

**SB**

**276**

**SFIN**

**FILE**

# SENATE FINANCE COMMITTEE REPORT

DATE: 2/18/04

REPORTED OUT

MAR 22 2004

SENATE FINANCE  
COMMITTEE

FURTHER:

DATE TURNED IN TO OFFICE: 3/22/04

Finance Committee considered SENATE BILL NO. 276

## SB 276 ALASKA INSURANCE GUARANTY ASSOCIATION

"An Act relating to the Alaska Insurance Guaranty Association; relating to joint insurance arrangements and assessments to the association; relating to the powers of the Alaska Industrial Development and Export Authority concerning the association; and providing for an effective date."

and recommends:

- be replaced with \_\_\_\_\_ CS SB 276 (FIN)
- adopt previous \_\_\_\_\_ CS CS FORTHCOMING (\_\_\_\_\_)
- attached amendment(s)
- adopt Letter of Intent by \_\_\_\_\_ Committee
- further referral to \_\_\_\_\_ Committee

**Senate Bill:**

Same Title

New Title

**House Bill:**

Same Title

Technical Title Change

New Title w/ SCR # \_\_\_\_\_

**NEW FISCAL NOTE(S):**

Department	Date	Fiscal	Indet.	Zero.	FN#
<i>FN FORTHCOMING</i>					
DCED INSURANCE	3/24/04			✓	
DOA	3/23/04			✓	
DCED RAILROAD	3/24/04			✓	

**PREVIOUS FISCAL NOTE(S):**

Department	Date	Fiscal	Indet.	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
<i>[Signature]</i>			✓	
<i>[Signature]</i>			✓	
<i>[Signature]</i>			✓	
<i>[Signature]</i>			✓	
COCHAIR: <i>[Signature]</i>	✓			
COCHAIR: <i>[Signature]</i>	✓			

MAR 22 2004

SENATE FINANCE  
COMMITTEE

# FISCAL NOTE

STATE OF ALASKA  
2004 LEGISLATIVE SESSION

Fiscal Note Number: \_\_\_\_\_  
Bill Version: CSSB276(FIN)  
( ) Publish Date: \_\_\_\_\_

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: DCED  
Title AIGA Assessment RDU Alaska Railroad Corporation  
Component \_\_\_\_\_  
Sponsor Rules  
Requester Request of the Governor Component No. \_\_\_\_\_

**Expenditures/Revenues (Thousands of Dollars)**

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE (Thousands of Dollars)**

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type-Do not abbreviate)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2004) cost: 0.0  
Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

The Alaska Railroad Corporation (ARRC) is a public corporation supported by revenues generated through its freight, passenger and real estate services. ARRC does not receive State subsidies for operations or capital improvements from the State.

This legislation has no fiscal impact on the operations of the ARRC.

Prepared by: Wendy Lindskoog, Director of External Affairs Phone 907.269.2498  
Division: Alaska Railroad Corporation Date/Time 3/24/04 4:22 PM  
Approved by: Edgar Blatchford, Commissioner Date 3/24/2004  
Agency: Department of Community & Economic Development

MAR 22 2004

SENATE FINANCE  
COMMITTEE

# FISCAL NOTE

STATE OF ALASKA  
2004 LEGISLATIVE SESSION

Fiscal Note Number: \_\_\_\_\_  
Bill Version: CSSB 276(FIN)  
( ) Publish Date: \_\_\_\_\_

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: DCED  
Title AIGA Assessment RDU Insurance (116)  
Component Insurance  
Sponsor Rules  
Requester By Request of the Governor Component No. 354

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2004) cost: 0.0  
Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

This legislation increases the Alaska Insurance Guaranty Association's (AIGA) ability to pay Alaska claims of insurers who become insolvent. It raises the current assessment limit for insurance companies from two percent to four percent of the member insurers net direct written premiums for a calendar year (AS 21.80). Based on 2002 premium activity for workers compensation insurance, an increase to four percent could generate a maximum assessment of approximately \$8 million annually. The legislation also allows all other lines of business to be assessed up to a maximum of two percent and allows AIDEA to provide guarantees for loans to the AIGA up to a maximum of \$30 million.

This bill has no fiscal impact on the operations of the division.

Prepared by: Linda S. Hall, Director Phone (907) 269-7900  
Division Insurance Date/Time 3/24/04 2:43 PM  
Approved by: Edgar Blatchford, Commissioner Date 3/24/2004  
Agency Community & Economic Development

REPORTED OUT  
  
MAR 22 2004  
  
SENATE FINANCE  
COMMITTEE

# FISCAL NOTE

STATE OF ALASKA  
2004 LEGISLATIVE SESSION

Fiscal Note Number: \_\_\_\_\_  
Bill Version: CS SB276 (FIN)  
( ) Publish Date: \_\_\_\_\_

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Administration  
Title An Act relating to AK Insurance Guaranty Assoc. BRU Risk Management  
Component Risk Management  
Sponsor Senate Rules by request of the Governor  
Requester \_\_\_\_\_ Component No. 71

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1007 I/A Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2004) cost: 0.0  
Check this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

This legislation no longer requires an assessment fee on self insured employers and therefore has no fiscal impact to Risk Management.

Prepared by: J. Brad Thompson, Director Phone \_\_\_\_\_  
Division Risk Management Date/Time 3/23/04 2:21 PM  
Approved by: \_\_\_\_\_ Date 3/23/2004  
Agency Administration

SENATE FINANCE COMMITTEE  
3 / 22 / 2003 COMMITTEE ACTION

Bill Number	SB 276		
Amendment			
Motion	PASS from Committee		
<u>Motion by</u>	GREEN		
<u>Objection by</u>	Bunde		
<u>Removed</u>			
<u>Second Objection by</u>			
<u>Committee Member</u>	<u>Y</u>	<u>Vote</u>	<u>N</u>
Senator Dyson	✓		
Senator Hoffman	✓		
Senator Olson			✓
Senator Stevens	✓		
Senator Bunde			✓
Co-Chair Green	✓		
Co-Chair Wilken	✓		
<u>Tally</u>			
Yea	5		
Nay	2		
Absent			
<u>MOTION</u>	PASS		

ADOPTED

WORK DRAFT

WORK DRAFT

WORK DRAFT

23-GS2105Q  
Bullock  
3/18/04

**CS FOR SENATE BILL NO. 276(FIN)**

**IN THE LEGISLATURE OF THE STATE OF ALASKA**

**TWENTY-THIRD LEGISLATURE - SECOND SESSION**

**BY THE SENATE FINANCE COMMITTEE**

**Offered:  
Referred:**

**Sponsor(s): SENATE RULES COMMITTEE BY REQUEST OF THE GOVERNOR**

**A BILL**

**FOR AN ACT ENTITLED**

1 "An Act relating to the Alaska Insurance Guaranty Association; relating to the powers  
2 of the Alaska Industrial Development and Export Authority concerning the association;  
3 and providing for an effective date."

4 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

5 \* Section 1. AS 21.80.060(a) is amended to read:

6 (a) The association

7 (1) is obligated to pay covered claims existing before the order of  
8 liquidation and arising within 30 days after the order of liquidation, or before the  
9 policy expiration date if less than 30 days after the order of liquidation, or before the  
10 insured replaces the policy or causes its cancellation if the insured does so within 30  
11 days after the order of liquidation, but this obligation includes only that amount of  
12 each covered claim that is less than \$500,000, except that a covered claim for return of  
13 unearned premium may not exceed \$10,000 for each policy, and except that the  
14 association shall pay the full amount of any covered claim arising out of a workers'

1 compensation policy; the association is not obligated

2 (A) to a policyholder or claimant in an amount in excess of the  
3 obligation of the insolvent insurer under the policy from which the claim  
4 arises; or

5 (B) to pay a claim filed with the association after the final date  
6 set by the court for the filing of claims against the liquidator or receiver of an  
7 insolvent insurer;

8 (2) is considered the insurer to the extent of its obligation on the  
9 covered claims and to that extent has all rights, duties, and obligations of the insolvent  
10 insurer as if the insurer had not become insolvent;

11 (3) shall allocate claims paid and expenses incurred among the three  
12 accounts separately, and assess member insurers separately for each account amounts  
13 necessary to pay the obligation of the association under (1) of this subsection  
14 subsequent to an insolvency, the expenses of handling covered claims subsequent to  
15 an insolvency, and other expenses authorized by this chapter; under this paragraph,

16 (A) the assessments of each member insurer must initially be  
17 based on a uniform percentage, as determined by the association, of the net  
18 direct written premiums of each member insurer for the last year for which  
19 annual statements have been filed on the kinds of insurance in the account; this  
20 initial assessment shall be adjusted by applying the same uniform percentage  
21 as initially used to each member insurer's net direct written premiums for the  
22 calendar year following the year in which the initial assessment was issued;  
23 any difference between the initial assessment amount and the adjusted  
24 assessment amount allocated to a member insurer shall be levied against or  
25 credited back to the member insurer, as appropriate, by the association; the  
26 association shall calculate and issue all appropriate levies and credits as soon  
27 as practical after all member insurers have filed their annual statements for the  
28 calendar year following the year in which the initial assessment was issued;

29 (B) on an annual basis, the association shall determine if  
30 funding is required for any of the three accounts; based on this determination,  
31 the association shall, during November of each year, issue initial assessments

1 as may be necessary to cover the projected reasonable costs of claims and  
2 expenses to administer the association for the following year; under this  
3 subparagraph,

4 (i) the association shall use the services of an  
5 independent actuary to assist the association to evaluate and make the  
6 projection;

7 (ii) an initial assessment may be made at any other time  
8 if the association determines funding is necessary, except that a  
9 member insurer may not be assessed initial assessments on any account  
10 in an amount greater than four [TWO] percent of the member insurer's  
11 net direct written premiums for the applicable calendar year; and

12 (iii) if an account has insufficient funds to pay  
13 covered claims under this section, the association shall assess each  
14 member insurer subject to assessment in the other two accounts an  
15 additional amount not to exceed two percent of the member  
16 insurer's net direct written premiums for the applicable calendar  
17 year;

18 (C) the association may pay claims in any order that it  
19 determines reasonable, including the payment of claims as they are received  
20 from claimants or in groups or categories of claims; however, if the maximum  
21 of all assessments made under this section [ASSESSMENT], together with  
22 the other assets of the association in any account, does not provide, in any one  
23 year, in any account, an amount sufficient to make all necessary payments  
24 from that account, the funds available shall be prorated, and the unpaid portion  
25 shall be paid as soon thereafter as funds become available;

26 (D) the association may defer, in whole or in part, an  
27 assessment of any member insurer if the assessment would endanger the ability  
28 of the member insurer to fulfill the insurer's contractual obligations or cause  
29 the member insurer's financial statement to reflect amounts of capital or  
30 surplus less than the minimum amounts required for a certificate of authority  
31 by any jurisdiction in which the member insurer is authorized to transact

1 insurance; however, during the period of deferment, the member insurer may  
 2 not pay dividends to shareholders or policyholders; a deferred assessment may  
 3 only be paid when the payment does not reduce capital or surplus below  
 4 minimums required by law; a member insurer who pays a larger assessment as  
 5 a result of a deferment given to another member insurer shall receive a refund  
 6 when the deferment ends or, at the election of the member insurer, receive a  
 7 credit against future assessments;

8 (E) each member insurer may set off against an assessment  
 9 authorized payments made on covered claims and expenses incurred in the  
 10 payment of these claims by the member insurer if they are chargeable to the  
 11 account for which the assessment is made;

12 (4) shall investigate claims brought against the association, adjust,  
 13 compromise, settle, and pay covered claims to the extent of the association's  
 14 obligation, and deny all other claims, and may review settlements, releases, and  
 15 judgments to which the insolvent insurer or its insureds were parties to determine the  
 16 extent to which settlements, releases, and judgments may be properly contested;

17 (5) may, subject to AS 21.89.100, appoint, substitute, or direct legal  
 18 counsel retained under an insurance policy for the defense of a covered claim;

19 (6) shall handle claims through its employees or through one or more  
 20 insurers or other persons designated as servicing facilities; a servicing facility shall  
 21 operate and maintain its principal office in this state unless the use of a servicing  
 22 facility located outside of the state would result in operating cost savings of at least 10  
 23 percent and would not result in material delay in claim payments; designation of a  
 24 servicing facility is subject to the approval of the director, but designation may be  
 25 declined by a member insurer;

26 (7) shall reimburse each servicing facility for obligations of the  
 27 association paid by the facility and for expenses incurred by the facility while handling  
 28 claims on behalf of the association and shall pay the other expenses of the association  
 29 authorized by this chapter.

30 \* Sec. 2. AS 21.80.060(b) is amended to read:

31 (b) The association may

1 (1) employ or retain those persons necessary to handle claims and  
2 perform other duties of the association;

3 (2) borrow funds necessary to effect the purposes of this chapter in  
4 accord with the plan of operation and secure guarantees from the Alaska Industrial  
5 Development and Export Authority for association loans that are necessary to  
6 make the association financially able to meet cash flow needs;

7 (3) sue or be sued;

8 (4) negotiate and become a party to those contracts that are necessary  
9 to carry out the purposes of this chapter;

10 (5) perform all other acts necessary or proper to carry out the purposes  
11 of this chapter;

12 (6) retain amounts excess of claims, expenses, credits, and other  
13 liabilities in any account to be applied to reduce future assessments in that account,  
14 except that, if, in any year, the association determines that significant funds in excess  
15 of projected claims, expenses, credits, and other liabilities exist in an account, the  
16 association shall return amounts to policyholders, through procedures established by  
17 the association, whereby the association reimburses member insurers for providing  
18 uniform credits against rates and premiums charged for all policies applicable to the  
19 account issued during the next calendar year.

20 \* Sec. 3. AS 44.88.080 is amended by adding a new paragraph to read:

21 (27) to guarantee loans made to the Alaska Insurance Guaranty  
22 Association (AS 21.80.040), with these guarantees limited to loans necessary to make  
23 the association financially able to meet cash flow needs up to a maximum outstanding  
24 principal balance at any time of \$30,000,000.

25 \* Sec. 4. This Act takes effect immediately under AS 01.10.070(c).

Frank H. Murkowski, Governor



**Division of Insurance**

P.O. Box 110805, Juneau, AK 99811-0805

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### Workers Compensation

There has been a critical development in Alaska workers compensation. In July of 2003, the Alaska Insurance Guaranty Association learned that Fremont Indemnity Company was declared insolvent in Los Angeles Superior court and put into liquidation. The Insurance Commissioner of the State of California was made liquidator by the court to wind up the affairs of the insurance company.

Fremont was a significant writer of workers compensation insurance in the Alaska market for many years prior to the suspension of its authority to write insurance coverage by the Alaska Division of Insurance in early 2001. At its peak, Fremont handled approximately 27% of the Alaska workers compensation business. Fremont also handled claims for policies originally written by Industrial Indemnity Company of Alaska after a merger in 1999. While Fremont has not actively written policies for over two years, approximately \$60,000,000 in claims reserves remained outstanding in July.

The Alaska Insurance Guaranty Association (AIGA) is an association formed under statute and whose members are insurance companies with approval to write property and casualty insurance in Alaska. The purpose of the Association is to "minimize financial loss to claimants or policyholders because of the insolvency of an insurer". The association pays the claims of insurance companies that are put into liquidation by insurance regulators. The funds to make payments on claims come from periodic assessments to the members based on the amount of premium written in Alaska. Statute caps assessments at 2% of written premiums each year. At the current time, the assessment on the written workers compensation premium generates approximately \$4.2 million. There are currently claims of four insolvent insurers being handled by the AIGA. Attached is a cash flow projection chart.

The magnitude of the Fremont insolvency far surpasses any prior insolvency in the Alaska insurance industry and exceeds the resources of the association, thus creating a substantial cash deficit. One of the options authorized by statute when there are insufficient funds to make necessary payments is to prorate claims payments. In August of 2003, notice was received by the Director of the Division of Insurance from the AIGA that workers' compensation claims would need to be pro-rated. This would mean that workers compensation claims would be paid at a pro-rated amount based on the available funds in the AIGA, thus creating a financial burden on claimants. It would mean that injured workers would receive lower weekly wage checks and medical care expenses would not be paid in full. Fortunately, to date, this has not been necessary but the funds in the AIGA are running very low and there will not be sufficient monies to continue to pay claims in the very near future.

Employers would face the financial burden for these claims. Under Alaska statute, the workers compensation obligation is that of the employer, who generally satisfies this obligation with the purchase of a workers' compensation policy. When the insurance company becomes insolvent, the claims are transferred to the Alaska Insurance Guaranty Association. When there are no funds to continue to pay claims, the obligation for benefits to injured workers will fall back to the employer. Employers would now be faced with the costs of both lost wages and medical care benefits.

The dollar amounts of claims currently being handled by the AIGA are substantial. Following is a breakdown of the larger claims:

<u>Dollar Value of Claims</u>		<u>Number of Claims</u>
Over	\$5,000,000	1
Over	\$2,000,000	3
Over	\$1,000,000	3
Over	\$500,000	17
Over	\$100,000	133
Over	\$50,000	136

This additional, unanticipated cost could potentially force small businesses to close their doors or face bankruptcy themselves.

Over time the legislature in Alaska and in every other state in the country has adopted as public policy the creation of a guaranty fund whose goal is to protect policyholders and claimants in the event of an insurance company insolvency. The premise is that the cost of the safety net is spread through the insured population. The mechanism to provide this safety net is the assessment capability of the guaranty fund. The original proposed legislation would allow the current caps on the assessment to be increased and to assess all lines of business to help raise the necessary funds to continue to pay claims. It would also allow AIDEA to become a guarantor of a loan to the Alaska Insurance Guaranty Association.

The solutions originally proposed are painful but the provisions are not as painful as the consequences of no action - we leave 380 Alaskan employers facing a financial obligation that could destroy their business and 598 injured workers who would face at a minimum an interruption in their benefits during a transition period as the financial obligation is given back to the employer.

Alaska Insurance Guaranty Association

Workers Compensation Account  
Cash Flow Projection as of 12/31/03

	<u>Cash Flow Based on Current 2% Assessment Rate</u>
Cash on Hand as of 1/1/04	6,615,301
2004 Assessment Income	4,394,181
2004 Expected Loss and Expense Payments	<u>16,837,942</u>
2004 Projected Shortfall	-5,828,460
2005 Projected Assessment Income	5,325,748
2005 Expected Loss and Expense Payments	<u>14,216,405</u>
2005 Projected Total Shortfall	-14,719,117
2006 Projected Assessment Income	5,592,035
2006 Expected Loss and Expense Payments	<u>9,417,226</u>
2006 Projected Total Shortfall	-18,544,308
2007 Projected Assessment Income	5,871,637
2007 Expected Loss and Expense Payments	<u>7,278,502</u>
2007 Projected Total Shortfall	-19,951,173
2008 Projected Assessment Income	6,165,218
2008 Expected Loss and Expense Payments	<u>6,429,216</u>
2008 Projected Total Shortfall	-20,215,171
2009 Projected Assessment Income	6,473,479
2009 Expected Loss and Expense Payments	<u>5,132,073</u>
2009 Project Total Shortfall	-18,873,765
2010 Projected Assessment Income	6,797,153
2010 Expected Loss and Expense Payments	<u>4,470,723</u>
2010 Projected Total Shortfall	-16,547,335

Alaska Insurance Guaranty Association

Workers' Compensation Account  
Cash Flow Projection as of 12/31/2003

	Cash Flow Based on Current 2% Assessment to WC Fund Only	Funding Sources Based on Proposed Assessments in SB276							
		Cash Flow Based on Proposed SB276	Assessment from WC Fund	Actual WC Assessment (Maximum 4%)	Assessment from Auto Fund	Assessment from Other Fund	Actual Auto & Other Assessment (Maximum 2%)	Maximum 2% Assessment from Self- Insureds & JIAs	AIDEA Backed Loan
Cash on Hand as of 1/1/04	6,615,301	6,615,301							
2004 Expected Loss and Expense Payments	16,837,942	16,837,942							
2004 Assessment Income	<u>4,394,181</u>	<u>10,222,641</u>	8,788,362	4.00%	706,281	727,998	0.19%	0	0
2004 Cash Flow	-5,828,460	0							
2005 Expected Loss and Expense Payments	14,216,405	14,216,405							
2005 Projected Assessment Income	<u>5,325,748</u>	<u>14,216,405</u>	10,651,496	4.00%	1,755,465	1,809,444	0.47%	0	0
2005 Cash Flow	-14,719,117	0							
2006 Expected Loss and Expense Payments	9,417,226	9,417,226							
2006 Projected Assessment Income	<u>5,592,035</u>	<u>9,417,226</u>	9,417,226	3.37%	0	0		0	0
2006 Cash Flow	-18,544,308	0							
2007 Expected Loss and Expense Payments	7,278,502	7,278,502							
2007 Projected Assessment Income	<u>5,871,637</u>	<u>7,278,502</u>	7,278,502	2.48%	0	0		0	0
2007 Cash Flow	-19,951,173	0							
2008 Expected Loss and Expense Payments	6,429,216	6,429,216							
2008 Projected Assessment Income	<u>6,165,218</u>	<u>6,429,216</u>	6,429,216	2.09%	0	0		0	0
2008 Cash Flow	-20,215,171	0							

	Cash Flow Based on Current 2% Assessment to WC Fund Only	Funding Sources Based on Proposed Assessments in SB276						
		Cash Flow Based on Proposed SB276	Assessment from WC Fund	Actual WC Assessment (Maximum 4%)	Assessment from Auto Fund	Assessment from Other Fund	Actual Auto & Other Assessment (Maximum 2%)	Maximum 2% Assessment from Self- Insureds & JIAs
2009 Expected Loss and Expense Payments	5,132,073	5,132,073						
2009 Projected Assessment Income	<u>6,473,479</u>	<u>5,132,073</u>	5,132,073	1.59%	0	0	0	0
2009 Cash Flow	-18,873,765	0						
2010 Expected Loss and Expense Payments	4,470,723	4,470,723						
2010 Projected Assessment Income	<u>6,797,153</u>	<u>4,470,723</u>	4,470,723	1.32%	0	0	0	0
2010 Cash Flow	-16,547,335	0						

The Other Fund consists of insurance such as property, general liability, medical malpractice, homeowners, boatowners, boiler and machinery, earthquake, aircraft, and products liability.



Alaska Municipal League Joint Insurance Association, Inc.

807 G Street, Suite 356 • Anchorage, Alaska 99501 • Phone (907) 258-2625 • Fax (907) 279-3615

February 28, 2004

The Honorable Gary Wilken and  
The Honorable Lyda Green  
Co-Chairs, Senate Finance Committee  
State Capitol  
Juneau, AK 99801-1182

RE: SB276

Dear Senators Wilken and Green:

The Alaska Municipal League Joint Insurance Association (AML/JIA) opposes SB276 as originally drafted. The bill imposes a "non-user fee" on local governments, school districts, and self-insureds, including the State of Alaska.

In addition to other, more lucrative provisions, the bill proposes a two percent assessment on all workers' compensation expenses paid out annually by a joint insurance arrangement or self-insured employer. Neither joint insurance arrangements like the AML/JIA nor self-insured employers like the State of Alaska are eligible to receive any benefit from the fund.

AS21.76 permits public entities to form joint insurance arrangements. If additional monies are needed to protect injured workers in the pool, school and municipal members of the joint insurance association would be tapped to replenish the pool's reserves much as the private sector members of the Alaska Guaranty Fund are assessed to replenish their fund.

Ultimately, workers' compensation is an obligation of the employer. This is an obligation the 140 municipal and school district members of the AML/JIA take very seriously. We have been working diligently to adequately fund our program. In the unlikely event of financial problems, the AML/JIA does not expect, nor are we entitled to, a bail-out from the Guaranty Fund.

HB403, an identical bill in the other body, was considered by the House Labor & Commerce Committee. In that committee, sections 1,3,5,6 and 8 were removed from the bill to eliminate the controversial assessment on self-insureds and joint insurance arrangements. At that time, the administration supported the removal of these entities.

The sections applying to self-insureds and joint insurance arrangements only represent approximately 1/24<sup>th</sup> of the total revenue contemplated by the bill. If these sections are removed and the bill passes, injured workers will still receive full payment of their claims. I ask you and the Senate Finance Committee to also consider dropping these sections from the bill, as they pose an unbudgeted burden largely shouldered by Alaska's schools, local governments and the State itself.

Thank you for your consideration.

Sincerely,

Kevin Smith  
Executive Director

cc Senate Finance Committee

**Subject:** [Fwd: [Fwd:SB276]]

**Date:** Thu, 19 Feb 2004 17:20:41 -0900

**From:** Jane Alberts <Jane\_Alberts@Legis.state.ak.us>

**Organization:** Alaska State Legislature

**To:** Sheila Peterson <Sheila\_Peterson@legis.state.ak.us>

Sheila~

Here is a letter on SB 276 AK Insurance Guaranty Fund that came to us too late. Perhaps you are interested in it for Finance meeting.

jane

---

**Subject:** [Fwd: \*\*\*\*\*SPAM\*\*\*\*\* SB276]

**Date:** Thu, 19 Feb 2004 11:34:22 -0900

**From:** Senator Con Bunde <senator\_con\_bunde@legis.state.ak.us>

**To:** Jane Alberts <Jane\_Alberts@Legis.state.ak.us>

---

**Subject:** \*\*\*\*\*SPAM\*\*\*\*\* SB276

**Date:** Tue, 10 Feb 2004 20:40:36 -0800 (PST)

**From:** Roy Agloinga <roy\_agloinga@yahoo.com>

**To:** Senator\_Con\_Bunde@legis.state.ak.us, Senator\_Hollis\_French@legis.state.ak.us,  
Senator\_Ralph\_Seekins@legis.state.ak.us, Senator\_Bettye\_Davis@legis.state.ak.us,  
Senator\_Gary\_Stevens@legis.state.ak.us

**CC:** wmcocity@starband.org, Senator\_Donny\_Olson@legis.state.ak.us

To: Senate Labor Commerce Committee Members

Regarding: SB276

I'm writing on behalf of the City of White Mountain. We are concerned about the implications of Senate Bill 276, a Governor's bill, proposing an assessment of 2% of all worker's compensation payments made by joint insurance associations and self-insureds. This amounts to approximately \$100,000 for the AML/JIA for this fiscal year.

As a pool member of AML/JIA, our City cannot afford higher workmen's compensation insurance payments. With Governor's Murkowski's budget cuts at the municipal level, we are already forced to find alternative funds for a position that coordinates critical services in our community. Forcing higher costs on us to replenish the Alaska Guaranty Fund will further damage our ability to keep services that we are working so hard to maintain.

The City of White Mountain cannot afford increased expenses or cuts in revenue from the State government. As a municipality, we have not access to the Guaranty Fund, and believe that this tax on municipalities, schools and self-insureds to subsidize the insurance industry at a time of fiscal crisis's for municipalities and schools will jeopardize already crippled services.

Sincerely yours,

Roy Agloinga

Mayor, City of White Mountain

---

Do you Yahoo!?

Yahoo! Finance: [Get your refund fast by filing online](#)

---

Jane Alberts, Senate Labor and Commerce Committee Aide <[jane\\_alberts@legis.state.ak.us](mailto:jane_alberts@legis.state.ak.us)>

THE  
FOLLOWING  
DOCUMENT(S)  
ARE  
POOR  
ORIGINAL  
COPIES

Re: SB 276 Ak Insurance Guaranty Assoc.

Frank H. Murkowski, Governor



**Division of Insurance**

550 W. 7th Avenue, Suite 1560, Anchorage, AK 98501-3567

Telephone: (907) 269-7900 • Fax: (907) 269-7910 • Text Telephone: (907) 465-5437

Email: Insurance@dced.state.ak.us • Website: www.dced.state.ak.us/insurance/

**FAX Transmittal**

**TO: Sheila Peterson**

**DATE: 3-19-04**

**FAX NUMBER: 465-4714**

**FROM:**

Linda Hall

**Total # of pages  
Including cover 4**

**Attachment:**

Attached please find:

1. Pages 5 & 6 from the AIGA plan of operation which details the calendar year for assessments to be applied to policies – I have underlined the relevant language.
2. The sample assessment letter sent to insurance companies which also should the 12 month period to surcharge new and renewing policies.

The Division of Insurance approves the plan of operation. It is also our position that the assessments may only be made on new policies or at renewal of existing policies. We would not approve an assessment being charges mid-term in a policy. Let me know if any questions.

Thanks

If this FAX does not transmit properly,  
please call the number listed immediately

The information contained in this FAX is **CONFIDENTIAL** and/or **PRIVILEGED**. This FAX is intended to be reviewed by the individual named above. If the reader of this transmittal page is not the intended recipient or a representative of the intended recipient, you are hereby notified that any review, dissemination, or copying of this FAX or the information contained herein, is prohibited. If you received this FAX in error, please immediately notify the sender by telephone, and return this FAX to the sender at the above address. Thank you.

Provided by Gary Wilken

the board. The board may use the mailing address of a person, firm or corporation employed to perform administrative functions as the official office address of the Association.

Authority: AS 21.80.070

**100. BANK ACCOUNTS.** (a) The board may open one or more bank accounts for use in Association business. The funds of the Association shall only be invested with federally insured institutions through bank accounts, certificates of deposits, or treasury obligations.

(b) Reasonable delegation of deposit withdrawal authority to Association bank accounts may be made consistent with prudent fiscal policy.

(c) The board may borrow money from any person, organization, or from an appointed servicing facility as the board, in its judgment, deems advantageous for the Association and the public.

Authority: AS 21.80.040  
AS 21.80.060  
AS 21.80.070

**110. ASSESSMENTS AND SURCHARGE PERCENTAGES [REFUNDS].** (a) The board shall determine and may levy assessments to cover the projected reasonable cost of claims and expenses to administer the Association, and shall determine surcharge percentages that may be applied by member insurers to insurance policies. In determining the need for an initial assessment, the board, on at least an annual basis and assisted by an independent actuary, will project the level of funding needed for each of the three accounts referenced in AS 21.80.040(a) during the following calendar year; the board and independent actuary will also project the aggregate net direct written premium of all member insurers and assigned risk pools for the following year on the kinds of insurance in each account. Such projections will take into account any estimated or actual differences between the aggregate assessment and the maximum allowable surcharge amounts from prior years. If funding is needed for any of the accounts, the board, based upon its projections, will determine uniform initial assessment percentages applicable to each account; the board will also determine the uniform surcharge percentages that may be applied by member insurers during the next calendar year to all policies related to an account, and will notify the Director and member insurers of each uniform surcharge percentage. After receipt of a notice of uniform surcharge percentage, member insurers or their rating organizations may apply to the Director for surcharge rates to be applicable to policies issued during the next calendar year.

(b) Initial and adjusted assessments shall be calculated from data provided by member insurers to the Alaska Division of Insurance on each member insurer's Annual Statement, "Exhibit of Premiums and Losses". The "Exhibit of Premiums and Losses" data should include only financial information respecting the transaction of insurance in Alaska. Member insurers who are also acting as servicing carriers for assigned risk pools shall be responsible for reporting to the Association the portion of their total net direct written premium that results from the assigned risk pool accounts serviced by them. If the data is not available for the year preceding the year of initial or adjusted assessment, the most recent data available from the Division will be used.

(c) During November of each year, the board will levy initial assessments, if any, against member insurers by means of written notices of assessment containing reasonable details of the projections made by the board in accordance with Section 110(a). An initial assessment may be made at any other time if the association determines earlier funding is necessary. For all initial assessments, the association shall determine and notify the Director and member insurers of the uniform surcharge percentage that may be applied by member insurers as a surcharge to all new and renewal policies related to the account. The association shall also provide notice of the commencement date of the 12-month period during which the surcharge is to apply. Payment of all levies of initial assessment shall be due within 45 days of the date of the written notice of assessment. Any unpaid levy amounts shall accrue interest after the applicable due date at the rate of 12% per annum, and the Association shall also be entitled to recover the costs of all collection efforts, including actual reasonable attorneys fees.

(d) Upon calculation of the adjusted assessment amounts allocated to each member insurer, the board will issue written notices of additional levy or credit, as appropriate, to member insurers. Additional levies against member insurers resulting from adjusted assessments shall be due and payable within 45 days of the date of the written notice of additional levy. Any unpaid additional levy amounts after the applicable 45-day due date shall accrue interest and be subject to recovery of collection costs and attorney fees, as provided in section 110(c). Credits due to member insurers from adjusted assessments will be paid by the Association within 45 days of the written notice of credit; provided, if a member insurer has any unpaid assessments at the time of payment of a credit, then the Association will offset the unpaid amounts, including any accrued interest and collection costs, against the credit; and provided further, that a member insurer may notify the Association to retain a credit to the member insurer's account to be offset against future assessments.

(e) For purposes of Association requirements, assigned risk pool business shall be accounted for separately from voluntary business by member insurers who are also acting as servicing carriers. Assigned risk pools and their policyholders are subject to initial and adjusted assessments, credits, surcharge rates, return of funds and other Association requirements to the same extent as member insurers and their policyholders. Each servicing carrier for an assigned risk pool, acting as a servicing conduit, shall be responsible for making timely payment of any initial or adjusted assessment levied against the assigned risk pool serviced by that carrier, pro rata to the amount of net direct written premium of the assigned risk pool serviced by that carrier in the applicable initial or adjusted assessment year. Any applicable credits will likewise be credited to servicing carriers on the same pro rata basis. To ensure assigned risk pool reimbursement to servicing carriers for amounts paid on behalf of an assigned risk pool, the plan administrator, rating organization and/or servicing carriers acting on behalf of an assigned risk pool may make any applicable surcharge rate filing to the Director on behalf of the subject assigned risk pool; and each such filing shall be applied uniformly by all carriers servicing that assigned risk pool.

(f) The board may waive the collection of levy or payment of credit from or to a member insurer when the amount produces a collection or payment of less than \$50.00.

(g) In the event any member insurer collects total surcharges from policyholders during a calendar year in excess of its applicable adjusted assessment, the member insurer shall pay such excess amount to the Association within 45 days of the date of the applicable written notice of levy or credit issued by the board.

July 15, 2003

**ASSESSMENT NOTICE**

ABC Company  
123 First St  
Anywhere, USA

NAIC # 12345

Attention: Corporate Tax or Regulations Department

The Alaska Insurance Guaranty Association (AIGA), under terms of Chapter 80 of the Alaska Insurance Code (Title 21 of Alaska Statutes), is responsible for administering the payment of covered claims for insurance carriers as to whom an Order of Liquidation with a finding of insolvency has been issued. The AIGA is also given the responsibility to assess its members for the funds needed to pay claims and administrative expenses and to notify the Alaska State Director of Insurance and member insurers of the surcharge percentage that may be applied by member insurers to all new and renewal policies related to each account.

The Division of Insurance has requested that the AIGA advise its member insurers of the need to make a filing with the Division if you intend to surcharge new and renewing policies. The surcharge for this assessment will be applicable to the 12-month period including September 1, 2003, through August 31, 2004. Questions regarding filing issues should be directed to the Alaska Division of Insurance (907-465-4613).

The Board has determined your initial 2003 assessment based on the uniform surcharge percentages by statutory account as indicated below. Your initial assessment is based on data you supplied the NAIC on your annual statement for the year ended 12/31/2002 and is limited to 2% of net direct written premium for that year. Any assessment under \$50.00 has been omitted. An adjusted assessment will be issued in 2005 following the reporting of each carrier's 2004 premiums.

	Total 2002 Assessable Premium	Alaska Surcharge Percentage	Your Assessable Premium	Your 2001 Assessment
Worker's Comp	212,279,281	2.00%	999,999,999	999,999
Auto	375,912,760	0.00%	999,999,999	999,999
Other	389,543,120	0.00%	999,999,999	999,999
<b>Assessment Due</b>				<b>\$ 999,999</b>

Please remit no later than August 31, 2003. A finance charge of 1% per month will be added to your assessment after 8/31/2003. Remit to:

**ALASKA INSURANCE GUARANTY ASSOCIATION**  
c/o Northern Adjusters, Inc.  
1401 Rudakof Circle, Ste 100  
Anchorage, AK 99508



**Alaska Chapter**

March 1, 2004

Senator Con Bunde  
State Capitol, Room 506  
Juneau, AK 99801

Dear Senator Bunde:

ABC of Alaska's Legislative Review Task Force has reviewed HB 403 and trusts that your committee will address a significant concern about the impact of this legislation on the construction industry. While we have identified no reluctance on the part of the industry to support an increase in assessments to cover shortfall in the Alaska Insurance Guaranty Association pool, the timing of implementation on any assessment increase will be critical.

Contractors are now bidding their work for the prime construction season which will run from spring through the end of the year. Bids consider existing Worker's Compensation rates to be static until each employer's renewal. If rates increase in the midst of an insurance year, contractor margins, already slim, will be significantly impacted.

In the construction industry, Worker's Compensation costs can be averaged from 10% to 12% of payroll costs. Last year's construction payroll was \$881 million and the Alaska Department of Labor Research & Analysis Division estimates a 3-5% increase this year. If we estimate a 4% increase, we are looking at total construction payroll of \$916 million in 2004. At 10%, the total worker's compensation rate for the industry can be estimated at \$91.6 million for 2004. A two percent increase will be \$1.8 million for the year. If we assume that by June the balance of the season's work has been awarded and contracted, then the industry will absorb up to a \$900,000 dollar hit on projects already bid and contracted for the year. Where in a normal environment costs are shared with construction buyers, in this scenario, the full brunt of the cost increase will be born by the industry.

The simple way to avoid this impact is to ensure that the change to the Worker's Compensation fee structure is a "new and renewal change" rather than an "in force" change. If increases are incorporated in Worker's Compensation fees at renewal, the contractor is already looking ahead to increases or adjustments in that expense as he or she is bidding.

If you have any questions on this issue, or if I can be of assistance in any other way, please do not hesitate to contact me at 565-5600.

Sincerely,

Eden Larson  
President & CEO

cc: Senate Labor & Commerce Committee, Senate Finance Committee

**Legislative Position Papers on**

**HB289; Construction Contractor Bonding/Insurance**

**HB311/SB323; Employer Responsibility for Workers Compensation**

**HB403/SB276; Alaska Insurance Guaranty Association**

**HB450/SB311; Insurance & Worker's Compensation System**

**Prepared & Presented by**

**Alaska Independent Insurance Agents & Brokers, Inc.**

**Lori Wing, President  
Alice Federenko, Executive Director**

POB 112908-2908  
Anchorage, Alaska 99511-2908  
(907) 349-2500 Phone  
(907) 349-1300 Fax  
Email:  
Website: [aiiab.org](http://aiiab.org)

## House Bill 289

Alaska Independent Insurance Agents and Brokers, Inc., an association comprised of insurance agencies/brokers throughout Alaska is concerned with the extreme change in the bond limits proposed under this bill. We are especially concerned about the increase proposed for the specialty contractor's license. The financial requirements to obtain this bond limit would be out of reach for many small or start up businesses. We believe that an increase from \$10,000.00 to \$20,000.00 for general contractors, and \$5,000.00 to \$10,000.00 for specialty contractors would be appropriate.

The increase proposed for the liability limits has long been warranted. Currently limits of liability are offered in a combined form. Example: \$300,000.00 combined single limit of liability for bodily injury and property damage per occurrence and \$600,000.00 in policy term aggregate. We feel that this limit as a minimum would be appropriate.

The Alaska Independent Insurance Agents and Brokers, Inc. supports House Bill 289 with our proposed revisions in bonding limits. We encourage the honored members of the Twenty-Third Legislature to quickly approve the legislation and allow them to be enacted.

This Is Respectfully Submitted,

*The Alaska Independent Insurance Agents and Brokers, Inc.*

## House Bill 311 and Senate Bill 323

Alaska Independent Insurance Agents and Brokers, Inc., an association comprised of insurance agencies & brokers throughout Alaska has reviewed the language of both House Bill 311 and Senate Bill 323. While we realize the intent of both bills, we believe that it will likely discriminate against general contractors and project owners respectively.

The Alaska Workers' Compensation Act requires that all employers meet the criteria within the act. The act requires that any employer either purchase a Workers' Compensation policy or become a qualified self-insured. Regardless of which way the employer elects to comply, or is eligible to comply, the intent of the legislation must be met.

The statutes, as currently written do not allow for contractors, as respects project owners, nor sub-contractors, as respects general contractors, to opt out of the Workers' Compensation Act.

We believe that there is not an exemption for class, contractors or sub-contractors in the original act. Therefore, the two proposed bills appear to be restating provisions of the original act and not necessary. The Workers' Compensation Act needs to be enforced, with all employers complying, eliminating the need for either House Bill 311 or Senate Bill 323.

This Is Respectfully Submitted,

*The Alaska Independent Insurance Agents and Brokers, Inc.*

## House Bill 403/Senate Bill 276

Alaska Independent Insurance Agents and Brokers, Inc., an association comprised of insurance agencies/brokers throughout Alaska is concerned with the financial solvency of the Alaska Insurance Guaranty Association (AIGA).

We are extremely concerned that the AIGA may soon become insolvent and be unable to pay the Workers' Compensation claims that were previously filed with various insurers now known to be insolvent.

Insurance brokers place a high degree of confidence in the financial condition of the various insurers with which we place business. We continually monitor their ratings through organizations such as A M Bests, Moody's, Standard & Poors. However, even with such scrutiny placed on financial ratings, an insurer will occasionally become insolvent. Such insolvencies result in the insurer being unable to pay the claims for which they have a contractual obligation. We then rely on the guaranty associations of the various states to assume these claims, making payments to the claimants as if the insurer were still meeting its contractual obligations.

Within the past few years, the AIGA, has been forced to assume an unusual amount of claims due to the insolvency of Reliance Insurance Group, Fremont Indemnity Company and others previously writing Workers' Compensation insurance policies in Alaska. The value of these claims far exceeds the funds of the Alaska Insurance Guaranty Association. According to Division of Insurance testimony, unless funding is shored up, the ability of the Guaranty Association to meet its cash flow obligations will end before mid-year 2004.

The claims would then revert to the employer as; per the various statues regulating Workers' Compensation employers would be obligated. These claims would without a doubt place a financial burden on the employers, one they may be unable to meet or, by meeting, be forced into a debt from which they may never recover.

We have reviewed the context of House Bill 403 and its companion Senate Bill 276. While we recognize that a two-percent assessment may not be welcome, we concur with the language of the bill in that it will provide the most effective means of capitalizing the AIGA in least amount of time allowing them to continue to pay claims.

The Alaska Independent Insurance Agents and Brokers, Inc. supports House Bill 403/Senate Bill 276 as proposed by the administration. We encourage the honored members of the Twenty-Third Legislature to quickly approve the bill(s) and allow them to be enacted. The result of not enacting this legislation would result in serious consequences that will not only impact claimants/employees and employers and others but also have a tremendous negative impact upon the business community in general.

This Is Respectfully Submitted,

*The Alaska Independent Insurance Agents and Brokers, Inc.*

## House Bill 450/Senate Bill 311

Close to one-hundred years ago, various states enacted statutes that provided a means for injured employees to be compensated for both the cost of medical care and lost wages without proving negligence on the part of the employer. These statutes, having evolved over the years, are what we now know as the Workers' Compensation Acts of the fifty states. It was hoped that these acts would provide a defined benefit and eliminate the need for unnecessary litigation.

The Alaska Workers' Compensation Act governs the manner in which claims are filed, recorded, adjusted and ultimately settled. Within this process are various mechanisms that are continually being challenged often resulting in opinions that are thought to be outside the intent of the act. This has resulted in claims being frequently litigated, increasing the cost of such claims well beyond the actual cost of medical care, lost wages and other benefits of the act. Such litigation and unprecedented awards has had a dramatic impact on the cost of meeting the statute; on the cost of Workers' Compensation insurance policies. Such litigation and unprecedented awards defeats the intent for which the statutes were enacted a decade ago.

Any statute, regulation or ordinance that is left open to frequent interpretation, will have varying opinions on the intent of the original legislation. Within the Workers' Compensation Act, these varying opinions, often thought to be outside the actual intent of the act, have resulted in additional costs or increased costs to the employer and, consequently, their insurer. To cope with these costs, the loss costs, or rates, have been increased over the year. Some insurers, even with the increased loss costs, elected to not provide Workers' Compensation insurance policies in Alaska. Others, while trying to compete, became insolvent forcing the claims for which they are contractually obligated into the Alaska Insurance Guaranty Association.

The Workers' Compensation Act has the ability to meet the intent of the act in a means that is cost effective and equitable for both the employee and employer. But, in order to accomplish that objective changes, that do not impact the actual benefit to the employees, need to be made to the act. Such changes are the intent of House Bill 450/Senate Bill 311.

The Alaska Independent Insurance Agents and Brokers, Inc. has reviewed the context of House Bill 450 and its companion Senate Bill 311. We concur with the language of the bill and support its limited reform of the Workers' Compensation Act. Enacting this legislation will allow the employers to meet the terms of the act, indemnify their employees in a manner that is fair and equitable yet allow for claims to be challenged in a prudent fashion. It will also attract new insurers into the state providing for a competitive market.

The Alaska Independent Insurance Agents and Brokers, Inc. supports House Bill 450/Senate Bill 311. We encourage the honored members of the Twenty-Third Legislature to quickly approve the bill(s) and allow them to be enacted. By enacting this very important legislation, it is our hope that the faults in the Workers' Compensation Act will be eliminated while allowing the employers to meet the conditions of the act and the employees to receive the benefits.

This Is Respectfully Submitted,

*The Alaska Independent Insurance Agents and Brokers, Inc.*

3/1/2004 8:08 AM

SENATE FINANCE  
COMMITTEE

Amendment Number: # 1

Bill Number: SB 276

Sponsor: Bunde Date: 2/27/04

Logged In By: Mindy

23-GS2105\1.1

Bullock

2/26/04

AMENDMENT

HOLD

per  
Sen Bunde OR BUNDE

don't  
distribute

OFFERED IN THE SENATE  
TO: CSSB 276(L&C)

1 Page 5, line 28:

2 Delete "earnings reserve account established under AS 37.13.145"

3 Insert "Alaska Municipal Bond Bank Authority not set aside for bond issue  
4 reserves"

6 Page 6, following line 4:

7 Insert new bill sections to read:

8 "\* Sec. 5. The uncodified law of the State of Alaska is amended by adding a new section to  
9 read:

10 CONTINGENT EFFECT. Section 3 of this Act takes effect only if the Twenty-Third  
11 Alaska State Legislature appropriates \$13,500,000 from the Alaska Municipal Bond Bank  
12 Authority not set aside for bond issue reserves, for the purpose of making a grant or grants to  
13 the Alaska Insurance Guaranty Association.

14 \* Sec. 6. If, under sec. 5 of this Act, sec. 3 of this Act takes effect, it takes effect on the  
15 effective date of the appropriation described in sec. 5 of this Act."

17 Renumber the following bill section accordingly.

19 Page 6, line 5:

20 Delete "This"

21 Insert "Except as provided in sec. 6 of this Act, this"

packet contains  
- amendment  
- f/n that applies  
to amend.  
- letter of intent  
that supersedes  
other letter of int.  
must be  
submitted separate

# FISCAL NOTE

**STATE OF ALASKA**  
**2004 LEGISLATIVE SESSION**

Fiscal Note Number: \_\_\_\_\_  
 Bill Version: CS SB 276(L&C) draft  
 (H) Publish Date: \_\_\_\_\_

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue  
 Title: AK Insurance Guaranty Association BRU: AK Mun. Bond Bank Auth  
 Sponsor: Governor Component: \_\_\_\_\_  
 Requester: Senator Con Bunde (L&C Chair) Component Number: \_\_\_\_\_

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
-----------------------------	--	--	--	--	--	--

<b>CHANGE IN REVENUES ( )</b>						
-------------------------------	--	--	--	--	--	--

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
1104 AK Municipal Bond Bank Auth.						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2004) cost: 13,500.0

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** *(Attach a separate page if necessary)*

Prepared by: Jane Alberts Phone 465-3844  
Labor and Commerce Committee Aide  
 Representative Senator Con Bunde, Date 2/26/2004  
Chair, Senate Labor and Commerce

# LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES  
LEGISLATIVE AFFAIRS AGENCY  
STATE OF ALASKA

(907) 465-3867 or 465-2450  
FAX (907) 465-2029  
Mail Stop 3101

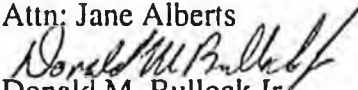
State Capitol  
Juneau, Alaska 99801-1182  
Deliveries to: 129 6th St., Rm. 329

## MEMORANDUM

February 26, 2004

**SUBJECT:** Amendment to CSSB 276(L&C)  
(Work Order No. 23-GS2105)

**TO:** Senator Con Bunde  
Attn: Jane Alberts

**FROM:**   
Donald M. Bullock Jr.  
Legislative Counsel

Enclosed with this memorandum is the amendment you requested for CSSB 276(L&C).

As requested, I deleted the reference to the earnings reserve account in AS 21.80.080(b)(4) and replaced it with a reference to the Alaska Municipal Bond Bank Authority (AMBBA). I added a contingent effective date that makes sec. 3 contingent upon the appropriation of \$13,500,000 from the AMBBA. The Act has an immediate effective date, except as provided in the contingent effective date sections.

I urge you to consult bond counsel about the effect of appropriating money from the AMBBA. The AMBBA has responsibilities to bondholders and political subdivisions that may be affected by an appropriation from AMBBA funds, even considering the limitation "not set aside for bond issue reserves." For example, such an appropriation may violate the state's pledge in AS 44.85.130(b) not to interfere with the operation of the AMBBA in such a way to prevent the authority from fulfilling any agreement made with bond holders.

If I may be of further assistance, please advise.

DMB:mdr  
04-071.mdr

Enclosure



333 Willoughby Avenue, 11th floor  
P.O. Box 110405  
Juneau, Alaska 99811-0405

Tel (907) 465-2388  
FAX (907) 465-2902  
E-mail: [ambba@revenue.state.ak.us](mailto:ambba@revenue.state.ak.us)

February 26, 2004

Senator Con Bunde  
Chair, Labor and Commerce Committee  
State Capitol, Room 506  
Alaska State Legislature  
Juneau, AK 99801

Dear Senator Bunde,

We are writing to provide additional detail on your questions related to appropriating funds from the Alaska Municipal Bond Bank Authority for other purposes. An appropriation of funds from the Bond Bank Authority's custodian account would restrict the ability of some communities to finance future capital projects at the local level, it would increase community and state cost of financing other capital projects, and send a negative message to national rating agencies that are tracking the State's credit.

The Alaska Municipal Bond Bank Authority was created in 1975 to assist Alaska municipalities issue bonds for local projects. The Bond Bank Authority is able to realize savings for municipalities by pooling bonds in large numbers and obtaining lower interest rates that result in reduced costs, and often better terms overall, than municipalities could obtain on their own. You may recall some of the community and administrative support shown in 2003 when the Legislature passed SB 51 increasing the borrowing authority of the Bond Bank from \$300 million to \$500 million to respond to increased borrowing at the municipal level to fund capital projects.

The average total annual return to the State of Alaska net of operations over the last three years has been approximately \$4.8 million. This represents over an 11.6% average annual return on the total net assets of the Bond Bank Authority. Savings generated by reduced issuance costs and lower interest rates on borrowed money to Alaska's communities from fiscal years 2001 through 2003 have been \$10.6 million or an average of \$3.5 million annually. Approximately 50% of these savings go directly to the State's bottom line due to reimbursement programs the state funds. At the same time the Bond Bank Authority has provided direct cash transfers to the State of almost \$4 million, or on an annual basis \$1.3 million.

The Bond Bank Authority is an example of efficiency in State government. Funding for the annual budget is provided through the gross revenue of the Bond Bank, and there is only one partially funded position in the Bond Bank's budget, otherwise all operations are contracted out on a demand basis. As borrowing activity levels go up there are increased costs, and as they go down costs are reduced. With

efficiencies and competitive contract awards the Bond Bank Authority's budget has remained flat for the last eight years.

The Bond Bank Authority's issuing bonds does not have a fiscal impact on the state's General Fund. Bond Bank debt is not a direct liability of the state, and the municipalities that use the Authority pay all of the debt service on the bonds.

A transfer of funds from the Bond Bank Authority will limit the ability to issue additional bonds for community capital projects. The current assets of the Bond Bank are estimated to be sufficient to reach the statutory cap for issuing bonds of \$500 million. If funds are removed the cap will effectively be reduced as the Bond Bank Authority will no longer have the means of funding mandatory reserve amounts. The Bond Bank Authority currently has four applications pending that are scheduled for issuance before the end of the calendar year, and there are several additional communities that have indicated that bond issuance in 2004 is likely. The Bond Bank will not have the resources available to issue these bonds if funds are transferred out.

A transfer of assets from the Bond Bank Authority may have a negative rating impact for the Bond Bank. The reserves of the Bond Bank and the implied confidence in the State's support for the program by never having appropriating from those amounts available for appropriation are cited in rating reports. By removing the reserves and reducing confidence in the State's support there may be ramifications for maintenance of the Bond Bank Authority's rating.

The national rating agencies have expressed their concern about the State of Alaska's short to mid-term outlook on several occasions. Excerpts from recent reports follow:

*Moody Investors Service:* "The outlook for the State of Alaska remains negative, given its sizable structural deficit and continued reliance on reserve fund drawdowns to fully fund its operations. . .Based on current state estimates relative to the timing of final reserve balance depletion, the state must begin to take meaningful steps towards achieving fiscal balance to avoid any further negative downward pressure on its credit rating."

*Fitch:* "Continued expectations for depletion of the constitutional budget reserve. . .emphasize the need to continue working toward having sufficient recurring revenues to ensure structural balance."

*Standard & Poor's:* "The 'AA' rating on Alaska's GO bonds reflects the state's strong general credit characteristics. . .A somewhat offsetting medium term concern is the state's structural budget gap, which is currently addressed on an annual basis with the use of the state's Constitutional Budget Reserve Fund (CBRF) which is projected to be depleted in approximately 2006."

With this backdrop, all actions of the State are closely monitored with a slightly negative eye at this time. The use of public corporation assets that otherwise provide annual long-term fiscal benefit to the State for a one time budget measure will almost certainly be added to the negative column and increase the likelihood of a credit downgrade for the State.

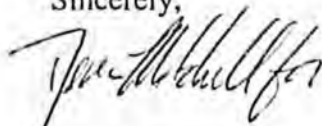
As of April 2004, the Bond Bank will have \$355,380,878 in bonds outstanding. Activity since January 2003 includes:

Obligor	Issuance	Project	AMBBA Savings	State Funding
City of Fairbanks	2004 A	\$7.5 million - Fire Facility	\$46,000	100%
City & Borough of Sitka	2004 A	\$12 million - Schools	\$302,000	60%
Northwest Arctic Borough	2003 G	\$24.1 million - Schools	\$2,100,000	60-70%
City of Seward	2003 F	\$3.32 - Refinancing	\$47,000	0
Aleutians East Borough	2003 E	\$21.2 million - Harbors and Schools	\$665,000	70-100%
Kenai Peninsula Borough	2003 E	\$10.5 million - Hospital	\$248,000	0
Kenai Peninsula Borough	2003 D	\$15.1 million - Schools	\$515,000	70%
City of Kodiak	R2003C	\$1,015,000 - Refinancing	\$31,000	0
Lake & Peninsula Bor.	2003 C	\$1,000,000 - Harbor	\$54,000	100%
Kenai Peninsula Borough	2003 C	\$7,040,000 - Solid Waste	\$116,000	0
City of Valdez	R2003B	\$19,000,000 - Hospital	\$1,660,000	0
Kodiak Island Borough	2003 B	\$3,075,000 - Refinancing	\$39,000	70%
Ketchikan Gateway Bor.	2003 A	\$9,305,000 - Schools	\$211,000	70%
City & Bor. of Juneau	R2003A	\$5,685,000 - Port	\$75,000	0

Senator Bunde, A transfer of funds from the Bond Bank Authority will limit Alaska's communities' ability to undertake capital projects, increase the cost of Alaska's communities to complete capital projects, and may have negative credit impact for both the Bond Bank Authority and the State of Alaska. The same organizations, including the Alaska Municipal League, the Alaska Government Finance Officer's Association, and the local governments that rely on the Bond Bank Authority that supported Senate Bill 51 in 2003 should oppose a transfer out of the Bond Bank Authority in 2004. We urge you to remove the Bond Bank Authority as a possible funding source for other purposes.

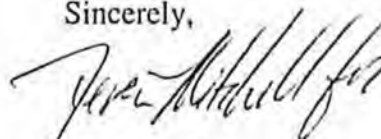
Thank you for your consideration, and please let us know if you have any questions. Or you also may contact Deven Mitchell, Executive Director, at 465-3750.

Sincerely,



Desi Mayo  
Chairman of the Board

Sincerely,



Mark Pfeffer  
Vice-Chairman of the Board

cc: Mike Tibbles, Legislative Liaison, Office of the Governor

Alaska State Legislature

**Senator Con Bunde**

District P

Chair: Senate Labor & Commerce Committee

During Session:  
State Capitol  
Juneau, AK 99801-1182  
(907) 465-4843

During Interim:  
716 W. Fourth Avenue  
Anchorage, AK 99501-2133  
(907) 269-0181

*Letter of Intent*

pertains  
to  
Amend #1  
must be adopted

Alaska's Workers Compensation Program has been left with a deficit in excess of \$20 million dollars due to the unexpected insolvency of the Fremont Indemnity Company in 2003.

Deeming pro-rating and increased assessments in the program as detrimental to injured workers and businesses, it is the *intent* of the legislature to use 13.5 million dollars from the Alaska Municipal Bond Bank Authority, that has not been reserved for bond issue, to partially alleviate this financial crisis.

# FISCAL NOTE

**STATE OF ALASKA**  
**2004 LEGISLATIVE SESSION**

Fiscal Note Number: \_\_\_\_\_  
 Bill Version: CS SB 276(L&C) draft  
 (H) Publish Date: \_\_\_\_\_

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue  
 Title: AK Insurance Guaranty Association BRU: AK Mun. Bond Bank Auth  
 Sponsor: Governor Component: \_\_\_\_\_  
 Requester: Senator Con Bunde (L&C Chair) Component Number: \_\_\_\_\_

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
-----------------------------	--	--	--	--	--	--

<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
1104 AK Municipal Bond Bank Auth.						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2004) cost: 13,500.0

**POSITIONS**

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

*pertains to  
 Amend #1  
 use only if #1  
 is adopted*

Prepared by: Jane Alberts Phone 465-3844  
Labor and Commerce Committee Aide  
 Representative Senator Con Bunde, Date 2/26/2004  
Chair, Senate Labor and Commerce

## SENATE COMMITTEE REPORT First Committee of Referral

DATE: 1/23/04

FURTHER: Finance

Date of 5-Day Notice: 1/29/04  
(in accordance with Uniform Rule 23)

DATE TURNED  
IN TO OFFICE: 2/18/04

Labor and Commerce Committee considered SENATE BILL NO. 276

### SB 276 ALASKA INSURANCE GUARANTY ASSOCIATION

"An Act relating to the Alaska Insurance Guaranty Association; relating to joint insurance arrangements and assessments to the association; relating to the powers of the Alaska Industrial Development and Export Authority concerning the association; and providing for an effective date."

and recommends:

be replaced with CS SB 276 (LTC)

adopt previous CS (        )

attached amendment(s)

adopt Letter of Intent by LTC Committee

further referral to          Committee

**Senate Bill:**

- Same Title
- New Title

**House Bill:**

- Same Title
- Technical Title Change
- New Title w/ SCR #

**NEW FISCAL NOTE(S):**

Department	Date	Fiscal	Indet.	Zero	FN#
S/LTC	2/10	✓			6

**PREVIOUS FISCAL NOTE(S):**

Department	Date	Fiscal	Indet.	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	Do PASS	Do NOT PASS	No REC	AMEND
French <i>Dolly French</i>		X		
Seekins <i>Ralph Seekins</i>	✓			
<i>[Signature]</i>	✓			
CHAIR: <i>[Signature]</i>	✓			

French  
Seekins  
C. Stevens  
  
Bunde

SENATE FINANCE COMMITTEE

SIGN-IN

SB 276-ALASKA INSURANCE GUARANTY ASSOCIATION

NAME: Barbara Thurston Subject/Bill No: SB 276  
Co./Dept./Title: Guaranty Fund- Actuary Phone: 907-790-1976  
Address: PO Box 22408 Juneau Zip: 99802

Do you wish to testify?  Yes  No  Respond To Questions

NAME: \_\_\_\_\_ Subject/Bill No: \_\_\_\_\_  
Co./Dept./Title: \_\_\_\_\_ Phone: \_\_\_\_\_  
Address: \_\_\_\_\_ Zip: \_\_\_\_\_

Do you wish to testify?  Yes  No  Respond To Questions

NAME: \_\_\_\_\_ Subject/Bill No: \_\_\_\_\_  
Co./Dept./Title: \_\_\_\_\_ Phone: \_\_\_\_\_  
Address: \_\_\_\_\_ Zip: \_\_\_\_\_

Do you wish to testify?  Yes  No  Respond To Questions

NAME: \_\_\_\_\_ Subject/Bill No: \_\_\_\_\_  
Co./Dept./Title: \_\_\_\_\_ Phone: \_\_\_\_\_  
Address: \_\_\_\_\_ Zip: \_\_\_\_\_

Do you wish to testify?  Yes  No  Respond To Questions

