

**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

OVERVIEWS: DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT;
DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT;
DIVISION OF INSURANCE;
DIVISION OF OCCUPATIONAL LICENSING

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

GREG O'CLARAY, Commissioner

Department of Labor and Workforce Development (DLWD)
Juneau, Alaska

POSITION STATEMENT: Provided an overview of the Department of
Labor & Workforce Development.

EDGAR BLATCHFORD, Commissioner

Department of Commerce, Community, and Economic Development
Juneau, Alaska

POSITION STATEMENT: Provided an overview of the Department of
Commerce, Community, & Economic Development.

GREG WINEGAR, Director

Division of Investments

Department of Commerce, Community, and Economic Development
Juneau, Alaska

POSITION STATEMENT: Provided information regarding the Division of Investments.

LINDA HALL, Director
Division of Insurance
Department of Commerce, Community, and Economic Development
Juneau, Alaska

POSITION STATEMENT: Provided an overview of the Division of Insurance.

RICK URION, Director
Division of Occupational Licensing
Department of Commerce, Community and Economical Development
Juneau, Alaska

POSITION STATEMENT: Provided an overview of the Division of Occupational Licensing.

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

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GREG O'CLARAY, Commissioner, Department of Labor and Workforce Development (DLWD), stated that DLWD has undergone two years of major reshaping under the Murkowski Administration and launched the Alaska Future Program in Anchorage on December 14th. The goal of this program is have 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.

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COMMISSIONER O'CLARAY remarked that when paychecks fly south of Ketchikan, they do nothing for Alaska's economy, but become a drain. The locals here deserve better jobs and good family wages, he opined.

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

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REPRESENTATIVE KOTT agreed that Alaska hire is very important, and said that DLWD takes this serious. He recalled that the department publishes a report that shows the break down of employment statistics for Alaska and the percentage of Alaskans who 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 in the first part of February.

REPRESENTATIVE ROKEBERG pointed out that the number of Alaska hires could actually increase if the definition of Native Alaskans was changed to be current with the case law on that. He then noted that DLWD has a new study that addresses the issue 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 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 there is concern 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 said that's an area on which this administration has been concentrating. 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. Industry people have committed to accept AWP trainees for their ships, which he characterized as a major accomplishment. There are about 1,000-1,200 mariners in the fishing industry and there about 100 vacancies at all times.

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COMMISSIONER O'CLARAY opined that DLWD has done a marvelous job recruiting in Bush Alaska. In November DLWD sponsored a pipeline training program from which 74 graduated, and of that 74 over 50 percent 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 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 to work on legislation with the ad hoc committee or if it was the governor's intent to have his own legislation.

COMMISSIONER O'CLARAY expressed hope that there would be one bill and noted that the department has 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.

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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 have a good bill this year with an eye on getting a final bill that addresses the more controversial issues that will require more time.

OVERVIEW: DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT

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 DCCED has been keen on economical development and promoting local hiring.

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COMMISSIONER BLATCHFORD informed the committee that DCCED's total budget is around \$125 million, of which \$7.8 million originates from the general fund (GF). He highlighted DCCED's work including the passage of SB 272, which was followed by the passage of Administrative Order 219 that transferred the corporations program to the Division of Banking. This transfer will better serve the public by creating a single organization within state government, he opined.

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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 went to commercial fishermen. He then went on to report that there were 10 loans for commercial fisheries, 8 rural development loans totaling almost \$800,000 resulting in the creation or retention of 29 jobs, and finally there was 1 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 industry's Community Development Quota Program (CDQs). Rapid growth, he said, resulted in revenues in over \$100 million in training benefits since its inception in 1992.

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COMMISSIONER BLATCHFORD highlighted the Rural Bulk Fuel assistance program, which he characterized as a success of the special session last summer. Working close with 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 the department 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 annexing, detaching, or creating new boroughs. All of the aforementioned is of great interest for people in this state, he said.

COMMISSIONER BLATCHFORD moved on to 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), he commented, 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 related that Alaska seafood 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 while awards and grants have increased.

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COMMISSIONER BLATCHFORD reviewed the future goals of DCCED, which include working closely with CDQs 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 (CQE), which enables the communities to buy Individual Fishery Quotas (IFQs) shares and then lease to communities who want to fish the quotas.

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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 on 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.

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COMMISSIONER BLATCHFORD turned to mining and stated that the department works 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 an 18-month long project into which several communities have been accepted. He moved on to announce the new initiative called the Manufacturer's Extension Program (MEP). The goal of this initiative is to create 12 electronic commerce centers in rural Alaska. It doesn't require the construction of \$100 million infrastructure because it can be done quickly using local people and local resources.

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COMMISSIONER BLATCHFORD reminded the committee that the Alaska Regional Development Organization (ARDORs) program is up for authorization. There are 11 ARDORs, most of which are located in rural areas. He informed the committee that although some are more successful than others, this is a good program.

REPRESENTATIVE GUTTENBERG recalled mention of the City of Delta Junction considering expansion; and noted that there is some controversy regarding whether or not the residents want a borough. He then mentioned that Fairbanks is reviewing annexation of some of the local mining areas, and asked if Fairbanks is becoming 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 would like to seize the opportunities available to the people in the Delta Junction area.

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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 (indisc). He then asked if the commissioner is familiar with the 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 has a loan portfolio totaling close to \$2.5 million and it's 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, as well as the department's, to keep local permits [in the state].

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COMMISSIONER BLATCHFORD opined that 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 CDQs.

GREG WINEGAR, Director, Division of Investments, Department of Commerce, Community, and Economic Development, clarified that the Division of Investments does not subsidize anyone in rural Alaska. He explained that the division works closely with those who borrow money from the state investors.

Mr. WINEGAR stated that the program has been very successful and has returned about \$40 million 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 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 6, 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.

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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.

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MR. WINEGAR answered that it is 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 possible 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 stated that this should be reviewed.

REPRESENTATIVE ROBERTA GARDNER, Alaska State Legislature, inquired as to how the success of an ARDOR is defined.

COMMISSIONER BLATCHFORD explained that the department deems an ARDOR successful when it is 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.

OVERVIEW: DIVISION OF INSURANCE

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

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LINDA HALL, Director, Division of Insurance, Department of Commerce, Community, and Economic Development, provided an overview of the division's 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 the division is 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; there are approximately 1,000 companies for which the division is responsible. Ms. Hall indicated that the state has licensed 19,000 agents and brokers who sell insurance, of which 4,000 are residents. Obviously, there are a huge number of nonresidents who do business in the state.

MS. HALL next turned to compliance, another core service of the division. One of the division's 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. The division thoroughly reviews the financial standing of insurance companies for whom it is the primary regulator. She then went on to say that the division collects a premium tax. The division generated approximately \$44 million 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 in fees. The division charges fines, penalties, and interest all of which is placed into the general fund.

MS. HALL pointed out that compliance also deals with market conduct, which means the division reviews what the insurance companies are doing. Such review of 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 it has an inordinate amount of complaints. The division tries to resolve complaints by calling the companies. Insurance companies pay for this market conduct, she highlighted.

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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 are now being heard.

MS. HALL moved on to a discussion of consumer services, which was offered to provide the public better access to the division. 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 for consumers. She pointed out that the division also does filing approvals for property/casualty and some life and health rates and forms. In the last year there have been 6,600 filings, she reported.

MS. HALL identified the fourth core function of the division as public information and speaking engagements. Most of the staff, she said, deals with the public in some fashion. Public information regarding insurance is disseminated via the radio, public service announcements, and the Internet.

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MS. HALL 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, legislation was created that made it possible to mitigate the problem. Workers' compensation, she noted, 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 as compared to the other states. In 2002, Alaska was ranked number 15 on the list, and in 2004, Alaska was ranked number 2, only behind California. Workers' compensation is very expensive and costly, she commented. Furthermore, markets are expensive in Alaska, adjustments are difficult in the Bush, and certain types of industries have difficulty finding insurance providers.

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MS. HALL pointed out that committee packets should include a letter regarding bid rigging and inappropriate steerage of business, which has become a national problem. This issue has generated a huge amount of concern with regulators.

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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 are affected by the agency. By extension then, it can shown that legislation concerned with health insurance would impact only this small percentage.

MS. HALL concluded with a discussion on title insurance, which is also being worked on by the division. The division has also worked with auto dealers regarding how they insure 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 was kept at 4 percent.

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REPRESENTATIVE ROKEBERG asked what dollar amount is derived from the 2 percent.

MS. HALL answered that it generates about \$4.5 million 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 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 opined 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 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 is 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 LEDOUX then asked whether or not someone could buy a workers' compensation policy, which is required by statute under self-procurement.

MS. HALL answered that workers' compensation has to be placed with an admitted insurer.

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OVERVIEW: DIVISION OF OCCUPATIONAL LICENSING

RICK URION, Director, Division of Occupational Licensing, Department of Commerce, Community and Economical Development, 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 at which they have been issued. He pointed out that the state has over 70,000 business licenses, 45,000 professional licenses, and 35,000 corporations.

MR. URION turned to the cost of a business license, which has increased from the \$50 fee that has been in place since 1949 to \$200. 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 and the renewal of professional licenses is also online. However, the initial professional licensing cannot be online for obvious reasons, since there has to be 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 passage of the "Fee and Fine bill," which allows both the fees and the fines collected to go to the cost of regulating the professions.

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CHAIR ANDERSON informed Mr. Urion that Josh Applebee, Staff for Representative Anderson, has discussed the notion of one bill dealing with all entities that sunset.

MR. URION noted that the Division of Legislative Audit has performed an audit on the sunset process and offered recommendations.

REPRESENTATIVE ROKEBERG asked if there any home inspector bills.

MR. URION replied no.

ADJOURNMENT

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 4:50 p.m.