveraged with debt, and the equity in that fund will be transferred to the general account. The AHFC made a proposal to long-term bond for \$25 million at low-interest rates for the Village Safe Water Program. There is potential use of AHFC general obligation for an additional \$20 million, increasing the total commitment to \$45 million.
3749	Mr. Fauske	Continued, the three major rating agencies were agreeable to the \$20 million proposal but not with going further until the State comes to terms with its current fiscal situation. Stated that he believes the State can maintain its credit rating.
3900	Mr. Fauske	Continued discussing the proposal to replace the bonds with \$45 million in 10-year serial bonds. Mr. Fauske referred to HB 256 [Passed in 2003] that arrived at a formula-driven dividend plan that led to the AHFC being upgraded. He asserted that AHFC would want to protect that and its core mission in the housing market across the state.
3952	Mr. Fauske	Explained that the nature of the revolving loan fund program will remain the same and should be made bondable. The size of the program has grown and now represents \$19-20 million of net income to the corporation. The Corporation must be able to sell bonds to assist in its liquidity position from a working capital position. For AHFC to function, it must have significant working capital to buy the loans as they come in and then recycle them with loan proceeds as it goes to market.

4039	Mr. Fauske	Continued, AHFC is currently doing well but it is now even more important to have an informative debate on SB 279, which will assist AHFC in generating these additional monies.
4107	Representative Hawker	Questioned why the rating agencies were hesitant to provide good ratings for the \$45 million package in light of AHFC's \$278 million unrestricted net asset balance as of June 30, 2003.
4253	Mr. Fauske	Replied that it is due to the rating agencies' concerns that for years AHFC has been paying out more than it earns, as well as the length of debt service in conjunction with net income.
4327	Mr. Fauske	Further explained that the fund equity balance that has been maintained at \$1.7-1.8 billion is a key number examined by the rating agencies. If the number falls, the rating agency takes necessary steps.
4356	JOE DUBLER, DIRECTOR OF FINANCE, ALASKA HOUSING FINANCE CORPORATION	Pointed out that different schedules in the financial statements have bond issues that rely solely on AHFC's general obligations without specific assets pledged to them. The fund deficits that reside in those funds would have to be made up by the general account of the revolving fund. After backing all those out, the result is the \$103 million dividend for FY 04 and a balance of \$100 million in unrestricted money. The AHFC mortgage loan activity in FY 03 was nearly \$1 billion. In FY 05, another \$100 million will go out from the Corporation without returning. The rate agencies project outward when cash flows out from the Corporation instead of strictly looking at present balances.
4523	Representative Croft	Regarding the two bonding proposals, he asked how much would be incurred in annual obligation for the \$45 million bond and how much the dividend would be reduced.
4602	Mr. Dubler	Replied that the debt service is approximately \$5.5 million on a 10-year bond.
4631	Representative Croft	Asked about the other proposal involving buildings and maintenance.
4640	Mr. Fauske	Replied that from the perspective of AHFC, purchasing a working asset is a viable business.
		TAPE HFC 04-07, Side B
4606	Mr. Fauske	Explained that significant capital would

		be raised for maintenance on the buildings. Spoke to the purchase of the Atwood Building.
4543	Representative Croft	Commented that he had understood that the State had purchased the Atwood Building to save paying rent while, in fact, AHFC collects rent on the building.
4509	Representative Croft	Asked if, in effect, these bonds involve some money obligation now, and future payments over the next 10-20 years. Mr. Fauske affirmed.
4433	Co-Chair Harris	Asked if there is anything in the Governor's proposal [SB 279] involving AHFC that they would prefer not to do in terms of their portfolio.
4417	Mr. Fauske	Replied that AHFC did not want to go beyond \$45 million.
4332	Mr. Fauske	Continued that AHFC has \$1 billion dollars of variable rate debt. The AHFC is now at a point that makes proceeding further potentially detrimental.
4238	Mr. Fauske	Commented on making progress in solving the issues of debt.
4201	Co-Chair Harris	Referred to the anticipated \$103 million dollar dividend this year and asked the amount that would be available in unrestricted general funds.
4141	Mr. Fauske	Replied that of the \$103 million, \$50 million will go to debt service. General Obligation Bonds were sold, leaving \$53 million of which \$20-25 million went to the Village Safe Water Program with another \$18-20 million in AHFC matching money for federal dollars.
		POSTSECONDARY EDUCATION: ASLC
3941	DIANE BARRANS, EXECUTIVE OFFICER, ALASKA STUDENT LOAN CORPORATION; EXECUTIVE DIRECTOR, ALASKA COMMISSION ON POSTSECONDARY EDUCATION, DEPARTMENT OF EDUCATION	Stated that over the past ten years, the Legislature has played a key role in improving the Alaska Student Loan Corporation's (ASLC) financial health. Discussed commitments of the Corporation and optimizing assets. Discussed Capital Project Revenue Bonds. Referred to handout, "Return of Contributed Assets to State," (copy on file.)
3606	Ms. Barrans	Explained a new master trust indenture, the 2002 indenture, in "Recent Management Enhancements," (copy on file.)

3353	Ms. Barrans	Referred to two bar charts, "Cumulative State Contributions to ASLC," and "ASLC Fund Equity by Fiscal Year," (copies on file.) Explained that these illustrate that between 1988-1992 ASLC received assets and cash just over \$306 million and will return some of the contributed capital to the State when the Corporation can do so without impairing its ability to offer low-interest loans.
3237	Representative Croft	Asked about the \$260 million seed fund to ASLC, and questioned if there were also infusions of general fund dollars during the period 1988-1992.
3214	Ms. Barrans	Confirmed that through 1992, an additional \$47 million in cash was provided. Stated that \$260 million in loan assets were transferred at the time the Corporation was created.
3152	Representative Croft	Asked if \$307 million can be returned to the State over time, or if the \$260 million are secured assets for student loans.
3139	Ms. Barrans	Stated that ASLC intends to return approximately \$250-260 million over the next three years, including \$75 million intended for capital projects in FY 05. Discussed the continuation of annual dividends, and the restructuring of underlying assets in 1994.
3038	Ms. Barrans	Discussed federal guaranteed loans and payment to ASLC of a special subsidy by the federal government as a lender.
2932	Representative Croft	Responded to Representative Croft's comment regarding a better fiscal outlook due to several factors including elimination of student loan forgiveness, better collection including garnishing Permanent Fund dividends, and federal subsidies. Ms. Barrans agreed and also noted the low rate issuing bonds in the market in the last few years.
2850	Representative Croft	Asked if ASLC is under undue pressure.
2828	Ms. Barrans	Responded that ASLC feels assured it can continue to offer an attractive education loan package and also return these assets to the State.
2817	Ms. Barrans	Discussed the return of \$260 million over the next three years and the annual dividend.
2720	Representative	Asked how the \$306 million in

	Hawker	contributions were included and reported in ASLC financial statements.
2627	SHEILA KING, FINANCE OFFICER, ALASKA STUDENT LOAN CORPORATION, POSTSECONDARY EDUCATION COMMISSION	Explained that net equity is on the balance sheet as net assets, and ASLC is wrapped in with other programs. Offered to provide financial statements.
2544	Representative Hawker	Requested the 2003 annual report.
2456	Ms. Barrans	Explained that ASLC created a new consolidated loan program allowing borrowers at 8-9% to consolidate at lower interest, and the Corporation used assets through those programs to issue and leverage bonds.
2339	<u>ADJOURNMENT</u>	The meeting was adjourned at 3:43 PM.