

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

April 11, 2014

3:21 p.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

Representative Charisse Millett
Representative Craig Johnson

COMMITTEE CALENDAR

HOUSE BILL NO. 346

"An Act relating to corporations, including public benefit corporations; and providing for an effective date."

- MOVED CSHB 346(L&C) OUT OF COMMITTEE

COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 129(FIN)

"An Act extending the termination date of the Board of Certified Real Estate Appraisers; relating to real estate appraisers; and providing for an effective date."

- MOVED CSSB 129(FIN) OUT OF COMMITTEE

SENATE BILL NO. 159

"An Act relating to air ambulance service providers, air ambulance membership agreements, and regulation of air ambulance service providers and air ambulance membership agreements by the division of insurance; and providing for an effective date."

- MOVED HCS SB 159(L&C) OUT OF COMMITTEE

SENATE BILL NO. 145

"An Act relating to the Teachers' Retirement System, the Judicial Retirement System, and the Public Employees' Retirement System for qualified military service; relating to the definition of 'veteran' for purposes of housing, eligibility for

veterans' loans, and preferences in state employment hiring; and providing for an effective date."

- MOVED SB 145 OUT OF COMMITTEE

SENATE BILL NO. 58

"An Act allowing an insurer to cancel an insurance policy if property becomes entirely abandoned and the abandonment increases the hazard insured against."

- MOVED SB 58 OUT OF COMMITTEE

COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 138(FIN) AM

"An Act relating to the purposes, powers, and duties of the Alaska Gasline Development Corporation; relating to an in-state natural gas pipeline, an Alaska liquefied natural gas project, and associated funds; requiring state agencies and other entities to expedite reviews and actions related to natural gas pipelines and projects; relating to the authorities and duties of the commissioner of natural resources relating to a North Slope natural gas project, oil and gas and gas only leases, and royalty gas and other gas received by the state including gas received as payment for the production tax on gas; relating to the tax on oil and gas production, on oil production, and on gas production; relating to the duties of the commissioner of revenue relating to a North Slope natural gas project and gas received as payment for tax; relating to confidential information and public record status of information provided to or in the custody of the Department of Natural Resources and the Department of Revenue; relating to apportionment factors of the Alaska Net Income Tax Act; amending the definition of gross value at the 'point of production' for gas for purposes of the oil and gas production tax; clarifying that the exploration incentive credit, the oil or gas producer education credit, and the film production tax credit may not be taken against the gas production tax paid in gas; relating to the oil or gas producer education credit; requesting the governor to establish an interim advisory board to advise the governor on municipal involvement in a North Slope natural gas project; relating to the development of a plan by the Alaska Energy Authority for developing infrastructure to deliver affordable energy to areas of the state that will not have direct access to a North Slope natural gas pipeline and a recommendation of a funding source for energy infrastructure development; establishing the Alaska affordable energy fund; requiring the commissioner of revenue to develop a plan and suggest legislation for municipalities, regional corporations, and residents of the state to acquire

ownership interests in a North Slope natural gas pipeline project; making conforming amendments; and providing for an effective date."

- BILL HEARING CANCELED

PREVIOUS COMMITTEE ACTION

BILL: HB 346

SHORT TITLE: PUBLIC BENEFIT CORPORATION

SPONSOR(S): REPRESENTATIVE(S) SEATON

02/26/14 (H) READ THE FIRST TIME - REFERRALS
02/26/14 (H) L&C
04/11/14 (H) L&C AT 3:15 PM BARNES 124

BILL: SB 129

SHORT TITLE: REAL ESTATE APPRAISERS

SPONSOR(S): RULES BY REQUEST OF LEG BUDGET & AUDIT

01/22/14 (S) READ THE FIRST TIME - REFERRALS
01/22/14 (S) L&C
02/13/14 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)
02/13/14 (S) Heard & Held
02/13/14 (S) MINUTE(L&C)
02/20/14 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)
02/20/14 (S) Moved SB 129 Out of Committee
02/20/14 (S) MINUTE(L&C)
02/21/14 (S) L&C RPT 3DP
02/21/14 (S) DP: DUNLEAVY, STEDMAN, MICCICHE
02/21/14 (S) FIN REFERRAL ADDED AFTER L&C
03/05/14 (S) FIN AT 5:00 PM SENATE FINANCE 532
03/05/14 (S) Moved CSSB 129(FIN) Out of Committee
03/05/14 (S) MINUTE(FIN)
03/07/14 (S) FIN RPT CS 4DP 1NR NEW TITLE
03/07/14 (S) DP: MEYER, KELLY, DUNLEAVY, BISHOP
03/07/14 (S) NR: OLSON
03/14/14 (S) TRANSMITTED TO (H)
03/14/14 (S) VERSION: CSSB 129(FIN)
03/17/14 (H) READ THE FIRST TIME - REFERRALS
03/17/14 (H) L&C, FIN
04/11/14 (H) L&C AT 3:15 PM BARNES 124

BILL: SB 159

SHORT TITLE: AIR AMBULANCE SERVICES

SPONSOR(S): STEDMAN

02/05/14 (S) READ THE FIRST TIME - REFERRALS
 02/05/14 (S) L&C
 02/18/14 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)
 02/18/14 (S) Heard & Held
 02/18/14 (S) MINUTE(L&C)
 02/20/14 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)
 02/20/14 (S) Moved SB 159 Out of Committee
 02/20/14 (S) MINUTE(L&C)
 02/21/14 (S) L&C RPT 3DP
 02/21/14 (S) DP: DUNLEAVY, MICCICHE, STEDMAN
 02/28/14 (S) TRANSMITTED TO (H)
 02/28/14 (S) VERSION: SB 159
 03/03/14 (H) READ THE FIRST TIME - REFERRALS
 03/03/14 (H) L&C
 03/17/14 (H) L&C AT 3:15 PM BARNES 124
 03/17/14 (H) Heard & Held
 03/17/14 (H) MINUTE(L&C)
 04/11/14 (H) L&C AT 3:15 PM BARNES 124

BILL: SB 145

SHORT TITLE: VETS' RETIREMENT/LOANS/HOUSING/EMPLOYMENT
 SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

01/29/14 (S) READ THE FIRST TIME - REFERRALS
 01/29/14 (S) STA
 02/13/14 (S) STA AT 9:00 AM BUTROVICH 205
 02/13/14 (S) Heard & Held
 02/13/14 (S) MINUTE(STA)
 02/20/14 (S) STA AT 9:00 AM BUTROVICH 205
 02/20/14 (S) Moved SB 145 Out of Committee
 02/20/14 (S) MINUTE(STA)
 02/21/14 (S) STA RPT 3DP 1AM
 02/21/14 (S) DP: DYSON, COGHILL, GIESSEL
 02/21/14 (S) AM: WIELECHOWSKI
 03/10/14 (S) TRANSMITTED TO (H)
 03/10/14 (S) VERSION: SB 145
 03/12/14 (H) READ THE FIRST TIME - REFERRALS
 03/12/14 (H) L&C
 04/11/14 (H) L&C AT 3:15 PM BARNES 124

BILL: SB 58

SHORT TITLE: CANCEL INS. ON CERTAIN ABANDONED PROPERTY
 SPONSOR(s): EGAN

02/15/13 (S) READ THE FIRST TIME - REFERRALS
 02/15/13 (S) L&C
 04/04/13 (S) L&C AT 5:00 PM BELTZ 105 (TSBldg)

04/04/13	(S)	Heard & Held
04/04/13	(S)	MINUTE(L&C)
02/04/14	(S)	L&C AT 1:30 PM BELTZ 105 (TSBldg)
02/04/14	(S)	Heard & Held
02/04/14	(S)	MINUTE(L&C)
02/06/14	(S)	L&C AT 1:30 PM BELTZ 105 (TSBldg)
02/06/14	(S)	Moved SB 58 Out of Committee
02/06/14	(S)	MINUTE(L&C)
02/07/14	(S)	L&C RPT 3DP 1NR
02/07/14	(S)	DP: DUNLEAVY, STEDMAN, MICCICHE
02/07/14	(S)	NR: OLSON
02/19/14	(S)	TRANSMITTED TO (H)
02/19/14	(S)	VERSION: SB 58
02/21/14	(H)	READ THE FIRST TIME - REFERRALS
02/21/14	(H)	L&C
04/11/14	(H)	L&C AT 3:15 PM BARNES 124

WITNESS REGISTER

REPRESENTATIVE PAUL SEATON
 Alaska State Legislature
 Juneau, Alaska

POSITION STATEMENT: Testified as prime sponsor of HB 346.

TANEEKA HANSEN, Staff
 Representative Paul Seaton
 Alaska State Legislature
 Juneau, Alaska

POSITION STATEMENT: Testified during the discussion of HB 346.

GORDON BLUE, Executive Director
 Alaska Sustainable Fisheries Trust (ASFT)
 Sitka, Alaska

POSITION STATEMENT: Testified in support of HB 346.

ERIK TROJIAN, Director of Policy
 B-Lab Benefit Corporation
 New York, New York

POSITION STATEMENT: Testified during the discussion of HB 346.

NATALIE TEAL, Staff
 Senator Anna Fairclough
 Alaska State Legislature
 Juneau, Alaska

POSITION STATEMENT: Testified on behalf of the sponsor of SB 129, the LB&A Committee, Chair, Senator Fairclough.

KRIS CURTIS, Legislative Auditor
Legislative Audit Division
Legislative Agencies and Offices
Juneau, Alaska

POSITION STATEMENT: Testified and answered questions on SB 129.

CHRISTIE JAMIESON, Staff
Senator Bert Stedman
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Testified on behalf of the prime sponsor of SB 159, Senator Bert Stedman.

KONRAD JACKSON, Staff
Representative Kurt Olson
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Explained Amendment 1 for SB 159, on behalf of the House Labor and Commerce Standing Committee, Kurt Olson, Chair.

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

POSITION STATEMENT: Answered questions on SB 159.

CURTIS THAYER, Commissioner
Department of Administration (DOA)
Juneau, Alaska

POSITION STATEMENT: Testified during the discussion of SB 145.

ALIDA BUS, Staff
Senator Dennis Egan
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Testified on behalf of the prime sponsor of SB 58, Senator Dennis Egan.

SHELDON WINTERS, Lobbyist; Legal Counsel
State Farm Insurance
Juneau, Alaska

POSITION STATEMENT: Testified during the discussion of SB 58.

ACTION NARRATIVE

[3:21:20 PM](#)

CHAIR KURT OLSON called the House Labor and Commerce Standing Committee meeting to order at 3:21 p.m. Representatives Herron, Josephson, Reinbold and Olson were present at the call to order. Representatives Saddler and Chenault arrived as the meeting was in progress.

HB 346-PUBLIC BENEFIT CORPORATION

[3:21:33 PM](#)

CHAIR OLSON announced that the first order of business would be HOUSE BILL NO. 346, "An Act relating to corporations, including public benefit corporations; and providing for an effective date."

[3:22:21 PM](#)

REPRESENTATIVE REINBOLD moved to adopt the proposed committee substitute (CS) for HB 346, labeled 28-LS1433\0, Bannister, 3/19/14, as the working document.

CHAIR OLSON objected for the purpose of discussion.

[3:22:32 PM](#)

REPRESENTATIVE PAUL SEATON, Alaska State Legislature, stated that HB 346 expands the options for Alaskan entrepreneurs and investors by placing a new type of corporate entity, the benefit corporations also known as B-Corps, in Alaska statute. The existing corporate structures in Alaska, the C-corporations, provide numerous benefits and jobs; however, the benefit corporation is a for-profit corporation which incorporates public benefits and community improvement into its business practices, no matter the principal service or product provided.

REPRESENTATIVE SEATON stated that current corporate law generally requires a corporation to consider the financial impact to their shareholders as the top priority when making decisions. He summarized the ruling in a Michigan court decision, *Dodge v. Ford Motor Co.*, 170 N.W. 668 (Mich. 1919), as indicating that a business corporation is organized and carried on primarily for the profit of the stockholders. The powers of the directors are to be employed to that end. The discretion of directors is exercised in the choice of the means to attain that end and does not extend to change in the end itself, to the

reduction of profits, or to the non-distribution of profits among stockholders in order to devote them to other purposes.

REPRESENTATIVE SEATON explained that the goal of C-corporations is exclusively to make money for shareholders. While there is nothing wrong with that goal an instance may arise in which a corporation chooses to have other goals. Thus these corporations may be legally liable to shareholder lawsuits since the community involvement must have some nexus to corporate profit. Under the benefit corporate structure, owners and boards have the freedom to take actions which positively impact their communities without fear of violating a fiduciary duty.

[3:26:59 PM](#)

REPRESENTATIVE SEATON explained HB 346 will give these corporations more flexibility in deciding how to run the businesses and will bring Alaska a slice of the \$3.7 trillion invested nationwide in socially-responsible funds. Benefit corporations are formed voluntarily and have the same tax status of any other for-profit corporation. Thus the corporation wouldn't gain any tax advantage in electing a "B-Corp" status. The benefit corporations can participate in tax credits but only to the extent that other corporations can elect to do so.

REPRESENTATIVE SEATON reported that 23 other states have passed benefit corporation legislation with West Virginia, Utah, and Nebraska just this year. He acknowledged this bill is not based on model legislation, but he did pull information from several other states since similarity in statutes make it easier for investors to attract investment in Alaska. Over 550 benefit corporations have incorporated in the U.S., including Ben & Jerry's, Patagonia, Rasmussen College, Epic Coffee, and King Arthur Flour Company - America's oldest flour company. Each of these companies works to benefit the public and their communities in the way that matters most to them.

REPRESENTATIVE SEATON related that HB 346 also includes measures to ensure accountability and transparency so a benefit corporation will additionally create and publish an annual benefit report describing how the company has pursued the general public benefit. This report allows shareholders, investors, and the public to confidently invest in benefit corporations that share their values. He summarized that the goal of HB 346 is to give businesses more flexibility and control over their decisions and to provide private investors with a clear social investment option.

3:27:50 PM

REPRESENTATIVE JOSEPHSON related he has invested in a company and the investors knew that the returns may be less than other investments. He asked whether that is how shareholders approached this and if they anticipated earning less while doing something good.

REPRESENTATIVE SEATON answered yes; the shareholders know what the specific benefit the board of directors has voted on so people investing in the B-Corps generally share the same kind of philosophy, that it isn't just about maximizing dollars, but sharing the public benefit goal, whether it is education or research or some other specified goal.

3:29:00 PM

REPRESENTATIVE JOSEPHSON asked whether any discussion of the treatment of workers in third world countries has been considered. He recalled a big debate about Old Navy, Gap, and other stores. He further recalled an explanation after a fire about why the U.S. pays so little for its clothing.

REPRESENTATIVE SEATON answered that there can be, depending on what public benefit is selected by the corporation, such as whether it is more local farm jobs instead of cheaper grocery costs. That would be a benefit adopted in a particular corporation and people could invest in that corporation since they want to promote local foods and jobs although it would be cheaper to buy and have them shipped in. It's more difficult in a typical "C corporation" structure since it is not a fiduciary choice and the board of director's goal is to maximize profits. The "B Corp" structure allows those types of benefits to be selected as one of the criteria being use.

3:31:07 PM

TANEEKA HANSEN, Staff, Representative Paul Seaton, Alaska State Legislature, added that there are two parts to the benefit corporations, the general public benefit purpose and the specific purpose. She referred to page 4 of HB 346, which lists the things the board of directors must consider, one of which is the community and societal factors including the interests of each community in which the offices or facilities of the benefit corporations, subsidiaries, or suppliers are located. She said that the specifics mentioned are considered by the benefit

corporations and the third party standards used for the annual report will have questions relating to the purposes.

3:32:12 PM

REPRESENTATIVE SADDLER asked whether the benefit corporation structure is aimed at existing corporations or if new corporations would take this form.

REPRESENTATIVE SEATON said that it could be either. He noted a number of businesses exist that may want to do something locally but don't want to violate their primary duty of maximizing shareholder profits. This would allow the corporation, by a two-thirds vote, to become a benefit corporation and establish specific benefits, which is publicized. People can invest based on that but it also allows the flexibility for new corporations as well, including small tour companies that hire locals that give flavor to the ethnic tours.

3:33:32 PM

REPRESENTATIVE SADDLER asked whether this is primarily focused at publically traded companies. He asked how many businesses in Alaska are publically traded. He further asked if this is related to smaller corporations, as well.

REPRESENTATIVE SEATON answered that it could be smaller corporations and the Division of Corporations, Business & Professional Licensing could address the number of corporations.

CHAIR OLSON removed his objection. [Version 0 was before the committee as the working document].

3:34:33 PM

GORDON BLUE, Executive Director, Alaska Sustainable Fisheries Trust (ASFT), testified in support of HB 346. He explained that the ASFT's mission is to increase the retention of benefits of the fisheries in the Gulf of Alaska community. He reported three projects. First, this project is modeled on community-supported agriculture called Alaskan Zone. It is a community-supported fishery project in which local fishermen and processors produce product subsequently sold to local consumers. He explained that it is primarily an educational venture, but it also produces small net proceeds shared back to a second project, which is a community fisheries conservation network. The network is a collaboration of scientists and fishermen who

work to solve some of the fishery problems, including reduction of unwanted bycatch. Third, the ASFT is working to launch another project: the Local Fish Fund. The Local Fish Fund was designed to try to increase the retention of the fishery quota in the halibut/sablefish fisheries in the Gulf of Alaska communities. There have been several attempts in financing mechanisms and this is a further articulation on that to try to bring some success to it since quota is being lost to the outside. He related the essence is that the aforementioned fund will provide a vehicle for fishermen who are about to retire from the fishery to make an inter-generational transfer of quota to a new fisherman who has made a commitment to stay in the community. This process is complicated by the halibut/sablefish regulations so the ASFT has worked with attorneys to construct an arrangement to accomplish this. The ASFT has created a subsidiary of a nonprofit, Local Fish LLC. The LLC's agreement allows the ASFT to balance the interest of participants, which include fisherman about to retire who would like to sign their quota over on a time contract and those fishermen who would like to purchase the quota. It would provide financing to pay the taxes generated by that transaction.

[3:37:54 PM](#)

MR. BLUE related that the agreement works legally, but it is very complicated; however, over time if it increases the size of business it will provide improvements to the social benefits. He explained that it has become difficult to administer the LLC membership interests and to describe accurately and identify the specific interests. Thus the benefits corporation would suit the ASFT admirably and would allow the organization to use the corporate stock structure to keep a clear statement of the interests of the participants that is easy to transfer and understand, yet would allow them to continue the public benefits. He referred to the addendum in the final part of the bill. The savings would benefit the corporation and the entire community. He expressed strong support for HB 346.

[3:39:31 PM](#)

ERIK TROJIAN, Director of Policy, B-Lab Benefit Corporation, lauded the sponsor's description of the benefit corporations. He stated that 23 states have passed bills in the past few years, and currently 550 benefit corporations have been formed. The key thing to consider is that the purpose of a benefit corporation is to deregulate the purpose of a corporation. He reiterated Representative Seaton's comparison between a "C

corporation" and a benefit corporation or "B Corporation." He explained that if a corporation can only do one thing it inhibits the free market from truly acting as a free market. Opening this up will allow entrepreneurs to discover new and innovative ways of running a company. This can lead to new ways of thinking about how a company is run. He referred to Mr. Blue's testimony, with respect to the LLCs, who raised a good point. An LLC is based on contract law, which is not a good vessel for multiple shareholders. If a corporation chooses to go public - although none of the B corps are - and has a social mission the corporation must deviate from that mission to bring in investors or growth will become stagnant. There are \$3.7 trillion of social impact investment funds in the marketplace that is being targeted towards companies like this. He offered his belief that by opening this up it sets the stage for investors and entrepreneurs to operate. Not only is it a great way to protect directors, but it is a great vehicle to protect shareholders. He related a scenario in which an individual would invest in a company that has a social mission, but the corporation can deviate from the mission since there isn't a legally binding document. In fact, the purpose of the corporation is to maximize profit, as previously stated, except that his understanding was that the company would do something else. This bill would fill that gap. He pointed out one other key element is that this bill stays fairly consistent with the model legislation, with each state having its particular nuances; however, the general concept is very consistent so it will attract investors.

[3:43:42 PM](#)

MR. TROJIAN related that lastly the younger generation, and 80 percent of college graduates want to work for companies with a mission that provides a means to be connected to society and not just having a job. He offered his belief this is another way to keep the younger population in the state by expanding opportunities for them to come up with new innovative ideas. He acknowledged that there is no tax benefit. In fact, some states such as South Carolina have seen this as a great opportunity for businesses trying to alleviate problems in our society since tax monies cannot solve all the problems so why not harness the power of the free market to try to solve problems.

MR. TROJIAN further stated that this bill does not dictate what is good for society, but it is left up to the free market. For example, it allows companies to bestow conservative or liberal values in the companies, as determined by the marketplace and

the entrepreneur. He offered his belief that if they have a good idea it will attract investors and consumers, but it is not government dictating what is good for society and this bill would provide the stage for them to operate.

[3:45:52 PM](#)

REPRESENTATIVE HERRON asked for an example of how the state would enforce these rights under the bill.

MR. TROJIAN answered that the benefits corporations would be enforced in the same manner as traditional corporations enforce its duties to maximize profits. He said it is enforced through the shareholders and not government. The same principles are taken here, which really allow a contractual agreement theatre statute that the shareholders and board can entertain, enforced through benefit enforcement proceeding in which the shareholders are the only ones with a private right of action. For example, if a corporation wanted to consider a particular aspect of the community that the people in community cannot sue them for not meeting the goal, but the shareholder can do so or could elect to add outside interests with a two-thirds vote to the private right of action; however, it would be up to the company.

[3:47:44 PM](#)

CHAIR OLSON, after first determining no one else wished to testify, closed public testimony on HB 346.

REPRESENTATIVE JOSEPHSON remarked that this is good bill. He offered his belief that the bill is well considered, plus he liked the concept of deregulating corporations. He said he hopes the committee will move today.

[3:48:27 PM](#)

REPRESENTATIVE HERRON moved to report the proposed committee substitute (CS) for HB 346, labeled 28-LS1433\0, Bannister, 3/19/14, out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSHB 346(L&C) was reported from the House Labor and Commerce Standing Committee.

The committee took an at-ease from 3:48 p.m. to 3:49 p.m.

SB 129-REAL ESTATE APPRAISERS

[3:49:59 PM](#)

CHAIR OLSON announced that the next order of business would be CS FOR SENATE BILL NO. 129(FIN), "An Act extending the termination date of the Board of Certified Real Estate Appraisers; relating to real estate appraisers; and providing for an effective date."

[3:50:08 PM](#)

NATALIE TEAL, Staff, Senator Anna Fairclough, Alaska State Legislature, explained the additional changes made to SB 129 in the Senate version before the committee, the committee substitute (CS) for SB 129 (FIN). The original version SB 129 was a sunset bill to extend the Board of Certified Real Estate Appraisers for another four years; however, the Department of Commerce, Community & Economic Development (DCCED) approached the committee with additional changes in order for the board to remain in compliance with the federal requirements laid out in the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) that amends Title 11 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

[3:51:03 PM](#)

MS. TEAL explained that Section 1 of the bill extends the board. An audit completed last June by the Division of Legislative Budget and Audit recommended that the board be extended until June 30, 2018. This four-year extension is half of the eight year maximum allowed in statute. The shortened extension period is due to the projected increase in federally mandated responsibilities over the next few years. The remaining sections are designed to bring the board into compliance with those changes.

[3:52:24 PM](#)

KRIS CURTIS, Legislative Auditor, Legislative Audit Division, Legislative Agencies and Offices, stated that the division conducted a sunset audit on the Board of Certified Real Estate Appraisers and the report is dated June 2013. The purpose of the audit was to examine whether the board was serving the public's interest and if the termination date should be extended. Overall the division concluded that the board is protecting the public's interest by effectively licensing and regulating real estate appraisers. The audit [Audit Control Number 08-20084-13] recommends the board's termination date be

extended four years of the eight year maximum, and as Ms. Teal explained, is in recognition of the increase in the board's responsibilities mandated by the federal government. She said the division felt it was prudent to come in earlier than the eight years to examine the board and its responsibilities. The audit report recommendations for operational improvements are directed not to the board but to the Division of Corporations, Business and Professional Licensing (DCBPL). One recommendation was to improve administrative support to the board including addressing investigative delays. The second recommendation was directed to the DCBPL's director to continue improvements to the investigative case management system. She related that the board and the department agreed with the recommendations.

[3:54:05 PM](#)

REPRESENTATIVE JOSEPHSON referred to the second recommendation and said his understanding is that this issue is a problem that has been seen in a number of boards and commissions.

MS. CURTIS stated that the second recommendation is to improve administrative support. She clarified that her earlier testimony pertained to improving the investigative case management, which has been a division-wide issue.

[3:55:03 PM](#)

CHAIR OLSON, after first determining no one else wished to testify, closed public testimony on SB 129.

REPRESENTATIVE JOSEPHSON assumed the [appraisers] found this acceptable. He asked whether the committee has heard anything otherwise.

CHAIR OLSON answered no.

[3:55:54 PM](#)

REPRESENTATIVE HERRON moved to report CSSB 129(FIN) out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSSB 129(FIN) was reported from the House Labor and Commerce Standing Committee.

SB 159-AIR AMBULANCE SERVICES

[3:57:49 PM](#)

CHAIR OLSON announced that the next order of business would be SENATE BILL NO. 159, "An Act relating to air ambulance service providers, air ambulance membership agreements, and regulation of air ambulance service providers and air ambulance membership agreements by the division of insurance; and providing for an effective date."

[3:58:11 PM](#)

CHRISTIE JAMIESON, Staff, Senator Bert Stedman, Alaska State Legislature, explained that passage of SB 129 would allow all life-saving air medical transport services to continue to offer membership programs to Alaskan residents. The purpose of a membership program is to cover all out-of-pocket expenses that may not be covered by a primary payer. Following an organizational restructure last year, in 2013, the Airlift Northwest membership program was discontinued by the Alaska Division of Insurance (DOI). The division deemed the membership program was no longer exempt from insurance regulations. Presently, the Airlift Northwest is allowed to honor existing memberships but cannot allow renewals to the program. This bill would exempt all air ambulance services from the state's insurance code thereby allowing continued membership programs to Alaskans. Over 3,000 Alaskan residents subscribe and benefit from the membership program. The Division of Elections said that it does not anticipate that SB 159 will result in any financial impact to the division and it has a zero fiscal note.

[3:59:35 PM](#)

REPRESENTATIVE HERRON moved to adopt Amendment 1, labeled 28-LS1359\N.1, Wallace, 3/20/14, which read as follows:

Page 2, following line 28:

Insert a new subsection to read:

"(c) Except as provided in this section, an air ambulance service provider or an air ambulance membership agreement that complies with this chapter is not otherwise subject to this title."

There being no objection, Amendment 1 was adopted.

[3:59:56 PM](#)

KONRAD JACKSON, Staff, Representative Kurt Olson, Alaska State Legislature, stated that Amendment 1 was brought forward by some

who wanted it to be clear that an air ambulance provider is not subject to Title 21.

4:01:10 PM

REPRESENTATIVE JOSEPHSON understood that one main function of the DOI is to ensure that insurance is appropriately underwritten and that the resource will be there for the insured when the time comes. He asked if any concern exists or if people can be confident "the jet will come when it is called."

MS. JAMIESON expressed her confidence that the [air ambulance service] will respond when called.

CHAIR OLSON recalled the Airlift Northwest has been in business since the late 1970s or early 1980s, so it has established a track record.

4:02:36 PM

REPRESENTATIVE JOSEPHSON asked whether there are any other "carve outs" like this that aren't subject to the insurance code. He didn't think this was a bad idea but was curious.

MARTY HESTER, Director, Division of Insurance (DOI); Anchorage Office, Department of Commerce, Community & Economic Development, said different statutes deal with different lines of insurance and have different regulations and stipulations on those different lines of insurance. This would be a particular "carve out" for the air ambulance industry. He did not think it would be an "apples to apples" comparison for a different line or type of insurance would have the same type of application.

4:03:44 PM

CHAIR OLSON, after first determining no one else wished to testify, closed public testimony on SB 159.

REPRESENTATIVE SADDLER commented that the absence of questions demonstrates that this bill was vetted in previous meetings. He felt confident [about the bill.]

4:04:02 PM

REPRESENTATIVE HERRON moved to report the CSSB 159, as amended, out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, the HCS

CSSB 159(L&C) was reported from the House Labor and Commerce Standing Committee.

[4:04:23 PM](#)

The committee took an at-ease from 4:04 p.m. to 4:06 p.m.

SB 145-VETS' RETIREMENT/LOANS/HOUSING/EMPLOYMENT

[4:06:20 PM](#)

CHAIR OLSON announced that the next order of business would be SENATE BILL NO. 145, "An Act relating to the Teachers' Retirement System, the Judicial Retirement System, and the Public Employees' Retirement System for qualified military service; relating to the definition of 'veteran' for purposes of housing, eligibility for veterans' loans, and preferences in state employment hiring; and providing for an effective date."

[4:06:31 PM](#)

CURTIS THAYER, Commissioner, Department of Administration, stated that this bill provides clean-up to statutes. First, he commented that the state has hiring preferences for veterans. However, these statutes have not been updated since the Vietnam War, so this bill would update the statutory definitions to the federal definition to recognize veterans that have served in military conflicts such as the 1991 Gulf War, Operation Iraqi Freedom, and any conflicts arising after September 11, 2001, as qualifying for the state's hiring preference. He noted that veterans who apply for state service obtain a hiring preference for having served. Additionally, the Alaska Housing Finance Corporation (AHFC) Veterans' Housing Preference definition is outdated and needs updating. These changes would bring the AHFC's statutes in alignment with the federal definition used for public housing and mortgage loans. Finally, this bill updates the provisions related to the Heroes Earnings Assistance and Relief Tax Act of 2008 (HEART Act), which is a federal law passed in 2008. Basically, this would require additional tax and health benefits for employees who are absent from state work due to duty in the uniformed military service. For example, someone who serves in the military reserve is called up to duty and subsequently killed in the line of duty would have an effective date of service coinciding with the day the person left state service. This means the family would be eligible for any vesting the military individual would have had for the period of time since they left state service through the time of

military service until his/her death. It would also allow them to collect life insurance benefits. He pointed out that this is a federal requirement and the state is currently out of compliance. He referred to an upcoming audit due in 2015, and this bill would clean up some veterans' statutes and allow the department to be compliant by 2015.

[4:09:27 PM](#)

CHAIR OLSON related two committee members are veterans and have taken advantage of programs.

REPRESENTATIVE JOSEPHSON asked for any costs to "back date" the life insurance for veterans.

COMMISSIONER THAYER answered that the department has a zero fiscal note for all three provisions. He said that the state was lucky that it did not have any state employee who was called up for duty and killed. He explained that actuaries review the past to predict the future so currently the actuary's prediction is zero. In further response to a question, he agreed the department briefed the legislature earlier in the year on this.

[4:10:59 PM](#)

CHAIR OLSON, after first determining no one else wished to testify, closed public testimony on SB 145.

REPRESENTATIVE HERRON moved to report SB 145 out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, SB 145 was reported from the House Labor and Commerce Standing Committee.

The committee took an at-ease from 4:11 p.m. to 4:13 p.m.

SB 58-CANCEL INS. ON CERTAIN ABANDONED PROPERTY

[4:13:10 PM](#)

CHAIR OLSON announced that the final order of business would be SENATE BILL NO. 58, "An Act allowing an insurer to cancel an insurance policy if property becomes entirely abandoned and the abandonment increases the hazard insured against."

[4:13:20 PM](#)

ALIDA BUS, Staff, Senator Dennis Egan, Alaska State Legislature, stated that SB 58 clarifies that insurance can be cancelled when a property owner abandons the property, and thereby increases a hazard covered by the insurance. He referred to AS 21.36.210, which lists allowable reasons for cancelling personal insurance, including a grossly negligent act by the insured that increases a covered hazard and physical changes in the insured property that result in the property becoming uninsurable. As this statute is currently written, it is not clear whether these reasons would include abandonment of the property by the insured. This is the reason the sponsor wants to clarify the entire abandonment cancellation of insurance.

MS. BUS said that homeowners insurance is underwritten based on the property generally being occupied. An abandoned home greatly increases the risk of damage beyond what was contemplated in the insurance contract, including damage caused by vandalism, broken water pipes, and fire. Cancellation of insurance when the property is abandoned is necessary to manage insurance costs for all consumers.

MS. BUS related that SB 58 clarifies that insurance on property that has been entirely abandoned can be cancelled in Alaska, as it can in all other states.

[4:14:59 PM](#)

REPRESENTATIVE JOSEPHSON asked how this statute defines abandonment.

MS. BUS answered that "entire abandonment" means the property is no longer occupied by the insured as defined by the policy and does not have contents of substantial utility. Thus, if it is a property that is owned by a "snowbird," the fact that they spend their winters south is probably reflected in the policy.

CHAIR OLSON suggested it might be listed as seasonal use.

MS. BUS agreed.

[4:15:50 PM](#)

REPRESENTATIVE HERRON wondered if it creates a conundrum if the person is paying the insurance how it could be considered abandoned.

MS. BUS clarified that the question is to identify what it means to be abandoned. She suggested that perhaps the pipes are overflowing or the property doesn't contain any moveable contents.

CHAIR OLSON further suggested that perhaps no one is watching the property.

REPRESENTATIVE HERRON pointed out that the customer is paying premiums for the insurance. He wondered if this bill would allow the insurance company to cancel the policy even if the premiums are being paid.

MS. BUS offered her belief that the situation for the property would have to be so bad that the insurance would still want to cancel it. She acknowledged that if the insurance company receives premiums it would not be in their interest to collect the premiums. Otherwise, the insurance company could just choose not to renew the policy, she said.

[4:17:38 PM](#)

SHELDON WINTERS, Lobbyist and Counsel, State Farm Insurance, explained how the bill came about. He related that insurance policies are written and the premiums are underwritten based on certain assumptions and requirements. A homeowner's policy assumes that the home will primarily be "more or less" maintained and occupied. He recognized this will differ from person to person, noting some people don't perform much maintenance and others are very attentive. However, within that wide range, homeowners are placed in the same risk pool, which provides the key to answering Representative Herron's question. As long as the risk is acceptable and the homeowner has "more or less" been occupying the property, the homeowners are in the same risk pool. Throughout the country there has not been any dispute that when property becomes abandoned, those risks become so great that they weren't contemplated in the insurance policy and the property should not be in the same risk pool that everyone participates in. For example, Ms. Bus alluded to evidence of vandalism or abandonment of a home in Fairbanks in winter, which likely means the pipes will freeze and a flood or fire results.

MR. WINTER pointed out that the problem is that the Alaska statutes are not completely clear that insurance can be canceled in those instances. He referred to page 1, which lists five

reasons for canceling insurance prior to the renewal period. He read as follows:

(4) discovery of a grossly negligent act or omission by the insured that substantially increase the hazards insured against;

(5) physical changes in the insured property that result in the property becoming uninsurable;

MR. WINTER offered his belief that this language is pretty broad and vague. He said this statute is not much different than many other states. Some other states simply allow insurance companies to cancel insurance if the hazard increases. Others are more specific and indicate that companies can cancel insurance if the property becomes abandoned or vacant; however, a definition for abandoned or vacant is not given. He emphasized that in all states when the property has become abandoned, State Farm Insurance, who provide insurance in all states, has never had a problem with the divisions of insurance by canceling. He said that the question was raised in Alaska when the state reviewed its policy for consistency in language and reviewed Alaska's statutes with the Division of Insurance (DOI) and whether existing statutes would allow for cancellation of insurance on abandoned property. The division responded that Alaska's statutes were not completely clear and taking a strict view that the answer would be no. The company felt that a situation could arise in which someone walks out and abandons the property and State Farm couldn't cancel the insurance.

[4:22:04 PM](#)

MR. WINTERS said the reason this is so important during the midterm of the policy is that the premium has been paid and [once canceled] will be returned to the consumer; however, the insurance company wants to remove the at-risk property from the risk pool since something drastic could happen.

MR. WINTERS offered to point out practical protections in the statute, but emphasized two things. First, the insurance agent is in business to sell insurance, which is their product. It doesn't make sense that they would cancel insurance since the insurance premium has been paid and return the premium unless something drastic has happened. Second, the local agent probably provides the customers their auto insurance and life insurance. Therefore, the agent will not want to lose these policyholders as customers. From a practical standpoint, the

agent will try to reach out and figure out what is happening and if the home is truly abandoned. Secondly, the policy term is for one year and at the end of the period can choose to not renew the policy and not rely on the aforementioned statutory cancellation policy. For example, if a situation arises in the 10th or 11th month of the policy and it becomes clear the property has been abandoned, the insurance company could choose to not renew the policy. He clarified that what is under discussion is an eight or nine-month period of time in which something really drastic has happened and the insurance company wants to cancel the policy and remove the house out of the risk pool. Turning to the proposed bill, SB 58, State Farm Insurance worked with the DOI, the industry, and stakeholders, including the realtors who wanted some "sideboards" on this.

MR. WINTERS suggested this bill was likely the most restrictive in the country. Basically, this bill would require entire abandonment. First, to be considered abandoned the property cannot be occupied by the insured as defined in the policy. This language was inserted to address the seasonal home or recreational home. He clarified that a person with a cabin policy is assumed to not be occupying it most of the time. Thus, the insurance company will not cancel the policy because the cabin is not being occupied. Additionally, it cannot have contents of substantial utility. He emphasized that he was not aware of any other state statute that includes both of these requirements to meet the test of determining whether the property is abandoned. This language was put in to basically identify that not only is it not occupied, but the furniture has been removed, and nothing exists that could be utilized by the typical homeowner. At that point the insurance company must provide a 30-day written cancellation notice, as required by existing statute. Additionally, the statutes require that the insurer must provide written notice to any lender of record. Even if the aforementioned notices occur, the owner, agent, or real estate agent, or personal representative can inform the insurance company that a mistake has been made and the property is not abandoned property, that reasonable maintenance and monitoring is underway to assure that the property is not abandoned. Finally, he could not think of any situation in which a property could be improperly canceled. He has not heard anyone voice concern; however, he assured members that the DOI has oversight over all of this and if "some rogue" reason existed the division could step in. He thanked the sponsor for this effort, which has taken several years and the concept has gone through four or five legislative committees. In closing, he said the company would like to see the bill move along.

4:27:14 PM

REPRESENTATIVE JOSEPHSON remarked that the bill seemed to be written tightly. He asked how State Farm Insurance treats policies in the event someone has died and their heirs are in the process of selling the property.

MR. WINTERS answered that the agent almost assuredly would know what has been happening and would talk to the personal representative.

4:28:09 PM

REPRESENTATIVE SADDLER referred to page 2, line 6, which read, "entire abandonment of the property that increases a hazard insured against;" He asked whether he could think of any type of entire abandonment that would not increase a hazard insured against. He suggested that homeowner's coverage covers almost everything. He wondered what it might not cover.

MR. WINTERS answered that he was right; however, the intent was to make this as restrictive as possible to satisfy everyone. This bill includes the provisions listed.

4:29:15 PM

CHAIR OLSON, after first determining no one else wished to testify, closed public testimony on SB 58.

REPRESENTATIVE HERRON moved to report SB 58 out of committee with individual recommendations and the accompanying fiscal note. There being no objection, SB 58 was reported from the House Labor and Commerce Standing Committee.

4:29:42 PM

ADJOURNMENT

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 4:29 p.m.