

2/25/03

OVERVIEW:
DEPARTMENT
OF
COMMERCE &
EC. DEV.



Alaska State Legislature

House Committee on Community and Regional Affairs

Representative Carl Morgan, Chair
State Capitol Building, Room 408
Juneau, AK 99801
907-465-3882

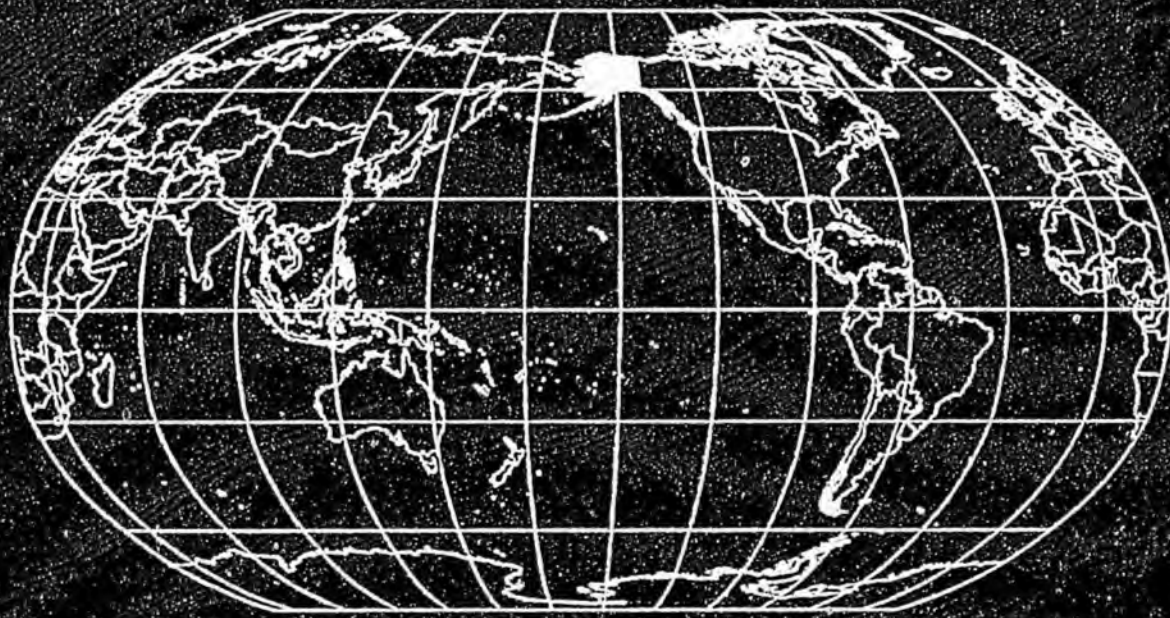
AGENDA

State Capitol 124
8:00 am – 10:00 am

- **Call to Order**
Today's date is February 25, 2003
The time is _____ (8 am)
- **Overview**
- **Department of Community and Economic Development**
Edgar Blatchford, Commissioner
 - **Division of Community and Business Development**
Gene Kane, Director (Kane)
 - **Division of International Trade and Market Development**
Margy Johnson, Director
 - **Division of Investments**
Greg Winegar, Director
 - **Division of Banking, Securities & Corporations**
Mark Davis, Director
 - **Division of Occupational Licensing**
Rick Urion, Director
 - **Division of Insurance**
Stan Ridgeway, Director (Ridgeway)
- **Other Business** *AEIDA & AEA (overview)*
- **Adjournment**

PASSPORT

to Global Opportunities



2001 Annual Report



*Division of International Trade and
Market Development*

*Tony Knowles, Governor
Deborah B. Sedwick, Commissioner
Greg Wolf, Director*

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Governor's Welcome



TONY KNOWLES
Governor
State of Alaska

Dear Fellow Alaskans,

Trade is a passport to increased economic opportunities in Alaska. Trade translates directly into jobs in our communities, investment in our infrastructure, and development of our manufacturing and service base. At 10 percent of our Gross State Product, it is an important part of our efforts to grow a healthy, diversified economy.

Although Alaska is an attractive trade partner because of the quality of our goods and services and the stability of our business climate, stiff competition is a fact of life in international markets. It is imperative that Alaska not let up in our aggressive efforts to promote and facilitate trade. In the long run, the hard work pays off. The Division of International Trade and

Market Development (ITMD) is the State's only division that provides day-to-day commercial trade services. I am pleased that during my administration we have been able to provide their support to help Alaska businesses to make international sales. In 2001, Alaska exported \$2.4 billion worth of goods to 89 countries.

International trade promotion is hard work, comprised of long hours building relationships, seeking opportunities, researching market trends and selling, selling, selling. Ask any of the business leaders who travel on our trade missions about the pace we set and the opportunities we create. It was an honor to lead a trade mission to Europe in March 2002. Alaska business leaders in tourism, seafood, energy support services, and banking joined me in promoting our wonderful seafood, the many exciting destinations in our state, and our technical expertise in two key European markets: the United Kingdom and Germany.

The Europe Mission was good timing and typical of the hard work that international marketing requires. We met with seafood buyers, retailers, and reprocessors on the heels of significant increases during 2001 in seafood sales to these countries. We aggressively sold Alaska at the precise time when international travelers are seeking safe, attractive destinations. We also had the opportunity to thank investors who have spent billions of dollars in developing Alaska's infrastructure and industries. My thanks to ITMD for organizing the mission.

I commend the consistent efforts of Alaska's businesses in the international marketplace. Thanks to them, international trade creates good things for Alaskans.

Sincerely,

A handwritten signature in black ink that reads "Tony Knowles". The signature is written in a cursive style with a large initial "T".

Tony Knowles
Governor

The Overview



DEBORAH SEDWICK
Commissioner
Department of Community
and Economic Development

Dear Alaskans:

Alaska's businesses are up to the challenges of the international marketplace. They know that international trade opportunities are a way to expand and grow business. The Division of International Trade and Market Development (ITMD) knows this first hand as hundreds of businesses and individuals take advantage of the Division's export assistance, trade leads, and market research. ITMD helps Alaska firms succeed overseas by organizing inbound and outbound trade missions from existing and potential customers in Japan, Korea, the Russian Far East, and many other countries.

Here are two examples of the positive result from promoting Alaska goods and services in international markets.

Business executives and government officials from Taipei and Kaohsiung traveled to Alaska in the spring of 2001 to see firsthand the state's oil spill preparedness and response capabilities. They learned about ways to structure their own response systems. The Taiwan Environmental Protection Agency ultimately hired an Alaskan environmental engineering firm in partnership with a Taiwan company to provide training in this important area.

Another good example, is a two-year-long campaign to introduce Alaska seafood to deluxe hotels in Seoul and other Korean cities. Approximately two million dollars worth of salmon, halibut, crab, scallops, and other Alaska products made their way onto the menus and into promotional events of these high-end hotels for the first time.

ITMD helps Alaska sellers become export ready, acquire essential market information, and find buyers. Through these direct trade services, ITMD helps Alaska businesses diversify our economy. This annual report is part of that effort. I invite you to take the time to look at these snapshots of Alaska's major markets and commodities. We hope you find value in the information provided in this report and look forward to working with our Alaska businesses to find trade opportunities in the near future.

Deborah B. Sedwick
Deborah B. Sedwick, Commissioner



GREG WOLF
Director, International Trade
& Market Development

Dear Alaskans:

I am proud to present the third Annual Report on Alaska's international trade performance. The following pages provide a snapshot of Alaska's largest exports and top trading partners for the year 2001. Each year, in response to feedback and suggestions from readers of previous reports, we strive to improve the quality of information and expand the quantity of information presented. This year, for instance, we have added a section on foreign currencies important to Alaska exporters.

2001 saw a changing of the guard among the state's top ten trading partners. Mexico, Thailand, and Australia moved into the top ranks lending further evidence of the growing diversification of export sales by Alaska companies. Japan and Korea, traditionally the state's number one and number two top markets, maintained their dominant positions. Taken together, these two countries account for more than 60 percent of the state's total exports.

I hope that you find this report informative and useful as you work to expand your business, explore export opportunities or move into new markets. Please do not hesitate to contact me or members of the division's trade staff if you need assistance or have questions on pursuing global opportunities.

Sincerely,

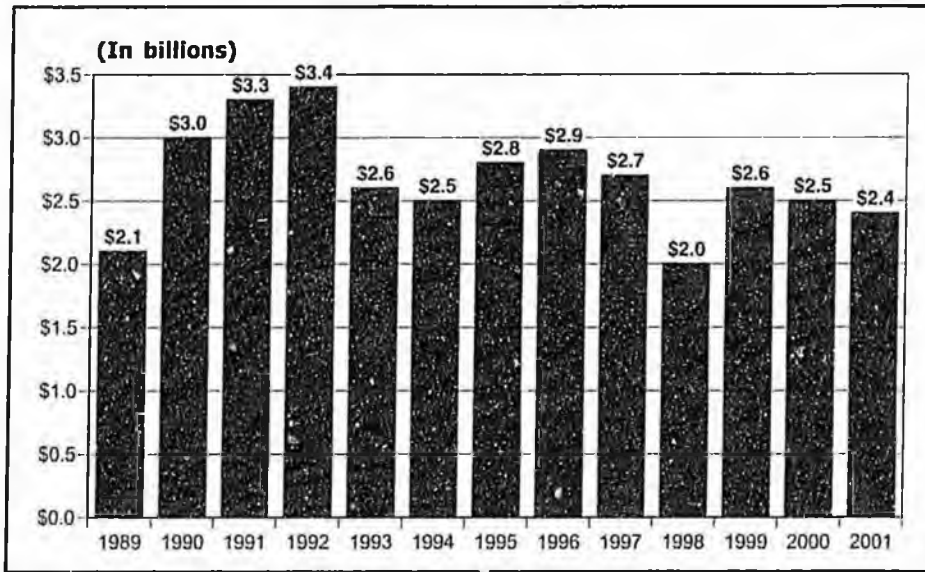
Greg Wolf

Greg Wolf, Director

Alaska's Top Export Partners

Rank in 2001	Rank in 2000	Country	Value of Export in 2001	% of Total in 2001	Major Commodities
1	1	Japan	\$ 1,038,965,164	43.0%	Seafood, Oil & Gas, Wood
2	2	Korean Republic	\$463,090,974	19.2%	Seafood, Fertilizer, Mineral Ore
3	3	Canada	\$188,032,082	7.8%	Mineral Ore, Seafood, Wood
4	9	Germany	\$115,147,217	4.8%	Seafood, Mineral Ore, Machinery
5	5	China	\$102,446,718	4.2%	Seafood, Animal Feed, Petroleum Products
6	7	Mexico	\$82,427,390	3.4%	Fertilizer, Petroleum Products
7	4	Belgium	\$81,456,658	3.4%	Mineral Ore
8	11	Thailand	\$33,063,977	1.4%	Fertilizer, Seafood
9	13	Australia	\$30,893,389	1.3%	Mineral Ore, Machinery, Fertilizer
10	6	Taiwan	\$30,853,426	1.3%	Fertilizer, Animal Feed, Seafood

Alaska's Worldwide Exports



Source: U.S. Census Bureau, State of Origin data

Alaska's exports totaled \$2.418 billion in 2001. This was a decrease of approximately \$46 million or 1.9 percent from 2000. As fore-casted, **crude oil** exports declined to virtually nil in 2001 from \$288 million in 2000 and over \$500 million in 1999. The loss of crude oil exports does not significantly affect the state's economy since prices are similar whether the oil goes overseas or to refineries on the West Coast.

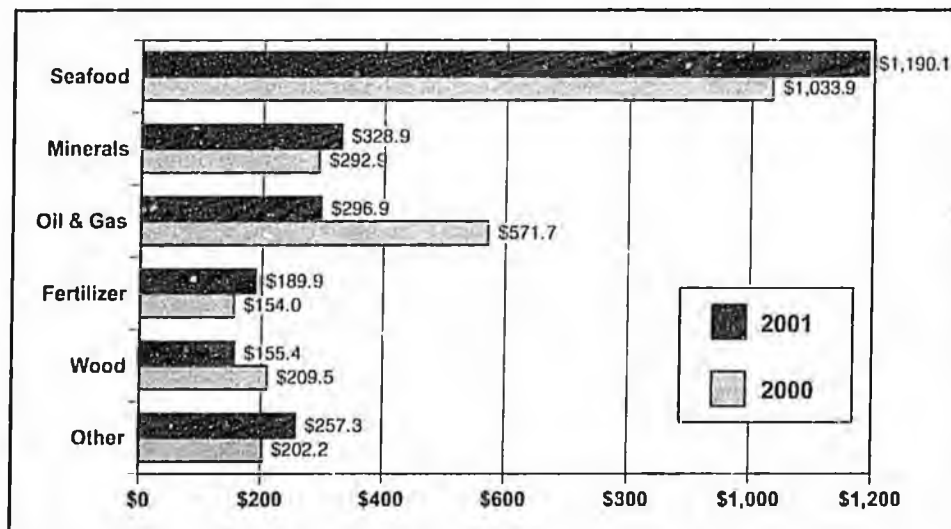
Excluding crude oil, Alaska's exports in 2001 were up over \$240 million from 2000, an increase of 9 percent.

Despite the many problems associated with the seafood industry, **seafood** exports in 2001 jumped 15 percent to \$1.2 billion. Pollock products such as fillets, surimi and roe accounted for most of the increase. Seafood remained Alaska's largest export, accounting for nearly half of total exports. It should be noted that these numbers are based on the US Census Bureau's State of Origin data, which does not include nearly \$133 million worth of canned salmon exported overseas from the United States but not directly from Alaska.

While prices for zinc ore, Alaska's largest mineral export, have been steadily declining over the past several years, **mineral** exports increased by 12 percent in 2001 due to increase in volume. Though production value was up, profits were down in 2001 for the mineral exporters.

Exports from the **energy** sector declined nearly 48 percent due to the change in destination of North Slope crude oil.

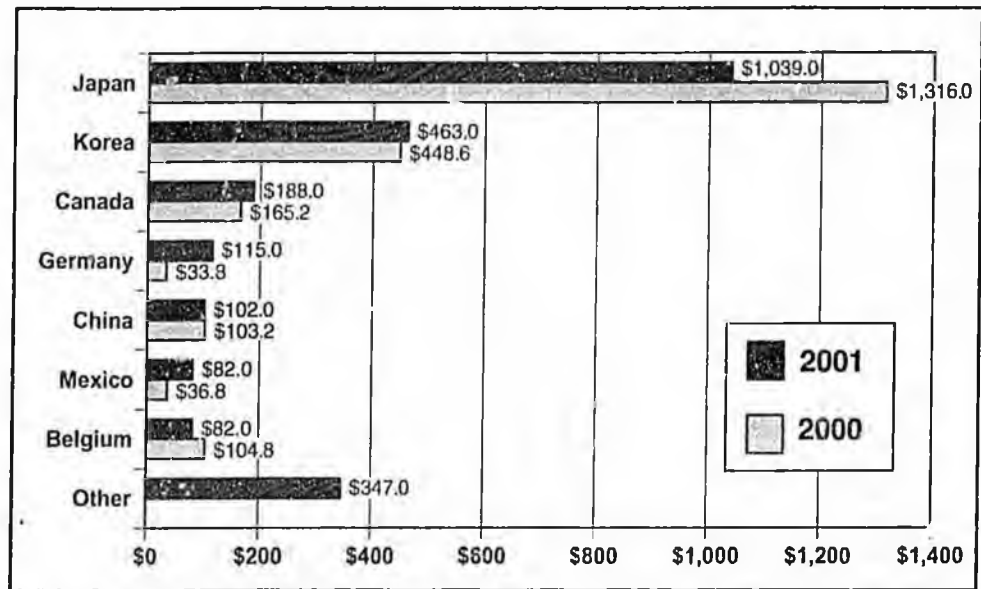
However, sales of liquefied natural gas to Japan and coal to Korea remained stable in 2001. **Fertilizer** exports, mainly from Agrium's Nikiski plant, totaled \$189.8 million, an increase of 23 percent over 2000. Exports of **forest products** continued to decline, totaling \$155.4 million in 2001, a decrease of over 25 percent from 2000.



Source: U.S. Census Bureau, State of Origin data

Trading Partners

The economy of **Japan**, Alaska's top export market, continued to suffer from a decade long economic slowdown and deflation. Exports to Japan totaled \$1.04 billion in 2001 down 21 percent from 2000. Still, Japan remained Alaska's top export market for three out of the top five Alaska export categories: seafood, energy, and wood.



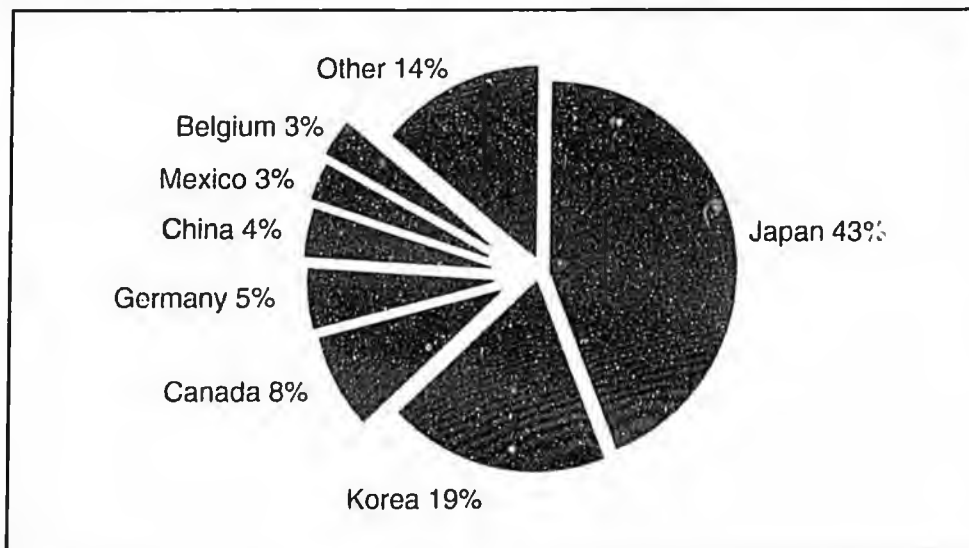
Source: U.S. Census Bureau, State of Origin data

Korea, Alaska's number two export market, continued to show signs of a strong recovery from the Asian economic crisis of 1997 and 1998. Exports to Korea reflected that growth, increasing 3.2 percent or \$15 million. This is despite the cessation of crude oil exports to Korea, which totaled over \$100 million in 2000. Excluding crude oil, total exports to Korea were up over 33 percent or \$117 million in 2001. Seafood exports to Korea increased over 78 percent.

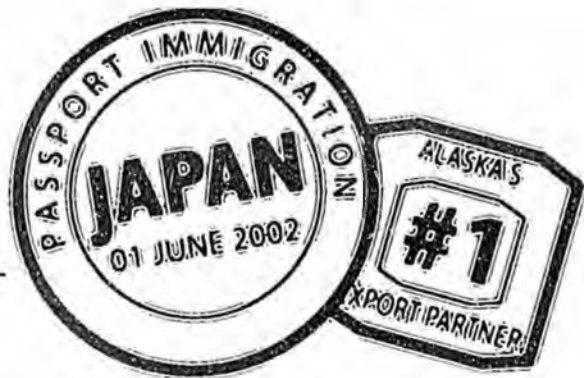
Canada was Alaska's third largest export market in 2001, purchasing over \$188 million of Alaska exports. This was an increase of 13 percent from 2000. Top exports to Canada include seafood, fertilizer, and zinc ore.

Germany jumped five places to become Alaska's fourth largest export market in 2001. Exports to Germany totaled \$115.1 million in 2001, an increase of over 240 percent. Pollock fillets accounted for most of the increase. **China** was Alaska's fifth largest export market with Alaska's exports totaling \$102 million in 2001, a decrease of 1 percent.

Mexico, Belgium, Thailand, Australia, and Taiwan rounded out the second half of Alaska's top ten export markets.



Source: U.S. Census Bureau, State of Origin data



Highlights

- Exports to Japan declined 21 percent in 2001 as Japan's economic woes continued. Japan's weak economy, continuing deflation and weaker yen all contributed to decreased demand for Alaska's exports in Japan.
- Despite the 21 percent decrease in exports, Japan continued to be Alaska's largest export market. 43 percent of Alaska's exports are destined for Japan.
- Japan is Alaska's top export market for the seafood, energy, and wood sectors.
- An LNG contract extension was signed between Alaskan sellers and Japanese buyers. The new contract will run from 2005 to 2009.

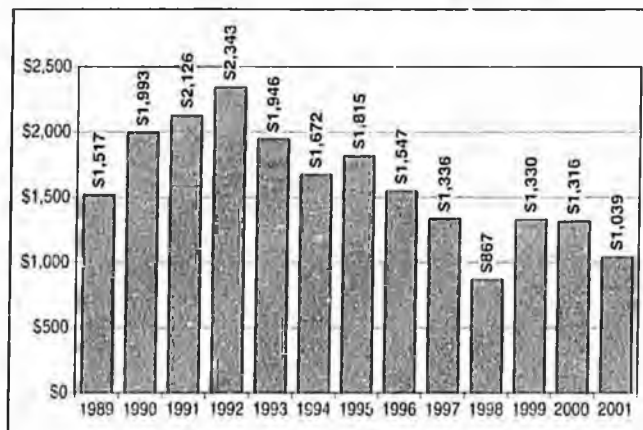
The Division of International Trade and Market Development (ITMD) assists Alaska's Businesses to export:

- Participated in the 51st Tokyo International Gift Show (TIGS) with nine Alaska companies. With over 150,000 attendees, TIGS resulted in new market exposure for many small Alaska companies.
- Assisted Japanese film crews visiting Alaska – from salmon runs to glaciers, northern lights, and World Eskimo-Indian Olympics.
- Conducted "Alaska Products Fair" at a popular Tokyo department store. The promotion ran six days and showcased popular Alaska products.
- Provided market response and information for new business development in the dried kelp market.
- Provided continuous updated market information in seafood and energy.
- Produced the Alaska Export Industry Brochure in Japanese.

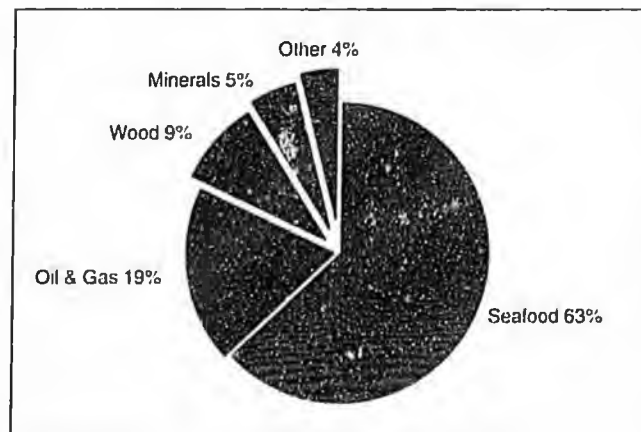
Background

Alaska's history with Japan has been long-standing and successful, starting as the first state to receive post World War II Japanese investment – in a pulp mill in Southeastern Alaska. Japanese investment continues extensively from seafood, minerals, and the visitor industry. In 1965, Alaska was the first American state to open a trade office in Japan. The following year Japan opened a full time consulate in Anchorage, and since 1982 has been represented by a Consul General. The current Consul General Kazuo Obinata arrived last year.

Alaska's Exports to Japan
Yearly Totals • In Millions



Alaska's Exports to Japan
2001





Highlights

- Total exports to Korea increased 3 percent in 2001 totaling \$463 million. Korea accounted for over 19 percent of Alaska's total exports. Seafood and mineral exports increased while fertilizer and wood exports decreased in 2001.
- Korea was Alaska's number two export market for seafood, number two for minerals, number two for energy, number one for fertilizer, and number two export market for forest products.
- Seafood exports to Korea in 2001 totaled \$237 million. This was a 78 percent increase from 2000. Pollock surimi, roe and fillets were the main reason behind the increase.
- Korea is anticipating growth in the economy for 2002. Gross domestic product is expected to increase 5 to 6 percent during 2002.

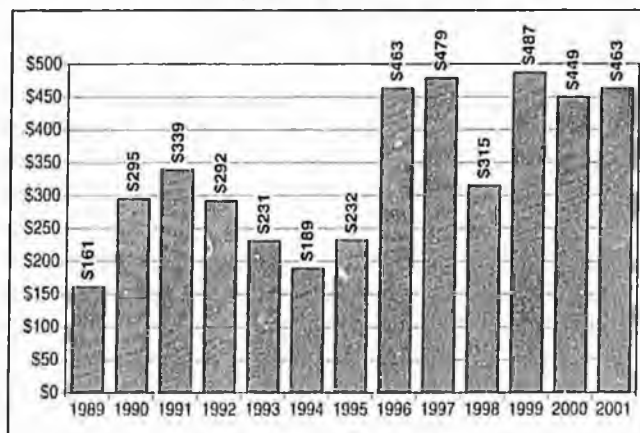
The Division of International Trade and Market Development (ITMD) assists Alaska's Businesses to export:

- Conducted seafood promotional events at high-end Korean hotels that resulted in over one million dollars in new sales for Alaska companies.
- Participated in the U.S. Food Showcase to promote the products of Alaska companies.
- Organized incoming seafood buyers mission of executive chefs and purchasing managers from deluxe hotels in Korea.
- Promoted Alaska environmental and technical services through the participation in International Exhibition on Environmental Technologies (ENVEX 2001) and Daejeon Technomart.
- Promoted Alaska energy through the organization of an energy seminar in conjunction with the Korea Energy Economics Institute.
- Organized an outgoing mission of private and public sector participants. This included meetings with the Ministries of Foreign Affairs & Trade (MOFAT), Commerce, Industry, & Energy (MOCIE), and Marine Affairs & Fisheries (MOMAF).

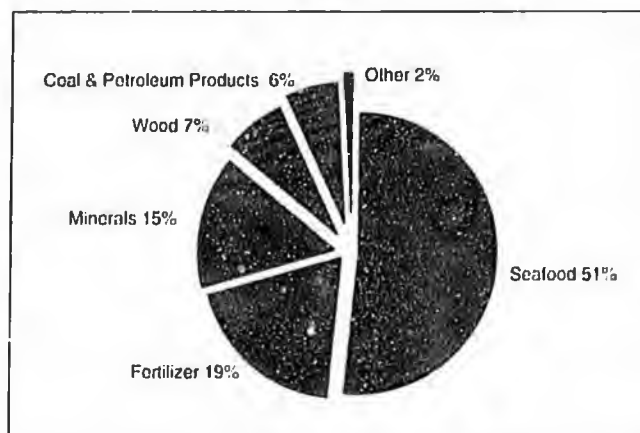
Background

Korea has been one of Alaska's most important partners in trade, investment, and cultural exchange. For many years Korea has been our number two trading partner. In 1985, Alaska was the first U.S. State to open a trade office in Seoul. Korea is an important investor in transportation, coal, and fisheries. With approximately 6,000 Korean-Americans residents, the Korean community is an important contributor to the civic and business communities of Alaska. The Korean Ministry of Foreign Affairs and Trade appointed William Bittner in Anchorage as Honorary Consul General in 1999. In addition, Consul General Byung-rok Moon, based in Seattle, Washington also oversees Alaska-Korea affairs.

Alaska's Exports to Korea
Yearly Totals • In Millions



Alaska's Exports to Korea
2001





Highlights

- Alaska exports rose 14 percent over the previous year, keeping Canada solidly in third place among Alaska export markets.
- Canadian investment in Alaska is responsible for about 80 percent of Alaska's mining exploration and development expenditures.
- Governor Knowles, Cabinet members, trade representatives, lawmakers and business representatives met with Canadian counterparts in Canada and in Alaska on a frequent basis, making 2001 an especially busy year for Alaska-Canada business overtures and discussions.

The Division of International Trade and Market Development assists Alaska's businesses to export:

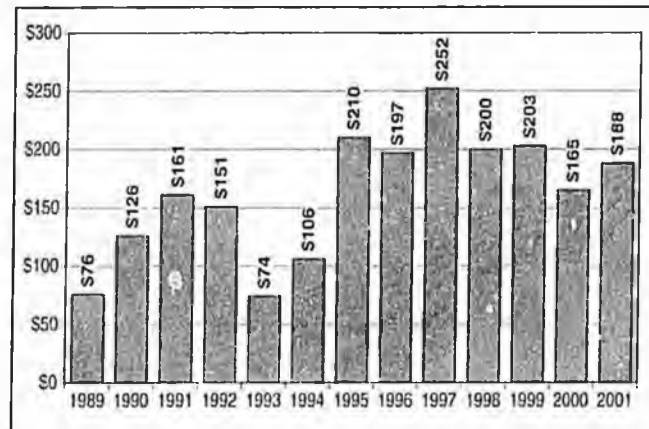
- Promoted cooperation with Canadian government and industry in planning for a transportation system to deliver North Slope natural gas to Canada and on to Lower 48 markets.
- Hosted government and industry delegations to enhance overall trade, tourism and cross-border activities.
- Disseminated information on Alaska-Canada business opportunities.

Background

Alaska has a healthy, two-way trading relationship with Canada, which experienced growth in 2001. Substantial private Canadian investment continues to contribute to Alaska's billion-dollar mining industry. These investments serve as endorsements of Alaska's mineral prospects as well as the overall Alaska business climate. Representatives from Alaska's public and private sector, as well as Western Canadian provincial leaders and business community have devoted considerable time, energy and efforts to further developing trade relations. Although the proposed natural gas projects fueled much of the discussion, attention also focused on many other components of the Alaska-Western Canada partnership in tourism, trade, transportation and policy making.

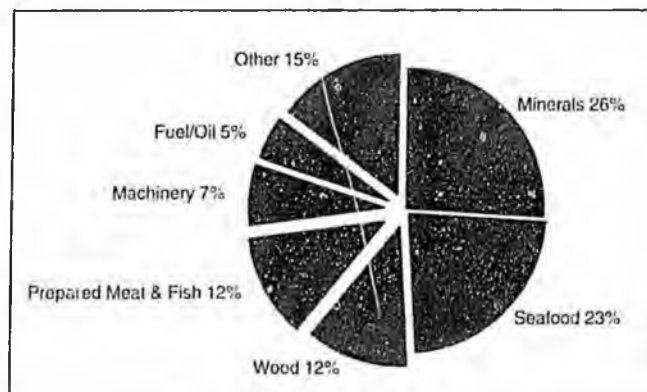
Alaska's Exports to Canada

Yearly Totals • In Millions



Alaska's Exports to Canada

2001





Highlights

- Exports to Germany more than tripled totaling \$115 million in 2001, helping Alaska to diversify its export market. Europe now accounts for 20 percent of Alaska's exports.
- Exports of pollock fillets were the leading cause of the increase.
- German-speaking Europe is Alaska's top international tourism market.

Background

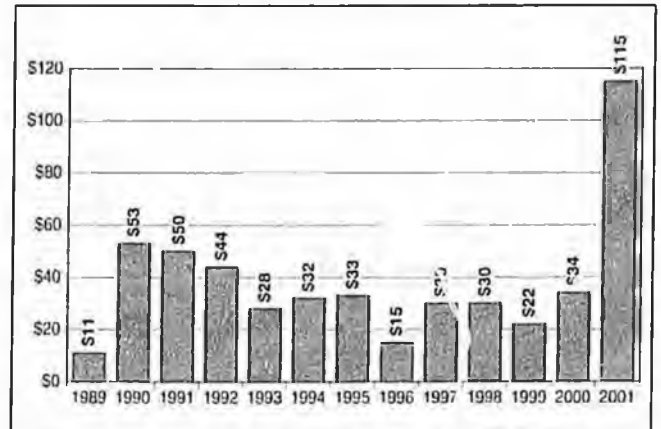
During the 1990s, exports to Germany averaged roughly \$20 million to \$40 million per year. In 2001, exports jumped to \$115 million led by strong exports of pollock fillets. In the past, Germany had purchased much of its pollock fillets from Russia. A low harvest in Russia caused Germany to turn to Alaska for its whitefish supplies. Germany's affluent, well-educated consumers are among the world's most health conscious. Concerns about traceability—the tracking of a secure food supply chain—have resulted in more direct exports from Alaska to Germany rather than indirect exports via a third “processor” country. Alaska also saw increases in other seafood products such as salmon, cod fillets, minced fish, and surimi. Prior to 2001 when seafood exports increased dramatically, the leading exports to Germany from Alaska was mineral ore.

It is often said that “trade follows tourism.” There is an undeniable link between tourism and trade. As tourists visit Alaska and are exposed to Alaska's products, trade is often stimulated from the increased awareness and demand created by the tourists when they return home to their native country. German speaking Europe (Germany, Austria, and Switzerland) is now Alaska's single largest market for international tourists.

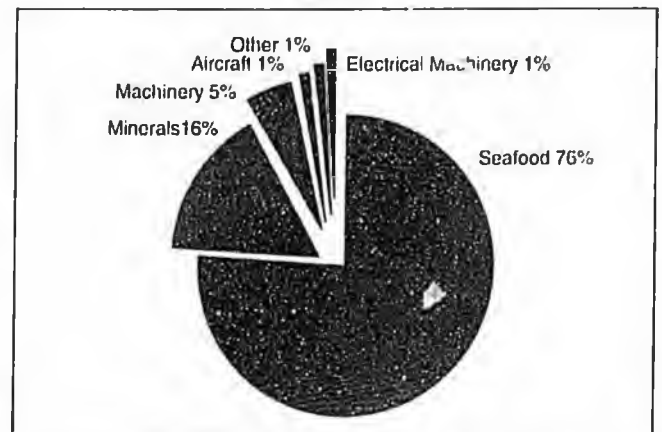
Lufthansa Cargo is an important customer to the state airport system and provides nonstop service between Fairbanks and Frankfurt. Condor Air also provides direct passenger service linking two Alaska cities, Anchorage and Fairbanks, with Frankfurt via scheduled charter service during the summer months.

To capitalize on the business opportunities in Germany for both Alaska's products and as a tourism destination, Governor Knowles led a group of top business leaders representing Alaska on a trade mission to Berlin and Frankfurt in March of 2002. The Alaska delegation met with current and potential Alaska customers in Germany and showcased Alaska's tourism potential in Berlin at the Internationale Tourismus-Börse (ITB), the world's largest travel conference. The Berlin schedule included meetings with European tour packagers and airlines; seafood meetings with German buyers and importers of Alaska salmon; a seafood promotion at a Berlin department store; and “Discover Alaska” visitor industry promotional events.

Alaska's Exports to Germany
Yearly Totals • In Millions



Alaska's Exports to Germany
2001





Highlights

- 2001 marks the seventh consecutive year that exports are over \$100 million. Exports decreased slightly from \$103 million in 2000 to \$102 million in 2001.
- China's purchase of fish waste not for human consumption grew significantly: \$2 million in 1999, \$20 million in 2000 and \$27 million in 2001. The purchases are used for animal feed and China's extensive aquaculture.
- China's growing demand for forest products lifted Alaska's exports in that area from the \$1-2 million range to \$6 million in 2001.

The Division of International Trade and Market Development (ITMD) assists Alaska's businesses to export:

- Organized PRC Consulate mission to Alaska to familiarize Chinese officials with Alaska export industries.
- Commissioned a current overview of the forest products markets in China.
- Worked closely with industry and federal officials to resolve forest products' phytosanitary trade barriers.
- Completed an inventory of the ways in which other competing states have established trade representation within China.

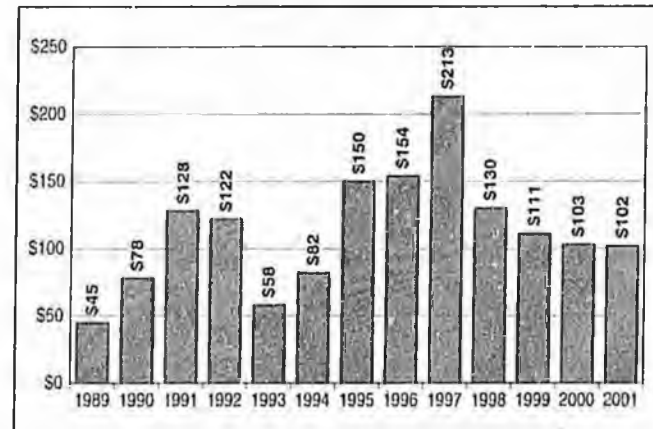
Background

China is a relatively new market for Alaska. China is becoming a significant importer of Alaska seafood. Much of the seafood exported from Alaska to China is further processed for re-export while some is consumed in high-end markets in major cities. China, one of the largest markets in the world, remains a very cost sensitive market. At the same time, an increasingly affluent middle class continues to develop. China's ability to utilize fish waste for non-human feed is creating opportunities for an Alaska product that was once thrown away.

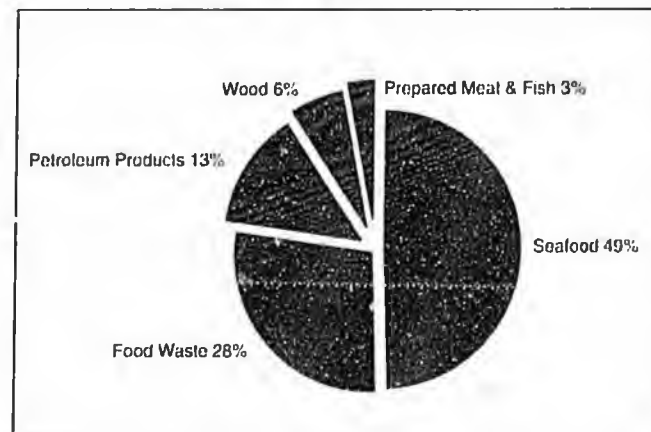
China's reductions in domestic logging activity, necessitated by past over harvest and flooding, have created import demand. Alaska's primary competitors in this area are Russia and New Zealand. Resolving phytosanitary issues concerning the import of round logs into China has been at the forefront of Alaska's marketing efforts for forest products in the past year.

Other areas of potential growth for Alaska's companies include technical services and air transportation links. For example, China's need for a wide variety of environmental services is growing, particularly as income levels rise in a nation with acute environmental needs such as safe water and wastewater treatment. Several carriers fly China/U.S. cargo routes via Anchorage. Although air transportation links have yet to be exploited fully, the presence of these flights offers future opportunity to shippers of high-end fresh seafood and other high value cargo.

Alaska's Exports to China
Yearly Totals • In Millions



Alaska's Exports to China
2001





Highlights

- Exports to Mexico jumped over 120 percent to \$82 million in 2001.
- Exports to Mexico from Alaska has increased over 1485 percent since the North Atlantic Free Trade Agreement (NAFTA).
- Fertilizer was the number one export to Mexico from Alaska in 2001 totaling over \$56 million.

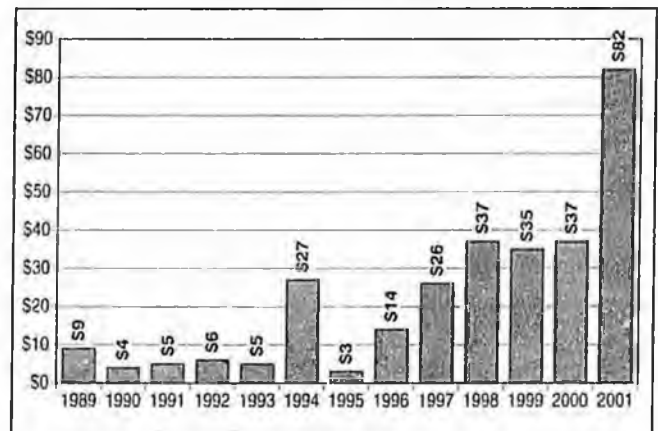
Background

Since the enactment of the North American Free Trade Agreement (NAFTA) in 1993, Alaska's exports to Mexico have increased over \$75 million or 1,486 percent. Prior to NAFTA, Alaska ranked 50th among the U.S. states in exports to Mexico. In 2001 Alaska ranked 40th.

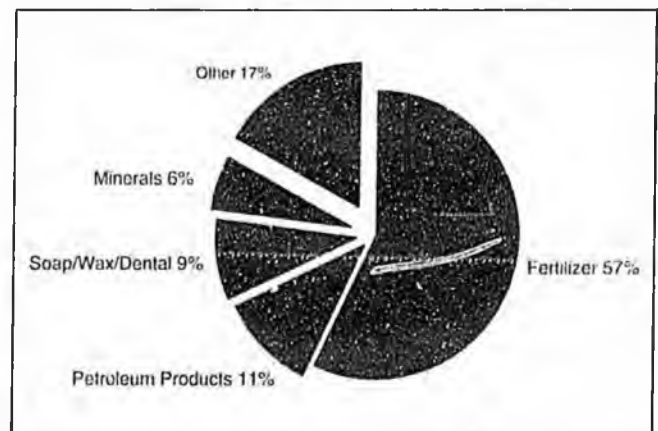
The primary export to Mexico in 2001 was fertilizer products from Agrium's plant in Nikiski. Fertilizer exports to Mexico were up 81 percent and totaled \$47.3 million in 2001. Alaska also exported over \$8 million of petroleum products (mostly gasoline) to Mexico in 2001. Mineral ore exports in 2001 totaled \$4.6 million.

[Note: in the State of Origin data series, Alaska's third largest export to Mexico after gasoline was soap/wax/dental products totaling \$7 million in 2001. While this particular category can be found in the state of origin database, no reference can be found in the port series. The Division of International Trade and Market Development is currently researching the details of this export that accounted for 9 percent of Alaska's total exports to Mexico.]

Alaska's Exports to Mexico
Yearly Totals • In Millions



Alaska's Exports to Mexico
2001





Highlights

- Alaska's exports to Belgium totaled \$81.5 million in 2001, a decrease of 22 percent from 2000.
- Belgium was once again Alaska's number one export market for minerals.
- Belgium accounted for 22 percent of Alaska's mineral exports in 2001.

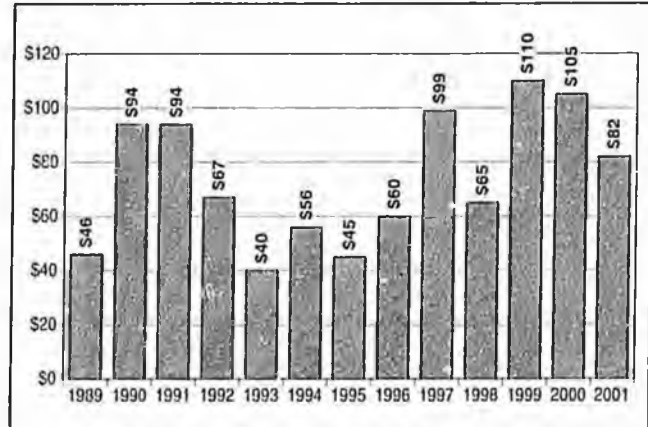
Background

Belgium accounted for over one-fifth of Alaska's mineral exports in 2001. It is the number one importer of both zinc and lead ore from Alaska. Belgium has few natural resources, subsequently, it is a major importer of raw materials and exports large volumes of manufactured products. Alaska's metal ore exports are primarily transported to Belgium for smelting and then distributed mainly throughout the European Union. Iron and steel are major exports of Belgium, therefore matching Alaska's raw material resources.

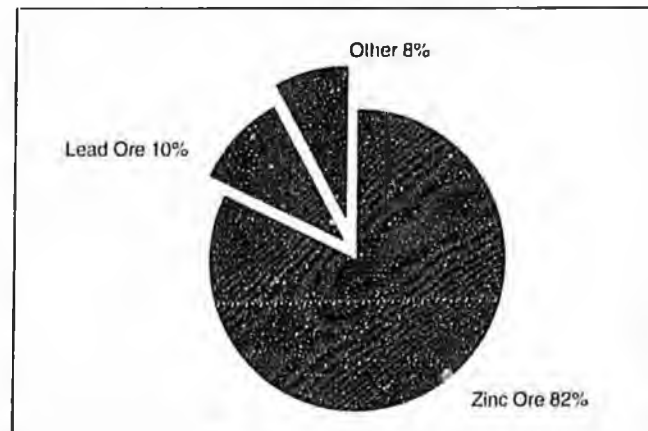
Belgium also imported approximately \$700 thousand worth of Alaska seafood, predominately salmon. Held in Brussels annually, the European Seafood Exposition, and Seafood Processing Europe, are major events for seafood buyers and sellers worldwide. These expositions, our trading ties, and Belgium's connections to the rest of Europe, represent an opportunity for Alaska seafood distribution throughout the region.

Belgium has a population of over ten million people or roughly the same as Pennsylvania or Ohio. Belgium built its modern economy by capitalizing on its central location in Europe and excellent transportation links to become a distribution hub for the region. Two-thirds of Belgium's trade is with other European Union (EU) nations, with 60 percent going directly to Germany. Belgium is one of the original members of the EU.

Alaska's Exports to Belgium
Yearly Totals • In Millions



Alaska's Exports to Belgium
2001





Highlights

- Exports to Taiwan have decreased 30 plus percent for the second year in a row, as Taiwan continues to experience difficult economic times. A growing number of international companies have opted to establish direct business relations with counterparts in China's increasingly modernized large cities rather than with or through cities like Taipei or Hong Kong.
- Although Alaska exports dropped, a significant milestone was reached in 2001 for Alaska service exports to Taiwan. An Alaska firm won a bid with its joint venture Taiwan partner from the Taiwan Environmental Protection Agency for a significant oil spill response training contract.

The Division of International Trade and Market Development assists Alaska's businesses to export:

- Represented Alaska seafood and produce industries at Mediphar, a "healthy living" trade show in Taiwan.
- Conducted weeklong familiarization visit for officials and executives interested in oil spill response training. Visitors included representatives from China Petroleum Corporation, Taiwan Environmental Protection Agency, and Taiwan Coast Guard.
- Organized and conducted two well-received videoconferences featuring Alaska environmental experts. Over 50 Taiwan business leaders, environmental specialists, research scientists, and government officials participated from sites in Taipei and Kaohsiung.

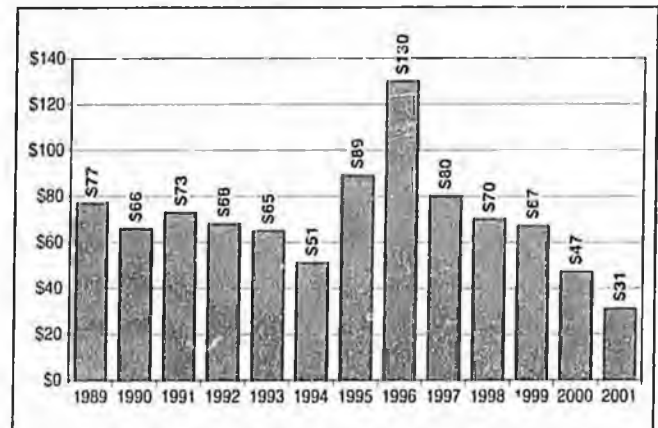
Background

In 2001, Taiwan's economy faced the most challenging circumstances of the past half-century. The economy (GDP) registered 1.9 percent negative growth, with decreases in manufacturing production, the service sector and private investment. In addition, the unemployment rate increased to an all-time high of over five percent.

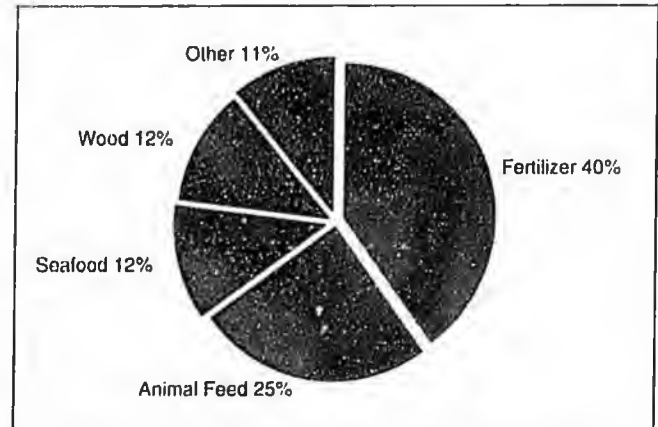
In spite of lackluster economic conditions in Taiwan, the demand for Alaska's goods and services continues. Taiwan's affluent consumers are increasingly becoming aware of the benefits of high quality and healthy foods. This growing awareness has created a window of opportunity for Alaska's virus-free seed potatoes. They are the only imported seed potatoes allowed entry into Taiwan. Furthermore, there is also a growing concern for the environment that has created demand for Alaska's expertise in the environmental service sector.

In 1989, Alaska was among the first American states to establish trade representation in Taiwan. Although economic difficulties within Taiwan are stalling sales, Alaska's resources continue to be a good match for Taiwan's consumer market.

Alaska's Exports to Taiwan
Yearly Totals • In Millions



Alaska's Exports to Taiwan
2001





Highlights

- \$45 million Alaska-based concrete island drilling system, *Glomar Beaufort Sea I*, towed from North Slope to Russia by Crowley Alaska Maritime for use by Exxon Neftegas in Sakhalin.
- Alaska-Chukotka Summit attracted 200 plus Alaskans and a 25-person Chukotka delegation to two days of meetings in Nome to discuss Alaska-Chukotka cooperation.
- Russian Far East regions turned to Alaska on a continuing basis for services and for technical assistance, which Alaska was able to provide with USAID financial support.
- Weekly scheduled air service to Kamchatka and Magadan resumed, but state efforts to rebuild other RFE air routes were complicated by new security restrictions in the wake of the 9-11 attacks.
- Alaska was selected to host the 7th annual meeting of the West Coast-Russian Far East working group at conclusion of the 6th annual meeting in eastern Siberia. The Alaska event was set for Sept. 17-19, 2002, in Anchorage.

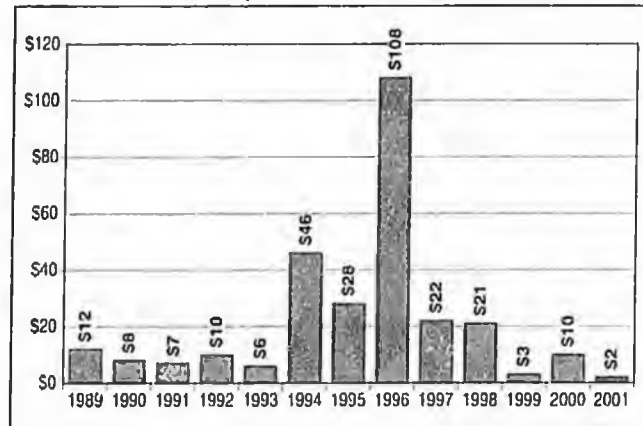
The Division of International Trade and Market Development assists Alaska's businesses to export:

- Conducted an annual Russian Far East business symposium in conjunction with the Pacific Rim Construction Oil & Mining Expo and Conference, focusing in 2001 on Sakhalin and Magadan resource development opportunities.
- Arranged public presentations and private consultations with U.S. and Russian Far East government and business leaders in Alaska and in Russian Far East regions, with assistance from the State of Alaska trade representative based in Yuzhno-Sakhalinsk. Disseminating information on opportunities for Alaskans in the Russian Far East.
- Conducted a transportation roundtable to tackle the logistics problems created by the loss of some direct RFE air routes and working with aviation specialists and private carriers in an effort to restore aviation connections.
- Resolved logistics and bureaucracy to smooth cross-border activities. A prime example involves assisting Alaskans to win approval of visas so their Russian partners can travel to Alaska.

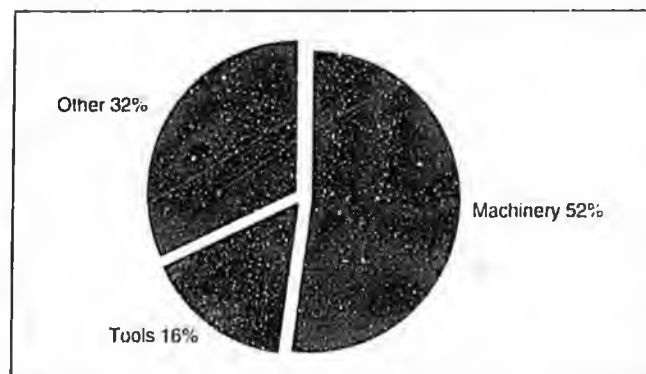
Background

While Alaska exports to Russia rank outside the state's top export markets in commodity sales, Alaskans' interest in the Russian Far East continues to rank at or near the top among Alaska's international trading partners. Alaska services (oil field services, environmental services, engineering, technological, logistics, training, etc.) are an integral part of Alaska-RFE business equation. Many other Alaska-RFE cross-border activities, including tourism, exchanges (educational, scientific, cultural, Native), even humanitarian and technical assistance have significant economic impact as well.

Alaska's Exports to Russia
Yearly Totals • In Millions



Alaska's Exports to Russia
2001



Seafood Sector Report

- Seafood exports were up 15.1 percent in 2001 totaling \$1.2 billion.
- Seafood exports increased for the third consecutive year, to the highest level since 1995.
- 2001 ex-vessel value of salmon declined 21 percent from 2000 despite volume being up 7.6 percent.
- Seafood exports to Germany soared 576 percent on the strength of pollock exports.
- Seafood exports to Korea, Alaska's second largest overseas market increased over 75 percent.

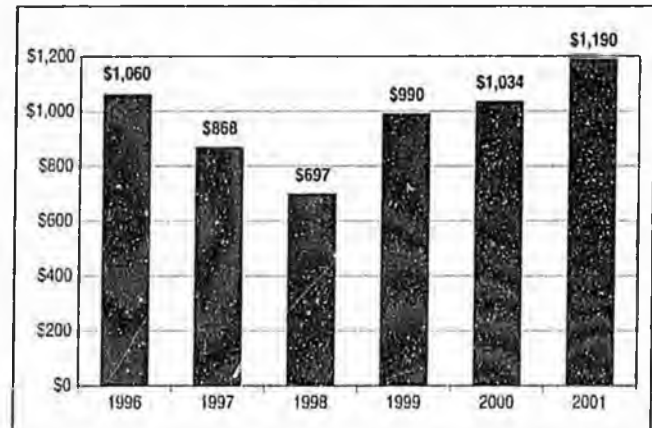
Seafood is Alaska's number one export commodity accounting for nearly 50 percent of all exports from Alaska. Despite some well-publicized problems with the salmon industry, Alaska's seafood exports increased over 15 percent in 2001. This marks the 3rd consecutive year of growth in seafood exports. Pollock and pollock roe were once again the main factors for the increase in seafood exports.

Due to declines in exports of pollock from Russia, Germany purchased large quantities of pollock from Alaska. Germany jumped to Alaska's third best overseas market for seafood in 2001 from number seven in 2000. Following this trend, in recent years there has been an increasing amount of seafood being sold to European countries. Most of the exports to Europe are groundfish such as pollock and cod. With lower catches in the North Sea and North Atlantic many of the European countries are looking to Alaska to supply their seafood demand.

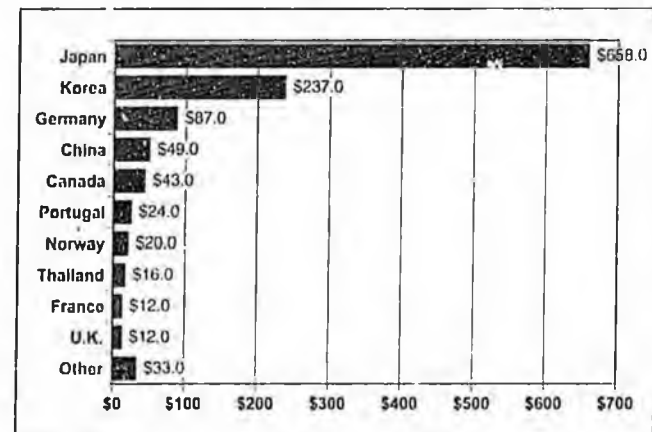
Seafood exports to Korea increased over \$100 million dollars in 2001 to total \$237 million. Pollock products including roe and fillets were the primary reasons for the increase. Despite the continuation of the decade long economic downturn, Japan is by far Alaska's number one market for seafood. Japan accounted for over 55 percent of Alaska's total seafood export market in 2001.

The salmon industry once again faced a difficult challenge from stiff competition from farmed salmon as well as low commercial harvests. Red (sockeye) salmon, the state's most important salmon for export declined in ex-vessel value 38 percent in 2001. Overall harvest of red salmon was down 21 percent in 2001. Preliminary prices (estimates that do not include any possible postseason adjustments) show that on average fisherman received only 57 cents per pound for sockeye salmon in 2001 versus 76 cents in 2000.

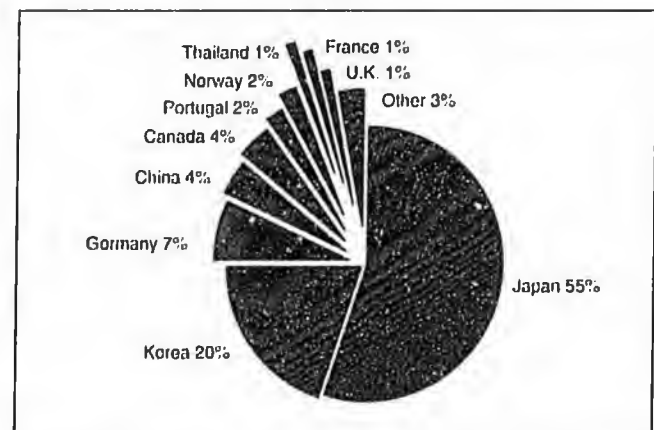
Seafood Exports from Alaska
In Millions



Alaska's Seafood Markets
2001



Alaska's Seafood Markets
2001



Energy (Petroleum Products, LNG, and Coal)

Energy Sector Report

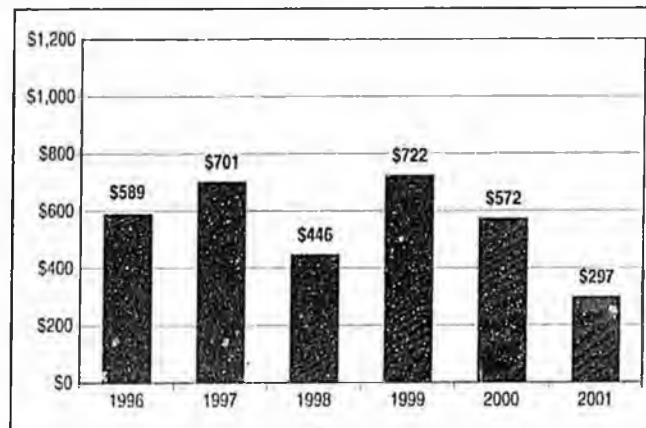
- Alaska's Energy exports such as oil, liquefied natural gas, coal, and refined petroleum products declined 48 percent in 2001 to \$297 million.
- The decrease was almost entirely attributable to the decline in crude oil exports.
- Liquefied natural gas exports to Japan held steady at \$145 million for 2001.
- Exports of value-added refined petroleum products such as naphtha, gasoline, and fuel oil increased 10 percent to \$134 million in 2001.

Despite the large negative numbers, Alaska's report card for energy exports would read a "B" perhaps even a "B+." Almost all of the decline in energy exports during 2001 can be attributed to the anticipated decline in exports of crude oil. Of all the exports, crude oil perhaps has the smallest benefit difference between product exported versus sold domestically. Despite the decline in exports, all of the crude oil produced in Alaska has no problem in finding a market.

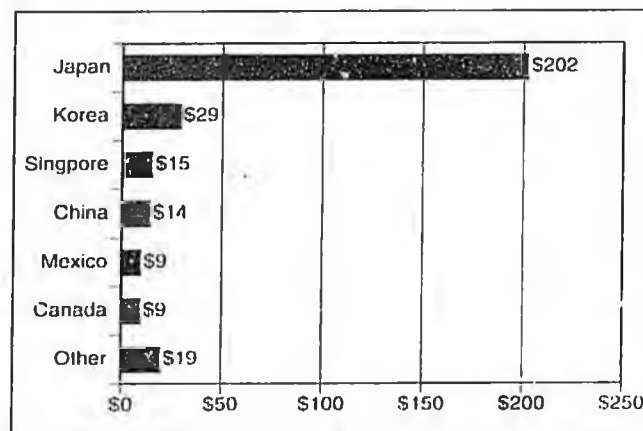
The bright spot in energy exports was the 10 percent increase in refined petroleum products such as naphtha, LNG, fuel oil, and gasoline. By adding value in state, Alaskans maximize the value of the natural resources produced in Alaska.

LNG exports to Japan in 2001 marked the 34th consecutive year Alaska has exported commercial quantities of LNG to Japan. An extended LNG contract was signed between Alaskan sellers and Japanese buyers. The new contract will run from 2005 to 2009. 2001 coal exports to Korea were also steady at over \$16 million in 2001. However, there are concerns the coal contract will not be renewed in 2002 due to intense competition from Indonesian coal.

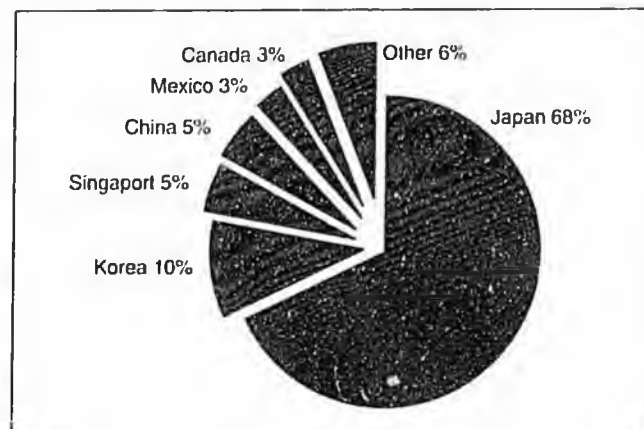
Energy Exports from Alaska
(Petroleum Products, LNG, and Coal)
In Millions



Alaska's Energy Markets
2001



Energy Exports from Alaska
(Petroleum Products, LNG, and Coal)
2001



Mineral Sector Report

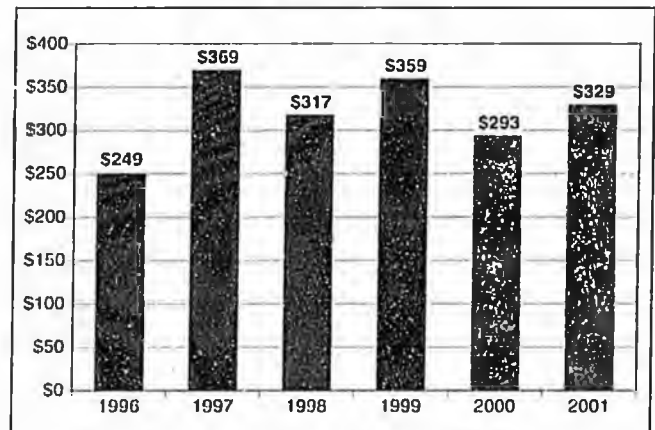
- The overall value of the minerals industry in Alaska is estimated to be \$1.022 billion in 2001, a 21 percent decrease from the \$1.283 billion 2000 value.
- Total mineral exports were up 12.3 percent in 2001.
- Exploration investment decreased 17 percent in 2001.
- Development expenditures decreased 40 percent in 2001.
- The gross value of Alaska's mineral products decreased 17 percent.
- The price of zinc, Alaska's largest export mineral, was 22 percent lower than in 2000.
- In 2001, the State of Alaska resumed airborne geophysical surveys under the auspices of the Division of Geological and Geophysical Surveys (DGGS).

Mineral exports were up 12 percent in 2001 from \$293 million to \$329 million. The estimated value of Alaska's mineral production in Alaska was \$917 million in 2001, a decrease from \$981 million in 2000. However, 2001 production at Red Dog mine was comparable to 2000 levels, as mill upgrades continued into the 4th quarter of 2001. Production at Red Dog is expected to increase about eight percent in 2002. Red Dog produced 571,000 tons of contained zinc in 2001, versus 585,000 in 2000. Greens Creek produced 64,000 tons in 2001, versus 84,000 tons in 2000. Total production was 635,000 tons in 2001, versus 669,000 in 2000.

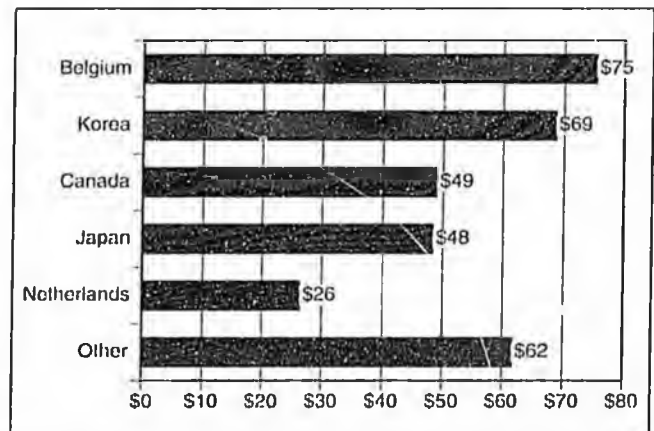
Exploration investment was down from \$34.9 million in 2000, to \$23.4 million in 2001 as a result of low metal prices. The low prices hindered the abilities of companies to raise capital for mineral exploration. Estimated mineral exploration was at its lowest point since 1987.

The decrease of development expenditures resulted primarily from the completion of the \$105 million Mill Optimization Project at the Red Dog mine in the northwest region, offset by developments at Fort Knox, Pogo, and True North mines.

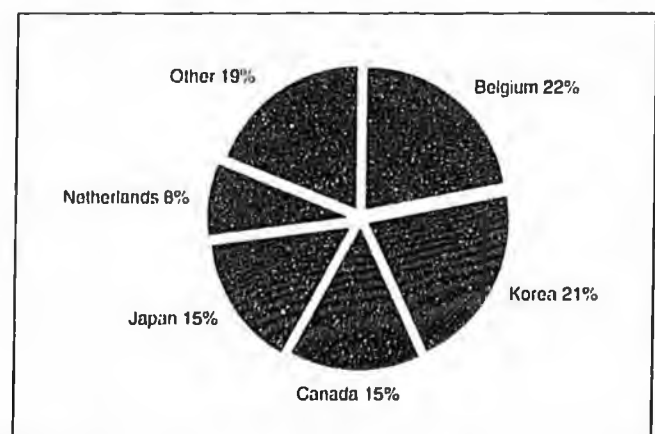
Minerals Exports from Alaska In Millions



Alaska's Minerals Markets 2001



Minerals Exports from Alaska 2001



Fertilizer

Fertilizer Sector Report

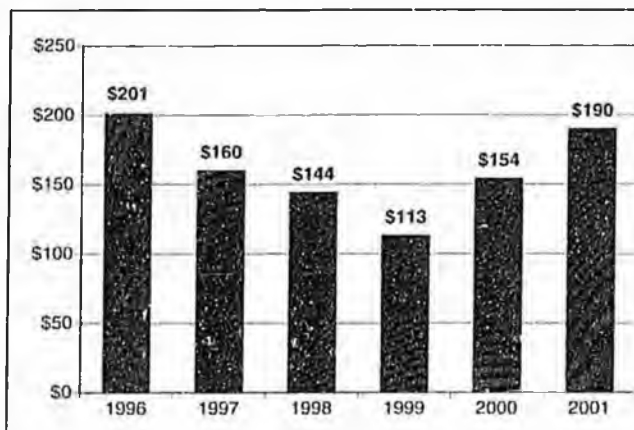
- Alaska's exported \$190 million worth of fertilizer in 2001.
- Fertilizer is produced at the Agrium plant in Nikiski.
- Total fertilizer exports were up 23 percent in 2001.
- Alaska exported fertilizer to 13 countries in 2001.
- Korea was Alaska's largest fertilizer market in 2001.
- Fertilizer exports to Mexico increased 80 percent in 2001.
- Alaska's fertilizer exports consist primarily of Anhydrous Ammonia and Urea (a concentrated dry source of nitrogen).
- in 2001, total ammonia production was 700,000 tons and urea production was 1.1 million tons.

Background

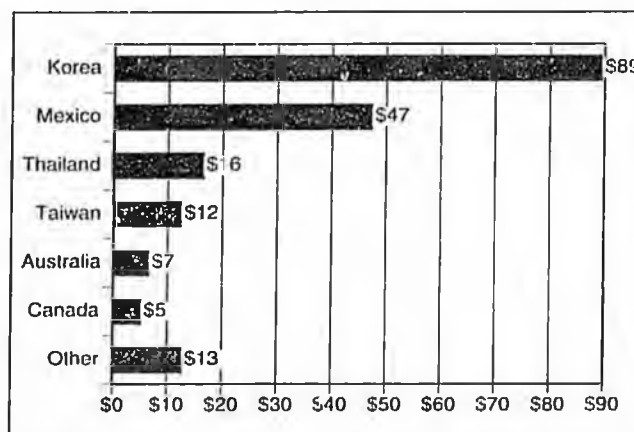
The total value of Alaska's fertilizer exports surpassed Alaska's timber exports for the first time in 2001. Total fertilizer exports increased by 23 percent in 2001. Alaska exported fertilizer to 13 countries, with 46 percent going to Korea, and 25 percent to Mexico. The majority of the fertilizer produced in Alaska is destined for large-scale agricultural use. Two types of products, ammonia and urea, are the majority of Alaska's fertilizer exports. Production of these two fertilizer products takes place at Agrium Inc.'s plant in Nikiski on the Kenai Peninsula. With 300 employees, Agrium is one of the largest private employers in the region. The fertilizer production process utilizes one of Alaska's abundant natural resources (natural gas) and converts it to a value-added product (fertilizer).

In addition to Agrium's large-scale fertilizer production, several Alaska small businesses currently produce plant food type fertilizer that is made from organic ingredients such as, wood, ash, kelp, seashells, and fishmeal.

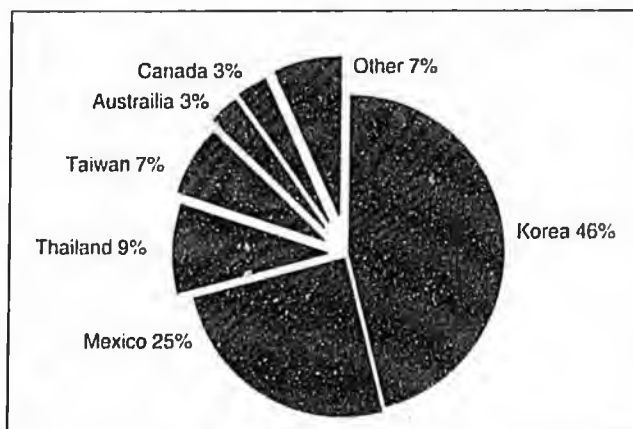
Fertilizer Exports from Alaska
In Millions



Alaska's Fertilizer Markets
2001



Fertilizer Products Exports from Alaska
2001



Forest Products

Forest Products Sector Report

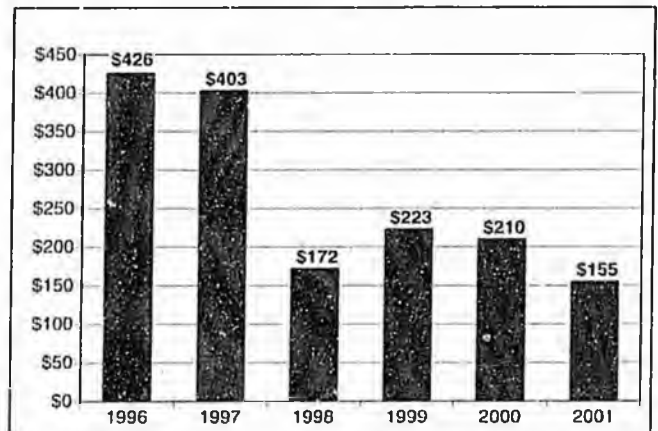
- Continued economic slump in Japan keeps market demand and prices low for Alaska logs and lumber.
- 2001 was a difficult year for Alaska forest products as exports declined 26 percent from 2000.

Federally funded activities to reduce fire hazards and create defensible space around Kenai Peninsula communities are ongoing. This concerted effort supports approximately 100 jobs in logging and chipping spruce bark beetle killed timber for export to Pacific Rim pulp mills. It is anticipated that the beetle killed timber supplies will support this increased level of activity for the next 5 to 10 years.

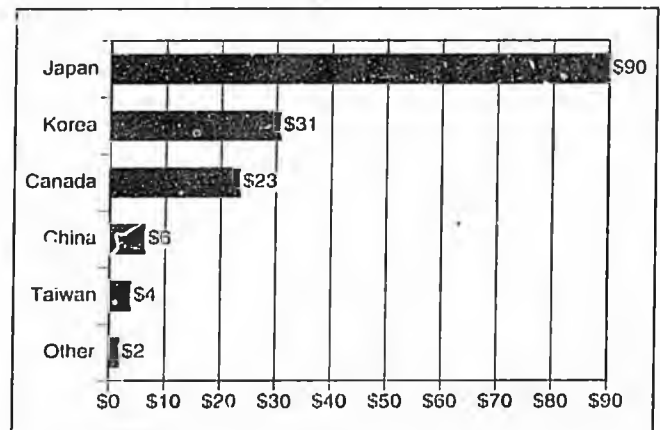
In June 2001, the USDA Forest Service awarded \$2 million in grants for dry kilns and associated equipment to seven Alaska companies. These grants will dramatically improve the competitive position of the Alaska industry. The grantees cover a wide range of small to large-scale mills and include primary lumber mills as well as specialty secondary processors.

Continued economic difficulty in the Japanese economy has reduced its importance to Alaska round log and lumber exporters. Over the past few years, Alaska woods product exporters have worked to strengthen their presence in Korea, China, and other Asian markets. Their work and Japan's market slump is clearly shown in the destination pie chart. For the past few decades Japan has purchased 70 to 90 percent of Alaska's wood product exports.

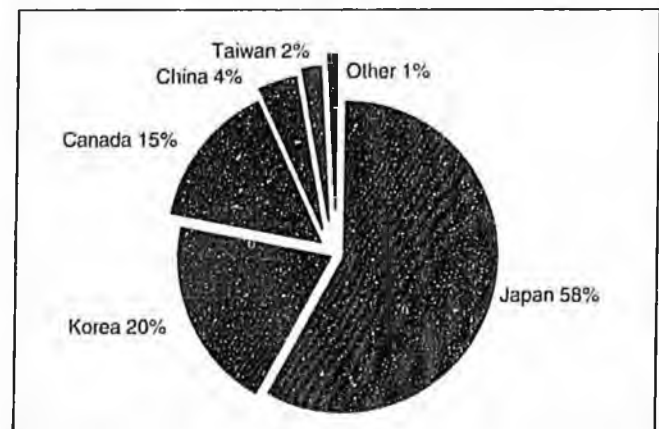
Forest Products Exports from Alaska
In Millions



Alaska's Forest Products Markets
2001

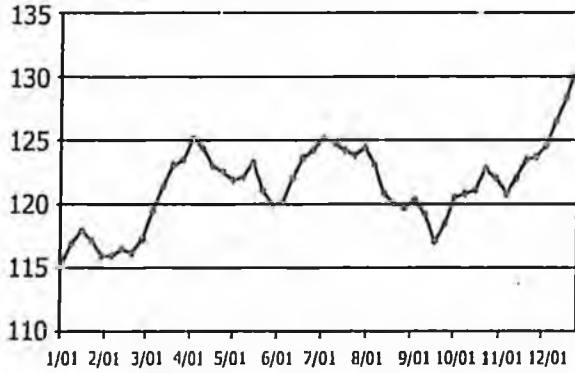


Forest Products Exports from Alaska
2001

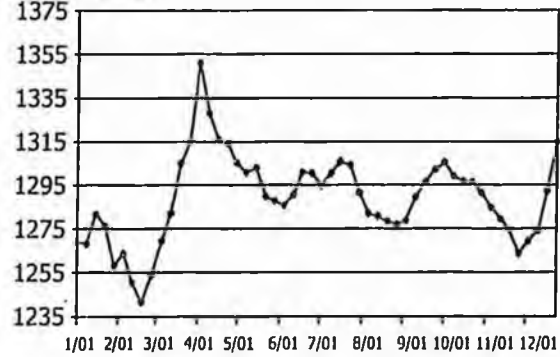


2001 Currency Movements

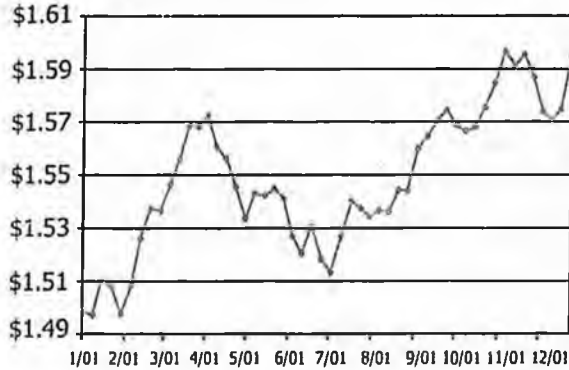
 **Japanese Yen**



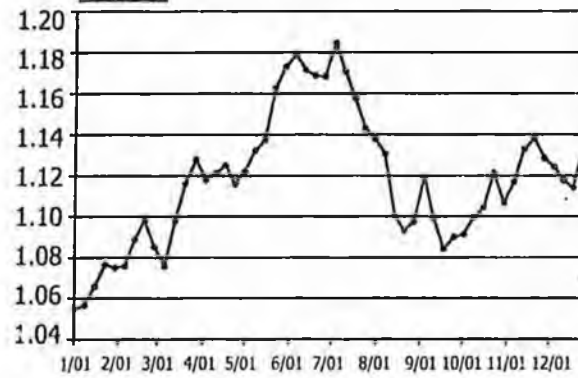
 **Korean Won**



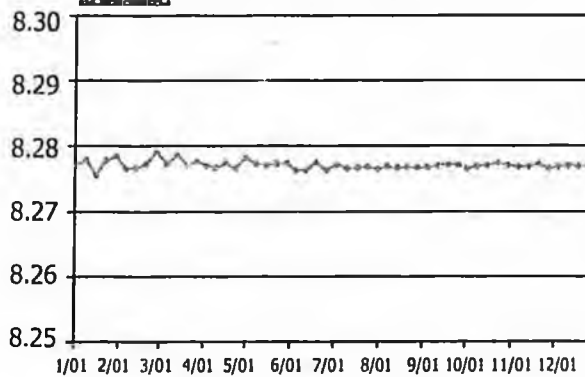
 **Canadian Dollar**



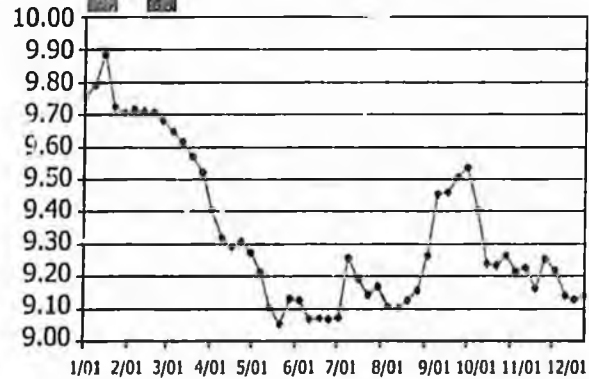
 **European Euro**



 **Chinese Renminbi**



 **Mexican Peso**



Foreign Direct Investment

Foreign direct investment (FDI) in Alaska plays a significant role in the development and growth of our major industries. These investments are important not only because they generate tax revenues and create jobs for thousands of Alaskans; they are also a vote of confidence in Alaska as a good place to do business.

The U.S. Department of Commerce reports that investment in Alaska by U.S. affiliates of foreign companies, as of 1999, totaled \$28 billion. That total ranked Alaska thirteenth among all American states as a recipient of FDI. While the majority of this amount is due to British Petroleum's investment at Prudhoe Bay and the Trans-Alaska Pipeline, other significant investors include Canadian and Japanese firms involved with seafood, mining and tourism operations in Alaska.

There are numerous examples. Marubeni Corporation of Japan owns North Pacific Seafoods which has processing plants in six Alaska communities and employees over 500 workers. Another Japanese investor in the Alaska seafood industry is Maruha. The company owns Western Alaska Seafoods in Kodiak and has ownership stakes in Westward Seafoods and Alyeska Seafoods, both at Dutch Harbor. These companies account for nearly 1,000 permanent and seasonal jobs.

Alaska's mining industry has attracted significant Canadian investment. Cominco, a Canadian firm, owns Red Dog, the world's largest zinc mine located north of Kotzebue. Red Dog has invested over \$600 million in facilities at the mine. Two other Alaskan mining operations are also foreign owned: Fort Knox by Kinross, based in Toronto and the Greens Creek Mine which is majority owned by Rio Tinto, a British company.

In addition, foreign firms, mainly Canadian, spend considerable sums on mineral exploration in the state. Records show that of the \$804 million spend on exploration since 1981, about 60% (\$482 million) was carried out by non-U.S. companies.

The state's tourism industry also benefits from overseas investment. Kokudo, a Japanese company, for example, owns the Alyeska Resort at Girdwood. The company has invested over \$15 million into the hotel, tram and other facilities. The resort employs 400 workers seasonally, with an annual payroll exceeding \$12 million. In Anchorage, the Regal Alaskan Hotel, once owned by a Hong Kong company, has recently been sold to one based in Singapore. Headquartered in London, P & O Princess Cruises PLC operates the Princess Cruise Line whose ships call at ports in Alaska. The company has made direct investments in four hotels in the state.

It is important to note that the FDI figures in this report do not reflect the money spent by these companies on payroll, procurement of supplies and services, taxes, and other significant contributions to the communities where they have invested.

The Division of International Trade and Market Development works closely with many of these international companies and provides information and assistance to others who are considering an investment in our state. Though often a long-term proposition, success in attracting business and investment to the state will pay dividends long into the future.

Governor's Exporter of the Year Award

Each year the Export Council of Alaska organizes the Alaska Export Banquet in May, around the time of "World Trade Week," as proclaimed by the U.S. Department of Commerce. During the banquet, the Governor presents the coveted Governor's Exporter of the Year award.

"Trade is very important to Alaska," said Governor Tony Knowles. "This award gives the State of Alaska an opportunity to recognize companies, both large and small, that expand our economy and create good jobs for Alaskans."

Award Recipients

2000	(Presented May 24, 2001)	
	Winner	VECO Corporation
1999	Winner	Arctic Slope Regional Corp.
1998	Winner	Cominco Alaska Inc.
1997	Winner	Reeve Aleutian Airlines and Circumpolar Expeditions
1996	Winner	North Pacific Processors, Inc.
1995	Winner	Tesoro Alaska Petroleum Company
1994	Winner	ERA Aviation
1993	Winner	Apocalypse Design
1992	Winner	DAT/EM International
1991	Winner	Cominco Alaska Inc.
1990	Winner	Federal Express
1989	Winner	Klukwan Forest Products
1988	Winner	Sealaska Corp.
1987	Winner	Sea Hawk Seafoods
1986	Winner	Seley Corp.



Left to right: Lt. Governor Fran Ulmer; Pete Leathard, VECO Corporation President; and Governor Tony Knowles.

Alaska's Consular Corps

CONSULATE GENERAL OFFICE

Consulate General of Japan
3601 C Street, Suite 1300, Anchorage, AK 99503
Phone: (907) 562-8424 Fax: (907) 562-8434
e-mail: cgjpnak@ptialaska.net

Consul General Kazuo Obinata
Consul Kenichi Okada
Consul Yoshitsugu Shikada
Consul Satoshi Ozawa
Vice Consul Fusaji Saikawa

HONORARY CONSULS

Austria

Honorary Consul Walter J. Hickel, Jr.
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Belgium

Honorary Consul Carl F. Brady, Jr.
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Canada

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Czech Republic

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Denmark

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Royal Danish Consulate
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Finland

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Consulate of Finland
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Norway

Honorary Consul Anton Z. Meyer
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Slovak Republic

Honorary Consul Andrea Quam
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Consulate of Spain
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Sweden

Honorary Consul Ed Rasmuson
Consulate of Sweden
301 W. Northern Lights, Anchorage, AK 99503
Phone: (907) 265-2927 Fax: (907) 265-2068

United Kingdom

Honorary Consul Diddy R.M. Hitchins, Ph.d.
British Consulate
University of Alaska Anchorage
3211 Providence Drive, Anchorage, AK 99508
Phone: (907) 786-4848 Fax: (907) 786-4647
Email: AFDHI@uaa.ak.us

Sister States & Sister Cities

Sister States/Provinces

Heilongjiang Province, China
Khabarovsk Region, Russia

Sister Cities

Anchorage	Chitose, Japan Darwin, Australia Incheon, Korea Magadan, Russia Tromso, Norway Whitby, England
Fairbanks	Aix-Les-Bains, France Mo-I-Rana, Norway Tainan City, China
Fairbanks North Star Borough	Yakutsk, Russia
Homer	Teshio, Japan Yelisovo, Russia
Juneau	Camiling, Phillipines Chai-I Township, China Lenin District, Vladivostok, Russia Whitehorse, Canada
Kenai	Okha, Sakhalin Island, Russia
Ketchikan	Prince Rupert, Canada Kanayama, Japan
Kotzebue	Lavrientiya, Russia
Nome	Provideniya, Russia
North Pole	Itadori-Mura, Japan
Palmer	Saroma, Japan
Petersburg	Hammerfest, Norway
Savoonga	Sereniki, Russia
Seward	Obihiro, Japan
Sitka	Nemuro, Japan
Soldotna	Nogliki, Sakhalin, Russia
Unalaska	Petropavlovsk-Kamchatsky, Russia
Wasilla	Mirniy, Russia
Wrangell	Noshiro, Japan



Mission Statement

As adopted by the 22nd Alaska State Legislature, the mission of the Division of International Trade and Market Development (ITMD) is to increase international trade and investment in Alaska.

Core Functions of the Trade Program

Assist Alaska Companies Sell Their Goods and Services Overseas

- **CONNECTING BUYERS AND SELLERS** — experienced trade specialists in Alaska and state trade representatives abroad locate overseas buyers and help overseas buyers connect with Alaskan suppliers.
- **OVERSEAS REPRESENTATION**—the division maintains active trade representation in Tokyo, Japan; Seoul, Korea; Taipei, Taiwan; and Yuzhno-Sakhalinsk, Sakhalin.
- **TRADE MISSIONS, OUTBOUND AND INBOUND**—ITMD leads business missions to and from targeted markets and arranges seminars, presentations and one-on-one meetings with potential customers.
- **TRADE SHOWS**—the division promotes Alaska products and services at major trade and catalog shows, and assists Alaska companies to follow up on leads generated by trade show participation.
- **PROMOTE ALASKA AS A LOCATION FOR FILM PROJECTS**—The filming of motion pictures, television programs, advertisements, documentaries and catalog shoots are projects that will bring significant dollars into the Alaska economy
- **RECRUIT BUSINESS AND INVESTMENT TO ALASKA**—Growth and diversification of the economy creates expanded job opportunities for Alaskans. The division promotes Alaska as a location for companies seeking to relocate or expand.

Provide Information

- **WEB SITE**—information on Alaska's top export markets is continually updated and posted on the division's web site. A variety of division publications are accessible by visitors to the site. In addition, the site provides linkages to public and private sector trade organizations.
- **NEWSLETTERS**—the division produces and distributes a regular series of reports that provide information and analysis on trade opportunities, market conditions, currency and commodity price movements and other developments with potential impact on Alaska exports.
- **TRADE SEMINARS**—ITMD presents seminars designed to help Alaska firms gain the information and technical expertise necessary to conduct international business and more effectively compete in the global marketplace.
- **CUSTOMIZED REPORTS**—In response to requests from the private sector, the division prepares customized reports on specific market opportunities.

Advance Government-to-Government Relations

- **OPENING DOORS**—In Alaska's major export markets, an introduction by government can play an important role in fostering successful business relationships.
- **ADVOCATING FOR ALASKANS**—ITMD acts as a liaison and advocate in foreign markets, finds information on policies and procedures, and works to resolve difficulties that can arise when doing business in an unfamiliar environment.
- **INVESTMENT PROMOTION**—The division promotes investment in Alaska development projects through government-to-government contacts as well as contacts with private sector companies.
- **MULTIPLYING OPPORTUNITIES**—In order to better serve the state's trade community, the division is co-located with the U.S. Department of Commerce, Alaska Export Assistance Center, bringing Alaskans the resources of both state and federal governments. ITMD also works closely with private trade organizations such as World Trade Center Alaska and the Export Council of Alaska, and industry organizations such as the Alaska Seafood Marketing Institute and the Resource Development Council.

Notes

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Alaska

Division of Investments

Department of Community & Economic
Development

House Community & Regional
Affairs Committee

Division of Investments Overview

ALASKA DIVISION OF INVESTMENTS
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT
Duties & Responsibilities

Administration of Loan Programs

The Alaska Division of Investments (the Division) administers and services 15 loan programs under the Department of Community & Economic Development. These programs were primarily designed to promote economic development through direct state lending in industries that are not adequately serviced by the private sector.

Active lending is available in four loan programs: Commercial Fishing, Fisheries Enhancement, Small Business Economic Development, and Rural Development Initiative Fund. These loan programs strengthen and diversify Alaska's economic base by supporting a self-sustaining private structure. Private sector financing for these programs is generally not feasible due to constraints on the types of collateral available or because of the high-risk nature of these loans.

The Division provides loan servicing for eight inactive loan programs. These programs do not have funding available for new loans; however, the Division continues to collect payments which are returned to the General Fund.

Servicing Other State Agencies' Loan Portfolios

The Division provides loan servicing in eight portfolios for four state agencies - the Alaska Industrial Development and Export Authority, and the Alaska Departments of Military and Veterans Affairs, Health and Social Services, and Environmental Conservation.

The combined functions (approval, servicing, collections, and data processing) can be performed more efficiently when they are consolidated into one agency. The complexities involved in some of these functions (e.g., bankruptcies, foreclosure, hazardous waste investigation, and repossessed properties) require a level of expertise that is easier to support when consolidated. These agencies find it more cost effective to have the Division perform these functions.

Statistics as of June 30, 2002

	Number of Loans	Principal Balance Outstanding
DCED Loans	2,139	149,821.9
Other Accounts*	976	50,147.0
Other Agencies' Loans	266	10,545.6
Other Accounts*	39	814.1
TOTAL	3,420	211,328.6

*Other accounts include judgments, deferred interest, accounts receivable, and repossessed property.

ALASKA DIVISION OF INVESTMENTS
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT

Director's Office

- Program Administration
- Establish Policies & Procedures
- Budget Planning & Control
- Facilities Management
- Personnel Management

Lending Branch

- New Applications
- Refinances
- Assumptions
- Payment Extensions
- Collections
- Fisheries Enhancement Tax
Receipt Administration
- Collateral Insurance
- Delinquent Loan Collection
- Foreclosure & Bankruptcy
Management
- Repossessed Property Management
& Resale

Systems Branch

- Payment Receipt
- Credit Reporting
- Commercial & Mortgage Loan
Accounting
- Litigation Accounting
- Computer Systems Maintenance &
Operations
- Cash Availability Analysis
- Cash Flow Projections
- Loan Files Management &
Maintenance
- Reception
- Word Processing

ALASKA DIVISION OF INVESTMENTS

Inactive Loan Programs

Loan Fund	Purpose	Maximum Loan
Alternative Technology & Energy Revolving Loan Fund (RLF) AS 45.88.010 -.050 3 AAC 78.010 -.900 Enacted in 1978 Inactive since 1986	Purchase, construct and install alternative energy systems; develop and implement less costly, less energy-intensive technology.	5% interest on loans under \$15,000
		15% interest on loans \$15,000 to \$30,000 20 year maximum term
Child Care Facilities RLF AS 44.32.240 -.275 3 AAC 82.010 -.900 Enacted in 1976 Inactive since 1986	Construct or renovate a child care facility or purchase equipment for a child care facility.	\$50,000 maximum loan 20 year maximum term 7% interest rate
Historical District RLF AS 45.98.010 -.070 3 AAC 83.010 -.900 Enacted in 1980 Inactive since 1986	Restore, improve, rehabilitate, and maintain historical buildings.	\$250,000 maximum loan 30 year maximum term 7.5% interest rate
Mining RLF AS 27.09.010 -.060 3 AAC 87.010 -.900 Enacted in 1980 Inactive since 1986	Advanced mineral exploration and mining development.	\$5 million maximum loan 15 year maximum term 10.0% interest rate
Residential Energy Conservation RLF AS 45.89.010 -.070 3 AAC 79.010 -.900 Enacted in 1980 Inactive since 1986	Energy conservation improvements on existing buildings.	\$5,000 maximum loan 10 year maximum term Interest rate tied to the market rate.
Small Business RLF AS 45.95.010 -.080 3 AAC 86.010 -.900 Enacted in 1971 Repealed in 1981	Acquire, finance, refinance, or equip businesses.	\$500,00 maximum loan 15 year maximum term 9.5% interest rate
WWII Veterans RLF AS 26.14.010 -.160 3 AAC 41.010 -.900 Enacted in 1946 Repealed in 1980	Personal loans up to \$10,000; multi family loans up to \$110,000; business loans up to \$125,000.	30 year maximum term 9.5% interest rate
Water Resources RLF Enacted in 1946 Repealed in 1980	Capital construction projects for hydroelectric generation and potable water supply.	No maximum amount 50 year maximum term 9.5% interest rate

ALASKA DIVISION OF INVESTMENTS
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT
Commercial Fishing Revolving Loan Fund
Historical Summary
(Dollars in Thousands)

AS 16.10.300 - .370; enacted in 1972

3 AAC 80.010 -.900

Mission: It is the policy of the state, under AS 16.10.300 - 16.10.370, to promote the rehabilitation of the state's fisheries, the development of a predominantly resident fishery, and the continued maintenance of commercial fishing gear and vessels throughout the state by means of long-term low interest loans.

PURPOSE

ELIGIBILITY

SECTION A: \$300,000 Maximum

Purchase limited entry permits; upgrade existing vessels to improve the quality of Alaska seafood.

SECTION B: \$100,000 Maximum

Purchase limited entry permits, vessels or gear; repair, restore or upgrade existing vessels or gear.

SECTION C: \$300,000 Maximum

Purchase quota shares for the halibut or sablefish fisheries.

SECTION 10: Refinance

Refinance existing CFRLF loans to allow borrowers to take advantage of lower interest rates when they occur.

SECTION 11: Refinance up to \$300,000

Refinance debts incurred by a borrower to purchase a commercial fishing vessel or gear.

Alaska resident for the past two years and:

Active in fishery for 3 of the past 5 years, including the year prior to the date of application.

No other occupational opportunities available in area of residence, or economically dependent on commercial fishing for a living.

Intended for individuals that do not qualify for other sources of financing.

Possesses a permit or crew license.

Active participant in fishery for 2 of the last 5 years.

Qualifies as a transferee for quota shares.

Not eligible for financing from other commercial lenders.

Loan must be in good standing.

Qualifies for a loan under section A, B, or C.

Interest rate: Fixed rate at Prime +2%, not to exceed 10.5% (Product quality improvement is Prime -2%).

Maximum loan term: 15 years

Statistics as of June 30, 2002

Total appropriations to RLF:	60,201.0	Last appropriation RLF: FY85	3,710.0
Total appropriations from RLF:	74,707.1		
Net of appropriations:	(14,506.1)		
Total number of loans committed:	5,762	Number of accounts outstanding:	2,697
Total dollars committed:	358,152.6	Principal amount outstanding:	92,565.6

ALASKA DIVISION OF INVESTMENTS
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT
Fisheries Enhancement Revolving Loan Fund
Historical Summary
(Dollars in Thousands)

AS 16.10.500 - .560; enacted in 1976

3 AAC 81.010 - .900

Mission: It is the policy of the state, under AS 16.10.500 - 16.10.560, to promote the enhancement of the state's fisheries by means of grants for organizational and planning purposes to regional associations described in AS 16.10.510 that have qualified under AS 16.10.380, and by means of long-term, low interest loans for hatchery planning, construction, and operation as well as planning and implementation of enhancement and rehabilitation activities including, but limited to, lake fertilization and habitat improvement.

Purpose: Loans are available for planning, construction, and operation of fish hatchery facilities, including pre-construction activities necessary to obtain a permit, construction activities to build the hatchery facility, and the costs to operate the facility.

Eligibility: Loans may be made to qualified regional associations or private, nonprofit corporations who have obtained a private, nonprofit hatchery permit from the Alaska Department of Fish and Game (ADF&G). Loans may also be made for planning and pre-construction purposes prior to receipt of a hatchery permit from ADF&G.

Maximum loan amount: \$10,000,000

Maximum loan term: 30 years

Interest rate: Fixed rate at prime +1%, not to exceed 9.5%

Refinance: Refinancing is available for existing Fisheries Enhancement Revolving Loan Fund Loans.

No repayment of the principal is required for an initial period of six to ten years; no interest on the principal accrues during that period.

Statistics as of June 30, 2002

Total appropriations to RLF:	84,660.3	Last appropriation from the General Fund: FY94	2,068.2
Total appropriations from RLF:	<u>(5,881.3)</u>		
Net of appropriations	78,779.0	Last transfer from the Commercial Fishing RLF: FY95	9,934.9
Total number of loans made: (Life of program)	272		
Total dollar amount of loans made: (Life of program)	115,637.5	Amount of payments received on all loans for life of program:	51,815.2
Number of accounts outstanding:	292		
Total outstanding balance:	103,719.8		

ALASKA DIVISION OF INVESTMENTS
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT
Rural Development Initiative Fund
Historical Summary
(Dollars in Thousands)

AS 44.88.600 - .620; enacted in 2000

AAC 99.825 - .899

Background: The Rural Development Initiative Fund (RDIF) was created in 2000 to provide financing to small businesses creating jobs in rural communities. The program was developed to replace a similar program administered for many years by the former Department of Community and Regional Affairs. The fund is owned by the Alaska Industrial Development and Export Authority (AIDEA); however, the program is administered by the Alaska Division of Investments (ADI) through a servicing contract. The fund is revolving and requires no general fund appropriations. A total of 89 jobs have been created or saved as a result of these loans.

Purpose: Financing is available for working capital, equipment, construction, or other commercial purposes.

- Eligibility:**
- ⊗ Loans may only be made to businesses located in a community with a population of 5,000 or less that is not connected by road or rail to Anchorage or Fairbanks, or with a population of 2,000 or less that is connected by road or rail to Anchorage or Fairbanks.
 - ⊗ Loans must result in the creation of new jobs, or the retention of existing jobs in the eligible community.
 - ⊗ A reasonable amount of non-state funding must be included as a part of the total project cost.

Maximum loan amount: One person: \$100,000
Two or more persons: \$200,000

Maximum loan term: 25 years

Interest rate: Prime - 1%, not less than 6% per year

Statistics as of June 30, 2002

Total appropriations to RLF	2,250.5		
Total appropriations from RLF	(43.0)		
Net of appropriations to RLF	2,207.5		
Total number of loans committed:	14	Number of accounts outstanding:	14
Total dollars committed:	1,838.2	Principal amount outstanding:	1,374.4

ALASKA DIVISION OF INVESTMENTS
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT
Small Business Economic Development Revolving Loan Fund
Historical Summary
(Dollars in Thousands)

AS 44.88.400 - .430; enacted in 1987

3 AAC 99.800 - .820

Background: The Small Business Economic Development (SBED) was created in 1987 to finance the start-up and expansion of small businesses that create significant long-term employment in areas of the state that were experiencing economic difficulties. The fund was initially capitalized through a federal grant from the Economic Development Administration (EDA) as well as matching funds from the state. The fund is owned by the Alaska Industrial Development and Export Authority (AIDEA), however, the program is administered by the Alaska Division of Investments (ADI) through a servicing contract. The fund is revolving and requires no general fund appropriations. A total of 399 jobs have been created or saved as a result of these loans.

Purpose: To provide private sector employment, and financial assistance towards the start-up and expansion of businesses.

- Eligibility:**
- ⊗ The applicant must meet the definition of "small business" according to the Small Business Administration.
 - ⊗ The applicant must be unable to obtain private financing for the entire project; however, at least half of the project costs must be privately funded.
 - ⊗ Loan funds may not be used to reimburse costs incurred prior to submitting an application.

Maximum loan amount: \$300,000

Maximum loan term: 20 years

Interest rate: Prime -4%, not less than 4%

Statistics as of June 30, 2002

Total Federal grants to RLF	4,681.4		
Total State match to RLF	1,736.7		
Total appropriations from RLF	<u>0</u>		
Net of appropriations to RLF	6,418.1		
Total number of loans committed:	64	Number of accounts outstanding:	42
Total dollars committed:	5,948.0	Principal amount outstanding:	3,536.9

ALASKA DIVISION OF INVESTMENTS
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT
Significant Issues for FY04

Salmon Industry

The commercial fishing industry continues in flux as world markets adapt to the changing supply of fish from fish farms as well as the more traditional fishing fleets. The salmon markets have been significantly affected, and as a result they have been extremely volatile for the past several years. It is vitally important that Alaska maintains its place in the worldwide salmon market during these challenging times. Both the Commercial Fishing Revolving Loan Fund and the Fisheries Enhancement Revolving Loan Fund depend heavily on the fish runs and the profitability of the fishing industry. Reduced prices and lack of fish returns in some fisheries has resulted in significant difficulties for many of our borrowers. Fortunately, the statutes provide the flexibility needed to craft solutions to payment problems and the Division has dedicated significant resources in the past few years to these efforts. It is anticipated that similar efforts will continue in FY04.

Salmon Industry Task Force Process

The 22nd Alaska State Legislature convened a task force to address the crisis facing the salmon industry. Their goals are to evaluate the State's statutory framework for Alaska's wild salmon industry as well as current industry practices and to make recommendations for statutory, regulatory and structural changes that will improve the industry. The Division of Investments may play an important role in these restructuring efforts. The Division was selected as a Resource Agency for the Task Force Finance Subcommittee and has participated in their meetings in an advisory capacity. The Division's participation in this process and the implementation of the committee's final recommendations will be extremely important.

Loan Servicing Software Replacement

The software package currently being used by the Division was purchased in the early 1980's and has extremely limited capabilities. A replacement system is needed to provide loan origination functions such as application tracking, document creation and management. It is also needed to provide accurate and timely information to management, the legislature and the public. The 22nd Alaska State Legislature approved a \$550,000 capital request to replace this software and preliminary work, including a project plan, has been completed. The Division has begun the process of selecting the most appropriate package available and anticipates the purchase and installation to take place in FY04.

ALASKA DIVISION OF INVESTMENTS
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT
Accomplishments in FY02/03

Refinancing - Commercial Fishing Revolving Loan Fund

As 16.10.310(a)(10) allows commercial fishing borrowers to refinance existing Commercial Fishing Revolving Loan Fund loans to take advantage of reduced interest rates when they occur. The Division developed a streamlined application process and procedures to assist borrowers in their refinancing efforts. During the past fiscal year interest rates have declined dramatically and as a result the Division processed over 1,300 refinancing applications. The Division anticipates continued interest in the refinancing program for the remainder of FY03.

Refinancing - Fisheries Enhancement Revolving Loan Fund

Legislation was passed last session that allowed borrowers under the Fisheries Enhancement Revolving Loan Fund to refinance existing loans to take advantage of reduced interest rates. The Division developed a streamlined application process and procedures to assist borrowers in their refinancing efforts. During the past six months the Division processed 73 refinancing applications and anticipates a similar level of refinancing activity during the remainder of FY03.

Volunteer Tax and Loan Program

The Division supported the Volunteer Tax and Loan Program (VTLP) through a fisheries business development contract with the Alaska Business Development Center, Inc. (ABDC). This program involves a cooperative effort between the Division, the Alaska Business Development Center, the Internal Revenue Service and the University of Alaska. The program has been operating successfully since 1996 and the focus continues to be rural harvesting communities targeted by the IRS as having tax compliance issues. Teams comprised of advanced accounting students and tax supervisors, as well as an ABDC consultant traveled to each community to provide tax preparation, loan assistance, as well as, business and financial counseling. Twenty trips were made to assist 56 communities in seven Alaskan regions (Interior, Yukon Delta, Western, Southeast, Bristol Bay, Kodiak and Pribilof) during the months of February and March. Overall, ABDC's VTLP assisted 3,628 individuals and prepared 1,881 tax returns. A total of \$1,820,538 was refunded and put back into the communities.

The VTLP has received national recognition on two occasions. In August of 2001, the program was selected by the National Association of Development Organizations (NADO) to receive a 2001 Innovation award. In 1999, the program received an award for Innovative Approach to Non-Profit Management from the Peter F. Drucker Foundation located in New York.

Outreach

Division staff travel to communities around the state each year to distribute program information and help borrowers facing payment difficulties. The Division also participates in a variety of forums, conferences and fisheries related meetings each year.

Telephone Payments

Existing borrowers are now able to make loan payments over the telephone. This program was created to help borrowers avoid payment problems related to mail delays.

Program Contact Information

Alaska Division of Investments

Juneau Office

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Juneau, Alaska 99803

Physical Address:

Alaska Division of Investments
3032 Vintage Blvd. Suite 100
Juneau, Alaska 99801

Office Telephone Numbers:

Voice: 907.465.2510
Fax: 907.465.2103

Alaska Division of Investments Web site:**Alaska Division of Investments Toll Free Number:**

Alaska Business Development Center, Inc.

Mailing/Physical Address:

3335 Arctic Boulevard, Suite 203
Anchorage, Alaska 99503

Web site: www.abdc.org

Office Telephone Numbers:

Voice: 907.562.0335
Fax: 907.562.6988

Toll free number: 1.800.478.FISH (3474)

Alaska Division of Investments

Anchorage Office

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Anchorage, Alaska 99501-3568

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1.800.478.LOAN (5626)

Insurance Credit Scoring in Alaska



FEBRUARY 21, 2003

**FRANK H. MURKOWSKI
GOVERNOR**

Edgar Blatchford
Commissioner

Stan Ridgeway
Acting Director

STATE OF ALASKA
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT

Division of Insurance

Introduction

In May 2002, at the request of Senator Kim Elton, then Director Bob Lohr agreed that the Division of Insurance (Division) would undertake a review of the insurance industry's use of a consumer's credit history for underwriting and rating personal lines insurance policies in Alaska.

This report is based on a survey the Division sent to all insurers writing homeowners or personal auto insurance in Alaska. The purpose of the survey was to give the Division a broad overview of how credit history impacts the Alaska market and to identify issues that would be reviewed more closely in market conduct examinations.¹

Summary of Conclusions

Based on the limited data received and evaluated so far, the use of insurance credit scoring in Alaska appears to have different effects on different groups of Alaskan insurance consumers. The survey data indicates that rural Alaska policyholders are more likely to be placed in the nonstandard markets than are urban policyholders. The survey data also suggests that there is a trend for older consumers to move from the preferred market to the standard market and even nonstandard market with increasing age. A determination whether the policyholder distribution between preferred, standard and nonstandard markets is due primarily to credit history or other underwriting and rating factors is premature. However, the limited data do suggest that unequal effects exist on consumers with varying income and ethnic characteristics. In the aggregate, consumers that reside in higher income/high percentage Caucasian zip codes may be less impacted by the use of the consumer's credit history.

Since insurers have the burden of justifying that the use of credit history does not violate Alaska's laws, some restriction on the use of credit history would protect the public.

What is insurance credit scoring?

An insurance credit score, sometimes referred to as a credit-based insurance score or insurance score, is a number developed from a mathematical algorithm or computer model based upon information taken from a consumer's credit report. This number is used by insurers to assist them in predicting a consumer's future loss potential.

An insurance credit score is calculated from a complex formula that uses information such as the number of bankruptcies, judgments or tax liens, the number of late payments, the number of accounts that are satisfactorily paid, the number of credit related inquiries, and the ratio of debt to account limits that appears on a consumer's credit report.

Insurance companies continually look for ways to reduce their expenses. One of the ways in which they do this is by reducing their exposure to risk. An insurer can reduce its exposure to risk by either not writing policies for consumers who present a high risk or by adequately pricing policies for the exposure level of the consumer. Insurers believe that using a consumer's credit history helps them more accurately evaluate risk and determine the right price for the consumer. This belief is based upon statistical analyses performed by insurers as well as by agencies that collect credit information. According to insurers, these statistical analyses show that there is a strong correlation between insurance risk and a consumer's credit-related behavior.

¹ As part of its study, the Division is also conducting market conduct examinations of three insurance companies related to their use of credit scoring. These market conduct examinations are not yet complete. Because Alaska statutes provide procedures for the examinee to comment on the examination report before the director adopts it, results from the market conduct examinations are not included in this report.

Issues of concern regarding credit scoring

Leading up to the Division's review of the use of credit scoring in Alaska, we heard concerns about credit scoring from consumers, insurance producers (agents and brokers) and the Legislature.

Consumer Issues

Consumers have expressed concern over an insurer's use of credit history for the following reasons:

1. A cause-and-effect relationship between an individual's credit related behavior and propensity to file insurance claims has not been demonstrated.
2. Access to credit history is considered an invasion of privacy and providing unique identifying information, such as a social security number, potentially exposes the consumer to identity theft.
3. Credit reports may contain incorrect information.
4. Correcting erroneous credit reports can be a long process.
5. Individuals who have exceptional life circumstances that adversely impact their credit (identity theft, medical-related debts, etc.) are doubly penalized.
6. Consumers who do not use credit may pay more for insurance than if their credit history were not considered.
7. Lack of information on what constitutes good or bad credit characteristics and the complexity of the process for calculating an insurance credit score does not allow a consumer to know if he or she is being treated fairly.
8. Shopping around for insurance may cause the consumer's credit rating for lending purposes to be lower if the lender considers the number of inquiries in calculating a credit score.

Producer Issues

Insurance producers have expressed concern over the use of credit history in rating and underwriting insurance policies for the following reasons:

1. Some insurers do not allow the producer to provide a premium quote if the consumer does not have a high enough insurance credit score.
2. Limited educational material is available to help the producer explain a very complex issue to a consumer.
3. Screening applicants for insurance coverage based upon credit history is just another means to redline² certain geographical areas or minority groups.
4. Asking for social security numbers and the inability to offer quotes without a credit check may erode the important relationship between a producer and the consumer.

Legislative Questions

1. Is correlation between credit history and loss potential sufficient support for the industry to be able to use a consumer's credit history or should the industry be required to also demonstrate causality?
2. Are victims of identity theft further victimized by credit scoring?
3. Does it make sense for a consumer to be able to qualify for a home loan but not be able to qualify for homeowner's insurance coverage?
4. Why do otherwise similarly situated consumers sometimes pay dramatically different premiums?
5. If consumers and regulators do not know the rules of the insurance credit scoring game, how can the interests of Alaskans be protected?

² Redlining is a term used to mean that a particular group of consumers is experiencing difficulty in obtaining insurance coverage. The most restrictive use of the term means that there is literally a line drawn on a map around a particular geographic area in which an insurer does not want to offer coverage.

6. Are there Fair Credit Reporting Act conflicts?
7. When insurance companies outsource insurance credit scoring are they able to adequately oversee the practice so that consumer interests are not at risk?
8. Why is it that insurance producers split with insurance companies on the issue of credit scoring?
9. Can the Division of Insurance ban the use of credit scoring in establishing rates?
10. Can the director of the Division of Insurance use the Division's rulemaking authority to find that the use of credit history in the underwriting process is an unfair trade practice?

Existing Regulatory Framework

Rates and Rating Plans

Alaska Statute (AS) 21.39 provides guidelines for acceptable rates and rating plans used in Alaska. AS 21.39.030 requires that a rate not be excessive, inadequate or unfairly discriminatory. AS 21.39.030 also requires that in making rates, insurers consider past and prospective loss experience, reasonable underwriting profit and expenses. If risk classifications are used, the insurer must demonstrate that the standards used for measuring differences in hazards or expenses have a probable effect on losses or expenses.

AS 21.39.040 requires every insurer to file with the director every rate, rating plan, rating schedule and rating rule that the insurer proposes to use. Each filing must include support for the proposed rates and rating plans to demonstrate that the filing meets the standards in AS 21.39.030. The director has authority to request additional information from the insurer to assist the director in determining if the filing meets these standards. The director may disapprove a filing unless it demonstrates that the proposed rates or rating plan are not excessive, inadequate or unfairly discriminatory. A filing and all supporting information is open to public inspection after the filing becomes effective.

AS 21.36, the trade practices chapter also would apply to rating plans and, in particular, prohibits unfair discrimination. Under AS 21.36.090(c):

A person may not make or permit arbitrary or unfair discrimination between insureds or property having like insuring or risk characteristics, in the premium or rates charged for a policy or contract of property, casualty, surety, marine, wet marine or transportation insurance, or in the dividends or other benefits payable on the insurance, or in the selection of it, or in any other terms and conditions of the insurance.

Beginning in 2002, the Division asked insurers who submit personal lines rate filings that include the use of credit history in their rating plans to comply with certain new minimum standards.³ These minimum standards were developed from testimony provided to the legislature during the 2002 legislative session. These minimum standards are:

1. An insurer should not impose a surcharge based on the absence of credit history or inability to determine the consumer's credit history.
2. An insurer should not use the number of inquiries, medical information, particular type of credit card, or total line of credit in determining a consumer's credit score.
3. If a policy is rated using disputed credit history, the insurer should re-rate the policy retroactive to the effective date of the policy if the consumer resolves the dispute under the Fair Credit Reporting Act process and notifies the insurer that the dispute has been resolved.

Two insurers revised their previously approved auto rating plans to comply with these minimum standards. One filing from a third insurer is under review by the Division at this time.

³ The Division also recommends similar minimum standards with respect to underwriting.

AS 21.39.090 requires that every insurer, upon written request by the insured, shall furnish to an insured all pertinent information concerning a rate. Each insurer must also provide a means for a person aggrieved by the application of the rating system an opportunity to be heard. The purpose of the hearing would be to review the manner in which the rating system has been applied to the aggrieved person. Under this provision, insureds have a right to know the insurer's standards for calculating rates. An insurer that elects to use credit history in calculating a consumer's insurance rate or premium needs to provide adequate information to the insured showing how that rate is calculated.

Underwriting

Underwriting is the process by which an insurer decides whether or not an applicant for insurance coverage will be issued an insurance policy. Each insurer may develop its own underwriting criteria for the type of risk the insurer wants to write. For example, an insurer may decide that it will not offer personal auto coverage for consumers who drive imported sports cars. This is an underwriting decision. Another insurer may decide that it will write consumers who drive imported sports cars, but will do so by charging these consumers higher rates. The decision to provide coverage for foreign sports cars is an underwriting decision. Charging the consumer a higher rate, and determining how much the surcharge will be, is a rating decision.

In some cases there is an overlap between underwriting and rating. This may occur when an insurer uses insurance credit scoring, as well as other more traditional underwriting and rating factors, as part of the process for determining the placement of the consumer into one of several companies owned by one insurer, insurer group, or an insurance holding company. An insurer may consider this an underwriting process primarily because the insurer is using the insurance credit score as an underwriting criterion that determines the company for which the consumer is qualified. However, if each company has also filed distinct rates for the risks covered by that company, the underwriting decision also becomes a rating decision.

For purposes of this report, underwriting includes the criteria an insurer uses to place an applicant in one of multiple affiliated insurers. Insurers are not required to file underwriting guidelines with the Division before the guidelines are used. However, the Division does have authority to regulate underwriting guidelines under AS 21.36.090(c). As noted above, this section states:

A person may not make or permit arbitrary or unfair discrimination between insureds or property having like insuring or risk characteristics, in the premium or rates charged for a policy or contract of property, casualty, surety, marine, wet marine or transportation insurance, or in the dividends or other benefits payable on the insurance, or in the selection of it, or in any other terms and conditions of the insurance. (emphasis added)

An underwriting guideline that is unfairly discriminatory would be regulated as an unfair trade practice. If the underwriting guideline were determined to violate Alaska laws, the Division would take administrative action to stop the practice. This procedure is in contrast to the rate filing procedures that require the Division's approval before the insurer can use a rate or rating plan.

Confidentiality Issues

Because insurers and third party vendors invest significant amounts of time and money to develop insurance credit scoring models, many insurers and third party vendors assert proprietary trade secret status for these models. Under Alaska's rating laws, information used by an insurer, as support for its rating plan becomes public information when the filing becomes effective. Several rate filings submitted to the Division were disapproved when the insurer did not provide adequate support for the model because they, or the third party vendor, did not want the model to become public.⁴

⁴ Insurers and third party vendors have generally expressed a willingness to allow insurance regulators access to their models, provided the regulators do not disclose the models to the public.

Unless the scoring models are open to scrutiny, only the insurers or the third party vendors who have developed the models, and have a vested interest in seeing that insurance credit scoring is used, will be able to know and analyze how the models are developed and how they impact the insurance buying public. There will be no studies of these models to independently validate the conclusions put forth by insurers and the credit industry. For a practice that raises so many concerns, independent validation of the models may be essential.

History of Insurance Credit Scoring in Alaska

The first rate filing proposing to use insurance credit scoring as a rating factor was submitted to the Division in May 1997 and approved by the Division to take effect in September 1998. A significant amount of correspondence between the Division and the insurer occurred before the filing was approved. Six additional insurer groups began using insurance credit scoring as a rating factor in 1999 and 2000. The Division has disapproved five filings proposing to use insurance credit scores for personal auto and three for homeowners because the insurers were unable or unwilling to provide adequate justification to support the use of credit history.

The use of credit history in underwriting has had a longer history in Alaska. Seven insurer groups use credit history in underwriting. One insurer group began using credit history in 1989 while others began using it between 1994 and 2001.

Summary of Credit Scoring Survey

The test of whether the use of credit history in insurance underwriting and rating complies with Alaska's insurance laws lies only partially in the theoretical support for how credit history correlates with loss history provided in rate filings. After a rating plan is in use, the actual market results must also demonstrate that the rating plan performs generally as predicted. With Alaska's unique population characteristics, genuine questions and concerns exist about the impact of credit history on Alaska's insurance buying public.

To help the Division assess this impact, all insurers that wrote either personal auto or homeowners business in Alaska during 2000 and 2001 were asked to complete a survey describing the insurer's use of credit history. In the survey, the Division told insurers that individual company data would be treated in accordance with the confidentiality standards in AS 21.06.060. However, insurers were also notified that the information obtained in the survey would be used to present a report to the legislature and aggregate data that do not identify individual company practices would be included in the report. Any information provided in the survey that is also publicly available in approved rate filings would remain public.

The insurers were asked to provide data related to zip codes, age, marital status, sex and market or tier. The analysis of the survey data is limited because the survey did not ask for individual policyholder data nor did it ask for demographics such as income or race, because insurers do not collect this information.

Because income and race data are not available, the Division used census data by zip code⁵ to identify both urban and rural zip codes with high and low median household income and various ethnic compositions to be used as a proxy for income and ethnicity of the policyholders. Data from all insurers writing business in a particular zip code were combined, whether the insurer uses credit history as an underwriting tool or as a rating factor so that an individual insurer's policyholder distribution cannot be determined from the data provided in this report.

Another proxy was needed for a consumer's credit history since the data received in the survey did not include individual policyholder data. Each insurer has its own unique way of using credit history

⁵ The census data were taken from <http://www.ehomes.com/ehome/buyers/neighborhoodprofile.asp?from=buyer>

in its rating plan or underwriting criteria; different insurers use different insurance credit scoring models and different insurers use different underwriting criteria to classify the risk level of their policyholders. In order to find a common theme that could be used to aggregate the survey data, and provide the necessary proxy for credit history, the Division focused on three broad categories of risk: preferred business, standard business and nonstandard business. Preferred business consists of those consumers that are seen to present the least risk to an insurer. Standard business is the average risk, and nonstandard business consists of those consumers the insurer believes have the highest level of risk.

The preferred business category would generally include policyholders with good credit history, standard business would generally include policyholders with average credit history and nonstandard business would generally include policyholders with poor credit history. The survey data were split among these categories based upon each insurer's own characterization of the type of business the insurer writes.

Because a consumer may be placed in a market based on the consumer's credit history in combination with other underwriting or rating factors, the categorization of preferred, standard or nonstandard market is only a rough approximation for credit history. For example, a consumer may be in the nonstandard market for reasons other than the consumer's credit history, while, generally, it would require good credit history for a consumer to be in the preferred market.

The survey asked for data for all years in which an insurer used credit history in rating or underwriting. The distributions by year for each insurer were very similar. For sake of efficiency, only personal auto data for 2001 is included in this report. This also allows the most companies to be included and minimizes the possibility of identifying individual company data.

Anchorage

Table I contains policyholder distributions for Anchorage. Some of the Anchorage zip codes had similar median household income and ethnic composition. Those zip codes with similar demographic characteristics were combined together to add credibility to some of the zip codes in which there were only a few policies. Two of the Anchorage zip codes, 99504 and 99516, had demographics that differed from the other zip codes, so these zip codes were not combined with any other zip code.

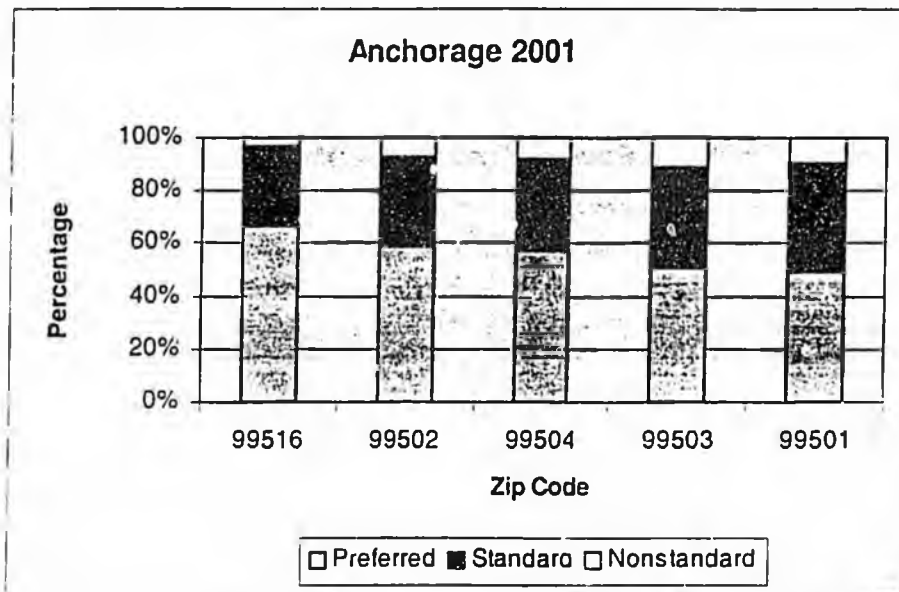
- Zip code Group A consists of zip codes 99501, 99509, 99510, 99511, 99512, 99513, 99514, 99520, 99521, 99522, 99523 and 99524.
- Zip code Group B consists of zip codes 99502, 99507, 99515 and 99518.
- Zip code Group C consists of zip codes 99503 and 99508.

The data in Table I indicates that the zip code that is predominantly Caucasian and has the highest income also has the highest percentage of preferred policyholders and the lowest percentage of nonstandard business. The zip code groups with the lowest median household income and largest ethnic population have the smallest percentages of preferred policyholders and the largest percentages of nonstandard business.

TABLE I

Zip Code	Median Income	% Caucasian	Preferred	Standard	Nonstandard
99516	\$101,571	93%	67%	30%	3%
Group B	\$61,743 - \$69,275	83%-86%	59%	34%	7%
99504	\$55,095	80%	57%	35%	8%
Group C	\$41,048 - \$44,082	75%	51%	38%	11%
Group A	\$39,850	73%	50%	41%	10%

Figure I



Fairbanks

Table II contains data from Fairbanks. Except for Fairbanks zip code 99712, the zip codes are aggregated in a manner similar to that of the Anchorage zip codes.

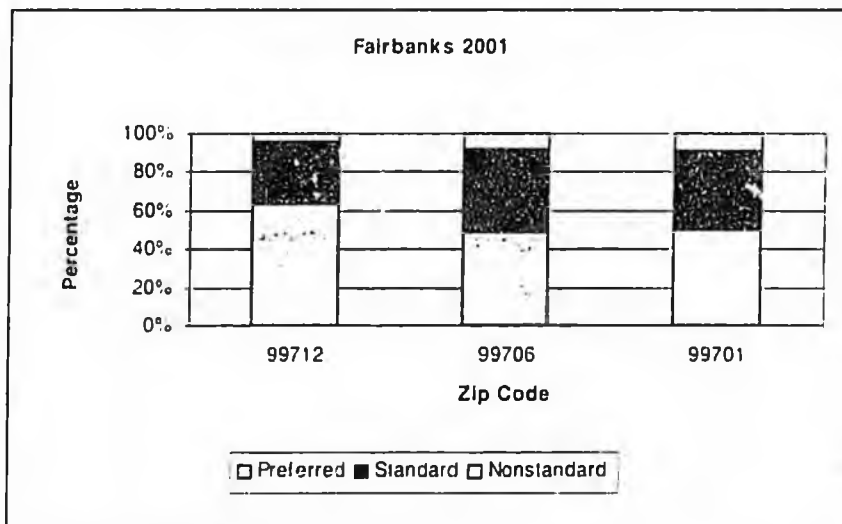
- Zip code Group D consists of zip codes 99706, 99707, 99708, 99709 and 99710.
- Zip code Group E consists of zip codes 99701 and 99711.

TABLE II

Zip Code	Median Income	% Caucasian	Preferred	Standard	Nonstandard
99712	\$62,613	93%	63%	32%	4%
Group D	\$53,550	85%	49%	43%	8%
Group E	\$40,234	76%	50%	41%	9%

Fairbanks shows a similar distribution to that of Anchorage. The zip codes with higher income and a larger percentage Caucasian population have more preferred policyholders and fewer nonstandard policyholders than the remaining zip codes.

Figure II



Rural Alaska

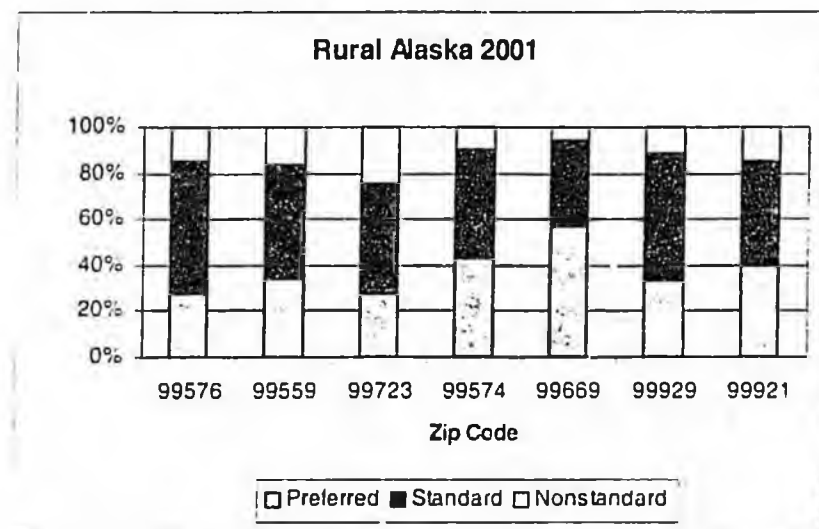
Table III contains data from rural Alaska. The policyholder distributions for rural Alaska are represented by some of the larger communities in various locations around the state: Dillingham (99576), Bethel (99559), Barrow(99723), Cordova (99574), Soldotna (99669), Wrangell (99929) and Craig (99921).

TABLE III

Zip Code	Median Income	% Caucasian	Preferred	Standard	Nonstandard
99576	\$53,484	37%	28%	57%	15%
99559	\$51,119	32%	34%	49%	16%
99723	\$80,257	31%	28%	48%	24%
99574	\$72,711	84%	43%	47%	10%
99669	\$57,981	94%	57%	37%	6%
99929	\$51,879	80%	33%	56%	11%
99921	\$53,766	76%	40%	46%	15%

With the exception of Soldotna, rural Alaska generally has higher percentages of nonstandard business and lower percentages of preferred business than either Fairbanks or Anchorage.

Figure III



For comparison purposes to see how the use of credit history may have impacted the overall Alaska market, the survey also asked for the policyholder distribution for the year prior to the first use of credit history in either rating or underwriting. Because this is a different year for each insurer, the data in the following tables is from various years between 1996 and 1999 depending on the year in which the insurer first used credit history. The reason for combining different years is to minimize the possibility of identifying individual insurer experience.

The insurers included in Tables IV – VI below are somewhat different from the insurers included in TABLES I – III above. Different groups of insurers are combined because some insurers did not include data from the earlier years in the survey. Any attempt to compare the distributions in Tables I – III with Tables IV – VI must be done with great caution as they do not include the same insurers or the same policyholders. In addition, other rating and underwriting factors have not remained static over the years. Therefore, the criteria used to determine if a consumer qualifies as preferred, standard or nonstandard business varies over the time period from 1996 – 2001 and are not restricted just to the implementation of credit history as a rating or underwriting factor.

Anchorage Prior to Use of Credit History

TABLE IV

Zip Code	Median Income	% Caucasian	Preferred	Standard	Nonstandard
99516	\$101,571	93%	65%	30%	5%
Group B	\$61,743 - \$69,275	83%-86%	55%	34%	11%
99504	\$55,095	80%	53%	35%	13%
Group C	\$41,048 - \$44,082	75%	49%	34%	17%
Group A	\$39,850	73%	47%	37%	16%

As is the case with the 2001 data, there is more nonstandard business and less preferred business in the lower income/ higher ethnic population zip codes. These zip codes also see a shift in the distribution of preferred and nonstandard business before and after insurers began using credit history, with a similar but smaller shift of business between markets in the highest income predominantly Caucasian zip code. Because of the limitations of the data supplied in the survey, no conclusion can be drawn to definitively conclude that the use of credit history is the reason that fewer policyholders are classified as nonstandard business in 2001 than before these insurers began using credit history.

Fairbanks Prior to Use of Credit History

TABLE V

Zip Code	Median Income	% Caucasian	Preferred	Standard	Nonstandard
99712	\$62,613	93%	58%	35%	7%
Group D	\$53,550	86%	44%	45%	11%
Group E	\$40,234	76%	46%	40%	14%

The Fairbanks data shows results similar to that of the Anchorage data. Even before insurers began using credit history for rating or underwriting policyholders, the higher income predominantly Caucasian zip codes have higher percentages of preferred business than the lower income zip codes while the lower income/higher percentage ethnic zip codes tend to have more nonstandard business than the higher income zip codes.

Rural Alaska Prior to Use of Credit History

TABLE VI

Zip Code	Median Income	% Caucasian	Preferred	Standard	Nonstandard
99576	\$53,484	37%	19%	58%	22%
99559	\$51,119	32%	19%	52%	29%
99723	\$80,257	31%	17%	48%	35%
99574	\$72,711	84%	20%	55%	24%
99669	\$57,981	94%	48%	39%	13%
99929	\$51,879	80%	12%	70%	18%
99921	\$53,766	76%	19%	44%	36%

In spite of the fact that the aggregate data in Tables I - III is not entirely comparable with the aggregate data in Tables IV - VI, there are similarities in the risk distribution for the year prior to the implementation of the use of credit history (Tables IV - VI) with the 2001 distributions (Tables I - III). In general, higher income/lower minority zip codes have more preferred business than lower income/ higher minority zip codes, while lower income/higher minority zip codes tend to have more nonstandard policyholders. However, there are also differences in the distributions

shown in Tables I – III and Tables IV - VI. The largest difference is in the nonstandard market where a smaller percentage of business is classified as nonstandard in 2001. The question that cannot be answered from the survey data is the extent to which the smaller percentage of policyholders that are classified as nonstandard business in 2001 than before the use of credit history is due to the use of credit history or to other factors.

This data does not conclusively demonstrate that using a consumer's credit history allows more individuals to be classified as preferred or standard. The data does appear to indicate that the use of a consumer's credit history is causing some shifts in market distribution between preferred, standard and nonstandard business.

Whether these results are due entirely to the use of credit history or some other underwriting/rating factor cannot be determined from the data received from this survey. Some additional factors that may be contributing to this shift in market distribution are:

- 1) All of these insurers varied their other underwriting and rating criteria between the time they first started using credit and 2001. Therefore, the distributions may well reflect other changes in the insurers operations in addition to credit history.
- 2) The data in the tables above does not account for the possibility that some consumers may not have received an offer of coverage, at least in part because of the consumer's credit history. These consumers may either be leaving the voluntary market to obtain coverage in the assigned risk plan,⁶ moving to the few remaining insurers that do not use credit history or going without insurance.
- 3) The data in Tables I – III is from a different group of insurers than the data in Tables IV – VI.

Insurers have stated that when they use credit history they are able to write more business and renew policies that they might otherwise non-renew. To test this claim, the change in the number of policyholders written between 1999 and 2001 by insurers that use credit history was calculated from information provided in the survey. In the aggregate, for those insurers whose data is included in the tables above, the number of policyholders increased by approximately 8% from 1999 to 2001. However, several of the insurers are writing less business in 2001 than they did in 1999. Individual company results ranged from a decrease of 20% to an increase of 67% in the amount of business written over this time period.

Additional study with more detailed data would be needed to draw more definitive conclusions. Because the apparent redistribution of policyholders between preferred, standard and nonstandard markets occurs during a time period in which insurers are using credit history, the changes in classification of business between preferred, standard and nonstandard business may be due, at least in part, to the use of credit history. However, the data collected in the survey is not adequate to clearly determine the extent to which these changes are the result of the use of credit history.

To evaluate the effect of the uses of credit history on age, the survey data was again aggregated into three groups of preferred, standard and nonstandard business. The 2001 distribution of policyholders by age and risk characteristics, as demonstrated by preferred, standard or nonstandard classification is shown in Table VII. This data indicates that older consumers are overall less likely to be placed in a nonstandard market than the youngest consumers. However, there is a trend for older consumers to move from the preferred market to the standard market and even nonstandard with increasing age. Whether this trend is due to the individual's credit history or other rating factors cannot be determined from the data available in the survey.

⁶ The personal auto assigned risk pool has been growing annually since 1999 when there were 651 new applicants to the pool. In 2002, the pool received 1,159 new applications.

TABLE VII

Age Group	Preferred	Standard	Nonstandard
15-20	4%	39%	57%
21-30	15%	57%	29%
31-40	33%	53%	14%
41-50	43%	48%	9%
51-60	43%	50%	7%
61-70	52%	44%	4%
71-80	38%	57%	5%
81-90	15%	75%	6%
91-100	6%	77%	17%

The survey data did not categorize marital status other than by married or single, so the Division was unable to evaluate the effect that unfavorable credit history resulting from a divorce might have on underwriting or rating of an insurance policy.

A narrative summary of the responses to the survey is attached as Appendix A.

Appendix B contains a more detailed summary of insurer responses to specific questions. Each question is followed by a summary of the responses to that question. Survey questions that required the insurer to include an attachment or to include policyholder distributions are left blank in Appendix B.

Recommendations and Conclusions

Recommendations

1. *Is correlation between credit history and loss potential sufficient support for the industry to be able to use a consumer's credit history or should the industry be required to also demonstrate causality?*

Correlation alone may not be sufficient support for use of insurance credit scoring with respect to an insurer's underwriting and rating practices. This is why with respect to rate filings the Division has required insurers to establish more than a simple statistical correlation. In addition to being required to show a strong statistical correlation, insurers have been required to show fairness and reasonableness in the underlying assumptions and the methodology for determining a consumer's insurance credit score. The Division also reviews the manner in which the insurance credit score is used in the overall rating plan to evaluate possible unfairly discriminatory impacts. Insurers have been asked to justify that their use of a consumer's credit history does not unfairly discriminate among urban vs. rural insureds or by age. Further, insurers must show that any differences among risks (such as insureds with different insurance credit scores) can be demonstrated to have a probable effect upon losses or expenses. AS 21.30.030(4).

"Causality" might be an appropriate standard depending on how that term is applied. Under the American Academy of Actuaries (Academy) Actuarial Standard of Practice "Concerning Risk Classification,"⁷ if "causality" means establishing a "cause-and-effect" relationship between a risk classification (in this case, a classification based on an insurance credit score) and loss, it should not be made a requirement for a risk classification system because "cause-and-effect" is often impossible or impractical to prove statistically. According to the Academy, "causality" is appropriate when it is applied in a less rigorous sense, such as when an insurer is required to establish a plausible or reasonable relationship between characteristics of a classification and loss. In this regard, risk characteristics should be neither obscure nor irrelevant to the protection provided.

⁷ American Academy of Actuaries, Actuarial Standards Board, Actuarial Standard of Practice No. 12 "Concerning Risk Classification", October 12, 1989.

“Causality” also has been described as “the actual or implied behavioral relationship between a particular rating factor or loss potential.” National Association of Insurance Commissioners (NAIC), *Report of the Rates and Rating Procedures Task Force of the Automobile Insurance Subcommittee, November, 1978* at 5-6, as quoted in *Hartford Accident and Indemnity Co. v. Insurance Commissioner*, 482 A.2d 542, 584 (Pa. 1984). As exemplified in the NAIC report, “the longer a vehicle is on the road, for example, the more likely it is that the vehicle may be involved in a random traffic accident; thus, daily and annual total mileage may be viewed a causal rating factor.”

The use of credit history for underwriting and rating insurance policies is controversial, in part, because studies that show a strong correlation between credit history and loss experience do not also establish a cause-and-effect relationship.⁸ To require insurers to meet the rigorous definition of causality, that there is a clear and direct cause-and-effect relationship between a person's credit history and insurance loss experience would be difficult, if not impossible, to meet. Thus, requiring a rigorous definition for causality could be tantamount to banning outright the use of credit history for underwriting and rating purposes.

2. *Are victims of identity theft further victimized by credit scoring?*

If the identity theft results in the consumer receiving a less favorable insurance credit score than the consumer would have received without the identity theft, and this results in higher insurance premiums, then the consumer is further victimized by the use of insurance credit scoring. A solution would be to prohibit the insurer from using any disputed credit history that results from the identity theft and rerating or reunderwriting all policies that may have used the incorrect information.

3. *Does it make sense for a consumer to be able to qualify for a home loan but not be able to qualify for homeowner's insurance coverage?*

It seems counterintuitive that a consumer could qualify for a home loan but not qualify for homeowners insurance coverage when the reason for the denial is based upon the consumer's credit history. The difficulty is that financial institutions and insurers use different models to calculate a consumer's credit score because they want to measure different characteristics of the consumer. Financial institutions want to know if the consumer will pay back the loan. Insurers want to know if the consumer will file a claim. Although each model relies on the consumer's credit history, the algorithms are not the same. Still, it does appear anomalous. This anomaly could be addressed by prohibiting an insurer from basing an underwriting decision on credit information.

4. *Why do otherwise similarly situated consumers sometimes pay dramatically different premiums?*

One of Alaska's rating standards requires that rates not be unfairly discriminatory. Therefore, otherwise similarly situated consumers that obtain insurance from the same company should pay the same premium. However, Alaska law does not require that all insurers charge the same rates. An insurer may choose to offer coverage to different segments of the market. Insurers that write nonstandard business will generally have higher rates than insurers that write preferred business.

For insurers that use insurance credit scoring, rates may differ among companies because insurers use different insurance credit scoring models. In addition, each insurer incorporates the insurance credit score in different ways in their underwriting criteria or rating plans, thus

⁸ American Academy of Actuaries Risk Classification Subcommittee of the Property/Casualty Products, Pricing, and Market Committee November 15, 2002 report on “The Use of Credit History For Personal Lines of Insurance: Report to the National Association of Insurance Commissioners” p. 6, 13 and 18

resulting in different premiums. Even though most insurers use credit history in conjunction with other underwriting and rating factors, the degree to which the final premium is dependent upon the consumer's credit history varies from consumer to consumer and from insurer to insurer. For a consumer who meets all other underwriting criteria for placement in the preferred tier or company except for the credit history requirement, the consumer's credit history may have significant weight for that particular consumer, depending on the insurer. For some consumers, their credit history may be the only factor that prevents them from receiving the best rate. Simply because an insurer uses underwriting factors in addition to the consumer's credit history does not mean that all factors carry the same weight in determining the final premium.

5. *If consumers and regulators do not know the rules of the credit scoring game, how can the interests of Alaskans be protected?*

If consumers do not understand how insurance credit scoring works or understand their rights, then they will not know how to determine if they are being treated fairly.

Many insurers provide educational material to their producers and the insurance buying public. However, 36% of the insurers responding to the survey do not have educational material, 52% do not explain the difference between an insurance credit score and a credit report, and 29% do not tell the consumer what attributes of his or her credit history contributes to an adverse action. An informed insurance buying public is better able to protect its interest. Insurers can assist by doing a better job of making the insurance credit scoring process more transparent to the insurance buying public. This would include making available materials that describe what criteria from the credit report are used in calculating an insurance credit score, explaining what types of behavior improve an insurance credit score and the types of behavior that negatively impact the insurance credit score. This information needs to be specific and based upon the credit history that served as the basis for the adverse action so that the consumer can apply it to his or her own situation.

The Division strives to protect Alaska's consumers by reviewing and analyzing the insurance credit scoring models used by insurers that propose to use insurance credit scoring in their rating plans. Some insurers have not provided this information to the Division because the developers of the insurance credit scoring models, insurers or third party vendors, do not want their models to become public information. They argue that being forced to disclose their models is a violation of their intellectual property or trade secret rights. Insurers that have not provided this information have had their filings disapproved. Making the insurance credit scoring models confidential would continue to allow the Division to review the models but it would limit the ability of consumers to get the same information to understand how their rates are determined and to know that they are being treated fairly. Requiring minimum standards for the models is a way to help protect the interests of Alaskan consumers.

Inaccurate credit history may result in an insurer assigning a higher rate to a consumer than would otherwise apply had the correct information been used. Inaccurate credit history may be due to the presence of inaccurate information as well as the absence of accurate information. Because correcting inaccurate credit history may sometimes take an extended period of time, one possible remedy for quickly reversing adverse actions would be for insurers to use credit history from all three of the major credit bureaus when the adverse action is the result of a disputed credit history. If there is a discrepancy between the credit history on file with the different credit bureaus, the credit history should not be used until the differences are reconciled. This would help to ensure that accurate information is used since information available from one credit bureau may differ from that at another credit bureau.

6. *Are there Fair Credit Reporting Act conflicts?*

The Fair Credit Reporting Act does not require insurers to get a consumer's permission to look at his or her credit history, but it does require insurers to notify consumers when adverse action is taken against the consumer and this action is based upon the consumer's credit history. Some insurers may not be providing adequate notice to consumers when adverse action is taken due to the consumer's credit history.

A representative from the Federal Trade Commission (FTC) addressed the Winter 2002 National Association of Insurance Commissioners meeting. He said the FTC took a very broad view of the definition of adverse action. Adverse action would include any action that results in a higher charge or less coverage to the consumer than if the credit history had been more favorable.⁹ Simply because an insurer says they are giving a discount to an insured based upon the insured's credit history does not mean the insurer is not taking adverse action against the consumer. In other words, if that discount does not result in the consumer receiving the best possible rate available from the insurer, but only an intermediate rate, the insurer may still be taking adverse action if the consumer would have received the best discount had the consumer's credit history been more favorable.

7. *When insurance companies outsource credit scoring are they able to adequately oversee the practice so that consumer interests are not at risk?*

Whether an insurer uses the services of a third party vendor or develops its own insurance credit scoring model, the insurer is ultimately responsible for the underwriting and rating systems that it uses. An insurer who uses a third party vendor may not rely upon the third party to ensure that the model meets the standards set out in Alaska law. When a consumer disputes credit history used by an insurer, the insurer sends the consumer to the credit reporting agency to resolve the dispute. This may be inconsistent with AS 21.39.090 that requires each insurer to provide a means for the consumer to be heard on the manner in which the rating system has been applied. One possible way in which the insurer can exercise more control over the practice would be to not include the use of disputed information, when the consumer can demonstrate that incorrect information has been used, and not wait until the incorrect information has been corrected by the credit bureau.

8. *Why is it that insurance producers split with insurance companies on the issue of credit scoring?*

Not all producers agree on the use of credit history, either among themselves or with the insurers that they represent. Insurance producers are on the front line with consumers. They are placed in a position of having to explain a very difficult, controversial subject about which they may have minimal understanding or information to share with their client. As an example, it is the producer that must explain to a consumer with clean loss history that he or she cannot get the best available rate because of the consumer's unfavorable credit history.

At the same time, because the use of credit history is such a wide spread practice, some producers, particularly those who may only be able to offer coverage with one or two insurers, have concerns about the availability of these markets if limitations are placed on how an insurer can rate a policy.

9. *Can the Division of Insurance ban the use of credit scoring in establishing rates?*

The Division can ban the use of credit scoring in establishing rates if it is found to result in rates that are inadequate, excessive or unfairly discriminatory. For insurance credit scoring, the most critical issue is does it result in rates that are unfairly discriminatory. None of the models the Division has reviewed include income, location, race, religion or disability to calculate an insurance credit score.

⁹ Federal Trade Commission Stires-Ball staff opinion letter, March 1, 2000.

No study to date has adequately answered the question of whether the use of credit history results in rates that are higher, or lower, on average for a protected class of consumers or for consumers with lower incomes. In addition, the Alaska survey data does not identify whether the use of credit history acts in an unfairly discriminatory manner on individual policyholders. The information obtained in the Alaska survey suggests that it may have an impact, but the extent of the impact could not be determined from the information received in the survey.

AS 21.39.030(4) allows insurers to group risks by classifications for purposes of determining rates. The statute states that acceptable standards for measuring variations in hazards are those that can demonstrate they have a probable effect upon losses.

Based on information gathered to date, the Division cannot make a determination to impose an outright ban on the use of credit history. Without such a determination, legislative action would be needed to ban the use of insurance credit scoring in determining rates. Such action should also consider the implications of a ban related to the use of credit history in underwriting. Companion statutory changes would be needed in AS 21.36.

10. Can the director of the Division of Insurance use his rulemaking authority to find that the use of credit scoring in the underwriting process is an unfair trade practice?

The director might be able to use the Division's rulemaking authority under AS 21.36.150(d) to find that the use of credit scoring in the underwriting process is an unfair trade practice.

Conclusion

Based on the limited data received and evaluated so far, insurance credit scoring in Alaska appears to have different effects on different groups of Alaskan insurance consumers. In the aggregate, consumers that reside in higher income/high percentage Caucasian zip codes may be less impacted by the use of the consumer's credit history. It is premature to determine whether the policyholder distribution between preferred, standard and nonstandard markets is due primarily to credit history or to other underwriting and rating factors. However, the limited data does suggest that unequal effects exist on consumers with varying income and ethnic characteristics.

APPENDIX A

SUMMARY OF CREDIT SURVEY RESPONSES BY PERSONAL AUTOMOBILE AND HOMEOWNERS INSURANCE COMPANIES IN ALASKA

In August 2002, the Alaska Division of Insurance sent a survey entitled ALASKA DIVISION OF INSURANCE – INVESTIGATION ON THE USE OF CREDIT SCORES, INSURANCE SCORES, OR CREDIT HISTORY IN INSURANCE RATING AND UNDERWRITING to the 97 companies that provide personal automobile and homeowners coverage in Alaska. The survey is part of an effort by the Division to determine how a consumer's credit history is used in personal insurance. Companies were asked to respond with a completed survey for each line of business for which a consumer's credit history is considered.

To date, 91 companies, 94% of those contacted, have responded. Of these 27 were from companies that no longer write business in Alaska and, therefore, did not complete the survey. This summary is based on the remaining 64 company responses from active insurers. Because some companies responded for both automobile and homeowners insurance, a total of 79 survey responses were evaluated. The Division asked each individual insurer to respond to the survey rather than each insurer group. Therefore, the number of insurers indicating that they use credit history for rating purposes differs from the number of filings that have been submitted to the Division. Affiliated insurance companies, insurers in the same insurer group, frequently submit a combined rate filing.

The following definitions were used in the survey:

Credit score - A number developed from financial information using a statistical model. This term also includes an insurance score.

Credit information - Financial information such as bankruptcies and tax liens, but no conversion is made to a numerical score.

Credit history - Credit information and credit scoring

Of the 64 active personal auto or homeowners insurers who responded, 37 (58%) obtain a consumer's credit history. Of these 37 insurers, 22 companies use credit history for underwriting, 10 companies for rating, and 5 companies use it for both. At the time the survey responses were due, four companies had rate filings which proposed the use of credit history under review with the Division. Five other insurers indicated that they plan to begin using credit history within the next twelve months.

Underwriting decisions based on credit history, decisions that determine if a company will accept a risk, are made at the time a consumer seeks a premium quotation, at the time the application is considered for approval, or upon renewal of a policy. Some insurers will not provide a quote to a consumer who has an unfavorable credit history. Some insurers will base a decision to not renew a policy on the consumer's unfavorable credit history in combination with a risk-related factor such as claims history. The definition of unfavorable credit history, which marks an insured as a poor risk, can vary from insurer to insurer, with some insurers considering only a recent bankruptcy while other insurers consider an insurance credit score that is based upon an assortment of credit-related factors.

Rating decisions based on credit history are decisions that determine the price paid for coverage and are made at the time of application or at renewal. Some insurers automatically reevaluate the policyholder's credit history at renewal to ensure that the policyholder is placed in the correct market or tier. Other insurers only use credit history for new business, but will review the consumer's credit

history at the consumer's request to determine if a lower rate may be charged due to improved credit history.

Although insurance companies first began using consumer credit information in 1989, credit scoring was not implemented until 1994. Initially, companies considered the consumer's history of bankruptcy or judgments as part of a larger component that might be referred to as financial responsibility, financial stability, or personal responsibility. Other factors considered in this component were such things as home ownership, length of time at residence, or length of time with employer. By 1994 many companies had replaced this component with the numerical insurance credit score. The majority of companies use credit history for personal auto and homeowners coverage, but a few companies consider it for other types of personal insurance, such as boat owners, motorcycle, condominium owners, renters, and farm insurance.

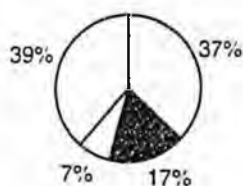
Of the companies using insurance credit scoring, 86% use a third-party vendor to provide their model. The companies are almost evenly split between the use of Choicepoint (53%) and Fair, Isaac & Company, Inc. (47%). Many of the companies were either unaware of the details of the model used by their vendor or referred the Division to the vendor for details.

While information regarding the use of credit history was requested for underwriting, rating, solicitation, and company placement, six companies also disclosed its use in the policy reinstatement process. Credit history is not used by any of the companies to deny a claim or determine the amount of a claim payment. Two companies use credit history to determine a consumer's payment options.

Automobile Insurance

The highly competitive personal automobile insurance market appears to be the area where a consumer's credit history is most often considered. Of the 54 active automobile insurers who responded to the survey, 33 companies use credit history. Twenty companies use it for underwriting, 9 companies for rating, and by 4 companies for both underwriting and rating.

How Personal Auto Insurers Use
Credit History

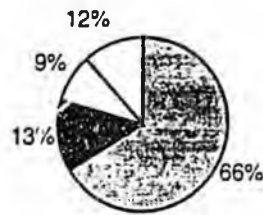


□ Underwriting ■ Rating □ Both □ Neither

While there are many insurers that do not use credit history for either rating or underwriting personal automobile insurance, these insurers comprise only approximately 12% of the market share. The ability of a consumer to obtain personal automobile coverage from one of these insurers may be limited.

Based on 2001 liability written premium market share, 66% of the market uses credit history in underwriting, 13% of the market uses credit history in rating, 9% of the market uses credit history for both rating and underwriting and 12% of the market does not use credit history.

**Use of Credit History By
Personal Auto Market Share**



□ Underwriting ■ Rating □ Both □ Neither

Eight-two percent of these companies write preferred business, 73% write standard, and 61% write non-standard or high risk. Insurers may provide coverage for these different groups by placing them in separate affiliated companies, by placing these different types of risk in one company through the use of tiers, or by using a combination of the two methods. A tier structure is used by 70% of the companies, but only 33% used this structure prior to the use of credit history. A multiple company structure is used by 73% of the companies and the use of credit history prompted no change in the use of this structure.

Only 42% of the companies provide guidelines to their producers and underwriters on the use of insurance credit scores. Generally, those insurers that do not provide guidelines on the use of credit history use an automated underwriting process and there is minimal review needed by the producer or underwriter to determine if an applicant will be offered coverage.

Consumer education is undertaken by some companies by providing educational material on the use of credit information (64%), by providing an explanation of the difference between a credit report and credit score (42%), or by providing a summary of the Fair Credit Reporting Act (48%). When questions or disputes arise regarding credit history, consumers are directed to the credit bureau (64%) or to Choicepoint (17%).

Underwriting

The Division recently has suggested to insurers that want to use credit history in underwriting to adhere to certain minimum standards. These minimum standards were developed from testimony provided to the legislature during the 2002 legislative session. The following provides a brief description of how the market currently addresses these standards.

1. The insurer should obtain the insured's permission to use credit information.

Some insurers notify the consumer that his or her credit history will be used in the underwriting or rating decision and others do not. The use of credit history is mandatory for 79% of the companies. Of those companies for which the use of credit history is mandatory, 9% will not provide a quote without credit history. If the applicant does not want his or her credit history to be used, 15% of the insurers will use all other relevant information to underwrite the policy and 7% will assign an intermediate tier or rate. The remaining insurers will either attempt to order the applicant's credit history anyway or provide a quote but not issue the policy until the credit history is obtained.

2. *The policy should not be nonrenewed in whole or in part based on credit information.*

Eighteen percent of the insurers use credit history as the sole criteria in underwriting or rating decisions. The other insurers use credit history in combination with other rating or underwriting factors.

Some insurers use credit history to retain a policyholder that they might otherwise non-renew because of loss experience if the insured's credit history is favorable suggesting that the likelihood of loss is low.

3. *An insurer should not deny coverage in whole or in part on the absence of credit history or the inability to determine credit history if the insurer has received accurate and complete information.*

Ten percent of the companies would not issue a policy if an applicant's credit history could not be determined.

4. *An insurer should not deny coverage based on the number of inquiries, medical information, particular type of credit card, or total line of credit.*

Due to contractual agreements with the vendors, all companies did not submit information regarding the models used by third party vendors. Because the information was not provided in the survey and the fact that the Division does not use a prior approval approach with underwriting factors, we are unable to determine the extent to which insurers may be in compliance with these standards.

Rating

The Division recently began asking insurers submitting rate filings that propose to use credit history in the rating plan to adhere to certain minimum standards. These standards were also developed from testimony before the legislature in the 2002 session. The following provides a brief description of how the market currently addresses these standards.

1. *An insurer should not impose a surcharge based on the absence of credit history or inability to determine the consumer's credit history.*

Although no company reported that a policy would be surcharged due to the absence of credit history or inability to determine credit history, three companies would not issue a policy and three companies would assign the worst possible credit score. Four insurers consider this situation as slightly unfavorable, three assign an average score which is eligible for all tiers, and one insurer ignores this factor by assigning a tier based on all other factors.

2. *An insurer should not use the number of inquiries, medical information, particular type of credit card, or total line of credit in determining an insured's credit score.*

Two insurers have revised their rating plans to use an insurance credit-scoring model that complies with these standards. Another filing is currently under review by the Division.

3. *If a policy is rated using disputed credit history, the insurer should re-rate the policy retroactive to the effective date of the policy if the consumer resolves the dispute under the Fair Credit Reporting Act process and notifies the insurer that the dispute has been resolved.*

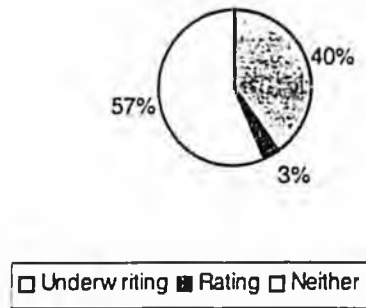
When corrected information is received, 10 of the insurers will apply the corrected information to all affected policies, 6 will apply the corrected information to the current policy only and 8 will only apply the corrected information if it results in lower rates for the

insured. Five of the companies will apply the corrected information to the current policy term plus the prior term.

Homeowners Insurance

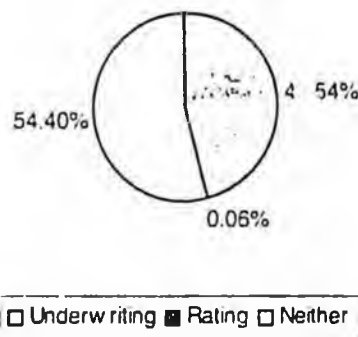
Of the 30 active homeowners insurers who responded to the survey, 13 (48%) use credit history. Credit history is used by 12 companies for underwriting and by 1 company for rating.

How Homeowners Insurers Use Credit History



The insurers that do not use credit history for either rating or underwriting comprise approximately 54% of the market share.

Use of Credit History By Homeowners Market Share



Ninety-one percent of these companies write preferred business, 91% write standard, and 45% write nonstandard or high risk. Insurers may provide coverage for these different groups by placing them in separate affiliated companies, by placing these different types of risk in one company through the use of tiers, or by using a combination of the two methods. A tier structure is used by 27% of the companies, but only 18% used this structure prior to using credit history. A multiple company structure is used by 64% of the companies and the use of credit history prompted no change in the use of this structure.

Only 64% of the companies provide guidelines to their producers and underwriters on the use of credit scores. Generally, those insurers that do not provide guidelines on the use of credit history use an automated underwriting process and there is minimal review needed by the producer or underwriter to determine if an applicant will be offered coverage.

Consumer education is undertaken by some companies by providing educational material on the use of credit information (73%), by providing an explanation of the difference between a credit report and a credit score (67%), or by providing a summary of the Fair Credit Reporting Act (45%). When questions or disputes arise regarding credit history, consumers are directed to the credit bureau (45%), Choicepoint (27%), or the Division of Insurance (9%).

Underwriting

The Division recently has suggested to insurers that want to use credit history in underwriting to adhere to certain minimum standards. These standards were developed from testimony before the legislature in the 2002 session. The following provides a brief description of how the market currently addresses these standards.

1. The insurer should obtain the insureds permission to use credit information.

The use of credit history is mandatory for all the companies surveyed. If an applicant or insured does not wish to have this information used, 36% of the companies will attempt to order it anyway.

2. The policy should not be nonrenewed in whole or in part based on credit information.

Seven percent of the insurers use credit history as the sole criteria in underwriting decisions, but no insurer uses credit history as the sole criteria in rating decisions. Some insurers use credit history to retain a policyholder that they might otherwise non-renew because of less experience if the insured's credit history is favorable, suggesting that the likelihood for loss is low.

3. An insurer should not deny coverage in whole or in part on the absence of credit history or the inability to determine credit history if the insurer has received accurate and complete information.

Nine percent of the companies would not issue a policy if an applicant's credit history could not be determined.

4. An insurer should not deny coverage based on the number of inquiries, medical information, particular type of credit card, or total line of credit.

Due to contractual agreements with the vendors, all companies did not submit information regarding the models used by third party vendors. Because the information was not provided in the survey and the fact that the Division does not use a prior approval approach with underwriting factors, we are unable to determine the extent to which insurers may be in compliance with these standards.

Rating

Based on testimony before the 2002 legislative session, the Division recently began asking companies submitting rate filings that propose to use credit history in the rating plan to adhere to certain minimum standards.

1. *An insurer should not impose a surcharge based on the absence of credit history or inability to determine the consumer's credit history.*

Although no company reported that a policy would be surcharged due to the absence of credit history or inability to determine credit history, two companies would place coverage in an affiliated company. Two insurers will assign an average score which is eligible for all tiers, one insurer will assign an intermediate rate or tier, and one insurer will assign the best rate or tier.

2. *An insurer should not use the number of inquiries, medical information, particular type of credit card, or total line of credit in determining an insured's credit score.*

Two filings are currently under review. The insurance scoring model in each of these filings complies with these standards.

3. *If a policy is rated using disputed credit history, the insurer should re-rate the policy retroactive to the effective date of the policy if the consumer resolves the dispute under the Fair Credit Reporting Act process and notifies the insurer that the dispute has been resolved.*

When corrected information is received 4 of the companies will apply the corrected information to all affected policies, while 2 insurers will only apply the corrected information if it results in lower rates for the insured. None of the companies apply the corrected information to the current policy term only, but one of the companies will apply the information to the current policy term plus the prior term.

APPENDIX B

**ALASKA DIVISION OF INSURANCE
INVESTIGATION ON THE USE OF CREDIT SCORES, INSURANCE SCORES, OR
CREDIT HISTORY IN INSURANCE RATING AND UNDERWRITING**

This survey should be completed for each company and for each line of business that uses a consumer's credit history for rating or underwriting insurance products. For example, if a company uses credit history in both homeowners and personal auto insurance, complete two surveys, one for homeowners and one for auto.

You may include attachments if you need additional room to respond to the questions in the survey. All attachments should clearly display the survey question number, line of business and company name.

Please return completed surveys no later than September 30, 2002.

Line of Business _____

Company Name

Address

NAIC Group and Company Number

Name of Individual Completing Survey

Title

Signature

Telephone

Fax

E-mail

Fifty-two of the 79 survey responses are for personal auto business and 27 insurers submitted responses for homeowners business. The total responses for many of the questions may not equal the number of insurers who responded to the survey since many questions required that the insurer provide multiple answers and some insurers did not answer all questions. In addition, insurers that do not use credit history responded to only the first three questions. Responses reflect the companies' practices as of September 30, 2002.

In the following questions, credit score includes an insurance score, i.e., a number that is developed from financial information using a model. Credit information means the consideration of financial information, such as bankruptcies, tax liens, etc., that is not converted to a numerical score. Credit history includes both credit scoring and credit information.

1. Does your company use credit scores in:

Auto			
Underwriting	<u>12</u>	Yes	<u>35</u> No
Rating	<u>15</u>	Yes	<u>32</u> No
Solicitation	<u>12</u>	Yes	<u>39</u> No
Company placement	<u>21</u>	Yes	<u>30</u> No
Homeowners			
Underwriting	<u>4</u>	Yes	<u>22</u> No
Rating	<u>1</u>	Yes	<u>26</u> No
Solicitation	<u>1</u>	Yes	<u>25</u> No
Company placement	<u>4</u>	Yes	<u>22</u> No

2. Does your company use credit information in:

Auto			
Underwriting	<u>6</u>	Yes	<u>45</u> No
Rating	<u>2</u>	Yes	<u>49</u> No
Solicitation	<u>0</u>	Yes	<u>51</u> No
Company placement	<u>2</u>	Yes	<u>49</u> No
Homeowners			
Underwriting	<u>6</u>	Yes	<u>21</u> No
Rating	<u>0</u>	Yes	<u>27</u> No
Solicitation	<u>0</u>	Yes	<u>27</u> No
Company placement	<u>2</u>	Yes	<u>25</u> No

Note: If credit history is used as placement criteria in one of multiple affiliated companies, this would be included in company placement. If credit history is used as eligibility criteria for placement in a tier within one company, this would be included in rating. Solicitation includes direct writers and others who mail offers, or use other means to send advertising, to selected consumers based upon their credit history.

3. a) If you are not currently using credit scoring or credit information, do you plan to begin using it in the next 12 months?
 _____ Yes _____ No
- b) If your answer to a) is yes, are you considering its use in underwriting, rating, company placement, or solicitation and for what lines of business?
-

Three auto insurers plan to begin using credit history in underwriting in the next 12 months. Three homeowners insurers have rate filings pending approval from the Division. One homeowner insurer plans to begin using credit history in underwriting in the next 12 months.

If you answered yes to any part in questions #1, #2, or #3 continue with the following questions. Otherwise, sign the survey and return it to the Alaska Division of Insurance.

4. What lines of business use credit scoring or credit information for:

Underwriting: Personal auto, homeowners, boatowners, motorcycle, recreational vehicle, renter, condo, mobilehome, farm, landlord, residential fire, personal liability

Rating: Personal auto, motorcycle, homeowners

Solicitation: Personal auto, homeowners

Company placement: Personal auto, homeowners, renter

5. What type of business does your company write?

Auto
 27 Preferred
 24 Standard
 20 Non-standard (high-risk)
 Other (please specify) _____

Homeowners
 11 Preferred
 11 Standard
 5 Non-standard (high-risk)
 Other (please specify) _____

6. When did you first begin using credit scoring or credit information?

The first use of credit history in Alaska occurred in 1989 with two insurers using credit information. Insurance credit scoring was first used in 1994. Over the years more companies have continued to use credit history in underwriting or rating.

7. Is a credit score or credit information used as the sole criteria in decisions affecting a consumer? (Sole criteria means that if a consumer's credit score does not meet a certain threshold, or the consumer's credit information does not meet a specified standard, the consumer will be adversely affected. Other mitigating factors are not taken into consideration.)

Auto				
Underwriting	<u>3</u>	Yes	<u>31</u>	No
Rating	<u>2</u>	Yes	<u>29</u>	No
Solicitation	<u>0</u>	Yes	<u>35</u>	No
Company placement	<u>4</u>	Yes	<u>22</u>	No

Homeowners			
Underwriting	<u>4</u>	Yes	<u>10</u> No
Rating	<u>0</u>	Yes	<u>13</u> No
Solicitation	<u>0</u>	Yes	<u>14</u> No
Company placement	<u>2</u>	Yes	<u>11</u> No

8. If credit history is not used as the sole criteria in rating or underwriting decisions, how much weight is it given? What other factors are considered in addition to credit history?

<u>Auto Weight</u>	<u>Number of Insurers</u>
50%	1
33%	4
1 of 3 factors used in combination*	1

*The weight is difficult to determine because the contribution of the credit component varies from policy to policy.

Examples of other underwriting factors used in conjunction with credit history for auto coverage:

- Prior liability limits
- Number of days lapse in coverage
- Existence (or non-existence) of prior insurance coverage
- Drivers age
- Accident and conviction record
- Number of miles driven
- Type of vehicle (age, make, model)
- The insurance limit and deductible selected for purchase
- Drivers occupation
- Losses
- Driving experience

Homeowners:

For homeowners, none of the respondents estimated the weight given to credit history. One insurer noted that credit history could be the sole reason to decline an applicant, but there are other underwriting standards for which they could also decline an applicant, such as prior losses, type of construction or property that does not comply with building codes.

Examples of other underwriting factors used in conjunction with credit history for homeowners coverage:

- Loss history
- Prior insurance coverage
- Age of home
- Fire protection class

CREDIT SCORING MODEL

9. Does your company use a credit-scoring model developed by a third party vendor or is the model developed in house?

Twelve auto insurers and four homeowners insurers develop their own insurance credit scoring model. Twenty-three auto insurers and 9 homeowners insurers use a model developed by a third party vendor. Three insurers develop a proprietary model in conjunction with a third party vendor.

10. If you use a third party vendor, who developed the model used by your company.

Auto

12 ChoicePoint

11 Fair, Isaac & Company, Inc.

Homeowners

5 ChoicePoint

4 Fair, Isaac & Company

11. If you use a third party vendor, identify the specific model.

12. Whether you use an in-house model or a third party vendor model, attach a list of all criteria that are included in the calculation of the credit score.

The criteria used in an insurance credit-scoring model vary by the particular model. The following credit attributes are some typical criteria used:

- Number of non-insurance inquiries
- Number of derogatory public records such as bankruptcies, judgments or tax liens
- Length of time since accounts were established
- Age of oldest trade (installment loan or revolving account)
- Number of trades paid on time
- Number of months since most recent charge off (attempt by a creditor to collect)
- Total number of non-closed auto loan trades
- Number of months a trade is overdue
- Number of inquiries for transactions initiated by consumer in last 6 months
- Total of balances on accounts
- Length of time accounts have been established
- Percent of accounts paid as agreed in last 24 months to total accounts
- Number of accounts opened in the last 12 months

13. Attach statistical support that demonstrates the relationship of each criteria used in the model to an insured's loss experience and that supports its inclusion in the model algorithm.
14. Attach statistical support that demonstrates the overall validity of the model and that it is an accurate predictor of loss experience. This support should include multi-variate analysis, or other appropriate statistical validation, not just loss ratios.

15. List any credit information that is not used in the model.

The credit attributes that are not used also vary by the particular model. Some models do not use the following items (but other models may use these items):

- Non-consumer initiated inquiries
- Multiple inquiries in a 30-day period for auto loans or mortgages
- Net worth
- Disputed items
- Items identified as medical
- The number or type of accounts
- Total balance or limits

UNDERWRITING

16. a) How many years of credit history affect underwriting or rating, either for inclusion in the credit scoring model or for other uses?

_____ 1 year

_____ 3 years

_____ 7 years

_____ 10 years

_____ Other (please specify) _____

- b) If the length of time depends on the type of information, include an explanation.

The number of years of credit history that affects underwriting or rating generally varies by type of information. Most insurers use all data that is available from the credit bureau. This includes adverse public records for 7 years and Chapter 7 bankruptcies for 10 years. Some insurers use inquiry information up to 24 months and others use it only for 6 months. Some insurers use only 5 years of credit history while others use 5 years only for bankruptcy, judgments, liens and foreclosures.

17. Does your company provide written guidelines to all your underwriters describing when credit history is to be requested and how it is to be used and evaluated?

Auto

- a) 14 Yes 17 No

Homeowners

- a) 9 Yes 6 No

- b) If yes, please provide a copy.

- c) If no, how do you ensure compliance with underwriting guidelines?

Those that do not have written guidelines generally have automated systems that do not allow for underwriter intervention.

18. Does your company provide written guidelines to all your producers describing when credit history is to be requested and how it is to be used and evaluated?

Auto

- a) 16 Yes 9 No

Homeowners

- a) 14 Yes 5 No

- b) If yes, please provide a copy.

c) If no, how do you ensure compliance with company requirements?

Those that do not have written guidelines generally have automated systems that do not allow for producer intervention. Some insurers are direct writers and do not sell insurance coverage through a producer.

19. a) Do you periodically re-underwrite or re-rate your insureds to determine if there have been any changes in their credit history that would give them a different rate or place them in a different company or tier?

Auto 7 Yes 26 No

Homeowners 2 Yes 11 No

b) How often do you re-underwrite or re-rate your insureds?

Auto

6 Only at the insured's request

2 Only at the producer's request

2 Automatically at each annual renewal

4 Automatically every two years

0 Only if credit worsens

0 Only if credit improves

0 Based on loss experience

____ Other (please specify)

2 When requested by insured after correction to credit report

3 New business and first three renewals

Homeowners

0 Only at the producer's request

0 Automatically at each annual renewal

0 Automatically every two years

0 Only if credit worsens

0 Only if credit improves

3 Based on loss experience

____ Other (please specify)

1 When requested by insured after correction to credit report

2 New business and first renewal only

20. Explain how you use credit history in your underwriting process.

Credit history is used in the underwriting process in various ways by different insurers. The following are some of the ways in which it is used:

- **Credit history is combined with traditional underwriting factors. Individuals with excellent credit history may be placed in a lower priced market than if traditional underwriting factors were used alone. Individuals with less than excellent credit are placed in a market based on the traditional underwriting factors, but those with the poorest credit cannot qualify for the preferred market.**

- Credit history is used in conjunction with other factors such as driving record and prior insurance. Individuals with unsatisfactory credit history are not offered coverage unless their poor credit is due to extraordinary medical circumstances.
- Credit history is used only for new business company placement. Some insurers may deny coverage if the consumer's insurance credit score is below the insurers' acceptable threshold.
- Some insurers consider only detrimental credit occurrences such as bankruptcy and foreclosures.
- Some insurers use credit history only when the consumer has had prior non-catastrophe or non-weather related losses within a certain number of years.

21. Do you use the same underwriting or rating criteria for your renewal business as for your new business? _____ Yes _____ No
Describe any differences.

Most insurers do not use the same underwriting or rating criteria for new and renewal business. Ten auto insurers use the same criteria for new and renewal business but only one homeowners insurer uses the same criteria. Sixteen auto and 11 homeowners insurers use different underwriting or rating criteria for new versus renewal business. This is primarily due to the fact that most insurers use credit history for market placement only on new business. Other insurers use different new and renewal underwriting or rating criteria for the following reasons:

- Policies that may otherwise not be renewed may be renewed if the insured's credit history suggests that the likelihood of loss is low
- When factors other than credit, such as the number of losses, force a re-evaluation of the risk, the new business and renewal underwriting criteria are the same
- Credit history is not used after the second anniversary

22. Attach an exhibit showing the number of policyholders, by year since the implementation of credit history, who received a different rate or different tier placement due to re-evaluation of credit information or credit score. This exhibit should indicate whether the insured received a higher rate or a lower rate, the tier or company placement change, and the amount of the rate change, due to a change in their credit history.

TIER STRUCTURE

23. Do you currently use a tier structure?

A tier rating structure is more prevalent among auto insurers than among homeowners insurers. Twenty-three auto insurers and three homeowners insurers use a tier structure. Twelve auto insurers and 12 homeowners insurers do not use a tier structure.

24. Did your company use a tier structure prior to the use of credit information or credit scoring?

Auto insurers that did not use a tier structure prior to the use of credit history were more likely to use a tier structure after they began using credit history than were homeowners insurers. Eleven auto insurers used a tier structure prior to using credit history and 25 did not. Only two homeowners insurers used a tier structure prior to using credit history and 11 did not.

25. Attach an exhibit describing the tier eligibility criteria prior to the use of credit history and the current eligibility criteria after the use of credit history. If you made any changes to these criteria, please give all intermediate criteria and the date on which the revisions took effect.
26. Attach an exhibit showing the number and distribution of policyholders in each tier by year since the implementation of credit history. If your company used a tier structure prior to the

use of credit information or credit scoring, also include a distribution of policyholders by tier for the year preceding the implementation of credit scores or credit information.

27. a) Attach an exhibit showing the number and distribution of policyholders by zip code and tier for each year since the implementation of credit history. If your company used a tier structure prior to the use of credit information or credit scoring, also include the year preceding the implementation of credit scores or credit information.
b) Attach similar exhibits for policyholders that were non-renewed and for declinations.
28. a) Attach an exhibit showing the number and distribution of policyholders by age and tier for each year since the implementation of credit history. If your company used a tier structure prior to the use of credit information or credit scoring, also include the year preceding the implementation of credit scores or credit information.
b) Attach similar exhibits for policyholders that were non-renewed and for declinations.
29. a) Attach an exhibit showing the number and distribution of policyholders by marital status and tier for each year since the implementation of credit history. If your company used a tier structure prior to the use of credit information or credit scoring, also include the year preceding the implementation of credit scores or credit information.
b) Attach similar exhibits for policyholders that were non-renewed and for declinations.
30. a) Attach an exhibit showing the number and distribution of policyholders by sex and tier for each year since the implementation of credit history. If your company used a tier structure prior to the use of credit information or credit scoring, also include the year preceding the implementation of credit scores or credit information.
b) Attach similar exhibits for policyholders that were non-renewed and for declinations.

MULTIPLE COMPANY STRUCTURE

31. Do you currently use multiple companies that are preferred, standard and non-standard (multiple company structure)?

A multiple company structure is used equally by auto and homeowners insurers. Twenty-four auto insurers use a multiple company structure and 12 do not. Seven homeowners insurers use a multiple company structure and 8 do not.

32. Did your companies also use this structure prior to the use of credit information or credit scoring?

Prior to the use of credit history, 24 auto insurers used a multiple company structure while 5 homeowners insurers used a multiple company structure.

33. Attach an exhibit describing the underwriting criteria for each company prior to the use of credit history and the current criteria including the use of credit history. If you made any changes to these criteria, please give all intermediate criteria and the date on which the revisions took effect.
34. Attach an exhibit showing the number and distribution of policyholders in each company by year beginning with the year prior to the implementation of the use of credit scoring or credit information.

35. a) Attach an exhibit showing the number and distribution of policyholders by zip code and company for each year beginning with the year prior to the implementation of the use of credit scoring or credit information.
- b) Attach similar exhibits for policyholders that were non-renewed and for declinations.
36. a) Attach an exhibit showing the number and distribution of policyholders by age and company for each year since the implementation of credit history. If your company used a multiple company structure prior to the use of credit information or credit scoring, also include the year preceding the implementation of credit scoring or credit information.
- b) Attach similar exhibits for policyholders that were non-renewed and for declinations.
37. a) Attach an exhibit showing the number and distribution of policyholders by marital status and company for each year since the implementation of credit history. If your company used a multiple company structure prior to the use of credit information or credit scoring, also include the year preceding the implementation of credit scoring or credit information.
- b) Attach similar exhibits for policyholders that were non-renewed and for declinations.
38. a) Attach an exhibit showing the number and distribution of policyholders by sex and company for each year since the implementation of credit history. If your company used a multiple company structure prior to the use of credit information or credit scoring, also include the year preceding the implementation of credit scoring or credit information.
- b) Attach similar exhibits for policyholders that were non-renewed and for declinations.

DISCLOSURE

39. If adverse action is taken against a consumer because of credit history, how is the consumer notified of the adverse action?

Auto

- 7 Verbally by the producer
9 In writing by the producer
0 Verbally by the insurer
29 In writing by the insurer

Homeowners

- 3 Verbally by the producer
6 In writing by the producer
0 Verbally by the insurer
11 In writing by the insurer

40. If adverse action is taken against a consumer because of credit history, how often is the consumer notified of the adverse action?

Auto

- 15 Only at policy inception
7 Every renewal
 _____ Other (please specify)
12 Whenever the adverse action is taken

Homeowners

- 6 Only at policy inception
- 0 Every renewal
- Other (please specify)
- 6 **Whenever the adverse action is taken**
- 1 **At declination**

41. Adverse action is defined as: (indicate all that apply)

Auto

- 2 Consumer is non-renewed
- 15 Consumer is not issued a policy
- 2 Consumer is cancelled
- 15 Consumer is not quoted a premium
- 2 Consumer is provided limited coverage
- 2 Consumer is given a surcharge
- 5 Consumer is not given a discount
- 15 Consumer is not given the best rate
- 8 Consumer is not placed in a preferred company
- 8 Consumer is not placed in a standard company
- 13 Consumer is not placed in a preferred tier
- 11 Consumer is not placed in a standard tier
- Other (please specify)
- 9 **Consumer is placed in a higher rated tier or company due to credit history**

Homeowners

- 2 Consumer is non-renewed
- 11 Consumer is not issued a policy
- 3 Consumer is cancelled
- 7 Consumer is not quoted a premium
- 3 Consumer is provided limited coverage
- 2 Consumer is given a surcharge
- 2 Consumer is not given a discount
- 5 Consumer is not given the best rate
- 4 Consumer is not placed in a preferred company
- 4 Consumer is not placed in a standard company
- 4 Consumer is not placed in a preferred tier
- 4 Consumer is not placed in a standard tier
- Other (please specify)
- 1 **Consumer is placed in a higher rated tier or company due to credit history**

42. If adverse action is taken against a consumer, are they told what attributes of their credit history contributed to the adverse action?

Twenty-one auto insurers and 13 homeowners insurers tell the consumer what attributes of the consumer's credit history contributed to the adverse action. Twelve auto insurers and 2 homeowners insurers do not. Most of the insurers indicated that this information is provided upon request by the insured.

43. When a consumer receives a premium increase, is the amount of the increase due to credit history or a change in credit score or credit information disclosed to the consumer?

No insurer discloses to a consumer the amount of a premium increase due to credit history.

44. Does your company provide educational material to your insureds on the use of credit scores or credit information in insurance rating and underwriting?

Auto
a) 21 Yes 14 No

Homeowners
a) 8 Yes 5 No

b) If your answer to a) is yes, describe the educational activities you use and attach any printed material you distribute.

c) Do you explain the difference between a credit report and a credit score?

Auto
14 Yes 19 No

Homeowners
8 Yes 5 No

45. Do you provide consumers with a summary of the Fair Credit Reporting Act?

Auto
16 Yes 17 No

Homeowners
7 Yes 7 No

46. Does your company provide information to consumers to assist them in making inquiries or complaints regarding the use of credit information?

Auto
a) 28 Yes 7 No
b) If yes, contact information is provided for:
0 Alaska Division of Insurance
0 Federal Trade Commission
21 Credit Bureau
 Other
1 Insurance company
7 ChoicePoint
1 Transunion National Disclosure Center

Homeowners
a) 10 Yes 4 No
b) If yes, contact information is provided for:
1 Alaska Division of Insurance
0 Federal Trade Commission
6 Credit Bureau
 Other
1 Insurance company
4 ChoicePoint

INCORRECT INFORMATION

47. a) Describe the procedures used by your company when a consumer notifies you of incorrect information contained in his or her credit report.

Most insurers direct the consumer to the credit bureau or credit reporting agency. When the consumer notifies the insurer that incorrect information is corrected the insurer will calculate a new credit score. Other insurers also inform the consumer of his or her right to obtain a free copy of the consumer's credit report.

- b) How long do you use credit information that the consumer has indicated is incorrect?

Auto

31 _____ Until corrected following procedures outlined in the Fair Credit Reporting Act.

0 _____ Not used at all, whether or not it has been corrected by the credit reporting agency.

_____ Other (please specify)

7 Not used until a consumer filed challenge has been resolved

6 Excluded when items are flagged by the credit reporting agency as disputed

Homeowner

14 _____ Until corrected following procedures outlined in the Fair Credit Reporting Act.

0 _____ Not used at all, whether or not it has been corrected by the credit reporting agency.

_____ Other (please specify) _____

4 Not used until a consumer filed challenge has been resolved

2 Excluded when items are flagged by the credit reporting agency as disputed

48. Does any corrective action, such as re-rating or re-underwriting, apply to the consumer's in-force policy only or does it apply to all policies, including previous policies that may have been issued based on incorrect information?

Auto

6 _____ Current policy only

8 _____ All policies affected by the incorrect information

8 _____ All policies affected by the incorrect information only when the corrected score results in lower rates

_____ Other (please specify)

5 The current and one prior policy term

7 Not used until a consumer filed challenged has been resolved

2 All policies when the incorrect information has been corrected

Homeowners

0 _____ Current policy only

4 _____ All policies affected by the incorrect information

2 _____ All policies affected by the incorrect information only when the corrected score results in lower rates

_____ Other (please specify)

1 The current and one prior policy term

4 Not used until a consumer filed challenged has been resolved

GENERAL PROCEDURES

49. What procedures are in place to protect the confidentiality of a consumer's credit history?

The primary means that insurers use to protect the confidentiality of a consumer's credit history is by obtaining only the insurance credit score through an automated process. Some insurers make the score available to their producers and underwriters while others do not. Five insurers indicated they have privacy guidelines, one insurer indicated the information is kept by management in a locked file, another insurer stores the information electronically and it is accessible only by password. One insurer indicated an underwriter might review the consumer's credit report at the request of the consumer.

50. Who has access to the consumer's credit history?

Auto

- 6 Producer (3 have access to credit information, 3 credit score only)
22 Underwriter (10 have access to credit information, 12 credit score only)
____ Other (please specify)
5 Employees with access to the policy file
3 Internal systems staff
1 Pricing staff
2 No one
3 Limited number of employees for complaint resolution, modeling, analysis, and programming
2 Agents are given the top four negative reasons, underwriters see the score and the top 4 negative reasons

Homeowners

- 5 Producer
12 Underwriter
2 Other (please specify)
2 Agents are given the top four negative reasons, underwriters see the score and the top 4 negative reasons

51. Is the use of credit information optional? _____ Yes _____ No

Auto

- 10 Yes 26 No

Homeowners

- 0 Yes 15 No

52. If the consumer does not want his or her credit information used, but meets all other eligibility criteria, how will the consumer be treated?

Auto

- 14 Not issued a policy
0 Non-renewed
0 Cancelled
0 Given the best rate or placed in the best tier
0 Given the worst rate or placed in the worst tier
2 Given some intermediate rate or placed in an intermediate tier
____ Other (please specify)
3 Given the base rate
4 Given a quote, but the policy will not be issued without using credit history

5 Placed in a market based on all other underwriting factors
3 Not given a quote
4 Attempt to order credit

Homeowners

6 _____ Not issued a policy
0 _____ Non-renewed
0 _____ Cancelled
0 _____ Given the best rate or placed in the best tier
0 _____ Given the worst rate or placed in the worst tier
0 _____ Given some intermediate rate or placed in an intermediate tier
_____ Other (please specify)
3 Given a quote, but the policy will not be issued without using credit history
4 Attempt to order credit

53. If a consumer is a "no hit" (the company can find no credit information on the applicant), but meets all other eligibility criteria, how is the consumer treated?

Auto

3 _____ Not issued a policy
0 _____ Non-renewed
0 _____ Cancelled
3 _____ Given the best rate or placed in the best tier
0 _____ Given the worst rate or placed in the worst tier
9 _____ Given some intermediate rate or placed in an intermediate tier
_____ Other (please specify)
7 Assigned a mathematical weight
1 Offered coverage in another company
5 Placed in a company based on all other underwriting factors
3 Assigned the worst credit score category
3 Assigned an average credit score

Homeowners

0 _____ Not issued a policy
0 _____ Non-renewed
0 _____ Cancelled
1 _____ Given the best rate or placed in the best tier
0 _____ Given the worst rate or placed in the worst tier
1 _____ Given some intermediate rate or placed in an intermediate tier
_____ Other (please specify)
4 Assigned a mathematical weight
3 Placed in a company based on all other underwriting factors
2 Assigned an average credit score

54. If a consumer is a "no score" (the company is unable to calculate a credit score for the consumer), but meets all other eligibility criteria, how is the consumer treated?

Auto

1 _____ Not issued a policy
0 _____ Non-renewed
0 _____ Cancelled
1 _____ Given the best rate or placed in the best tier
0 _____ Given the worst rate or placed in the worst tier
9 _____ Given some intermediate rate or placed in an intermediate tier
_____ Other (please specify)

- 7 Assigned a mathematical weight
- 1 Offered coverage in another company
- 5 Placed in a company based on all other underwriting factors
- 3 Assigned the worst credit score category
- 3 Assigned an average credit score
- 2 Given the best rate in a standard company

Homeowners

- 0 _____ Not issued a policy
- 0 _____ Non-renewed
- 0 _____ Cancelled
- 1 _____ Given the best rate or placed in the best tier
- 0 _____ Given the worst rate or placed in the worst tier
- 1 _____ Given some intermediate rate or placed in an intermediate tier
- _____ Other (please specify)
- 4 Assigned a mathematical weight
- 1 Placed in a company based on all other underwriting factors
- 2 Assigned an average credit score

55. When a policy is written for multiple insureds, whose credit history is considered in the rating or underwriting of the policy?

Auto

- 3 _____ The consumer with the best credit score
- 0 _____ The consumer with the worst credit score
- 11 _____ The consumer who is the first named insured
- 17 _____ The consumer who is the first named applicant
- 0 _____ All consumers and an average credit score is developed
- 1 _____ The consumer selected by the insured or applicant
- 0 _____ The husband's
- 0 _____ The wife's
- _____ Other (please specify)
- 2 First two applicants
- 3 Spouse when named insured is a no-hit or no-score
- 2 Person in household most likely to have complete credit history (usually oldest male driver under 65)

Homeowners

- 1 _____ The consumer with the best credit score
- 0 _____ The consumer with the worst credit score
- 5 _____ The consumer who is the first named insured
- 5 _____ The consumer who is the first named applicant
- 0 _____ All consumers and an average credit score is developed
- 0 _____ The consumer selected by the insured or applicant
- 0 _____ The husband's
- 0 _____ The wife's
- _____ Other (please specify)
- 2 First two applicants
- 3 Named insured and spouse

56. Is a consumer's credit score or credit information used as eligibility criteria for the type of payment plan offered to an insured?

One auto and one homeowners insurer use credit history to determine eligibility for the type of payment plan offered to the insured.

57. Is a consumer's credit score or credit information used in the decision to deny a claim?

No insurers use credit history to deny a claim.

58. Is a consumer's credit score or credit information used to settle a claim for a certain amount?

No insurers use credit history to settle a claim for a specified amount.

59. Describe any other uses that your company makes of credit history.

Automobile Insurance Companies

Active companies as of September 30, 2002

Credit Information Used For Underwriting

AIU Insurance Company (AIG)
Allstate Insurance Company
Company
Allstate Indemnity Company
Company
American Home Assurance Company (AIG)
American International Insurance Company (AIG)
Country Casualty Insurance Company
Country Mutual Insurance Company
Country Preferred Insurance Company
Electric Insurance Company
First National Insurance Company of America (SAFECO)
GEICO Casualty Insurance Company
GEICO General Insurance Company
GEICO Indemnity Company
General Insurance Company of America (SAFECO)
Government Employees Insurance Company
Insurance Company of the State of Pennsylvania (AIG)
Insurance Co.
National Union Fire Insurance Company of Pittsburgh (AIG)
SAFECO Insurance Company of America
SAFECO Insurance Company of Illinois
State Farm Fire and Casualty Company
State Farm Mutual Auto Insurance Company
United Services Automobile Association
USAA Casualty Insurance Company
USAA General Indemnity Company

Credit Information Used for Rating

American Economy Insurance Company (insurQuest)
American States Insurance Company (insurQuest)
Country Casualty Insurance Company
General Insurance Company of America (insurQuest)
Horace Mann Property & Casualty Insurance Company
Leader Insurance Company
Progressive Casualty Insurance Company
Progressive Northwestern Insurance Company
Progressive Specialty Insurance Company
United Services Automobile Association
USAA Casualty Insurance Company
USAA General Indemnity Company
Worldwide Insurance Company

Credit Information Not Used

American Bankers Insurance Company of Florida
American Family Home Insurance

American Manufacturers Mutual Insurance

American Modern Home Insurance Company
American Premier Insurance Company
American Protection Insurance Company
Amica Mutual Insurance Company
Cincinnati Insurance Company
Federal Insurance Company
Harleysville Insurance Company
Hartford Accident & Indemnity Company
Hartford Insurance Company of the Midwest
Horace Mann Insurance Company
Liberty Mutual Fire Insurance Company
Markel Insurance Company
Metropolitan Group Property & Casualty

Northland Casualty Company
Sentry Select Insurance Company
Teachers Insurance Company (Horace Mann)
Vigilant Insurance Company
Windsor Insurance Company

Homeowners Insurance Companies

Active companies as of September 30, 2002

Credit Information Used For Underwriting

Allstate Insurance Company
Allstate Indemnity Company
Armed Forces Insurance Exchange
Country Mutual Insurance Company
Electric Insurance Company
First National Insurance Company of America (SAFECO)
General Insurance Company of America (SAFECO)
Nationwide Mutual Fire Insurance Company
SAFECO Insurance Company of America
SAFECO Insurance Company of Illinois
Vesta Insurance Corporation

Credit Information Used for Rating

American International Insurance Company (AIG)

Credit Information Not Used

American Bankers Insurance Company of Florida
American Equity Insurance Company
American Manufacturers Mutual Insurance Company
American Protection Insurance Company
Cincinnati Insurance Company
Empire Fire & Marine Insurance Company
Federal Insurance Company
Hartford Insurance Company of the Midwest
Harleysville Insurance Company
Horace Mann Insurance Company
Liberty Mutual Fire Insurance Company
Metropolitan Group Property & Casualty Insurance Company
Sentry Select Insurance Company
State Farm Fire and Casualty Company
Umialik Insurance Company
United Services Automobile Association
USAA Casualty Insurance Company
Vigilant Insurance Company



Alaska State Legislature

House Committee on Community and Regional Affairs

Representative Carl Morgan, Chair
State Capitol Building, Room 408
Juneau, AK 99801
907-465-3882

AGENDA

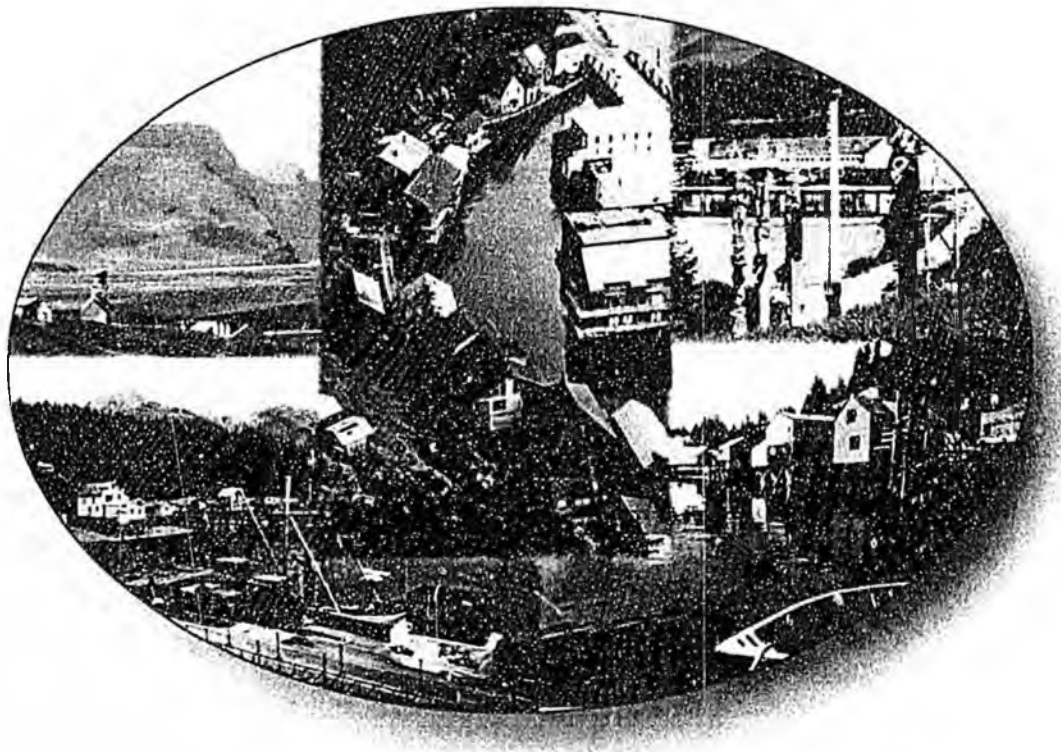
State Capitol 124
8:00 am – 10:00 am

- **Call to Order**
Today's date is February 25, 2003
The time is _____ (8 am)
- **Overview**
- **Department of Community and Economic Development**
Edgar Blatchford, Commissioner
 - **Division of Community and Business Development**
Gene Kane, Director
 - **Division of International Trade and Market Development**
Margy Johnson, Director
 - **Division of Investments**
Greg Winegar, Director
 - **Division of Banking, Securities & Corporations**
Mark Davis, Director
 - **Division of Occupational Licensing**
Rick Urion, Director
 - **Division of Insurance**
Stan Ridgeway, Director
- **Other Business**
- **Adjournment**

Annual Report

Division of Community and Business Development

January 2003



Edgar Blatchford, Commissioner
Department of Community and
Economic Development



Gene Kane, Acting Director
Division of Community and
Business Development

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Division of Community & Business Development

MISSION

Promote strong communities and healthy economies by providing information, technical and financial assistance and other capacity building resources.

The Division of Community and Business Development (DCBD) has two major elements - community development and business development. We also have two important support functions which are essential to our mission - providing financial assistance and information. Services provided by the Division run the full range from identifying community needs and economic development goals, to obtaining funding for specific projects, and providing technical assistance to new or expanding businesses. The Division provides services to individuals, communities, various organizations and specific industries.

The Division delivers its services from eight locations. To provide more direct service to the people they serve, DCBD staff are stationed at regional offices located around the state. Staff in these regional offices are in frequent contact with the communities they serve. The goal of this effort is to develop and maintain local capacities which help ensure efficient and effective local governments.

In addition, the Division has an office in the Tok Alaska Public Lands Information Center. The Center is mandated by the Alaska National Interest Lands Conservation Act of 1980, and is one of four interagency centers operating around the state. It is a cooperative effort by eight state and federal agencies to provide information and referral about Alaska's tremendous variety of public lands. In one stop, visitors can obtain all the information needed to plan their Alaska Adventure. Services offered include tourist information, trip planning services and Alaska Marine Highway reservations.



Community Development

The focus of community development staff is technical assistance and training for communities that lack various resources needed to effectively operate their local government. When working with a community to resolve a specific problem, staff also work towards the more general goal of "capacity building," increasing the capacity of local people and organizations to deal with local problems. The Division also supports the provision of professional training and development opportunities in cooperation with organizations such as the Alaska Association of Municipal Clerks, Alaska Association of Assessing Officers, Alaska Planners Association, and the Alaska Municipal League.

Local Government Development

The fundamental purpose of Local Government Development is to help local and regional governments to become more self sufficient in providing effective government services to community residents.

The writers of Alaska's constitution mandated the creation of a "local affairs agency." Article X, Section 14. Local Government Agency of the State Constitution states: 'An Agency shall be established by law in the executive branch of the state government to advise and assist local governments. It shall review their activities, collect and publish local government information, and perform other duties prescribed by law.'

The framers of the Alaska Constitution clearly indicated their belief that local government would play a critical role in Alaska's future; and that the state had a responsibility to work with local governments to help them be successful in providing local governance and effective public services for community residents.

The Alaska Constitution also specifically provides for maximum local self government. However, the framers of Alaska's Constitution also recognized that many local governments in the state were not fully developed and would not have the resources to achieve strong local self-determination unless they were assisted in this effort. A large part of the state consists of the "unorganized borough" in which there is no regional form of government. DCBD fulfills this mandated assistance function by offering local governments and other community entities a broad range of support for local development efforts.

Financial Management Assistance

A division priority is helping communities establish and maintain basic financial management systems. This focus on financial management has had positive results. While some communities continue to struggle financially, their status has stabilized with fewer crises disrupting day-to-day operations. In addition to city officials, DCBD staff provide training for elected local officials who may not have an adequate understanding of their financial management responsibilities.

Local Government Management Assistance

Alaska's Constitution, statutes and regulations define the powers and responsibilities of local governments. Various programs in DCBD were created to assist local governments in utilizing these powers to improve the efficiency of their organizations and the quality of life for residents in their communities. Assistance can be provided or arranged on just about any aspect of municipal government. Examples of assistance and training topics or activities provided by DCBD include:

- ◆ Ordinance development and codification.
- ◆ Elections training.
- ◆ Personnel practices.
- ◆ Tax assessment and collection.
- ◆ Title 4 (Alcohol) local option laws.
- ◆ Council powers and procedures.
- ◆ Interpretation of State and local laws.
- ◆ Land management and planning.
- ◆ Development of land disposal ordinances.
- ◆ ANCSA 14(c)(3) negotiations & agreements.
- ◆ Community Visioning.
- ◆ Newly Elected Officials (NEO) training.
- ◆ Grant writing training and assistance.



☆☆ Success Story ☆☆

DCBD staff assisted the City of Nondalton in identifying management problems that have resulted in the city incurring debt of over \$400,000. Operations and financial management plans were developed to address the problems. Following are steps the community has taken with DCBD assistance:

Operations Management - The Council amended their ordinance to eliminate a paid mayor position and instituted an emergency-staffing plan that reduced the costs of the city. The Council adopted a new water and sewer ordinance to facilitate the City's collection of water and sewer revenue.

Financial Management - The City has worked with DCED staff to draft a realistic budget and debt repayment plan. The plan is now being implemented and progress is being made at becoming debt free.

Planning/land use - The City also addressed long-standing planning concerns. They signed an ANCSA 14(C) agreement to settle land title issues in the City. They updated their land disposal ordinance for City property and corrected inconsistencies in their previous process.

A side benefit of these actions is that community members are moving toward more involvement in city government. At one community meeting attended by DCED staff, approximately 30 members of the public were present showing support for the Council's actions and an eagerness to help get the city on track.

Local Boundary Commission

The Local Boundary Commission (LBC) has the power and duty to judge proposals for:

- ◆ incorporation of cities and boroughs;
- ◆ reclassification of cities;
- ◆ annexation to cities and boroughs;
- ◆ detachment from cities and boroughs;
- ◆ dissolution of cities and boroughs;
- ◆ merger of cities and boroughs; and
- ◆ consolidation of cities and boroughs.



Additionally, the LBC has the duty to make studies of local government boundary problems. It is one of five State boards with origins in Alaska's constitution (Article X, Section 12).

The LBC consists of five members appointed by the Governor. One member is appointed from each of Alaska's four judicial districts; the fifth member is appointed at-large. Members of the LBC serve overlapping five-year terms.

DCBD staff provides technical support to the Commission, petitioners, and other interested individuals and organizations. DCBD's responsibilities in that regard include:

- ◆ providing technical assistance to prospective petitioners and other interested individuals and organizations regarding matters that come before the LBC;
- ◆ performing feasibility and policy analysis of proposals and prospective proposals to the LBC;
- ◆ conducting public informational meetings concerning proposals pending before the LBC;
- ◆ preparing reports and recommendations on matters pending before the LBC;
- ◆ providing technical support to the LBC at its public hearings;
- ◆ drafting decisional statements regarding actions taken by the LBC;
- ◆ implementing decisions of the LBC;
- ◆ certifying the creation and alteration of municipalities' actions; and maintaining incorporation and boundary records for each of Alaska's 161 cities and boroughs.

Major activities of the Local Boundary Commission and DCBD Staff:

Regulation Revisions

The LBC completed reforms to its procedural regulations in 2002. The changes bring the Commission's regulations into conformity with State Statutes. The revisions were warranted since the last comprehensive review of the Commission's regulations occurred more than ten years ago. Since then, there have been numerous changes in State statutes concerning matters involving the Commission. During the past three years, the Commission and staff have devoted considerable effort to revision of its regulations in Title 3 of the Alaska Administrative Code.

Five work sessions to address the proposed changes were conducted in the year 2000. The Commission held a public hearing on the proposed changes in 2001. They met again in 2001 to review the written and oral testimony concerning the proposed regulations. At that time, the Local Boundary Commission approved the proposed regulation changes. On April 17, 2002, the Commission re-adopted the revised regulations following technical review by the Alaska Department of Law. Following that adoption, the Department of Law filed the regulations with the Lieutenant Governor. The new regulations took effect on May 20, 2002.

Unorganized Borough Review

During the 2002 legislative session, a bill was approved and subsequently signed into law requiring the Local Boundary Commission to review conditions in the unorganized borough and report to the legislature the areas it has identified that meet the standards for incorporation. The Commission met to discuss the review and adopted a project work plan. Under the plan, DCBD staff reviewed all of the areas in the unorganized borough and compiled information for the Commission that would reflect on the economic viability or fiscal viability of prospective boroughs in the unorganized borough. The Commission reviewed the economic information compiled by DCBD and made a preliminary determination that eight areas of the unorganized borough would be subject to further review. These areas that will be subject to further review are comprised of the following model borough boundary areas:

- | | |
|--|----------------------|
| Aleutians West and Aleutians-Military (combined) | Chatham |
| Copper River | Delta-Greely |
| Glacier Bay | Prince William Sound |
| Upper Tanana | Wrangell-Petersburg |

The Commission's report to the Legislature will be rendered by February 19, 2003.

City of Haines/Haines Borough Consolidation

The City of Haines petitioned the Local Boundary Commission for consolidation of the third class Haines Borough and the first class City of Haines. DCBD accepted the Petition for filing following its technical review. The Commission convened the hearing which approximately seventy-five local residents attended. At the conclusion of the hearing, the Commission convened a decisional meeting and concluded that each of the applicable legal standards governing consolidation of city and borough governments was satisfied with respect to the Haines consolidation proposal. Commission members amended various aspects of the Petition. Consolidation was approved by Haines voters and the consolidation election was certified by the Division of Elections on July 11, 2002.

Palmer Annexation

The City of Palmer formally initiated efforts on to expand its boundaries to encompass an additional estimated 921.34 acres. Members of the Commission inspected the territory proposed for annexation and held a public hearing on the City's annexation proposal. Following the hearing, the Commission convened a decisional session. Guided by the fourteen city annexation standards set out in State law, the Commission determined that it would be appropriate to reduce the size of the area proposed for annexation to 861.44 acres.



Recent LBC hearing

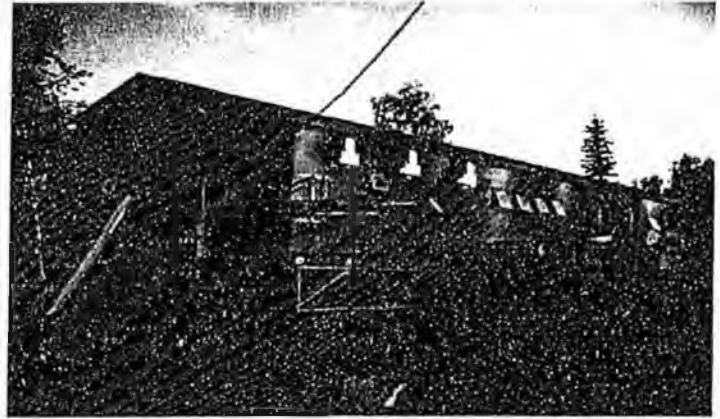
More information about the LBC is available on the web at: <http://www.dced.state.ak.us/cbd/lbc/lbc.htm>

Rural Utility Business Advisor (RUBA)

The goal of the RUBA Program is to prepare rural communities for, and help them meet the challenge of managing and operating sanitation utilities. RUBA is achieving this goal by providing assistance in the areas of business, finance, personnel, and general management to governments and organizations responsible for operating water and sewer utilities in rural Alaska.

2002 RUBA Activities:

- ◆ Made 102 trips to 50 different communities to provide on-site RUBA assistance.
- ◆ Presented thirteen 32-hour Utility Management Classes in 9 different regional centers throughout the State. One hundred-thirteen utility managers completed the classes.
- ◆ Developed debt reduction plans for two communities. One community had debts of approximately \$250,000, the other had debts over \$1 million. Both communities were suffering delays in sanitation projects due to financial management issues.
- ◆ Developed capacity indicators for evaluating financial and managerial capacity of utilities. These standard indicators were developed in relation to the Denali Commission's adopted definitions of sustainability.
- ◆ Worked with the Regulatory Commission of Alaska (RCA) to develop a simple standardized Chart of Accounts for use by small water and wastewater utilities. The standardized COA was implemented in five utilities that RUBA worked with to convert their accounting systems to QuickBooks.
- ◆ Hired accounting contractors to provide training on Quickbooks Pro, and install and train utility staff in four communities (Stebbins, False Pass, Huslia, and Marshall). Staff worked directly with several other communities directly to implement Quickbooks as an accounting package, or adopt changes to existing QuickBooks practices.
- ◆ Revised the publication Plain English Guide to Alaska Drinking Water and Wastewater Regulations to reflect changes in regulations over the past four years.
- ◆ Completed the development of the fifth (Financial Management) in a series of six classes on Utility Management. The materials, once completed, are anticipated to be the base curriculum for utility manager certification program.
- ◆ Participated in sanitation policy meetings of the Governor's Council on Rural Sanitation, Rural Development Sustainable Utilities Subcommittee, and the Rural Alaska Sanitation Coalition.
- ◆ Presented information sessions at the following annual conferences: Alaska Water and Wastewater Manager's Association (AWWMA), National Rural Water Association - Alaska, Alaska Municipal League, and the SE conference of the AWWMA.
- ◆ Served on the evaluation committee's for Denali Commission Washeteria grants, Denali Commission Small Clinic Grants, Village Safe Water Planning and Capital Improvement Grants.



☆☆ *Success Story* ☆☆

The RUBA program has for the past several years worked with utilities to install, train, and support the use of QuickBooks Pro accounting software. The program has done this through a variety of methods including using program staff, and contracting with private accounting firms to provide some of the training and assistance. Two recent municipal owned utilities that we have worked with in implementing the system are False Pass and Stebbins.

The False Pass City Clerk reported that the annual audit was recently completed in two days. Previous audits had taken at least three days, often more. The cost of the audit was ½ of the cost of previous audits. Both the reduction in time and the lower cost were due to efficiencies in the recently installed accounting system.

The City Manager reported to our RUBA staff that, "He should watch Eleanor [utility clerk] when she does the quarterly tax reports. Her eyes get big because the reports get done within minutes! She used to hate doing the reports manually because it took so long."

Office of the State Assessor (OSA)

In accordance with state law, the Office of State Assessor (OSA) conducted the annual full value determination (FVD) for taxable property in organized boroughs and home rule, first class, and second class cities (with a population over 750) whether or not they levy property taxes. The OSA published the results in a report titled, "Alaska Taxable". To review the report, visit the Division's website or contact the OSA.

To assure equitable treatment for all taxpayers and to assure the State disburses school funding equitably to each municipality, the OSA monitored municipal assessment practices. This past year, the OSA discovered that a borough had been using some erroneous sales ratio practices that could have cost the state several thousands of dollars of educational funds. The OSA worked with the borough to correct this and has been assured this will not occur in the future. The OSA also monitored municipal property assessment and taxation practices for compliance with state and federal tax laws, and addressed issues of noncompliance.

The OSA advised and assisted municipalities on assessment and taxation issues and provided training for municipal assessment personnel. For example, the City of Nenana lost its long time employee responsible for administering the annual assessments. The OSA spent several weeks assisting the newly appointed individual in completing the assessment roll for the year.

In accordance with State law, the OSA also provided guidance with interpreting state mandated exemptions; established standards for assessment practices for use by local assessing offices; assisted in developing ordinances dealing with property assessment issues; and developed assessment models for use with value projections in the Unorganized Borough.

Volunteers in Service to America (VISTA)

VISTAs serve Alaska's urban and rural communities. This year, DCBD had 16 VISTAs in 13 communities. DCBD also received approval for 20 new VISTA positions. Six of these VISTAs will serve under the Indian Set Aside Grant. Sponsoring entities will be community and regional organizations that serve Alaska Natives. Currently, DCBD is working on a grant for six additional Entrepreneur Corps VISTAs. The Entrepreneur Corps VISTAs will use their business experience and skills to establish and strengthen development programs in communities.

☆☆ Success Story ☆☆

Andy Schmahl, VISTA member and Project Coordinator with the Kenai Peninsula Economic Development District (KPEDD), arrived in Alaska, August 2002, all the way from New York. Before starting his VISTA year, Andy worked as an investment banker in Manhattan.

Since his arrival, Andy has worked on several projects for the KPEDD. Most recently, he helped organize the first ever Kenai Peninsula Funding Summit for Small Communities. More than 80 representatives from about a dozen communities and 15+ agencies participated in the Summit, far surpassing the expected attendance. "Our initial expectations were to have about 45 attend," said Andy. "The response was overwhelming."

The event put officials from small towns and villages face to face with frontline decision-makers from a host of State and federal funding agencies, including the U.S. Department of Agriculture, Economic Development Administration, federal Department of Housing and Urban Development, Alaska Department of Community and Economic Development and others.

Currently, Andy is working with Jim Carter, Executive Director for KPEDD, on the Third Annual Borough Economic Outlook Forum. The Forum is a two-day event in which Peninsula residents can help plot economic development strategy in their communities.

Land Management

The Land Management and Community Planning programs provide assistance to communities on regional and local land issues. The main areas of assistance are technical advice and training on local planning and land management efforts, the Alaska Coastal Management Program, the Municipal Lands Trustee Program, and the National Flood Insurance Program.

Alaska Coastal Management Program (ACMP)

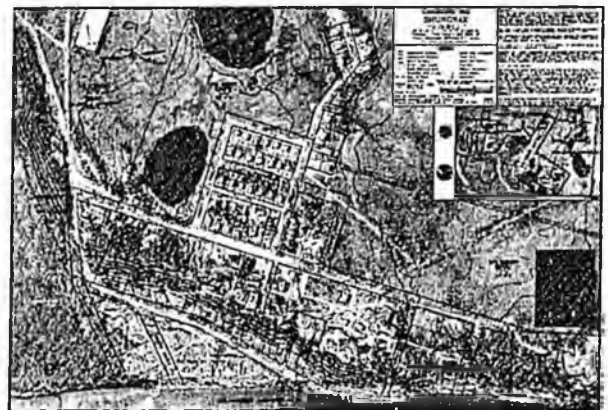
Through balanced stewardship, the ACMP strives to sustain the long-term economic and environmental productivity of the Alaska coast. The ACMP provides a balance of decision making that addresses all interests, coastal resources, and coastal uses. Thirty coastal districts participate in the program by developing local coastal management plans, implementing local plans through the consistency review process, and informing and educating the public about the ACMP. The Department's role in the program, which is established in AS44.47.095, supports the coastal districts through research, training, and technical assistance. DCBD also manages the ACMP grant program, which awards \$1 million annually in grant funds to the coastal districts.



Community Mapping

Unresolved land claims and inadequate information about land sometimes hinder development for both the private and public sectors. The land management section provides information, maps and assistance to agencies, contractors and rural communities so they may overcome land problems that currently impede development. Some of the services provided include the following:

- ◆ **Site Control.** This includes preparing title opinions and providing maps, sample documents and technical assistance to assure a proper ownership interest for publicly funded projects. Site control helps protect state and local government investment in buildings and facilities.
- ◆ **Community Profile Mapping.** By assisting groups that are contracting for the preparation of community mapping we ensure that community maps are prepared to a standard compatible with other users, that existing mapping data is used whenever possible and that the project is coordinated with other mapping efforts that may be taking place. At the completion of the project, partners allow DCBD to add the maps to its community mapping library and share the maps with private and public entities working in the community. DCED's current mapping partnerships are developing aerial photo based community maps in 27 rural communities.



Land Management Program

Section 14(c) of the Alaska Native Claims Settlement Act (ANCSA) provides that certain land in ANCSA communities be made available to residents, businesses, non-profits, communities and airport operators. DCBD provides community mapping and land management assistance to municipalities, unincorporated communities, and Native village corporations so they may carry out the process of identifying and conveying 14(c) land claims. Once the land claims have been placed on a community's "map of boundaries" the layout can be submitted to the Bureau of Land Management for surveying and platting. This year DCBD's assistance was instrumental in the settlement of land claims and the submission of maps of boundaries in the communities of Manley Hot Springs, Naknek, Nikolai, and Nondalton. Surveying and platting of land claims was completed in Allakaket, Alatna, Koliganek and Nome. The settlement of the ANCSA 14(c) land claims is an essential step in clearing land title in the community and providing a base of land for private and public land development. Many of the State, Federal and local initiatives to improve sanitation and develop infrastructure in rural Alaska benefit from the settlement of 14(c) land claims and the surveying and platting of local subdivisions. In unincorporated communities DCBD carries out the community planning and negotiation of the 14(c)(3) community land on behalf of a future municipal corporation (Municipal Trust Land). Leases, deeds and easements of Municipal Trust Land were issued this year for housing, sewer and water facilities, a school, bulk fuel storage facilities, clinics, a church, an airport and roads and boardwalks.

Floodplain Management/National Flood Insurance Program (NFIP)



state and federal agencies in a variety of ways specific to flood and erosion management. Flood mitigation grants for planning and projects are now available to NFIP communities.

The mission of the Division's Floodplain Management Program is to reduce public and private sector losses and damage from flooding and erosion by providing coordination, funding, and technical assistance to NFIP communities. The Division serves as the state coordinating agency for the NFIP. The program provides over \$326.2 million in flood insurance coverage to individuals, businesses, and renters in 37 cities and boroughs. The total flood insurance premiums paid for flood coverage exceed \$1 million. The average annual premium is \$429. The average flood insurance claim payment is \$12,946. Division staff assist local officials, residents, developers, lenders, insurance agents, Realtors, and



Business Development



The focus of business development staff is to provide technical assistance to those communities desiring economic growth; and technical assistance and basic research information to new businesses or businesses seeking to expand or diversify. Facilitating value-added manufacturing projects and sustainable development are the goals of Business Development specialists in the fields of mining, forest products, seafood and tourism. Staff also assist with planning and training for communities and organizations looking for a reprieve from the boom and bust cycles of resource extraction and export. The business development element of our mission includes serving as a commercial liaison for the state and for private sector businesses. The efforts of the Division are part of the State of Alaska's overall economic development strategy to increase employment and diversify our economic base.

Some of the Division's programs are regional in nature. The goals of these programs are to stimulate economic development in the different regions by preparing strategies, assisting communities in implementing the strategies and providing opportunities for communities to participate in economic activities area not previously available to them.

Alaska Regional Development Organizations (ARDORs) Program.

The Legislature established the ARDOR Program in 1988 in support of the widely held belief that a locally driven initiative, in partnership with the State and other entities, can most effectively stimulate economic development and produce healthy, sustainable local economies. An ARDOR is a non-profit organization of local volunteers, representing numerous public and private interests, working together to achieve economic development in their region. Each ARDOR prepares a regional economic development strategy and assists communities and businesses to implement the strategy. The ARDORs are eligible for State matching grants. There are currently 13 ARDORs. DCBD administers the grants and manages the ARDOR program. Funding is provided by the Alaska Industrial Development & Export Authority (AIDEA).

☆☆ *Success Story* ☆☆

During FY02, the U.S. Department of Agriculture designated three ARDORs (the Copper Valley Economic Development Council, Lower Kuskokwim Economic Development Council, and the Bering Strait Development Council) as Resource Conservation and Development Districts (RC&D). This designation brings three professional federal positions to rural Alaska and makes available valuable resources in developing the economies of the regions.

Also during FY02, the U.S. Department of Commerce designated another ARDOR, the Southeast Conference, as an Economic Development District (EDD). This designation provides access to valuable resources in developing the economy of the region. Southeast Conference is the first organization to hold all three designations of ARDOR, RC&D, and EDD.

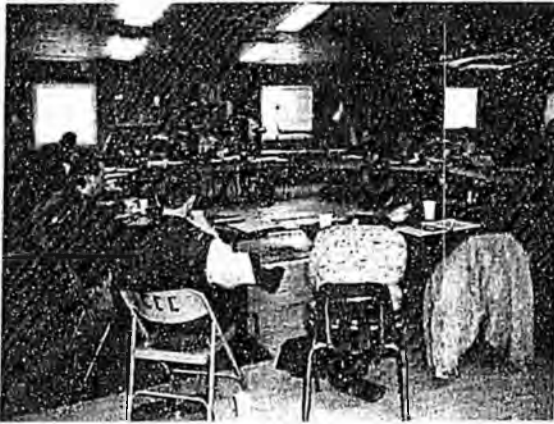
Community Development Quota Program

The Community Development Quota (CDQ) Program is a federal fisheries program that was created in 1992. The North Pacific Fishery Management Council approved the CDQ Program as a means to address serious economic and social problems of the western coastal region of Alaska. Eligibility to participate in the program is restricted to 65 communities located within 50 miles of the Bering Sea coastline. Over the last ten years, the program has generated over \$400 million in revenues and employed more than 12,000 western Alaska residents, creating over \$80 million in wages. The program has provided an opportunity for these communities to participate in the harvesting of the nearby multimillion-dollar groundfish industry through the formation of organizations called CDQ groups. Through the allocation of multi-species quotas, including pollock, halibut and crab, western Alaska residents have been given the opportunity to work on offshore vessels and in shoreside processing plants to gain experience in the business operations of the CDQ group's industry partners.



Funding Summits

A Funding Summit is a two day meeting where regional non-profit, State and federal funding agencies, and community and regional representatives come together to discuss community priority projects in a particular region. Usually, about 10 communities participate—but it can be more or less. Typically, 15-25 agency representatives are in attendance.



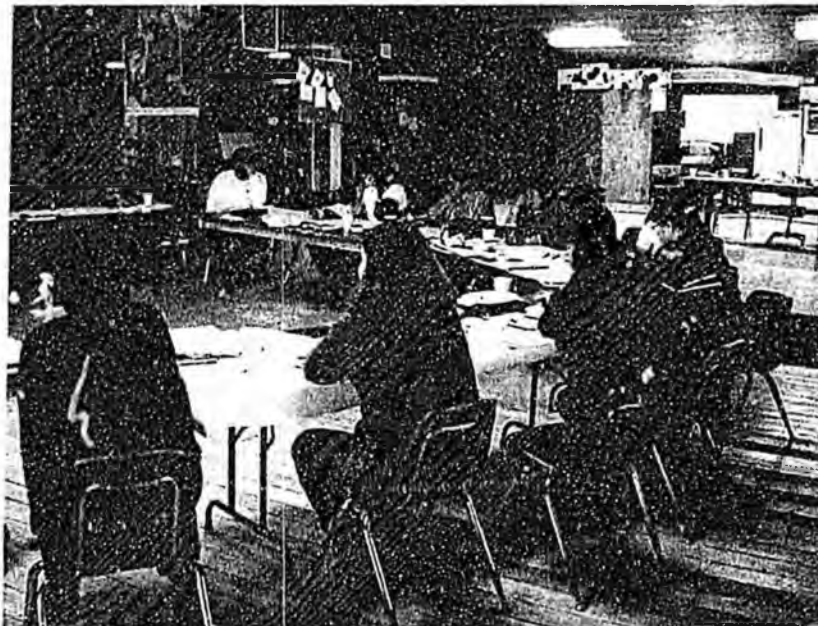
The Funding Summits, are a joint effort of the Denali Commission, USDA Rural Development, U.S. Department of Housing and Urban Development (HUD), Department of Community and Economic Development (DCED), Department of Environmental Conservation (DEC), Rural Alaska Community Action Program (RurAL CAP) and regional and local partners.

The goals of a Funding Summit are to:

- ◆ enable community and agency representatives to resolve problems associated with and identify funding options for community priority projects;
- ◆ establish working relationships between community and agency participants; and
- ◆ enable all participants to learn new ways to make projects happen.

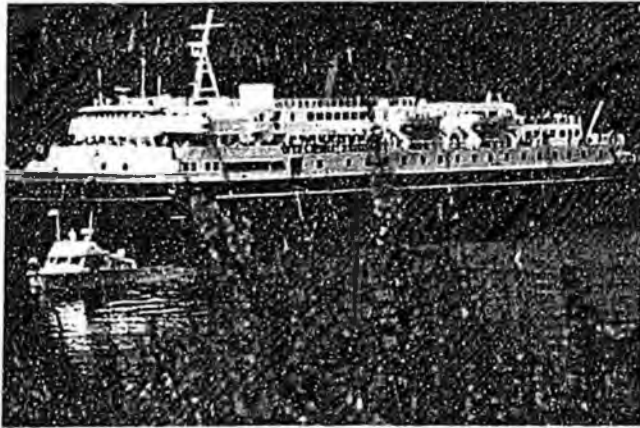
DCED established a website for the Summits: <http://www.dced.state.ak.us/cbd/grt/fundingsummits.htm>

In 2002, the partnership held Summits in Fort Yukon, Nome, Glennallen and Soldotna. In 2003, DCED anticipates Summits will be held in Anchorage (for Southwest Alaska communities), Barrow, Southeast, Iliamna, and Kotzebue.



Community Tourism Development

The goal of this program within the Division of Community and Business Development is to identify and foster the development of tourism business and employment opportunities for Alaskans. Tourism staff, assisted by other industry specialists and research analysts within the department, provide technical assistance in the areas of research, business development, planning, hospitality training, and product



development. The division conducts research such as the Alaska Visitor Statistics Program, Alaska Monthly Arrival Report, and a tourism economic impact study. The division also manages the AlaskaHost hospitality training program and produces publications like the Tourism Funding Guide and The Alaska Community Tourism Handbook. The Department of Community and Economic Development manages the State of Alaska's contract with the Alaska Travel Industry Association to market the state as a destination in national and international markets.

☆☆ Success Story ☆☆

The Alaska Division of Community and Business Development has made a great deal of progress this year with administration and promotion of the AlaskaHost program. AlaskaHost is a one-day seminar that promotes high-quality, professional customer service standards and teaches participants to communicate more effectively with Alaska's visitors. AlaskaHost skills will not only prepare people for careers in the hospitality industry, they are instrumental in encouraging repeat visitation and increased economic benefit from Alaska's visitors.

This past year, division staff designed and created a website (www.alaskahost.org) and brochure to use as promotional materials in spreading the word about AlaskaHost. Due to the renewed promotion of the program, 500 AlaskaHost packets were distributed through seminars throughout the state throughout the winter and spring of 2002. In March, 2002 DCBD coordinated with the University Cooperative Extension Service and Fairbanks Convention and Visitors Bureau to offer the AlaskaHost Seminar Leader's Training Class, in which a total of 12 individuals joined the ranks of certified AlaskaHost seminar leaders, doubling the numbers of trainers and infusing the program with fresh energy!

In the coming year DCBD plans to promote the program to various local community organizations such as visitor bureaus, chambers of commerce and native non-profit organizations and to coordinate with various partners to offer seminar leader training classes to the staff of these organizations. The strategy of training local seminar leaders will insure that the AlaskaHost message and materials are accessible to a wider audience throughout the state, and will help communities to build economic independence and internal capacity for tourism development.

Fisheries Development

The Division currently has two full-time development specialists working on fisheries issues. Current duties include analyzing and reporting on economic issues, working with entrepreneurs, encouraging and facilitating new product development, supporting development of growth sectors, and networking economic development specialists with industry. The fisheries development program strives to increase the income and employment of Alaskans from seafood. Recent, current and proposed projects include:

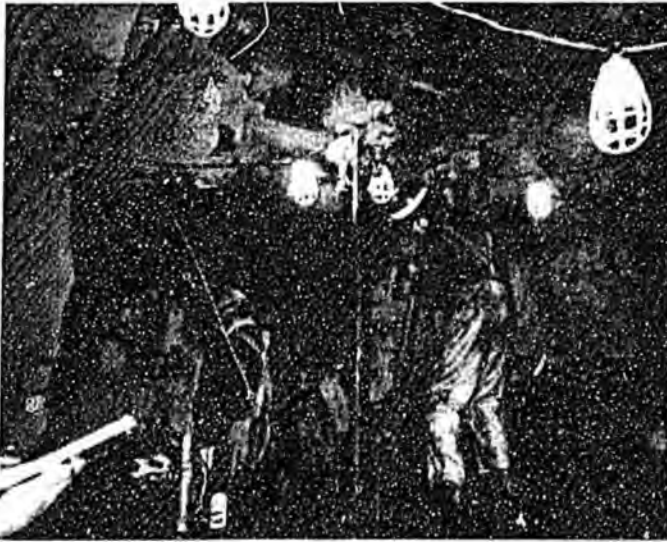
- ◆ seeking sustainable fisheries label for Alaska salmon through the Marine Stewardship Council,
- ◆ developing supportive information for the growing direct market vessel sector,
- ◆ facilitating and holding seafood marketing workshops and conducting direct market vessel workshops,
- ◆ providing detailed reports for the Alaska Economic Information System;
- ◆ overseeing a comprehensive review of the inputs into the Alaska seafood processing sector;
- ◆ overseeing a freight consolidation facility review;
- ◆ overseeing a review of seafood and fisheries development related programs in the Federal government;
- ◆ maintaining a seafood related current events calendar;
- ◆ supporting and communicating with the USDA on pink salmon purchase programs;
- ◆ administering the Alaska Regional Salmon Marketing Mini-Grant Program;
- ◆ administered the Specialty Salmon Marketing Mini-Grant Program;
- ◆ oversee a seafood quality infrastructure review.

Tracking and developing policy considerations to protect Alaska's fishing and processing interests has become a major focus for the State of Alaska, and, as such, involved the expertise of the Division's Fisheries Development staff. At the same time, many proposals to rationalize other fisheries are emerging. Community and market concerns are included in the analysis and discussion of these proposals.



Minerals Development

The goal of the mining program is to facilitate mineral exploration, development and employment in Alaska. Mining Development Specialists provide information on Alaska's mineral resources to prospective developers, investors and affected communities, and attend national and international mining shows to showcase Alaska mining development opportunities. Staff provides accurate information on



what mining can mean to a community including jobs, environmental quality, quality of life, required infrastructure, and geology of an area. The Division has facilitated airborne geophysical surveys in many areas around the state, to improve base line information on mining resources and promote the efficiency of exploration activities. Staff provides technical support to the Alaska Minerals Commission, researching numerous issues of concern to the industry and publishing an annual report to the Governor and Legislature.

Small Business Development

The Small Business Development program supports the start-up and expansion of small businesses around the state. Assistance provided includes:

- ◆ Responding to information requests from business owners.
- ◆ Developing publications on business topics.
- ◆ Assisting with the planning and delivery of small business training in workshops and conferences.

The Small Business Development Specialist works closely with the staff of other state and federal agencies to efficiently provide a high level of service to the business community.

☆☆ *Success Story* ☆☆

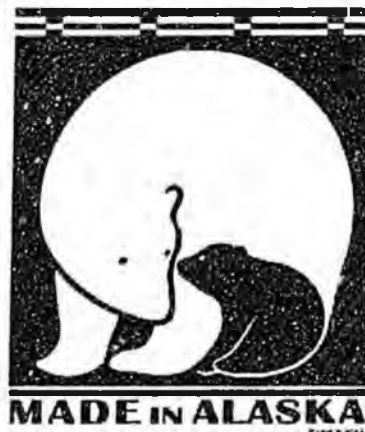
In early 2002, Development Specialist Ruth St. Amour participated in the planning and delivery of a series of conferences on business practices for arts and crafts. Conference activities were held in Bethel, Nome, and Kotzebue and served nearly 100 artists and crafts people. The conferences provided an opportunity for artists to learn marketing and other business skills, and to network for the sharing of professional skills and marketing opportunities. Partners in the conferences included the Alaska State Council on the Arts and Alaska Cooperative Extension Service as well as a variety of local partners.

Alaska's second Biz Fair, a free one-day event with small business workshops and information booths, held in Anchorage in May 2002, drew approximately 300 participants from across Southcentral Alaska. DCBD development specialists participated in planning and organizing the event. Partner agencies for Biz Fair included the U.S. Small Business Administration, Internal Revenue Service, Small Business Development Center, and Alaska Department of Labor.

Made in Alaska Program

The intent of the Made in Alaska (MIA) program is to promote and increase the sale of Alaskan manufactured and/or made products. The Made In Alaska program identifies and promotes the purchase of products manufactured and crafted in Alaska, ranging from small gift items to large industrial modules. Alaska businesses manufacture high quality products for Alaskan, domestic and international markets.

Products which meet program criteria are eligible to use the Made In Alaska logo. Permits authorizing the use of the Made In Alaska logo serve both producers and consumers by certifying product authenticity.



Financial Assistance

The Division administers a number of programs that provide financial assistance to communities to supplement local revenue generation. A number of them are revenue programs which share State or Federal funds with local communities. The Division also administers grant programs which can help communities with the finances to build the infrastructure needed to support community and business development. Federally funded programs and state resources support this effort. Some of these programs continue from year-to-year and some are special grant type program that have a limited time frame or limited funding. Grant staff are available to answer questions about the various funding sources and help direct communities to the most appropriate source for a proposed project.

Shared Revenue Programs

Safe Communities Program

Division staff worked closely with the legislative sponsor to develop the Safe Communities Program legislation that replaced the Municipal Assistance Program in 1997. The revised program requires that funding received by a municipality be used for a priority list of services including police, public safety, fire protection, emergency medical services, and water and sewer.

According to state law, the Legislature may appropriate to the Safe Communities Program an amount equal to or greater than 30 percent of the corporate income tax revenue received by the State for the previous fiscal year. The FY03 appropriation of \$16,775,500 represents 24% of the estimated \$231,800,000 in corporate income tax revenue received by the State in FY02.

State Revenue Sharing

The State Revenue Sharing Program includes two components:

- ◆ **State Aid for Municipal Services** provides money for public roads, ice roads, hospitals, health facilities, unincorporated communities, and volunteer fire departments. FY03 funding of \$4,285,067 resulted in prorated payments at 14.5% of the statutory allocations.
- ◆ **Municipal Tax Resource Equalization** rewards municipalities for local fiscal effort. Total FY03 funding is \$8,570,133. This account also provides for a minimum entitlement of \$25,000 for municipalities, with a geographic location adjustment. Due to low funding levels, municipalities have not been receiving the minimum amount.

Federal Payments in Lieu of Taxes (PILT) Program for Cities in the Unorganized Borough

Division staff worked closely with Senator Ted Stevens to establish and administer a new program which expanded federal Payment in Lieu of Taxes (PILT) payments to include cities located in Alaska's unorganized borough. The division distributed \$5,267,071 to 97 Alaska cities in FY03. These additional federal funds are especially crucial for many cities which continue to deal with the impacts of failed fishing seasons, a downturn in the timber industry, and drastic cuts to state revenue sharing and safe communities funding.

Fisheries Resource Landing Tax



A Fishery Resource Landing Tax is levied on processed fishery resource first landed in Alaska or any processed fishery resource subject to Sec. 210(f) of the American Fisheries Act. The tax is based on the unprocessed value of the resource, which is determined by multiplying a statewide average price per pound (based on Alaska Department of Fish and Game data) by the unprocessed weight. Fishery Resource Landing Tax is collected primarily from factory trawlers and floating processors which process fishery resource outside of the state's three mile limit and bring their products into Alaska for transshipment.

Shared Fisheries Business Tax Program

This program provides for an annual sharing of fish tax collected outside of municipal boundaries on the basis of nineteen "fisheries management areas." The funding available within each of these areas is distributed among municipalities in that area based on the level of significant impacts resulting from fishing industry activity compared to the level of impacts experienced by other municipalities in that area. In FY03, \$1,396,076 will be distributed to 109 eligible municipalities.

National Forest Receipts

The department distributes National Forest Receipts under the authority of 16 USC 500 and under AS 41.15.180. The Federal law was amended in 2000 under the "Secure Rural Schools and Community Self Determination Act." The Act provides that for state fiscal years FY02-FY06, the State shall receive an annual payment equal to the average of the three highest National Forest Receipts Payments made to the State during fiscal years FY87-FY00. In FY03, the department allocated \$9,236,907 to nine boroughs, 18 cities, four Regional Educational Attendance Areas, and the Metlakatla reservation under the amended law.



Grant Programs

Capital Project Matching Grants Program

This program provides grants to eligible municipalities and unincorporated communities for capital projects. A community is determined eligible for an allocation in a fiscal year if the community was eligible for the department's State Revenue Sharing Program during the preceding year. A local contribution is required for each project. The Legislature determines a lump-sum appropriation to be made into the grant fund. This is then allocated to individual grant accounts that are created for each eligible community. Once allocated to an account, money remains in that account until a second appropriation may remain in the grant account for up to five years before lapsing back into the general fund. In this manner, a community may accumulate funds for up to five years, to allow financing for larger projects or to allow better long-range planning for a sequence of projects. There are approximately 980 grants being administered for a total value of \$62 million.

Community Development Block Grant Program (CDBG)

The goal of the federally funded Community Development Block Grant (CDBG) Program is to enhance the quality of life for low and moderate-income residents, particularly in rural Alaska. The Program provides grants for public facilities and planning activities, which address conditions detrimental to the health and safety of local residents. The grants reduce the costs of essential community services. Special Economic Development funds may be used to provide capital to assist in the creation or retention of jobs that principally benefit low and moderate-income persons.

Community Services Block Grant Program

The goals of the federal Community Services Block Grant Program (CSBG) are to reduce and/or prevent poverty through community-based educational activities, which lead to a greater degree of self-sufficiency on the part of low-income persons. Services are provided through the State's only Community Action Agency, RurAL CAP.

Emergency Shelter Grant Program

The goals of the Emergency Shelter Grant Program are to assist with the following activities relating to emergency shelter for the homeless: renovation, major rehabilitation, or conversions of buildings for use as emergency shelters for the homeless; payment of maintenance, operation, insurance, utilities, and furnishings; and payment for provision of essential community services including those concerned with employment, health, substance abuse, education, food, or prevention.

Legislative Grants Program

Legislative grants are awarded by the Legislature, with final approval by the Governor (delegated to a specific department for administration). It is the department's responsibility to notify grantees of their awards, and to develop and execute grant agreements based on each project. These awards can be for a variety of projects such as health, fire and safety, water and sewer, construction of community facilities, cemetery restoration, and program operations. This section also ensures grantees obtain site control, State Fire Marshal approval and other regulatory agency permits as required. The Division currently administers 324 active grants for a total value of \$69 million.

Mini-Grants

The State and federally-funded Mini-Grant Program provides grants on an annual competitive basis to rural Alaska communities for a wide range of economic development projects and economic development strategies. Grants are awarded to the most viable projects, which promote development by diversifying the economic base to provide jobs, income and long lasting economic benefits to the communities served. One application per community is accepted for a maximum of \$30,000. The funding level in FY03 was about \$650,000.

Community Priorities Program (CPP)

The Denali Commission has targeted funds for the Community Priorities Program, which is administered in cooperation with the Denali Commission. The maximum grant amount is \$500,000.

The Program is intended to provide supplemental funding for a community fixed infrastructure project. To qualify, a project must:

- ◆ be identified as a priority in a community plan;
- ◆ have documented community support and be "construction ready;"
- ◆ the applicant must have a commitment for at least 1/3 of the funding needed;
- ◆ the funding being requested can't be available elsewhere; and
- ◆ the applicant must provide a 10% local cash match.

Eligible applicants include municipal governments, tribal governments, community based non-profit corporations, and regional organizations representing communities with populations of 1500 or less or which are on the Denali Commission's "distressed community list". A total of 39 applications were reviewed in 2002, seven grants were awarded for a total of \$2,210,949. The grants included projects for a Business Center, Educational Facilities and Community centers. Two applications are still in the process, seven full applications were reviewed and denied and 23 pre-applications were reviewed and denied.

Flood Mitigation Assistance (FMA) Program

This is a grant program that provides assistance to National Flood Insurance Program - participating communities for flood mitigation planning and project activities. The DCBD administers this Federal Emergency Management Agency pass-through grants.



Special Grant Programs

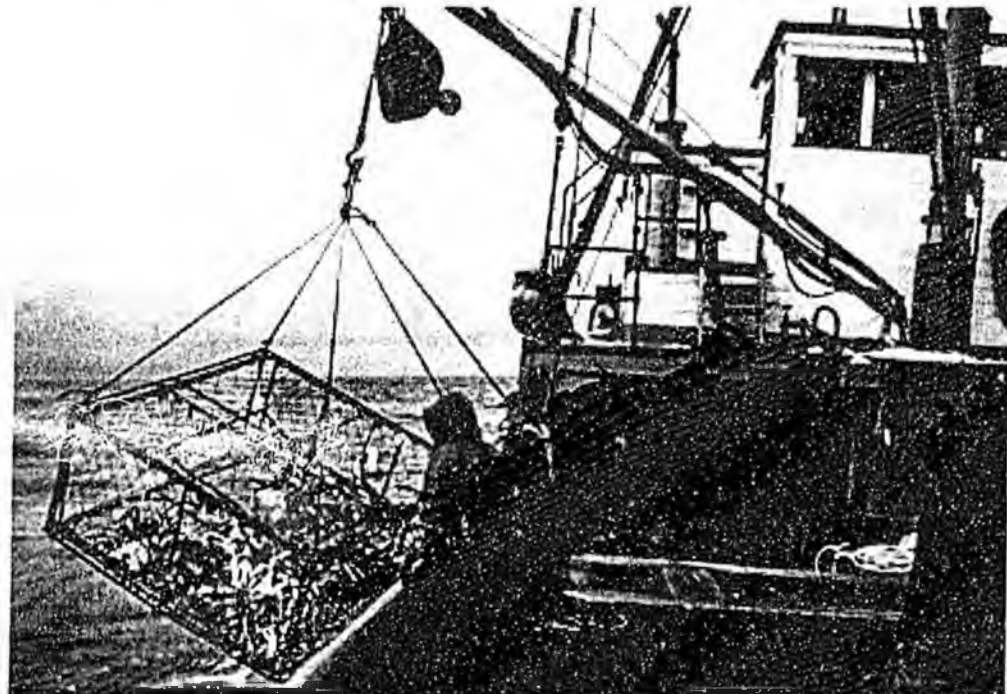
National Petroleum Reserve – Alaska (NPR-A) Program

Under the National Petroleum Reserve-Alaska (NPR-A) program, the U.S. Department of Interior refunds a portion of fees received as a result of oil development in the reserve to the State of Alaska. These funds are for the purpose of granting monies to communities that have experienced adverse effects due to oil development. If any funds remain after these grants have been awarded, then the funds are distributed as mandated by law between the Permanent Fund, the School Trust Fund, and the General Fund. The Department of Revenue, as the manager of this fund, reports to this department the amount of deposits available for granting each fiscal year.

Opilio Crab Disaster Grants

In 2000, the Pribilof Islands, and other Bering Sea communities were declared part of a federal disaster area, due to the near collapse of the Opilio Crab populations. The Governor requested assistance for Bering Sea communities affected by the sudden downturn in snow crab stocks. Commerce issued a declaration of a commercial fisheries failure due to natural and environmental factors and \$10 million in assistance was approved by Congress. These funds were made available to assist the affected communities and to improve fisheries research, management, and coordination to help restore the fisheries and prevent similar failures in the future.

Out of this amount \$7 million is to be used for projects that will help mitigate the effects of the current disaster, and prevent future crab fisheries problems from harming the economy in the future. The Division is administering these Opilio grant funds. The grants were awarded to the Aleutians East Borough, St. Paul, St. George, and Unalaska. Each of the 4 entities identified projects for their share of the funds. These projects are agreed upon by the City, the Tribal Government, and the Corporation. A majority of the funds have been obligated and projects are underway in the communities.



Information Resources

One other important function of the Division is to collect and publish local government information and economic development information. The Division is a leader in providing information resources to the public.

Products

Alaska Economic Information System (AEIS)

Until recently, information about Alaska's economy, labor force and industrial sectors was scattered among a large number of agencies and organizations. The Alaska Economic Information System (AEIS) was created to provide user-friendly access to all this information at a one-stop portal on the web. The AEIS represents a tremendous development resource for businesses, communities and individuals – saving them significant time and effort in collecting the information on which to base development decisions and plans.

Starting from a map of Alaska, users can “click” on a census area, and quickly get the picture of that area's basic economic industries such as tourism, oil and gas, mining, and seafood. Detailed information is also provided for the critical infrastructure elements of transportation, energy, and utility sectors that support long-term viable economic development. A statewide perspective is also provided for each sector of the economy, and the Alaska economy as a whole. Users can “drill down” through the information on the AEIS website to get to greater levels of detail about their specific areas of interest, including maps, charts and working spreadsheets that users can download to their own computers for further analysis. As a web portal, the AEIS contains a host of links to other websites relevant to an understanding of the Alaska economy, its work force and its economic sectors. (http://www.dced.state.ak.us/cbd/AEIS/AEIS_Home.htm).



Community Database/Community Profiles

This database provides a wide range of community-based information and data for planning, policy making and technical assistance decisions. Information is available through an interactive database on the Internet. Users include other state and federal agencies, private non-profit organizations, legislators and their staff, and the general public, both in Alaska and around the world. The database provides for “standard” comprehensive community profiles and customized queries of specific community data. The website includes a feature that allows users to automatically e-mail themselves the data they need (http://www.dced.state.ak.us/cbd/commdb/CF_COMDB.htm).

Economic Development Resource Guide (EDRG)

This guide is designed to bring together in one place a listing of programs and services that provide economic development assistance to Alaska individuals, communities, organizations and businesses. The EDRG includes over 120 resources for financial and technical assistance targeted at economic development. These resources include federal and state agencies, national and state non-profit organizations, and private for-profit organizations. The EDRG is also on the web with a user-friendly interface that provides users with targeted searches to retrieve those resources that apply to their specific eligibility and needs (<http://www.dced.state.ak.us/cbd/edrg/EDRG.htm>).



Grants Tracking Information System Database

An Internet-based management system was completed in May 2000 for internal use by the Division's Grant Administrators. The database tracks detailed information needed for all of the grants administered by the Division, including Capital Matching grants, Legislative grants, State Revenue Sharing, National Petroleum Reserve-A (NPR-A) grants, Mini-Grants, Opilio Crab Disaster grants, Community Development Block Grants, and Community Priorities Program grants. Some of the information from the Grants Tracking System is available to the public on the Internet, at http://www.dced.state.ak.us/cbd/commdb/CF_Grants.htm

RAPIDS Capital Project Database

The Rural Alaska Project Identification and Delivery System (RAPIDS) database contains information on state- and federally-funding capital projects in Alaska communities, including project descriptions, funding levels and status. Portions of this database are also available to the public in the web, at http://www.dced.state.ak.us/cbd/commdb/CF_RAPIDS.htm.

Local Government Online (LOGON)

LOGON was developed in 2002 and launched to the public in November 2002, although it continues to be expanded. LOGON was developed for administrators and city clerks, elected and appointed officials, tribal governments, community leaders, and others interested in local government operations, public services, and community development in Alaska.

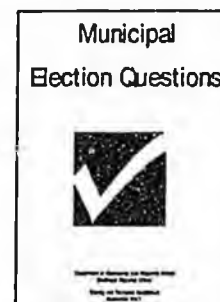
LOGON provides information and resources to communities regarding: municipal government structure, elections, public meetings, ordinances, taxation, financial management, grant management, personnel management, payroll, tribal and municipal agreements, water and sewer utility management, coastal and floodplain management, revenue sharing programs, and grants for infrastructure or economic development. LOGON also provides references to other state and federal resources of concern to communities, including education, public safety, health care, environmental, social services, transportation, and energy programs. LOGON brings together division applications, publications, sample documents, and other web resources. The system may be explored at <http://www.dced.state.ak.us/cbd/LOGON/home.cfm>

Publications

Publications staff coordinate development of technical assistance documents and distribution of material produced by the Division to local governments and other client organizations. Many of the printed publications are updated annually and are available on the Internet; Title 29 is now available on CD-ROM. In addition, the Division produces a variety of Internet-based information resources that are not available in a printed format. Division publications include:

Small Business Development:

A Customs Guide to Alaska Native Arts (created in 2001)
AlaskaHost Program Participant Training Manual (updated in 2001)
Community Tourism Planning Guidebook (created in 2001/2002)
Establishing a Small Business in Alaska (updated in 2002)
Economic Development Resource Guide (updated in 2001)
Tourism Funding Programs (created in 2001)



Local Government:

A Primer for City Council Members
Alaska Planning Commission Handbook (to be updated in 2002)
Alaska Taxable 2001 (updated Jan. 2002)
Background on Boroughs in Alaska
Capital Project Management Handbook (updated in 2001)
Certified Financial Statement Manual (updated in 2001)
Getting Started on ANCSA 14(c)(3) – A Basic Guide
Grant Training Manual
Home Rule Municipalities in Alaska
Local Boundary Commission Annual Report to the Legislature
Local Government in Alaska (updated in 2001)
Mayor's Handbook: A Primer for Small Town Mayors
Model Borough Boundary Study (June 1997)
Model Financial Record Keeping System (1994)
Municipal Budget Manual (updated in 2002)
Municipal Elections Questions Handbook – Volumes I & II
Municipal Incorporation, Annexation, Consolidation, Dissolution Procedures
Non-Profit Community Handbook (1993)
Payroll Handbook for Small Communities (updated in 2002)
The Federal Voting Rights Act – Meeting the Standards (1991)
The Need to Reform State Laws Concerning Borough Incorporation and Annexation
Title 29 of Alaska Statutes, 2002 – Municipal Government (updated in 2002)
Title 4: Local Option Law Handbook (1995)

Water & Sewer Utility Operations:

A Plain English Guide to Alaska Drinking Water and Wastewater Regulations (updated in 2002)

Alaska Sanitation Planning Guide for Small Communities (plus Technical Appendix)

Utility Management Workshop Curriculum Series: Introduction to Utility Management

Utility Management Workshop Curriculum Series: Organizational Management

Utility Management Workshop Curriculum Series: Financial Management

Utility Management Workshop Curriculum Series: Operational Management

Utility Management Workshop Curriculum Series: Utility Planning

Utility Management Workshop Curriculum Series: Personnel Management

**Background on
Boroughs in Alaska**

December 1998



Information & Mapping:

Community Profiles (updated in 2002)

Community Profile Maps

Community/Borough Map of Alaska (24" X 36" format)

Municipal Officials Directory 2003 (updated Jan. 2003)

Rural Alaska Project Identification and Delivery System (RAPIDS)

Major Issues Facing the Division

ISSUE: Many communities in Alaska are struggling to maintain basic services.

This situation threatens the State's investment in essential community facilities and poses a threat to the health and well being of Alaska's residents. **Limited Revenue Resources.** With the significant decline in state financial assistance to communities and the very limited local tax base and private economy the situation many communities' face is serious. The Division works closely with them to maximize the effectiveness of shared revenues, to identify sources of local revenue and provide advice on how to use these limited resources most effectively. **Ongoing Personnel and Management Problems.** Another major issue is the lack of financial management and local government skills at the local government level. This has primarily been linked to frequent staff turnover due to low wages, part-time work, no training, and lack of consistent policies and procedures. The Division continues to work with city and tribal staff and elected officials to develop the skills they need to perform their responsibilities. The Division helps communities establish and maintain sound financial practices, thereby preventing the loss of hundreds of thousands of dollars each year. The Division provides this assistance through on-site community training, regional training and coordination with regional and statewide organizations such as Boroughs, Alaska Municipal League, and Alaska Clerk's Association.

RESPONSE: *Continued Support for the Rural Utilities Business Assistance Program:*

Adequate and affordable sanitation systems are critical for the health of rural residents and critical for the development of rural communities. State and Federal sanitation task forces have repeatedly concluded that capital investments alone will not achieve long-term improvements in sanitation because many communities lack the financial and personnel resources to successfully operate and maintain their utilities.

The Division's Rural Utility Business Advisor (RUBA) program helps address this issue in a number of ways. **Needs Assessments.** RUBA personnel complete an assessment of a community's management of its water and sewer utility. Corrective action is recommended and assistance is provided. **Training.** After the assessment, RUBA staff then provides on-site training specific to the management needs of the utility. Additionally, the Division provides utility management workshops for groups of communities in regional hub communities. **Financial Management Systems.** The program also offers assistance to utilities in establishing sound financial management systems and practices for the operation of water and sewer utilities. **Publications Development** The RUBA program has in cooperation with other agencies produced publications that provide technical assistance on utility planning, understanding sanitation regulations, and managing capital construction projects. This program needs to receive the resources required to provide these services to protect valuable infrastructure and essential community facilities.

ISSUE: Municipal assessment practices may be creating inequities in the State's financial assistance programs.

The Full and True Value Determination (FTVD) is an important factor in determining a locality's entitlement under several State financial assistance programs. Financial assistance for municipal school districts is probably the most significant program that uses the FTVD to determine a municipality's entitlement. The inaccurate FTVDs result in incorrect and inequitable payments to municipalities.

Because of continuing fiscal pressures, many municipalities feel a need to maximize their efforts to obtain state financial assistance. One of the results of these local fiscal pressures has been an increase in localities "pushing the envelope" of acceptable assessment practices.

RESPONSE: Increased Support for the State Assessor's Office

The State Assessor's review of local assessment practices is critical to assuring the integrity of the Full and True Value Determination (FTVD) that is made for property in each municipality. The State Assessor's Full and True Value Determination serves as the State's independent assessment of the full and true value of all taxable property within a given locality.

As a result of an increasing work load, the State Assessor is not able to review the property assessment practices used by municipalities on a timely basis. The Division needs to provide additional support to the State Assessor, which will enable thorough and timely review of local assessment practices and property value determinations. This in turn will insure that all municipalities receive the amount of funding to which they are entitled.

ISSUE: Need for coordinated agency response to communities and regions.

The traditional model for community assistance, where agencies respond separately within their areas of expertise, has undergone considerable evolution as the State has lead efforts to respond to severe economic dislocations. To increase their effectiveness, State and Federal agencies are taking steps to work cooperatively and coordinate services delivery. A new approach to community assistance work is emerging, where the resources of several agencies are leveraged and/or coordinated to improve efficiency and quality in service delivery. Additionally, the public, agencies, and other entities doing business in our state need access to a variety of information by region or sub-region. Good information is the foundation of sound decision making. Currently, an individual often has to access multiple websites or other sources of information to get data on a particular region. For example, information about Alaska's economy, labor force and industrial sectors is widely scattered among various agencies and organizations.

RESPONSE: Implementation of the Alaska Economic Information System.

Now in development by the Division, the Alaska Economic Information System (AEIS) is designed to provide user-friendly access an array of information on the web. The AEIS will:

- ◆ Provide timely, current, Alaska-specific information
- ◆ Bring together agency information on one website
- ◆ Tell prospective investors about our resources and opportunities

- ◆ Create a base line for evaluating industry activity
- ◆ Offer a user-friendly, easy-to-navigate format
- ◆ House the most comprehensive economic development site on Alaska

The system will be useful for businesses, communities and individuals – saving them significant time and effort in formulating development plans. The system will also benefit agency coordination, as well as local government, legislative and other decision making.

The AEIS will provide and collate a vast amount of economic and supporting information. **Economic Development Narratives.** Each census area contains a regional economic overview and economic narratives on oil and gas, tourism, mining, fisheries, agriculture, timber, and subsistence. Users will be able to view a map of Alaska on-line, click on a census area, and quickly get the picture of that area's basic economic industries. Narratives will discuss the critical infrastructure components of transportation, energy, and utilities that are needed to support long-term, viable economic development. **Portal to Relevant Material.** The AEIS will link directly to many supporting websites, as well as to specific plans, studies, reports and other related documents relevant to an understanding of the Alaska economy. **Source Material Availability.** The website is graphics-rich and supported throughout with source material. Users will be able to click through the website to get to greater levels of detail about their specific areas of interest, including graphs and working spreadsheets that they can download to their own computers. The user can "drill down" from the narratives and graphics and find the charts, figures, tables and databases that support the text.

ISSUE: Deterioration in the fisheries industry is seriously impacting businesses and communities.

This industry is important to the economic health of our entire state. The downturn in this economic sector threatens community economies as the sale of local goods and services are reduced. Revenues from fish taxes and sales taxes are reduced as a result. **Decline in Salmon Runs and Market Prices.** Challenges include the unstable market conditions, competition in the global marketplace, and lack of transportation for the export of our products. **Implementation of Federal Fisheries Programs.** The implementation of the Federal American Fisheries Act (AFA) has economic and market repercussions for all of Alaska's ground fisheries, coastal communities and Community Development Quota (CDQ) groups. At the same time, many proposals to rationalize other fisheries are emerging. Tracking and developing these policy considerations to protect Alaska's fishing and processing interests is a major priority for the State.

Response: Continued support of fisheries development.

The Division has one full-time development specialist working on fisheries issues. Current duties run the spectrum of economic issues, projects and crisis with Alaska's fisheries. The specialist is responsible for projects such as salmon industry revitalization, new fisheries development, ground-fish industry issues and inclusion of seafood in the USDA programs. However, the work is more than one person can do. Another development specialist is needed to adequately address Alaska's threatened fishing industry.

Response: Continued support of Operation Renew Hope

In August, the Governor again declared an economic disaster in the commercial salmon fisheries of the Yukon, Kuskokwim, Norton Sound, Bristol Bay, and Alaska Peninsula regions. In response to this disaster, the Operation Renew Hope will continue to pull together all the various state and federal programs that can respond to the short and long term disaster impacts. The Department's participation in Operation Renew Hope will result in continued responsibilities for Division staff in both coordinating agency responses and addressing the economic impacts of the decline in the fisheries industry.

Division of Community and Business Development Contact List

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Community Development			
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VISTA	Midge Clouse	midge_clouse@dced.state.ak.us	269-4587
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Floodplain Management & National Flood Insurance Program	Christy Miller	christy_miller@dced.state.ak.us	269-4567
Business Development			
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Produced by the State Department of Community and Economic Division of Community and Business Development, 550 West 7th Avenue, Suite 1770, Anchorage, AK 99501

For additional copies, download from the DCED website: <http://www.dced.state.ak.us/> or contact Pamela Neale (1-907-269-4530).

DCED complies with Title II of the Americans Disabilities Act of 1990. Upon request, this report will be made available in large print or other accessible formats. Request for such should be directed to DCED at 1-907-269-4580 or TDD 1-800-930-4555.

ALASKA

Department of Community and
Economic Development

OVERVIEW



Edgar Blatchford, Commissioner
Presented to the House Committee on
Community and Regional Affairs

February 25, 2003



Our Mission

**“Promoting strong communities
and a healthy economy”**

- Provide consumer protection through regulation of banking, securities and corporations, insurance, professional occupations and business licensing
- Promote economic development in the state through domestic and international promotion of tourism, seafood, timber, minerals, and other products, and encouragement of business and industrial development
- Administer several loan programs
- Foster the development of independent local governments by providing technical, financial, and program assistance to communities

The Department Consists of the Commissioner's Office plus Seven Divisions

- **Administrative Services**
- **Banking, Securities, and Corporations**
- **Community and Business Development**
- **International Trade and Market Development**
- **Insurance**
- **Investments**
- **Occupational Licensing**

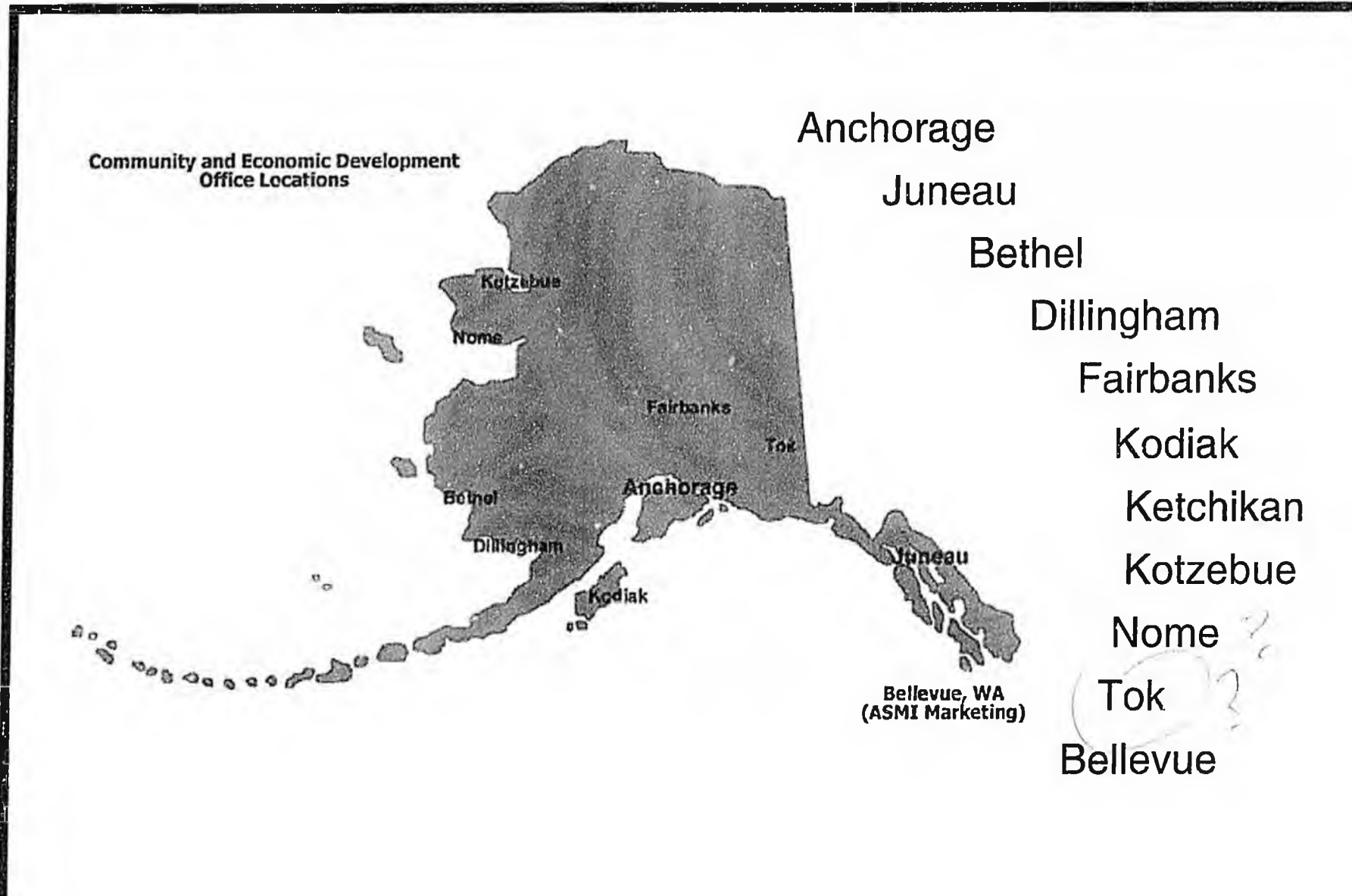
The Department Houses Six Independent Agencies

- **Alaska Aerospace Development Corporation**
- **Alaska Industrial Development and Export Authority/Alaska Energy Authority**
- **Alaska Railroad Corporation**
- **Alaska Seafood Marketing Institute**
- **Alaska Science and Technology Foundation**
- **Regulatory Commission of Alaska**



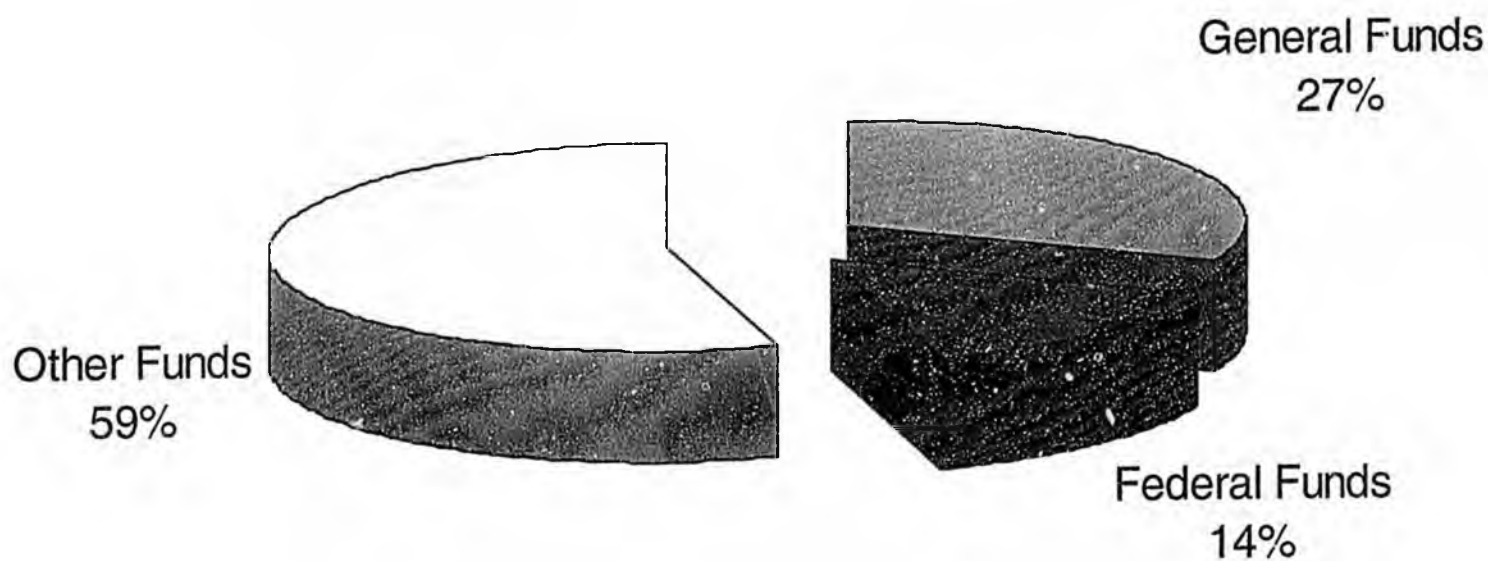
Who We Are

Total employees 507

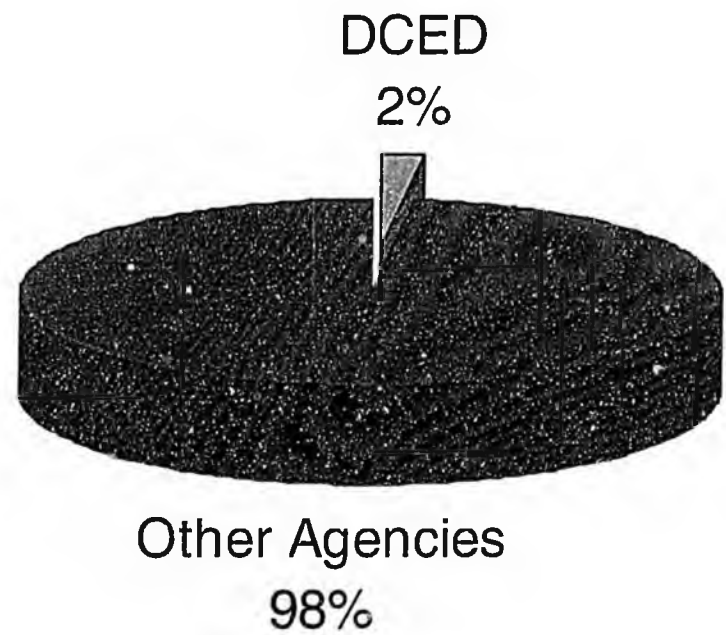


FY03 DCED Budget Sources

\$151.8 million



FY03 Statewide General Fund



DIVISION OF COMMUNITY AND BUSINESS DEVELOPMENT

Contact: Gene Kane, Director (907) 269-4578

Mission

The mission of the Division of Community and Business Development (CBD) is to promote independent local governments and job growth.

Services Provided

Business Development

- Alaska Regional Development Organizations (ARDOR) Program
- Fisheries
- Minerals & Mining
- Small Business
- Tourism

Community Development

- Alaska Coastal Management Program (ACMP)
- Coordinated Response Projects
- Floodplain Management
- Land Management & Mapping
- Local Boundary Commission (LBC)
- Local Government Assistance
- Rural Utility Business Advisor (RUBA)
- State Assessor & Property Tax

Funding Resources

- Grant Programs
- Funding Summits

Information Resources

- Division Website & Publications
- Research & Analysis
- Web-Based Databases



Goals and Strategies

- Stimulate Economic Development and Produce Healthy, Sustainable Economies through Locally Driven Initiatives
- Augment Alaska's Seafood Industry
- Ensure Residents of Small Rural Communities in Western Alaska get the Maximum Benefits from the Community Development Quota (CDQ) Program
- Support Continued Expansion of the Minerals Industry
- Improve the Delivery and Coordination of Services to Small Businesses
- Enhance the State's Tourism Industry
- Provide for Coastal Management Planning at the Local Level
- Facilitate Coordination Responses to Major Economic Dislocations
- Reduce Public and Private Sector Losses and Damage from Flooding and Erosion
- Address Community Land Issues and Reduce the Number of Future Land Conflicts
- Provide for City and Borough Incorporation, Annexation, Detachment, Merger, Consolidation, Dissolution, City Reclassification, and study of Municipal Issues.
- Increase Local Government Capacity to Provide Essential Services Effectively
- Help Rural Communities Operate and Manage Sanitation Facilities Effectively and Efficiently
- Implement the State's Role in Assessment and Property
- Administer Grant and Revenue Sharing Programs
- Conduct Funding Summits so Agencies Can Help Local Officials Realize Community Infrastructure Projects
- Provide Resources on Alaska Communities, Local Governments, Business and the Economy

DIVISION OF INTERNATIONAL TRADE AND MARKET DEVELOPMENT

Contact Information: Margy Johnson, Director (907) 269-8110

Mission

The mission of the Division of International Trade and Market Development (ITMD) is to increase international trade and investment in Alaska. Alaska's exports and other business interests are heavily concentrated in the Pacific Rim. Reflecting this, the division's efforts are focused on key markets in Asia, Canada, and the Russian Far East.

Services Provided

Assist Alaska Companies Sell Their Goods and Services Overseas

- Connect Buyers and Sellers
- Overseas Representation
- Trade Missions, Outbound and Inbound
- Trade Shows

Provide Information

- Website
- Newsletters
- Trade Seminars
- Customized Reports

Advance Government – to – Government Relations

- Opening Doors
- Advocating for Alaskans
- Investment Promotion
- Multiplying Opportunities

Recruit Business and Investment to Alaska

- Spreading the word
- Outreach
- Providing Answers
- Finding Partners

Promote Alaska as a Location for Film Projects

- Web Presence
- Outreach
- Answering the Calls

Goals and Strategies

- Increase the Number of Alaska Firms that Export Services Overseas
- Increase the Dollar Value of Exports from the State
- Maximize the Number of Trade Leads in International Trade and Development While Minimizing the Cost
- Promote Exports to Alaska's Key Markets – Japan, Korea, Canada, China, Taiwan, and the Russian Far East
- Foster Economic Growth and Diversification by Promoting Alaska for Relocation , Expansion, and Investment
- Increase the Number of Film, Video, Television, and Location Shoots Produced in Alaska
- Provide Meaningful and High Quality Assistance to Private and Public Sectors to Benefit Alaska's Economy

DIVISION OF INVESTMENTS

Contact: Greg Winegar, Director (907) 465-2510

Mission

The mission of the Division of Investments is to promote economic development through direct state lending within those industries that are not adequately served by the private sector; and provide interagency and interdepartmental loan servicing of other loan portfolios.

Services Provided

- Commercial Fishing Revolving Loan Fund (CFRLF)
- Fisheries Enhancement Revolving Loan Fund (FERLF)
- Small Business Economic Development (SBED)
- Western Alaska Program
- Rural Development Initiative Fund (RDIF)

Goals and Strategies

- Make Loans Directly to Qualified Residents for Programs Established by the Alaska Legislature
- Service Efficiently the Loan Programs that are Administered by the Department of Community & Economic Development, Ensuring the Greatest Return on Investment that is Consistent with Public Policy
- Act as a Loan-servicing Agency for Many of the State's Loan Programs, Ensuring the Greatest Return on Investment that is Consistent with Public Policy

DIVISION OF BANKING, SECURITIES, AND CORPORATIONS

Contact: Mark Davis, Director (907) 269-8140

Mission

The mission of the Division of Banking, Securities, and Corporations is to maintain a stable financial network in the state for the safe conduct of financial services; protect securities investors and provide businesses with a legal structure enabling commerce in the state.

Services Provided

- Banking (Financial Institution Regulation): Regulates Financial Institutions that are Chartered or Licensed Under State Law
- Securities: Administers the Alaska Securities Act, which deals with Broker-dealers, Investment Advisors, and the Securities and Advice they Sell
- Corporations: Provides Legal Recognition to a Business by Serving as a Filing Agency, Assisting the Private Sector in processing Documents in Compliance with State Law

Goals and Strategies

- Develop and Maintain a Stable and Responsible State-Chartered Financial Institution System to Serve all of Alaska's Communities, Especially Where the institutions Draw their Deposits and Support
- Provide Effective Investor Protection Against Financial Loss Due to Fraudulent and Other Illegal Activities in the Securities Business, and Efficiently Serve the Alaska Business and Finance Community Legitimately Seeking to Raise Capital
- Create and Maintain a Friendly, Helpful Service for the General Public and Business Organizations of All types and Origins that Want to Organize and Do Business in Alaska

DIVISION OF OCCUPATIONAL LICENSING

Contact: Richard Urion, Director (907) 465-2538

Mission

- The mission of the Division of Occupational Licensing is to ensure competent professional and commercial services are available to Alaska consumers.

Services Provided

- Administer 37 Occupational Licensing Programs for over 130 Occupations
- Provide Staff for 20 Boards Licensed by the Division
- Directly Support 17 Licensing Programs without Boards
- Issue Approximately 73,000 Business Licenses
- Issue More than 1,600 Tobacco Endorsements to Allow Businesses to Engage in the Retail Sale of Tobacco Products

Goals and Strategies

- Allow Qualified Individuals to Work in their Fields: Earning a Living, Creating New Businesses and providing the Skilled Workforce Necessary for State Development
- Protect Public Health and Welfare by Safeguarding the Quality of Services Provided by Alaska's Licensed Professionals

DIVISION OF INSURANCE

Contact: Stan Ridgeway, Deputy Director (907) 465-2518

Mission

The mission of the Division of Insurance is to develop, interpret, and enforce the insurance statutes and regulations to protect and educate the consumer, and to enhance the insurance business environment.

Services Provided

- Consumer Services
- Licensing
- Investigative
- Market Examination
- Financial Examination
- Financial Examination
- Filings Review
- Actuaries Analysis

Goals and Strategies

- To Protect and Educate the Consumer and Enhance the Insurance Business Environment