

SB

463



Official Business

# Alaska State Legislature

House of Representatives

House Transportation Committee

P.O. Box V  
Juneau, Alaska  
99811

Phone:  
(907) 465-4859

April 6, 1988

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COMMITTEE CALENDAR:

HB 150: "An Act relating to taking a propelled vehicle of another."

SB 463: "An Act relating to unused airline tickets."

FOR THIS MEETING, YOU HAVE BEEN GIVEN:

a folder on HB 150 that includes:

- item #1: HB 150
- #2: fiscal note - Dept. of Public Safety
- #3: petition of support
- #4: statutes

a folder on SB 463 that includes:

- item #1: SB 463
- #2: a statement from Sen. Josephson
- #3: fiscal note - Department of Revenue
- #4: statutes
- #5: support statements - Mark Air  
Reeve Aleutian Airways
- #6: opposition statement - National Association  
of Unclaimed Property Administrators



Official Business

# Alaska State Legislature

## Senate

P.O. BOX V  
State Capitol  
Juneau, Alaska 99811

March 31, 1988

### M E M O R A N D U M

To: House Transportation Committee members  
From: Sen. Joe Josephson *Joe Josephson*  
Re: SB 463

SB 463 would remove airline tickets from Alaska's unclaimed property statute (AS 34.35.). Existing law requires that sums equal to the price of all "unused" airline tickets be paid over by air carriers to the State five years from the date of ticket issuance. (In theory, these sums, when paid, are received by the State in trust for the passengers who bought the tickets. Under AS 34.35.310, the State is supposed to try to locate these people.)

I believe the law's requirements and procedures are illogical and unreasonable as they apply to airline tickets:

1. In some cases, such so-called "unused tickets" were not used on the flights for which they were issued or within the applicable expiration dates, and so the value of such tickets has been eliminated or reduced under the terms of the passenger-carrier contract. In other cases the tickets were used or redeemed, but through data entry mistakes the use or redemption was not properly recorded.

2. When a person purchases a standard-fare ticket but fails to show up for the flight, the current policy of the major carriers is generous. Although the carrier may have been unable to fill the empty seat, a refund is still given for the full ticket value.

3. If small in-state airlines are compelled to comply with the unclaimed property statute, the additional record-keeping burden could require them to purchase new equipment and suffer additional personnel costs. Those requirements may cause ticket prices to increase. Air carriers suggest that the additional recordkeeping costs they will bear will be greater than the amount of money that would be produced.

4. Airline marketing techniques -- including the introduction of discount and frequent-flyer programs -- have changed radically since airline tickets were included in the uniform law developed in 1981. As interpreted by the Department of Revenue, the Alaska unclaimed property statute would infringe on the airlines' ability to offer limited-duration and special restriction tickets. If a carrier wishes to offer a discounted fare for a ticket, but require that it will be used by a certain date, or on certain flights, it should be able to do so. After all, that was one of the objectives of airline deregulation.

Conceptually, the issue presented is whether airline tickets should be treated the same as such property as bank accounts, stock certificates, or real estate, which are "unclaimed property" under the law, or whether they should be treated the same as tour packages, season theater or sports tickets, and similar items, which are not considered "unclaimed property".

If you have any questions, please contact me at 465-4525. Thank you for your consideration.

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_  
Title: "An Act relating to unused  
airline tickets."  
Sponsor: Senator Josephson  
Requestor: Senate Transportation

Agency Affected: Revenue  
BRU: Income and Excise Audit  
Components: Operating

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
<b>OPERATING</b>						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
<b>TOTAL OPERATING</b>	-	-	-	-	-	-
<b>CAPITAL</b>	-	-	-	-	-	-
<b>REVENUE</b>	-	(100)	(100)	(100)	(100)	(100)

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
<b>TOTAL</b>	-	-	-	-	-	-

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: (Attach a separate page if necessary)

(see attached analysis)

Prepared By: John Hansen, Audit Supervisor Phone: 465-2300  
Division: Income and Excise Audit Division Date: 03/02/88  
Approved by Commissioner: Hugh Malone Date: 03/02/88  
Agency: Department of Revenue

Distribution (by preparer):  
Legislative Finance  
Legislative Sponsor  
Requestor  
Office of Management and Budget  
Impacted Agency(ies)

Prepared by: John N. Hansen  
Department of Revenue  
Income and Excise Audit Division  
Senate 3/3/88

### SB 463 Fiscal Note Analysis

Alaska adopted the Uniform Unclaimed Property Act (AS.34.45) in 1986. This Act is a strong piece of consumer protection legislation. This legislation goes contrary to that act. No other state has excluded airline tickets from being considered unclaimed property. The National Association of Unclaimed Property Administrators (NAUPA) has been opposed to legislation similar to SB 463. The Department of Revenue is opposed to this legislation.

The Fiscal Note reflects an annual anticipated revenue reduction of \$100,000. This is based on an estimate made from our short history with this law. We believe this figure to be quite low, especially as the first report year filed will include all unclaimed tickets to date held by the airlines. To date only one Air Carrier has filed with the department and remitted \$26,000. This air carrier is a local one.

Currently there are 22 domestic and 14 international air carriers operating in Alaska. The department believes the major air carriers operating in Alaska have substantial amounts of unclaimed property. This property should be turned over to the state so we may locate the owners.

# MARKET

## Express

Operated by Hermens Air

Box 7010 • Bethel, Alaska 99559 • (907) 543-4220

March 3, 1988

The Honorable Lloyd Jones  
 The State Senate  
 Alaska State Capitol  
 Senate Transportation Committee  
 Juneau, Alaska 99802

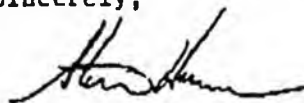
Dear Senator Jones:

I am very much in support of Senator Josephson's legislation to delete unused airline tickets from the state's unclaimed property list.

1. Our company writes around 50,000 tickets per year.
2. Four or five tickets per month are unclaimed but are paid for with a travel voucher. These vouchers are voided by the agency, thus cancelling the ticket value.
3. We have less than one ticket per month that is paid for but not picked up.
4. The average value of our ticket is only \$45.00 and the cost of tracking these unused tickets for five years would far exceed the ticket value.
5. Each time a passenger makes a reservation the airline is charged about \$1.50. Each ticket cost approximately ten cents plus the cost of the agent writing the ticket.

Therefore, we are not making money on unused tickets.

Sincerely,



Stan Hermens  
 President

SH/fc

DISCUSSION ON ABANDONED PROPERTY LAW RE: UNUSED AIRLINE TICKETS

MarkAir's position is that unused airline tickets should not be classified as abandoned property. The main reasons for this position are:

- I Of all the airline tickets sold, very few of these tickets actually result in unused transportation.
- II Of all the tickets sold but not used, most have a de minimus value.
- III Accounting for tickets sold over an extended period carries a significant and burdensome cost.
- IV Tickets are sold with the understanding they are good for travel anytime within the subsequent year unless restrictions are imposed on their use due to special discounted fares.

MarkAir utilizes a computerized system to account for the sale of tickets and passenger revenue. The system matches each sales document with its related tickets based on the ticket and coupon number.

A simplified description of how MarkAir's sales and Match-Use Accounting System works may be helpful at this point.

A passenger ticket or excess baggage ticket is prepared at a MarkAir ticket counter, city ticket office or any of five hundred plus travel agency locations authorized to issue tickets on MarkAir. An accounting copy of the transaction

is submitted to the Anchorage accounting office for recording its value, taxes, routing and other data by ticket number.

The ticket number, along with its value and issue date becomes the basis of a Match-Use file and general ledger transportation liability account. As a flight coupon is used by the passenger, the coupon is processed into the file using its fourteen digit ticket number. The system will then match the coupon to a sales record and reduce the liability value of the file and the general ledger for the amount of the ticket.

The entire sales record for each ticket will remain in the file until one of two events occur: (1) all coupons are matched off or, (2) the record becomes fifteen months old, at which time the remaining open coupons are removed.

The checks and balances in the system include a computerized file which provides an item by item history of transportation coupon values and is the support to the transportation liability account in the general ledger. On a monthly basis, the general ledger account is reconciled to the computer file, with accepted differences resulting in revenue adjustments.

Since the monthly revenue dollars are entirely controlled within the computer system, tickets which are used but are not processed for whatever reason, are excluded from the match process. This results in an overstatement of the transportation liability and understatement of revenue. Unmatched tickets having an issue date in excess of fourteen months from the current month are recorded as revenue.

The major areas which cause revenue to age-off rather than be matched-off are as

follows:  
1496Q-2  
03-01-88

1. Failure to lift flight coupons and excess baggage coupons from passengers makes it impossible to remove them by the match-use process from the sales record.
2. Loss of entire flight envelopes containing the flight coupons lifted from passengers results in used MarkAir flight coupons not being match-used off the sales record.
3. Failure of headquarters accounting personnel and the system to match used flight coupons off the sales record by:
  - a) Failure to process coupons/data.
  - b) Key punch error in fourteen digit ticket number.
  - c) Unable to read the fourteen digit ticket number.
4. Failure for other airlines to bill MarkAir because of similar mishandling problems as mentioned in 3.
5. Tickets which are refunded but are not removed from the sales record because of the absence of applicable ticket and coupon number.
6. Refunds of "Aged" sales. Refunds of tickets over fourteen months in age are made and accounted for in the current accounting period. No adjustments for these refunds can ever be made to a closed record.

7. Unsupported exchange use tickets not being removed from the sales record because the applicable ticket and coupon numbers were not available.

Adjustments to the transportation liability account are also required to adjust the sales record for fare changes, refund fees and commission expense paid to travel agencies.

An analysis of ticket sales and lift processing has been performed to define what accounts for this failure to achieve matched use removal:

About sixty-three percent of use against MarkAir sales is from LIFT use. Passenger coupons can be lifted by MarkAir personnel in several airport locations. For passenger convenience and to relieve congestion, some flight coupons may be lifted at the podium in the gate waiting area and some are lifted by the inflight attendants at the doorway to the plane. All coupons for the same flight are consolidated, put into a flight envelope and sent into the Anchorage accounting office.

The flight envelopes are checked against a flight roster. Coupons issued by other airlines are separated from those issued by MarkAir. The other airline sales coupons are input and processed to the billing system. MarkAir lift coupons are input and processed to be matched to the sales record computer file.

Approximately twenty-nine percent of the tickets sold by MarkAir are used for flights on other airlines. The other airlines then bill MarkAir for these used flight coupons. The billed coupon numbers are entered into our system to match-off use from the computer sales record file. A major problem encountered

here is that many times an airline will bill multiple coupons for the same ticket but indicate only one coupon number with the entire billing on the one coupon. This results in a failure to remove used coupons from the sales record file.

Refunds are made at ticket counters, ticket offices, at travel agencies and in the Anchorage accounting office. When refunds are made, the refunded coupons are batched and sent to data input so that the ticket and coupon numbers can be input to relieve the sales records. There have always been a number of difficulties processing refunded coupons to the computer file. The refunds are made but the coupons may go to storage prematurely without the use (refund) being processed against the sales record file. Some refunds made in the field are missing entire or partial coupon and ticket numbers or we are unable to read them. Other refunds are made to passengers who have lost their flight coupons and we are unable to determine the complete ticket or coupon number.

The exchange of one ticket for another ticket creates a new sales record. When flight coupons are exchanged for new transportation, the exchanged flight coupons are normally attached to the new sales records and sent into the accounting office to process both the "use" on the old sale and to establish a new sale record. Whenever new transportation is issued without receiving the old flight coupon, the necessary ticket and coupon number required to clear the old record is absent and the transportation liability is incorrectly overstated.

Approximately ninety-nine percent of use is properly applied in the normal routine manner to the computer sales record file. The other one percent is

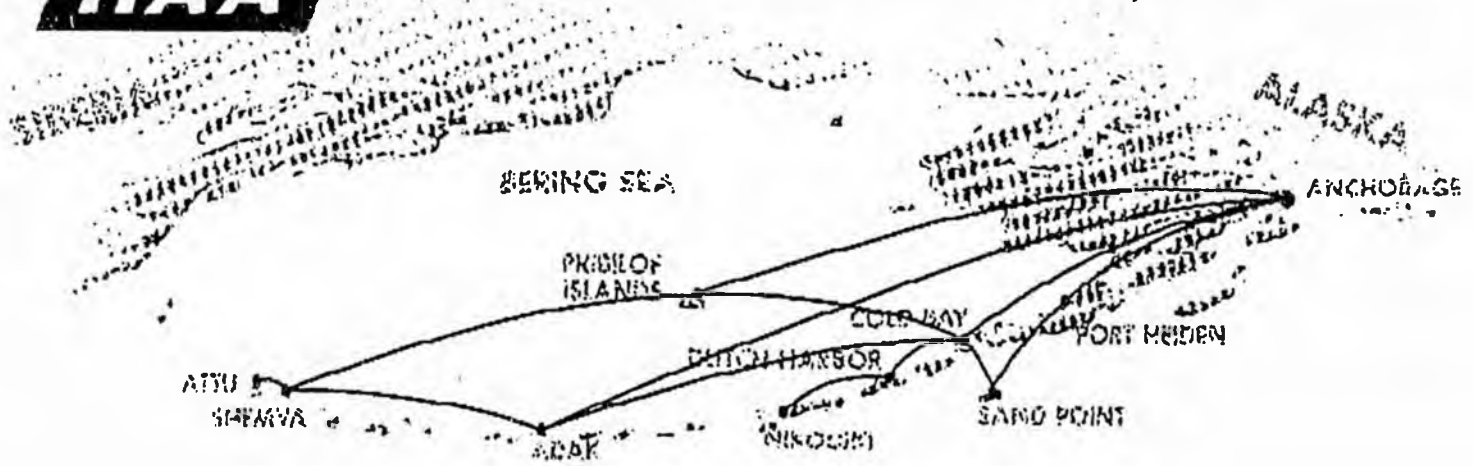
taken as aged revenue because we know the problems and errors which exist in the handling of used tickets. MarkAir has always been concerned about use processing errors, but it has never been economically justifiable to seek a hundred percent accuracy from the many employees handling transactions many times.

While nearly all tickets sold are used by the passenger, some very small percentage remain unused. Since we refund expired tickets as well as lost tickets, unused and unrefunded tickets are most likely of little value. We have found people generally seek refunds on unused tickets of almost any value, however, refund fees and adjustments for breaking restrictions on discounted tickets e.g., weekender or supersaver fares, make the nuisance of applying for the refund of certain tickets not worth the value of these promotional tickets.

Accounting for sold tickets over an extended period carries significant costs. These costs arise from record keeping, research, auditing and storage. For a carrier like MarkAir, this cost today would involve adding additional personnel, record storage space and computer processing and storage capability. These costs would continue to rise over the years as additional sales records continue to be added to historical files. Small carriers without a computerized match-use system would be forced to add personnel and computer hardware and software to develop a similar capability. The result would be the eventual resolution of most unused tickets as misprocessed or mishandled or unused discounted tickets which through the passage of time may have no refund value.

Finally, since tickets are generally valid for one year after purchase, being forced to refund unused tickets many years after they are sold infringes on the contract made between the airline and the ticket purchaser. The airline will

have provided the availability of transportation for the year after purchase and incurred the costs associated with producing the service and schedule. Whether the tickets are used or not, airlines will have held up their side of the contract and one year later if the ticket has expired they deserve to retain the value of the ticket and not be required to incur the costs to track, audit and research old tickets for years.

**RAA****REEVE ALEUTIAN AIRWAYS, INC.**

March 7, 1988

Honorable Lloyd Jones  
Chairman  
Senate Transportation Committee

Dear Senator Jones:

Reeve Aleutian Airways would like to comment on the Uniform Unclaimed Property Act (AS 34.45) that your committee is reviewing.

Reeve Aleutian Airways did remit \$25,109 in miscellaneous open accounts with credits due pursuant to Uniform Unclaimed Property Act. The accounts varied in dollar value with a vast majority less than \$50.00. I also wish to note that the time period Reeve researched and made remittance for exceeded 5 years. Accordingly, any subsequent remittances pursuant to this act would be substantially less.

Reeve did protest and assert to the Dept. of Revenue that AS 34.45 created a conflict with filed tariff rules regarding refunds by individuals or claims by other airlines. Reeve also argued that with respect to tickets, revenues and liabilities were earned. Please note that a credit may be claimed within a time frame of two years for an individual and two and one half years by an airline for unused ticket coupons.

Reeve charges a passenger the appropriate amounts for travel including taxes. Unless the passenger can prove that he did not travel by presenting an unused coupon Reeve does not refund money. Reeve does however set up credits by passenger name/airline until the entire package of ticket coupons is received to debit against credits. Coupons are lost, misplaced, not matched, misfiled, not submitted, etc., etc. Accordingly, there are credits that are not cleared during the tariff time period. That certainly does not mean that Reeve should issue a credit nor consider the credits abandoned property. Until the expiry of the tariff time period all liabilities and revenues are considered earned income.

4700 W. INTERNATIONAL AIRPORT RD. • ANCHORAGE, ALASKA 99502

**RAA**

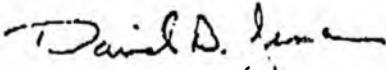
Honorable Lloyd Jones  
March 7, 1988  
Page 2

Reeve believes that a significant portion of the sum remitted to the State is earned revenue belonging to Reeve. The Dept. of Revenue considers unmatched coupons as miscellaneous intangible property that is abandoned and thus reportable. Reeve disputes that position. The fact that Reeve remitted sums does not mean that Reeve concurs nor agrees with the Department's position.

Please consider the various points and arguments before you carefully. I would like to urge the committee to exempt airline ticket coupons from AS 34.45.

Thank you.

Sincerely,



David A. Jensen  
Administrative Vice President

DAJ/kd

ANN W. RICHARDS  
TREASURER

RECEIVED  
ALASKA DEPARTMENT OF REVENUE

MAR 10 1988



OFFICE OF THE COMMISSIONER

TREASURY DEPARTMENT  
PO BOX 12608, CAPITOL STATION  
AUSTIN, TEXAS 78711

STATE OF TEXAS

111 STATE OFFICE BUILDING  
CONGRESS AT 17TH ST  
(512) 463-6000

March 7, 1988

The Honorable Hugh Malone  
Alaska Department of Revenue  
P. O. Box SA  
Juneau, Alaska 99811-0400

Re: SB 463

Dear Commissioner Malone:

The Unclaimed Property Administrator for the State of Alaska, Patty LaPierre, has brought to my attention a bill now pending in Alaska which could have substantial impact on other states. SB 463 apparently excludes unused airline tickets from the reporting and remitting requirements of the Alaska unclaimed property laws.

No other states exclude unused airline tickets from their laws. In addition, most states have encountered, either through legislation or litigation, attempts to carve out exceptions to the unclaimed property laws. In the southwest, oil and gas companies long resisted unclaimed property requirements. In other states, co-ops have attempted to avoid turning over abandoned property.

Ordinarily, both the State and its citizens suffer as a result of any exceptions to the unclaimed property laws -- the State, because of a diminution in revenue, and its citizens, because they probably will not be notified about their abandoned accounts.

Another impact to the kind of exception the Alaska legislature is considering is that under the United States Supreme Court case of Texas v. New Jersey, 379 U.S. 674 (1965), any property excepted from coverage by Alaska law may then be subject to reporting and remitting under the laws of the state of incorporation of the holder (in this instance, the airline). Thus, if the property (unused airline tickets) is not covered by the law of the state of the passenger's last-known address, it will probably be covered by the law of the state of incorporation of the airline (for example, Delaware).

March 7, 1988

Moreover, it will be only the citizens of Alaska who suffer from this law, because the laws of the other states will apply when their residents have unused tickets for Alaskan airlines. For example, the unused ticket of a Texas resident travelling on an Alaskan airline would still be subject to Texas unclaimed property laws.

In the past few years, the National Association of Unclaimed Property Administrators has worked closely with corporations required to report in many states. A goal of both the states and corporations has been to make the unclaimed property laws more uniform -- not complicate corporate reporting by state exceptions. On behalf of the Association, we hope you and legislators considering SB 463 will consider carefully the matters set forth above in your deliberations.

Sincerely,



PAULA SMITH

Vice-President (Acting President)  
National Association of Unclaimed  
Property Administrators  
Director  
Unclaimed Property Division  
Texas State Treasury

PS/na

cc: Ms. Patty LaPierre  
Administrator  
Alaska Unclaimed Property Division

MALONE

PS

STATE OF ALASKA  
THE LEGISLATURE

POUCH Y - STATE CAPITOL  
JUNEAU, ALASKA 99811  
907-465-3800

LEGISLATIVE AFFAIRS AGENCY  
LEGISLATIVE REFERENCE LIBRARY

May, 1988

Copies of minutes listed below were originally included in this file. The minutes are available on the STAIRS database CMPR. In order to save space copies of minutes have not been left in the files.

Mary Van Nimwegen

H. TRANS.

4-6-88

1:30 p.m.

# HOUSE COMMITTEE REPORT

(7)

Date referred: 3/24/88

FURTHER REFERRALS:

Finance

DATE: 4-6-88

The Transportation Committee has considered SB 463

"An Act relating to unused airline tickets."

**RECOMMENDS:**

- replace with \_\_\_\_\_  the same title
- attached amendment(s)  a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the \_\_\_\_\_ Committee

**ADOPTS:**  \_\_\_\_\_ letter of intent

**ATTACHES NEW FISCAL NOTE(S):**

- fiscal impact  same as previous fiscal note published \_\_\_\_\_
- zero fiscal note  same as previous zero fiscal note published 3-3-88
- zero with analysis

**SIGNING DO PASS:**

*Bill Hudson*  
 \_\_\_\_\_  
*W. G. ...*  
 \_\_\_\_\_  
*Butte Cat*  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

**SIGNING OTHER RECOMMENDATIONS:**

*Mike Miller* No Rec  
 \_\_\_\_\_  
*Gene ...* - No Rec  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

*Butte Cat*  
 \_\_\_\_\_  
 Chairman's signature



Official Business

**COMMITTEE:**

House Transportation Committee

**DATE:** April 6, 1988

**SIGN-IN**

**Subject of meeting:**

\* HB 150: "An Act relating to taking a propelled vehicle of another."

SB 463: "An Act relating to unused airline tickets."

**NAME** Please include title **ADDRESS** Please use full address. Please include zip. **PHONE** **REPRESENTING** **DO YOU WANT TO TESTIFY?** *which bill*

NAME Please include title	ADDRESS Please use full address. Please include zip.	PHONE	REPRESENTING	DO YOU WANT TO TESTIFY? <i>which bill</i>
✓ Mike Cerkovnik	UP Finance and Controller PO Box 196769 Anchorage AK 99502	243-1444	Mark Air	SB 463
✓ Steve Klett	DOR P.O. Box SA JUN	465-2320	Dept of Revenue	SB 463
Sen. Josephson				SB 463
Stephanie Joannides	Law - PO Box K	5-3428	Dept of Law	HB 150 ✓
✓ Reed Stoops	Box 1211 Juneau	6-3340	AACA	SB 463

\* indicates first public hearing