

MINUTES
SENATE FINANCE COMMITTEE
May 7, 2007
9:09 a.m.

CALL TO ORDER

Co-Chair Bert Stedman convened the meeting at approximately [9:09:25 AM](#).

PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Charlie Huggins, Vice Chair
Senator Kim Elton
Senator Donny Olson
Senator Joe Thomas
Senator Fred Dyson

Also Attending: SENATOR TOM WAGONER; SENATOR BETTYE DAVIS; MARY JACKSON, Staff to Senator Tom Wagoner; TOM OBERMEYER, Staff to Senator Bettye Davis; JANET CLARKE, Assistant Commissioner, Department of Health and Social Services; WALTER MAJOROS, Executive Director, Juneau Youth Services, President, Alaska Association of Homes for Children, and Vice President, Alaska Behavioral Health Association, testified in Juneau, in support of this legislation;

Attending via Teleconference: From offnet locations: JUDY BRADY, Executive Director, Alaska Oil and Gas Association; JOHN IVERSON, Director, Tax Division, Department of Revenue; CLOVER SIMON, Chief Executive Officer, Planned Parenthood of Alaska; LEONARD FANCHER, lifelong Alaskan, representing Mighty Bikes; MARK DAVIS, Director, Division of Banking and Securities, Department of Commerce, Community and Economic Development; From Anchorage: DAVID ALEXANDER MD, Retired Pediatrician; JANICE TOWER, Executive Director, American Academy of Pediatrics, Alaska Chapter; SARA JACKSON, Board Member, Anchorage Faith in Action Congregations Together, and human services professional; SANDRA CASTLE; ANGELA LISTON, Anchorage Faith in Action Congregations Together.

SUMMARY INFORMATION

SB 168-PASSENGER VESSEL TAX CREDIT

The bill was reported from Committee.

SB 80-OIL & GAS PRODUCTION TAX: EXPENDITURES

The Committee heard from the sponsor, the Department of Revenue and industry representatives. The bill was held in Committee.

SB 27-MEDICAL ASSISTANCE ELIGIBILITY

The Committee heard from the sponsor, the Department of Health and Social Services, a faith based organization, pediatric health care providers and advocates for pediatric health care. The bill was held in Committee.

SB 116-UNIFORM MONEY SERVICES ACT

The Committee heard from the sponsor and the Department of Commerce, Community and Economic Development. The bill was held in Committee.

#SB168

[9:10:17 AM](#)

SENATE BILL NO. 168

"An Act providing a credit for the payment of certain municipal passenger taxes or fees against the excise tax on travel aboard commercial passenger vessels; and providing for an effective date."

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

[9:10:35 AM](#)

Co-Chair Stedman asked if members had additional questions on this legislation. It was established that there were no further questions.

[9:10:43 AM](#)

Senator Elton offered a motion to report the bill from Committee with individual recommendations and accompanying fiscal note.

Without objection SB 168 was REPORTED from Committee with a new fiscal note dated 5/4/07 from the Department of Revenue in an indeterminate amount.

#SB80

[9:11:08 AM](#)

CS FOR SENATE BILL NO. 80(RES)

"An Act relating to allowable lease expenditures for the purpose of determining the production tax value of oil and gas for the purposes of the oil and gas production tax; and providing for an effective date."

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

Co-Chair Stedman announced action would not be taken on the bill at this hearing.

[9:11:47 AM](#)

SENATOR TOM WAGONER, sponsor of the bill, introduced himself and a member of his staff.

[9:12:13 AM](#)

MARY JACKSON, Staff to Senator Tom Wagoner, testified that this bill would prohibit oil and gas producers from deducting, from the net tax calculation of the Petroleum Profits Tax (PPT), any costs incurred as a result of improper maintenance or lack of maintenance by the producer. By stipulating this in statutes, the Department of Revenue would be allowed to develop regulations to implement the provisions.

Ms. Jackson explained that Section 1 of the bill would amend AS 43.55.165(e), providing for exclusions from lease expenditures, by adding a new subparagraph (19) on page 3, lines 19 through 30. This subparagraph "set out who's responsible for determining improper maintenance." Currently, the commissioner of the Department of Revenue in consultation with the commissioners of

the Department of Environmental Conservation and the Alaska Oil and Gas Conservation Commission (AOGCC), had the responsibility. This bill would provide that the commissioner of the Department of Revenue would make determinations in consultation with the commissioner of the Department of Natural Resources and the "newly formed" Petroleum System Integrity Office (PSIO) within the Department of Natural Resources. The PSIO was not specifically named in the provision in the event the title of the office was changed; instead a description of the Office's purpose was provided.

Ms. Jackson acknowledged the possible duplicity of requiring consultation with both the Department of Natural Resources' commissioner and PSIO. However inclusion of both would demonstrate legislative intent that the PSIO was "charged with ... overseeing the pipeline systems in the state of Alaska."

[9:14:43 AM](#)

Ms. Jackson informed that the existing statute utilized the term "standard practices of the industry" and would be changed to "good oil field practice", a term that was "recognized" by the industry.

Ms. Jackson reported that the "affected agencies" supported all the amendments adopted in the Senate Resources Committee substitute. Some were proposed by the departments.

[9:15:15 AM](#)

Ms. Jackson pointed out that the committee substitute deleted the language of (19)(B) from the existing statute, which Senator Wagoner would speak to.

[9:15:32 AM](#)

Ms. Jackson stated that Section 2 of the bill provided that the changes made in Section 1 would have a retroactive applicability date for oil and gas produced after March 31, 2006. This was the effective date of the original statute.

[9:16:12 AM](#)

Senator Wagoner objected to the Senate Resources Committee substitute because of the deletion of unallowable expenses

described in AS43.55.165(e)(19)(B) from the original version of the bill and which read as follows.

(B) incurred to maintain the operational capability of facilities or equipment shut down because of improper maintenance of property or equipment

Senator Wagoner informed that this language was deleted by an amendment offered in the Senate Resources Committee by a vote of five yeas, two nays. The argument employed in this effort was the same argument presented by Senator Ben Stevens to the Senate Special Committee on Natural Gas Development during the special legislative session held in August 2006 pertaining to the PPT. Senator Wagoner "found that connection to be at least curious in the sight of the ongoing investigation of PPT."

Senator Wagoner read further from a prepared statement as follows.

I was not a supporter of the net system. I worked very hard to keep the net system at a higher level than it came in at. I did finally vote for the net system, but I prefer the gross system at all times. And I still at this time prefer a gross system. I think we're starting to see some of the reasons why a gross system is less controversial. I resign myself to the net system and made numerous attempts to amend that system. Those attempts were successful except for one instance and that was done at this table and that's why we're here at this table now. The one amendment that failed is the bill before you today. It failed by a vote of five yeas, seven nays. Obviously, had it not failed we wouldn't be here discussing it today. More importantly, all those concerns now connected with the bill, the retroactive implementation, the lack of standards or regulations of the Department of Revenue, which would have followed the passage of the amendment, all those concerns would be nonexistent. But they are existence and how to implement this provision to put a tourniquet on the potential revenue bleed from deductions is at issue.

[9:18:40 AM](#)

Senator Huggins commented that the amendment Senator Wagoner referred to was brought to him as chair of the Senate Resources

Committee by John Norman, Chair, AOGCC. Mr. Norman pointed out the advantages and disadvantages of "what it represented". A policy call was necessary to determine whether to provide "an incentive to keep a facility operating when it could be dangerous." Mr. Norman analogized an aircraft that required maintenance yet continued to fly.

9:20:03 AM

Senator Wagoner affirmed the account of Mr. Norman's testimony before the Senate Resources Committee was correct. However, not mentioned was that Kevin Banks of the Department of Natural Resources was available but not provided an opportunity to speak to the amendment. Additionally, John Iverson was available but not provided an opportunity to testify to the amendment. These two people would be involved in the drafting of the regulations to implement this legislation and they disagreed with Mr. Norman's summary of the bill.

Senator Wagoner opined, "Let's face it, John Norman through the Oil and Gas Conservation Commission, he's a brilliant man and everything else, but his responsibility stops at the wellhead." By contrast, the Department of Natural Resources and the Department of Revenue had responsibility for actions from the point of the wellhead to transfer to an oil freighter for shipment out of the state.

9:21:38 AM

JUDY BRADY, Executive Director, Alaska Oil and Gas Association, testified via teleconference from an offnet location about the trade association that represented oil and gas producers in the state. This bill reflected a topic of discussion and "controversy" and she appreciated the co-chair's stated objective to hold the bill in Committee at this time. All parties must avoid "a reaction that ends in a bad bill."

Ms. Brady reminded that the amendment offered during the August 2006 special session by Senator Wagoner was done so after the closure of BP's operations on the North Slope due to leakage in the oil transit line. However the question of the definitions of "properly maintained" and "diminished capacity" remained, as well as identification of the appropriate party qualified to make such determinations. She detailed the considerations, including whether an auditor would make determinations and

whether an event such as an oil spill must occur before the determination could be made. She remarked "If so, it's already taken care of."

Ms. Brady surmised that the original amendment was defeated due to an understanding at the time that "the concerns of improper maintenance were already taken care of" through "other pieces of the Act". The Association continued to hold this opinion. Pedro Van Meurs who served as an oil and gas consultant to the former Murkowski Administration, suggested as an alternative "to trying to look at every single incidence of capital expenditure, a three-cent deduction that would act as a proxy for decisions on every single capital expenditure."

Ms. Brady continued as follows.

Expenditures related to actual leaks or incidents are already taken care of. You cannot deduct those. So what you're talking about here in this bill is having an auditor have to make the decision on every single capital expenditure for every time there is a shut down, taking a look to see if that was related to improper maintenance.

That simply is not done anywhere. It's not done anywhere in the world; it's not done between operators on a field. All of the main concerns that legislators had are already incorporated in the Act. Lease expenditures would not include costs arising from fraud, willful misconduct or gross negligence.

Lease expenditures - costs incurred for containment, control, cleanup or removal in connection with any unpermitted release of oil or hazardous substance would not be included in the lease expenditures.

There seems to be a conversation here going on in the background that legislators at the time were not paying attention to what happened at Prudhoe Bay [and] were not concerned that the State's interests were being protected.

Not only were the State's interests being protected by the legislators at the time, Governor Murkowski at the time and the director of DEC put 120 hour notification of fund access to the response account for \$8 million for a study for the Department of Law and DEC to take a look at the State's interests in the spill. That study is still ongoing. We found out about it just recently when we realized that the \$50 million response fund and the "470

fund" was open again for the one-cent per barrel money from Prudhoe Bay.

Let me read you what the State is looking at right now. This is an ongoing study going on right now, I would suggest, Mr. Chairman that perhaps the people from Law and DEC could come in and talk about where they are. "The purpose of this was to investigate the maintenance corrosion management practices and to recover all State costs and lost revenues including fines and penalties."

They asked for the \$8 million because they talked about the amount of work that was going to be required to go through all of the investigations, to hire engineer companies to do all of the things that were going to be required for them. And they said that "the State has incurred costs for response oversight mitigation assessment repair replacement of corroded pipeline. Moreover the State incurred substantial losses in revenue from royalty, severance tax and corporate income tax from the loss of crude oil production as a result."

So if anybody is implying or believes that legislators and people in DEC and Department of Law last year were not paying attention to the State's interests, they're wrong with respect, because the State was taking all the actions you would expect the State to take to make sure its interests were covered.

The reason that this amendment last year was voted down was because the people - because there was a good showing that in fact all of the concerns that were expressed in this amendment were already taken care of, and as a matter of fact the language in the amendment was unworkable. ...when this bill was introduced again this year, both DEC, DNR, AOGCC, all wrote letters saying that the language was not workable. Some changes have been made now to try to move it in a direction that it is workable, but you've still got a couple of issues.

One is that ... there is no incident that kicks off an investigation or kicks off a red flag to the auditor. It's going to have to be every capital expense. That's going to be a huge issue.

The other thing I'm hoping that you will have time to do is have someone from Department of Revenue talk to you who is familiar with the audit process; someone who knows the audit process. It's at least a three-year process.

Commissioner John Norman when he was talking earlier about how difficult this is going to be to implement, was saying

if an auditor red flags a cost, and they're going to have to look at every one of them, it's going to be three years before you know - before the company knows, what costs are approved and what costs aren't approved. By that time, the likelihood is you're going to be in either court or in some kind of administrative action and we are going to be in exactly the same situation that we were with the gross production tax because it was not thought out at the very beginning and we ended up with billions of dollars in tax revenues in dispute.

Once that happens, neither the companies nor the State could make a move to resolve the issues because everybody was afraid of influencing or losing money on both sides.

I think there was a commitment made when PPT passed, that this not happen again - that the regulations would be clear; that there would be a process that worked for everybody, because everybody was concerned about the process, that we would not get into this backed up billion dollar tax unbreakable dead end again. It makes for terrible relationships between the State and the companies and influences everything that happens because its right there, like this black cloud in the background.

We have expressed some other legal concerns with this and I will with your permission not take your time now. I will send you a copy of our testimony. The main points are these.

We believe the State is already protected. We believe that this bill is going to affect Cook Inlet as well as it will affect the whole state. It will affect every capital expenditure. It adds a convoluted process that has not happened in any other taxing jurisdiction as far as we know in the world.

The two things I would hope you would do is talk to Department of Law and DEC about how their investigation is going to make sure you are comfortable the State's interests are covered; to go over again the first 18 exclusions in the bill to reconfirm to yourself that you believe that the State's interests are protected. And to have a discussion of the audit process so you can see what's going to happen automatically with this kind of hang-up with every capital expenditure that is requested.

What this does of course is make it almost impossible for the PPT tax system to work. And if that was the intent, it's very successful intent.

Co-Chair Stedman requested the witness summarize her testimony.

Ms. Brady continued.

The hope now would be again that Department of Law and DEC come in and talk about the \$8 million of study they're undertaking as well as the audit process. Our hope is that the legislature will come to the conclusion that the State's rights and interests are protected.

[9:34:13 AM](#)

JOHN IVERSON, Director, Tax Division, Department of Revenue, testified via teleconference from an offnet location.

[9:34:38 AM](#)

Co-Chair Stedman requested Mr. Iverson speak to the fiscal notes.

[9:34:46 AM](#)

Mr. Iverson stated that the Department of Revenue fiscal note reflected that the Department did not know what the actual fiscal impact of this legislation would be. A petroleum engineer was currently contracted by the Department to provide expertise on oil and gas industry practices. Passage of this legislation would likely require that a second engineer be contracted to assist in determinations of proper maintenance and other matters.

Mr. Iverson, addressing the issue of auditing, informed that each capital expenditure would not be audited. Rather a "sampling" method would be employed.

[9:38:20 AM](#)

Senator Thomas identified the impetuous of this provision as the oil spill that occurred the previous summer as a result of corrosion. He understood that tax filings made by BP indicate that the company intended to "write off" the costs to repair the system.

[9:39:02 AM](#)

Mr. Iverson referenced a media report published February 16, 2007 by the Anchorage Daily News that indicated that BP would seek tax relief for pipeline repairs. He could not provide details of taxpayer returns because the information was statutorily confidential.

[9:39:42 AM](#)

Co-Chair Stedman asked the date the Department would have the ability to inform the Committee of the claimed deductions, including those that were rejected.

[9:40:17 AM](#)

Mr. Iverson estimated the information could either be available in one year's time or two year's time. The process in establishing an audit system of the PPT required recruitment and training of auditors. The normal audit process would last one year once the system was operational.

[9:40:53 AM](#)

Senator Thomas asked if the tax returns were filed for a 12 month calendar year period.

[9:41:02 AM](#)

Mr. Iverson affirmed.

[9:41:14 AM](#)

Co-Chair Stedman established no additional testimony was forthcoming and that members had no further questions.

Co-Chair Stedman ordered the bill HELD in Committee.

AT EASE [9:41:28 AM](#) / [9:42:51 AM](#)

#SB27

[9:42:58 AM](#)

CS FOR SENATE BILL NO. 27(HES)

"An Act relating to eligibility requirements for medical assistance for certain children, pregnant women, disabled

persons, and persons in medical or intermediate care facilities; and providing for an effective date."

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

Co-Chair Stedman announced intent to hear bill but not take action on it at this time.

[9:43:28 AM](#)

TOM OBERMEYER, Staff to Senator Bettye Davis, sponsor of the bill, presented the bill, reading the following statement into the record.

This was an Act relating to medical assistance for certain children, pregnant women and persons in medical or immediate care facilities, and providing for an effective date.

The focus of this bill initially is the Denali KidCare portion of the State's children's health insurance program that is sponsored throughout all 50 states.

In Alaska there are an estimated 18,000 uninsured children, or about nine percent of the children under age 18 and under. Private health care coverage for children has declined over 30 percent in the last ten years. It is estimated that children with a medical need are five times as likely that are uninsured as to not to have a regular doctor as those insured children and four times more likely to use emergency rooms at a much higher cost.

The eligibility rates in Alaska dropped dramatically for children after the formula was changed in 2003. The eligibility rates had been frozen in 2003 at the federal poverty levels at that time, which was a fixed dollar amount. It was reduced from 200 percent to 175 percent and under Senate Bill 27, eligibility for persons under 19 would increase to 200 percent of the poverty level and requires others who qualify and can afford to make contributions toward that coverage.

Without Senate Bill 27, it's estimated that our eligibility rate in, since it was a fixed dollar amount in 2003 and now floating with the federal poverty guidelines, as all the other states, that our eligibility rate would drop to 154 percent and it may drop below 150 percent, at which point

Alaska will lose immediately 3 million in federal funding and the State has already had 2,553 children drop off of this program.

There were 7,600 children covered by this program as of December of 2006. We've lost over 30 percent of them already due to this fixed guideline and these children are going to also incur greater health coverage later on. So you essentially have a transfer costs here to other elements of government as they require additional health care coverage later on for failure to help them when they're children.

So nothing has really changed on this other than the fact that there have been other bills addressed regarding similar subjects. We do have people from the department here that might assist with some of the dollar amounts, but I must note for the record, that the children provide the least costly types covered under this type of program. It's an estimated at about \$1,700 per child compared to many thousands for severely disabled and elderly and health care facilities and so forth.

The numbers that came across from other bills can be addressed by the State, but it may be as little as \$783,000 out of the federal fund. Federal share again at an enhanced share rate of 70 percent, which is a bargain in anyone's analysis would be a total Denali KidCare cost of maybe two million six or seven hundred thousand dollars.

[9:47:33 AM](#)

SENATOR BETTYE DAVIS spoke to the need of this legislation and the many people dependant upon the legislature to address the Denali KidCare program during this session. This bill included a component that would "alleviate some of the problems that we will have if we don't implement this." She indicated a figure [not specified] related to the bill, as well as another figure [not specified] of 175. If passage were dependant upon the lower figure, she would agree to it "because that would be better than nothing".

[9:48:35 AM](#)

Senator Dyson directed attention to AS 47.17.020(b)(6) amended by Section 1 on page 2, lines 15 through 19. This subparagraph related to "persons in a medical or intermediate care facility" and amended the income qualification to "not exceed 300 percent

of the supplemental security income benefit". The existing statute specified the income qualification as not exceeding \$1,656 a month. He asked the current dollar amount of 300 percent of supplemental security income.

[9:49:23 AM](#)

Mr. Obermeyer deferred to the Department of Health and Social Services. He noted that seven other states utilized a qualification of 300 percent or more and that 39 states provided services for those whose income did not exceed 200 percent of the supplement security benefit. Existing Alaska statute fixed the income amount at "the very lowest level was something like \$1,635 per month". This amount had been established utilizing the federal poverty guideline as a base. The change from a fixed income amount to a percentage of the supplemental security benefit was intended to eliminate the need for each state to annually amend its statute to reflect the current federal guideline level.

[9:50:49 AM](#)

Senator Dyson commented that the legislature "had always faced pressure to put escalator clauses" into its budget. Although this was a simple method, it concerned him, as it embedded these clauses into the operating budget. A discussion on this practice should be held. He also wanted to know the actual dollar amount calculated for this bill for comparison purposes.

[9:51:47 AM](#)

Co-Chair Stedman agreed with Senator Dyson's concern and advised that this issue should be monitored.

[9:52:07 AM](#)

Co-Chair Stedman requested information regarding the fiscal notes accompanying this bill.

[9:52:22 AM](#)

JANET CLARKE, Assistant Commissioner, Department of Health and Social Services, testified to a table titled, "SB 27 Summary" that outlined the costs to implement this legislation [copy on file]. The provision Senator Dyson questioned was not included

in other legislation addressing the Denali KidCare program. Four years ago, eligibility for the program was codified at 175 percent of the federal poverty level and the income amount to qualify for care in an intermediate care facility was codified in statute. The population served by the latter program qualified for nursing home care or had a disability as determined by the federal Social Security Administration, was a different population than that served by the Denali KidCare program, and was more expensive.

[9:54:55 AM](#)

Ms. Clarke pointed out that because of the addition of the change to the nursing home and intermediate care facility program, the fiscal notes for this bill were significantly higher than the fiscal notes accompanying the other bills. This bill would "unfreeze" the eligibility requirements for both programs.

Ms. Clarke explained that SB 27 would unfreeze the eligibility requirement for the Denali KidCare program at 200 percent of the federal poverty level and unfreeze the "special population group at 300 percent as well."

Ms. Clarke noted the fiscal note estimates did not include administrative costs.

Ms. Clarke overviewed the aforementioned table, which provided an enrollment summary of children, pregnant women and the "special income group". The fiscal notes reflect that in 2008 an additional 2,553 children, 436 pregnant women and 106 special income individuals would be eligible for the Medicaid services. Expenditures to serve the additional children would be \$3,905,000, expenditures to serve the additional pregnant women would be \$1,401,000, and expenditures to serve the additional special income individuals would be \$6,103,000. These amounts total \$11.4 million, not including administrative costs.

Ms. Clarke reemphasized that the majority of the cost of this legislation would be the additional participants eligible through the special income group. Nursing home care and services for those with disabilities are the most costly.

[9:57:03 AM](#)

Ms. Clarke stated that the total cost to implement the legislation before the Committee would be \$4.6 million.

[9:57:23 AM](#)

Senator Elton asked if the ratio of federal funds to general fund matching funds was the same for services for pregnant women and children and services for the special income group.

[9:57:50 AM](#)

Ms. Clarke answered that the State did not receive an "enhanced rate" for services provided to the special income group. The regular Medicaid rate was currently 57.58 percent.

[9:58:06 AM](#)

Senator Elton clarified that a higher percentage of general fund matching funds was required for services to the special income group than was required for services to pregnant women and children.

[9:58:24 AM](#)

Ms. Clarke affirmed and pointed out that the spreadsheet demonstrated the "melding" of the different rates.

[9:58:37 AM](#)

Senator Olson, in reviewing the annual costs of services to the special income group, noted that the cost increases between 2008 and 2013 would only be \$3 million. He asked the validity of the projections.

[9:59:00 AM](#)

Ms. Clarke told of a study conducted by the Lewin Group and released the previous year that developed a Medicaid forecasting model to estimate future Medicaid costs. The report predicted that the special income population would remain "fairly flat" for approximately eight years after which it "really takes off". The cost estimates for the years listed on the spreadsheet reflected that period of flat population growth.

[9:59:37 AM](#)

CLOVER SIMON, Chief Executive Officer, Planned Parenthood of Alaska, testified via teleconference from an offnet location that she also was a social worker with approximately eight years' experience working with low income women and children. She read her testimony into the record as follows.

I support the increase in eligibility for Denali KidCare to the 200 percent of the federal poverty level. Providing health care early in a woman's pregnancy improves the health outcomes for both the woman and the child. I really feel it should be a priority in Alaska to have the healthiest children that we can.

I urge the members to consider this increase. I understand the members' concern regarding fiscal escalators in the budget. However, I want to remind you that spending money now saves money in the long run for the management of chronic preventable illnesses.

[10:00:31 AM](#)

LEONARD FANCHER, lifelong Alaskan, representing Mighty Bikes, testified via teleconference from an offnet location in favor of the bill. For eight years he has volunteered for a youth recreation program teaching children to ride bicycles. The program encouraged children to get physical exercise "off the couch away from T.V. and video games." It was important that kids stay physically active and to have the best access to health care possible so they could remain healthy. Approximately 18,000 children were currently not covered by health insurance. These children were from working families whose employers did not provide insurance. The federal government was willing to contribute 70 percent of the cost to provide insurance for these children. With the State contribution of 30 percent, this was a "bargain" and the State could "well afford" the expense.

[10:02:05 AM](#)

DAVID ALEXANDER MD, Retired Pediatrician, testified via teleconference from Anchorage, about the wide support of the Denali KidCare program and this legislation. He recently attended a gathering of Anchorage Faith in Action Congregations Together - the AFACT, along with approximately 200 others. The attendees were all in favor of improving health care coverage. He read the following testimony into the record.

There is absolutely no question that routine health care provides better health and therefore better living both for kids and for adults. Poor health means you miss work or school or else you just miss-perform.

Since 2003 when Denali KidCare was cut back, most of these cut out [from the program] could not afford buying health care. So many of them did not get routine care. They missed a lot more school and if needed, went to an emergency room; and because the federal government says ERs must be willing to give free care if needed, so Alaska emergency rooms are now having some \$90 million of unpaid emergency room charges. So the rest of us therefore have to pay a lot more to cover those unpaid fees.

There is no question that the State Legislature did save some money - obviously the rest of us lost money. In addition, since the federal government pays 70 percent of the charges under each state's CHIP, children health insurance program, that meant the State lost a couple million dollars in federal support.

It is also very important to realize 35 to 40 percent of money that goes to insurance companies goes to their overhead expenses, while only five to eight percent of money that goes to government health coverage goes into the maintenance of those programs. Therefore government programs provide about 50 percent more actual health coverage than insurance companies do with the same amount of funding.

So supporting these new proposals will improve health care for the kids; improve their ability to attend school and actually greatly decrease the health expenses of the whole State.

[10:04:34 AM](#)

JANICE TOWER, Executive Director, American Academy of Pediatrics, Alaska Chapter, testified via teleconference from Anchorage about the organization's long term goal of insuring all children in Alaska. The Alaska chapter currently consisted of 87 pediatricians located throughout the state. She understood the Committee's time constraints and the necessity to make important priority decisions. Children should be considered the highest priority.

Ms. Tower reported that 39 other states provide coverage for children living at up to 200 percent of the federal poverty level. Alaska was ranked "in the bottom five". The states of Montana and South Carolina covered children at 150 percent of the federal poverty level. Only North Dakota and South Dakota provided coverage to a lower rate of 140 percent of the federal poverty level; however, that coverage was not "artificially restricted". With the "poverty percentage reduction", the coverage provided in Alaska had decreased to 154 percent of the federal poverty level.

Ms. Tower stated that the states of California, Connecticut, Maryland, Massachusetts, Missouri and Vermont provided coverage for participants with up to 300 percent of the federal poverty level. New Hampshire provided coverage for children living up to 400 percent of the federal poverty level. Illinois provided "unlimited coverage" with a "program buy-in" to allow some level of coverage to all children at an affordable rate.

Ms. Tower disapproved of the coverage provided by the state of Alaska in comparison to other states. Significant revenue sources existed for the State from natural resources, tourism and other activities.

[10:07:28 AM](#)

SARA JACKSON, Board Member, Anchorage Faith in Action Congregations Together, and "human services professional", testified via teleconference from Anchorage that the organization was comprised of 15 local churches "concerned about this issue". She told of her family's experience in which her granddaughter received "inconsistent and inadequate" health care although her mother worked full time. Her granddaughter experienced complex medical conditions and during most crises, the family incurred significant medical debt and had to rely on the "mercy of a kind doctor." The family "celebrated" the creation of Denali KidCare and the granddaughter qualified for services under the income provision of less than 200 percent of the federal poverty level. She was able to receive dental preventative care, an eye examination and other needed services. Two years later, however, she was "dropped" from the program because her mother earned \$100 per month over the allowable income amount. Ongoing counseling and other medical care was no longer available. As a child of the working middle class, the granddaughter was part of a significant population that was

"medically neglected." Ms. Jackson spoke to the hesitancies and delays of parents in seeking medical care for their children. This could exacerbate simple medical conditions.

10:10:51 AM

SANDRA CASTLE testified via teleconference from Anchorage that she had previously received health care through the Denali KidCare program under the 150 percent of federal poverty level income provision. However, she was "cut" and was no longer able to continue her counseling treatment or receive care from a pediatric endocrinologist for her diabetes. To receive treatment, she had to go to an emergency room. Children in the state of Alaska need health care whether or not their parents have funding to pay for it.

10:11:56 AM

ANGELA LISTON, Anchorage Faith in Action Congregations Together, testified via teleconference from Anchorage that over 200 people recently gathered in a local church to speak about Denali KidCare. Many family members shared "one horror story after another" about caring for their children's health needs since the reduction to the Denali KidCare program four years prior. These family members were employed and therefore could not be present to testify at this hearing. They represented every ethnic group, 15 faith communities and all social economic groups. Additionally, religious leaders in the state, including Catholic bishops, Presbyterian ministers, a Russian Orthodox bishop and Lutheran bishops, had joined the AFACT organization in supporting an increase to the Denali KidCare program. Recently AFACT met with US Senator Lisa Murkowski and were assured that she and US Senator Ted Stevens were seeking an S-CHIP reauthorization to allow states the "broadest possible latitude". If that latitude were granted, it would be unfortunate if Alaska did not take advantage of it. Coverage should be extended at least to those children living at 200 percent of the federal poverty level.

10:13:38 AM

WALTER MAJOROS, Executive Director, Juneau Youth Services, President, Alaska Association of Homes for Children, and Vice President, Alaska Behavioral Health Association, testified in Juneau, in support of this legislation. He spoke to the impact

of Denali KidCare on children's behavioral health services, specifically for children with severe mental health problems as well as children with substance abuse problems. Juneau Youth Services (JYS) serves approximately 700 of these children each year.

Mr. Majoros informed that Denali KidCare was the primary funding source for children's behavioral health services in Alaska, providing 75 to 80 percent. Effective implementation of the Bring the Kids Home initiative was impossible without a viable funding source. A diminished funding source results in fewer children able to access care in the state and subsequently more children transferred to receive treatment in residential psychiatric facilities in the Lower 48. The number of children eligible for services through JYS had declined from 75 percent to 69 percent. This trend is similar statewide. Alaska was ranked the third lowest "eligibility threshold" at 154 percent of the federal poverty level. Additionally fewer children were covered by private health care insurance. All Alaskan children should have access to health care services and the State should "invest early" in children's health to prevent serious problems from developing.

[10:16:18 AM](#)

Senator Davis considered this legislation one of the most important bills under consideration this legislative session. She advised the Committee to "do the right thing", to debate the issue and report the bill from Committee. She would not dictate the exact percentage of the federal poverty level to be adopted for income eligibility, but stressed it should not be less than 175 percent.

[10:17:35 AM](#)

Senator Olson requested comment on the inclusion of the special income group.

[10:18:06 AM](#)

Senator Davis admitted extension of services to those in this group living at 300 percent of the federal poverty level would triple the cost to implement this legislation, but stated it was an important issue that must be addressed. However, if extension of the Denali KidCare program were dependant upon the deletion

of the provision to accommodate the special income group, she would not oppose the change.

The bill was HELD in Committee.

#SB116

[10:18:32 AM](#)

CS FOR SENATE BILL NO. 116(L&C)

"An Act relating to the Uniform Money Services Act, to money transmission services, and to currency exchange services; and providing for an effective date."

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

Co-Chair Stedman announced intent to not take action on this legislation at this hearing.

[10:18:52 AM](#)

Senator Elton moved for adoption of CS SB 116, 25-LS0508\0, as a working document.

There was no objection and CS SB 116, Version "0" was ADOPTED as a working document.

[10:19:16 AM](#)

Senator Elton, sponsor of the bill, stated that it would "ensure the safety and soundness in financial institutions that are used by Alaskans who don't use banks." These financial institutions are "the money transferors". This bill would also address "two of the industries that pose a risk for money laundering: money transmission and currency exchange." Money transmission also poses a risk for terrorist financing. Transmission of money without a license in states that require a license is a federal felony offense. Alaska is one state that currently did not require such a license.

Senator Elton explained that this legislation was based on a model legislation adopted in other states with one "major" exception. The model legislation also proposed licensing "check

cashers". This bill did not include such provisions, as this activity did not pose a risk for money laundering or terrorist financing.

Senator Elton furthered that this bill would ensure law enforcement coordination to ensure that these businesses were "not abused by people who avoid banks because they don't want the scrutiny of bank examiners." Consumers would be protected through the provisions of this bill relating to "bonding and net worth requirements". This bill would require a listing of all fees and terms on the receipt supplied to the customer, as well as on-site posting of a notification to consumers of agencies available to assist in the event the customer has "problems with the business."

[10:21:11 AM](#)

Senator Elton pointed out that this bill would be "revenue neutral" to the State. The fiscal note indicated the cost to implement the legislation would be \$80,000. As required of other regulated businesses, the businesses affected by this bill would pay a license fee. The Department of Commerce, Community and Economic Development estimated that 40 businesses practiced money transferring in Alaska and that "the regulation and investigation component" for the Department would require a fee of \$2,000.

Senator Elton reported that despite the significant amount of the license fee, the affected businesses seek the regulation and the "safety" that would be assured through licensing. Licensing would protect legitimate businesses and would make operations of non legitimate businesses more difficult.

[10:21:58 AM](#)

Senator Elton disclosed that this legislation was requested by the industry. In consideration of this bill by Senate committees and its companion bill by House of Representatives committees, it had the received endorsement and support of Wells Fargo, a large money transmitter as well as that of small "store front" money transmitters, many of which operate in cruise ship port towns. The Department of Commerce, Community and Economic Development and consumer advocates, including the Alaska Bankers Association, supported this bill.

[10:22:47 AM](#)

Senator Elton remarked that this legislation was the first attempt to regulate the money transfer industry.

Senator Elton concluded his presentation of the bill, reiterating that an individual involved in the industry requested it. The more his staff reviewed the matter, the more it was understood that consumers must be protected and that this legislation would assist in homeland security efforts.

[10:23:57 AM](#)

Co-Chair Stedman asked about any opposition to this bill in addition to money launderers.

[10:24:08 AM](#)

Senator Elton reported that no opposition had been voiced to either this bill or its companion bill. He attributed this as a "testament" to staff coordination with the industry and all affected parties. He repeated that the Alaska Bankers Association, large and small businesses and consumer interests supported the bills.

[10:24:51 AM](#)

Co-Chair Stedman requested Senator Elton speak to the fiscal note.

[10:24:55 AM](#)

Senator Elton explained that as required of other regulated businesses, the costs of regulating the currency exchange and money transfer businesses would be borne by the industry. The Department estimated the annual cost to implement the program would be \$80,000 and that each business would pay an annual fee of \$2,000. Although this would be a higher license fee than most other businesses paid, the affected businesses support this program.

[10:25:53 AM](#)

MARK DAVIS, Director, Division of Banking and Securities, Department of Commerce, Community and Economic Development,

testified via teleconference from an offnet location in support of the bill. The revenues collected from the fees would be utilized to regulate the businesses and for investigations. The \$2,000 licensee fee was calculated based on the 37 businesses currently registered with the "federal financial crime center"; however, additional businesses could be practicing money transfers or currency exchange activities.

Mr. Davis informed that upon implementation of a regulatory program for some industries, more licenses were applied for than had been estimated. This was likely because some businesses had been "reluctant" to practice in an unregulated industry.

[10:27:12 AM](#)

Senator Thomas asked examples of businesses that practiced money transfers.

[10:27:30 AM](#)

Mr. Davis gave as examples, Money Gram and Western Union. He also told of a small business that operated in the election district represented by Senator Elton. Most businesses were affiliated with a large company such as Western Union. This legislation would allow the smaller companies to "work through" the larger affiliates, which would result in "less regulatory burden" in the industry.

[10:28:09 AM](#)

Senator Thomas asked if all banks were considered money transferors.

[10:28:17 AM](#)

Mr. Davis responded that banks would be exempt from the provisions of this legislation. Consumers could have funds transferred from one bank to another. This bill would address business conducted by those consumers that did not utilize banks, such as cruise ship crew members.

[10:28:46 AM](#)

Co-Chair Stedman asked if security broker dealers would also be excluded from the provisions of this bill.

[10:28:54 AM](#)

Mr. Davis answered in the affirmative, explaining that these dealers provided money services and were regulated through other licensing programs. Money transferors and currency exchange providers were regulated in 47 states.

[10:29:28 AM](#)

Senator Olson asked if the implementation of this regulatory program could interrupt fund transfers intended for college students and for other legitimate purposes.

[10:30:03 AM](#)

Senator Elton responded that no provision of this bill should delay access to funds.

[10:30:38 AM](#)

Mr. Davis agreed. This legislation would not change the industry, rather it would require the businesses to be licensed and comply with federal reporting procedures. However, a business already licensed in another state would not be required to secure an additional license. This would avoid causing a "regulatory burden" for large companies. Additionally, this bill would provide for "a timely transmission of the consumer rights", which did not currently exist.

[10:31:19 AM](#)

Senator Olson asked if charges had been filed or should have been filed against a party attempting to launder money through such a business.

[10:31:45 AM](#)

Mr. Davis was unaware of any violation in this state, although failures in transmitting money had occurred. The US Congress and federal law enforcement agencies urged states to adopt regulatory programs to comply with the federal Bank Secrecy Act.

[10:32:17 AM](#)

Co-Chair Stedman ordered the bill HELD in Committee.

#

ADJOURNMENT

Co-Chair Bert Stedman adjourned the meeting at [10:32:44 AM](#)