

MINUTES
SENATE FINANCE COMMITTEE
March 22, 2004
9:05 AM

TAPES

SFC-04 # 53, Side A

CALL TO ORDER

Co-Chair Gary Wilken convened the meeting at approximately 9:05 AM.

PRESENT

Senator Lyda Green, Co-Chair
Senator Gary Wilken, Co-Chair
Senator Fred Dyson
Senator Ben Stevens
Senator Lyman Hoffman
Senator Donny Olson
Senator Con Bunde, Vice-Chair

Also Attending: SENATOR GARY STEVENS; SENATOR TOM WAGONER; SENATOR ALAN AUSTERMAN, Fisheries Policy Adviser, Office of the Governor; DIANE BARRANS, Executive Director, Postsecondary Education Commission, Department of Education and Early Development; LINDA HALL, Director, Division of Insurance, Department of Community and Economic Development

Attending via Teleconference: From Anchorage: JOE DUBLER, Director of Finance, Alaska Housing Finance Corporation, Department of Revenue; BRIAN BUTCHER, Legislative Liaison, Alaska Housing Finance Corporation, Department of Revenue

SUMMARY INFORMATION

SB 273-ASMI BOARD/ SEAFOOD TAXES & ASSESSMENTS

The Committee heard from the bill's sponsor, and reported a committee substitute from Committee.

SB 277-STUDENT LOAN PROGRAMS

The Committee heard from the Department of Education and Early Development, adopted a committee substitute, and reported the bill

from Committee.

SB 276-ALASKA INSURANCE GUARANTY ASSOCIATION

The Committee heard from the Department of Community and Economic Development, adopted a committee substitute, and reported the bill from Committee.

SB 279-AHFC WATER & SEWER BONDS

The Committee heard from the Alaska Housing Finance Corporation and reported the bill from Committee.

SB 274-HOUSING PROGRAMS

The bill reported from Committee.

HB 233-INCREASE EDUCATION FUNDING

The bill was scheduled but not heard.

SB 35-APPROPRIATIONS: K-12, UNIVERSITY

The bill was scheduled but not heard.

SB273

SENATE BILL NO. 273

"An Act relating to the Alaska Seafood Marketing Institute, the seafood marketing assessment, the seafood marketing tax, and the seafood product tax; and providing for an effective date."

This was the second hearing for this bill in the Senate Finance Committee.

Co-Chair Wilken explained that this bill would reduce the size of the Alaska Seafood Marketing Institute (ASMI) Board of Directors from the current 25 members to nine members. He pointed out that the Finance Committee committee substitute, Version 23-LS1366\E, which is before the Committee, would also authorize two additional Seafood Marketing assessment rates. He stated that the bill was held in Committee to allow further review by Members Senator Hoffman and Senator Olson.

SENATOR GARY STEVENS, the bill's sponsor, informed that the bill would address two issues, as it would change the size of the Board

and the ASMI funding structure. He acknowledged Senator B. Stevens's and the Salmon Task Force's efforts in developing the bill. He referred the members to the "Current Tax Structure" handout [copy on file] that portrays four funding options pertinent to this legislation. He noted that the first column depicts the current Tax Structure, which is comprised of 25 members; the Salmon Marketing Tax on the fishermen; the Processors assessed amount; and the Federal Funds from Fisheries amount for a projected FY 04 Budget total of \$6,474,284.

Senator G. Stevens noted that this legislation would provide processors three funding/Board Member options: the first would specify a .5% assessment of processors, would eliminate the Salmon Marketing Tax on fishermen, and would reduce the Board member numbers to seven for a total projected budget of \$7 million; the second would not approve the .5% assessment of processors, would designate nine Board members, and would continue the salmon tax on fishermen for a projected total of \$6,575,000; and the third option would reduce the Board to seven members and would provide the processors the ability to eliminate the processors assessment, and would be estimated to be a total budget of \$3,575,000. He noted that the third option already exists in regulations, and, if approved, would indicate displeasure with "the job that AMSI is doing." All option totals, he noted, include anticipated federal funding of \$2 million.

Senator G. Stevens noted that the numbers on the handout differ from the numbers in the Department of Revenue's March 12, 2004 fiscal note, as the fiscal note does not separate the fishermen and processors tax assessments.

Co-Chair Wilken noted, for the record, that the packets contain a poem [copy on file] titled the "Twelve Days of ASMI".

Co-Chair Green moved to report the Version "E" committee substitute from Committee with individual recommendations and accompanying fiscal notes.

There being no objections, CS SB 273 (FIN) was REPORTED from Committee with zero fiscal note #4, dated March 24, 2004, from the Division of Elections, Office of the Lt. Governor and a new zero fiscal note, dated March 12, 2004 from the Department of Revenue.

SB277

CS FOR SENATE BILL NO. 277(HES)

"An Act relating to the Alaska Commission on Postsecondary Education; relating to the Alaska Student Loan Corporation;

relating to bonds of the corporation; relating to loan and grant programs of the commission; relating to an exemption from the State Procurement Code regarding certain contracts of the commission or corporation; making conforming changes; and providing for an effective date."

[NOTE: This bill was previously reported from Committee; however, was returned in order to allow the Committee to address and clarify issues that arose during the bill's hearing on the Senate floor.]

This was the third hearing for this bill in the Senate Finance Committee.

Co-Chair Wilken explained that this legislation would allow the Student Loan Corporation to issue bonds and utilize the proceeds for purposes other than funding student loans. Continuing, he noted that the bill would also create a mechanism through which the Corporation could return money to the State.

Co-Chair Wilken explained that while the bill had previously reported from Committee, the decision was made to return the bill to the Committee in order to "properly" address the three technical issues that were raised during the bill's Senate Floor session hearing.

Co-Chair Green moved to adopt committee substitute, Version 23-GS2003\Q as the working document.

Co-Chair Wilken objected for purposes of discussion. He noted that the three technical issues addressed in this committee substitute are located on pages three, five, and seven.

DIANE BARRANS, Executive Director, Postsecondary Education Commission, Department of Education and Early Development explained that the Version "Q" committee substitute contains technical corrections and clarifications. The first correction, she communicated, would alter the repealer language in Section 31, page twelve, line 29, that corresponds to the grant program AS 14.43.500, that was eliminated. She clarified that this technical correction would replace references to the eliminated Statute, AS 14.43.500, with AS 14.43.420 on page three, lines five and sixteen; on page ten, lines ten, twelve, fourteen and 31; on page 11, lines 27 and 29; and on page 12, lines three and 29. This, she noted would clarify that that grant provision is terminated.

Ms. Barrans noted that the other two changes correct Statute references relating to the Administrative Lien Authority by

eliminating language referring to AS 14.43.149 in Sec. 9, Sec. 14.42.151 on page five and in Sec. 9, Sec 14.43.154 on page seven. She noted that the Commission agrees with the Legislative Legal Division's opinion that retaining the AS 14.43.149 reference in those sections would have been "confusing."

Co-Chair Wilken removed his objection, and Version "Q" was adopted as the working document.

Co-Chair Green moved to report the Version "Q" committee substitute from Committee with individual recommendations and accompanying fiscal notes.

Senator Hoffman asked whether this legislation would jeopardize the continuation of the Student Loan Program.

Ms. Barrans responded that it would not.

There being no objection, CS SB 277(FIN) was REPORTED from Committee with \$120,000 fiscal note #5 from the Department of Education and Early Development; zero fiscal note #2 from the Department of Community and Economic Development; and zero fiscal note #1 from the Department of Administration.

#sb276

CS FOR SENATE BILL NO. 276(L&C)

"An Act relating to the Alaska Insurance Guaranty Association; relating to the powers of the Alaska Industrial Development and Export Authority concerning the association; and providing for an effective date."

This was the second hearing for this bill in the Senate Finance Committee.

Co-Chair Wilken stated that this legislation would increase the Alaska Insurance Guaranty Association's ability to pay Workman's Compensation claims. He noted that the legislation had been held in Committee to address funding issues, and he reminded that CS SB 276(L&C) version of the bill specifies that earnings from the Alaska Permanent Fund would be a funding source.

Co-Chair Green moved to adopt committee substitute, Version 23-GS2105\Q as the working document.

Co-Chair Wilken objected for further clarification. He stated that the spreadsheet titled "Alaska Insurance Guaranty Association

Worker's Compensation Account, Cash Flow Projection as of 12/31/2003," provided by the Department of Community and Economic Development, further explains the bill's funding mechanism. In addition, he noted that the Version "Q" committee substitute eliminates language specifying that the Earnings Reserve Account would be the funding source for the program.

LINDA HALL, Director, Division of Insurance, Department of Community and Economic Development, noted that the Version "Q" committee substitute "is identical" to the L&C version of the bill "with the exception that it does removes self-insurers from the assessment process." This change, she continued, would result in an assessment process that would increase the assessments in those accounts that have "an insolvency" such as the Workers' Compensation (WC) account. She noted that the aforementioned chart reflects cash flow projections based on the current two percent assessment and the projections were the assessment levy increased to four percent. She specified that the WA account assessments as well as the other accounts within the Guaranty Fund are depicted on the spreadsheet.

Ms. Hall pointed out that the Auto Fund Assessment would increase .19 percent in calendar year 2004. She exemplified that on a \$600 automobile premium, this would translate to a \$1.24 increase, which she declared, "is not a huge amount of money." She stated that this low percentage increase was possible because there the Fund had a positive cash balance at the beginning of calendar year 2004.

Ms. Hall commented that for the full calendar year 2005, the four percent assessment rate on the WC account would equate to a .47 percent increase. She also noted that for the full calendar year 2005, a \$600 automobile premium with the .19 percent increase would equate to an additional \$3.06. She voiced that these minimum increases would assist the Association in getting out of its deficit situation.

Ms. Hall noted that the WC rate would reduce to 3.37 percent in calendar year 2006, and to 2.48 percent in calendar year 2007, and the Other Funds assessments would be eliminated beginning in 2006.

Senator Bunde asked whether the assessment rate increase would apply to other insurance premiums such as homeowners insurance.

Ms. Hall affirmed that it would.

Senator Bunde asked whether the Division of Insurance has calculated the cost to each Alaskan were the excess earnings from the Permanent Fund reserve account used to fund the program as

specified in the L&C version of the bill.

Co-Chair Wilken noted that the cost might be approximately two dollars.

Co-Chair Green asked for clarification that while the four percent assessment would apply to the WC fund, the .19 percent assessment would be applicable to all other funds.

Ms. Hall concurred.

Co-Chair Green asked whether the funding mechanism being proposed would have minimal impact on the public and other entities.

Ms. Hall responded that this legislation would affect "the broadest base" of the insured marketplace and would, she continued, have "minimal impact on the paying public while raising a substantial amount of money," even with the elimination of the assessment on the self-insured entities. She noted that the .19 percent assessment on such things as automobile, homeowner, and commercial property is small because they present a much larger premium base than the WC base. This larger base, she noted, generates more money, "by far," than the four percent assessment increase on WC premiums.

Senator Bunde surmised, therefore, that the people who would directly benefit from this legislation would be in the minority and the people who would have no direct benefit from it would pay the majority of the assessments.

Ms. Hall stated that the people who would benefit from this legislation are those "who pay the smaller amounts of premium." She noted that currently, the amount assessed from the WC base, which is less than half the size of the other premium bases, is \$4.3 million.

Co-Chair Green asked whether this legislation would enable the Division to be better situated "to respond, react, and predict" future claims in order to prevent a reoccurrence of this sort of financial situation.

Ms. Hall voiced optimism that this legislation would address the situation. She also noted that separate legislation is being brought forward that proposes to require deposits from insurance companies "to provide an additional pocket of money" with which to address insolvency issues. She noted that the magnitude of this insolvency "has depleted the resources of the Guaranty Association."

Co-Chair Wilken removed his objection.

There being no further objection, Version "Q" was ADOPTED as the working document.

Co-Chair Wilken referenced an Associated Builders and Contractors, Inc. letter, dated March 1, 2004 and addressed to Senator Bunde [copy on file] that spoke to their concern regarding a previous change in the WC rate that had occurred midyear, in July, to the dismay of those in the construction industry. This timing, he continued had negatively impacted the industry because previously bid projects had not factored in the new rate. Therefore, he requested confirmation that the rate increases proposed in this legislation would not occur midyear.

Ms. Hall clarified that the increases in question pertained "to increases in benefits which had an immediate affect on rates." She agreed that, "it was very unfortunate that that occurred midterm." Continuing, she clarified that Guaranty Fund assessments are annually assessed at the renewal of a policy and therefore, she stressed, would not be done midterm. She qualified that while the Department historically implements rate increases on January first, they would not apply to an individual policy until that policy renews. She stressed that this would be the procedure with these assessments.

Co-Chair Wilken surmised therefore, that there would be no midyear surprises.

Co-Chair Green moved to report the bill from Committee with individual recommendations and accompanying fiscal notes.

Senator Bunde objected. He expressed that to assess businesses further at this time would be unfortunate, and he specifically stated that it would be unfortunate to assess people who buy other types of insurance policies. He preferred that this legislation be financed via other avenues such as by the excess earnings of the Permanent Fund, as that would not, he opined, negatively impact Alaskans.

Senator Olson echoed Senator Bunde's concern. He stated that numerous businesses have contacted him to voice opposition to increases in their WC assessment "due to the downturn in their funding sources ranging from the State to the business climate in rural Alaska now." He shared the desire that other funding sources be identified.

Co-Chair Green voiced concern about the fact that other premiums, such as automobile and homeowner premiums would be increased. Therefore, she asked Ms. Hall to explain how the Guaranty Fund functions overall, and how this legislation, as a solution to the situation, "is not off the mark in solving this temporary problem."

Ms. Hall stated that "the concept of the Guaranty Fund in Alaska", as in every other state, "is to provide a safety net to protect policy holders and claimants in the case of a solvent insurer." She stressed therefore, that the theory is to institute a series of assessments, which would provide funds in case of an insolvency. She noted that similar to Alaska's current two percent assessment, the majority of states have limitations on their assessment, She shared that, whereas Alaska's Fund is comprised of three accounts with varying rates of assessment percentages, 18 other states have a single account within their guaranty association. She noted that Alaska, being a small State with a small premium base, is challenged in its endeavor to develop a Guaranty Association to address emergencies "with the small amount of premiums that it has to deal with."

Ms. Hall specified that the WC account, the Auto Account and the Other Account comprise the three accounts of the Guaranty Association. She stated that the Other Account encompasses such things as homeowners, commercial property, and commercial liability. She stated that currently, there is a one half of a one percent assessment on such things as homeowners and boat owners, due, "primarily" to the insolvency of a medical malpractice insurer. She declared that assessing entities to provide sufficient funds for the situation relating to this legislation is basically the same as assessing a homeowner for a medical malpractice insurer.

Ms. Hall, in addressing Senator Olson's comments, also voiced concern regarding the increases in business WC premiums. However, she noted that the proposed increase is small in comparison to previous adjustments. In addition, she stated that the aforementioned companion bill would propose measures to reduce the WC premiums as she agreed that small businesses are being overburdened with an average assessment of 22 percent.

Co-Chair Wilken voiced agreement.

Senator Olson questioned whether the State is addressing measures to get self-insured employers to contribute to the Guaranty Association as, he declared, currently the WC "burden" is placed on small businesses.

Ms. Hall clarified that the Guaranty Fund does not protect self-insured employers, and, therefore, she continued, were they to become insolvent, their employees would receive no benefits from the Fund. She noted that the 24 self-insurers in the State must provide financial guarantees and meet other eligibility criteria established by the Division of Workers' Compensation in order to be self-insured. She noted that the original proposal did include them in the assessment base; however, she continued, "there was a substantial amount of sentiment that because they were not protected by that that they should not be forced to contribute."

Senator Olson understood that the Guaranty Fund does not protect the self-insured employers. However, he asked whether inclusion of them in an assessment might still be a consideration.

Ms. Hall responded no.

Co-Chair Green interjected that the Division of Insurance is not responsible for nor does not oversee joint insurance arrangements or self-insurers.

Ms. Hall communicated that while the Division of Insurance could conduct financial examinations and suspend an "admitted insurance company's" certificate to operate, it has no oversight ability in regards to joint insurance arrangements or self-insurers even were the Division to receive financial information that they were "in distress."

A roll call was taken on the motion to report the bill from Committee.

IN FAVOR: Senator Dyson, Senator Hoffman, Senator B. Stevens, Co-Chair Green, and Co-Chair Wilken

OPPOSED: Senator Bunde and Senator Olson

The motion PASSED (5-2)

The motion to report the bill from Committee PASSED.

CS SB 276 (FIN) was REPORTED from Committee with a zero fiscal note, dated March 23, 2004 from the Department of Administration, and two zero fiscal notes, dated March 24, 2004 from the Department of Community and Economic Development.

#sb279

CS FOR SENATE BILL NO. 279(STA)

"An Act authorizing and relating to the issuance of bonds by the Alaska Housing Finance Corporation for safe and clean water and hygienic sewage disposal facility capital projects and other capital projects; providing for the repayment of the bonds and bond costs; relating to the dividend paid to the state by the Alaska Housing Finance Corporation; and providing for an effective date."

This was the second hearing for this bill in the Senate Finance Committee.

Co-Chair Wilken explained that this legislation would authorize the Alaska Housing Finance Corporation to issue bonds in the amount of \$25 million to fund capital projects; primarily village safe water projects. He noted that an amendment to increase the bond authorization by \$20 million was adopted during the first hearing of the bill. He stated that the bill is accompanied by Department of Revenue fiscal note dated March 9, 2004.

Co-Chair Wilken asked for a further explanation of the new March 9, 2004 Department of Revenue fiscal note as it is double the original fiscal note, rather than being increased "pro rata" with the adoption of the amendment that increased the bond authority from \$25 million to \$45 million.

JOE DUBLER, Director of Finance, Alaska Housing Finance Corporation, Department of Revenue, testified via teleconference from Anchorage to explain that the fiscal note, dated February 9, 2004 was based on interest rates that were in effect when the program was being developed. Continuing he expressed that while the current interest rate is approximately 3.34 percent, this new fiscal note is "conservatively" calculated using an approximate five percent interest rate in order to more accurately reflect the ceiling level of anticipated debt service.

Senator Bunde asked whether this legislation addresses concerns that were raised in a Legislative Budget and Audit report [copy not provided] regarding the proper use of funds for village safe water and wastewater programs.

Senator Dyson responded that these [unspecified] issues have been addressed. He continued that assurance has been provided that the issue in question was "an anomaly and proper steps are being taken that it would never happen again."

Co-Chair Wilken noted that, "this is more than a one year process." Continuing, he asked for further information as to how AHFC would

monitor issues raised in the audit.

BRIAN BUTCHER, Legislative Liaison, Alaska Housing Finance Corporation, Department of Revenue, testified via teleconference from Anchorage and explained that the decision as to where the bond proceeds as well as decisions regarding the AHFC dividend would be addressed by the Office of Management and Budget as they are responsible for the oversight of the projects in that "they make the decision as to where our money is spent."

Co-Chair Green moved to report SB 279, Version "D" from Committee with individual recommendations and accompanying fiscal note.

There being no objection, the bill was REPORTED from Committee.

[NOTE: The action of reporting this bill from Committee was readdressed following the action on SB 274.]

#sb274

SENATE BILL NO. 274

"An Act relating to the housing assistance loan fund in the Alaska Housing Finance Corporation; creating the housing assistance loan program; repealing loans for teacher housing and providing for loans for multi-family housing; making conforming amendments; and providing for an effective date."

This was the second hearing for this bill in the Senate Finance Committee.

Co-Chair Wilken stated that this bill would replace the AHFC Housing Assistance Loan Fund with the Housing Assistance Loan Program and would repeal the Rural Teacher Housing Loan Program and replace it with the Rural Multi-Family Loan Program.

Co-Chair Green moved to report SB 274 from Committee with individual recommendations and accompanying zero fiscal note.

Co-Chair Wilken objected.

AT EASE 9:44 AM / 9:45 AM

Co-Chair Wilken removed his objection.

There being no further objection, SB 274 was REPORTED from Committee with zero fiscal note #1 from the Department of Revenue.

AT EASE 9:46 AM / 9:46 AM

#sb279

CS FOR SENATE BILL NO. 279(STA)

"An Act authorizing and relating to the issuance of bonds by the Alaska Housing Finance Corporation for safe and clean water and hygienic sewage disposal facility capital projects and other capital projects; providing for the repayment of the bonds and bond costs; relating to the dividend paid to the state by the Alaska Housing Finance Corporation; and providing for an effective date."

[NOTE: In order to correct this meeting's earlier Committee action on this bill, it was again brought before the Committee.]

Co-Chair Wilken asked that the motion to report the bill from Committee be rescinded, as an amendment that had been adopted should have been reflected in the motion.

Co-Chair Green offered a motion to RECIND her motion to REPORT the bill from Committee.

There being no objection, the motion to report the bill from Committee was RESCINDED.

Co-Chair Green moved to report the Version "D" committee substitute for SB 279, as amended, from Committee with individual recommendations and accompanying fiscal notes.

There being no objection, CS SB 279 (FIN) was REPORTED from Committee with a new zero fiscal note, dated March 9, 2004, from the Department of Revenue.

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ADJOURNMENT

Co-Chair Gary Wilken adjourned the meeting at 09:48 AM.