

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

January 26, 2015

3:16 p.m.

MEMBERS PRESENT

Representative Kurt Olson, Chair
Representative Shelley Hughes, Vice Chair
Representative Jim Colver
Representative Gabrielle LeDoux
Representative Cathy Tilton
Representative Andy Josephson
Representative Sam Kito

MEMBERS ABSENT

Representative Mike Chenault (alternate)

COMMITTEE CALENDAR

OVERVIEW: DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT BY FRED PARADY~ ACTING COMMISSIONER

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

FRED PARADY, Acting Commissioner
Office of the Commissioner
Department of Commerce, Community & Economic Development (DCCED)
Juneau, Alaska

POSITION STATEMENT: Testified and answered questions during the overview of the Department of Commerce, Community & Economic Development.

LAWRENCE BLOOD, Acting Director
Division of Community and Regional Affairs (DCRA)
Department of Commerce, Community & Economic Development (DCCED)
Juneau, Alaska

POSITION STATEMENT: Answered questions during the overview of the Department of Commerce, Community & Economic Development.

KEVIN ANSELM, Director
Division of Banking and Securities
Department of Commerce, Community & Economic Development (DCCED)
Anchorage, Alaska

POSITION STATEMENT: Testified and answered questions during the overview of the Division of Banking and Securities.

SARA CHAMBERS, Acting Director
Professional Licensing
Division of Corporations, Business, and Professional Licensing
Juneau Office
Department of Commerce, Community & Economic Development (DCCED)
Juneau, Alaska

POSITION STATEMENT: Testified and answered questions during the overview of the Division of Corporations, Professional & Occupational Licensing.

LORI WING-HEIER, Director
Division of Insurance
Department of Commerce, Community & Economic Development
Anchorage, Alaska

POSITION STATEMENT: Testified and answered questions during the overview of the Division of Insurance.

ACTION NARRATIVE

[3:16:10 PM](#)

CHAIR KURT OLSON called the House Labor and Commerce Standing Committee meeting to order at 3:16 p.m. Present at the call to order were Representative Hughes, Tilton, Josephson, Kito and Olson. Representatives Colver and LeDoux arrived as the meeting was in progress.

OVERVIEW: DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT BY FRED PARADY, ACTING COMMISSIONER

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CHAIR OLSON announced that the only order of business would be an overview by the Department of Commerce, Community & Economic Development by Acting Commissioner Parady.

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FRED PARADY, Acting Commissioner, Office of the Commissioner, Department of Commerce, Community & Economic Development

(DCCED), stated that Governor Walker has named the commissioner designee; however, he will continue as acting commissioner for the next month to allow for moving time. He will remain in the DCCED as the deputy commissioner once Commissioner Designee Chris Hladick arrives, he said.

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ACTING COMMISSIONER PARADY began his PowerPoint overview of the department by directing attention to a snapshot of the department organization [slide 2]. The department consists of six organizations: Administrative Services, Banking & Securities, Community & Regional Affairs, Corporations, Business & Professional Licensing, Economic Development, and Insurance. Seven corporate entities are housed in the organization: Alaska Energy Authority, Alaska Gasline Development Corporation, Alaska Industrial Development and Export Authority, Alaska Railroad Corporation (ARRC), Alaska Seafood Marketing Institute (ASMI), Alcoholic Beverage Control Board (ABC Board), and the Regulatory Commission of Alaska (RCA). He relayed that DCCED's staff is comprised of 576 fulltime, one part-time, and eight non-permanent positions, excluding the ARRC, which is exempt from the [State Procurement code and application of the Executive Budget Act].

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REPRESENTATIVE COLVER asked for a geographic breakdown of the 576 staff.

ACTING COMMISSIONER PARADY offered to provide them to the committee.

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ACTING COMMISSIONER PARADY answered that the funding distribution is approximate 59 percent corporate and 41 percent core funding [slide 3]. Of the \$127 million in corporate funding, roughly \$40 million is the Power Cost Equalization Fund, he said. Thus, roughly one-third of the corporate entity funds are Power Cost Equalization funds.

ACTING COMMISSIONER PARADY directed attention to the budget by the core services the department provides [slide 4]. Consumer protection at 17 percent economic growth at 29 percent, strong communities at 14 percent, and affordable energy at 40 percent. Again, within the affordable energy component. Thus

approximately \$41 million is for power cost equalization distributions, he said.

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ACTING COMMISSIONER PARADY, turned to the Division of Economic Development, Alaska Industrial Development and Export Authority, and the Alaska Seafood Marketing Institute, which essentially constitute the economic engine that supports economic growth exclusive of gasline issues [slide 5]. The Division of Economic Development has issued 261 loans in 10 loan programs totaling \$29 million, with 237 loans issued from the Commercial Fisheries Revolving Loan Fund [slide 6]. He reported that a \$15 million annual contract for tourism marketing generated 800,000 information requests, 220,000 trips, and 700,000 visitors. The legislature appropriated \$400,000 in capital funding for economic development, which has been recommended to be moved to the operating budget to more accurately reflect the purpose of the funds. This fiscal year, the DCCED will need to absorb those costs within the department due to the budget constraints, he said, noting these funds essentially support economic development outside of tourism and fisheries.

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ACTING COMMISSIONER PARADY related that the Alaska Maritime Industrial support sector analysis provides details on the replacement of the commercial fishing fleet. This sector considers ways to enhance Alaska based shipyards, determines the age of the fleet, the schedule for capital replacement, and how the state can support these activities. In response to Representative Hughes, he clarified that \$400,000 goes to economic development outside of tourism and fisheries, which will be transferred to the operating budget. He further answered that the \$400,000 provided funding for the report, in collaboration with the University of Alaska, on drones and development and research on drones in the state. It also provides funding for the annual Minerals Commission report to the legislature and for other economic activities outside the core of tourism and fisheries.

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REPRESENTATIVE COLVER, referring to the third bullet on slide 6, asked about source of funding for tourism marketing and the allocation of those funds.

ACTING COMMISSIONER PARADY answered that the legislature created the Alaska Tourism Marketing Board (ATMB) so the [ATIA] Alaska Travel Industry Association is no longer the direct recipient to those funds. The newly constituted ATMB held its first meeting in January 2015 and is the conduit for roughly \$15 million in general fund [GF] appropriations to support the tourism industry.

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ACTING COMMISSIONER PARADY reported that the Alaska Industrial Development and Export Authority (AIDEA) is essentially the "financing arm" of the state [slide 7]. AIDEA's FY 16 dividend was declared at the last board meeting totaling \$17.6 million and AIDEA's assets total \$1.4 billion. The AIDEA owns a variety of entities, such as the road from Red Dog mine to the port. Nearly \$700 million in private sector investment has been leveraged by the investment in AIDEA, he related, with projections that these investments will create or retain 1,500 construction jobs and over 1,000 permanent jobs. The first phase of the Mustang Oil Field development project has been completed and the board recently approved the second phase. The board has been actively working on Governor Walker's new directions on the Interior Energy project.

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ACTING COMMISSIONER PARADY reported that the Alaska Seafood Marketing Institute (ASMI) has worked diligently to increase the export value of fisheries, which has increased by 85 percent to \$3.2 billion in ten years [slide 8]. He directed attention to the second bullet, noting the Marine Stewardship Council (MSC), a third-party procurement organization, has been working tirelessly to create a Responsible Fisheries Management [RFM] initiative and a State of Alaska "Certified as Responsible Fisheries" program. When the MSC certified the Russian pollock industry, it dramatically decreased the value of Alaska's pollock catch. With the RFM initiative, the state hopes to reassure major supply chain procurement entities, such as Walmart, of the sustainability of Alaska's fisheries without relying on a third party with an independent agenda. He characterized this as providing an ongoing and substantial strategic interest to our fisheries industry. He reported that the fisheries industry is the number one employer in Alaska, providing 63,100 jobs. This industry assesses itself with a voluntary fish tax based on .5 percent of ex-vessel value, which

generates approximate \$12 million of the operating funds for the ASMI.

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REPRESENTATIVE LEDOUX asked for further clarification on the voluntary fish tax.

ACTING COMMISSIONER PARADY answered that the industry has created an assessment, currently set at .5, which can be up to .6 of the ex-vessel value, which currently generates approximate \$12 million in revenues.

REPRESENTATIVE LEDOUX asked whether the industry voted on it.

ACTING COMMISSIONER PARADY was uncertain of the details of how the fish tax was initially created, but offered to provide the answer and statutory reference to the committee.

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ACTING COMMISSIONER PARADY directed attention to affordable energy and a discussion of the Alaska Energy Authority (AEA) and Alaska Gasline Development Corporation (AGDC) [slide 9]. He related AEA's mission: to reduce the cost of energy in Alaska, with a goal of 50 percent electrical generation by 2025 from renewable energy sources; and the AGDC's mission: to advance the in-state natural gas pipeline. He reported that AEA has disbursed nearly \$40 million through power cost equalization grant payments to 188 communities in FY 14 with completion of 53 of 114 rural power system upgrades and funding 22 projects through the Emerging Energy Technology Fund (EETF). He noted many of these projects offer a combination of diesel, wind power, and hybrid power supply systems for rural Alaska. He projected the 2016 annual fuel savings from the Renewable Energy Fund at 20 million gallons of diesel equivalent.

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REPRESENTATIVE COLVER asked what funding is available for energy upgrades to the Emerging Energy Technology Fund to complete additional projects this year.

ACTING COMMISSIONER PARADY offered to provide a spreadsheet of those figures to the committee.

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ACTING COMMISSIONER PARADY next directed attention to the Alaska Gasline Development Corporation (AGDC). The AGDC has worked to establish its alignment with administrative directives, specifically to synchronize the timing of the AKLNG [Alaska Liquefied Natural Gas] and ASAP [Alaska Stand Alone Pipeline] project [slide 11]. The ASAP class 3 cost estimates were prepared, with burner tip estimates for Fairbanks at \$11.50-\$14.50 and in Anchorage at \$11.50-\$14.50, noting these figures are estimates (+/-) plus or minus 20 percent. He offered that the critical need for energy in the Interior remains a challenge today.

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REPRESENTATIVE LEDOUX asked for clarification on the term burner tip estimate.

ACTING COMMISSIONER PARADY replied that the burner tip estimate is the full cost of delivering fuel to the burner tip, whether it is in a utility or a home.

CHAIR OLSON, in further response to Representative LeDoux, interjected that it is the point where the gas is ignited.

ACTING COMMISSIONER PARADY added it is the point where the pilot light or gas ignition point is located.

[3:32:05 PM](#)

ACTING COMMISSIONER PARADY directed attention to the Division of Community and Regional Affairs (DCRA) [slides 12-13]. He said on his first day of work in the department his staff referred him to Article 10 Section 14 of the Alaska Constitution, which states the department shall advise and assist local governments. He appreciated having the mission anchored in the Alaska Constitution since it helps focus this division's work. This division delivers services to local government, he said, having placed substantial effort into capacity building and providing technical assistance to over 200 communities this past year. The Rural Utilities Business Advisor program assisted 147 communities and trained nearly 200 rural utility managers. This represents the "nuts and bolts" of efforts to deliver power and heat to rural Alaska. The Local Boundary Commission is also located within DCRA, and approved the Edna Bay incorporation, creating Alaska's first new city in 10 years. The DCRA distributed over \$85 million to 307 communities through revenue

sharing, payment in lieu of taxes (PILT), and other programs, he said.

ACTING COMMISSIONER PARADY offered that staff has worked hard to become cross-trained in order to deliver secondary information and assistance to local governments. He emphasized that this is an area of key personal interest to him, in particular, as the state must consider how to reinvent government in the context of the current fiscal crisis. He reported that the local government specialists (LGSs) in Nome, Kotzebue, Bethel, Dillingham, Fairbanks, Anchorage, and Juneau travel to many rural communities and when these LGSs are in a community, they represent the tip of the state's spear. Not only should the DCRA's staff handle bulk fuel loans and rural utility business assistance, but they should be able to assist the public when problems arise with PERS [Public Employee Retirement & Benefits] arrearages or other state programs. He could envision an LGS sitting with a city manager placing a call to the appropriate division to assist with any issue that confronts rural Alaskans. Cross training can carry that assistance forward since the real expenses and costs are incurred to travel to the communities. Thus the more completely the department can arm the LGSs to provide information on a range of activities across state government, the better service the department can provide, he said.

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REPRESENTATIVE COLVER asked whether there are any collaborative efforts or costs savings that can be achieved by having the DCRA and AEA combining their efforts to help rural Alaskans and thereby avoiding duplication of services.

ACTING COMMISSIONER PARADY replied that the department is currently reassessing the boundary between the agencies. At this point AEA has handled bulk fuel tank projects and replacement of tank farms and the DCCED has handled the bulk fuel loan program. In fact, since the DCCED has a Bulk Fuel Revolving Loan Program the agency contacted 92 communities last fall to assess whether their winter fuel supply was adequate. He characterized the boundary between the DCRA and the AEA as falling between being the capital budget and the operating budget, but opportunities exist to more closely synergize the two.

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LAWRENCE BLOOD, Acting Director, Division of Community and Regional Affairs (DCRA), Department of Commerce, Community & Economic Development (DCCED), in response to Representative Colver, added that the Rural Utility Advisor Program builds management capacity in the communities and the concepts of building management capacity directly translates to the running and operating of the bulk fuel facilities. He agreed the DCRA local government specialists (LGSs) work closely with AEA in the management of the facilities.

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REPRESENTATIVE COLVER asked if he had any suggestions for streamlining or efficiencies that can be used to deliver services and ways to better align and define services with the end users.

MR. BLOOD answered that nothing immediately comes to mind, but the department is currently reviewing ways to create efficiencies. For example, the Bulk Fuel Loan program and Bulk Fuel Bridge Loan programs were consolidated under DCRA to gain efficiencies with one staff administering both programs. This also made it more convenient for communities since they no longer must apply for a bulk fuel loan through AEA and be denied prior to applying to the DCRA for a bridge loan. Now one umbrella program exists and if a community doesn't qualify under one program the department automatically considers the application for the other program.

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CHAIR OLSON asked whether any monies are still being expended by LUST, the Leaking Underground Storage Tank replacement program.

MR. BLOOD answered not that he was aware of any.

CHAIR OLSON noted the LUST program may not currently be in use but it provided a significant amount of funds 8-10 years ago to replace worn out underground fuel tanks.

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ACTING COMMISSIONER PARADY directed attention to the Banking & Securities Division's mission: to protect consumers of financial services, promote safe and sound financial systems and the Corporations, Business & Professional Licensing's mission: to ensure competent professional and regulated commercial

services are available in Alaska [slide 14]. He highlighted that the division issues 67,000 professional licenses in Alaska in 20 programs with board oversight and for 20 programs managed by the division. Last year the legislature also added behavioral analysts, massage therapists, and contractors to the programs regulated by the state. The division regulates those professions under the statutes as laid out by the legislature. In rough terms, Alaska falls in the middle of the pack for the number of professions it regulates. The division also issues 50,000 business licenses. The department has made efforts to enhance its information technology (IT) so as much as possible can be done online.

ACTING COMMISSIONER PARADY reported the Division of Insurance's mission: to regulate the insurance industry to protect Alaska's consumers, and the Alcoholic Beverage Control Board's (ABC Board) mission: to protect the public from alcohol abuse by enforcing state laws. The Regulatory Commission of Alaska (RCA) is charged with assuring viable utility and pipeline services that provide just and reasonable rates to Alaskans.

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ACTING COMMISSIONER PARADY directed attention to the ABC Board. In 2014, the division issued 1,847 active liquor licenses, 987 catering permits, and 335 special events permits. Since the ABC Board function moved to DCCED in FY 13, the department has worked hard to increase its collaboration with other agencies. This move was important since the ABC Board straddles the divide between a public safety perspective and a public health perspective, he said. On the one hand the ABC Board oversees the responsible regulation of the industry, but on the other hand the state experiences unintended consequences or negative social implications of the industry, too, which means the state must balance the positive and negative implications of the alcoholic beverage industry.

ACTING COMMISSIONER PARADY related that Cynthia Franklin, a former municipal prosecutor, currently heads up the ABC Board. She brings a prosecutorial background and a strong emphasis on safety, but also has a keen awareness of social and health implications. He anticipated a major rewrite of the alcohol statutes will come before the legislature this session and a working group of 60-70 people has worked to craft a reasonable compromise spanning an 18-month time period. Further, issues related to marijuana are ongoing in the discussion and will come before the various legislative committees to address, he said.

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REPRESENTATIVE COLVER asked whether the Title 4 rewrite will change the statutory authority and laws related to the ABC Board.

ACTING COMMISSIONER PARADY answered yes.

REPRESENTATIVE COLVER asked whether the legislature could add some provisions to the aforementioned omnibus act to implement the marijuana initiative or if it could regulate the emerging industry through another regulatory board or place it under the purview of the ABC Board.

ACTING COMMISSIONER PARADY answered yes; that those decisions certainly fall under the legislature's purview.

CHAIR OLSON remarked that former director, Shirley Cote, and the new director share similar backgrounds.

[3:45:17 PM](#)

ACTING COMMISSIONER PARADY directed attention to the Regulatory Commission of Alaska (RCA). The RCA has worked to improve processes to minimize costs to ratepayers and companies; for example, the RCA moved to online e-filing submittals for major power utilities. Thus, only one electronic copy must be submitted to the RCA instead of 10 paper copies. The RCA hopes to extend e-filing options to smaller rural utilities and telephone companies, he said. The RCA also collaborates with the PCE [Power Cost Equalization] and the AEA [Alaska Energy Authority] with the RCA performing calculations to ensure that utilities meet the qualifications for the PCE, noting the first 500 kilowatt hours going into a residential household are subsidized. The RCA continues to work to improve services to its consumers, he concluded.

[3:46:36 PM](#)

KEVIN ANSELM, Director, Division of Banking and Securities, Department of Commerce, Community & Economic Development (DCCED), stated that every Alaskan is touched in some way by the programs the division administers. She said consumers may use securities, investment advisors and brokers, obtain a mortgage, or use a money service to wire funds or exchange currency. In addition, the division also regulates depository and non-

depository institutions, including banks, credit unions, payday lenders, premium finance companies, and one business industrial development corporation. The Division of Banking and Securities is the sole repository for ANCSA proxy filings, she said. She provided statistics for the licensure, registration, charter and examinations the division conducts, such that the division performed over 70 examinations during FY 14 and oversees over 1,200 broker-dealers for 54 branch offices - noting one broker-dealer is now domiciled in Alaska. She reported that 756 investment advisors are registered in Alaska in 31 offices in Alaska, with over 85,000 salespersons registered to the various securities firms; however, only 890 firms are physically located in Alaska. In terms of securities registrations and filings, over 5,500 mutual funds and 550 securities filings are available in Alaska. She also reported that \$13 million is generated annually by securities registration and filing fees, which is a substantial amount of money - generated primarily from the Lower 48. The division accepted over 300 ANCSA proxy-related filings and makes those publically available in the division's offices, she said.

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MS. ANSELM reported as of the end of 2014, approximate 30 of 197 mortgage brokers licensed in Alaska, with 37 of 185 branches domiciled in Alaska, and 61 of 1,389 mortgage loan originators licensed in Alaska are located in Alaska. The division also oversees 360 delegates operating 66 money service businesses, with three businesses domiciled in Alaska. Many of these money service businesses are seasonal and work in cruise ship ports, primarily wiring funds, she said.

MS. ANSELM related that the division examines three state banks, three state holding companies, and a mutual savings bank depository once every 18 months, in conjunction with federal regulatory counterparts. In addition, the division also oversees three trust companies, 27 insurance premium finance companies, and 25 payday loan entities, of which 20 are located in Alaska.

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REPRESENTATIVE LEDOUX, referring to the marijuana initiative Alaska voters passed in November, highlighted problems other states, such as Colorado and Washington, have experienced with legalized marijuana. "The banks won't take the money and it's pretty hard to run a business out of paper bags," she said.

Bank issues stem from marijuana use still being illegal under federal law, with banks operating under federal banking laws. She assumed the same issues will apply to federal banks in Alaska, but wondered whether state banks in Alaska will have similar problems.

MS. ANSELM answered yes; that the same problems exist for state banks in Alaska because they are regulated by the same federal regulations; however, the banking marketplace that serves firms related to the emerging marijuana industry has been moving quickly. Some states and credit unions in Oregon and Washington have recently expressed a willingness to provide banking services to the industry. In fact, last week one bank in Oregon was quoted in an Oregon newspaper as actively courting firms in Colorado involved in the marijuana business. The division has been in close contact with federal agencies, including the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve Bank (FRB), to discuss options for Alaska's banks as well as for federal banks located in Alaska. She offered to keep the committee posted on changes and to review the financial reporting regulations in more detail at another time.

[3:53:31 PM](#)

MS. ANSELM directed attention to slide 18, reporting that the division collects over \$13 million in fees and assessments annually. She highlighted changes within the division, such that the division has been embracing electronic filing for certain securities and filings, which provides investors with real time information and reduces paper and postage costs for the industry. In addition, the division has gone to electronic filings for all of its mortgage lending, applications, and other required filings and will continue to expand these efforts.

MS. ANSELM reviewed outreach and enforcement efforts, noting examiners participate in public meetings and forums with other government and non-profit partners [slide 18]. Further, the division provides many resources for the public on its new website, making the website a destination for obtaining financial information. In the past year, the division has worked closely with the Municipality of Anchorage (MOA) in presenting information to emerging entrepreneurs who have taken advantage of the 49th State Angel Fund. In terms of enforcement, most actions are taken against those in the Lower 48 who have exploited Alaskans or have not followed Alaska law. In FY 14, the division issued 24 administrative actions, including 20 consent orders and 4 final cease and desist orders,

she reported. This can be challenging since the bulk of licensees operating unlawfully in the state are often physically located outside Alaska. The division also partners with federal regulatory agencies and law enforcement to expand tight resources and it shares examinations, investigations, and enforcement actions, including globally-negotiated settlements or administrative actions to save time and money for all involved.

[3:56:27 PM](#)

REPRESENTATIVE JOSEPHSON asked when the license and registration fees were last increased.

MS. ANSELM answered that the Division Banking and Security's fees are covered in various parts of the statutes. She offered to provide information to the committee.

[3:57:22 PM](#)

SARA CHAMBERS, Acting Director, Professional Licensing, Division of Corporations, Business, and Professional Licensing (DCBPL), Juneau Office, Department of Commerce, Community, & Economic Development (DCCED), reviewed the division's five sections, beginning with the business licensing section, which currently serves 68,503 active licensees and has issued 1,426 tobacco endorsements. The Corporations unit manages 59,000 corporate entities, and oversees business name reservations and trademarks. The professional licensing section oversees 67,000 professional licensees through the process of initial application and license renewal for 44 programs: 21 with boards or commissions and 23 programs solely managed by the division. The investigation section responds to public complaints, gathers evidence, and works with the boards and the Department of Law on enforcement of professional and business licensing statutes and regulations. Lastly, the division employs administrative support unit to provide customer service and clerical support to the division.

[3:59:02 PM](#)

MS. CHAMBERS reviewed efficiency and accountability improvements the division has made [slide 20]. In May 2012, 40 percent of Alaska's corporate entities were not in good standing, but by implementing a new data management system and reaching out proactively, the division has increased the rate of those in good standing from 60 percent in 2012 to 93 percent in 2014.

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REPRESENTATIVE COLVER asked the reason that corporations were not in good standing.

MS. CHAMBERS answered that corporations must file biennial reports and keep information up to date, such as bylaws changes and articles of incorporation. These corporations are not in good standing if they fail to file timely, she said.

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MS. CHAMBERS stated that business licenses and several professional licenses can be renewed online. She anticipated that with upgrades to the division's database this spring, the Division of Corporations, Business, and Professional Licensing hopes to greatly expand its online offerings in time for the heaviest renewal period. The division also posts a variety of quarterly and statistical reports online, and has barcoded professional licensing renewal documents to reduce receipting timelines from three weeks to three days. In 2014, the investigative section implemented efficiencies that have reduced the investigation timeframes by 53 percent.

4:01:19 PM

REPRESENTATIVE HUGHES, with respect to professional licensing renewal, commended the division's willingness to assist a physician in her district renew a license, noting the division resolved the professional license issue within several hours. In her previous personal experience, as a health care professional, she understood that significant delays can occur with licensing. Thus, she was very impressed with the service the department provided, she said.

CHAIR OLSON commented that Ms. Chambers has spent significant time working with the legislative committees on licensing issues, in particular, he acknowledged the time she has spent during the legislative interim working with the Legislative Budget & Audit (LB&A) committee.

MS. CHAMBERS reported that the division has reduced its indirect expenses to the boards it serves by 20 percent or \$1 million. In addition, the division has reduced the Department of Law (DOL) expenses by 34 percent in the past three years. In these ways the division has managed to create efficiencies and

accomplish goals while serving a growing base of licensees, she said.

4:03:22 PM

MS. CHAMBERS highlighted some of the division's challenges. The division must balance its public protection mandate with the statutory fee-setting guidelines without significantly hindering Alaska's private businesses, she said. This summer, the Legislative Budget & Audit Committee met seven times to discuss issues related to the professional licensing methodology, board travel, the investigative process, and other areas of interest to legislators and stakeholders in Alaska. The LB&A committee reviewed steps taken to address historical program deficits, including an appropriation of \$3.4 million to offset professional licensees' overpayment of indirect fees over a period of many years. The legislature sought to "right an accounting wrong" and that task had been accomplished in the division, she said. Although the actions did not reduce indirect costs to zero, the process to assess indirect costs assures that the appropriate costs are being assessed to the boards.

4:05:00 PM

MS. CHAMBERS identified another challenge, noting board members have been quite vocal about the necessity of staying current with national trends and issues facing their professions by traveling to professional conferences. The legislature has responded and assisted boards in reaching this goal. She outlined one statutory paradox that exists in terms of enforcement. The division must respond to complaints of licensing violations, which is essential to the division's public protection mandate, but in doing so this creates an inherent conflict with the fee-setting requirements of statute since licensees must cover 100 percent of their costs, including costs for investigations of those licensed and individuals not licensed, she said.

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REPRESENTATIVE LEDOUX asked whether a violator or "bad apple" is fined to offset the overall fees and costs of the division.

MS. CHAMBERS replied that levied fines are collected and deposited to the general fund and do not go to the division. The division and the LB&A have been reviewing that process;

however the division and the boards want to avoid the appearance of enriching the boards through the enforcement and fine-setting process. She characterized this issue as creating a balance between providing adequate enforcement and licensees not being able to cover investigative costs. It is a work in progress, she said.

MS. CHAMBERS elaborated on the division's process in setting license fees. Investigation costs incurred create fluctuations that can spike fees, in particular, for small licensing boards and programs. For example, the midwifery program consists of 40 licensees and the costs of one investigation assessed on such a small group of licensees can adversely affect fees. She pointed out that the midwifery profession currently pays \$1,700 for their biennial license fees.

REPRESENTATIVE LEDOUX remarked that a problem exists.

CHAIR OLSON agreed; reiterating that the Legislative Budget & Audit Committee (LB&A) held seven meetings this summer to address the complexity of these issues.

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REPRESENTATIVE LEDOUX said it seems unfair that a small group has to pay for an investigation with exorbitant license fees.

CHAIR OLSON agreed, noting that some investigations can cost over \$100,000. He acknowledged that there isn't any easy remedy.

[4:10:32 PM](#)

MS. CHAMBERS pointed out that since the license renewals are on a biennial cycle, the majority of revenue is collected in one year, so a "false" deficit appears in the non-renewal year. The division has heeded the recommendations by the Department of Law and the Legislative Audit Division to amortize these deficits. The division remains committed to work with the legislature to resolve this issue, she said.

[4:11:30 PM](#)

LORI WING-HEIER, Director, Division of Insurance, Department of Commerce, Community & Economic Development (DCCED), stated the Division of Insurance's (DOI) mission is to regulate the insurance industry and protect Alaska's consumers. The division

accomplishes this in two ways: through market regulation and market conduct. In order for an insurer to operate in Alaska, the company must apply to the state to obtain a certificate of authority. The division essentially reviews their track record, including their corporate structure, financials, last examination in another state, state of domicile, business plan, and the services the business plans to offer consumers. Currently, 1,128 admitted insurers operate in Alaska. This year, the Division of Insurance also admitted 14 new insurers of which seven are domestic insurers listing their home state as Alaska.

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MS. WING-HEIER listed them as Alaska National Insurance, Umialik Insurance Company, ARECA Insurance Management, Inc. - the rural electric cooperative insurer, Alaska Timber Insurance Exchange, Alaska Vision Services, and the Tongass Timber Trust. In addition, the Division of Insurance monitors other insurers who provide services in the state. The division continually reviews the financial solvency and the best practices to protect consumers, she said.

[4:13:41 PM](#)

REPRESENTATIVE LEDOUX asked for an explanation of efforts the division takes on monitoring and whether statewide or national sites also review all insurance companies.

MS. WING-HEIER replied that the division does all of the above. The Division of Insurance is a member of the National Association of Insurance Commissioners (NAIC) and conducts multi-state exams with other commissioners as well as conducting individual examinations, she said.

[4:14:32 PM](#)

REPRESENTATIVE LEDOUX asked whether the Division of Insurance audits all insurance companies that might provide services in Alaska.

MS. WING-HEIER answered yes; elaborating that the Division of Insurance conducts physical audits on domestic firms and participates in multi-state "colleges" or exams in conjunction with other states. In response to Representative LeDoux, she said the state audits in-state insurance companies, but also partners with out-of-state organization on other examinations;

however, in some cases the division will audit a parent company of a business offering services in Alaska or in instances when the division has reason to believe an audit needs to be performed.

[4:15:44 PM](#)

MS. WING-HEIER advised members that Alaska is a prior approval state for health, life, property, casualty, or title insurance, which means companies must file with the state for the rate - the price charged - or the form - the terms and conditions of the policy. In 2014, approximately 3,700 filings were made, with the division disapproving 147 applicants on the basis of unfair practices to consumers. She briefly explained the process, such that insurance filings are received electronically, ensuring the companies meet the statutes and regulations, which provides an important consumer protection.

[4:16:26 PM](#)

MS. WING-HEIER turned to market conduct, noting that approximately 47,000 licensed insurance professionals are licensed in Alaska, including resident and non-resident adjusters, producers, bail bonds, and title insurers. In FY 14, 245 complaints were received and \$216,000 in fees were returned to consumers as a result of division's actions. She reported that the four investigators opened 79 investigations and closed 115 prior year investigations. The division held its first joint investigation with the Division of Banking and Securities, which resulted in revocation of the financial advisor and insurance producer licenses. She characterized 2014 as a year of change, with the division implementing new processes, improvements, and efficiencies [slide 22]. Without any additional cost to the state, the division was able to make property and casualty filings available to the public on the division's website so that the public does not need to file a formal request for information.

[4:19:10 PM](#)

MS. WING-HEIER reported the Division of Insurance has increased its training efforts, noting six administrative staff are currently enrolled in the NAIC property and casualty mini-course. This free online course provides a basic knowledge of insurance, including learning basic terms such as deductible and coinsurance, which should help provide opportunities for staff mobility. The division has issued regulatory orders that will

also assist businesses in doing business with the division. Previously, companies who needed to file insurance forms by providing the same endorsement for 15 different policies had to submit the forms 15 times. Under changes to its regulations, forms will only need to be filed once, which helps reduce staff time for businesses and the division staff, as well. In addition, the regulation project comment period ends this week on regulations that will allow businesses to conduct business electronically. "This is a first for the division; however, we have made the order such that if someone decides they do not wish to receive their insurance policy electronically, the insurance company or their agent or broker must still mail it to them," she said. The division has found the majority of the people now wish to receive their billings and claims data electronically.

MS. WING-HEIER highlighted a number of consumer outreach efforts conducted by the Division of Insurance. She reported that the division's website contains a number of "buttons" that contain useful information on programs. For example, the division produced a "white paper" to highlight the difference between a percentage deductible versus a flat deductible for insurance. The website also reminds people to consider adding earthquake insurance to their policy in Alaska. The division has been proactive to expand its relationship with industry, with the emphasis on consumer protection.

[4:22:00 PM](#)

REPRESENTATIVE LEDOUX asked whether the consumer outreach is located on the division's website or if the information is mailed.

MS. WING-HEIER answered that the information is on the division's website; however, as pamphlets are published they are sent to independent insurance agents who can deliver them to their members. Thus, the public can walk into their agent's office and their agent can print the PDF version of the policy for them.

[4:22:40 PM](#)

REPRESENTATIVE LEDOUX asked for an example of what an insurance tip would consist of if a person was getting married.

MS. WING-HEIER answered that it might be a reminder to review his/her insurance policy.

4:23:01 PM

REPRESENTATIVE HUGHES asked for clarification on the division's role in terms of the implementation of the [Patient Protection and] Affordable Care Act [also known as the "Affordable Care Act"].

MS. WING-HEIER answered that the division has been very involved in the Affordable Care Act process during September-November. Although the division does not have any regulatory authority at this time on the Affordable Care Act, the division has been in contact with the United Way and with primary care.

CHAIR OLSON answered that this authority is forthcoming.

4:23:54 PM

MS. WING-HEIER explained that the Division of Insurance has received numerous calls with concerns on rates. The department has continued to monitor the federal lawsuit for the Affordable Care Act, and in the event that the exchange is not allowed to assess any impact this will have on Alaska. In addition, the division is working with other departments, such as the Department of Health and Social Services on options. For example, she anticipated that the innovation waiver is forthcoming, so the administration has been holding discussions and, in particular, has been very cognizant of costs to individuals.

4:25:09 PM

REPRESENTATIVE HUGHES offered to meet with the director on this to better understand the process since the division approves rate increases.

MS. WING-HEIER agreed to do so.

4:25:59 PM

REPRESENTATIVE JOSEPHSON commented that there is some evidence, that other states, although not Alaska, have seen a decrease in escalation of premiums since the Affordable Care Act.

MS. WING-HEIER agreed some states have enjoyed lower rates.

4:26:25 PM

REPRESENTATIVE JOSEPHSON, setting aside the Medicaid expansion, recalled that Governor Walker expressed an interest in doing everything he could to increase the number of people insured.

MS. WING-HEIER answered that she believed that is correct.

REPRESENTATIVE JOSEPHSON asked if she had any specific information on what the governor meant by that comment.

MS. WING-HEIER answered no; but she understood the governor's overall goal is to make insurance available and affordable to Alaskans.

CHAIR OLSON interjected that a portion of it was the plan to expand Medicaid in Alaska.

[4:27:09 PM](#)

REPRESENTATIVE KITO related his understanding that the biggest issue related to insurance costs in Alaska is the small pool of those insured in Alaska. He asked for further clarification on the information that is being placed online to avoid Freedom of Information Requests, in terms of whether staff is determining what information can be released to ensure confidentiality of information.

MS. WING-HEIER answered that the Division of Insurance uses the same process it would to provide information under a Freedom of Information Act request. She stated that protected information is stored in the division's database, but is typically limited to the company's trademark or rating model and that information will still be kept confidential. However, most other data is not confidential and will be available for released after the effective date. For example, the rates for the Affordable Care Act were effective January 1, 2015 so that is the release date for that information, she said.

[4:28:57 PM](#)

CHAIR OLSON asked how much the Division of Insurance generated in the last fiscal year.

MS. WING-HEIER answered approximately \$64 million.

CHAIR OLSON related his understanding that the Division of Insurance is the third or fourth largest source of revenue for the general fund.

MS. WING-HEIER answered yes; noting the Division of Insurance's budget is approximately \$7 million.

CHAIR OLSON characterized the Division of Insurance as a "cash cow."

MS. WING-HEIER agreed.

[4:29:40 PM](#)

ACTING COMMISSIONER PARADY, in response to a question by Representative Colver on the Alaska Tourism Marketing Board (ATMB), stated that the ATMB is an advisory board. The funds expended are administered through the Division of Economic Development (DED) through the procurement process, primarily in marketing contracts for tourism. He reiterated that the ATMB is advisory, but the actual administration of the funds occurs through the DED.

CHAIR OLSON offered his belief that a good portion of the funds are for advertising.

ACTING COMMISSIONER PARADY agreed.

[4:30:40 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 4:30 p.m.