

SENATE FINANCE COMMITTEE

March 6, 2024

9:07 a.m.

[9:07:15 AM](#)

CALL TO ORDER

Co-Chair Olson called the Senate Finance Committee meeting to order at 9:07 a.m.

MEMBERS PRESENT

Senator Donny Olson, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Click Bishop
Senator Jesse Kiehl
Senator Kelly Merrick
Senator David Wilson

MEMBERS ABSENT

Senator Lyman Hoffman, Co-Chair

ALSO PRESENT

Senator Jesse Bjorkman, Sponsor; Laura Achee, Staff, Senator Jesse Bjorkman; Sylvan Robb, Director, Division of Corporations, Business and Professional Licensing, Department of Commerce, Community and Economic Development; Chuck Collins, Director, Division of Workers' Compensation, Department of Labor and Workforce Development.

PRESENT VIA TELECONFERENCE

Jimmy Ord, Director of Research and Rural Development, Alaska Housing Finance Corporation (AHFC), Anchorage; David Bunts, President, Alaska State Homebuilders Association; Eric Visser, Former President, Alaska State Homebuilders Association.

SUMMARY

SB 183 WORKERS' COMP BENEFITS GUARANTY FUND

SB 183 was HEARD and HELD in committee for further consideration.

SB 197 RESIDENTIAL BUILDING CODE

SB 197 was HEARD and HELD in committee for further consideration.

#sb197

SENATE BILL NO. 197

"An Act relating to residential building codes; relating to construction contractors and residential contractor endorsements; establishing the Alaska State Building Code Council; and providing for an effective date."

[9:07:15 AM](#)

SENATOR JESSE BJORKMAN, SPONSOR, introduced the legislation. He read from the Sponsor Statement (copy on file):

SB 197, "An Act relating to residential building codes; relating to construction contractors and residential contractor endorsements; establishing the Alaska State Building Code Council; and providing for an effective date," would provide Alaskans with more confidence that their new home is safe and well-built.

When Alaskans are buying a home or selecting a contractor to build their home it can be difficult for those without construction experience to know what to look for. In areas where there isn't a municipal residential building code, shoddy work done by a contractor can be hidden behind walls for years before creating problems. Having a statewide residential building code will ensure that homes across Alaska are built to proven safety standards with the appropriate materials.

SB 197 would require the Alaska Housing Finance Corporation to adopt the 2018 International Residential Code published by the International Code Council (or later versions) through regulation as a statewide residential building code. The bill would allow AHFC to amend the code as necessary to adjust for Alaska's unique environment, allow municipalities to adopt their own residential building codes, and would exempt owner-built homes and recreational cabins

from the state residential building code. SB 197 would also add to the state building code an allowance for the use of locally graded lumber produced under AS 41.17.630 in residences and create an advisory board to make recommendations to the Alaska Housing Finance Corporation regarding the adoption of the statewide building code and necessary updates.

[9:10:54 AM](#)

Co-Chair Olson wondered whether a building that was not built by a contractor would be unsafe.

[9:11:04 AM](#)

Senator Bjorkman replied that the application and design of the bill was a consumer protection for people who hired a licensed builder to build them a home. He stated that it did not apply to owner-builders who built homes. He said that the provision would be a consumer protection for people who hired a licensed contractor to build a home.

[9:11:51 AM](#)

Co-Chair Olson relayed that his question pertained to the building of homes in rural areas that did not have access to contractors.

[9:12:14 AM](#)

Senator Bjorkman replied that there was no enforcement measure in the state that would prevent building a home in rural areas.

[9:12:30 AM](#)

Senator Bishop surmised that, if something failed, the onus for documentation of the build would be on the homeowner and the contractor.

[9:12:48 AM](#)

Senator Bjorkman agreed. He said that currently, if a home was found to not reach the residential building code standard, there was no recourse for the homeowner under statute to hold the contractor accountable.

[9:12:53 AM](#)

Senator Bishop wondered how homeowners would be informed of their duty to document the process of the build and file evidence of the process in the event of future litigation.

[9:13:22 AM](#)

Senator Bjorkman responded that the court would require evidence presented that a structure was not up to code. He said that the current issue was that if a customer hired a contractor to build a home, that was later found uninhabitable because it did not meet code, there was no code in statute to hold the contractor accountable under the law.

[9:14:11 AM](#)

Senator Bishop reiterated his concern that homeowners should be informed that every step of the building process should be documented and available in the event of litigation.

[9:14:39 AM](#)

Senator Bjorkman thought that education was available to homeowners. He noted that home inspections were available.

[9:15:07 AM](#)

Senator Kiehl spoke of the interaction of buildings in communities that were built before the code. He noted that the code would be tied to a contractor's licensure. He wondered whether contractors would be held to assuring buildings that were built before the code existed, but worked on after the code was established, would be expected to bring those previously built buildings up to code.

[9:15:59 AM](#)

Senator Bjorkman replied that there was a legal opinion on the matter. He stated that if the home was built prior to the law being enacted the law would only apply to houses built after the bills effective date.

[9:16:29 AM](#)

Senator Kiehl asked about financing. He wondered whether a situation would be created where a homeowner would have to bring a home built before the enactment of the law up to code before they could secure financing.

[9:16:56 AM](#)

Senator Bjorkman responded that deferred to AHFC.

[9:17:26 AM](#)

JIMMY ORD, DIRECTOR OF RESEARCH AND RURAL DEVELOPMENT, ALASKA HOUSING FINANCE CORPORATION (AHFC), ANCHORAGE (via teleconference), responded that regardless of the legislation, AHFC had lending requirements that would need to be in place.

[9:18:16 AM](#)

Senator Kiehl surmised that existing or older homes would need upgrades to get additional financing and would need to bring their homes up to code to get financing in the future.

[9:18:46 AM](#)

Mr. Ord replied in the negative. He said that older houses only had to be brought up to code if a substantial percentage of the home was being retrofitted.

[9:19:17 AM](#)

Senator Kiehl requested a follow up of the percentage and noted that there were communities in the state that had building codes and some that did not.

[9:19:35 AM](#)

Mr. Ord agreed to provide that information.

[9:19:44 AM](#)

Senator Wilson asked for the corporation's position on the bill.

[9:20:01 AM](#)

Mr. Ord responded that that AHFC did not have a position on the bill.

[9:20:27 AM](#)

LAURA ACHEE, STAFF, SENATOR JESSE BJORKMAN, spoke to the Sectional Analysis (copy on file):

Section 1: Amends AS 08.18.025(a) - (c) to add to the requirements for receiving or renewing a residential contractor endorsement from the Department of Commerce, Community, and Economic Development to pass a test of the person's knowledge of the state residential building code. The bill would also require this endorsement to build a residence that is subject to the state residential building code.

Section 2: Would add a new subsection AS 08.18.025(d) that requires compliance with the state residential building code to maintain residential contractor endorsement unless the area where the residence is being built is governed by a municipal residential building code.

Section 3: Amends AS 08.18.171(16) to add to the definition of a "residential contractor" a reference to dwellings covered by the state residential building code.

Section 4: Would add a new subsection AS 08.18.171(20) to define "state residential building code" as the code adopted under AS 18.60.860(a).

Section 5: Would amend AS 18.56.088(c) to add adoption and administration of a state residential building code to the duties of the Alaska Housing Finance Corporation board.

Section 6: Amends AS 18.56.300(a) to reference the state residential building code in the requirements for financing the construction or purchase of a residence.

Section 7: Amends AS 18.56.300(b) to reference the state residential building code in the requirements for a residence to pass a home inspection prior to purchase or loan approval.

Section 8: Amends AS 18.56.300(e)(3) to change the definition of "state building code" from the Uniform Building Code adopted by the Department of Public Safety to the residential building code adopted by the Alaska Housing Finance Corporation under AS 18.60.860(a).

Section 9: Adds a new section AS 18.60.860 that requires the Alaska Housing Finance Corporation to adopt by regulation as the state residential building code the 2018 International Residential Code published by the International Code Council or a later version. The state residential building code may be amended as necessary to accommodate Alaska's unique environment and must allow for the use of locally graded lumber produced and used under AS 41.17.630. The language allows municipalities to adopt a residential building code and provides that other codes in Alaska statutes supersede the state building code where they conflict. Exceptions to the state residential building code are provided for owner-built homes and recreational cabins. Adds a new section AS 18.60.865 that creates the Alaska State Building Code Council appointed by the Board of Directors of the Alaska Housing Finance Corporation to provide recommendations to the AHFC Board regarding the adoption of and updates to the state residential building code.

Section 10: Would add language to the uncodified law that the provisions amended in AS 08.18.025 and AS 08.18.025(a) in the bill would only apply to contractors receiving endorsements on or after the effective date. Also, the state residential building code adopted in AS 18.60.860 would only apply to new residences built on or after the effective date.

Section 11: Provides an effective date of January 1, 2025.

[9:24:50 AM](#)

DAVID BUNTS, PRESIDENT, ALASKA STATE HOMEBUILDERS' ASSOCIATION (via teleconference), spoke in support of the legislation. He offered a brief history of the building of homes during the 1970s and 1980. He offered some background on the licensing of builders in the 1990s and the

relationship requirements of the AHFC. He relayed that the code was a minimum standard and not a high bar. He said that municipalities could add to the code, which could be considered burdensome by builders. He stated that the bill would not change how a "truly professional" builder would operate. He supported AHFC administering the code. He stressed that the bill was a consumer protection bill that protected all stakeholders.

[9:29:22 AM](#)

Co-Chair Olson asked about building a house on Sait Lawrence Island. He spoke of delays in getting inspectors to remote locations.

[9:29:47 AM](#)

Mr. Bunts replied that if AHFC money was not being used the house did not need inspection.

[9:30:28 AM](#)

Co-Chair Olson thought that the bill mandated inspections.

[9:30:31 AM](#)

Mr. Bunts disagreed.

[9:30:45 AM](#)

Senator Kiehl asked about energy efficiency requirements versus the residential building code.

[9:31:20 AM](#)

Mr. Bunts said that AHFC had essentially a building code if someone wanted to use AHFC money to build a house.

[9:31:49 AM](#)

Co-Chair Olson asked again about inspections in rural areas.

[9:32:09 AM](#)

Senator Bjorkman said that the residential building code would not change anything for folks that were currently

financing or would finance any building in the future. The building code provision protected cash buyers who were paying cash to contractors building a home and did not have protections in place through a lending institution.

[9:34:01 AM](#)

Co-Chair Stedman asked about getting a physical inspector to rural areas and wondered whether a virtual inspection could be used.

[9:35:03 AM](#)

Senator Bjorkman reiterated that the bill required no inspection or enforcement of code.

[9:36:06 AM](#)

Mr. Ord discussed the requirements for energy and building standards for residential structures. He furthered that AHFC could do inspections virtually.

[9:37:28 AM](#)

Co-Chair Stedman surmised that there could be a virtual inspection done in rural areas.

[9:37:42 AM](#)

Mr. Ord agreed that AHFC could do virtual inspections video phonically.

[9:37:53 AM](#)

Senator Bishop noted that on page 5, line 13:

When the unit of residential housing is located in a rural area, the person who makes the inspection may use methods other than a personal physical inspection to make the inspection if the method is approved by the corporation, and variations from the applicable code may be accepted at the corporation's discretion, if the person authorized to inspect the unit under this subsection satisfies the corporation that the variation does not adversely affect the structural integrity of the unit or the health and safety of the occupants.

[9:38:34 AM](#)

ERIC VISSER, FORMER PRESIDENT, ALASKA STATE HOMEBUILDERS ASSOCIATION (via teleconference), testified in support of the bill. He believed that the legislation solved a critical problem of protecting homeowners from contactors who operated outside of the building code. He supported the establishing of the Alaska State Building Code Council, which would be comprised of 11 members.

[9:40:45 AM](#)

Senator Kiehl queried the comparison of current residential standards held by AHFC to the residential building code contained in the bill.

[9:41:15 AM](#)

Mr. Visser responded that there were ten pages of local amendments that had been made to the nationally recognized code.

[9:41:55 AM](#)

Senator Bishop wondered whether the bill affected tribal housing authorities.

[9:42:20 AM](#)

Senator Bjorkman replied that he did not know.

[9:42:48 AM](#)

Co-Chair Olson asked about the fiscal note.

[9:42:58 AM](#)

Mr. Ord replied that the fiscal note, OMB component 110, provided that AHFC anticipated an annual operating cost of approximately \$250,000, which included personal services incurred and the implementation of the provisions of the legislation, including necessary travel, services, and commodities.

[9:43:24 AM](#)

Co-Chair Olson surmised that the funding would not be undesignated general funds.

[9:43:31 AM](#)

Mr. Ord replied in the affirmative and stated that the funding would be corporate funds.

[9:44:15 AM](#)

SYLVAN ROBB, DIRECTOR, DIVISION OF CORPORATIONS, BUSINESS AND PROFESSIONAL LICENSING, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, (DCCED) explained that the fiscal note, OMB component 2360, was a zero fiscal note as the department would absorb the minimal costs associated with the bill.

[9:44:54 AM](#)

Co-Chair Olson understood that the department handled the licensing of building contractors.

[9:45:00 AM](#)

Ms. Robb agreed.

[9:45:06 AM](#)

Co-Chair Olson wondered whether claims against building contractors would be of cost to the department.

[9:45:13 AM](#)

Ms. Robb responded that the intent of the bill was that the enforcement would be a person's ability to sue a builder. She said that current costs were borne by the licensees.

[9:46:00 AM](#)

Senator Bjorkman agreed with Ms. Robb's assessment.

[9:46:13 AM](#)

Senator Wilson thought that general funds were used for investigations against licensees.

[9:46:27 AM](#)

Ms. Robb responded that the governor's FY24 budget had proposed a change of fund source to the general fund, which had not been accepted by the legislature, although the governor had asked again in FY25.

[9:47:03 AM](#)

Senator Kiehl spoke to AHFC's fiscal note. He wondered why the council was necessary when the work was already being done.

[9:47:41 AM](#)

Senator Bjorkman responded that he was not certain that the council would cost what was currently stated in the legislation.

SB 197 was HEARD and HELD in committee for further consideration.

#sb183

SENATE BILL NO. 183

"An Act relating to the workers' compensation benefits guaranty fund; and providing for an effective date."

[9:49:40 AM](#)

SENATOR JESSE BJORKMAN, SPONSOR, introduced the legislation. He spoke to the Sponsor Statement (copy on file):

Senate Bill 183, "An Act relating to the workers' compensation benefits guaranty fund; and providing for an effective date," would better ensure timely payment of workers' compensation claims benefits by making the Workers' Compensation Benefits Guarantee Fund (Fund) no longer subject to the sweep provision in Article IX, Section 17 of the Alaska Constitution. In recent years, some of the injured employees filing claims with the Fund have been forced to wait as long as six months to receive benefits as the formerly healthy fund has been made periodically insolvent by annual Constitutional sweeps.

Under the Alaska Workers' Compensation Act, employers of one or more employees are required to have workers'

compensation insurance to cover medical costs, lost wages, and other benefits due to employees with valid on-the-job injuries. When employers choose not to carry this insurance and fail to pay for employee claims, it puts an injured employee in a painful financial position on top of the impact of the injury itself.

In 2005, the Legislature created the Alaska Workers' Compensation Benefits Guaranty Fund to pay the benefits due employees under the Alaska Workers' Compensation Act when their employer is uninsured and fails to pay their claim. The Fund is seeded with civil penalties assessed against uninsured employers and any reimbursements the State is able to recover from employers for claims paid from the Fund.

The timing of inflowing revenues and outflowing payments may not align, sometimes leaving the Fund empty when benefit claims are submitted. Through careful management, the Fund had been built to a sufficient balance prior to FY21 such that it was able to make timely payments to injured employees. Unfortunately, this many-year effort was nullified when the FY21 sweep took \$3.1 million from the Fund's balance. Supplemental Budget requests in FY22 and FY23 have filled the gap with General Funds, but this is a slow-moving process leading to long wait times for some claimants.

While the Constitutional sweep provision is intended to help maintain Alaska's long term fiscal stability, including the Workers' Compensation Benefits Guarantee Fund in the sweep can have significant impacts to the intended beneficiaries of the Fund while providing minimal benefit for the State's savings account.

[9:51:45 AM](#)

CHUCK COLLINS, DIRECTOR, DIVISION OF WORKERS' COMPENSATION, DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT, explained the reason for the bill, and he highlighted the zero fiscal note, OMB Component 2820.

[9:54:43 AM](#)

Co-Chair Stedman spoke of the "sweep" issue and described the process. He asked how long it had taken the department to pay the claims form 2022 and 2023.

[9:55:38 AM](#)

Mr. Collins responded that the benefits had been paid, but a supplemental was being requested in 2024 due to substantial injury settlements.

[9:56:55 AM](#)

Co-Chair Stedman felt that a cash flow statements for FY22 and FY23 would be helpful to the committee.

[9:58:15 AM](#)

Mr. Collins agreed to provide that information.

[9:58:25 AM](#)

Co-Chair Olson asked when the information could be expected.

[9:58:27 AM](#)

Mr. Collins replied that it would probably be a couple of days.

[9:58:45 AM](#)

Senator Wilson thought that all the accounts vulnerable to the sweep should be reviewed to assure that the programs they funded were safe.

[9:59:27 AM](#)

Co-Chair Olson understood that Senator Wilson was hoping the Legislative Finance Division would research the matter.

[9:59:32 AM](#)

Senator Wilson replied in the affirmative.

[9:59:51 AM](#)

Co-Chair Olson OPENED and CLOSED public testimony.

SB 183 was HEARD and HELD in committee for further consideration.

#

ADJOURNMENT

[10:00:39 AM](#)

The meeting was adjourned at 10:00 a.m.