

Minutes -

House Only

HEARING DATES AND TOPICS

- January 18 -- House members. House organizational meeting. Initial subcommittees established and three phase plan adopted.
- January 29 -- Joint meeting with Senate members. Economic overview of Alaska. Witnesses: 1) Commissioner Tony Smith, Department of Commerce and Economic Development, 2) Lee Gorsuch, Director of ISER, 3) Dave Rose, Executive Director, Alaska Permanent Fund Corporation.
- February 1 -- Joint meeting with Senate members. Economic overview of Alaska. Witness: Commissioner Tony Smith, Department of Commerce and Economic Development. Discussed the Real Estate Investment Trust and the HOAP program within the Department.
- February 8 -- House members. Economic overview of Alaska, Private Agencies. Witnesses: 1) Malcolm Roberts, Commonwealth North, 2) Mike Abbott, Resource Development Council, 3) Alex Kochkin, ASK* Information Search, 4) Peter McDowell, Alaska State Chamber of Commerce. Discussed ways to help economic recovery.
- February 9 -- Joint meeting with Senate members. FDIC housing issues. Witnesses: Jay Hone, Larry Schannault and Martha Hicks, Federal Deposit Insurance Corporation. Discussed possible remedies for dealing with the large number of loans held by the FDIC.
- February 10 -- House members. Committee activities. A timeline of Committee activities was established and the Housing and Banking subcommittee were requested to hold hearings and make a recommendation regarding the Anchorage Economic Development Corporation's (A.E.D.C.) proposal to assess the FDIC Alaska portfolio. (no tape or transcript)

- February 15 -- House members. Economic overview of Alaska, Regional perspectives. Witnesses: 1) Eric McDowell, McDowell Group -- Southeast perspective, 2) Bob Keller, Fairbanks Native Association -- Rural Perspective, 3) Leslye Korvola, Fairbanks North Star Borough -- Interior. Summaries of the economic activity and needs of the regions.
- February 22 -- House members. First report of the Housing and Banking Subcommittee specifically regarding the AEDC proposal to assess the FDIC portfolio. Collection of Disputed Assessments. Witnesses: 1) Commissioner Hugh Malone, Department of Revenue, 2) Senator Jan Faiks, 3) Steve Kettle, Department of Revenue, 4) William Floerchinger, Director, Division of Oil and Gas. Discussed various proposals and methods of expediting collection of disputed back tax assessments.
- February 29 -- House Members. Economic overview of Alaska, review of the Fischer Report. Witnesses: 1) Victor Fischer, 2) Gregg Ericson, Office of Management and Budget, Office of the Governor. Discussed Fischer's report to the Mayor of Anchorage on the economic condition of that community and possible ways to remedy the stricken economy. Also report from the Subcommittee on Housing and Banking.
- March 2 -- House members. Subcommittee reports. Reports of the Resource Development, Transportation, Employment and Industry and Small Business Subcommittees. Also discussion of Willow Park Resolution, Homeporting, and recyclable products. (Tape, but no transcript possible due to machine error)
- March 7 -- Joint meeting with Senate members. Economic overview. Witness: Dr. Ryan Amacher, Economist, Clemson University. Discussed general economic theory and its application to Alaska's economy. This meeting was followed by a meeting of the Senate members regarding the Hallwood Bridge Bank proposal and FDIC issues.
- March 8 -- House members. Subcommittee Reports. Reports of the Rural, Interior and Southeast subcommittees were presented to the committee members. (no transcript)
- March 9 -- House Members. Presentation by Commonwealth North: Using the Permanent Fund as a Positive

Counter-Cyclical Force in the Alaska Economy. Witnesses: Malcolm Roberts and Loren Lounsbury of Commonwealth North. Discussed the elements of this plan, specifically the proposal for an Alaska Economic Index.

- March 11 -- House members. Subcommittee reports. Continued action on reports, review of all subcommittees and draft reports. Witness: 1) Gail Gatton, Alaska Environmental Lobby. (no tape or transcript)
- March 16 -- House members. Subcommittee reports. Continued discussion of Resource Development etc., Small Business and Housing and Banking reports. "Southwest Plan", Residential real estate (HJR 72) and Alaska Economic Index (HCR 52) resolutions discussed. The last two were approved for introduction.
- March 18 -- House members. Consideration of Senate recommendations. Housing and Banking progress was discussed. Senate Bills were referred to subcommittees. Addendum of the Interior Report was adopted. "Southwest Plan" resolution was discussed.
- March 23 -- House members. Report on Senate actions, the Housing and Banking Subcommittee interim report and review and approval of the Executive Summary by the House members.
- March 25 -- House members. Subcommittee reports on Senate Legislative Recommendations. Presentation and approval of proposed legislation of Housing and Banking Subcommittee (HB 549, HB 550, HCR 54) and the "Southwest Plan" (HJR 73). Committee report is issued.
- March 30 -- House members. Review of Senate recommendations, status report of House members' legislation before Senate committee members and discussion of future committee activities.
- April 7 -- House members. Overview of multistate insurance antitrust suit. Witnesses: 1) Tom Dove, Assistant Attorney General, California Attorney General's Office, 2) Dick Monkman, Alaska Department of Law, Antitrust, 3) Paul Roller, Alaska Department of Commerce and Economic Development, Division of Insurance. Also discussion of Housing and Banking legislation (HB 555).

- April 8 -- House members. (Anchorage) Public testimony on activities of the Committee and long term plan. Witnesses: Jerry McCutcheon, Belle Dawson, Norman Rokeberg, Alan Fuller. Also discussed and approved for introduction AEDC proposal regarding tax exemptions and deferrals of economic development property (HB 557).
- April 9 -- House members. (Anchorage) Public testimony on activities of the Committee and long term plan. Witnesses: 1) Charles Konigsberg, 2) Jack Keane. Also Scott Hawkins of AEDC and Ted Moninski of the Alaska Public Utilities Commission (APUC) discussed the AEDC's utilities bill.
- April 11 -- House members. Continuation of the overview of the multistate insurance antitrust suit. Witnesses: 1) Paul Roller, Division of Insurance, 2) Craig Berrington, General Counsel to the American Insurance Association. Discussed the committee's and the state's role in the insurance dispute.
- April 15 -- House members. Continuation of the overview of the multistate insurance antitrust suit. Witnesses: 1) Doug Mertz, Department of Law, Environmental Conservation, 2) Harlan Knudson, Health Association of Alaska. Mertz discussed the threatened insurance company action towards Alaska vis-a-vis Department of Environmental Conservation. Knudson discussed cost of insurance to health industry. Proposed letter to the Governor submitted to members and language for resolutions.
- April 22 -- House members. Status of Committee introduced and supported legislation. This also included a discussion of HB 432 and HB 555. Update on the insurance issues and discussion of final report. Also some discussion of interim activity.
- April 28 -- Joint with the Senate members. Testimony of Dean Lester Thurow of the Massachusetts Institute of Technology. Discussed economic consequences of specific Alaska legislation and proposals. (House members were unable to attend as floor session carried over)
- April 29 -- House members. Final meeting. Status of Committee introduced and supported legislation. Resolution urging state involvement in the

multistate insurance antitrust suit is approved. HERC committee resolution is approved for introduction by Rules (HR 14). (no tape or transcripts due to machine error)

There were no more meetings of the House members of the Joint Committee on Economic Recovery held during the session. The House Economic Recovery Committee was created by House Resolution on May 7, to meet through the interim and continue the work of the House members.

12-15-71

Joint Committee on Economic Recovery

House

January 18, 1988

Present: Representative Max Gruenberg (chair)
Representative Red Boucher
Representative Steve Reiger
Representative Drue Pierce
Representative Mark Boyer
Representative Fran Ulmer

Rep. Gruenberg: We have a memo we have prepared for consideration. We have appointed tentatively the subcommittees, a list will be out.

Rep. Reiger: Banking
Rep. Boucher: Small Business
Rep. Koponen: Interior
Rep. Navarre: Natural Resources
Rep. Brown: Housing
Rep. Miller: Employment and Industry
Rep. Adams: Rural
Rep. Ulmer: S.E. Alaska

We plan to send out a memo to other House members, in the mailboxes today, asking them what subcommittees they want to be on. Then we will see who we want to participate. I want as broad a participation as possible on a bi-partisan basis, looking at the best ideas from around the state, specifically addressing the economic situation. Since this is a committee to address the economic situation, let's be flexible so you can each deal with your own areas of expertise. Next week we can start with general overview testimonies. First, we'll look at legislation already in, then working up our own, then as a long range solution, make recommendations for subsequent sessions. The subcommittees will make legislative recommendations to the full committee and they will go through the usual process.

Rep. Brown: Where would the commercial real estate issues fall?

Rep. Gruenberg: It could fit into many areas. Some things will not fall directly under one subcommittee, so you can work together on some issues.

Rep. Koponen: We shouldn't consider economic recovery as just getting back to where we were before, but that we also look at going on, urging people to take advantage of opportunities that have opened up; because we were not good enough before, not competitive enough.

Rep. Gruenberg: We're open to that idea, and are interested in the long term. The question was asked about the Senate participation here, it's up to the Senate leaders how they will organize their part of this

committee. These subcommittee subject matters seem to be comfortable for the Senate members.

Rep. Ulmer: Why isn't there a south central subcommittee?

Rep. Gruenberg: The Southcentral matters seems to fall into certain areas of subject matter already set up in the other subcommittee, i.e., housing, banking, etc.

Rep. Reiger: I think there's going to be a lot of overlap, even amongst the functional committees there'll be overlap. This is a way to see that areas of focus, get that focus, in defense of the Chair.

Details of scheduling were discussed.

Rep. Boucher had concerns about the further regionalization of the state, also getting ideas from all over the state on what people's successes are.

Rep. Miller recommended narrowing our focus as soon as possible and addressing issues we can do something about right now.

Rep. Gruenberg adjourned the meeting.

Tape # 1, 14

Joint Committee on Economic Reform 1/18/88
Organizational Meeting

4:18 PM, Meeting called to order.
All members present.

tape #'s

- 26 -- subcommittees discussed
 - 80 - subcommittee membership, methods
 - 110 -- proposed three phases of the committee process described
 - 143 -- Rep. Brown: Wishes to focus on Commercial and residential real estate market.
 - 168 -- Rep. Koponen: Discusses a need to go beyond just a return to "where we were". Take advantage of the decline of the dollar and realize the benefits to tourism.
 - 215 -- Senate involvement discussed.
 - 240 -- Rep. Ulmer: Asks why there is no Southcentral Regional Committee. General Discussion ensues regarding the committee structure.
 - 275 -- Rep. Rieger: Describes the necessary overlaps that will occur with the subcommittees.
 - 380 -- Boucher wishes to discuss successful small businesses as opposed to failures.
- General discussion of subcommittees, overlapping and merging. Rep. Rieger asks if there might be a deadline or date for the "passage" of legislation added to the list.
- Meeting is adjourned at 4:50 PM

Joint Committee on Economic Recovery
House
February 8, 1988

Present: Representative Max Gruenberg (chair)
Representative Niilo Koponen
Representative Mike Navarre
Representative Fran Ulmer
Representative John Sund
Senator Jalmari Lehtola

Several members are excused, or in other meetings.

Testifying: Malcolm Roberts, Commonwealth North Exec Dir.
Mike Abbott, Resource Development
Alex Kochkin, ASK
Peter McDowell, State Chamber of Commerce

Mr. Roberts: We look at issues facing the state and make recommendations on public policy. (Brief background of company)

We appreciate the invitation to be here. The crisis is statewide, not just Anchorage. The solutions we seek must address the long term weaknesses, not short term. The problems were not started by the real estate industry or greedy bankers. If oil had stayed at \$27, they would have been heroes. The impact of the drop of the price of oil affected all of us, but this is only one phase of the problem. A full 82% of the state revenues came from the north Slope. As we all know, Prudhoe Bay oil will soon see a decline. It was 14 years ago when the pipeline began, and 14 years from today with expected production drops, the pipeline will be running at $\frac{1}{4}$ what it is now, 502,000 barrels/day. We must find a new partnership to get things moving. We would urge the state to assist our municipalities with the money so designated to be utilized by putting to work idle businesses and contract labor, rather than expanding municipal public works departments. We recommend you use private companies whenever possible to do the work, the private sector can easily expand and easily contract, but once you enlarge the public payroll it is difficult to reduce it. We have a program to support our municipalities and local governments. We must put into motion the construction of roads, rail extensions, hydro-projects, water and waste water facilities, docks and ports, all of which can pay their own operating and maintenance expenses and generate revenues to pay the state for the initial investment. We urge you to take a statewide view, and look at long term solutions for an economy that's dangerously dependent on one source of revenue.

Rep. Navarre: What do we use as a money source with dwindling oil revenues?

Roberts: We will be publishing a text called the Alaska Development Board where we will make a number of specific recommendations on that,

but I would suggest AK is one of the more fortunate states in terms of not only resources in the till, but capacity to tackle other projects.

Mr. Kochkin reiterated the problem of dependency on oil. He outlined the purposes of marketing beyond just advertising, brochures, etc. and illustrated his point with the fisheries and tourism industries. He's talking with others about developing a plan to tie in various capital projects to help smaller industries or businesses work together with other businesses to offer helpful services to customers.

Rep. Gruenberg asked the necessity of a coordinated, state economic policy. Mr. Kochkin commented that it would be useful especially in coordinating information, but that it would be difficult. Rep. Gruenberg requested information on good ideas which other states are doing to improve economic recovery.

Questions for Mr. Kochkin continued.

END OF TAPE (Side B only)

Mr. Abbott: As you know the Resource Development Council has been working on economic development concerns and issues for more than 12 years now. These programs we would advocate would have similar benefit and application at any time, not just now. In the area of fisheries, I should also mention we have tried to maintain a non-budget impact so I won't be mentioning areas that might impact the budget process. The RDC strongly supports the development of mariculture programs. There's some doubt as to if it's legal, we like to see the legislature introduce a regulatory and management program that would alleviate any problems that might follow. We believe it would have a tremendous economic near term impact. In terms of Forestry, the RDC is strongly supportive of the state's development of it's own timber resources and the ability to allow for the development of non-state timber resources as well. We feel the Forest Management Agreement process is a likely candidate to allow the state to enhance it's forest management program, but we don't feel that's the only way. There is opportunities that can be taken advantage of without forest management agreement, similar to those developed in Canada, and we'd like to see the legislature take action to allow those to take place. In terms of tourism development, we're very eager to see the state enter into a program with the federal government in the Denali area. Although there is a near term impact in terms of matching federal funding, we think there's policy oriented questions the state could be looking at. We're very disappointed, for example with the process the Div. of Parks used to analyze the issue of helicopter landings in Chugach State Park. There proved to be a flaw in the park concession and management process. You're talking about a positive economic development impact with little or no environmental impact. We'd like to see the park management system through legislation be a little more responsive to the opportunities out there. These parks are not to be managed as federal parks, they do not have the same goals in mind. Our parks were created with an eye for using them to enable Alaskans to utilize the park in a manner consistent with the use for which they were created. In the area of mineral development, we've

proposed a number of changes to state statute in areas ranging from water quality assessment standards to coastal zone management review, etc. There are actions that can be taken at this point that can increase the industry development. In the area of oil and gas development, I feel compelled to mention we totally support the development of ANWR resolution. Getting off of that as quickly as possible, we've also proposed a program of incentives, including the removal of certain dis-incentives. In discussions we've had with members of the RDC council involved in oil and gas development, there is great support for removal of disincentives to areas of oil and gas as well as incentives. There's a great deal of interest in revenue-positive programs to take advantage of at this time. We're also working on a variety of other programs, land management oriented, that aren't generally associated with near term economic recovery, but in fact are likely to help the state's economy over the long term, and in fact likely to demonstrate some short term benefits as well.

Rep. Gruenberg asked about the need for a comprehensive state economic policy.

Mr. Abbott: We support the development of language and statute that's going to give state employees and the administration a bit of guidance in this area. There is a risk though, that might in fact distract them from looking at actual regulatory and statutory changes that can have direct impact on what we're doing. Many of you might remember the state, a few years ago, passed an economic development statute. Although we supported that statement at the time, and we still support the tenets it generated, I think you'll find very little use of that or very little reference to it. We support positive statements, we would hope that wouldn't reflect all the attention away from specific policy and statutory changes that need to be made.

Rep. Gruenberg asked if Mr. Abbott knows of specific suggestions from other states in terms of state policies, etc.

Mr. Abbott: It's difficult for Alaska to draw upon exact references from other states mostly because our situation is so different. We are not in a position similar to any other state, in terms of ownership of resources, land management, etc. To draw upon some other states' programs might turn out to be relatively unsuccessful, but we are looking for good ideas.

Rep. Gruenberg asked about providing positive incentives for development of highly expensive, risky, marginal oilfields.

Mr. Abbott: The 2 specific programs we have advocated that fall under that category, is the reinstitution of oilfields on state land, which would provide a royalty break of some percentage for operators that discover a new field, for some years. The other program we supported is a consistent use or mandatory use of exploration ? credits in the leasing program, we think both of these are product oriented and production oriented incentives that are likely to generate new activity. There are always going to be marginal fields in Alaska. We do not feel it is the responsibility of the state to make every incidence of oil

profitable for commercial extraction. We do feel, however, that this line of what's marginal and what's not is one the state should be prepared to be flexible in evaluating, depending on it's own economic circumstances. We hope our incentive program would allow the state that flexibility.

Rep. Sund wanted Rep. Gruenberg to reference the statute Mr. Abbott referenced as AS 44.99.100, the economic policy statute. Rep. Gruenberg clarified his question in reference to that statute.

Peter McDowell: One of my capacities as co-chairman of the AK. State Chamber of Commerce/Comm. on Strategic Planning for the 1990's. You have a copy of our report entitled Report to Alaska's Economic Leaders, recently reprinted in the form you have now. We invite you to exercise economic leadership collectively and individually. We recommend you study what the private sector has said about economic leadership, in particular, 5 documents included in this report you have here. We encourage you to begin and expand the education of Alaska's people, especially it's children about their economy, and recognize the importance of Alaska's political economy to other facets of life in the state. To become educated about the nature of economic change in the world and it's effect on Alaska. To insist on sound diagnosis as a basis for economic strategy. To require that economic programs be monitored and evaluated for sure public accountability and necessary adjustments. To participate in shaping a vision of Alaska's economic future. To identify actions compatable with that vision and motivate people to undertake them, and finally to join with us in the State Chamber of Commerce in a state-wide public-private and university partnership to provide the leadership for economic expansion and diversification. First I'll give you a framework for understanding the Alaska economy. Our first major conclusion during the 2 years we spent developing this report is that an export base model is the most appropriate framework for facilitating an evaluation of the Alaska economy, based on a very straight-forward premise that is that business sectors which bring cash into the economy are part of the export problem. Since long before contact with the Russians, we have been exporters, usually a very high grade of natural resources. We also export geo-political location to the U.S. military, public domain, federal-civilian agencies and scenic and recreational resource values to tourists. An export base analysis performed on a community, region, state or nation, divides the economy into 2 segments: the firms and individuals primarily serving export markets and those serving markets internal for the local economy. The goods and services which the community sells outside it's boundaries are considered exports. These include all sales made outside the community, not just trade with foreign nations. All remaining goods and services serve the local markets. In this division of markets there is a cause and effect relationship. Export markets are considered to be the prime movers of the local economy. If employment serving these markets rises or falls, employment serving the local market is presumed to move in the same direction. Thus, if a basic industry must lay off workers, the local retail merchant will feel the impact as the laid off workers have less to spend, or will leave that local economy. Because of this, export sector economic activity is basic. Employment which serves the local market is considered adaptive, and is called secondary.

The fundamental insight is no basic, no secondary. The basic export sectors that play the prime role in Alaska's economy are oil and gas, fishing, timber, minerals, coal, travel and tourism, national defense, federal-civilian services and the PFD. We see the biggest single portion of the export model is oil and gas, about 2/3 in 1986. In 1986, the lowest year we've had for oil in several years, oil was still 2/3 of the value of total exports, even after the drastic price drop. Another area is fishing, the value of fish caught by resident fishermen in AK waters in 1986 is estimated to be \$300 mil. Dollars generated from timber are estimated to be about \$200 mil. Coal at \$25 mil. primarily represented exports to Korea. Travel and tourism, estimated at over \$500 mil for 1986, excluding transportation to and from AK, and this only represents about 3 months worth of activity. Defense building in AK was about 1.6 bil. If you do have some basic economic activity, and even a low year, then you will have a secondary economy. We identify transportation, world markets and international trade, private retail and wholesale trade and services, state gov't. services, transportation and construction services, and local government services as the essential secondary sectors active in the AK economy. The jobs in these sectors are important, the more goods and services available in the state, the lower the leakage of purchasing power from the basic economy. Growth in support sector jobs is however severely constrained by growth in the export sector, the lower the exports, the lower the level of support required. In the recent past, AK has had a large export surplus mainly because of Prudhoe Bay. That has changed. Another insight about the export model is export and basic sector projects are the only ones that have a multiplier effect. They create more jobs in total than those related to the basic industry projects. We take the position that AK needs all the export projects it can get, that the size of the enterprise is also an issue and so is it's liability. We suggest the export model as the initial framework to analyze the economic projects, communities, and state as a whole. I would suggest if projects do not have a positive impact on the expansion of AK's import model shouldn't be undertaken. The commission also has suggested 6 statewide strategies for development and diversification:

1. Continuing support for existing basic sectors. We believe a fundamental strategy we all need to be aware of is that retention of our existing economy should take 1st place.
2. We encourage the consideration of starting up a software development sector. The compound growth rate for software has been second only to telecommunications.
3. We recommend increasing the national defense presence in AK, and aggressively marketing our geo-political location.
4. Expanding AK participation in the growth and Americanization of commercial fisheries.
5. Substituting for imports of insurance services and investment services.

(Brief examples.) These suggestions are documented in the report. We offer these opportunities to you in hopes that they may work to the enhancement of the AK economy through the leadership of it's public and private sectors.

Rep. Koponen mentioned the problem of software investment is the high cost of phone lines.

Rep. Gruenberg asked if controlling the supply of Alaska's resources would help create more wealth. Mr. McDowell didn't know. Rep. Gruenberg also asked him his view of setting up a comprehensive state economic policy.

Mr. McDowell: The commissions view has always been that there needs to be a consensus, among Alaska's economic leaders, about how it works and how to make it grow. If that's what you're talking about. To process education and understanding. We suggested earlier you put the export model up against any projects you're looking at.

Rep. Gruenberg: Aren't there certain kinds of things that will have a multiplier effect if done internally?

Mr. McDowell: Within limits, you can use the assumption, no exports, no multiplier. There's very little multiplication in this economy.

Rep. Gruenberg: What are your thoughts on the possibility of trade with Canada?

Mr. McDowell: I'm not convinced there's much demand in the Yukon. It's the same kind of resource-export economy.

Rep. Koponen asked what we could do to make internal investment more attractive.

Mr. McDowell: read from a paper he wrote. He said the infusement of management-technical assistance need to be incorporated into the investment project.

Rep. Sund feels the greatest restriction to development in the Alaskan economy is in the management of our resources. He wanted to know if the state should spend more than 6¢ of every dollar to manage resources. Mr. McDowell didn't have any idea, but he did agree that management of resources is a partnership. He mentioned the case of many types of crab that are harvested but we have no idea of how they reproduce, and soon there'll be no more to catch because we will have wiped them out from not understanding how to keep them going.

Sen. Kerttula made a brief remark of concurrence with the subject at hand.

Rep. Gruenberg adjourned the meeting at 10:22.

Joint Committee on Economic Recovery
House

February 15, 1988

Present: Rep. Max Gruenberg, Chair
Representative Cliff Davidson
Representative Mike Miller
Representative Fran Ulmer

Witnesses:

Eric McDowell
President, McDowell Group

Bob Keller
Fairbanks Native Association

Leslye Korvola
Fairbanks North Star Borough

TAPE ONE, SIDE ONE

Rep. Gruenberg calls the meeting to order and states the committee will consider the economies of the state on a regional basis.

Eric McDowell states the McDowell Group (Group) has done management consulting in Alaska for 16 years, including 200 to 300 studies of the state regional and local economies and other projects. McDowell states Southeast Alaska looks homogeneous, but it is not, and it is considered in three economic regions: (1) Juneau, (2) other urban communities, and (3) rural or villages. McDowell refers to material which has been distributed describing the proportion of the regional economy which is due to each of the major industries. State government is the largest industry, one-third of the economy, basically in Juneau; second is fisheries, including harvesting and processing, or one-fourth of the economy, and third is forest products. Federal government represents approximately 14% of the economy, and tourism is 7%, construction is 2% and mining is less than 1% at this time. Southeast compared to all of Alaska has lower than average employment in mining, finance, insurance, real estate and university as well as service and trade, but is heavier than other areas in manufacturing and government.

McDowell states Juneau constitutes 40% of Southeast in population and employment, with 2/3 being government. Juneau's growth and decline parallels the Railbelt area;

losing a slightly greater portion of its economy than Anchorage. Juneau's growth also parallels Anchorage.

Rep. Gruenberg states the budget for state government follows by a year or two the growth of the economy elsewhere because of oil royalties, and asks if Juneau is directly parallel or if there is a lag. McDowell responds there is a time lag in terms of government and activities; however Juneau is first to react to budget changes.

McDowell describes medium to small urban communities as Ketchikan, Sitka, Petersburg, Wrangell, Haines and Skagway and states they are not as severely effected by changes in state government as is Juneau. Primary changes in their economy are related to forest products and fisheries, and they have a cycle independent of the rest of the state, more closely resembling Kodiak, parts of the Kenai Peninsula and Prince William Sound. Forest products are the primary economy, together with fishing. McDowell points out that the forest products suffered a slump but has been recovering since 1985 and is currently strong. Long term growth is not considered; cycles are primary. McDowell states tourism has an impact on Ketchikan, Sitka, Haines and Skagway, as well as Juneau.

The rural or village Southeast Alaska includes Metlakatla, Klawock, Craig, Kake, Angoon, and several other small communities. They are subject to the cycles of fisheries and forest products, but because of their poorer economy they do not receive benefits of up cycles to the extent the small urban communities do as they do not have plant and equipment investments. Good fishing years do not mean a good economy for these areas. Although some benefits are derived from forest products, it does not ensure employment for the Native people in the area. Third, they are sensitive to changes in state and federal economic programs, and have suffered from the cutbacks in state programs. Subsistence is important to the lifestyle in the rural and village areas.

McDowell distinguishes differences between rural Alaska and Southeast and the very rural western regions -- all of the villages in Southeast have reasonable access to regional centers because of transportation systems connecting the communities, and because of timber and fishing they are slightly stronger than the most remote villages in Southeast. Income is significantly below the rest of the Southeast economy.

Rep. Gruenberg refers to the access to the Marine Highway System, asking if the poorness of the residents isolates them. McDowell responds the Marine Highway System is available as fares are reasonable when compared to air fares.

Rep. Davidson asks the average family income in a village. The figure is not available at this time.

McDowell refers to trends in industries -- state government is down; fisheries is presently strong and stable but nature and regulation, including limited entry, limits the growth potential, and forest products are also cyclical; the federal government has been stable, but has been reduced regionwide; tourism is stabilizing; construction will continue to be severely depressed; mining is insignificant but shows new development that is a positive factor.

Rep. Ulmer asks for comments on the housing industry in Southeast, stating most testimony taken by the committee has referred to the Railbelt area. McDowell responds that the Group has completed work for the Juneau Economic Commission, and states Juneau's real estate situation is comparable to Anchorage's, with at least 1,000 vacant units and poor market conditions. Rep. Ulmer asks if the ferry service cutback has had an impact on Southeast. McDowell is familiar with the situation, and points out that cost of transportation must be considered in cost of living. Transportation prior to the ferry system was extremely expensive, and the ferry system has reduced that expense. McDowell states that commercial fares are considered quite high by some individuals.

Rep. Davidson refers to the trends in fisheries and asks for comments on limited entry and the push in Southeast to become more involved in other species. McDowell clarifies that Davidson refers to limited entry's effect on non-limited entry. Limited entry has an enormous effect on non-limited entry -- everyone wishing to fish has no choice but to fish halibut, black cod, or whatever is unlimited; the effect of expanding the effort on unlimited species and thus contracting the seasons. McDowell points out this was necessary to rebuild the resource, and removal of the foreign fleet from the eastern gulf in the early 1980's was a major source of impact. Davidson asks how limited entry has affected youthful entry; is access denied to the only economic opportunity village youth might have? McDowell responds access is denied to those financially unable to buy in, but in any industry there is cost of entry. McDowell confirms that the system as it is denies access to less economically capable, especially in village Alaska, or those who do not have any other economic means to gain capital for investment. McDowell confirms that there is a trend where limited entry permits are leaving the villages, particularly seine permits.

Rep. Gruenberg asks for suggestions on what the legislature might do to assist in any of the three sub-regions. McDowell responds he is not familiar with pending legislation, and he believes two major problems should be addressed: (1) housing and real estate, which is debilitating to Juneau in particular, and (2) look at village Southeast to determine what programs that have been cut back have made the most significant impact, and perhaps restore them.

Rep. Gruenberg calls on Robert Keller and Leslie Korvola to testify, via teleconference. Ms. Korvola states she is with Community Services for North Star Borough. Korvola refers to a quarterly report recently distributed by the Borough to give a comprehensive view of employment, housing, cost of living and other factors. Rep. Gruenberg states the Committee has the document. Korvola states the data is not necessarily representative of the entire Interior region. Korvola focuses on the section entitled "Economic Inflight" because it focuses on the expectations of the community, and urges the Committee to review it carefully. Korvola states the article underscores the importance of revenue sharing.

Rep. Gruenberg asks Ms. Korvola to refer to figures by page number. Gruenberg states he has the "Fall 1987 Edition" and at page 78 is table 61. Korvola states that is not the most current edition. The correct document will be transmitted to Juneau for distribution. Korvola states the article deals with the dilemma in the local economy. Korvola states there are various ways to deal with the reduced income; and points out that when state moneys are no longer available at the same level, the Fairbanks economy cannot fully recover. The Committee has no questions. Regarding employment, Department of Labor statistics indicate that government is a significant part of the local employment picture. Korvola points out that nearly one-half of the local government employment is at the University.

TAPE ONE, SIDE TWO

Robert Keller testifies from Fairbanks via teleconference. Keller describes his role at Fairbanks Native Association, stating they have had an economic development program since 1982 to assist individuals starting in private businesses. Keller presently supervises a project attempting to identify ways to employ low-income people in the Fairbanks Borough area. The Native Business Center under Bureau of Indian Affairs funding works statewide for Native business enterprises, and the Small Business Center is a state Department of Commerce program serving the Interior and North Slope, not restricted to Native Alaskans. The Center is funded by the state at a level substantially below that of 1986. Keller discusses an address by Rep. Miller at the Chamber of Commerce when he pointed out that the first thing cut is economic development. Keller agrees. Referring to the Native Center, Keller describes plans to open a ski resort with cross country trails, and hiking trails for summer as a recreational and tourism facility. Community and Regional Affairs has assisted in the project. Keller points out that to be successful, good technical assistance must be provided.

Keller describes a project for fish processing in Fairbanks, pointing out the marketing and packaging procedure and the hope of developing a salmon sausage line for nationwide sales.

The final project is the Arctic Co-operative of Tanana Chiefs, serving villages in the interior social services system. Arctic Co-operative stands for Alaska Resources Commodities Trading and Investment Company, buying botanical products and packaging them for Christmas sales through mail order industry. Keller believes there is great potential, a willingness to work and seize the potential in the area, and there needs to be support at the State level, consisting of (1) marketing through a central source, and (2) reasonable levels of financial assistance. Keller urges that AIDEA be encouraged to reach out into the interior and small Native groups. Keller states small projects can be successful.

Keller met with a business analyst who studied interior villages and summed the experience, stating the state needs to take a positive action to assist miners, many of whom are about to lose everything they have worked many years for because the Administration does not take a positive view toward mining. It is suggested the State enter the court cases on the side of the miners. For agriculture it is suggested the state make land available on a fee simple basis by lottery or market price at terms for conversion to farmlands. Keller describes the failure of the Delta farm project. Keller urges the state return to lending for tourism oriented projects. Keller suggests tourism be promoted more, especially for winter months. Wilderness lodges should be promoted. Keller points out that financing is difficult for anyone in the rural area. Keller believes there is no shortage of "intelligent, hard working people who if given half the chance could operate profitable businesses." Keller urges orderly planning to avoid boom and bust cycles, and assistance for marketing and tourism.

Keller supports the Community and Regional Affairs' program known as Rural Economic Development Initiatives, which has \$3.2 million for rural communities, and describes the requirements for qualification.

Rep. Gruenberg thanks Mr. Keller for the many suggestions and asks that Keller send a follow-up letter for the Committee.

Mr. McDowell refers to program recommendations, and states with regard to development, he has seen many state and federal programs come and go, some successful, some not. McDowell encourages that Keller consider two, both involving generic marketing, one for tourism and one for fisheries, both of which yield excellent returns for the investment and receive support from the private sector. McDowell refers to Alaska Seafood Marketing Institute and Division of Tourism programs. Additionally, McDowell states the political influence of the legislature can be used to great advantage with regard to resources issues. McDowell states his firm has completed a two year study of the impact of tourism in Alaska, and economic information is available.

Rep. Gruenberg suggests copies of statistics and data be provided for the Committee.

Ms. Korvola agrees with Mr. McDowell in support of generic marketing, and also supports tourism development. Korvola urges that money be spent carefully to give a good return and have long term merit.

There being no further comments, the meeting adjourned at 9:55 a.m.

Joint Committee on Economic Recovery - HOUSE
February 22, 1988

Present: Rep. Max Gruenberg, Chair
Rep. Kay Brown
Rep. Steve Rieger
Rep. Niilo Koponen
Rep. Steve Frank
Rep. Fran Ulmer
Rep. Sam Cotten

Witnesses:

Hugh Malone, Commissioner
Department of Revenue
P. O. Box 5
Juneau, Alaska 99811

Sen. Jan Faiks
P. O. Box V
Juneau, Alaska 99811

Steve Kettel
Department of Revenue
P. O. Box S
Juneau, Alaska 99811

William E. Florerchinger, Director
Oil and Gas - Audit Division
550 West 7th, Suite 560
Anchorage, Alaska 99501

TAPE ONE, SIDE ONE

001

Rep. Gruenberg calls the meeting to order and asks Rep. Brown to report to the Committee.

Rep. Brown states the subcommittee on housing and banking met 12 hours over a week-long period to hear testimony and evaluate proposals. A written report has been distributed. Rep. Brown states the Anchorage Economic Development

Corporation proposal was reviewed. That proposal asks for \$250,000.00 to assess FDIC foreclosed loans and failing properties. The subcommittee recommends against the proposal at this time, although it has served as a catalyst, and the subcommittee will reconsider it after further work. The subcommittee will review "orphan" loans, those having difficulty and working without a bank. Brown states that 85% of the portfolio is business loans, and the balance is real estate loans. The other proposal studied was Real Estate Stabilization Trust, and this study is not yet completed. Brown states that proposal would set up an entity to receive foreclosed loans and the state would be asked to buy into the trust for \$150 million, and to loan additional sums in the future if needed for cash flow. Brown states the problem is a \$2 billion problem in real estate, and about one-half is involved with state agencies. The subcommittee considered whether state involvement would be effective, and much caution was urged from witnesses because of the effect on renters and non-property owners. The reduction in rent in Anchorage is estimated to be about \$72 million coming into the economy, or 14 new jobs. Brown states there are positive side effects -- stimulation of the economy through competition.

Brown states the subcommittee considered Federal Asset Deposit Disposition Association, set up to sell properties from failed savings and loan associations in the fall of 1985 with \$25 million. Brown states the Association is losing \$1 million per month and has asked the federal government for an additional \$10 million. Brown believes this indicates there are difficulties with this type of agency. Brown states the subcommittee will focus on residential properties in its study.

180

Motion by Rep. Koponen to accept the report of the subcommittee on housing and banking.

Rep. Rieger believes it is important that the committee look at other proposals. Rieger states the question is the recommendation to appropriate \$250,000 which is preparatory to the state becoming owners of a portfolio of loans. Rieger believes the proposals are seeking assurance that the market will act rationally.

There being no objection to accepting the subcommittee report, it is so ordered. Rep. Gruenberg states the report will be submitted to all members of the House and the Senate.

235

Rep. Gruenberg states the Committee will recess to 9:00 a.m., at which time the Commissioner of Revenue will address the

Committee, and that Senator Faiks will speak to the Committee at 9:45 a.m.

250

Rep. Gruenberg calls the meeting back to order. Present are Reps. Miller, Ulmer, Koponen, Navarre, Boyer and Davis.

255

Commissioner Hugh Malone of Department of Revenue states that staff members Bill Florerchinger, head of Oil and Gas Audit Division; Steve Kettel, head of Income Audit Division; Carl Meyer, head of Appeal Section, Deborah Vogt, head of Hearing Section, special assistant Royce Weller, and Bruce Botelho of Department are also present.

Malone states the department has in excess of \$2.5 billion in assessed but uncollected taxes, penalties and interest for oil and gas income or production taxes. Malone states the final assessment for royalties due has not been completed, but represents possibly billions of dollars. In addition, disputed tax cases are in the courts, with a motion to move from the state to federal courts.

Malone outlines the background of disputed tax amounts, which started in 1977 when Prudhoe Bay began. Malone states "the law defines the value of oil for tax and revenue purposes as at the point of production or field. We arrive at that value by a net-back approach, taking the value of oil in a market or at a sale and subtracting back the cost of production. It sounds like a simple procedure, but it is not." In the early years producers were struggling, and the world oil prices were \$12 to \$40 making value difficult to determine. Federal price controls in effect made it difficult to capture the real value of oil, and windfall profits tax made a confusing situation. Malone describes the process of oil going to different markets, with some producers setting value when the oil is produced, and others when it is sold. Also, some producers sell oil outright, some sell it to themselves, and others trade it. Transportation costs, except for the tariff, are also complicated. Malone states that without the ban on export, the process would be even more complicated.

380

Malone states "Oil producers think the confusion is on the part of the state -- the fluctuation in the price of oil and political manipulation of the price -- but there is another issue to be considered. There is no discussion of the damage we are doing to ourselves." Malone refers to the 1981 repeal of state separate accounting income tax law for oil and gas income, which was replaced by the apportionment income tax currently in effect. Malone states that income from oil and

gas property tax is eroding; that in 1978 the assessed value of the tax base was \$11 billion, and the state received \$173 million, or 78% -- in 1987 the assessed value was \$18 billion and the state received \$102 million, or 28% of the total revenues. Malone states ELF provides large tax breaks for high-production oil fields, while providing insufficient tax reduction for marginal fields. Additionally, the ELF loss is larger than was anticipated because (1) production in dollar levels are higher so the percentage decrease in severance tax is larger than it would be otherwise, and (2) the estimate is higher because of increased drilling. One factor in ELF's formula is the number of wells in production. Malone states that \$2 million is being lost in two fiscal years, and describes the situation as "self inflicted poverty."

465

Rep. Gruenberg asks that Commissioner Malone furnish a copy of statements for distribution to all members of the Legislature. Commissioner Malone agrees to do so.

Rep. Davis asks if anyone has run numbers of the impact of the change to apportionment rather than separate accounting. Commissioner Malone responds that the department is tracking it and was last updated a year ago. Rep. Davis confirms that since 1984, it becomes approximation.

510

Rep. Koponen asks if there is an impact from modified apportionment taxation in other industries. Commissioner Malone responds there is, and the administration is examining the issue. Malone states the oil companies are happy because apportionment reduces their income tax burden, but other industries have made public statements against modified apportionment because they do not like having "swarms of auditors going through their books all of the time." Malone states that Alaska has one of the most aggressive audit programs in existence, and companies do not like to have their operations exposed.

Rep. Koponen refers to businesses moving from Alaska because of the vulnerability they face by remaining in Alaska. Commissioner Malone states he does not have a response, and the question is where oil prices will settle if we keep the structure. Rep. Koponen asks if other states have modified apportionment or unitary tax. Steve Kettel states "many do; most states that have income tax use some sort of apportionment. Alaska uses a worldwide apportionment scheme. We are the last state to use that approach. Most other states have come to the water's edge approach, looking at the income on a domestic basis and many include dividends coming from foreign corporations."

590

Rep. Davis asks the effect on other multi-nationals considering locating in Alaska. Kettel states there are two considerations, (1) experts agree the actual incidence of the tax is a small factor in the decision of a business to locate in an area, and (2) internal company policies. State and local tax is a small determining factor. Kettel states the question is expectations of future profits, and he believes we should look at what will happen in the next 10 years. Kettel states the corporate sector will look at taxes to a lesser degree than the oil companies.

640

Rep. Davis refers to monies lost by reduction in fisheries taxes and asks if that money has been reinvested in Alaska. Kettel answers "basically, yes." There has been \$60 million invested around the state, but the question is whether that money would have been invested regardless of the tax reduction.

675

Rep. Gruenberg states he is not convinced that a general statement can be made concerning attractions to industry because it varies from one industry to another. Gruenberg asks if Alaska should look more carefully at specific industries. Kettel responds affirmatively and states that in establishing a tax program, you make certain you have revenue to provide services to the people who come with the industry, and it is important to not discourage industry through tax mechanisms. Rep. Gruenberg asks "do you think it is good public policy for us to look at what will attract somebody to develop a particular parcel of real estate?"

TAPE ONE, SIDE TWO

Commissioner Malone responds it is a very complex question of tax credits and tax breaks, and it is not recommended, but it is done.

050

Rep. Miller asks if a tax is 60-80% of profit, does it become a large part of the decision of where to do business. Commissioner Malone responds that there is no simple answer. With regard to oil, Malone states "we want to realize significant percentages of the value from our lands. The state's policy is to move those up to the margin. It is very difficult." Malone states oil is a product which has high value and profit potential, and it comes from state land. It is possible to push taxes up to where it discourages investment. That situation has to be monitored. ELF has not

worked very well, and needs to be revised. The concept is o.k."

115

Rep. Koponen comments that he believes modified apportionment discriminates against Alaska based corporations and targeting of a particular business is something a municipality might do, but targeting against a particular industry is something in which the general public can assist. Koponen refers to a study in Connecticut involving established industries and the wrapper tobacco industry. Koponen states "we can make that kind of decision in the kind of public expenditures we make and the tax policy we design."

170

Rep. Gruenberg states that Senator Faiks is present to address the Committee concerning SB 401, and asks that Commissioner Malone yield to the Senator at this time.

Senator Faiks states she represents the State of Alaska to develop a process to collect the maximum amount of revenue due the state in a timely manner so that the Legislature can develop budget and determine fiscal policy of the state in the easiest manner. Faiks states that since 1980 she has been a member of Common Sense for Alaska -- a fiscally conservative organization interested in the fiscal policy of Alaska. Common Sense as a volunteer project did an assessment of the Audit Division of Department of Natural Resources and several divisions in the Departments of Commerce and Transportation to determine the reason for the large number of disputed taxes. Referring to SB 401, Faiks states "this bill is a management bill -- it has nothing to do with the kind of taxes, what the taxes are, how they are managed. It spells out a procedure for the collection of taxes to the State of Alaska in the most efficient manner possible within the three year statute of limitations." Faiks states it is to assist the Commissioner of Department of Revenue collect the taxes due the State of Alaska, and adds "They can't pay if there is not a system in place to keep the process moving."

250

Sen. Faiks describes the current process regarding appeals, with the audit and assessment. Between the time of the audit and assessment there is no informal hearing between the taxpayer and the Department. This can go on for three years. There is no communication between the taxpayer and the Department. When the assessment is determined, the taxpayer has 30 days to appeal. The appeal process is informal, and adversarial, with each side preparing a record in support of its case. This is followed by a formal hearing, spelled out in the Administrative Procedures Code, and is court-like. At

the end of the hearing a formal decision is made, a findings of fact and conclusions of law. Then the taxpayer appeals to the Superior Court. This is a key factor because it is an appeal of the decision, not the facts of the case. The Superior Court makes a decision. Faiks notes the indefinite period of time for this process.

295

Again referring to charts, Senator Faiks describes the process under SB 401 as a definitive process with a time line for each step, and they can be extended with consent of both parties. Faiks describes the process as informal -- with dialogue. If the taxpayer agrees with the proposed assesement by the department, they get the assessment and it becomes final. It is unappealable. If the taxpayer does not agree with the proposed assesement, they request a policy review hearing to ascertain whether the correct policy has been used by the department. This results in a policy review decision, and the taxpayer gets the assessment and the current status. "He can go to court, and the trial is de novo, which means all of the facts are presented. The court is not assuming the facts set forth by the Department are correct. The is the important part of the bill." Currently the Superior Court does not rule on the facts; they rule on whether the taxpayer received due process. They assume the facts are correct. It is difficult for the taxpayer to say the Department of Revenue did something wrong.

350

Rep. Koponen states he is reminded that a model like this is a small immitation of the real thing. One thing that is left out in both cases is the staffing levels. Koponen asks if staff requirments have been determined. Senator Faiks responds "you are asking a chicken or egg question." They have the best staff, but they may need more. Faiks states "I want to maximize the amount of taxes collected in Alaska that is fair and equitable, that we have a good reputation in doing that, and we get our money. The answer to your question is no, I have not analyzed the staffing because to me that is not the problem. I believe the problem is the process and the time frames. The Commissioner will give staff requirements."

Rep. Koponen states "Our responsibility is to provide the best service at the least cost to the State of Alaska so one of the things we would be concerned with is the staffing levels."

375

Rep. Navarre asks, in the appeal process, from the time of appeal to the Superior Court, to the decision, what is the time, and how does it compare with the final steps in SB 401? Senator Faiks' response cannot be heard on tape. Rep. Navarre

confirms that "essentially we would go through the procedure again in court." Sen. Faiks states "Correct, the facts of the case are ruled by the Department and the Court accepts those as fact. The Department does not have to prove that they did it right." Sen. Faiks advises Rep. Navarre that SB 401 speeds up the process "because we get to court faster."

440

Rep. Brown asks for clarification of "policy review". Sen. Faiks responds that the Administrative Procedures Manual spells out policy. "It is were the regulations complied with correctly, were laws followed correctly, and the Department follow procedure and regulations of the Department fairly and equitably." Senator Faiks suggests asking Department of Law how many people they take to court.

455

Rep. Gruenberg asks if "clear weight of the evidence" standard is the same as "substantial evidence" standard. Senator Faiks responds affirmatively.

485

Rep. Boyer asks if the process could be moved along by having the taxpayer pay the assessment, and thereafter appeal, so that money is received and there is incentive for the taxpayer to move the process along. Senator Faiks responds that this could be one solution; she has come up with her solution, and there may be others. Rep. Boyer suggests looking at alternatives. Senator Faiks states there are procedural problems in the process because there is no dialogue between the taxpayer and the department. Faiks states "there are multi-million dollar oil tax assessments issued by the audit division without any discussion with the taxpayers, and without any review by the Commissioner. The present process is very difficult for the Commissioner when he has to be the judge making the final decision." Faiks points out that the hearing officer is an employee of the Department; thus the department is prosecutor, judge and jury under the present system. Faiks believes taxpayers view the process as a "fishing expedition"

580

Sen. Faiks cites a February 1987 report entitled "Review of the Selected Department of Revenue" by Common Sense which described the goal of the Department as to "maintain fair and equitable taxing system in the state and to achieve an acceptable level of oil and gas producer compliance." Common Sense concluded there are not clearly defined procedures to attain that goal. A 1984 report on the New York Tax Appeal System states the close relationship between the State Tax

Commission, which rules upon contested tax matters, and the Department of Taxation and Finance, which assesses and collects the taxes, violates the doctrine of separation of powers, fuels perceptions of unfairness and creates the risk of actual bias in the adjudication of tax disputes.

615

Rep. Davis asks the amount of the fiscal note on SB 401, and whether additional staff will be required in the Audit Division. Sen. Faiks states the Commissioner must answer that question. Rep. Davis asks, regarding early resolution of tax laws, if it might be contrary to the best interests of the oil industry because they may be making more money on the money in dispute. Sen. Faiks responds that is not her concern, she wants Alaska to have the money; her concern for the oil companies is that they have equitable treatment and that there is a fair process in place where all taxpayers are treated the same. Faikes believes "the oil industries are big boys and I want them to pay up. The system has to be in place to create that process."

650

Rep. Koponen refers to the chart outlining the proposed procedure and notes that it eliminates departmental appeals and goes directly to court, except that it is trial de novo, and asks if it is ascertained that all facts will be "on the table" at that time. Koponen asks if facts can be held back in the preliminary stage. Sen. Faiks states it is a very expensive process, and if there are no major disputes, "we get our money." Rep. Koponen believes there is no real incentive to come to an agreement under the proposal.

TAPE TWO, SIDE ONE

001

Rep. Gruenberg confirms that Sen. Faiks' presentation is completed, and Commissioner Malone again joins the Committee. The Commissioner states he will discuss disputed assessments, and acknowledges an area of the interest for the Committee is SB 401. Malone states the forum is difficult to discuss the Bill because the Committee does not have the Bill in its possession, and normal administrative steps of analyzing fiscal notes and related documents have not been done. The Commissioner will discuss the audit process and the issues raised by Senator Faiks, and then give a perspective on how the Department has addressed those questions. Commissioner Malone refers to the Common Sense report and believes the issues identified regarding the administrative process were correct, and that some serious administrative problems have occurred, but most of them are subject to correction by efficient administration of the program in existence. Malone

states the issue of royalties and taxes are priorities of the administration. Malone states the separate accounting system and the severance tax program have been addressed by re-establishing the Oil and Gas Audit Division and training of increased staff, including hearing officers, economists and computer specialists, and reorganization of Income and Excise Tax Audit Division.

The Commissioner describes the Department's plan to reduce the number of cases in appeals, including consolidation of audit cycles, setting priorities, and discussing the issues with the taxpayers. In addition, the Department is looking at ways to use the information and data base the state has developed in the Amerada Hess royalty case -- looking at and using the information to reduce the time and effort needed to complete the audit cycle. The Department is gathering tax data on a current basis, collecting it from the taxpayer immediately following the tax period, rather than retrieving it from taxpayer's archives as has been done in the past. Funding for this is included in the FY 89 request. Malone states there are political jurisdictions using this approach, including United Kingdom and Norway. The Department is studying the approach to incorporate it into our laws to give some certainty to the state and the industries.

157

Commissioner Malone believes a tax program must be accountable to the taxpayer and the public. A confidentiality law prevents that accountability to the legislature, and Malone would invite companies to waive their confidentiality rights under the law to discuss with the Committee the specifics of tax cases. Malone acknowledges not all fault is on the side of the taxpayer. Second, to be efficient, "we should collect what the law intends, and thirdly, they should be fair and timely."

Malone states Sen. Faiks touched a basic issue in the administrative hearing process; can an agency be the prosecutor, judge and jury, and do it fairly? Malone points out that the theory behind the administrative process does not apply just to taxes, but to anyone who has agreed to administrative decision of a government agency in the State of Alaska, and describes the process. Reasons for the process are that the Department knows what the issues are and is able to examine them to develop a factual record in an efficient manner, and there is a safety valve, the Courts. The Commissioner believes the current process can work. He states the informal conference is not a due process proceeding; it is a method of getting facts on the table. The Commissioner believes going to de novo review, especially one in which the agency's ability to raise issues is severely limited, would probably substantially reduce the ability of the Department to administer the tax laws and to achieve compliance.

Rep. Gruenberg welcomes William Floerchinger, and Rep. Cotton, who have joined the Committee. Rep. Gruenberg states the intent of the Committee was not to hear specifically SB 401 testimony -- the Committee is concerned about all aspects of economic recovery, and when a large amount of back taxes could provide an infusion of cash to the state, that is something to be cognizant of in a general way -- that was the purpose of the hearing today.

Commissioner Malone declares agreement, that the legislature must know where money will come from, and supports the idea of Rep. Boyer that taxpayers pay the tax, then proceed with the process.

Mr. Floerchinger comments on the direction of the Oil and Gas Audit Division at this time; an in depth study of all cases under audit and appeal has been made. Floerchinger states the staffing level is critical in this type of audit program. Initially the department had 6 to 8 auditors for 22 taxpayer cases, including multi-national corporations. It is critical that there be skilled staff to review records when obtained and analyze the materials. Currently there are 57 audit-cycle cases, some of which may be consolidated; and there are as many as 42 to 50 issues in each case. Attempts are being made through dialogue to gain informal agreement, and written agreement, as to the issues to go through the process. This is expected to streamline the procedure. Floerchinger believes this method is working and states his goal is that by the end of the calendar year at least 40% of the dollars outstanding will either be agreed to and paid or through the hearing process. Floerchinger believes by the end of 1989 the figure will be near 90%. Floerchinger states the Department is establishing positive audit planning in the new cycle.

Floerchinger refers to the proposed procedure, stating one issue not mentioned in the charts is the process for obtaining records and documents. Presently the Department is working with taxpayers to obtain records on an informal basis, and the average length of time is in excess of 6 months from request to receipt. This, states Floerchinger, is a problem in keeping the process within the 3 year statute of limitations. SB 401 provides for an appeal process in which appeal of the initial request for documents is allowed. Floerchinger estimates this step will take in excess of 300 days to get into Court to toll the statute of limitations; a loss of 300 days from the statute of limitations period. Floerchinger points out the statute of limitations is 1,095 days from the time the tax return is filed until the statute tolls and no

additional assessments can be made. Floerchinger states that the production tax is a monthly return, and there is not staff or buildings large enough to audit each monthly tax return separately. Currently the Division waits until 12 monthly returns have been filed; then the audit cycle commences. That takes 395 days from the first period. The proposed bill has 330 days in appeals process to obtain the records, followed by 300 days, or a total of 1,025 days lost from the statute of limitations period, leaving 70 days in which to audit a multi-national corporation. Floerchinger believes it puts the Division in a position in which it is impossible to protect the state's interest to arrive at a fair and equitable tax. Floerchinger states audits could not be accomplished in the timeframe of SB 401.

425

Rep. Gruenberg believes there are two basic, separate and distinct issues -- (1) the process takes too long, and (2) the process is unfair because of a bias in combination of functions. Floerchinger agrees. Rep. Gruenberg believes speeding up the process could be addressed separately from the other issue. Floerchinger believes they are intertwined because of the requirement that the steps be held within the Department. Under trial de novo, the Department loses the opportunity to view and assess what documents mean to the tax process. Gruenberg agrees, but asks, who decides; a judge or an employee or independent hearing officer, which is irrelevant to the process itself. Gruenberg suggests the issues be addressed separately. Commissioner Malone agrees, but has concerns, i.e., the taxpayer does not have to produce documents under SB 401. Malone points out the present law states the Department makes the final decision, giving the taxpayer the incentive to produce information to be used in argument. SB 401 removes the process in the current law which gives the Department the information.

475

Rep. Koponen asks if the tax collection process would be simpler under separate accounting. Commissioner Malone believes it would not, because the separate accounting law is difficult to administer. Commissioner Malone states many of the difficulties can be solved by applying proper administrative procedures.

485

Commissioner Malone states the fairness of the hearing process is a myth because it has not happened yet -- it is a "closeting the monster" situation and questions how much weight it should be given.

505

Rep. Koponen states that in Harvard classes management cases were never discussed without assessment of the resources available to carry out a given task and the appropriateness of the resources. Koponen states an outline is insufficient in his view to arrive at a meaningful solution of a problem.

At 10:55 a.m., the meeting is adjourned.

Joint Committee on Economic Recovery
House

February 29, 1988

Present: Representative Max Gruenberg
Representative Kay Brown
Representative Steve Rieger
Representative Fran Ulmer
Representative Mike Miller
Representative Mark Boyer
Representative Heinrich Springer
Senator Joe Josephson

Witnesses:

Senator Vic Fischer

Gregg Erickson
Office of Management and Budget

TAPE ONE, SIDE ONE

Meeting is called to order by Rep. Gruenberg at 8:35 a.m. A quorum is present. Rep. Gruenberg states the Housing & Banking Subcommittee will give a report, followed by former Senator Vic Fischer who will discuss the Anchorage economic review.

Rep. Rieger states the Subcommittee has had three meetings since the last Committee meeting, the first with Barry Hulin of First Federal Bank and Bert Wagnon of AIDEA; another with Willis Kirkpatrick of Division of Banking; and a work session to consider two proposals presented to the Committee and a draft resolution. Rieger states the Subcommittee reached a recommendation on one project, the Willow Park demolition project.

Rep. Rieger reads the committee recommendation: The subcommittee recognizes the value of the Willow Park demolition project and recognizes a responsibility for asbestos abatement of this state owned facility. The subcommittee supports efforts to obtain state, federal and local funds to complete this relocation and demolition project. The subcommittee recognizes the specific dollar amounts for demolition and asbestos abatement are still being refined. The subcommittee recommends that additional analysis be done to find appropriate sources of funds. The subcommittee further recommends that project costs be spelled out in a project agreement between the state, federal and local governments. A copy of that resolution is distributed,

together with a background of the project, proposed by the Alaska State Building Authority. Rieger states the federal government has nearly agreed to contribute \$9 million for relocation of tenants of Willow Park if state and local governments provide funds for asbestos abatement and demolition. Housing vouchers will be available for low income housing on a long term commitment worth an additional \$7.2 million. The subcommittee considered project costs and included wording regarding "further refinement of the project costs and a specific project agreement of who will pay what costs." The subcommittee recommends the state proceed on the project.

Following discussion, Rep. Gruenberg states the matter will be on the agenda for the meeting on Friday, March 4, and copies of a draft recommendation by the Subcommittee will be distributed 48 hours prior thereto.

Rep. Rieger states that the Subcommittee will meet again to receive further testimony and suggestions.

Rep. Gruenberg asks that the Subcommittees make recommendations on Bills already in process so that Committees may be advised, leadership can make certain the Bills are priorities.

Former Senator Vic Fischer, clarifies that he appears at the invitation of the Committee. Fischer states the report, which is his testimony, was commissioned by the Municipality of Anchorage, however the understanding was that he had total freedom to pursue the analysis of the effects of the economic recession on Anchorage, without constraints by the Municipality. Fischer states he believes suggestions that the legislature do nothing with regard to the economy and recovery are irresponsible and show lack of understanding of the impacts of the recession. Fischer sees impact of the recession on the real estate market, but more so on the housing market, and states the majority of the residents in the area have been effected as businesses close, bankruptcies occur, and banks fail. Fischer states the impact goes far beyond the real estate crisis and describes the situation as akin to cancer, being depressing, with an interrelationship of bankruptcies, lost jobs, lost homes, and a downward spiral of the economy. Fischer states the Anchorage situation requires a comprehensive, broad based approach for recovery. Fischer does not recommend a massive infusion of funds.

Rep. Boucher asks if Fischer is familiar with the Southwest Plan implemented in Texas, Oklahoma and surrounding states. Fischer is not. Boucher recommends that Fischer contact Robert Gillam of Home Savings for information on the plan. Boucher urges that statements be obtained from Alaska's

congressional delegation. Fischer responds that his report does not pretend to set forth a program; that his assignment was to document the problem so that plans might be derived from that information. Boucher asks for Fischer's recommendations. Fischer responds he would be happy to be retained as a consultant to do that.

Sen. Josephson refers to editorials stating rents are down, and are offset by lower wages; Josephson disagrees because his constituents tell him lower wages result in living in lower rent facilities. Fischer concurs and states there is a "silver flecked lining" related to housing and rents. Fischer points out that individuals are moving to better rental facilities at lower rents.

Fischer recites statistics on employment and population in Anchorage. Unemployment does not reflect the real situation in Anchorage because there is considerable underemployment and people have dropped out of the labor market. Fischer points out that since late 1987 families have left Alaska at a higher rate than previously, and that is continuing.

Fischer performed an analysis of homes built since 1980, and found that the average home is now valued at 20% less than when new; since 1985-86 homes have lost 30% of their value. Anyone building or buying a home since 1980 now has a negative equity, sometimes as high as 50%. Vacancies in apartments have risen from 4% in 1980 to 25% in 1987. Fischer states condo owners are in the most depressing situation because they have lost one-half of their values and vacancies exceed 50%. Fischer states the 70% owner-occupancy requirement contributed to the problem, and the situation is critical. Fischer points out that over 7,000 properties have been foreclosed and many more are delinquent.

Fischer discusses communications received by the Housing Market Council. Fischer states the average decrease in assessed value of Anchorage property is \$24,000.00, per capita. Lower income level homes have decreased more than the upper level homes. Construction has dropped by 92%.

Fischer points out that when current leases expire there will be a further drop in rentals, again having a spiraling effect.

Regarding foreclosures, Fischer states the number has doubled each year for the past four years, and continues to increase. Fischer emphasizes the critical situation with respect to failures of several banks; the wealthy Alaska banks are doing extremely well. However, those banks do not generally invest within Alaska, and small banks invest entirely in Alaska.

TAPE ONE, SIDE TWO

Fischer continues with statistics on bankruptcies, reorganizations and liquidations. Fischer states that as existing bankruptcies close, there will be a continuing downward spiral on the economy. Fisher's report contains an analysis of the economic forecast of the Institute of Social Economic and Government Research (ISER). Rep. Gruenberg proposes that Fischer respond to questions.

Rep. Boucher states he has many comments with regard to bank activities and the impossibility of obtaining loans. Boucher believes the banking community has a social responsibility to Alaska. Fischer responds that banks feel their primary responsibility is to their shareholders. Boucher asks if there is a panic mentality, especially with regard to consumer spending. Fischer responds he is uncertain if anyone has reviewed consumer spending; savings have not gone down in the past two years. Fischer believes "the worst thing we could do is believe those who say the cancer will cure itself."

Rep. Miller asks how Fischer would "stop the leak" in the market. Fischer states he would concentrate on jobs as the best means of building the economy, especially those for the unemployed and underemployed, spreading the money as far as possible rather than creating a limited number of high paying positions. Fischer recommends "CCC type programs" and points out that the Alaska Conservation Corps is on the books now and would not require legislation. These would serve both urban and rural areas and provide many benefits. Fischer would eliminate substandard housing, improve neighborhoods, and eliminate 1,000 mobile homes. Fischer points out that University and senior housing needs could be met. Fischer suggests using Mental Health Trust funds for housing for mentally ill. Fischer points out that ASHA has long lists of applicants for low-income housing. He encourages AHFC consolidate condo projects, and the legislature could establish programs to provide low-interest loans for housing. Fischer states there are numerous methods of taking action.

Fischer believes AIDEA can assist in the situation. Fischer suggests capital infusion into the Alaska banks which would help small businesses.

Rep. Miller comments concerning creation of temporary jobs. Miller asks if extra rental units being removed from the market will stabilize the rent market, creating a "double whammy" on renters. Fischer responds the housing and commercial markets are not close to being stabilized and cites examples of use of vacant units. Regarding temporary vs. full time jobs, Fischer states that will fill the gap, but will not retard recovery.

Rep. Ulmer states she is struck by the contrast between testimony from Lee Gorsuch and others and that of Senator Fischer. Ulmer asks how long it will be before permanent jobs would replace temporary jobs, and for which kind of workers. Ulmer believes part of what we are experiencing is a necessary shrinkage, however painful. Fischer responds he believes Lee Gorsuch would argue that you should spend \$100 million to create 1,000 jobs; Fischer believes if leakage at the bottom is not stopped, there will be a continuing loss. Fischer again urges use of the Conservation Corps, especially in rural Alaska.

Sen. Josephson notes some recommendations are not in his report. Josephson expresses concern that there might be loss of more businesses, thus less competition, and result in increase in Consumer Price Index (CPI). Fischer responds that CPI is biased by housing and is not accurate. Fischer believes taxes would increase on those remaining, and quality of community services would decrease, requiring many adjustments.

Rep. Boucher refers to regionalization and phrases used. Boucher asks if we should consider protecting the state's credit line, and if there is a positive approach to this. Fischer responds he believes it can be done.

Rep. Rieger refers to testimony heard by the Housing & Banking Subcommittee and states the problem cannot be solved until there is growth outside of government. He suggests more emphasis in that regard. Fischer responds it is necessary to expand the economic base; that the report is not an economic plan. Rieger states economic recovery should be stressed.

Rep. Springer believes that there must be money from the private sector. Fischer gives figures for jobs created by CCC, stating \$1 million will create 200 seasonal jobs. Springer questions how this would impact the housing market.

TAPE TWO, SIDE ONE

Rep. Gruenberg discusses differences in the opinions of Vic Fischer and the testimony of Gregg Erickson that the unemployment rate was a good indicator of the economy. Gregg Erickson is invited to join the Committee. Gruenberg clarifies that there was a fundamental difference, and from that difference they diverged in their conclusions. Erickson responds there is a difference in the analysis, but the unemployment rate is not the measure of the economy he used. Gruenberg asks if unemployment is the obverse of employment. Erickson responds negatively; that there can be rising employment and rising unemployment at the same time, which is often the situation in Alaska during a boom. Gruenberg asks

to explore the differences in the opinions of the two learned economists. Fischer states he believes the basic difference is the employment, describing ISER as an indicator and how it functions in studying employment. Fischer cites the problem as there being more in the economy than merely employment, including bankruptcies, foreclosures, etc., which are not considered. Fischer believes the ISER analysis is correct, but does not go deep.

Erickson states he read the Fischer report, and Gruenberg asks that he focus on areas of disagreement, of agreement, and then take questions. Erickson describes the report as summed up in the statement that the fabric of the economy is wearing thin so that individuals and businesses are losing their capacity to absorb further losses (p. 69, Fischer report). Erickson states the figures he has seen do not show the downward spiral occurring. Erickson cites demographer reports as not seeing a mass exodus. Also, there is always a decline in Alaska employment during certain seasons. Erickson states he does not see in the report an explanation of how the bank failures and financial distress creates the loss of jobs, or an analysis of what type of jobs are being lost, or the "leak in the bottom of the glass." Erickson does agree with many of the features of the report. Erickson concurs with Fischer that large sums of general fund money would not be necessary or desirable.

Rep. Gruenberg states a graph is being copied for the Committee, and offers Fischer an opportunity to comment on statements by Erickson. Fischer responds that many points raised are valid, i.e., documentation, and states the time constraints made information gathering very difficult. Fischer states the interrelationship between bankruptcies and business failures and job losses and housing are matters of logic. Fischer states the report is a result of actual communication, and that statistics are not the only factors for consideration.

Rep. Boucher refers to page 5 of the Commonwealth North Report: "Using the Permanent Fund as a positive counter-cyclical force in the Alaska Economy" and cites need to develop a yardstick or an Alaska Economic Index that reflects Alaska's economy. Boucher suggests the economists could accomplish that to enable the Legislature to determine the performance of the economy. Erickson states he is in favor of giving thought to the economic issues, and agrees with Rep. Boucher. Erickson states economists are inclined to consider primarily jobs and income. Erickson states any index would be a subjective way of analyzing the situation. He states that income drives consumption, pointing out difficulties in obtaining some information are the reason

Joint Committee on Economic Recovery
House

March 9, 1988

Present: Representative Max Gruenberg, Chair
Representative Niilo Koponen
Representative Mike Navarre
Representative Fran Ulmer
Representative Red Boucher
Representative Mike Miller

Witnesses:

Malcolm Roberts and Loren Lounsbury of
Commonwealth North

TAPE ONE, SIDE ONE

Rep. Gruenberg calls the meeting to order and states the committee will hear from Loren Lounsbury and Malcolm Roberts of Commonwealth North. Gruenberg states the subject of the meeting is using the permanent fund as a positive counter-cyclical force in the Alaska economy. Gruenberg points out that the Committee is considering legislation for recommendation to the full Committee.

Loren Lounsbury describes Commonwealth North (CN) which was formed 10 years ago to study issues affecting Alaska, the Nation and the world. CN was founded by former governors Hickie and Egan. The report presented was not intended to be a short term solution to the current financial problems and concerns, but rather as a long term situation to avert the present short term problems. Lounsbury states the report is not intended to convey that it is set in concrete and the only solution available; it is a means to set down ideas and thoughts on how earnings of the permanent fund might be used to benefit the entire state. Lounsbury is not aware of any other organized plan on how to use those earnings, although there have been numerous other proposals for portions of the funds. This report addresses the entire earnings without touching the corpus of the fund.

Malcolm Roberts refers to meeting with David Chatfield and the Anchorage Caucus on February 18 when some elements of the study were outlined, and reviews the recommendations. Roberts extends regrets of Mr. Chatfield that he is out of the city

and unable to attend the meeting today. A team of volunteers, community leaders, have met to consider the Alaska economy. The initial conclusions were that the framers of the Permanent Fund and the administrators have taken a conservative, wise course. It is an element of pride which Alaskans can have during difficult times. Roberts notes that a board member commented that if the \$7 billion had not been set aside, the disaster we have now in some areas would be catastrophic.

In September 1987, the Committee reviewed the earning strategies, and suggestions for use of the fund in light of current economic situations. The Report of CN has been distributed. At page 3 are 8 recommendations, which Roberts reviews, as follows.

Earnings of the fund can and should be used as a positive, counter-cyclical force in the Alaska economy. CN recommends creation of an economic index to serve as a barometer to determine when earnings left over after dividends are distributed should be injected into the economy to level out peaks and valleys of the Alaska economic cycle. The Federal Reserve Board was used as a model. Alaska does not have the monetary tool the Federal Reserve Board does, but it has the permanent fund earnings. The index should be used to make earnings available when times are tough, but "the spigot" also turned down when times are better. CN believes if the earnings are used in difficult economic times, and not when there is improvement in the economy, there will be reduction in the ups and downs of the economy.

p. Navarre asks if restraint could be exercised once earnings are touched. Roberts expresses a hope that there be a barometer written in the statute to indicate when the economy needs assistance, and when it should be turned off. Recommendation 8 suggests it not be put in the constitution, there is no protection from it being raided. CN believes if the earnings are utilized and works, it will build a constituency just as the dividends have.

p. Koponen refers to discussions when the permanent fund was first suggested, and the long term projections. Koponen states the permanent fund was "sold as a source of income for the state government so taxes would not have to be increased when the economy went down." Koponen notes that recommendation 2 provides money be appropriated to municipalities, and recommendation 7 that it not be used for state government except in dire emergencies. Koponen states government grew relatively little during the oil boom, and much of the money went to the municipalities and even currently municipalities are being overfunded. Koponen states

municipal governments went heavily for programs and projects, and asks if the proposal is really the logical way to go. Roberts responds that the issue was debated at great length, and points out that the fund is held in trust for all Alaskans, current and future, and the dividend program is credible because it is "one person, one dollar" and when there is a distribution it is equal to everyone. CN believes the way to retain that equitable distribution of earnings, rather than to one program or area of the state, is to use a per capita formula, retaining the distribution which has been used in the past. CN believes when indicators drop there is no one closer to the heat of the problem than the local governments in terms of quick response. Roberts notes that the economy is spotty and that some areas do well, while others do not, so flexibility is needed. Rep. Koponen describes suggestions to increase the dividend share, allowing individuals to vote to pass it through to local government or the agency of their choice. Roberts agrees it is an alternative to be considered. CN's view is that local government should be a real player in deciding how funds should be spent, i.e., reduction of taxes, distribution, etc.

Rep. Boucher commends CN for putting together solid recommendations, and expresses concern over the forum by which decision is made. Boucher describes HB 160, which he introduced, to establish a commission on the permanent fund for a one year period because the key factor is that the majority of people need input. Boucher believes that any adjustment to the permanent fund needs public presentation. Boucher states the goal of the permanent fund must be defined. He supports the recommendation to establish a broad based economic index. Boucher believes the single most important thing to do is establish an Alaska economic index because consumer spending must be known.

Roberts states he has a copy of HB 160 and is happy to participate in any statewide dialogue on the subject. Roberts hopes a result of today's presentation will be drafting of legislation as a permanent reference in the future.

Roberts states recommendations 3 and 4 consider the missing factor in the state's spending and investment strategies over the last decade; spending lavishly to build capital projects and improve the quality of life, however they have required "feeding and watering" and have no capacity to generate the revenue to maintain and operate the facilities. Roberts states the missing piece of the equation is the investment in revenue generating projects that can diversify the economy. The graph on page 6 shows the need for such diversification. Oil revenues are described, and must be addressed.

Roberts states page 7 illustrates the type of projects urgently needed: docks, rails, causeways, electrical generating units. The infrastructure needed to attract Navy vessels to home port in Alaska is an example because the Navy rents facilities over long term periods. Roberts states the port in Anchorage is an example of generating jobs and providing a service with a ripple effect throughout the area. "It does not cost money, it makes money." CN does not believe Alaska should go in business for itself, but supports the role of providing transportation and power infrastructure to open new areas, reach new resources and develop foundations for new economies. An Alaska Development Board is recommended to research feasibility of such projects and present proposals to the legislature and the governor for approval and appropriation. The legislature would determine whether or not the projects would proceed. Roberts points out the projects would have been thoroughly examined, environmental needs addressed, and the economic feasibility considered before presentation to the Legislature. The 4th recommendation urges the Legislature to establish an Alaska Development Fund to provide a basis for funding such projects. Roberts describes the previous proposal for the Capital Investment Fund, and states "an enormous fund is not needed for the type of revenue generating capital projects" being considered -- bonding of Red Dog is an example of why large sums of money are not needed. CN believes a modest fund would be a demonstration of the Legislature's intent to diversify the economy.

Roberts points out the recommendation that proposals be written in statute rather than as constitutional amendments because oil revenues are too volatile to incorporate state spending policies into the Constitution. CN believes that if the proposals are adopted by the Legislature, then public support will keep them intact. If poorly managed, or fail, they can and should be changed by future legislation, without a constitutional amendment process.

Rep. Gruenberg clarifies that CN has presented proposed legislation, suggesting concepts embodied in three bills which the Committee members have in front of them. Gruenberg asks CN to comment on the legislation.

Roberts states the first is Amendment to Current Statute Pertaining to use of Permanent Fund Earnings, to allow for a counter-cyclical use of undistributed permanent fund earnings to be distributed to local municipalities on a per capita basis. Article 1 would establish the economic index. Article 2, using the index on an annual basis, the Department of Revenue or a council of economic advisers, shall publish the Alaska Economic Index to determine if permanent fund earnings

in excess of dividends should be added to or withdrawn from the economy. This could be written in the statute, and is recommended by CN. Recipients of the earnings, when the index calls for adding earnings to the economy, will be designated on a per capita basis to local governments. Community and Regional Affairs would receive and distribute to unorganized boroughs as was done in the 1982 per capita distribution. Each local government would be encouraged to make its own judgments as to the best use of monies received. Roberts states the statutes might include restrictions to prevent ballooning of municipal governments; the private sector might be called on.

The second suggested piece of legislation involves the Alaska Development Board. The need is to help diversify the economy. Article 2 addresses membership of the Development Board, with a recommendation that there be 6 members; Article 3 is qualifications. CN urges the Board have people with experience in creating major revenue generating projects. Article 4 is the method of operation, urging the Board to address major projects recommended by the legislature and others, maintaining a statewide perspective. Roberts points out that sometimes the statewide perspective is not considered as legislators look out for their own districts, and urges the board have a statewide perspective. Staff should be minimal much like the Permanent Fund, drawing when necessary on other departments.

The third suggested piece of legislation is the Alaska Development Fund. No specific amount of money is identified because it would be appropriate for the legislature to make that determination. Article 2 concerns management of the funds by Permanent Fund Trustees until they are deemed needed by the Legislature. Only the Legislature, with concurrence of the governor, may appropriate monies from the Development Fund. The decision, as mandated by the constitution, rests with the Legislature. Roberts points out this is a revolving fund, for projects which will return investments to the fund. Notice to the public if the Legislature or the Governor contemplate using the funds for any other purpose than as described, is required.

Rep. Boucher refers to Article 2 of the second proposal, Membership. Boucher suggests that membership be structured so that it does not create a political imbalance. Boucher discusses the recent Jobs Bill and membership qualifications. Roberts clarifies that it refers to the Development Board, not distribution of funds. Proposed legislation 2 is strictly for "bricks and mortar and projects that are revenue producing."

Rep. Koponen supports the proposal for an Economic Index, and points out that it is a complex question of indicators and public information, lag time, and other concerns. CN states indicators referred to are readily available Alaska indicators.

TAPE ONE, SIDE TWO

Rep. Ulmer refers to returns for money spent in various industries and suggests that CN analyze the concern, and make suggestions for targeting money more efficiently. Ulmer is concerned that distribution generally to municipalities may or may not produce the returns to the economy that are anticipated. Regarding municipalities, Ulmer states bureaucracy at the local level has grown, and points out that no municipality in Alaska has had a 32% reduction rate, as the State government has, in operating budgets. Ulmer questions the wisdom of per capita pass-through with municipalities because she is not certain it results in efficient use of funds.

Rep. Gruenberg notes that a need to start looking at what the Permanent Fund will ultimately be used for, and the proposal addresses this. Also, the proposal to use the Permanent Fund not only for potential funding for state government, but also as a damper on the boom and bust nature of the economy, is considered. Gruenberg supports this leveling of the economy. The mechanism proposed to determine the trigger is the Alaska Economic Index, drawn from an unstated premise of "it should not be a political decision." Gruenberg describes other methods to make it difficult to turn on the spigot, i.e., requiring a "super majority, or 3/4 vote of the Legislature." Gruenberg agrees with Rep. Ulmer that passing monies through the municipalities may increase the politicism.

Rep. Boucher states he has areas of concern because there is no feedback on the approaches. He commends CN for their efforts and presentation. Boucher believes a resolution establishing an Alaska Economic Indicator can come from this Committee.

Rep. Gruenberg points out that work to date has been done almost exclusive through the subcommittee process. Their reports will be considered on Friday. Committee members are urged, if they have legislation which they wish introduced through the Committee, to bring it to the Committee at any time.

Rep. Boucher asks for assistance in drafting proposed legislation to establish an Alaska Economic Index. CN

suggests contact with ISER, and Rep. Gruenberg states staff will assist.

Rep. Koponen asks for comments regarding a "leaky economy" in Alaska, investments "outside", safety of investments for the passive investor, and continuity in management and business. Koponen points out it is outside the immediate problem, but he believes it is a major, continuing problem, and where the Legislature can make a major contribution to the private sector without dipping into a particular fund or creating a bureaucracy. Lounsbury responds that perhaps Alaska has created a climate where it is not conducive for businesses to remain in Alaska after reaching a size; the market is inadequate to absorb their product. Lounsbury concurs that communication and transportation costs are a contributing factor. Koponen asks how to create a stable economy with a small population. Lounsbury points out that when a proposal is made to touch the Permanent Fund, the Legislature is attacked. CN made the proposal as a non-political entity because it makes sense, and can be done without "raiding the fund." Lounsbury states he was not originally supportive of municipal distribution, but has been convinced it builds a constituency for using the earnings, while retaining the "one person, one dollar" provision. Roberts points out that the Legislature can put conditions on the use of the funds, such as increasing their staff.

Rep. Gruenberg adjourns the meeting at 5:10.

Joint Committee on Economic Recovery
House
March 16, 1988

Present: Representative Max Gruenberg (Chair)
Representative Niilo Koponen
Representative Red Boucher
Representative Steve Reiger
Representative Mike Miller

Resource Subcommittee report given by Rep. Miller, highlighting subject of fish farming. Report approved as amended.

Small Business Subcommittee report given by Rep. Boucher. The recommendation was made for a business information networking system, i.e., Small Business Assistance Center. Another recommendation was establishing an economic index indicator, to evaluate our economy in a more consistent manner. Report approved. Economic index resolution approved.

Federal Home Loan Bank Bd. Southwest Plan resolution discussed. Resolution put on next day's agenda to amend.

Housing and Banking Subcommittee report, by Rep. Reiger.

Addendum prepared by Rep. Ulmer to Southeast Report, on fish farming.

Final item, Interior Subcommittee oral report by Rep. Koponen.

Rep. Gruenberg adjourned the meeting.

Trans 8

Joint Committee on Economic Recovery
House
March 18-88

Present: Representative Max Gruenberg
Representative Steve Reiger
Representative Kay Brown
Representative Mike Miller
Representative Fran Ulmer

Agenda: Discussion of progress of Housing and Banking Subcommittee
Discussion of Interior Subcommittees Addendum re: Recycled
Products
Consideration of the amended version of the Southwest Plan
Resolution
Senate Recommendations

Rep. Reiger: A draft report on the H&B Subcommittee report has been released, we met yesterday to put together hopefully a final version. There were a sufficient number of changes. It should be ready soon by the next meeting. We had some discussion on some items for discussion, re: consequences of the Supreme Court decision regarding foreclosures, and what kind of actions are appropriate under deed of trust; recommendations on the bridge bank ideas; etc. A few proposed ideas we hadn't acted on, we will have completed and reviewed in the next report.

Rep. Gruenberg: We'll schedule subcommittee reports as they are ready, that way nothing will be held up.

Discussion on scheduling arrangements followed.

Pg. 2, line 7-10 of the Southwest plan resolution was discussed.

Rep. Reiger: When Sen. Stevens was here and addressed the Joint session it was brought up that they already had looked at this and a Congressional Delegation had concluded it wasn't really applicable to AK. What I know about the Southwest Plan was that there was 2 elements to it, one was an infusion of outside, Federal dollars, and the other was a consolidation program of institutions. When this was brought to the committee last time my concern was on the consolidation side, because in the state we're down to about only 4 s&l's left as it is, and I didn't see a compelling reason to be on record favoring consolidation. The purpose of the amendment is to take that side of it out and focus more on bringing federal dollars inside.

Rep. Gruenberg: Unless anyone objects, I would entertain a motion that we would adopt the amendment, put it in and ask the Rules committee to introduce it by request of our House side; unless Rep. Boucher has a objection, in which case we'll bring it back.

Rep. Brown: I'm looking at the language on P. 2 line 17, and it doesn't seem appropriate to me to extend the Southwest Plan to Alaska, because I

think the situation is completely different, they had a lot of small institutions and they were getting their efficiencies by consolidating.

Rep. Gruenberg: Since we now have 2 amendments we'll set this on the next meeting. Prepare an amendment in writing and check with Rep. Boucher, then we'll dispose of this.

I would propose we go back up to the Interior Subcommittee addendum, note the presence of Rep. Koponen.

Rep. Koponen: Since the Resource Comm. did mention the legislation, I didn't repeat that here. Enclosed to the addendum is a memo that tells some of the activities the Economic Development office of Fairbanks North Star Borough now in process. This addendum follows the original P. 4. The recommendations of the people at the Conference Saturday included the 4 items on P. 5:

1. The Dept. of Comm. and Economic Dev. in Cooperation with the AK Manufacturers Assn and the Interior Manufacturers Assn. should develop a professionally done marketing directory and brochure listing Alaskan manufacturers by name and product and distribute them...

2. Establish a state clearinghouse for business information. This was not as clearly defined. This information is available on state computer, but not everyone has access to those.

3. Procurement ombudsman to handle complaints.

4. Assist in developing a cooperative for small businesses, where the cooperative would own the facility, and provide not only space but management and bookkeeping services, technical expertise, and a central place for entrepreneurs looking for capital.

5. A complaint that came up is that they find that in dealing with state loan examiners, they do not comprehend the type of business many of them are in, and it was extended to a criticism also of bank lenders as well, oriented towards short term loans, real estate, retail, etc. Part of this problem is due to the cyclical nature of our economy.

I suggest we invite the Dept of Commerce venture capital specialist to address us on this problem sometime.

Rep. Gruenberg entertained a motion to accept the addendum as part of the Interior Delegation report. So done.

Considerations of Senate recommendations. Referred to subcommittees:
SCR30 to Housing and Banking Subcommittee
SB333 to Housing and Banking Subcommittee
Act relating to AID and export to Resources Subcommittee
SB471 to Resources Subcommittee

Rep. Gruenberg adjourned the meeting at 11:12.

Joint Committee on Economic Recovery
House
March 23, 1988

Present: Representative Max Gruenberg (chair)
Representative Al Adams
Representative Mike Navarre
Representative Steve Reiger
Representative Kay Brown

Rep. Gruenberg: We have handed out the memo dated Mar. 21 from Sen. Sturgulewski to the Senate members of the Joint Committee. Apparently they did not get through all these bills, including the HB's. The next thing on the agenda is the interim report on the Housing and Banking subcommittee.

Rep. Brown: We do have a lengthy agenda for tomorrow where we will be considering some of the legislation referenced in the report. Specifically, the mobile home resolution, where we believe more direction is needed for AHFC, to take immediate action to resolve the situation that has gone on for more than 2 years. We'll also take up discussion of HAD loans. The working group Rep. Pourchot and I have been assigned to is to look at the issue of some of the surplus condos for public housing purposes, and we have a specific strategy for that. We'll also be taking up the Senate recommendations, and HB 430-431. We've decided to postpone the discussion of the foreclosure issues until the following week. That's about where we are.

Rep. Gruenberg: Is there a motion to approve the report of the subcommittee on Housing and Banking?

So moved by Rep. Navarre. No objection.

Rep. Gruenberg: We have already discussed the House Joint bills before the Senate committee.

Discussion on SB 409 changes the senate committee made, as well as other changes they made during their meeting. Tom Begich's statement were inaudible.

Rep. Adams: What was their understanding as far as the appropriation under the Bridge Bank or ?

Tom Begich: They did not adopt 409. (Additional comments inaudible)

Rep. Reiger made a brief, partially inaudible statement.

Rep. Gruenberg: The final thing on the agenda is an executive summary. What we are doing is putting together all the reports and the executive summary in the front, and we will distributing it to all legislators and

the press and the executive branch. Since the Senate did not get to the various resolutions we have approved, we are going to be talking to the Chairman of the Rules committee, asking him to introduce them at our request.

Rep. Gruenberg: I'd like a motion to approve the executive summary and we will send it around for signatures.

Rep. Brown moved, no objections.

No other business, meeting adjourned.

Joint Committee on Economic Recovery
House
March 25, 1988

Present: Representative Kay Brown (Chair)
Representative Steve Reiger
Representative Fran Ulmer
Representative Mike Navarre
Representative Red Boucher
(Reps. Gruenberg, Koponen and Miller are excused.)

Agenda: Old Business
Subcommittee reports

Rep. Brown: The Housing and Banking Subcomm. has issued a report, with the action of the subcomm. yesterday in conceptually endorsing SCR32 and CSSB333 (L&C), which were referred to the Housing and Banking Subcomm.

Rep. Reiger recommended those go forward to the full committee.

Rep. Navarre recommended the committee endorse SB392.

Rep. Reiger asked that they hold HB 402 until Housing and Banking Subcommittee has a chance to review it further.

Rep. Navarre recommended the committee consider SB471 (inaudible).

Rep. Brown found that acceptable.

Rep. Brown: Next we want to present Senate 3 bills, one is a resolution that were adopted yesterday by the Housing and Banking Subcomm. The 1st relates to management of mobile homes (Resolution). See pg 2, line 7. I would move that the full committee support and endorse introduction of this bill by the Rules Committee at the request of the House members of the J.C.E.R..

Rep. Navarre had a brief question, to which Rep. Brown responded. Rep. Navarre had no problem with the explanation. His remarks were partially inaudible.

Rep. Brown: If there's no objection, we would ask the Rules Chairman to introduce this at the request of the House members of the J.C.E.R. The next one would be and act relating to notice requirements on the use of a deed of trust and providing for an effective date.

Rep. Reiger: What this bill does is it tries to address a problem we received in testimony where a number of people indicated that they weren't aware that when they signed a note that was secured by a deed of trust that they were also personally liable as well as liable for losing their property. This bill requires the remedies to the lender be spelled out in the note, and if it's not spelled out, it's not there.

Rep. Brown: With respect to the other issues regarding foreclosure that are still on the table, we'll be taking those up next Thursday. We may consider additional proposals then, but this was one the subcomm. felt was good to help in the future. Without objection we'd ask the Rules Chairman to introduce this bill by request of the House members of the J.C.E.R. Moving on to the H.A.D. loans bill, this was recommended by the subcommittee.

Rep. Reiger: This bill is a result of some legal research Rep. Frank has done on whether the various corporations had the ability to restructure a loan in cases where it was the most prudent thing to do. The gist of the bill is that it has to be a restructuring that would have been considered prudent by private lending standards; it's a case where you have the choice between a loss or a reduced income for a period of time.

Rep. Navarre made an inaudible statement.

Rep. Boucher: If nothing else has come out of this, just AHFC adjusting it's attitude to help solve the problem has been one of the major benefits. We've just got to keep pushing on them. I have letters all the time, that there seems to be a lack of communication, so we've just got to keep pushing to get it.

Rep. Brown: If no further discussion, we'd ask the Rules chair to introduce this bill by request of the House members of the Joint Committee. Before we leave the Housing and Banking Subcommittee, I'd like to call your attention to this supplemental report. We came up with the strategy and recommendations on using surplus housing for public purposes, and recommended that specifically we establish a mental health pilot program and that over the interim further work be done to determine the feasibility of additional programs of this type, or expansion to other areas, i.e., DD, elderly, students, handicapped, etc. Rep. Pourchot did alot of work on this area, and found this would be a suitable area to select for a pilot. We also reviewed HB429, 430 and 431. We conceptually endorse those proposals. I would move the full committee accept the recommendations of this supplemental report dated Mar. 25, 1988. No discussion or objection followed.

Rep. Boucher: Regarding the Southwest Plan, we have seen assistance, but there's just been a vacuum as far as Washington is concerned as far as this entire economic problem. If there is some assistance in whatever form it may be, we ought to look at it instead of trying to solve all the problem in Juneau. It's obvious alot of money has flowed into Texas by FDIC, FSLIC, etc. I think as the leading resource producing state suffering much the same problems, this should at least call Washington's attention to it. I think you, Rep. Brown, recommended we change it to the Alaska Plan. The only reason I left it as is, is so they'd have no problem identifying it.

Rep. Brown: Looking at pg. 2, line 16, the resolve could be reworded to "to consider extention of assistance to financial institutions in Alaska similar to the Southwest Plan. Any objection? See pg. 2, line 16. The motion is adopted. On the full resolution, without objection we'll add "a copy to the Federal Home Loan Bank Board." Without

objection, we'll ask the chairman of the Rules Committee to introduce this bill on behalf of the House members of the Joint Committee. I understand from Mr. Begich the Senate committee did not meet yesterday and therefor there is no report at this time. Apparently they plan to meet Monday.

No further business, the meeting was adjourned.

Joint Committee on Economic Recovery
House
March 30, 1988

Present: Representative Max Gruenberg (Chair)
Representative Steve Reiger

Tape begins after Senate report.

Rep. Reiger made inaudible remarks, as if he wasn't pushing his microphone button down all the time while he was talking.

Rep. Gruenberg: I would encourage you to invite members of the Senate to your subcommittee meetings to speed things along. It seems like you're both working in a parallel manner. The final item is discussion of future House committee meetings. We have a hearing scheduled for April 9, Saturday, at the Anchorage LIO. TR's will be provided for any of you who want to go. We are also dealing with the insurance crisis, as this has had a major effect on some of the small businesses, especially. What you've done with your reports is formed the backbone of this report, along with the executive summary. I'd also like you to think about whether you'd like to continue during the interim.

Rep. Gruenberg adjourned the meeting.

Joint Committee on Economic Recovery
House
April 7, 1988

Present: Representative Max Gruenberg (chair)
Representative Red Boucher
Representative Niilo Koponen
Representative Steve Reiger
Representative Kay Brown

First item on the agenda is a Committee Report from the Housing and Banking Subcommittee.

Rep. Gruenberg: One of the aspects that all of us are concerned about is the effect of the unavailability of insurance on the economics of this state, particularly the small business community, industry, etc. This is something that has not been examined from the point of view of the economics of this state. Specifically in recent weeks there has been a national focus in this because some 9 states have formed 3 lawsuits, one lawsuit involving 8 states, one lawsuit involving Texas, and these charge various insurers with collusion in violation of federal and state law to provide certain requirements in policies that have made insurance of various types either very expensive or unavailable altogether. What we are doing today is starting several hearings on this issue with several goals in mind. I would like the committee to consider several potential suggestions:

Suggestion #1: Whether this state would be well advised to join one of these lawsuits. This is the lawsuit that specifically that has been commenced by 8 states in Federal District Court in San Francisco, led by California; or indeed possibly commence it's own lawsuit here. The reason that is a suggestion I'd like to throw out is there maybe a possibility of the availability of Rule 82 attorneys fees, which might make a significant difference on whether or not we would recover if we were a prevailing party.

Suggestion #2: Whether it is in the best interest of the state to seek a repeal of the McCarran- Ferguson Act. The House, last year, passed out HJR 25, urging the repeal of that act, and that bill is presently in the Senate Labor and Commerce Committee.

Suggestion #3: Whether we should amend AK statutes to end the exemption from the state's little anti-trust act for insurance activities.

Rep. Koponen made some suggestions on how to deal with these issues.

Tom Dove: Just by way of background what we do have at the present are 8 separate lawsuits by the 8 states which have chosen to file Federal actions, for violation of the anti-trust laws of the U.S. We also anticipate that there will be additional states joining us here in San Francisco in the very near future, I would firmly recommend that possibility for the state of Alaska. This office received throughout 1985 a series of communications from business groups, citizens, non-profit organizations, and others because of the increasing

availability and affordability of liability insurance. Although we do not normally involve ourselves in day to day operations of the insurance department, the severity and the frequency of these complaints became an increasingly significant factor in this office's determination that something might be appropriate. Finally we were contacted by the mayor of a small community whose community is one of 18 cities who jointly purchased general liability insurance, and had been doing so successfully for quite a few years. However, as of the first part of 1986, despite the fact they were using professional brokerage services, and had approached by Jan. of 86 over 80 different property casualty firms who do offer general liability coverage in California, they couldn't get any insurance from any firm for any price. Our investigation took on an availability point of view analysis. We did not emphasize affordability, per se, I think you should realize that from an anti-trust point of view, the insurance industry can literally fix their own prices, and as such, for us to have spent much of any time on the question of pricing would have been difficult. We began informal activities Jan of 86, by May of 86 we discovered Texas, likewise in response to allegations concerning potential collusive activity within the industry had been undertaken beginning in March 86. As we joined forces by June 86. Throughout the summer of 86 this office and Texas issued subpoenas and conducted examinations under oath of executives, agents, brokers, etc., from the industry. By the fall of 86 we had reason to believe there was at least the possibility for collusive activity, particularly on the re-insurance side of the equation. By fall, 86, we asked other states if they were interested in joining our efforts. At that point, Massachusetts, Minnesota and New York joined in the effort. We had a 5 person team in London Mar., and April 87, and the information we obtained as a result of an earlier investigation we have completed many interviews and reviewed much material, and picked up 4 additional states along the way, regarding to claims of collusion, cooperation and conspiracy within the property casualty industry, specifically with regard to the terms and conditions under which commercial general liability insurance is available in this country. That's a quick summary of how we got to where we are.

Rep. Reiger asked why these lawsuits aren't a number of plaintiffs under one lawsuit, instead of each state individually.

Dove: Each state is trying to pursue their own state law claims, secondly with regards to the way in which lawsuits are structured, 7 of the 8 in San Francisco are class action for damages, there are minor differences between the different lawsuits, all of which led to the decision to file independent suits, but for purposes of the pre-trial proceedings, all the suits have been ordered to related and coordinated before one judge. In effect, it's going to be tried as if it was one suit. Most of the cities and counties down here who were able to buy commercial insurance at all (I.E. in California, less than 10% of any cities were able to buy any form of commercial insurance) were forced into what is known as the surplus ??? markets, where the quality of the product is significantly reduced from that which is normally available. So you have damages measures based upon increased premium and reduced product for your dollar. There are various ways to approach the question of damages.

(Some of the statements here are inaudible.)

Our suit concerns itself with quality of product. Under the anti-trust law, insurance companies can, and do regularly set premium rates and, ultimately, consumer prices. However the anti-trust laws, do apply to agreements to boycott, coerce or intimidate, including the consuming public. We have evidence of an effort by the main defendant to bring about a reduced quality product in the commercial general liability field which product was made available to the public, and it is in regard to product of the ? price that we are bringing our lawsuit.

Rep. Gruenberg asked if it would be beneficial for there to be a change in the McCarran-Ferguson Act eliminating the exemption from the Federal anti-trust act for insurance companies.

Dove: The AG, of California, went on record of repealing the McCarran-Ferguson Act exemption. All 50 A.G's have spoken to that subject. As a practical matter, you don't need the McCarran Act, it was put in place in the late 1940's when the anti-trust law was nowhere as developed as it presently is. The day to day exemptions and interpretations of the anti-trust law are such that all of the historical actuarial data that is necessary for an insurance company to have available to it to take advantage of the law of large numbers to do the kind of underwriting that needs to be done to adequately assess risk and price of the product, are all available within the 4 quarters of the Sherman Act, you do not need McCarran-Ferguson in order to run an insurance company. The industry has taken what is an exemption and treated it to be an immunity, and used it as a shield for a lot of activity for which I'm sure Congress never anticipated. This act has impeded the prosecution of anti-trust cases against the insurance industry. We've seen repeated evidence of collusion and price-fixing activity and product fixing activity that in any other industry would probably include a criminal indictment.

Rep. Gruenberg: It has been suggested to replace the ISO with public directors or alternatively to seek the establishment of a federal statistical agency in place of ISO, would you care to comment on that?

Dove: One of the things we do ask for in the lawsuits that have been filed here in San Francisco, is that we put a little sunlight into the process of ISO, and have public members appointed to the board of Directors. If you break up ISO as proposed and strip out some of it's forms probably many accounting firms would have an additional side-line business they could offer to small and moderate size insurance companies. If McCarran-Ferguson were repealed on the federal level that the inevitable result would be that ISO would have many of it's functions stripped away, in recognition of the anti-trust violations associated with those functions. On a state level, we are considering doing away with the exemption under state law. There is a reason why Alaska could not take it upon themselves to effectively regulate under state anti-trust laws the activities of ISO. However I'm hopeful that Congress will act to repeal the McCarran-Ferguson Act. I don't think it's necessary for the federal government to be involved, let's let the private industry do what it does best.

Rep. Gruenberg: Is ISO regulated by any level of government?

Dove: ISO is regulated in one form or another by all 50 states, it is recognized as a rating bureau by 49 of the 50. Your insurance commissioner could speak to the Alaska situation. The actuality of regulation of the insurance industry varies quite dramatically, there are approx. 14 states, of which California is one, where the insurance commissioner's regulation is very minor, and at the other end of the spectrum, are states where there is a very "hands on" approach. It is statutorily recognized in all 50 states and in that sense in one level or another is subject to regulation.

Rep. Gruenberg: Looking at the various lists, the 8 states involved in your series of lawsuits and Texas, the only small state is W. Virginia, I see no representative of the small, mountain western states. Do you feel it would help to have that class of state in the lawsuit?

Dove: I think so, there are about 22 states which have contacted this office and indicated a strong concern in the possibility of filing here in San Francisco. We are cooperating with any and all states which have expressed such an interest, and would welcome the filing of any state. Assuming we are successful, it would be nice to get some monies back for your cities and counties, and without a filing that's difficult. Under the state statutes pursuant to which each one of the present actions is filed, the A.G.'s of the respective states only have the authority to bring the anti-trust suits that have been brought on behalf of the public entities. That doesn't mean that private actions will not be filed and in fact are being filed right now. I'm aware of at least 5 class actions which have been filed subsequent to the filing of our suit, which represents small businesses, not-for-profit organizations, etc., so there are private industry actions being filed, but the public entity actions are normally brought by the A.G. on behalf of the public of the respective state.

Rep. Gruenberg: Do you believe it would be helpful to establish whether the situation in AK is any different as far as the liability or the activities of the defendant than in the other states?

Dove: we are interested in obtaining information from any state with regard to what we believe to be nationwide. The state of VA did a survey on availability and affordability of general liability business in VA and it matches up to California, Texas and New York. The industry constantly has stated that availability is a direct reflection of jury experience, high jury awards, increasing number of lawsuits, decreased availability, and reduced capacity companies decide to go elsewhere to do their business. When you have a state which is 60% below the national average having the exact same problems as California and the other states, so this kind of data is intriguing to all of us. Your A.G.'s office has to choose which cases are critical for them to deal with, dependent on if there's the staff and resources to be able to do so. I don't have a final figure on how much it would cost to participate, we are conducting the suit from March 1st onward on a basis of a cost sharing amongst all of the states filing, the original expenditures are almost close to \$2 mil. amongst the 5 original states.

Alaska's population being what it is and given the number of states filing, it would probably depend, it will probably be under \$50,000, plus additional expenses for travel, staffing, etc.

No further questions for Mr. Dove were raised. The committee stood at ease for a few minutes. Came back to order at 9:25 a.m. Present for questions were Mr. Paul Rohler, Dir., Div. of Insurance, Mr. Richard Monkman, Ass't. Attorney General.

Rep. Gruenberg clarified the reason for a cost to be involved in the lawsuit.

Mr. Monkman estimated the cost to be involved in the lawsuit for the remainder of 1988 would be approximately \$10,000, \$40,000 additional for 1989. If the Governor's budget passes, existing personnel would be sufficient.

Mr. Rohler stated that the lawsuit has a very sound basis from the materials reviewed thus far. On April 19 there is a briefing where California and New York will be going over the case information, so a decision as to whether to participate or not would be made by the end of the month.

Mr. Monkman: The state has been following this investigation since it began in 1986. From those briefings my personal observation is that the lawsuit has a very sound factual basis, and the legal theories on which it's based are also very sound. It's a very complicated and expensive investigation, in general the states that have participated are assigning 2-3 full time attorney generals to this case for the past 2 years. As Mr. Dove mentioned, there have been literally hundreds of witnesses that have been subpoenaed and have testified over 1 mil. documents have been reviewed in England, they've done a very thorough job in this investigation. The A.G.'s office wants us to review the materials gathered very carefully, to attend the briefing on the 19th of April, and then after that discuss the matter in depth with Gov. Cowper and go from there. A.G. Schaible does not want to rush into this decision. As to filing a lawsuit here in AK, that would be a mistake for a number of reasons. The form of lawsuit is designed to avoid getting into the multi-district litigation laws, for that reason all of the litigants have agreed to file a lawsuit if they're going to, in San Francisco. The advantages to doing that would greatly outweigh the advantages to doing it in AK. Also, as part of the multi-state team, we would have the advantage of (undecipherable), whereas if we filed in the state we'd be basically on our own, and it would be horrendously expensive.

Rep. Gruenberg: If the lawsuit were filed in the District of AK, could you, in your pleadings, ask for Rule 82 attorneys fees?

Monkman: We could ask for them, I'm not sure we would get them.

Rep. Gruenberg was wondering whether it would be helpful to file in AK. and then seek to remove and consolidate, so you'd have the advantage of the initial (undecipherable) and you could ask for Rule 82? and then get it back where it belongs?

Monkman: Each of the individual state lawsuits are alleging not only violations of the Sherman anti-trust act, but violations of specific state acts, which come in ancillary to main action. Our intention, if we were to join this lawsuit would be to defer to the team of attorneys that have been working in it who will be presenting the case, and aiding them as best we can.

Rep. Reiger: If these other states win, can't we just go in and say, Me too...what's the reason to be part of the initial group?

Roller: The main reason is to solidify the cause of action for damages early on. The liability part of the lawsuit is important, getting injunctive relief to prevent those companies from carrying on the same sort of activity in the future, and that is going to have a national impact. By being a party to the lawsuit, as it's progressing, we can establish the factual basis for liability for Alaska. The A.G. of AK can sue for damages on behalf of public entities under the Anti-Trust act and ultimately consumers under the Consumer Protection Act. A violation of the anti-trust act is unfair trade practice. What we can't do is obtain damages for some classes of businesses, etc. If we get a judgement, that can be used as evidence of liability by any other party that comes in. If the state of AK gets a judgement against these companies in Federal Court, then any private entity that's been damaged can come forward and have a case. By participating in the first part of the lawsuit, we will open the doors for injured AK businesses to get damages later on.

The fixing of the prices aspect is not a direct part of the lawsuit, but availability of types of insurance coverage that you can get is.

Rep. Gruenberg reiterated some points made earlier. He adjourned the meeting at 9:50.

Joint Committee on Economic Recovery
House

April 8, 1988

Present: Representative Max Gruenberg (Chair)
Representative Kay Brown
Representative Steve Reiger
Representative Niilo Koponen
Representative Red Boucher (Juneau)

Testifying: General Public

Rep. Gruenberg: We would like to take up several proposed pieces of legislation from AEDC, which Rep.'s Reiger and Brown have had drafted into bills. For the purpose of discussion, we have one, one page bill, labeled, An act relating to an exemption from municipal taxation for economic development property and providing for an effective date. The second is entitled, An act relating to reduced utility rates, fees and charges for qualified economic development projects, and providing for an effective date. We would like to take these up because we need to have a quorum of the committee to recommend they be introduced. Then, Rep. Boucher will need to leave and we will start taking public testimony.

Rep. Reiger; The first bill was essentially crafted by the AEDC. I looked at it and I believe it is certainly worth discussion. What the bill does is allow a local option for municipalities and that local option would be to foster economic development through a different tax for that package. The net result of the bill would be to allow a municipality to undertake such an enterprise without mandating it. After the committee processes it I think it will be a good idea.

Rep. Gruenberg: For the record, Assemblyman Jim Kubitz was on the plane with me this morning, and we discussed these bill and he said they have been reviewed by the Anchorage Municipal assembly and unanimously have been supported with a resolution to that effect.

Rep. Brown: My staff person informed me there were some changes made in the Cook Draft, line 28, sec. 2. It was the drafters suggestion we change the effective date of the act to Jan. 1, 1989, to have it conform with the beginning of a tax year. The draft submitted by AEDC has an immediate effective date. The 2nd change is the definition of economic development property, on lines 21-27.

Rep. Gruenberg: It looks like a language change. Contrasting it to the language on lines 23 and following.

Rep. Koponen: The definition extended to personal property, machinery, etc., this also extends to real property, I was wondering if that meant real estate or what, we need a tighter definition of economic development property.

Rep. Reiger: I understand Rep. Koponen's concern. My response is I could see cases where the tax incentive may apply to real property just as well as the instrument production, part of the production can be an improvement to the real estate rather than an actual piece of machinery.

Brief discussion followed. Rep. Brown mentioned the subcommittee has not formally discussed these bills.

No objection was raised, the bill will be introduced at the request of the House members of the J.C.E.R. The second bill is the utility bill.

Rep. Boucher had to leave early, so he had a brief question. Rep. Gruenberg mentioned that APUC has not discussed this bill yet, but only now will it be introduced, and the APUC will have a chance to discuss it at that time. Rep. Gruenberg suggested that because of the number of questions, the bill be held on the calendar until the next day when Scott Hawkins will be testifying and can answer questions.

Rep. Koponen suggested making an amendment to the first bill by deleting the phrase "real or" on line 22. Motion to reconsider motion to pass the bill out. Brief discussion of wording. Rep. Reiger recommended leaving the wording in to encourage discussion of that point in the full committee. Rep. Boucher agreed with Rep. Reiger, as well as Rep. Gruenberg. The amendment didn't pass, the bill will be introduced as is.

Public testimony began.

Jerry McCutcheon: Extension of Lake Hood, Anchorage is in need of float plane parking, there was a list of 1,300 people waiting. After they started charging, the list dropped down to 583. Now the list is only 58 years long. It's winter jobs in AK. There are at least 2 aircraft manufacturers, 2 potential float plane manufacturers, 4 manufacturers of aircraft skis, and 4 engine and wing cover mfgs. in the local area. It would add 1,000 new pilots, \$2 mil to the economy. The utilization of the extra spaces would add \$15 mil to the tax base, etc.. Therefore, I would like someone to move on the completion of the expansion of Lake Hood, with a completion date of summer of 1989. Second, there is a need for the military to go out on glaciers, not necessarily Eklutna, but the military does have ? Lake near Ft. Richardson. Access is needed to that lake for float plane parking. I object to the housing trades, it should be a level playing field, they shouldn't be giving their money away. The proposed ski area: I don't think the state is playing it very straight either with the legislature or with the public on the Rogner-Eagle River ski area. We have had good weather for 3 weekends in a row, and I have flown in many other times. No one ever used the area even though it's adjacent to the Arctic Valley. I don't think it's ever going to make it. There's just no snow there, I don't think it'll make it.

Rep. Reiger: There is a DOT plan for the expansion of Lake Hood. On the housing trades, my thought on that is that it would be equal year values (1988 for 1988).

Rep. Brown and Rep. Gruenberg concurred with Rep. Reiger.

Rep. Gruenberg had a question about there being no snow in the proposed ski area. Mr. McCutcheon mentioned it was more times than he could remember. He favors a road through that area through to Crow Creek Pass. Mr. McCutcheon spoke of another idea he had, on developing coal, shale, etc.

Belle Dawson: I feel we need to develop our tourism industry further, and if we open coal mines, etc., they'll only give us a few jobs, and in the long run destroy our unique features that attract people to Alaska. I really wanted to talk about small businesses. When I go to a bank for \$15-20 K, they don't even want to talk to me, it's not feasible for them. SBA won't help, they say there's no money available for small business (\$500,000 or less). One of the real needs of this session is to invest in loans for small businesses, so they can get started, provide employment and help circulate money. There are more of us than you probably realize, and we just fall through the cracks.

Rep. Gruenberg mentioned HB471. Rep. Reiger mentioned the possibility of calling it a personal loan and using it for the business.

Norman Roper: There's a number of points I'd like to raise. One of my concerns is the commercial real estate market, I've been a personal broker for 15 years, and I've been involved in giving ideas to the municipal administration. This is a very difficult problem. The biggest difficulty is putting our hands on legislation to deal with this. It seems we need to be able to form some kind of R & D group to be working on this problem. A potential idea might be some kind of joint operation between AHFC and AIDEA, and drawing on their funds for this. The AIDA has impacted the Anchorage economy with oversupply of office space. Mr. Wagman and myself agree on what's happening now and what direction AIDEA should go for in the future. One specific recommendation I'd like to make upon consultation with Mr. Wagman is to look at increasing the number on the Board of Directors of AIDEA, from 5 to at least 7 members. One reason is due to recent appointments by the Governor, there's no one from the Southcentral area on the Board now, other than Comm. Smith. There's also a limited amount of banking expertise on that Board as well. This is a small thing that could be done immediately. The idea of using the wealth in the retained earnings (AHFC reserves), it's an extraordinary source of funds we can utilize to help us get through the coming difficult years. I agree with almost every potential solution of the Housing and Banking Subcommittee.

Rep. Brown: We do recognize use of the reserves might be appropriate, we had a bill I hope that was introduced today that would authorize AHFC to use up to \$10 mil. of it's reserves for projects of this type, Willow Park one on the front burner.

Rep. Reiger: On the subcommittee report where it says, "Cost to the state: little or none.", there's a theory behind that, it means recognize what would have happened anyway, a loss which would have occurred anyway if no action had been taken. As far as the AHFC earnings reserve, it's really not earnings, but there is capital there.

Mr. Roper: One suggestion for the legislature this year is to pass a resolution directing AIDEA to be prohibited from lending or participating in the lending of any new development of office space, taxable or non-taxable, forever!

Brief comments on various ideas followed.

Rep. Reiger mentioned one of the bills Housing and Banking Subcommittee introduced requires the note to specify the remedies of the lender and the securities behind the lender.

Rep. Brown asked Mr. Roper on his impressions of the Bridge Bank ideas.

Mr. Roper hadn't viewed the legislation, but knew of some of the ideas. He voiced his opinions on some of the various ideas. The AEDC proposal was the only one he thought had good merit, because of operating as a non-profit type operation, which wouldn't have to seek a large amount of state funds.

Alan Fuller made some brief remarks. Rep. Brown volunteered to make an update on bill numbers, etc., for organizational purposes to move issues along. Rep. Gruenberg adjourned the meeting.

Joint Committee on Economic Recovery
House
April 9, 1988
Anchorage

Present: Representative Max Gruenberg (Chair)
Representative Kay Brown
Representative Red Boucher (Juneau)

Testifying: Scott Hawkins, AIDC
General Public

Rep. Gruenberg: For the record, we took action on the one page bill which had been distributed yesterday recommending it be introduced. Mr. Ted ~~Moninski~~ is here to speak on the utility bill. Mr. Hawkins will explain the purpose of the bill.

Mr. Hawkins: I represent the AEDC, approved by the municipality a year ago in June, to go out and promote economic development. I took this spot 6 months ago to head the corporation. We have very quickly found that compared to other states and cities we had very little to offer in terms of economic incentives. With regard to the utility bill, it is enabling legislation. It gives the APUC clear guidelines that if the utility proposes an economic development incentive rate that under state law this does not violate any section of that law. The APUC can then go through the public process, see if at the local level there is support for that kind of a rate filing, and rule on it. They wouldn't have to be concerned then if it violated state law. It's very similar to the property tax bill, it just enables localities to make that choice.

Rep. Boucher was wondering if in the process of drafting if AEDC had coordinated with APUC. Mr. Hawkins said no, all they wanted to do was make this permissible rather than requiring anything of any local area. Rep. Gruenberg explained that the only action this committee would take is to have the bill introduced.

Mr. ~~Moninski~~ Moninski: This morning is the 1st time I've had a chance to see a draft of the bill. I was personally involved in the drafting of the language in the lifeline legislation that proceeded through the House last year. One concern of that was a provision of Title 42, 05.391. (Partially inaudible) We had to determine that there might be certain instances when some form of rate discrimination might be appropriate and permissible under the statute. I don't see any reference in the proposed legislation to Sec. 391, that's an area I might make some suggestions to Mr. Hawkins about. Some other concerns, again referring back to the lifeline legislation, was if you have a utility whose ability to earn is subject to the APUC's jurisdiction, the process we go through in our proceeding is the utility demonstrates it should be allowed to earn and cover certain cost expenses, including a reasonable profit. We refer to that process as the termination of the revenue requirement for that utility. Once the revenue requirement has been

determined the utility has a legal right to earn that revenue requirement. If during the course of setting rates we shift some of that recovery process from one customer class to another, the utility still has a right to be made whole (?). The implication is that other customer classes must somehow make up the difference. I'm sure that's essentially the logic that's behind the anti-discriminatory provision of the statutes, and certainly something we look at closely. What's unclear to me as I read the proposed change to pp. M of Sec. 381 is how that process would take place. The only other item, there's some reference here to the political subdivision in which the project is being developed. Having some responsibility for determining whether or not this is one of the projects that might be eligible for these special utility rates. Clearly that seems to be an appropriate thing to do where a political subdivision actually owns and operates the utilities and providing the services. Where you might have other corporate entities, utilities provide the service within the boundaries of the municipality, it's confusing as to what authority or responsibility the political subdivision would have for these other entities, i.e., Chugach Electric providing services within the boundaries of the municipality of Anchorage, it's not clear to me what the relationship would be between those involved.

Rep. Gruenberg: Given the fact that we have just less than a month left, do you think you'll have enough time to review this thing, if the bill is introduced?

Mr. Moninski: I don't think there'll be a problem.

Brief discussion followed.

Mr. Hawkins: Inserting a time limit into the bill is a good suggestion. Our intention is to provide capital recovery, not to provide a perpetual subsidy. We have coordinated with a couple of major utilities, Chugach and MLMP. We want to make sure that whoever gets this incentive will bring new economic activity and expand the economic base. Also, in response to Rep. Brown's question, as the economy contracts, the amount of revenue the utilities makes contracts. The result is higher utility rates and lower income for the utility. They have a great deal of incentive to promote a stable economy, to expand the economic base, etc., that gives them a more stable environment. At this point in our economic cycle, increased economic activity could actually lower rates for utilities and higher earnings for the utility. The question will be what kinds of businesses it could apply to. There will be clear cases where there is no competition, i.e., if a manufacturing plant comes in to produce a product that's not currently being produced here, or air transportation company would provide service that's not currently offered. The assembly or whoever would have to waive whatever competitive effects it would have with the worth of the expanded economic base. Under the bill we submitted, that group would be the assembly. Once the rate was filed and approved, the project would have to go to the assembly to be approved at a reduced rate. One way to cap this would be a maximum load demand. Those projects under that cap might not have to go before a board for consideration.

Rep. Gruenberg: If you have any changes to make in the draft, see Tom Begich of my staff, then we will bring this before the committee for a motion on whether or not it will be introduced. It sounds like Rep. Brown has some ideas as well. We have another bill: An act relating to exemption from municipal taxation, for economic development property. I would appreciate it if you would explain to the committee what the bill does. There was one amendment, line 22, delete phrase, "real, or". Mr. Hawkins.

Mr. Hawkins: This bill is similar to the one we just saw. It's enabling legislation that gives localities the flexibility to offer property tax incentives as a tool for economic development. We did propose a 5 year limit, and we proposed it be approved by the local governing body on a case by case basis. It's a taxation and revenue matter. We don't feel a blanket program would be appropriate because of the inherent level of concern on such matters. The inclusion of real property is key to this bill.

Rep. Gruenberg: Would it be helpful to state "exempt or defer" from taxation, because a municipality may not choose to exempt somebody from taxation. The committee has already voted on this, but I didn't think of this at the time.

Mr. Hawkins: That's an excellent suggestion. When we drafted it, the terms "in full or in part" I thought might include deferring, but if that's not the case, I think that change should be included.

End OF TAPE 1, SIDE 1.

Rep. Boucher thinks the utility piece of legislation needs alot of work. Mr. Hawkins is smiling and nodding his head.

Rep. Gruenberg: On the one page bill, would there be any objection to amending line 12 to "exempt or defer from taxation"? I'll walk that around to see if anyone has a problem with that.

Charles Konigsberg: You want suggestions for economic stability, and given the way our system works, as Mr. Hawkins has just demonstrated, stability is impossible in our system. We never have developed this here. We know enough to prevent boom-bust but we didn't do it. What do you gain by allowing marginal operations to come into being and then under certain conditions which are inevitable, they fail? The only sensible thing in my view for the legislature to do at this time is to let the economy sift itself out, so then it demonstrates what it's capable of maintaining and sustaining on a stable long term basis. Nothing that has been said is any different than in our economic boom. You use the same language, people are coming to you for the same kind of subsidies, even when there were millions available. Isn't there something wrong with a system which, in it's decline, as well as in it's descent, you talk about things in exactly the same way? That's what I mean with the issue of stability is absurd. People are not trying for stability, they are just trying for more, more, more. So let's be honest about it. I'm not pointing fingers at anybody. Don't get too close to it, you'll get confused. Why is it necessary for public funds

to be used in the manner in which was recently suggested, exempting public utility rates, taxation, etc.? Where are the millions and billions that were made by people here in the boom? Why hasn't that money been put to work? Why is it only public money that must be addressed? Is there any guarantee that we will benefit from what you're proposing in these bills, anymore than we did then? That money's probably in Hawaii or somewhere. One would have thought that with the advantage of hindsight Anchorage could develop a socio-economic system from the lessons of the states below. If you're in Alaska you get a little more, it's get...get...get. My suggestion is do as little as possible. You don't know what is going to be good, I don't think you should be helping groups out, individuals, O.K. If you want to help people in depressed conditions, find out what people were doing traditionally, that worked, and help them do that a little better. The only reason I moved to speak is we try to keep people unsatisfied so they want more.

Rep. Brown mentioned helping the tourism industry would be a good industry to enhance and help support to keep and bring money into the state.

Mr. Konigsberg made brief additional comments.

Jack Keene: The philosophy of where are we going and what do we want to achieve is a good one at this time. One thing I don't see in here is the possibility of building up our university system. Regarding the economic problem, one thing we need is new money, not only from tourists, but also from students, loans, grants, etc.. Some of the talk about excess housing being used by students is an excellent idea; taking the idea one step further to making an introductory offer to advertise and draw additional students here. If we looked at that as some help for the economy and a social benefit, we might find some good in it.

Rep. Gruenberg: Anyone else who wants to testify? Thank you, this meeting is adjourned.

Joint Committee on Economic Recovery
House

April 11, 1988

Present: Representative Max Gruenberg (chair)
Representative Mike Navarre
Representative Steve Reiger
Representative Kay Brown
Representative Niilo Koponen

Testifying:

Mr. Rohler (Dir of Div. of Insurance)

Mr. Craig Barrington (Gen. Council to the Amer. Insurance Assoc.)

Mr. Rohler: I'd like to speak on the exemption of the McCarran-Ferguson Act from the anti-trust statutes. In 1946 when McCarran-Ferguson was passed, that anti-trust exemption applied to the business of insurance, and specifically to the insurance companies themselves. Since then there have been a number of court cases which have narrowed this exemption, and now the exemption on that act is exactly equal to the state anti-trust exemption. There'll be disagreement on this point, but I honestly believe this. Under Title 21, 36 080, there's a specific exclusion under state law regarding this act. I would very carefully look into the issue of whether you want to repeal any anti-trust protections, because in my opinion those belong to the state. I am against repealing the McCarran-Ferguson because as I stated earlier the allegations and complaints that have been filed recently by 8 states are true, McCarran-Ferguson is not going to act as a shield, I can assure you today that the insurance companies will raise McCarran-Ferguson as a defense, and I feel equally sure it isn't going to be a valid defense, because if the insurance companies were acting outside the scope of the regulatory authority of the states, they are going to be held liable. The second point, is the factual allegations of the complaint. I spoke with someone from the ass't A.G.'s office, and he advised me he has a confidential, factual report from the various A.G.'s offices investigating this matter, he told me I could not look at that report. Right now I can't state whether a valid cause of actions exists, but I can say under the rules of pleading in a federal court, when the attorneys bringing this action file, they are going to have to attest to this good faith belief that they can sustain their burden of proof in this action. If those allegations are true, then they should be redressed in the courts.

Rep. Reiger asked a question? Partially inaudible.

The London market is a very powerful market, and it may very well have been the case that the foreign offices, with much less control than that here, may have had something to do with these actions.

Rep. Gruenberg voiced the possibility of clarifying the statute in this action and make certain to eliminate some costly and lengthy litigation

and let the citizens of the state know they can bring a private cause of action. Mr. Rohler said he thought the Div. of Insurance would support such an amendment to the statute making it clear that a citizen could use this for a cause of action.

Mr. Barrington: I'd like to comment on the McCarran-Ferguson Act, the relationship between the insurance code in AK to the AK anti-trust law. I noticed a discussion about repealing the state McCarran with the assumption that there is such a law exempting insurance from the AK anti-trust laws. But my reading of the statutes indicates there is no such AK law, therefore there's nothing to repeal. Under AK law, it is unregulated industries which are generally the subject of the states general purpose anti-trust laws, Title 45, Art. 5. That law has a list of exemptions, sec. 572, including labor, agricultural and horticultural organizations, certain fishing associations, public utilities and the arrangements necessary to carry out the AK Native Claims Settlement Act. There is also a general purpose regulated industries exemption that pertains to activities required or permitted by state regulatory agencies, but there is no exemption for the insurance industry, so there would appear to be nothing to repeal. I should add however, that the general principle of statutory ? requires that the specific provisions of one statute must be followed rather than the general provisions of another(?), thus it is well settled law that no act undertaken by regulated parties under statutory regulation could be held to violate the general provisions of an anti-trust law. That is true in regard to insurance but it would be true in governing any other regulating industry as well. This insurance is regulated in AK. I'd like to describe some provisions of the AK insurance code, because I don't think you can adequately discuss the claim between the insurance code and the anti-trust law unless it's well understood what the insurance code does, and what it allows and prohibits. The AK insurance code is really a plenary statute, it covers the entire insurance business, i.e., in a separate chapter (39), which creates the procedure for establishing rates and authorizing the operations of rating organizations by the organization, the insurance commissioner has very broad authority. Chap. 39, cooperation among insurers and rating organizations is specifically authorized, but that cooperation is subject to the authority of the insurance director, who has the absolute authority to disapprove any cooperative practice, the insurance commissioner also has the absolute authority to approve or disapprove any insurance rate that's proposed or the use of any insurance form in the state. Moreover, when we get into the question of trade practices, it's important to note that the insurance code has an entire chapter (36) devoted to that issue, and in that chapter there's a long list of enumerated unfair practices. In addition to those unfair practices, the insurance director is authorized to determine that "undefined practices constitute an unfair method of competition or unfair or deceptive act of practice", and when he is so determined, if necessary he can authorize the A.G. to enjoin that practice in court. Therefore, under the specific language of the insurance code, any activity that would be considered an anti-trust violation and if not specifically authorized and regulated by the insurance commissioner may not lawfully be undertaken. AK today ? protection to its insurance code, prohibiting the anti-competitive practices. With regard to McCarran-Ferguson, such a resolution coming

from a state legislature like AK seems particularly interesting because if McCarran were repealed it would be up to AK to decide how it wants to regulate the insurance industry in AK would also be repealed. It's the McCarran Act that allows you to decide the terms of AK regulation. McCarran is often misdescribed as an insurance anti-trust exemption, that's not really the story. McCarran says that certain anti-trust laws not be enforceable in any state that decides to regulate the business of insurance. If the state decides not to regulate insurance, all federal anti-trust laws will apply. If McCarran were repealed, AK insurance regulations, other state insurance regulations would be in trouble, because the legality of those regulations last along ? subject to a just made doctrine in the anti-trust field which is known as the state Action Doctrine. Under the state action Doctrine, only state law that is absolutely safe from being overturned under the anti-trust laws is state law and regulation that is designed to be up to the courts to displace competition, and that is actively enforced, actively supervised by the state (?) Regulation like the AK insurance regulation is designed to foster competition, not to displace competition in a regulatory structure would be immediately open to challenge. Even if the regulatory statute survived that initial litigation attack, it would be constantly open to additional expensive litigation on the grounds that any on instance by any one individual that if the code or the issue was not being actively supervised by the state. The McCarran Act was enacted to give the states the widest latitude of forming their own insurance policy. Modification or repeal of McCarran would eliminate that state authority. That's not just my view, but also that of the Nat'l. Conf. of State Legislatures, rejected last year a resolution to support repeal of the McCarran Act, also respected by the Nat'l. Conference of Insurance Commissioners, also by AR. Governor, as well as many others. With that background, let me say a few words about the court case itself. The case was announced to the press before it was announced to the defendants, with a great deal of political rhetoric. The Governor stated that these defendants have sucked the blood of our nations economic well being. That type of political rhetoric gets headlines, but it has no place in the lawsuit at all. The suit focuses on a narrow point of law, on the development of a new commercial insurance policy....I'd like to respond to the unpredictability of coverage under the old insurance policy. Basically the old policy was being interpreted by courts in ways the insurers never expected when the policies were written. It required pay outs for which appropriate premiums had never been charged. Problems raised the need to develop new forms to eliminate the uncertainties, the responsibility for managing that process was in insurance services office that operates under state law in AK and elsewhere and is subject to the absolute control of insurance commissioners. Under any such procedures, 2 new policy forms are publically proposed, debated, presented to insurance commissioners, along with a current policy form and a claims paid form. Commissioners required changes before accepting the forms, and some rejected the claims paid form outright. Far from being private collusion, development of the forms was a public process, insurers carrying out their responsibility. I might add a response to the question this morning with regards to directors and officers ... in medical malpractice insurance hasn't changed, and any allegation with regard to those activities, no allegations with regard to auto insurance, and despite

the political rhetoric used, the case is very narrowly drawn. If insurers they were fighting state insurance ?, what was the law suit about? The attorney generals don't like the ISO mandate, the mandate ? laws which pertain to advisory organizations and rating organizations and they don't like insurance regulation under current law, such as the AK law, and have said so publicly. Therefore it is their privilege with having failed to enact statutory changes in the state legislatures they're now trying to get their changes through litigation. I think the insurance companies and the insurance services office actually caused the liability crisis by developing the claims made form, but the charge just won't wash. Start by looking at the times trade (?) during which the policy form was about. Although the suit alleged that the use of this form caused the liability crisis, the form was not even approved by the states until 1986. Substantially after the liability insurance crisis had it started and in many cases peaked. How then could this activity which is really the guts of the lawsuit, have caused the crisis? I asked A.G. John VandeCamp of California that question twice, on the McNeil-Lehrer news Hour, and twice he couldn't respond? Why? I believe because there is no good response. Let's look next at the ? coverage I was asked by the A.G. Indeed if you look at the guts of the lawsuit, which you have to go 42-44 pages into it to find, in the claims, you'll find it deals with London reinsurers, and the rest of the lawsuit deals with pollution coverage(?) So the A.G. claims that this new policy form caused availability problems and ? coverage. But that charge is not only unfounded it's hokey. Commercial insurance policies started with a 1984 court decision which is generally referred to the Jackson Township case. In that case, the court ruled that a 20 year seepage from a landfill in New Jersey was a and thus was covered under the old insurance policy. Insurers reacted to that decision and to similar decisions by making individual business decisions that pollution coverage would be too expensive and unpredictable to provide under those circumstances. The 1986 change on the ISO form on pollution therefore noted the changes that had already occurred on the market after Jackson Township. And now the A.G. has brought the suit, it'll probably be years before the case is resolved and as some have speculated the case is thrown out of federal court in the near future. While it's not possible to litigate the case outside of the courtroom, one fact is clear even now, that is that the political rhetoric of the A.G. used to promote this suit is simply untrue. The insurance companies didn't create the liability crisis through some scheme to establish a new policy form, and to boycott an old one. There are 3,500 insurance companies in the U.S. ? has more than 8.6% of the market. Competition, as filed by every study, flourishes in the market. There has been no evidence of coercion. Should this committee recommend that AK join the lawsuit? Ultimately that's your decision. You might also be interested in the Wall Street Journal's article, that says the judge will probably dismiss the claim. It will be an expensive and drawn out affair, and ultimately I believe it will prove to be wrong.

Rep. Gruenberg: In reference to the McNeil Lehrer appearance, from March 23, 1988, you stated on page 7 (quotes from transcript) Mr. Van de Camp did answer your question, did he not?

Mr. Barrington: His first paragraph, those who control the forms control the coverage, assumes that the approach to decision making resulted in there being no occurrence form left. That is untrue, there was always an occurrence form as well as the new claims paid form.

END OF TAPE 1, SIDE 1

Until an insurance form is approved by the insurance commissioner, a policy cannot be used, and while that differs in some states, in AK it is absolutely clear under the assurance code that the insurance commissioner has the final authority, with regard to approval of the forms. The second point with regards to the 43 reinsurers, I thought that that was an interesting comment. Those 43 reinsurers were all London reinsurers operating in Britain under British law, and there's nothing which begins to deal with the question of whether there's any jurisdiction over foreign corporations acting under their own state law, which may be different from American law. I don't believe he answered the question very well.

Rep. Reiger: What percentage of commercial general liability insurance goes to the overseas reinsurance market?

Mr. Barrington: Insurers need to have reinsurance, as everyone understands, reinsurance is basically insurance for insurance companies, they sell a policy and then ? buy a particular piece of the liability and the more reinsurance you're able to obtain the greater capacity you have for selling insurance, primary insurance, so in the U.S. in order to provide the insurance necessary for an expanding economy, you need to have a great amount of reinsurance. It also makes sure the individual claimants will get their claims covered in a large claim, so it will not be an extraordinary demand on any one company. I can't give you the exact figures. Generally, primary insurers will engage in contractual relationships from which reinsurers call treaties under which those reinsurers agree to provide reinsurance for particular type of risk. The insurance company writes those types of risks, and they become covered through the reinsurance treaty. A primary insurer is absolutely obligated to the policy holder, and there have been instances when reinsurers have not paid when obligations have come due, but that has not relieved primary insurers of their obligation to the policy holder.

Rep. Reiger: In liability insurance is there a rule of thumb as to the cut off where a company will stop solely primary insuring?

Mr. Barrington: It differs by company and line of insurance. Insurance commissioners have a great deal of interest in making certain that an insurance company's solvency is maintained, and so alot of reinsurance is done with an eye to that.

Rep. Koponen: What was the general percentage of losses not made up 3-4 years ago when the reinsurers didn't pay up?

Barrington: I don't know that. Whenever a reinsurer does not pay what it is obligated to pay it does negatively effect the capacity of an insurance company to write additional insurance, because the capital

that would have been available to write that new insurance is then required to provide coverage on the claim. The court system at that time was yielding out decisions on perpetuations of policy forms that had been written years and years ago, that resulted in large claims...when those kinds of decisions come about, the asbestos decision being a good example, they impacted capacity, impact as to how policies will be written in the future, and they impact the type of insurance you're going to write in the future. Another area had to do with the dislocations caused by the mass of changes in interest rate, occurring in the late 70's and early 80's. You'll recall we had interest rates in the 19-20% level, highest since the civil war, and those rate increases, a lot of the prices of insurance were caused to go down, because insurance companies get their money through premiums and through investment income off of that premium that's used until claims are made. So when investment income is high, premium costs can be lowered and the consumer gets a better break. Those policy holder costs went below what an actuarial estimate of losses would show to be prudent. There was no way to predict how far down interest rates would come after they had peaked, and moreover insurance commissioners looking out for the interest of consumers would have been quite unhappy if insurance companies were making substantial profits on investments and not passing along those profits to consumers through lower premium rates. Then interest rates came down, there was not the investment income to offset the loss that was taken on the writing of premiums, then premiums went up as well.

Rep. Gruenberg: Only one of our interests is this lawsuit, the legislative interest is the public policy involved. Should the main focus of the public interest be to insure that there be a certain income to the insurance companies, or should it be that there be relative stability from the consuming point of view. Just because interest rates fall, etc, should that play any part at all from the cost of the policy, isn't that totally separate from the public's point of view?

Barrington: I don't think those aspects have any thing to do with the coverage of the policy. The policy changes came about because of the unpredictable court decision. This lawsuit isn't about the cost of insurance. You can't have assurance of predictability for policy holders if you have companies that are going out of business and leaving policy holders. Every state has protection for individuals for claims with companies that go out of business. A guarantee fund is financed by assessments of existing insurance companies remaining. So, the insurance commissioner has an obligation to insurance stability by making sure insurance companies are operating soundly and appropriately and also from the standpoint of protection of policy holders. No rate goes into effect without the insurance commissioners permission. With regard to physicians and workers comp, the problems is people fail to understand that those rates reflect what's happening in society. The insurance rates have to reflect the payout. (example of medical malpractice.)

We could decide to have a workers comp system which allows an ever increasing type and amount of payout, but we couldn't also have lower rates.

Rep. Koponen: Does the ISO collect data available for legislators so we can make public policy based on hard data?

Barrington: ISO does have info which it provides to insurance commissioners, it also has done some studies regarding tort reform, but there is no perfect information re: lawsuit issues.

Rep. Koponen had a question about restricting the market to domestic insurers, and what the McCarran-Ferguson Act would allow the state to do.

Barrington: The question of whether you can restrict the market to domestic insurers is not a McCarran question, but it's an important constitutional question, about restriction on commerce, it's a constitutional issue. The authority under McCarran is for the states to enact whatever insurance regulation they like which passes constitutional muster. I'm not sure a state could pass legislation restricting the business of insurance in the state to companies that are domicile in the state, under the U.S. Constitution's commerce clause, but that should be examined carefully. From a policy standpoint you might be denying citizens competition in rates by denying some from competing in the AK market.

Rep. Koponen stated he isn't interested in doing that, but just determining the limitations of power under the McCarran Act.

Rep. Gruenberg: Do any states have any say in how the insurance company invests its money?

Mr. Barrington: I'm not aware they do, except that insurance commissioners are authorized to examine the insurance companies for solvency purposes.

Rep. Gruenberg: So, to review, there have been gradual evolution of tort theories, that have changed as technology increased and the complexity of life became greater, and as people began to do this, the courts have responded to those expansions. Now we're looking at that in the so-called tort reform area. And that has increased the exposure of insurance companies for such things as pollution. The other thing you've mentioned, however, is something entirely unrelated, and that is due to the change of the yield of the stock market portfolio invested by most of these companies, as inflation went down, so did their return. Now, if we look at this as a see-saw, and we try to maintain equilibrium in the see-saw, and we have a public body, board, etc., that regulates only one end of the see-saw and the other end of the see-saw is fluctuating wildly, with no control, don't you think we should be examining the other end of the see-saw as well?

Mr. Barrington: I would challenge the notion that it's fluctuating wildly. Given that assumption, in the late 70's early 80's it caused disruption of every major industry in the U.S., including the insurance industry. There's nothing the insurance industry can do about those kinds of fluctuations.

Rep. Gruenberg: Don't you think we should regulate the insurance industry like we regulate the banking industry?

Barrington: You're wrong with regards to regulation. Regulation is very, very strong. I would not hold up regulation of the banking industry as a model for anything, there have been more failures in the banking industry in the last several years than any time since the great depression. During the high interest rate period, banks provided all kinds of loans to third world countries, and most are going unpaid and the banks are writing them off, as are loans that went into the oil business, so banking regulations aren't a model for anything. The stability of the insurance market and primary insurers has been really extraordinary. The one thing you want to avoid in the insurance industry is the lack of competition, so it's not regulation of a monopoly, but regulation of a business to assure public protection but try to get as much responsible competition as you can possibly get. The insurance code has formal procedures with regard to rate determination, and they are there for the insurance commissioner to exercise in an appropriate way. It also provides for hearings and provides for individuals to file complaints with the insurance commissioner. The commissioner has the responsibility of protecting the interests of the people of the state.

Rep. Gruenberg: Are you aware of any other states where there is an office charged with protecting the consumers interest?

Barrington: I don't believe so, there was some discussion in California, but no legislation has been enacted. It's important to examine the authority the insurance commissioner has. We believe in strong and appropriate regulation of the industry. It doesn't serve any of my member companies well to have a regulatory system which allows some companies to act improperly and then go out of business, because everybody left picks up the pieces of that. In a lot of states it's true that the insurance industry through fees finances the regulatory process, and we have always been willing to pay those fees to get solid regulation for the public interest.

Rep. Gruenberg: It has been alleged by a number of different sources that the insurance commissioners (and I'm not referring to Alaska, I want that understood) are hand in glove with the industry are really pretty toothless, comment?

END OF TAPE 1 SIDE 2.

TAPE 2, SIDE 1

Barrington: The insurance industry has never opposed increasing the amount of insurance fees necessary to have an effective enforcement program. I want to emphasize that; I don't know the financing mechanism in AK. As to your argument, we have no formal position. While you do not want either the appearance of impropriety, or impropriety itself, you do want regulators to know the industry well enough to regulate it well. Can you find people who have that knowledge who don't come from the industry? Sometimes, academics, lawyers, economists, etc. With regard to people leaving regulation and going back to the industry, I

know, for example there are rules of conduct for individuals leaving positions in the federal gov't and returning to private industry. I could understand the desire of the public to see rules pertaining to that.

Rep. Koponen: As far as the laws and regulations, we do have a fairly stringent set of laws in AK, but the fund we receive from premium tax go into the general fund where it's constitutionally limited, we do not have any dedicated funds other than the Permanent Fund and certain pre-statehood funds, so our Division of Insurance is fairly small, and as problems arise they find themselves behind in gathering data or attempting to enforce law so that compounds the problem. One of the questions people have raised is if you know if insurance employees are involved in the tort reform efforts?

Barrington: There has been insurance industry participation, yes. We have participated strongly in those efforts, as have many groups. The tort reform movement is broader than just the insurance industry.

Rep. Gruenberg thanked the testifying individuals and adjourned the meeting.

Joint Committee on Economic Recovery
House
April 15, 1988

Present: Representative Max Gruenberg (chair)
Representative Steve Reiger
Representative Niilo Koponen
Representative Kay Brown
Representative Mike Navarre

Testifying: Doug Mertz, Dept. of Law
Mr. Knudson (Exec. Dir., Health Assoc. of Alaska)

Mr. Mertz: Comm. Kelso of DEC asked me to come here and relate to you a couple of episodes that department had with the insurance industry in 1981-82. These arose out of the requirement in the then fairly new law regarding oil spills requiring oil terminal facilities and tank vessels to have proof of financial responsibility to respond to damages in oil spills, both clean up and damages in the legal sense to any damaged parties. That law requires either insurance, surety bond guarantee or self insurance. We discovered very early on in the process that after the initial spurt of availability of insurance policies that suddenly insurers were declining to write policies. In fact, we got outright refusals from the Water Quality Insurance Syndicate, the largest domestic group of pollution insurers, and underwriters of Lloyds and the P and I clubs, protection and indemnity clubs, which provide insurance or reinsurance for major tank vessels. We went through a long series of meetings with representatives of these organizations, both here and outside, trying to find out exactly what the problem was and why insurance was not being written, and they were being quite frank about it: it was not so much a matter of the inherent risks, as they wanted us to change our law, either by statute or regulation change to make certain provisions less onerous on them and they were also insistent they were not going to cooperate with any state liability schemes that exceeded or differed from federal pollution law, in fact the P and I clubs were insisting they were not going to cooperate with any scheme of pollution liability that did not conform to international standards. AK, they were determined, was with 5-6 other states out in front in applying it's own standards and that was not going to be allowed as far as they were concerned. Shortly after that we began to get similar protests and positions from insurers of tug and barge lines, also carrying oil to AK, where they were refusing to pull out of the market whatsoever and basically starve those communities here that are dependent on tug and barge oil, which basically means all of your coastal communities along AK's entire coast, unless we rewrote some of our critical regulations and indeed some of the statutes. In one of those cases we actually did end up in effect rewriting the law, through an A.G.'s opinion and giving them part of what they wanted. In the other case we simply declined to withdraw from the field altogether, which is what the water quality insurance syndicate and the british organizations, the P and I clubs and the underwriters of Lloyds wanted. What we

did eventually was to take on a major effort of trying to find insurers on our own, going out there and beating the bushes of the market, tho we finally found one or 2 small insurers willing to write policies. Once that happened the dam burst and all the others started writing them again. But, we had an attempt that was partially successful by these groups to change AK's law and interpretation of it's law, for financial responsibility for oil spills.

Rep. Reiger asked what a P and I club is.

Mr. Mertz: It stands for protecting and indemnity; ancient British institutions who are large scale insurers or large scale reinsurers who specialize in insuring large vessels, there are 15-16 of them; almost all based in England or British possessions. They are pretty much the major players in maritime insurance. This report came out with the conclusion that there was nothing we could do about this refusal to write policies and that if they wanted our law changed we better change it. This information was never forwarded to the municipalities because they didn't think they (the insurance companies) would be able to keep holding off until the end, to a point where it would effect the municipalities.

Rep. Koponen requested copies of this report.

Rep. Gruenberg asked that Mr. Mertz discuss this situation with Mr. Monkman, that it is most important, and that the information he is providing would be helpful to the attorneys interested in the insurance lawsuit. He stated having this additional evidence would assist in that lawsuit and would be a reason why we should participate as opposed to simply filing a friend of the court brief.

Rep. Reiger: In these transactions, is that a domestic or international transaction?

Mr. Mertz: It is normally carried out from the point of view of the entity being insured, as a domestic one through a domestic broker, they don't actually make contact with a P and I club or the underwriters of Lloyds, they work through an American broker. I suspect here that we have a situation where if there is some sort of joint collusion or joint communications, whatever by the British based entities, it probably happens in Britain, whereas the water quality insurance syndicate and the other domestic insurance companies are very much domestic companies. At the time we were dealing with the domestic insurers they pointed out as part of their show of their ability to put us in an uncomfortable position, that Florida had had a very far-reaching pollution ? law, they made similar threats to Florida that they would basically dry up the availability of oil on the market, and they said that Florida caved in and changed, I don't know what.

Rep. Gruenberg: Do you anticipate that any such threats would occur as a result of these 2 new laws which a number of us strongly support?

Mertz: It depends on how we enforce them. My opinion has been all along that most of the things we would be able to do under the strengthened

liability law, HB 459, we could probably do under the common law anyway, altho we would have to wade through a lot of defenses to get a court judgement that way. Insurance carriers are well aware of that and well aware of the problems of writing that kind of insurance and the pitfalls. Whether they should be concerned or not, really comes down to how we enforce it, so I suspect they will be looking at that, rather than at the actual terms of the statute itself.

Mr. Knudson (Health Assoc. of AK) The health assoc. of AK represents nursing homes, and I want to make 3 points: 1. I wish we could tell you the suit is correct, but we wish you well in this effort. 2. The captive position and hospital captive insurance companies have also gone through the dilemma of what's going on, and I would urge you to involve those folks in your deliberations. 3. This problem has been with us a long time, and during the past 2 years we've seen a 2 mil. increase in liability premiums for hospitals and long term care facilities. We share the frustration with you on these issues.

Rep. Navarre: I want to comment on the charts here, there is a likelihood that some of the numbers on the increasing costs are misleading, because in alot of cases, the numbers have gone down or remained about the same, or only seen small increases. It is also due to a reduction of the coverage. I think the numbers are misleadingly low.

Rep. Gruenberg: I would be grateful if it would be possible for you to make any adjustment or indicate in footnotes or something on this sheet whether the policy payments went down, but the coverage also went down, in some of these cases. I think Rep. Navarre's point is a crucial one and for us to be able to make any valid comparison we would have to see the other side of the coin, what are you buying for the same amount of money?

Mr. Knudson: We'd be delighted to provide the premium with the coverage, and share it back with you.

Mr. Monkman (Dept. of Law): Rep. Navarre had a question about coverages and availability, which leads to the heart of the anti-trust lawsuit, that it's not so much that premiums have gone up, but that availability has gone down, with less coverage, and the time coverages of the policies have been limited. If you compared what costs would have been that hospitals were getting a couple years ago, the figures might be different. Mr. Mertz's comments certainly seem to be right along with what seems to have been common practice during that time around the country.

Brief discussion on scheduling and bill status followed.

Rep. Gruenberg adjourned the meeting.

Joint Committee on Economic Recovery
House

April 22, 1988

Present: Representative Max Gruenberg (chair)
Representative Kay Brown
Representative Niilo Koponen
Representative Fran Ulmer
Representative Red Boucher
Representative Steve Reiger

Rep. Gruenberg: We have an addendum from the Interior Region Subcommittee of the House side of the Joint Committee.

Rep. Koponen: This is a notice of some of the areas we have been looking at. The university plays an important role in the Fairbanks economy. I'd like to just add this addendum on the university and the role of the university in economic recovery.

Hearing no objection, this addendum was added to the Interior subcommittee report.

Tom Begich: HB 549 has passed it's first committee of referral and is scheduled in the Judiciary committee for Monday. HB550 is scheduled in Finance for Monday. HB555 is currently in State Affairs (substandard housing). HB 557 passed C&RA Committee, that will hopefully be scheduled in Finance next week. HCR52 is up today in Finance. HCR54 is up Tuesday in Finance. HJR 72 is in Rules, waiting to get on the Calendar. HJR 37 is the same status as 72. The other sheet you have, these are the various subcommittee recommended or supported bills. This sheet is self-explanatory. The last sheet is Senate bills. Three of them remain in the Senate, the rest of them are in the House in their first committee of referral. SB392, SB471 and SCR32 all scheduled next week in HL&C committee. SB322 has been the subject of intensive hearings.

Rep. Gruenberg: Now we want to see what we can do to assist in the passage of these bills.

Rep. Brown: In Finance now we have HB432, and it is my proposal we move forward as rapidly as possible, and hold a work session this weekend. I'm having a new draft prepared in the State Affairs committee. I understand from Rep. Donley that he has removed his objection to the passage of that legislation. My proposal would be to take HB 432 and incorporate all the changes that have been proposed to date and bring that to Finance ASAP, perhaps by Monday.

Rep. Gruenberg: Does HB555 have a relationship to 432?

Rep. Brown: HB555 started out as a backstop for Willow Park, to allow AHFC to expand reserves for demolition of public housing. The

administration was not in favor of that approach, and asked the administration to develop another concept, and the material they came back with is what's pending in the proposed State Affairs CS for 555. The administration has worked it's way through that issue and has come up with a package of material that will address not only trade up-trade down, but the condo problem in general. It's a more comprehensive package of the legal authorities that the AG advises them they need. I also support it. The material could have been inserted on either bill. I would propose to expedite the process that we have one bill, that would be HB432.

Rep. Reiger: On HB555, I hear the governor has some hangup with the dollar figure, the \$10 mil. I think his concern that that would automatically take that money out of AHFC reserves and use it for some other purpose. I'd like to work with the governor's office on that, my concern is the reverse of that. I'm going to oppose throwing the 2 bill together. I think they treat different subjects, and 555 treats a whole array of different subjects.

Rep. Brown: I would agree if HB555 had started out as the comprehensive package. HB555 started out addressing just Willow Park, or the demolition fund. Part of what the subcommittee has dealt with has been the trade issue. I guess in my view the administration could have suggested that material be added on to HB432 as easily as HB555, since they both started out as bills to address a particular part of the problem.. My interest is in seeing this work accomplished, we've done a lot of positive work in the Housing and Banking subcommittee. It seems to me that the timing is a very critical thing. If we hold up and wait for 555 to come out, and to come up to Finance and get referred to a subcommittee, we've lost at least several days. Recently I received correspondence from Barbara Morse Quinn, indicating she is still in need of a direct appropriation, and the Governor has still not come forward with that. I'm wondering if there's a potential for us to include that as a direct appropriation, if we'd receive support from the other members of the JERC committee. Even if that bill does pass, we're going to have the administration of the program by the agency, and it's going to take them some time to deal with that. I ask for your support on that.

Brief discussion followed.

Rep. Gruenberg: We are having a joint meeting with the Senate side on Tuesday. We are having Dean Lester Thoreau, from the School of Business at MIT. He is one of the countries leading economists. To bring you up to date on the insurance lawsuit; Dick Monkman from the AG's office spent the last few days meeting with the AG's office in California. We met with him this morning. He is going to be presenting his recommendations to our AG and some other commissioners, and they will make a joint recommendation to the Governor. The preliminary indications are that there is merit in the lawsuit. This meeting should take place next week, and towards the end of next week they'll be making their official recommendation to the Governor. I think we should make a draft proposal to participate in this. The next item on the agenda: we are starting to work on the final wrap up of the committees reports of our work this session. We should get this together next week. We

should consider whether we want to keep the House side of this committee going during the interim.

Rep. Boucher thought it would be a good idea to keep it active, and shared some ideas on how it should be continued.

Rep. Koponen supported the positive approach to creating new ideas as a major part of the committee purpose.

Rep. Gruenberg said he'd contact each member individually and get an idea as to whether or not to continue. With that, the meeting was adjourned.

Joint Committee on Economic Recovery
House
Interior Subcommittee

March 12, 1988

Present: Representative Niilo Koponen
Representative Mike Davis

Witnesses:

Al Seeliger
910 Galena
Fairbanks, Alaska

Buzz Otis
P.O. Box 2441
Fairbanks, Alaska

Bert Sampson
611 Cowles Street
Fairbanks, Alaska

Dick Farris
Fairbanks, Alaska

Mary Hamilton
303 Badger Street
Fairbanks, Alaska

Royal Bidwell
P. O. Box 2589
Fairbanks, Alaska 99707

Charles Deer
P. O. Box 61252
Fairbanks, Alaska 99706

Roger Burggraf
830 Sheep Creek Road
Fairbanks, Alaska 99709

Leslye A. Korvola
Fairbanks, Alaska

Mayor Juanita Helms
Fairbanks, Alaska

Elstun Lauesen

int312

Fairbanks, Alaska

Carl S. Benson
Arctic Institute
Fairbanks, Alaska

Robert Keller
Fairbanks Native Association
Fairbanks, Alaska

TAPE ONE, SIDE ONE

Rep. Koponen calls the meeting to order at 10:00 o'clock. Koponen states the purpose of the meeting is take testimony, distribute a preliminary draft report, and share a research paper on the economic impact of the University of Alaska on the Fairbanks economy. Rep. Koponen points out this is very preliminary and incomplete.

Koponen states there are two views, (1) short term -- are there acts of legislation needed to help the economic situation, and (2) what are people doing on their own to recover. Koponen states giving people information on what is being done, market developments, etc. have assisted people in the recovery. Koponen points out there is limited money available, and from the construction viewpoint, the economy may have a boom problem if outside firms are hired rather than local firms.

Rep. Davis states legislators from the Northwest Territory are in town as part of an economic recovery team, and will join the subcommittee to learn what the Interior is doing for recovery.

Rep. Davis refers to recent newspaper articles concerning Economic Limit Factor (ELF) stating it will be more substantial a tax break than was anticipated, and the impact on the treasury is approximately \$15 million. Decrease in the price of oil also creates difficult decisionmaking processes for the Legislature.

Rep. Koponen explains the "posted" price as opposed to "market price" for oil, stating the oil companies tell Alaska what they will pay for the oil. Davis states events in Panama have a direct impact on Alaska because Alaska oil is transported via the Panama Canal.

Al Seeliger joins the committee. Seeliger does not have testimony prepared. He states the Interior economy is very fragile, and during his nearly 50 years in the area the only economic development he has seen has been government spending, which is not economic development, but is subsistence. Seeliger discusses tourism activities and use of the Highway for tourism purposes. Seeliger states mining is depressed,

but tourism is expandable. Seeliger points out that Prudhoe Bay is an enormous asset to Alaska, but there is no free access to the market. Seeliger believes it is essential to get into that market -- the Highway -- for recovery and development of tourism, to produce jobs and business.

Rep. Davis states Rep. Brown has introduced legislation which will identify areas of the state which require expansion of tourism, including the Interior. Davis refers to arctic research being done in Florida, which could be done in the Interior. Seeliger points out that what people want is primary dollars, paid by the oil companies, and tourism dollars.

Rep. Koponen states the Premier of British Columbia and government leaders of the Yukon are meeting with Governor Cowper to discuss these matters. Interparliamentary visits with the Yukon have been occurring during the past several years, and Rep. Koponen describes cooperative efforts between Alaska and its Canadian neighbors.

Buzz Otis addresses the Committee. Otis serves on the local Main Street Steering Committee (Main Street) and describes positive events which are taking place in the area. Otis describes Main Street as a three year program, currently gathering letters of support to be presented to the Legislature. Otis states Main Street participants have agreed on a 50-50 match with local funds for state funds. Main Street is based on a 4-point program of organization, design, promotion and economic restructuring. Rep. Koponen advises Otis that there is a Historic District Loan Program in statute, but all funds have been loaned out at this time, through Alaska Industrial Development Authority.

Representatives from Canada have now joined the Committee. They are pleased to be present and thank the Committee for the invitation to join them. One member suggests a slogan of "Think North, Buy North First, and Manufacture North First."

Buzz Otis continues his description of Main Street, which is similar to the successful program at Whitehorse. Main Street is a partnership of private businesses and the Borough, striving to improve the tax base and provide economic development to the community. Otis describes a successful project in New Mexico where the State spent \$200,000. and created 75 new jobs, with rehabilitation of 60 existing structures, and \$3.9 million private money was reinvested by the community, and 25 new businesses started. Otis believes Main Street is a win-win situation.

Burt Sampson, owner of Elongated Advertising of Alaska, and second vice president of Interior Alaskan Adventurers, joins the Committee. Sampson's business is elongating coins and putting advertising messages on them, mostly for collectors

nationwide, and manufactures pins, for the fastest growing "collector" item in the nation today. Sampson describes events for which elongated cents have been made and points out the advantages of his pins, which are designed and manufactured locally. Sampson describes his goal of becoming a master engraver and to make Fairbanks the hub of die engraving for the United States, which will result in hiring and training new personnel and expansion of the business. Sampson belongs to Interior Alaska Manufactures, and believes it is the best way to support local businesses and local hire. Sampson states there are many positive things to consider when working on pending legislation, including SB 363, HB 403, SB 67, HB 404, all relating to mandatory insurance. Sampson states 75% of the members of local business organizations oppose these bills, believing that the coverage should be optional and the business can purchase insurance if they can afford it, but if it is mandatory the cost of policies will be increased, and prohibit local industry and manufacturing. Sampson states the cost to Alaska businessmen if these bills are passed will be detrimental and prohibitive.

Rep. Koponen refers to figures from Blue Cross which indicates that spreading cost over a substantial number will reduce costs. Koponen states the insurance industry is not an open market.

Dick Farris, 38 year resident of Fairbanks, addresses the Committee. Farris supports the slogan of "Think Alaska, Buy Alaska" and describes efforts to increase tourism, especially Japanese tourists, and cites the difficulties, such as lack of a bus system and drivers, etc.

TAPE ONE, SIDE TWO

Farris discusses the proposed insurance legislation and states health insurance coverage is essential because it means jobs for Alaskans. Farris describes a local folk festival association which is attempting to have the 1989 Folk Festival in Fairbanks. No public funds will be sought, but efforts will be made to bring people to Alaska for the project. Farris states a tourism representative has suggested that if an extensive bus system were available, there would be more tourists. Farris suggests a special project coordinator to get more Alaskans hired in the tourism industry. Farris also suggests there be a permanent economic recovery committee, with volunteers, to have an on-going dialogue.

Rep. Davis points out that Alaska has tourism offices in Japan and Korea, and there are plans to increase the number of tourists from Japan to Alaska.

Mary Hamilton joins the Committee. She is a member of the Borough Transit Commission and is present to address the issue of transportation in the community. Hamilton states it is

important economically to retain the transit system, and believes it could and should tie in with the Main Street proposal to develop the downtown area. Hamilton points out the importance of the transit system for tourists and those coming from villages, attending conventions, the elderly, children and others who do not drive. Hamilton states that historically the transit system has been controversial, and local residents are not bus riders; thus the system needs to be promoted locally to encourage ridership.

Rep. Koponen states there are concerns about a statewide program for transit systems with matching funds. The question is an equitable distribution and support, and asks if the system has studied routes, and other data. Hamilton responds that the system has recently been cut back to two routes, between downtown and the University. Revenue sharing has been considered. Koponen states revenue sharing was originally intended to cover such programs, and give the community flexibility as to where and how it would be used, but it was not given with the thought there would be no programs supported by the monies.

Royal Bidwell addresses the Committee and states economic hard times have some distinct advantages: (1) we do things we probably should have been doing anyway, and (2) we now have more time to do those things. Bidwell states his plumbing and heating business is active. However, in 20 years in the area, he has always been upset at the amount of business which goes to Seattle. Bidwell's business opened in 1983, and since that time they have aggressively sought business which was previously sent to Seattle and outside companies. Capturing more business that goes outside could make a significant impact on the local economy. Bidwell is uncertain how the State can assist in that respect. Bidwell believes the bill which has been introduced is an "overkill", it is a good thing to give locals an equal footing, but too large a competitive advantage will be costly to the state. With regard to long term plans, Bidwell states there is no early childhood program in place currently, although nationally there are. Bidwell urges that Alaska strive to be a leader in the area of early childhood. Bidwell describes the concept of "business incubator" -- a facility to allow several new business to join together to obtain services in a pool. Rep. Koponen confirms it is a process similar to a farmers' co-op. Bidwell suggests the state might be involved via small business loans, making available management and consulting services from the University, and start-up services.

Rep. Davis states there is a new draft of the Alaska preference bill, and his concern is that attorneys have warned it can be thrown out in court.

Charles Deer of Alaska Window Company addresses the Committee. Deer speaks on behalf of the Interior Manufacturers

Association (IMA) and outlines the history of IMA, which addresses needs of cold weather product manufacturing. Deer states there has been considerable support in the Fairbanks area, which has attributed to the success of IMA. Objectives of IMA include providing service to people in the Interior, to gather information about organization members for distribution in a useable form for members of the public and potential customers. IMA recommends establishment of a clearing house to address unjust transactions, similar to the ombudsman's office. Rep. Koponen states the delegation is attempting to have the ombudsman's office reopened. Deer describes the difficulties of the ombudsman's office to function because "politics water down the decision maker." Deer cites a need for promotion of use of Alaska made products. Deer believes it is important that the cities of Fairbanks and Anchorage must have less animosity because manufacturers suffer from it.

Roger Burggraf joins the Committee. Burggraf states that loss of many government jobs has hurt the private sector. Burggraf is a self-employed hard rock miner who was "regulated out of business". Burggraf states the Canadians are leading the way in hard rock mining development. He states that the placer mining industry has also been regulated out of business, and miners are moving to Canada where placer mining is active. Burggraf discusses the increase in the price of gold and precious metals. Burggraf states one mine, small by Canadian standards, pumps \$250,000.00 into the Fairbanks economy every month. Burggraf believes that with the right economic, political and regulatory atmosphere, mining could provide a bright future for Fairbanks. No federal or state funding is provided for mine development although they create jobs and contribute to a healthy economy. Burggraf believes tourism and recreation should also be encouraged to improve the economy. Burggraf discusses placer mining, the development of technology, the environmental pressures on miners, and the lack of meaningful legislation to provide relief to placer miners. Burggraf states Canada has excellent policies for development of the resources, while Alaska has no policies. Burggraf states legislation must be passed to allow placer mining operations because current regulations make it impossible for successful placer mining.

Leslye Korvola is involved in an economic analysis of the Fairbanks community, and speaks on behalf of the Tanana Valley State Fair Association. Korvola explains the state fair process in Alaska.

TAPE TWO, SIDE ONE

Korvola states the fair is a \$1 million business which provides employment for scores of individuals, including many young people. The facilities are used on a year around basis. Korvola states stabilization of the economy of the interior through diversification has been a long term goal of the

community, and realistically energies must be focused to develop those activities through which the interior has a competitive advantage in order to succeed. Korvola states a need to review the historical record of successful enterprises, the military, tourism, and state participation. Korvola states the fair is a showplace of the achievements, opportunities and products of the Interior and is a popular tourist attraction. Korvola states that support of the fair is support for local jobs and businesses. Funding for the state fair has been cut from the state budget, and Korvola urges financial support for all fairs. Korvola points out that the fairs bring in new money to the area and is a healthy economic enterprise. Korvola points out that the military participates via ex officio seats on the fair board.

Mayor Juanita Helms thanks the Committee for the opportunity to speak to them. Helms expresses concern about economic recovery and cautions that actions not be taken that will burn bridges. Helms states there are potential for development in the Borough, but new capital is needed to accomplish that development, and describes fabricating at the North Slope is an example, either through joint venture or other process. Helms states a product to be considered is the human resource, inventive, capable people, who encounter considerable obstacles in their endeavors. Helms refers to testimony concerning transit needs and expresses belief that local municipalities have some responsibilities to address, although the state has responsibilities for other transportation methods and facilities. Regarding animosity between Fairbanks and Anchorage, Helms states there is competitiveness, but she is not aware of animosity. Helms is aware of an Anchorage resolution to have the light infantry division moved from the Fairbanks area, but considers that competitiveness.

Elstun Lauesen joins the Committee. Lauesen appears as a private citizen about economic development and issues relating to community enterprise. Lauesen describes past experience as an employee of the Gas Pipeline Office, including visits by a Swedish delegation, and resource laws and regulations. Lauesen points out that in the past many products were manufactured locally, and the area exported agricultural products, describing the area as the "bread basket" of Alaska. The area now is dependent upon imports and has become a service based economy. Venturing Back to the Future is a group looking into development of a self-sufficient economy, and Lauesen urges support for this group. Lauesen states finance is a major obstacle to development of small businesses in the area, and points out that failure of banks compiles the problem. Insurance expense is cited as an additional hurdle to business development. Lauesen believes the legislature can address that problem. Lauesen states marketing is an important issue because there is no financing and assistance available for the necessary marketing. Rep. Koponen suggests the Alaska Industrial Development Authority as a source of

aid. Lauesen points out there is need for research and marketing support to aid local businesses because they provide jobs and a stable future. Rep. Koponen states the Commissioner for economic development will be present on Monday to discuss the local situation.

Carl Benson joins the Committee as a private citizen and on behalf of the Arctic Institute which headquarters in Alberta, Canada, and in Fairbanks. Benson states his main theme of discussion is that the testimony has focused on the local community, and not statewide. Benson states research is the best single industry in Fairbanks today, yet it is ignored in planning and government activities. Research contributed \$40 million to the Fairbanks economy in the last year, but it is not supported locally. Benson states 20% of the federal funds spent in the United States goes to arctic and sub-arctic research. Reduction would eliminate stable jobs. Benson describes funding for research as very complex, coming primarily from federal sources, and done through universities. Benson urges expansion of research activities. Benson recites the history of research in Alaska, and describes the reasons for a strong research university. Benson states much of the oil development research is done in Alaska, and there is need for research of the humanities and related issues in Alaska. Benson describes earthquake and seismic research done in Alaska. Benson states the federal government is asking states to absorb more of the cost of research. Benson urges support for the natural sciences building at the University because the entire State of Alaska will suffer from delay. Rep. Davis asks Benson to put his testimony in writing for presentation to the Legislature, and urges Benson to share his recommendations with the Administration.

TAPE TWO, SIDE TWO

Robert Keller of Fairbanks Native Association (FNA) addresses the Committee. Keller states FNA has operated an economic development program since 1982, and notes concurrence with statements of Mr. Lauesen concerning needs of small business enterprises. Keller describes a need for assistance in marketing, believing that marketing assistance is more beneficial use of monies than actual business loans. Keller proposes a northern Alaska marketing institute to serve the Interior and Northern areas to develop marketing plans. Keller describes a conference conducted by Elstun Lauesen as an innovative and far reaching aid and urges support for future similar events. Keller advises that incentives by the State is essential to induce industries to Alaska. Keller supports the Main Street project because it has input from communities across the nation. Keller suggests an Alaska Highway museum as an attraction tourists and visitors at Tok. Keller discusses consideration of use of permanent fund earnings to establish a small business investment company. Keller notes that CHAUDRAY is operating in the Department of

Commerce for minority and small businesses, being a federally and state, 50-50 funded 5-year grant program, and urges that Alaska continue the program, and that the federal funds should be provided as originally agreed.

Rep. Koponen asks the delegates from the Northwest Territories to comment. A representative comments on remarks of the businessmen and representatives of Fairbanks, and states the needs are a reflection of the issues in all of the Northwest Territories are experiencing. The concept of Thinking North, Buying North, and Building the North should apply to all of the North, and that is why the delegates from Canada are in Alaska at this time -- to develop Alaskan economy as well as the Canadian. Many issues of economic recovery are similar -- transportation, tourism, renewable resource development, non-renewable resource development, mining, oil and gas -- all are essential to Alaska and the Canadians, as well as cultural and social issues. The representative states that many students from Canada have attended the University of Alaska through an arrangement for northern students, and there is room for development of education relationships. Research on cold weather construction, scientific research, mining technology and other issues are a common interest. Canada has a preferential arrangement program of matching funds to assist entrepreneurs. Canadians are interested in manufacture and marketing of products for the north, and urges consideration of joint venture relationships. It is pointed out that arctic char is a product which many countries in the far East desire. Transportation in Alaska is an attraction to Canadians -- there are numerous other examples which we must consider.

The meeting is adjourned.