

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

February 4, 2014

1:33 p.m.

**MEMBERS PRESENT**

Senator Mike Dunleavy, Chair  
Senator Peter Micciche, Vice Chair  
Senator Donald Olson  
Senator Bert Stedman

**MEMBERS ABSENT**

Senator Johnny Ellis

**COMMITTEE CALENDAR**

SENATE BILL NO. 61

"An Act relating to the board, loans, records, and lobbying contracts of the Alaska Commercial Fishing and Agriculture Bank; and providing for an effective date."

- HEARD & HELD

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."

- HEARD & HELD

**PREVIOUS COMMITTEE ACTION**

BILL: SB 61

SHORT TITLE: COMMERCIAL FISHING & AGRICULTURE BANK

SPONSOR(s): SENATOR(s) COGHILL

02/20/13	(S)	READ THE FIRST TIME - REFERRALS
02/20/13	(S)	L&C
04/04/13	(S)	L&C AT 5:00 PM BELTZ 105 (TSBldg)
04/04/13	(S)	<Bill Hearing Canceled>
02/04/14	(S)	L&C AT 1:30 PM BELTZ 105 (TSBldg)

BILL: SB 58

SHORT TITLE: CANCEL INS. ON CERTAIN ABANDONED PROPERTY

SPONSOR(s): SENATOR(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)

**WITNESS REGISTER**

JORDAN SHILLING, Staff  
Senator John Coghill  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Introduced SB 61 on behalf of the sponsor.

LEA KLINGER, President  
Alaska Commercial Fishing and Agriculture Bank (CFAB)  
Anchorage, Alaska

**POSITION STATEMENT:** Answered questions related to SB 61.

SENATOR DENNIS EGAN  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Sponsor of SB 58.

RUBEN WILLIS, representing himself  
State Farm Insurance  
Juneau, Alaska

**POSITION STATEMENT:** Testified in support of SB 58.

SHELDON WINTERS, Lobbyist  
State Farm Insurance  
Juneau, Alaska

**POSITION STATEMENT:** Testified in support of SB 58.

**ACTION NARRATIVE**

[1:33:21 PM](#)

**CHAIR MIKE DUNLEAVY** called the Senate Labor and Commerce Standing Committee meeting to order at 1:33 p.m. Present at the call to order were Senators Micciche, Stedman, and Chair Dunleavy. Senator Olson arrived soon thereafter.

**SB 61-COMMERCIAL FISHING & AGRICULTURE BANK**

[1:33:37 PM](#)

CHAIR DUNLEAVY announced the consideration of SB 61. "An Act relating to the board, loans, records, and lobbying contracts of the Alaska Commercial Fishing and Agriculture Bank; and providing for an effective date." He noted this was the first hearing.

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JORDAN SHILLING, Staff, Senator John Coghill, sponsor of SB 61, paraphrased the following sponsor statement to introduce the bill:

Senate Bill 61 will strengthen the Alaska Commercial Fishing and Agriculture Bank's (CFAB) ability to serve its member-owners.

CFAB was created by the legislature in 1980 with \$32 million in seed money to fulfill a need for financing the commercial agricultural and fishing industries. For a variety of reasons, one of which was the state's financial investment in CFAB, certain restrictions were put in place, such as limits on the size of loans, and the prohibition of their hiring a lobbyist. CFAB has since paid back the state's investment and is now 100% privately owned. CFAB is financially healthy and has been operating independently for several years. Therefore, it is appropriate that these restrictions be removed from statute.

SB 61 seeks to provide equivalent loan options to the commercial tourism and natural resource industries currently available to other industries CFAB serves. It does this by removing dollar restrictions for loans made to individuals or businesses seeking these types of loans while also providing options for non-resident owned businesses whose facilities are located in Alaska and who employ Alaskans and provide economic development within Alaska.

SB 61 expands the eligibility of the small loan program to include loans made for commercial agriculture. The bill increases the maximum size of these small loans and increases the amount of total capital CFAB can allocate to the program. SB 61 also deletes the provision relating to board compensation, which will instead be addressed like other private companies in their bylaws.

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SENATOR OLSON joined the committee.

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MR. SHILLING provided the following sectional analysis of SB 61:

Section 1:

Paragraph (4) removes dollar limitations for loans being used by individuals for tourism within the state.

Paragraph (5) removes dollar limitations for loans being used by corporations, partnerships, or limited liability companies for tourism within the state.

Paragraph (6) removes dollar limitations for loans being used by individuals for natural resource development.

Paragraph (7) removes dollar limitations for loans being used by corporations, partnerships, or limited liability companies for natural resource development.

Paragraph (8) clarifies that a person receiving a loan for capital investment or operating capital to a shore-based fish processor, a timber processor, or an agricultural processor or harvester must meet all requirements except for residency and resident ownership requirements.

Paragraph (10) adds new loans to nonresidents for a tourism-related operation under paragraphs (15)–(16), and development and exploitation of natural resources under paragraphs (17)–(18), to loans secured by liens subordinate to valid first liens and security agreements granted to another creditor.

Paragraph (12) adds new loans to non-residents for a tourism-related operation and development or exploitation of natural resources, to provisions for CFAB to participate with another bank without the obligor being a member of CFAB.

Paragraph (13) allows CFAB to purchase or participate in loans made under paragraphs (15)–(18) from other lenders for loans to nonresidents whether or not an obligor is a member of the bank.

Paragraph (15) adds a new subsection that allows for nonresidents to receive loans for a tourism-related operation, provided a facility of the operation is located in the state and the loan proceeds are used to commercially engage in the state.

Paragraph (16) adds a new subsection that allows for a corporation with nonresident majority ownership to receive loans for tourism-related activities, provided a facility of the operation is located in the state, the loan is used to commercially engage in the state, and the corporation is beneficially owned by residents of the United States.

Paragraph (17) adds a new subsection that allows for nonresidents to receive loans dedicated to the development or exploitation of natural resources, provided a facility of the operation is located in the state and the loan proceeds are used to commercially engage in the state.

Paragraph (18) adds a new subsection that allows for a corporation with nonresident majority ownership to receive loans dedicated to the development or exploitation of natural resources, provided a facility of the operation is located in the state, the loan is used to commercially engage in the state, and the corporation is beneficially owned by residents of the United States.

Section 2 includes commercial agriculture among industries where non-members are eligible to receive small loans, with the intent of facilitating development in geographical areas not conducive to normal lending activities.

Section 3 increases the allowable size of small loans to non-members for the purposes of commercial fisheries and agriculture.

Section 4 increases the proportion of the bank's total capital that can be allocated to small loans for fishing and agriculture.

Section 5 establishes a new subsection allowing for a list of voting members of the bank to be given to member candidates seeking a position as director of the bank.

Section 6 repeals restrictions on board compensation and repeals the prohibition of CFAB having a lobbyist.

Section 7 establishes an immediate effective date.

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SENATOR MICCICHE noted that subsection (c) in Section 4 says the loans may not exceed 25 percent of the total capital of the bank yet paragraph (14) in Section 1 limits the total assets to the

bank to cumulatively involving less than 20 percent of any particular commercial fishery. He asked why Section 4 goes above that established cap.

MR. SHILLING deferred the question to the president of CFAB.

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LEA KLINGER, President, Alaska Commercial Fishing and Agriculture Bank (CFAB), introduced herself.

SENATOR MICCICHE restated the question, and noted that he spoke with Ms. Klinger before the meeting.

MS. KLINGER explained that the loans in Section 4 would be under the 20 percent cap because those small loans relate to the individual fishery. The purpose of that part of the statute is to allow CFAB to make loans to the smaller operators who find it cost prohibitive to be a member of the bank. This affords CFAB the ability to make these loans in a more cost effective fashion.

SENATOR MICCICHE, noting that the bill increases the maximum loan amount to \$50,000 per individual, commented that it would be extremely unlikely that CFAB would loan 25 percent of \$32 million in \$50,000 increments.

MS. KLINGER agreed.

CHAIR DUNLEAVY asked if opening the door to nonresidents would create competition for residents to access capital.

MS. KLINGER said she didn't believe so because residents aren't excluded from continuing to borrow.

CHAIR DUNLEAVY asked why CFAB made the decision to ask for the ability to make loans to nonresidents.

MS. KLINGER explained that CFAB is unable to lend to an entity that is not entirely domiciled and owned by Alaska residents. This excludes entities such as family corporations that have members who live in Alaska and operate the business, but also have family members who live in another state.

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MR. SHILLING continued the sectional analysis.

Section 6 repeals restrictions on board compensation and repeals the prohibition on CFAB having a lobbyist.

Section 7 establishes an immediate effective date.

SENATOR MICCICHE asked why CFAB hasn't been able to have a lobbyist in the past.

MS. KLINGER said that state funds were used to create CFAB, but those funds have since been paid back.

SENATOR MICCICHE questioned why the principal has grown so little since the legislature invested \$32 million in seed money in 1980.

MS. KLINGER stated that CFAB's assets are about \$34 million and its capital is just under \$20 million; each year the portfolio grows and then shrinks as loan payments come in. She said that CFAB doesn't have much opportunity to grow because its market is defined, and it has both public and private competition.

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CHAIR DUNLEAVY opened public testimony.

SENATOR MICCICHE asked if there was any opposition to the bill.

MR. SHILLING said not to date.

CHAIR DUNLEAVY announced he would hold SB 61 in committee and keep public testimony open.

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At ease

**SB 58-CANCEL INS. ON CERTAIN ABANDONED PROPERTY**

[1:51:46 PM](#)

CHAIR DUNLEAVY reconvened the meeting and announced the consideration of SB 58. "An Act allowing an insurer to cancel an insurance policy if property becomes entirely abandoned and the abandonment increases the hazard insured against." He noted that the bill received one hearing at the end of last session.

[1:52:09 PM](#)

SENATOR DENNIS EGAN, sponsor of SB 58, read the following sponsor statement into the record:

SB 58 clarifies that insurance can be cancelled when a property owner abandons the property, thereby increasing a hazard covered by the insurance.

AS 21.36.210 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.

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.

SB 58 clarifies that insurance on property that has been entirely abandoned can be cancelled in Alaska, as it can in all other states. However, it is important to note that SB 58 would establish the most restrictive circumstances in the country. For instance, thirty days advance written notice must be given to the insured and any lender on record. In addition, insurance cannot be cancelled where the owner demonstrates that the property is being reasonably maintained and monitored. SB 58 is responsible legislation that helps manage claims costs, the risk pool and the cost of insurance coverage for Alaska homeowners.

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SENATOR OLSON asked how the abandonment provision affects a property that is mortgaged.

SHELDON WINTERS, Lobbyist, State Farm Insurance, Juneau, Alaska, explained that the insurance company would provide the required 30-day notice of cancellation to the owner. SB 58 provides an added protection that requires the insurance company to send notice of cancellation to any lender of record that it is aware of.

SENATOR OLSON asked how many other states have similar legislation.

MR. WINTERS offered his understanding that every state has a cancellation statute. Some statutes are more complex than others, but in no state other than Alaska has State Farm had any concern about the ability to cancel a policy on entirely abandoned property. The issue arose in Alaska when the Division of Insurance said that under a strict interpretation the current statute would not allow cancellation even if the property was entirely abandoned. He highlighted that SB 58 builds protections into the statute to make sure that it only applies to property that is unquestionably abandoned.

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SENATOR MICCICHE posed a hypothetical scenario similar to what happened in the late 1980s when a lot of rental properties were vacant for long periods. He asked how the bill would affect him as owner of that abandoned rental.

MR. WINTERS said his understanding is that this only applies to personal insurance which means fewer than four units. If the rental falls under personal insurance, abandonment is defined as nobody living there as intended in the insurance contract. Vacancy between rentals wouldn't constitute abandonment. Abandonment is when the property is vacant, uncared for, and not maintained. He said it's counterintuitive to think that an insurance company would want to cancel the insurance on a piece of property without a significant reason.

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CHAIR DUNLEAVY opened public testimony.

[2:01:39 PM](#)

RUBEN WILLIS, representing himself, State Farm Insurance, Juneau, Alaska, related his experience as an insurance agent in Alaska. He stated support for SB 58 as a means of risk management. If risk changes substantially, it's appropriate that the cost isn't passed on to people who are taking care of their homes and properties. He described the process he would go through to contact the owner if an insured property appeared abandoned.

[2:04:00 PM](#)

SENATOR OLSON asked how long it would take before an insurance company would consider a vacant property abandoned.

MR. WILLIS clarified that State Farm hasn't canceled anyone for abandoned property yet because it hasn't been an option, but the most likely scenario is that he would find out directly from the insured.

SENATOR OLSON restated the question about timeframes.

MR. WILLIS deferred to Mr. Winters.

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MR. WINTERS said there was some discussion early on about putting in a timeframe so people would have a guide, but no other state does that because it's too restrictive. He cited the example of an abandoned house in Fairbanks in the winter. However, with realtors' assistance the language in the bill was narrowed to cover only clearly abandoned property. Even after the notice goes out, the owner or their representative can show the agent that the property is being cared for and it's not deemed abandoned. In addition to the safeguards in the bill, oversight by the Division of Insurance provides another layer of protection to property owners.

SENATOR OLSON asked how many of his clients are not on the road system.

MR. WILLIS estimated less than 25.

SENATOR OLSON asked if an insurance company could cancel the insurance if a homeowner went to Acapulco for most of the winter and their vacant house froze up even though a friend was overseeing the property.

MR. WINTERS said that property is not entirely abandoned. Moreover, the bill does not allow an insurance company to cancel a policy after a claim is made. The bill addresses a property that no longer fits within the risk pool.

SENATOR MICCICHE asked how recreational cabins fit in this category, assuming they're insured.

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MR. WINTERS said those too would be protected because the insurance is defined by the policy. By definition, a recreational cabin is likely to be vacant for extended periods of time, but that doesn't mean abandoned. He added the caution that an insured home has to be occupied or have somebody taking care of it.

CHAIR DUNLEAVY kept public testimony open and held SB 58 in committee.

2:13:15 PM

There being no further business to come before the committee, Chair Dunleavy adjourned the Senate Labor and Commerce Committee meeting at 2:13 p.m.