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THE LEGISLATURE OF THE STATE OF ALASKA
TWELFTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. SB 831

Title An act relating to Insurance Policies and Contracts

Requested by Labor and Commerce Committee Date 3/4/82

II. FISCAL DETAIL

Agency Affected Division of Insurance

Program Category Affected Public Protection

BRU, Program, Or Subprogram(s) Affected Division Insurance

(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
100 PERSONAL SERVICES	0					
200 TRAVEL	0					
300 CONTRACTUAL	0					
400 COMMODITIES	0					
500 EQUIPMENT	0					
600 LAND & STRUCTURES	0					
700 GRANTS, CLAIMS, ETC.	0					
TOTAL	0					

FUNDING (Thousands of Dollars)

GENERAL FUND	0					
FEDERAL FUNDS	0					
OTHER (Specify Source)	0					

POSITIONS

FULL TIME	0					
PART TIME	0					
TEMPORARY	0					

III. ANALYSIS (See Fiscal Note Preparation Instruction, Section III)

IV. DATE March 15, 1982

PREPARED BY Kenneth C. Moore, Div. of Insurance

AGENCY Commerce & Economic Development

Original: Legislative Finance

PHONE 465-2515

cc: Budget and Management

Prime Sponsor (First Legislator Named)

33-001 (Rev. 12/81)

STATE OF ALASKA

DEPT. OF ENVIRONMENTAL CONSERVATION

(906) 465-2600

POUCH 0 - JUNEAU 99311

JAY S. HAMMOND, GOVERNOR

Rec'd
4-5-82
12:05 P.M.

April 5, 1982

The Honorable Terry Martin
Chairman, Labor & Commerce Committee
State House of Representatives
Pouch V
Juneau, AK 99811

Dear Representative Martin:

I was quite surprised at the hasty action taken by the House Labor and Commerce Committee in passing out CSSB 831(L&C) on Friday afternoon. As you know, there were a number of persons, including some from the private insurance industry, who wished to provide testimony, but were unable to do so. In essence, the only testimony received was from the Associated General Contractors, and a few State agencies.

The subject of insurance coverage on large construction projects, such as those undertaken by the Alaska Power Authority, deserves extremely careful scrutiny. It is quite possible that the use of so-called "wrap-up" insurance programs, which would be prohibited by CSSB 831(L&C), could save the State many hundreds of millions of dollars over the next two decades. As you know, the Alaska Power Authority has on the books over \$15 billion (nominal) in projects, including the proposed two dams of the Susitna River project. This latter project alone is estimated to cost at least \$13.6 billion (nominal). In projects of this size, consolidating project coverage into a single "wrap-up" program could potentially return to the State several percentage points of the total project costs. If we are forced to use conventional means, such as required by your bill, this cost-saving approach will be prohibited.

Projects on APA's drawing boards represent the largest, single capital investment the State of Alaska will probably ever make. Regardless of the source of funds for these projects, be it the State treasury or the bond market, it is absolutely essential that the APA Board of Directors and its staff examine rigorously every possible means of economizing. The amounts of funds involved is so enormous that each minute fraction of total project costs that can be saved represents millions, and perhaps hundreds of millions of dollars.

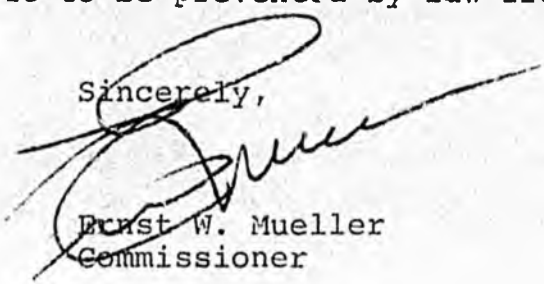
The Honorable Terry Martin

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April 5, 1982

If the Board continues to be hamstrung in its attempts to seek innovative cost-saving approaches in this program, I fear that projects costs could well escalate in a manner similar to that experienced by the Washington Public Power Supply System. A review of that program indicates that its astronomical cost overruns are due, in large part, on poor construction management by the board and its staff, and misrepresentation and errors by its contractors, compounded by a lack of diligence in seeking cost efficiencies. It's bad enough to be less than diligent in programs of this magnitude, but to be prevented by law from being so is doubly dangerous.

Sincerely,



Ernst W. Mueller
Commissioner

cc: Sue Greene
John Haywood
Eric Yould

FISCAL NOTE

I. REQUEST

Bill/Resolution No. HCS for S.B. 831 and S.B. 878

Title An Act relating to insurance.

Requested by Labor & Commerce

Date 4/08/82

II. FISCAL DETAIL

Department of Commerce, Alaska Power Authority
Agency Affected Department of Administration, Division of Risk Management

Program Category Affected Alaska Power Authority, Division of Risk Management
BRU, Program, Or Subprogram(s) Affected _____

(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
100 PERSONAL SERVICES	0	50	53	56	60	65
200 TRAVEL						
300 CONTRACTUAL	881	4,455	8,509	10,058	20,833	20,766
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL	881	4,505	8,562	10,114	20,893	20,831

FUNDING (Thousands of Dollars)

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
GENERAL FUND	881	4,505	8,562	10,114	20,893	20,831
FEDERAL FUNDS						
OTHER (Specify Source)						

POSITIONS

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
FULL TIME		1	1	1	1	1
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instruction, Section III)

Passage of HCSSB831 would eliminate the right of the State and its agency, the Alaska Power Authority as owner and provider of funds for the hydro-electric projects, to protect itself with the best insurance coverage at the lowest price. "Wrap-up" insurance programs have been used on most major construction projects for the past forty years and substantial savings are well documented. Passage of HCSSB831 would increase costs to the State of Alaska in the following areas:

- 1) Increased insurance premiums (\$36,645,000)
- 2) Loss of earnings on loss reserves not yet paid out (\$9,223,000)
- 3) Necessity of purchasing "stop-gap" insurance (\$13,087,000)
- 4) Increased litigation expense (\$6,542,000)
- 5) Increased administrative expense (\$284,000)

Total increase in state cost through FY 87 if "wrap-up" program prohibited = \$65,786,000.

IV. DATE 4/08/82

PREPARED BY John Haywood

AGENCY Administration/Risk Management

Original: Legislative Finance

PHONE 465-2180

cc: Budget and Management

Prime Sponsor (First Legislator Named)

33-001 (Rev. 12/81)