

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

March 14, 2014

3:20 p.m.

**MEMBERS PRESENT**

Representative Kurt Olson, Chair  
Representative Mike Chenault  
Representative Bob Herron  
Representative Dan Saddler  
Representative Andy Josephson

**MEMBERS ABSENT**

Representative Lora Reinbold, Vice Chair  
Representative Charisse Millett  
Representative Craig Johnson

**COMMITTEE CALENDAR**

HOUSE BILL NO. 203

"An Act relating to payment or reimbursement of health care insurance claims."

- HEARD & HELD

HOUSE BILL NO. 282

"An Act relating to the rights and obligations of residential landlords and tenants; and relating to the taking of a permanent fund dividend for rent and damages owed to a residential landlord."

- HEARD & HELD

HOUSE BILL NO. 230

"An Act allowing the Alaska Industrial Development and Export Authority to issue bonds for an oil or gas processing facility; and creating the oil and gas infrastructure fund to finance construction or improvement of an oil or gas processing facility."

- HEARD & HELD

HOUSE BILL NO. 316

"An Act relating to workers' compensation fees for medical treatment and services; relating to workers' compensation regulations; and providing for an effective date."

- SCHEDULED BUT NOT HEARD

**PREVIOUS COMMITTEE ACTION**

BILL: HB 203

SHORT TITLE: REIMBURSEMENT OF HEALTH INSURANCE CLAIMS  
SPONSOR(S): REPRESENTATIVE(S) KELLER BY REQUEST

04/10/13 (H) READ THE FIRST TIME - REFERRALS  
04/10/13 (H) L&C, FIN  
03/14/14 (H) L&C AT 3:15 PM BARNES 124

BILL: HB 282

SHORT TITLE: LANDLORD AND TENANT ACT  
SPONSOR(S): REPRESENTATIVE(S) ISAACSON

01/29/14 (H) READ THE FIRST TIME - REFERRALS  
01/29/14 (H) L&C, JUD  
02/28/14 (H) L&C AT 3:15 PM BARNES 124  
02/28/14 (H) Heard & Held  
02/28/14 (H) MINUTE(L&C)  
03/14/14 (H) L&C AT 3:15 PM BARNES 124

BILL: HB 230

SHORT TITLE: AIDEA BONDS FOR PROCESSING FACILITIES  
SPONSOR(S): REPRESENTATIVE(S) SEATON

01/21/14 (H) PREFILE RELEASED 1/10/14  
01/21/14 (H) READ THE FIRST TIME - REFERRALS  
01/21/14 (H) L&C, FIN  
02/21/14 (H) L&C AT 3:15 PM BARNES 124  
02/21/14 (H) Heard & Held  
02/21/14 (H) MINUTE(L&C)  
03/14/14 (H) L&C AT 3:15 PM BARNES 124

**WITNESS REGISTER**

JIM POUND, Staff  
Representative Wes Keller  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Presented HB 203 on behalf of the sponsor,  
Representative Wes Keller.

LEONARD SORRIN, Vice-President  
Congressional Legislative Affairs  
Premera Blue Cross  
Seattle, Washington

**POSITION STATEMENT:** Testified in support of HB 203.

MARTIN HESTER, Director  
Division of Insurance (DOI); Juneau Office  
Department of Commerce, Community & Economic Development (DCCED)  
Juneau, Alaska

**POSITION STATEMENT:** Answered questions on HB 203.

MIKE HUMPHREY, Chief Executive Officer  
The Wilson Agency  
Anchorage Alaska

**POSITION STATEMENT:** Testified in support of HB 203.

JAMES BROOKS, Physician;  
Executive Director; Providence Anchorage Anesthesia Medical  
Group (PAAMG)

**POSITION STATEMENT:** Testified in opposition to HB 203.

RICK WATSON, Chief Executive Officer  
Orthopedic Physicians Anchorage  
Anchorage, Alaska

**POSITION STATEMENT:** Testified during the discussion of HB 203.

BRENDA HEWITT, Staff  
Representative Doug Isaacson  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Presented Version 0 on behalf of the prime  
sponsor of HB 282.

PAMELA COOK, Property Manager  
MB Management  
Fairbanks, Alaska

**POSITION STATEMENT:** Testified during the discussion of HB 282.

ANTOWETTE BREWER, Property Manager  
Realtor; Coldwell Banker  
Fairbanks, Alaska

**POSITION STATEMENT:** Testified during the discussion of HB 282.

KIRK MAYNARD, Owner; Broker  
Coldwell Banker

Fairbanks, Alaska

**POSITION STATEMENT:** Testified during the discussion of HB 282.

RICHARD BLOCK, Manager  
Mellen Investment Company, LLC  
Anchorage, Alaska

**POSITION STATEMENT:** Testified during the discussion of HB 282.

REPRESENTATIVE PAUL SEATON  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Testified as sponsor of HB 230.

TED LEONARD, Executive Director  
Alaska Industrial Development & Export Authority (AIDEA)  
Department of Commerce, Community, & Economic Development  
Anchorage, Alaska

**POSITION STATEMENT:** Testified during the discussion of HB 230.

EMILY NAUMAN, Legislative Legal Counsel  
Legislative Legal and Research Services  
Legislative Affairs Agency (LAA)  
Juneau, Alaska

**POSITION STATEMENT:** Answered questions as the drafter of HB 230.

#### **ACTION NARRATIVE**

[3:20:49 PM](#)

**CHAIR KURT OLSON** called the House Labor and Commerce Standing Committee meeting to order at 3:20 p.m. Representatives Chenault, Herron, Saddler, Josephson, and Olson were present at the call to order.

#### **HB 203-REIMBURSEMENT OF HEALTH INSURANCE CLAIMS**

[3:21:19 PM](#)

CHAIR OLSON announced that the first order of business would be HOUSE BILL NO. 203, "An Act relating to payment or reimbursement of health care insurance claims."

[3:21:31 PM](#)

JIM POUND, Staff, Representative Wes Keller, Alaska State Legislature, stated that HB 203 makes a change in the health

care insurance policy in Alaska. It adds a step to the process for insurers to make payments to out-of-network providers. It requires in most cases that out-of-network providers receive payments made out to both the patient and the provider. The effect is two-fold. First, the patient would obtain information on how much the procedure costs. Second, providers would receive an incentive to become part of the network. He referred to members' packets to the State of Alaska's health care program, Alaska Care, to show the difference in cost between "In-Network" and "Out-of-Network" providers that began in January 2014. He stated that this transfers into savings for insurers and for the patients. The goal of the bill is to create a market basis for insurance coverage and increase incentives for providers to become part of a network.

[3:23:09 PM](#)

LEONARD SORRIN, Vice-President, Congressional Legislative Affairs, Premera Blue Cross, reading from a prepared statement, stated that Premera provides coverage to over 100,000 Alaskan residents including individuals, small groups, and large groups, as well as offering services for large self-insured groups. He offered support for HB 203 as a measure that is critical in Alaska's ongoing struggle to moderate its extremely high health care costs. Current Alaska law requires health plans to pay non-contracted providers directly for care. This requirement removes a significant incentive that providers have to enter into negotiated contracts with health plans at lower rates. He said that direct payment from the health plan is one of the major benefits that providers obtain from contracting with health plans.

MR. SORRIN said that HB 203 will rebalance that contracting dynamic in Alaska by allowing health plans to issue a joint check made out to both the member and the provider. This should lead to more negotiated agreements with health plans which can help moderate Alaska's health care costs. In fact, Alaska has the second highest health care spending per capita of any state in the nation. He provided some "eye-catching examples" which included that Alaska has the highest average annual cost for employee health benefits in the nation, at \$11,926 per employee, which is twice what employers in some other states pay. Further, it is getting worse. In the last decade, health care costs in Anchorage increased at a rate of 70 percent above the national average.

[3:25:01 PM](#)

MR. SORRIN stated that the problem extends across the full range of care in Alaska. He shared examples based on "Milliman's report" which was prepared for the Alaska Health Care Commission. This report examined costs across Alaska and compared them to reference states. He related that physician reimbursement in Alaska is approximately 160 percent of the average compared to reference states of Idaho, Oregon, Washington, and Wyoming. Cardiologists in Alaska charge an average of 83 percent higher; hip replacement costs 350 percent more in Alaska; and diagnostic colonoscopies cost 150 percent more in Alaska than Washington.

MR. SORRIN said that additional data shows that certain specialty services in Alaska are over 500 percent of Medicare reimbursements. For example, musculoskeletal services in Alaska are 600 percent of Medicare and cardiovascular services are 62 percent over Medicare reimbursement.

MR. SORRIN asked what the state can do about this cost crisis in Alaska. He stated that the Alaska Health Care Commission (AHCC) made several suggestions, including some related to pricing power in Alaska. The AHCC recommended doing away with the direct pay requirement. While the direct pay requirement has certainly increased costs, these cost increases have been aggravated by the 80th percentile requirement that mandates health plans pay non-contracted providers at least 80 percent of the usual and customary rate (UCR). He explained what ends up occurring in certain communities and specialties is that providers are able to dictate their own UCR by simply increasing their own rates to whatever level they wish. This leaves health plans and Alaska consumers with only the hope of a negotiated contract as a means to moderate health care costs in Alaska. He offered his belief that this is where a change in the direct pay requirement would have a substantial impact on Alaska's health care costs. For evidence, he referred to Premera's recent experience with the Federal Employee Program (FEP) health plan in Alaska, which he said covers a fairly healthy proportion of Alaskan citizens. The FEP program instituted a joint check policy in July 2012 exactly as proposed in HB 203.

[3:27:45 PM](#)

MR. SORRIN said the result of that change is that Premera Blue Cross almost immediately saw 11 new contracts negotiated with providers after only having one in the previous couple of months. Further, one sole source community hospital entered

into a negotiated agreement with Premera Blue Cross after five years of non-contracted status. This means that more consumers have access to broader network without the risk of higher out-of-pocket costs. He concluded that it's clear a co-payee check system worked for FEP in Alaska and it will work in the commercial insured market as well. He predicted that the bill will immediately interest more providers in joining thousands of their colleagues who have contracts with Premera Blue Cross and other carriers across the state allowing Alaskans and employers to access more affordable care and increasing access for everyone. He thanked members for their time.

[3:28:27 PM](#)

REPRESENTATIVE JOSEPHSON said this is useful information to know. He related his understanding that fundamentally this bill is designed to send a payment to the patient rather than the physician when the physician is not in the network.

MR. SORRIN answered yes.

REPRESENTATIVE JOSEPHSON said it seemed that in some instances the check is written to two payees.

MR. SORRIN answered that under HB 203, the check would be made out as a co-payee check with provider as the first payee and the member as the second payee in every instance.

[3:29:40 PM](#)

REPRESENTATIVE JOSEPHSON asked whether the person would need to drive to the doctor's office to obtain a signature.

MR. SORRIN answered that what typically happens is the member will endorse the check and send it to the provider, who will endorse it and deposit it as payment for the services.

[3:30:19 PM](#)

REPRESENTATIVE JOSEPHSON asked what happens if the patient fails to do so and if the patient will be sued.

MR. SORRIN answered that if the consumer doesn't forward the check, the provider would bill the consumer. He offered that in Premera Blue Cross's view this bill will allow the company to send the check to the person with whom they have an agreement or the benefit contract for health care contract. These people

have purchased coverage through Premera Blue Cross. He explained that in instances of non-contracted care, Premera Blue Cross would send the check to the person that has an agreement with them. These consumers should send the check on to the provider. Typically, members would receive education on this, but it is intended to allow patients to endorse the checks and send them on to the provider. If not, the provider would collect from the member. In fact, avoiding this necessity provides exactly the type of incentive for health care providers to enter into network contracts with health plans. He offered his belief this should balance the contracting dynamic between physicians and health plans in Alaska.

[3:31:35 PM](#)

REPRESENTATIVE JOSEPHSON said it sounds like at the outset it could be a "headache" for the consumer even though Premera believes in the long run rates will be reduced since more physicians will subscribe to the preferred provider option.

MR. SORRIN answered yes; that the intent is to expand the range and number of contracted providers in Alaska to provide more people care at lower cost. He reiterated that the significant incentive is that it is far easier and quicker for the provider to obtain payment from Premera Blue Cross, depending on whether the provider wants to bill the member directly or wait to obtain the co-payee check from the member. It may or may not cause a consumer to get billed for that cost of care, but since the member has already received a check from Premera Blue Cross, that if they are later billed the patient would simply forward that check to the provider in payment.

[3:32:55 PM](#)

REPRESENTATIVE JOSEPHSON asked whether many patients would prefer not to know except that they receive an explanation of benefits (EOB) at the end. He asked from the consumer perspective if this is an easier way for the payment to occur.

MR. SORRIN acknowledged that in one instance it might be easier; however, he offered his belief that it would rob the health plans in the health care market of a significant tool in combination with the 80th percentile regulation. He said it denies a significant tool to create more balanced health plan negotiating leverage with providers in Alaska, which would lower health care costs over time for everyone.

CHAIR OLSON remarked it is about behavior modification.

[3:34:02 PM](#)

REPRESENTATIVE JOSEPHSON said, based on his own experience, that at the office visit, the doctor's staff informs him that his copay is \$100. He wondered what his experience will be under this bill.

MR. SORRIN answered that he cannot predict how specific providers may handle this; however, he hoped that rather than asking for \$7,000 at the time of service that the provider would wait to receive the endorsed co-payee check from the member.

REPRESENTATIVE HERRON asked whether there is any opposition to the bill.

CHAIR OLSON answered yes; that he anticipates hearing from some testifiers.

[3:35:39 PM](#)

REPRESENTATIVE SADDLER moved to adopt the proposed committee substitute (CS) for HB 203, labeled 28-LS0682\C, Wallace, 2/3/14, as the working document.

CHAIR OLSON objected for the purpose of objection.

[3:36:09 PM](#)

MR. POUND reviewed the changes in the proposed committee substitute, Version C. He related Section 1 makes changes to existing language that permits healthcare insurance payments to be made directly to out-of-network hospitals and eliminates out of network providers upon written request. Paragraph 5 provides language that permits payment to an out-of-network provider by issuing a check made out to both the patient and the provider. He related that the network providers are called preferred providers. He referred to page 3, Section 2, which makes changes to existing statute that eliminates provider but maintains hospital when it comes to direct payments. He suggested that this narrows the definition so the funds go to the hospital or out-of-network hospital and not to the practitioner. He characterized these changes as a "clean up."

[3:38:43 PM](#)

REPRESENTATIVE SADDLER asked whether the purpose of Sections 2 and 3 is not to narrow the scope of medical service providers that can receive direct payment. He asked whether it is technical or a narrowing provision.

MR. POUND acknowledged that the language does narrow it from providers to hospitals.

[3:39:55 PM](#)

MIKE HUMPHREY, Chief Executive Officer, The Wilson Agency, stated that his company specializes in human resource and benefits consulting in Alaska. He said he is testifying in support of HB 203. He stated that he spent 20 years as the system-wide director of benefits for the University of Alaska (UA). In that capacity, he set the strategic direction for the UA's benefit program, including health plans, wellness, and retirement. The prime focus of UA and for his clients was to help find ways to slow down the escalation of health care plan costs, which is the biggest cost for nearly every employer. Employers really only have about three tools to address health care plan costs, including plan redesign - shifting costs to employees; asking providers to join the network; and using wellness programs to change the health status of the employees. He said it takes three to five years for wellness programs to show a return. His preference is to work with the medical professionals to develop incentives for them to join a provider network. Over the years he has held many conversations surrounding networks and to eliminate the fear of joining he has demonstrated the impact on top 20 procedures and illustrated the impact on the cash flow; however, his efforts resulted in few providers joining the network. In fact, he couldn't offer proof of a change in the turnaround from submitting bills to insurance and receiving reimbursement. Instead, he was offering them a reduced reimbursement in exchange for an increase in the number of patients. However, HB 203 has been designed to provide incentives to encourage providers to join the network and to help control costs.

[3:43:03 PM](#)

REPRESENTATIVE SADDLER referred to the three aforementioned options for health care containment. He recalled that increasing the network had the quickest turnaround. He asked for clarification on whether that option will provide the largest savings or if the wellness or plan redesign represents the best option for cost savings.

MARTIN HESTER, Director, Division of Insurance (DOI), Juneau Office, Department of Commerce, Community & Economic Development (DCCED), answered that plan redesign has an immediate impact on the employees but it doesn't take costs out of the health care plan. He explained that wellness programs are a long-term initiative to manage the population's health so the most immediate return would be for a provider to accept a discount by joining a network.

[3:43:49 PM](#)

JAMES BROOKS, Doctor; Executive Director, Providence Anchorage Anesthesia Medical Group (PAAMG), stated that he is opposed to this bill because of its impact on members' constituents and his patients. He said that his patients have same the right to efficient claims adjudication and remittance of payments to providers whether they are served by a participating provider or a non-participating provider. These patients should also be afforded the same rights as hospitals that are staffed with teams of health care professionals to process claims and payments. The entire health care industry is implementing electronic health records, electronic claims submission, and being paid with electronic remittance to reduce costs and complexity of care for the patients. This proposed bill, HB 203, will use a two-party paper check system for remittance of monies due to providers. He said, "To me, this defies logic." He offered his belief that HB 203 will increase the complexity of payment for services. Patients will now have to act to convey a check from themselves to the providers of services. Patients with guardians, surrogates, and other third parties assisting in their care may struggle to get the process accomplished. This process will initially confuse some patients, as was testified to earlier and it would definitely increase the amount of paperwork and the communications necessary after having received health care. He stressed that it would also delay reimbursement from patients to providers. Once it delays reimbursement and increases the accounts receivable cycle, it will elevate costs. As it elevates costs some providers may "sign networks" but other providers will pass the cost on to others. He also said, "Frankly, I just think it is bad legislation; it's illogical legislation, and it's a step back to how business was done 20 or 30 years ago." However, it's not the pattern for increasing efficiency in the whole business side of health care. He argued that this bill imposes a risk of failure on patients and if patients are out of town for any number of reasons and don't process their mail they will

risk having payments due to a provider sitting somewhere or be lost. Yet the patients will ultimately still be responsible for the payments. He concluded that this bill shifts the burden to patients and to constituents in order to benefit an insurance network. He thanked members for the opportunity to testify.

[3:47:02 PM](#)

REPRESENTATIVE JOSEPHSON commented that when he thinks of a company such as Premera Blue Cross, he is unsure whether he is dealing with a corporation with a profit motive or a coop. He said if he knew this it would assist him in determining how he feels about this bill.

CHAIR OLSON responded that question is not part of the bill before the committee at this time; however, he suspected someone could provide him with that information.

[3:47:45 PM](#)

REPRESENTATIVE SADDLER understood him to say this will move the state backwards to using checks, but that electronic health records (EHR) is the trend. He asked whether EHR currently envision solely electronic transfer of payments between patients and insurers.

DR. BROOKS answered that the [PMAAG] currently has electronic health records. Currently, PMAAG submits the vast majority of their claims electronic so no paperwork is processed by most entities or payers. Finally, most insurance companies electronically remit payments and these payments are posted. He emphasized that this process is totally transparent to his patients. He reported that he is a participating provider with [Premera] Blue Cross Blue Shield (PBCBS). He said that if every company operated as PBCBS does that he wouldn't be concerned with much of the bill; however, other insurance companies do business in this state and "let's just say they are very corporate." Thus some insurance companies have a "bottom line" incentive in terms of how this check process will work. Every company doing business in this state is not Premera Blue Cross Blue Shield and is not represented by [patients] testifying today. Some insurance companies are already sending out paper checks and defying the state's law. He indicated he became aware of this since some of his employees receive these checks to be used to pay for their services and it is already affecting providers. He said, "I think you can't take a quality company like [Premera] Blue Cross Blue Shield and assume that everybody

that's doing business in this state is going to operate the way Jeff Davis and his team of people would operate." He surmised other companies operate in Alaska who may be far less ethical.

3:49:46 PM

REPRESENTATIVE SADDLER asked whether he is a member of the PBCBS.

DR. BROOKS stated that he does not have any economic "skin in the game" when it comes to PBCBS. He emphasized that there are a lot of other insurers in this state that he would not sign a contract with for anything, not because of economics, but due to the horrible terms imbedded in their contracts.

REPRESENTATIVE SADDLER understood he is a participating member of PBCBS. He understood he is a network provider. He asked whether he is required to submit claims electronically.

DR. BROOKS agreed he is a network provider. He was unsure of whether he is required to submit claims electronically, but that is how he does business with them and PBCBS remits payments electronically back to the Providence Anchorage Anesthesia Medical Group (PAAMG).

3:50:38 PM

REPRESENTATIVE HERRON said he believes he understands his concern. He said that what's being proposed is a paper process. He asked whether within the electronic transfer a system could be developed in which the patient must electronically acknowledge that "this is true" and the care provider would then be paid. He asked whether PAAMG would prefer that method.

DR. BROOKS was unsure of how that process would work. He said that PAAMG receives hundreds of payments for hundreds of different patients sent by different providers, including Medicaid, Medicare, and PBCBS, among others. These payments are posted in a mass production method. He was unsure how this would function if he must wait for every patient to electronically sign for the payments. He reported that PAAMG takes care of numerous patients that don't even know how to use e-mail, who will struggle to contend with another step in the process. He indicated that the legislature authored the Health Care Decision Act. The legislature is aware that guardians and surrogates currently act on behalf of patients with limitations.

He was unsure about complicating the process for these patients and how they would deal with the additional process.

[3:52:33 PM](#)

CHAIR OLSON asked him to assess the impact of HB 203 on his "back office staffing."

DR. BROOKS said that [the proposed bill] would cost money since it will require him to "chase patients" to bring him one payment at a time and sign off on it. He anticipated he would need more staff. For example, currently, significant problems exist with payment of claims and processing of claims by Medicaid. He has already had to expand his staff to contend with the problems. When a health care financial cycle changes because the process changes, like rolling out a new information system, they are putting another step in the process, it will cost the providers of the state money. He indicated that PAAMG is on par with PBCBS. He said, "I promise you many other practices will have to hire more people to deal with this and chase down patients and try to get the check either mailed in or brought to the office and get them signed appropriately."

[3:53:43 PM](#)

RICK WATSON, Chief Executive Officer, Orthopedic Physicians Anchorage, stated that Orthopedic Physicians Anchorage (OPA) consists of a group of 31 providers specializing in orthopedic surgery and rheumatology in Anchorage. Most of the orthopedic surgeons in Alaska, including his group, are non-contracted out of network providers. The OPA has no contractual relationships with commercial insurance carriers. Our concern with HB 203 is primarily for the effect it will have on patients. When patients come to the OPA for care, OPA offers to verify their insurance benefits, obtain required pre-authorizations for them, file claims with their insurance company for them, and notify them when their insurance pays. He said, "We do this as a courtesy." Insurance companies refuse to tell OPA what will be paid in advance so OPA provides patients estimates and explain the actual amount that they will owe will be unknown until the insurance company pays. He acknowledged that patients are understandably frustrated by this process and readily assign their insurance benefit payments to OPA so insurance companies will pay OPA directly so they do not have to deal with it.

[3:55:29 PM](#)

MR. WATSON stated that payments on claims are frequently delayed for long periods as insurance companies routinely request more and more information. Patients and insurance companies have come to expect this from providers "even those of us who are not contracted with them." Consequently almost no patients understand this process or are prepared to do it on their own. As a courtesy OPA deals with the providers to spare patients the time, the frustration, and the worry, so they can focus on getting better. He indicated that OPA consistently finds that patients don't understand their insurance policies or the contractual relationship they have with their insurance company. Many patients mistakenly think that the insurance company will pay it all and they will owe nothing. He said, "We are dumfounded why insurance companies make so little effort to help their enrollees understand these things and expect us to do the explaining. We shudder to think what would happen to patients if we billed them 100 percent direct and if they had to file their own claims, and get their own preauthorizations and try to get reimbursed." He offered his belief that HB 203 proposes to strip patients of their right to assign insurance benefits to their physicians by allowing insurance companies to write checks to both the patient and the non-contracted provider, require co-signatures on those checks and not require formal assignment of benefits. Further, HB 203 makes the State of Alaska complicit in misleading patients to think that a formal contractual relationship exists between their insurance company and their non-contracted providers when one does not exist. He offered his belief that this will further confuse patients.

MR. WATSON said, "As referenced earlier by Mr. Sorrin, several months ago federal Blue Cross stripped patients of their right to assign benefits to their non-contracted providers." All reimbursement checks are now sent directly to the patient and not the provider as HB 203 proposes. Many of those patients still don't understand why they are receiving those checks. Many hold them not knowing what to do. Some patients misplace the checks while others sense a windfall and cash the checks and spend the money. When the bill arrives the patient no longer has the funds to pay their physician. As a consequence of this, non-contracted providers were forced to require up to 50 percent advance deposits from those patients. He expressed concern that with HB 203, many more patients will not have means to afford such deposits and their care will be delayed. He related that OPA has other concerns with HB 203. For example, if the insurance company overpays he asked whether the patient will be required to cosign the reimbursement check in the same way they did with the initial payment. If the insurance underpays, will

the patient need to become involved to "make it right." He asked for the reason that it is important to preserve patient rights, to assign benefits to hospitals, but not their physician or a surgery center. He offered his belief that HB 203 drives another wedge between patients and their non-contracted providers. It further increases patient confusion, draws patients into administrative role they clearly don't want, understand, or are prepared to take. Finally, it imposes a financial risk on patients that could delay their care and increase their debt. He thanked members for listening.

[3:59:03 PM](#)

CHAIR OLSON removed his objection. There being no further objection, Version C was before the committee.

[HB 203 was held over.]

[3:59:37 PM](#)

The committee took a brief at-ease.

#### **HB 282-LANDLORD AND TENANT ACT**

[4:00:54 PM](#)

CHAIR OLSON announced that the next order of business would be HOUSE BILL NO. 282, "An Act relating to the rights and obligations of residential landlords and tenants; and relating to the taking of a permanent fund dividend for rent and damages owed to a residential landlord."

CHAIR OLSON removed his objection. [Version O was before the committee.]

[4:01:24 PM](#)

BRENDA HEWITT, Staff, Representative Doug Isaacson, Alaska State Legislature, stated that this bill would provide landlords and tenants a mutual basis for the condition of the property and should alleviate some of the load on the legal system. The bill would add protections for domestic violence victims, allow landlords to require an additional pet deposit, changes methods of returning damage deposits, and differentiates between service and comfort animals. She highlighted that the sponsor worked with Alaska Network on Domestic Violence & Sexual Assault (ANDVSA) on an amendment. She indicated that landlords who fall

under federal regulations must follow federal law. She noted that a wonderful booklet has been published to assist landlords and tenants and she anticipated that it will incorporate HB 282 changes to the landlord tenant law. In response to a question, she said Version 0 contains one amendment.

[4:04:50 PM](#)

REPRESENTATIVE SADDLER made a motion to adopt an Amendment 1, labeled 28-LS0930\0.1, Bullock, 2/28/14, which read, as follows:

Page 12, line 28, following "housing":

Insert ";

**(9) occupancy by an individual who is a victim of trauma from a sexual assault or domestic violence and who is receiving housing assistance from a victim counselling center; in this paragraph, "victim counselling center" has the meaning given in AS 18.66.250"**

REPRESENTATIVE OLSON objected for the purpose of discussion.

[4:05:05 PM](#)

MS. HEWITT stated that the [Alaska Network on] Domestic Violence & Sexual Assault (ANDVSA) asked that the language be added. She read Amendment 1. She explained that if a man and his children are victims of domestic violence and need housing they can't be housed at the [women's] shelter, but are placed in housing paid for by the ANDVSA. In those instances the assistance will fall under transient housing.

REPRESENTATIVE JOSEPHSON anticipated that these victims would be released from their tenant contract.

[4:06:11 PM](#)

CHAIR OLSON removed his objection. There being no further objection, Amendment 1 was adopted.

[4:06:32 PM](#)

PAMELA COOK, Property Manager, MB Management, stated that she is a licensed realtor, but works as a property manager. She stated that she supports the changes to HB 282. She related that she specifically supports changing the security deposit return date from 14 days to 30 days. She said that this typically spans two

weekends so the effect is 10 days - less if a holiday falls during the week. This additional time will give the property manager time to attend to any issues. For example, when the property typically is checked during the inspection, the carpets are clean and the place smells like cleaning products, which may mask smoke or pet odors that reappear in a few days. In the event that any carpets or dry wall need replacing it takes extra time. She works hard to return the deposit prior to the 14 days. She has also returned deposits to military tenants at the inspection if they are ready to deploy. Additionally, the landlord tenant act allows tenants up to 15 days to remove property. The water companies often don't read the meter to generate bills until two weeks after the tenant leaves, which means that the property manager will need to estimate the billing. She related his understanding that many other states have a 30-day deposit return requirement. She said it doesn't mean property managers will hold the check for 30 days, but it would allow them additional time to "do it the right way." She supported the pet fee increase since so many people arrive in Alaska with pets.

[4:11:12 PM](#)

MS. COOK said that requiring "professionally cleaned" carpets at the end of tenancy has been challenged by tenants. She thinks of this as being a common courtesy, but often the tenants don't have the money since they are paying for security deposits and other expenses. She said if the rentals are professionally cleaned prior to occupying the rental, the tenants should professionally clean the carpets when they leave. She offered her belief that this is covered in proposed Section 13, too. She understands normal wear and tear, but appreciated having a definition in the bill.

[4:12:20 PM](#)

MS. COOK related she had questions on occupancy. For example, a family of seven may wish to move into a one-bedroom apartment. She acknowledged occupancy is covered but says "by applicable law" and she could not find any reference in state and federal law. She would like to be able to turn these tenants away legally since seven occupants represent too many for a one-bedroom apartment.

CHAIR OLSON suggested that perhaps this is covered by the city ordinances. He recalled that the city and borough ordinances cover this in Kenai and Anchorage.

[4:13:17 PM](#)

ANTOWETTE BREWER, Property Manager and Realtor, Coldwell Banker, understood that getting out of the situation is important for victims of domestic violence. She asked whether the landlord will be provided paperwork, such as a police report if one party is staying and one is leaving.

[4:14:36 PM](#)

CHAIR OLSON said he was not sure. He suggested that she raise the issue with the sponsor.

MS. BREWER asked whether drug use was covered. She related a scenario in which a furnace repairman reported when he fixed the furnace he noticed drug paraphernalia and pipes. Tenants typically are not forthcoming about drug use and will not admit to it.

[4:16:00 PM](#)

KIRK MAYNARD, Owner and Broker, Coldwell Banker, stated he will discuss his concerns about the amendment for early termination for victims of domestic violence with the sponsor. He offered his support for the testimony by Ms. Cook and said he has the same concerns.

[4:16:47 PM](#)

RICHARD BLOCK, Manager, Mellen Investment Company, LLC, stated that Mellen Investment Company manages over 110 properties. He apologized since he recently discovered the bill, but he immediately began discussions with the sponsor's staff. He said he has reviewed Version 0. He indicated he has written a position paper which he urged members to review [letter of March 14, 2014, 5 pages]. Although the bill has many provisions worthy of consideration and adoption, a number of things raise serious questions that warrant slowing down to work out some of the "kinks." He offered to discuss 2 of 16 recommended changes. He referred to proposed Section 6 of the bill, to the inclusion of "normal wear and tear." The question becomes what is that standard that landlords expect tenants to return the apartment in at the time they vacate. He expressed concern over "normal wear and tear" since it could become a lightning rod for litigation. One person's idea of "destruction" might be viewed as "normal wear and tear." He offered his belief that should

not be the standard. Under the bill, the landlord tenant law would require a pre-tenancy condition statement signed by the landlord and the tenant. He suggested that the "pre-tenancy condition statement" becomes the standard for what the apartment should look like at the end of the tenancy and make no allowance for excuses that denting in the walls, holes in the doors, and stains in the carpet are a result of reasonable wear and tear. He said that there may be a way to fix the definition and offered to work on this but he found it to be unsatisfactory.

[4:20:19 PM](#)

MR. BLOCK turned to the second item - the issue of victims of abuse being able to unilaterally terminate a lease. He understood the problem from the victim's perspective; however, he is uncertain that it is the responsibility of the landlord. The landlord has made the space available and the parties have signed an agreement for the finance and occupancy obligations. There shouldn't be any way a tenant can unilaterally abrogate those responsibilities. He pointed out that if two people occupy a residence and are buying the residence, but one person has to leave [due to domestic violence], the departing occupant cannot write a letter to the bank to indicate he/she will no longer make payments on the note. The buyers must make payment no matter what the situation. He acknowledged there could be some harmonious mid-ground to find a way to allow an abused tenant to leave; however, it must be with provisions that maintain that tenant's legal obligation up until the termination of the tenancy, including returning the property in its previous condition. He stated while some landlords may have been involved in the process that he did not see any indication that the bill takes into consideration those with a financial investment in the real estate. He would like an opportunity to participate in that process.

[4:22:44 PM](#)

CHAIR OLSON said the sponsor is shaking his head yes, and determining no one else wished to testify, closed public testimony on HB 282.

[HB 282 was held over.]

[4:23:46 PM](#)

The committee took an at-ease from 4:23 p.m. to 4:26 p.m.

**HB 230-AIDEA BONDS FOR PROCESSING FACILITIES**

[4:26:23 PM](#)

CHAIR OLSON announced that the next order of business would be HOUSE BILL NO. 230, "An Act allowing the Alaska Industrial Development and Export Authority to issue bonds for an oil or gas processing facility; and creating the oil and gas infrastructure fund to finance construction or improvement of an oil or gas processing facility."

REPRESENTATIVE PAUL SEATON, Alaska State Legislature, offered to provide a brief refresher on HB 230. He stated that the purpose of the bill is to increase the throughput in Trans-Alaska Pipeline System (TAPS). He noted water constraints on some of the processing facilities on the North Slope and difficulties accessing others mean some small producers the ability to put oil in TAPS. This bill provides a means to finance processing facilities on the North Slope to increase the flow through TAPS.

[4:28:07 PM](#)

REPRESENTATIVE SADDLER made a motion to adopt Amendment 1, [labeled 28-LS1053\U.1, Nauman, 2/24/14], which read

Page 4, line 23:  
Delete "loan"

CHAIR OLSON objected for the purpose of discussion.

[4:28:18 PM](#)

REPRESENTATIVE SEATON explained this will delete the word "loan" that was inadvertently put into the Alaska Industrial Development and Export Authority (AIDEA) revolving fund. It is not a loan fund.

CHAIR OLSON removed objection. There being no further objection, Amendment 1 was adopted.

[4:28:50 PM](#)

REPRESENTATIVE SADDLER made a motion to adopt Amendment 2, [labeled 28-LS1053\U.2, Nauman, 2/24/14], which read:

Page 5, line 2:  
Delete "(1)"

Page 5, line 3:  
Delete ";"  
Insert "."

Page 5, lines 4 - 8:

Delete all material and insert:

"\* **Sec. 6.** AS 44.88.900 is amended by adding a new paragraph to read:

(18) "oil or gas processing facility" means a project that is a facility that separates and cleans crude oil or natural gas by separating impurities to make the product suitable for transport through a pipeline or a facility that chemically converts natural gas to a liquid form; "oil or gas processing facility" does not include a facility that uses phase conversion of natural gas to liquid form."

Renumber the following bill section accordingly.

CHAIR OLSON objected for the purpose of discussion.

[4:29:03 PM](#)

REPRESENTATIVE SEATON explained this amendment moves the definition of "Oil and Gas Processing Facility" from this section statute to AIDEA's general statute. This change is technical and does not change the definition.

CHAIR OLSON removed his objection. There being no further objection, Amendment 2 was adopted.

[4:29:37 PM](#)

REPRESENTATIVE SADDLER made a motion to adopt Amendment 3, [labeled 28-LS1053\U.4, Nauman, 2/24/14], which read as follows:

Page 2, line 16, through page 3, line 12:

Delete all material and insert:

"\* **Sec. 2.** AS 43.20.049(e)(3) is amended to read:

(3) "qualified oil and gas service industry expenditure"

(A) means an expenditure directly attributable to an in-state manufacture or in-state modification of tangible personal property used in the exploration for, development of, or production of oil or gas deposits;

(B) means an expenditure for the construction or improvement of an oil or gas processing facility, flow lines, or other infrastructure of the facility north of 68 degrees North latitude;

(C) [, BUT] does not include components or equipment used for or in the process of that manufacturing or modification.

\* **Sec. 3.** AS 43.20.049(e) is amended by adding a new paragraph to read:

(4) "oil or gas processing facility" has the meaning given in AS 44.88.168."

Renumber the following bill sections accordingly.

CHAIR OLSON objected for the purpose of discussion.

[4:29:57 PM](#)

REPRESENTATIVE SEATON explained that Amendment 4 deletes the repetition of the tax credit language and refers to the tax provisions in SB 21 and keeps the provisions the same.

[4:30:12 PM](#)

REPRESENTATIVE JOSEPHSON asked for explanation of Amendment 3, which is "U.4." He asked for clarification of subparagraph (B) in terms of its direct economic benefits to Alaskans.

REPRESENTATIVE SEATON responded that this envisions that the components for a facility being constructed on the North Slope might be manufactured outside the state and those components would not qualify for tax credit. He clarified that if the module was made in Alaska, it would qualify for tax credits, but if it is made outside the state it would not qualify for the tax credits. He characterized the construction process as being a combination resulting in a completed processing facility.

[4:31:35 PM](#)

REPRESENTATIVE JOSEPHSON expressed concern that litigation might arise from the suggestion that the tax credits should apply. He wondered whether the tax credits are "tight enough" to reflect the sponsor's intent. He asked whether he had any concern.

REPRESENTATIVE SEATON answered no. It seems to be well understood that the goal is building a processing facility. He

highlighted that subparagraph (A) relates to tangible personal property and wouldn't relate to the structure. Thus, it would be necessary to segregate out parts of the processing facility. He related that this doesn't relate to intangible property but subparagraph (B) does include the entire processing facility; however, it is limited to expenditures made in Alaska.

[4:33:32 PM](#)

REPRESENTATIVE JOSEPHSON, with respect to Amendment [3], said that the existing statute, listed in subparagraph (A), relates to in-state manufacture or in-state modification of tangible personal property; however, subparagraph (B), does not do so. He said he likes this bill, but is curious about that aspect.

TED LEONARD, Executive Director, Alaska Industrial Development & Export Authority (AIDEA), Department of Commerce, Community, & Economic Development (DCCED) related that this issue was previously discussed, although AIDEA can't answer questions on the tax credit itself. He recalled that the Department of Revenue (DOR) previously testified. He clarified that this statute is not under Alaska Industrial Development and Export Authority (AIDEA).

[4:34:57 PM](#)

REPRESENTATIVE SEATON recalled that this was discussed with the Legislative Legal and Research attorney. He stated that this language was already adopted in SB 21 and is merely inserted in this section of statute.

[4:35:55 PM](#)

The committee took an at-ease from 4:35 p.m. to 4:43 p.m.

[4:43:50 PM](#)

REPRESENTATIVE JOSEPHSON referred to Amendment [3], which includes language for the definition of a qualified oil and gas service industry expenditure. He asked when an audit or accounting is completed whether it would be deemed legally significant that [subparagraph] (A) refers to in-state manufacturers and modification and [subparagraph] (B) doesn't.

[4:44:35 PM](#)

EMILY NAUMAN, Legislative Legal Counsel, Legislative Legal and Research Services, stated that she was unsure from an auditing perspective; however, she agreed that it is true [subparagraph] (A) requires the taxable or tax credit event to occur in the state whereas the new language in [subparagraph] (B) does not require the activity to occur in state. She deferred to the DOR to answer any questions on auditing.

REPRESENTATIVE SEATON pointed out that this refers to facilities north of 68 degrees North latitude. He suggested that it could specify Alaska, if necessary.

[4:45:39 PM](#)

REPRESENTATIVE SADDLER referred to page 2, line 2 [of Version U] to a reference to the "pipeline." He asked whether it is necessary to specify the TransAlaska Pipeline System on page 2 and again on page 4 to similar references.

MS. NAUMAN noted this is legislative intent language so it is not legally binding; therefore, it might not need to be as specific but it could be clarified.

REPRESENTATIVE SADDLER stated that the sponsor said it was acceptable.

[4:46:51 PM](#)

REPRESENTATIVE SADDLER made a motion to adopt Conceptual Amendment 1 on page 2, line 2, to change pipeline to "Trans-Alaska Oil Pipeline" and any other place in the bill that it is necessary to clarify the pipeline to the Trans-Alaska Oil Pipeline.

REPRESENTATIVE SADDLER withdrew his amendment since procedurally an amendment was already on the table.

[4:47:31 PM](#)

CHAIR OLSON withdrew his objection to Amendment 3.

There being no further objection, Amendment 3 was adopted.

REPRESENTATIVE SADDLER made a motion to adopt Conceptual Amendment 1, on page 2, line 2, remove the word "pipeline" and insert "Trans-Alaska Oil Pipeline" and again on page 2, line 4,

and any place else in the bill where it is necessary to make that clarification.

There being no objection, Conceptual Amendment 1 was adopted.

[4:48:39 PM](#)

REPRESENTATIVE SADDLER made a motion to adopt Amendment 4, labeled 28-LS1053\ U.5, Nauman, 3/11/14, which read as follows:

Page 5, lines 14 - 16:

Delete "The processing facility, flow lines, and other surface infrastructure for the facility shall be used to secure bonds issued under this section."

Page 5, line 17, following "exceed":

Insert "the sum of"

Page 5, line 18:

Delete "may include"

Delete "other"

Insert "the"

Page 5, lines 19 - 22:

Delete "Notwithstanding AS 44.88.140, an oil or gas processing facility, flow lines, and other surface infrastructure for the facility constructed or financed by the oil and gas infrastructure fund (AS 44.88.168) are subject to taxes and special assessments of the state or a political subdivision of the state."

Page 5, following line 22:

Insert new subsections to read:

"(b) The bonds authorized in this section may be

(1) issued as either bonds that are a general obligation of the authority or as revenue bonds payable exclusively from the income and other money derived from the oil and gas processing facility, as the authority considers appropriate;

(2) used to provide financing under another program of the authority.

(c) Notwithstanding AS 44.88.140 and AS 29.45.030(a), an oil or gas processing facility, flow lines, and other surface infrastructure for the facility constructed or financed by the oil and gas infrastructure fund (AS 44.88.168) are subject to

taxes and special assessments of the state or a political subdivision of the state."

Reletter the following subsections accordingly.

Page 5, line 23, following "AS 44.88.095(g).":

Insert "The bonds authorized in this section may not be considered in calculating the authority's 12-month bonding limitation under AS 44.88.095(a)."

Page 5, lines 24 - 27:

Delete all material.

[4:49:15 PM](#)

CHAIR OLSON objected for the purpose of discussion.

REPRESENTATIVE SEATON stated that AIDEA recommended the language in Amendment [4]. He explained that AIDEA was concerned that it might limit revenue bonds; and depending upon the rates, it's important to have the flexibility to issue revenue and general obligation bonds as their normal process and AIDEA would use the most financially beneficial bonding for the project.

[4:49:59 PM](#)

REPRESENTATIVE JOSEPHSON, with respect to Amendment [4], asked about the first deletion. He related his understanding that under existing law facilities could be used to secure bonds, but now they cannot be used.

REPRESENTATIVE SEATON answered that is not intent of Amendment 4. He suggested the Legislative Legal and Research attorney could further explain. He reiterated that the intention is to insert suggested language from AIDEA to allow either type of bonds to be used.

MS. NAUMAN responded that omitting the language does not mean that the processing facility flow lines or other infrastructure for the facility can't be used to secure bonds. Instead, this section is silent and leaves the option open.

[4:51:28 PM](#)

REPRESENTATIVE JOSEPHSON assumed the idea is to give AODEA more flexibility on financing.

MS. NAUMAN answered that is her best guess about the purpose.

[4:51:56 PM](#)

REPRESENTATIVE SEATON referred to a letter from Ted Leonard, executive director of AIDEA stating what he believed Representative Josephson just said.

[4:52:18 PM](#)

MR. LEONARD responded that the deletion is to assure that AIDEA has the flexibility to use either GO bond or revenue bond. He indicated that AIDEA's financial advisors indicate that rating agencies and the parties buying the bonds would assume it referred to a revenue bond based on the current language. Thus, Amendment 1 deletes the language and inserts the new subsection that indicates that AIDEA could fund this based on the revenues and project. He referred to page 2, line 19 of Version U, to a general description. He reiterated that the bonds issued could be either GO bonds of the authority or a revenue bond.

CHAIR OLSON removed his objection. There being no further objection, Amendment 4 was adopted.

[4:54:58 PM](#)

REPRESENTATIVE JOSEPHSON asked if the goal is to give credit on corporate taxes but not production taxes, up to \$10 million.

REPRESENTATIVE SEATON answered yes. He explained that Amendment 4 would give a 10 percent credit to stimulate in-state work and faster "flow" into the Trans-Alaska Pipeline System (TAPS).

[4:55:33 PM](#)

REPRESENTATIVE JOSEPHSON asked whether the purpose of the bill is to aid independent [producers] more than others.

REPRESENTATIVE SEATON answered that HB 230 is not a subsidy, but the purpose is to incentivize a more rapid build out of processing facilities to allow additional oil into TAPS. He offered his belief that it may affect one project or more. He related that he was aware of one smaller independent [producer] that this could aid; however, there are other independent [producers] and major producers that may have some use, as well. The legislature has already adopted the in-state manufacture

credit. This ensures that it is applicable to processing facilities to promote production to TAPS.

[4:56:57 PM](#)

REPRESENTATIVE CHENAULT expressed concern about tax credit. He asked what else the bill will do, for example, does it eliminate AIDEA's capacity for bonding.

REPRESENTATIVE SEATON answered no. He explained that AIDEA has a \$400 million general cap on bonds. This bill would establish a separate \$200 million for oil and gas processing facilities in addition to the \$400 million.

[4:57:42 PM](#)

REPRESENTATIVE CHENAULT asked whether AIDEA's bond capacity is limited to \$600 million or if it removes the limit for bonding capacity for the processing facilities.

REPRESENTATIVE SEATON answered that it does not remove the limit. It would give [AIDEA] a \$200 million [bonding capacity] for oil and gas processing facilities. He explained that AIDEA could not take the \$200 million and invest in some other kind of project other than oil and gas processing facilities. He acknowledged that it is someone limited in that respect, such that it does not increase their general bonding limit; however, removing the \$200 million from their bonding authority would "squeeze" many other projects around the state.

[4:58:40 PM](#)

CHAIR OLSON, after first determining no one else wished to testify, closed public testimony on HB 230.

[HB 230 was held over.]

[4:59:26 PM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 4:59 p.m.