

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

January 19, 2005

3:20 p.m.

MEMBERS PRESENT

Representative Tom Anderson
Representative Gabrielle LeDoux
Representative Bob Lynn
Representative David Guttenberg
Representative Pete Kott
Representative Norman Rokeberg

MEMBERS ABSENT

Representative Harry Crawford

COMMITTEE CALENDAR

no previous action- overview only

PREVIOUS COMMITTEE ACTION

WITNESS REGISTER

ACTION NARRATIVE

CHAIR ANDERSON called the House Labor and Commerce Standing Committee meeting to order at 3:20:00 PM. Representatives Anderson, Ledoux, Lynn, Guttenberg, Kott, and Rokeberg were present at the call to order.

OVERVIEW OF THE DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT

3:21:35 PM

GREG O'CLARAY, Commissioner, Department of Labor and Workforce Development (DLWD), stated that the DLWD has undergone two years of major reshaping under the Murkowski Administration and launched the Alaska Future Program in Anchorage on December 14th. This program was created to reach a goal of 90 percent of Alaskan residents in the Alaskan workforce.

COMMISSIONER O'CLARAY reported that workers compensation still needs to be addressed which is why he has initiated talks with several key people on this matter. With respect to Alaska Hire,

he opined that employers need to be invited to express why they are not hiring Alaskans.

3:26:56 PM

COMMISSIONER O'CLARAY remarked that when paychecks fly south of Ketchikan, they do nothing-nothing- to the Alaskan economy, but become a drain. The locals here deserve better jobs and good family wages.

3:29:06 PM

CHAIR ANDERSON noted that the committee packet should include a document entitled "Alaska Department of Labor and Workforce Development Overview" that covers in detail the key services and accomplishments of 2004 and goals of 2005.

3:29:40 PM

REPRESENTATIVE KOTT agreed that Alaska Hire is very important, and said that the DLWD takes this serious. He recalled that the department publishes a report that shows the break down the employment statistics of Alaska and the percentage of Alaskans that are employed by each employer. He inquired as to when the next report will be available.

COMMISSIONER O'CLARAY said that the document will be available soon in the first part of February.

REPRESENTATIVE ROKEBERG pointed out that the number of Alaska Hires could actually increase if you changed the definition of native Alaskans to be current with the case line on that. He then noted that the DLWD have a new study that addresses the issued of proper classification and new employees. He inquired as to what gave rise to that study and finally, he asked if it was due to the new federal employee classification or was it a review of of Alaska's rather antiquated statutes?

COMMISSIONER O'CLARAY answered that it was not new. The case law and statutes from the Division of Unemployment Security have empowered the department. From these statutes the definition is used to distinguish the difference between an employee and a contractor.

COMMISSIONER O'CLARAY explained that the reason we are concerned is because an employee classified as an independent contractor, does not pay into the unemployment insurance fund. This fund

needs to be safeguarded and solvent, and those employers following the rules are protected from rate increases that occur when someone is not paying his/her share.

REPRESENTATIVE LEDOUX asked if there are any initiatives targeting increasing the number of rural people in the workforce?

COMMISSIONER O'CLARAY remarked that an area that this administration has been concentrating on. The relationship with Alaska Works Program (AWP) apprenticeship program has been strengthened. This program is the primary avenue for training for the construction and marine industry. These industry people have committed to accept AWP trainees for their ships, which is a major accomplishment. There are about 1,000-1,200 mariners in the fishing industry and there about 100 vacancies at all times.

[3:35:05 PM](#)

COMMISSIONER O'CLARAY said that DLWD has done a marvelous job recruiting in Bush Alaska. In November the DLWD sponsored a program where they trained- the target was 100, and out of the graduating 74, over 50 percent of these young people were Bush Alaskans. Many of these young people already have jobs in the North Slope. For a long time, there has been a cultural misunderstanding that these young people do not want to leave their villages. However that's not true anymore. Although they have a strong sense of family, they realize that they it is imperative that they leave for school and work.

CHAIR ANDERSON turned his attention to Workers compensation and asked if Commissioner O'CLARAY intends on working on legislation with the ad hoc committee or if it was the Governors intent to have his own legislation?

COMMISSIONER O'CLARAY expressed that he hoped there would be one bill. We have been working very close with the ad hoc committee. Although there were some difficulties last year, the administration has discussed some suggestions with the ad hoc committee.

[3:39:18 PM](#)

COMMISSIONER O'CLARAY- pointed out that employers are having to choose between health benefits and workers compensation because the latter is statutorily required and the other is not. He expressed his desire to get a good bill this year with an eye on

getting a final bill that addressed the more controversial issues that will take place more time.

OVERVIEW: DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT

COMMISSIONER EDGAR BLATCHFORD, Commissioner, Department of Commerce, Community, and Economic Development (DCCED), informed the committee that DCCED's mission is to promote a healthy and strong economy, as well as healthy and strong communities. The department regulates the existing industry and assists communities with governance and sustainability. He noted that the DCCED has been keen on economical development and promoting local hiring.

[3:43:02 PM](#)

COMMISSIONER BLATCHFORD informed the committee that DCCED's total budget is around \$125 million, of this 7.8 million dollars originates out of the general fund (GF). He highlighted DCCED's work which included the passage of SB272, which was followed by the passing of Administrative Order 219, we transferred the Corporations program to the Division of Banking. This transfer will better serve the public by creating a single organization within state government

[3:44:35 PM](#)

COMMISSIONER BLATCHFORD next turned to the Division of Investments, which he characterized as a very successful division, and said that it was the best way to implement public policy loans. Last year the Division of Investments processed 133 loans for a total of \$15.2 million, of which 114 loans totaling \$6.5 million loans went to commercial fishermen. He then went on to report that there were ten loans for commercial fisheries, eight rural development loans totaling almost \$800,000 resulting in the creation or retention of 29 jobs, and finally there was one small business loan that retained 2 jobs. He then reported on specifics of the tax and loan programs, as well as the fisheries revitalization. He concluded with a discussion on the marine industries Community Development Quota Program (CDQ'S). Rapid growth he says resulted in revenues in over 100 million dollars in training benefits since its inception in 1992.

[3:47:46 PM](#)

COMMISSIONER BLATCHFORD highlighted the Rural Bulk Fuel assistance program which he characterized as a success of the special session last summer. Working close to the communities, DCCED was able to reduce the amount of assistance to under \$800,000 dollars in loans to deliver bulk fuel primarily for the preservation of life and infrastructure. He next reported that administering community advocacy was at the heart and soul of the division. He announced that they assisted several communities with issues such as flooding, erosion, fuel shortages, the creation of online web sites and community profile maps. He then moved on to the discussion of Local Boundaries Commission (LBC) proceedings. Communities around the state are reviewing the possibility of the annexing, detaching, or creating new boroughs. All of the aforementioned is of great interest for people in this state.

COMMISSIONER BLATCHFORD continued with discussion concerning with the Alaskan Aerospace Development Corporation (AADC), which spent \$11.6 million in federal funds in 2004. This expenditure translates into 45 full-time jobs in Kodiak and 16 in Anchorage. He then pointed out that the Alaska Industrial Development and Export Authority (AIDEA) also generated revenue. Alaska Energy Authority (AEA) is of great interest to communities around the state. He noted that upgrades and new emergency response services, as well as bulk fuel facility upgrades were completed. With regard to the Alaska Seafood Marketing Institute (ASMI), he divulged the fact that it is the second most popular food brand on menus of the top 500 restaurants in the U.S. The Regulatory Commission of Alaska (RCA), he announced, has also been active according to his report. In fact pending dockets have been reduced and awards and grants have increased.

[3:52:14 PM](#)

COMMISSIONER BLATCHFORD- He announced the future goals of the DCCED which included working closely with the CDQ's and fine-tuning the Magnuson-Stevens Act (MSA). The MSA is of huge importance to coastal communities. He reminded the committee that the initiative passed last year called the Community Quota Entity's (CQE's), enables the communities to by Individual Fishery Quotas (IFQ's) shares and then lease to communities who want to fish the quotas.

[3:54:11 PM](#)

COMMISSIONER BLATCHFORD stated that tourism is of great importance. This year, at least a million visitors are expected to arrive by cruise ship. He then went to say that the department works very closely with the Office of Economic Development (OED), and the tourism industry as well as the Alaskan Travel Association.

[3:55:07 PM](#)

COMMISSIONER BLATCHFORD turned to mining next and stated that that they work closely with communities such as Delta Junction. With regard to the Development of Alaskan Rural Tourism (DART), it has been partly funded by a \$300,000 grant. This \$600,000 project was 18 months long project. He related that several communities have been accepted into the program. He moved on to announce the new initiative called the Manufacturer's Extension Program (MEP). The goal of this initiative to create 12 electronic commerce centers in rural Alaska. It doesn't require the construction of \$100 million infrastructures because it can be done quickly using local people and local resources.

[3:56:47 PM](#)

COMMISSIONER BLATCHFORD reminded the committee that the ARDORS program is up for authorization. There are 11 ARDOR's. Most of these centers are located in rural areas. He informed the committee that although some are more successful than others, this is a good program. He finished by disclosing his hope that his summarization of the operations of the commerce and economic development was sufficient. He then proceeded to offer to answer any questions from the committee.

REPRESENTATIVE GUTTENBERG recalled mention of Delta Junction, a city, and the fact that it is considering expansion. There is some controversy regarding whether or not the residents want a borough not. He then mentioned that Fairbanks is reviewing annexation of some mining areas. He asked if Fairbanks was getting more active with the LBC.

COMMISSIONER BLATCHFORD emphasized that the City of Delta Junction is a progressive community. Mayor Gilbertson and the city administrator are reviewing expanding the opportunities for the local people, and there are so many opportunities in the greater Delta area. He noted that other entities in the area that would like to seize the opportunities available to the people in the Delta Junction area.

4:00:14 PM

REPRESENTATIVE ROKEBERG informed the committee that he was privy to a letter written to the governor which suggested that the commercial fishing revolving loan fund be merged with the....(indisc). He then asked if the Commissioner was familiar with letter or any of the issues involved with it.

COMMISSIONER BLATCHFORD replied that he was familiar with it.

REPRESENTATIVE ROKEBERG asked the Commissioner if there is any merit to consolidating some of the loan programs "specific to mission of the particular program".

COMMISSIONER BLATCHFORD reiterated his belief that the Division of Investments does an excellent job. This department implements public policy quickly, because it doesn't have to go through some of the regulatory processes required of lending institutions.

COMMISSIONER BLATCHFORD continued by stating that the Division of Investments have a loan portfolio totaling close to \$2.5 million and its very committed to providing local opportunities. He iterated that his department uses local people who work very closely with organizations (in the state) and the goal is to keep local opportunities for local people. This is the beauty of the CDQ program. However, the 'limited entrepreneurs' permits have been migrating outside of the state. He then announced that it is the governor's policy and their department's policy to keep the local permits home.

4:02:44 PM

COMMISSIONER BLATCHFORD He ended by stating that he thought the best way to preserve jobs is to work with the loan programs within the Division of Investments.

REPRESENTATIVE ROKEBERG remarked that the area of consolidation had more to do with loans that are more conducive to commercial loans for fishing boats, gear, and things of that nature, not permits or CDQ's.

GREG WINEGAR, Director, Division of Investments, of the Department of Commerce, Community, and Economic Development, clarified that the Division of Investments does not subsidize anyone in rural Alaska. What we do is we work closely with the people who borrow money from the state investors.

Mr. WINEGAR stated that the program has been very successful and has returned about \$40 million dollars to the state. The Division of Investment is a very successful program and one created through the wisdom of the legislature. The Division of Investments, unlike the traditional lending institutions has faith and confidence in local people.

MR. WINEGAR pointed out that the challenge here is that the vast majority of the division's portfolio would not qualify for any loans obtained through any other financial institution. He then went on to say that in regards to the subsidy issue there should be a handout; this is illustrated on page six, where, he said, the division provides statistics that relate to the program. The program has repaid all the funds that went into it and continues to earn more money than necessary to operate the program and provide for loans.

[4:06:41 PM](#)

REPRESENTATIVE ROKEBERG- pointed out that the indication on page 6 of the handout refers to a stated interest rate that is a fixed rate of prime plus 2 percent. He asked if this was correct.

[4:07:28 PM](#)

MR. WINEGAR answered that this was a typo; the rate is actually prime plus 2 percentage points for the portfolio.

REPRESENTATIVE ROKEBERG, mentioned that there seems to be a controversy growing about the competition between the Division of Investments, and commercial lenders, and their duplication of services.

Mr. WINEGAR informed the committee that legislation on that issue has been considered. One of the major concerns is that the vast majority of loans the division doles out are to individuals and groups that do not qualify for any other financing. If this program is not available, there will be no availability of funds for those individuals.

REPRESENTATIVE ROKEBERG recast his concern and stated that this is something that needs to be looked at.

REPRESENTATIVE ROBERTA GARDNER inquired as to how the success of ARDOR is defined?

COMMISSIONER BLATCHFORD explained that the department defined an ARDOR successful when they are able to identify opportunities for local people and provide a voice for local economical development. A good concrete example of a successful ARDOR is the MEP program.

[4:10:59 PM](#)

CHAIR ANDERSON announced that the next order of business would be the Division of Insurance.

OVERVIEW: DIVISION OF INSURANCE

[4:12:12 PM](#)

DIRECTOR LINDA HALL, Director, Division of Insurance, Department of Commerce, Community, and Economic Development, provided an overview about their mission. She announced that the division is a resource which provides the technical ability that helps the legislature deal with the insurance world. She then went on to say that they are a regulatory agency that provides consumer protection, enforces insurance regulations, and provides licensing for insurance companies. In fact, she said, the core of the division's services is the provision of licensing for insurance companies- we have approximately 1000 companies for which the division is responsible.

MS. HALL indicated that the state has licensed 19,000 agents and brokers who sell insurance. 4,000 of these are residents. Obviously, there is a huge number of non-residents who do business in the state.

MS. HALL next turned to compliance, another core service of the division. One of the divisions' primary roles is the financial examinations of the state's domestic insurers. Statute requires a financial examination every three years, which entails both in house certified public accountants and outside contractors. Our division thoroughly reviews the financial standing of insurance companies for whom they are the primary regulatory. She then went on to say that the division collects a premium tax. We generated approximately \$44 million dollars at the end of Fiscal Year 2004, in premium tax into the state general fund. However the division is not a general fund agency. She informed the committee that the division generates \$5.4 million dollars in fees- we are a fee based agency. The division charges fines, penalties and interest which is placed into the general fund.

MS. HALL points out that compliance also deals with market conduct, which this means the division reviews what the insurance companies are doing. Such review on market conduct might entail review of how the insurance companies underwrite, and what their claim practices are like. The division tends to do this when they have an inordinate amount of complaints. The division tries to resolve complaints by calling the companies. Insurance companies pay for this market conduct she highlighted.

[4:17:34 PM](#)

MS. HALL mentioned that the investigations are also performed for agencies and surplus line brokers. The investigations are done by individuals with law enforcement backgrounds. These investigations she explained, usually lead to administrative action or criminal prosecution. She informed the committee that three fraud cases were now being heard.

MS. HALL moved onto a discussion of consumer services, which was offered to better able the public to reach us and contact us. This component of the division helps people find answers to problems. In the last year, the consumer services component has mitigated losses in the range of \$300,000 dollars for consumers.

She pointed out that the division also does filing approvals for property and some life and health rate and forms. In the last year there have been 6600 filings, she reported.

MS. HALL identified the fourth core function of the division as public information and speaking engagements. Most of the staff she says deals with the public in some fashion. Public information is disseminated via the radio, PSA's, and the Internet.

[4:22:03 PM](#)

MS. HALL addressed the issues with which the division deals. She described the division's work on a day-to-day basis. For example, the division has dealt with a bankrupt insurance company for which claim settlement was difficult. Ultimately, the legislation was created that made it possible to mitigate the problem. Worker's compensation is an important issue that the division addresses. In a study done by an organization in Oregon, it was determined that Alaska consistently ranks high in premium costs compared to the other states. In 2002, Alaska was ranked number 15 on the list, and in 2004, they were ranked number two, only behind California. Workers compensation is very

expensive and costly, she ascertained. Furthermore, she makes it very clear that markets are expensive here in Alaska. Adjustments are difficult in the Bush, and certain types of industries have a difficulty finding insurance providers.

[4:26:34 PM](#)

MS. HALL pointed out to the committee that their packets should include a letter regarding a controversial issue in Anchorage. Bid rigging and inappropriate steering of business, which has become a national problem. This issue has generated a huge amount of concern with regulators.

[4:28:20 PM](#)

MS. HALL noted that solvency is also very important, as the division has to make sure that insurance companies doing business in Alaska can pay any claims against them. She informed the committee that modernization and streamlining insurance is also on the division's agenda. She expressed hope there will be a new bill that makes it easier for insurance companies to enter the state. She made it very clear that moving an insurance business into this state is going to be streamlined. Electronic licensing and back grounding are to be the standard for agents. Health insurance is also an issue, she affirmed. Of all the people covered in Alaska, 40 percent of them are affected by the agency. By extension then, it can shown that Legislation that is concerned with health insurance would affect only this small percentage.

MS. HALL ends with a discussion on title Insurance, which she said, is also being worked on by the division. The division has also worked with auto dealers regarding how they ensure their vehicles, chiefly with guaranteed auto protection.

REPRESENTATIVE ROKEBERG asked if the assessment fees for the companies were authorized.

MS. HALL replied yes, and added that the fee kept at 4 percent.

[4:35:34 PM](#)

REPRESENTATIVE ROKEBERG asked what dollar amount is derived from the two percent.

MS. HALL answered that it generates about \$4.5 million dollars a year.

CHAIR ANDERSON next turned attention to the Alaska Comprehensive Health Insurance Association (ACHIA).

MS. HALL explained that the ACHIA program is an insurance program for people who are high risk and unable to obtain insurance any other way. This is the market of last resort. The ACHIA program provides private insurance for high risk individuals and the cost of the program is assessed back to insurers.

REPRESENTATIVE ROKEBERG asked if Ms. Hall meant that by 'assessing' she meant that ACHIA is funded out of the premiums of the 40 percent of individual small group policies.

MS. HALL affirmed that the companies that write the individual and small group policies are responsible for the cost.

REPRESENTATIVE GUTTENBERG asked whether the cash flow problem is short term or long term.

MS. HALL clarified that it's not a cash flow problem. She felt that this program is a burden on the companies that are paying more in increasing percentages.

REPRESENTATIVE LEDOUX recalled that a couple of years ago several coastal communities were impacted when one of the maritime insurance companies went 'belly-up'. She asked very tersely whether the division regulates maritime insurance.

MS. HALL answered that the division does cover some types of maritime insurance. She explained that the type that is not regulated is referred to as a non-admitted company, which are not covered by the guaranty funds. Although the division required that there be disclosure, what Representative LeDoux recalled could still happen.

REPRESENTATIVE LEDOUX asked whether people can buy self-procurement insurance.

MS. HALL estimated that this is generally not the case.

REPRESENTATIVE GABRIELLE LEDOUX then asked whether or not someone could buy workers compensation policy which is required by statute under self procurement?

DIRECTOR LINDA HALL answered that the workers compensation has to be placed with an admitted insurer.

[4:41:30 PM](#)

OVERVIEW: DIVISION OF OCCUPATIONAL LICENSING

DIRECTOR RICK URION, Director of Occupational Licensing, Department of Commerce, Community and Economical Development, announced that his division is responsible for licensing businesses. He informed the committee that his division is responsible for the licensing of 19,700 new businesses. The cost of the license has increased since 2003 but this has not affected the rate that they have been issued. He pointed out that the state has over 70,000 business licenses, 45,000 professional licenses, and 35,000 corporations.

He then remarked that the cost of the business license is about 50 dollars a year for two years. It went to 200 dollars. This was the first change since 1949. He then informed everyone that 22 percent of the licensed public took advantage of the new one year renewal. He reported next that the business license itself is the only program that is totally online. The 'renewal' of professional licenses is also online. However, the 'initial' professional licensing cannot be online for obvious reasons, since you have to conduct a review of qualifications.

MR. URION announced that HB 70 and SB 52 will replace language referring to the department with more generic language. He said that he will continue to ask for the passing of the "Fee and Fine bill" which allows both the fees and the fines that we collect to go to the cost of regulating the professions.

[4:48:02 PM](#)

CHAIR ANDERSON informed Mr. Urion that Josh Applebee, staff for Representative Anderson discussed the notion of one bill dealing with all 50 sunset bills with legislation.

REPRESENTATIVE ROKEBERG asked if there any home inspector bills.

MR. URION replied no there were none.

CHAIR ANDERSON announced that there being no further business before the committee, the Labor and Commerce Committee meeting would be adjourned at 4:50pm.

Adjournment

