Leg. Finance - Finance Comte Files (1971-72) 8879
HB 718 cont., 719, 733 178

22

FY 73

EQUIPMENT

		code	
AGENCY Office of the Governor	CATEGORY	IX	Gen. Government
DIVISION Councils and Commissions	PROGRAM		
Law of the Sea	SUB-PROGRAM		
	ELEMENT		
	SUB-ELEMENT		

CODE	EQUIPMENT CLASSIFICATION	FY 71 ACTUAL	FY 72 AUTHORIZED	FY 73 AGENCY Maintenance	FY 73 AGENCY Change	FY 73 AGENCY Request	FY 73 GOVERNOR'S BUDGET
500	TOTAL					1.4	
510	VEHICLES, BOATS, AIRPLANES						
520	OFFICE FURNITURE AND EQUIPMENT					1.4	
530	EQUIPMENT PECULIAR TO THE PROGRAM						
560	SHOP AND MAINTENANCE EQUIPMENT						
590	OTHER EQUIPMENT						
950	INTER-AGENCY CHARGES						

EXPLANATION:

ITEM NO.	DESCRIPTION OF ITEMS REQUESTED	EQUIP. CODE	NO. OF UNITS	UNIT COST	TOTAL COST	REPLACEMENT	NEW
1.	Desk, Executive	520	1	200	200		200
2.	Desk, Typist	520	1	200	200		200
3.	Chair, Executive	520	1	60	60		60
4.	Chair, Typist	520	1	50	50		50
5.	Typewriter, Electric	520	1	550	550		550
6.	File Cabinet	520	1	110	110		110
7.	Map File	520	1	200	200		200
8.	Costumer	520	1	30	30		30

02-1022

23

FY 73

OTHER OPERATING EXPENSES
TRAVEL

		code	
AGENCY Office of the Governor	CATEGORY	IX	Gen. Government
DIVISION Councils & Commissions	PROGRAM		
Law of the Sea	SUB-PROGRAM		
	ELEMENT		
	SUB-ELEMENT		

CODE	TRAVEL CLASSIFICATION	FY 71 ACTUAL	FY 72 AUTHORIZED	FY 73 AGENCY Maintenance	FY 73 AGENCY Change	FY 73 AGENCY Request	FY 73 GOVERNOR'S BUDGET
200	TOTAL					13.9	
	FIELD TRAVEL						
	IN-STATE					1.2	
	OUT-OF-STATE						
	ADMINISTRATIVE TRAVEL						
	IN-STATE					9.7	
	OUT-OF-STATE						
	CONVENTIONS AND MEETINGS						
	IN-STATE						
	OUT-OF-STATE					3.0	
920	INTER-AGENCY CHARGES						

EXPLANATION:

200 Travel: 7 member board; 4 trips in AK: 2 Juneau, 1 Anchorage, 1 Fairbanks; 4 days @ Inside AK per diem) 4 days, 9 men = 36 x 35 = 1260 x 4 trips = $5040
Outside AK: 2 members @ 2 Nat'l meetings; 400 trans & 200 per diem = 600 per trip per person 600 x 4 = 2400

7 members: 3 Anchorage area; 3 Fairbanks area; 3 Southeastern
Juneau meeting: Anch. fares 100 @; Fbx 150 @; S.E. 90 @; 930 x 2 meetings 1860
Anch. meeting: Fbx fares 75 @ S.E.; Anch 50; Juneau 100 = 625 x 2 meetings = 1250
Fbx meeting: Anch 75 (3); Juneau 150 (3); Fbx 50 (2) = 775 x 2 meetings = 1550

Total:

Inside Alaska	4,660	Trans
	5,040	Per Diem
Outside "	2,400	
	12,100	Board members travel

02-1023

OTHER OPERATING EXPENSES
COMMODITIES

		code	
AGENCY Office of the Gov rnor	CATEGORY	IX	Gen. Government
	PROGRAM		
DIVISION Councils & Commissions	SUB-PROGRAM		
Law of the Sea	ELEMENT		
	SUB-ELEMENT		

CODE	COMMODITY CLASSIFICATION	FY 71 ACTUAL	FY 72 AUTHORIZED	FY 73 AGENCY Maintenance	FY 73 AGENCY Change	FY 73 AGENCY Request	FY 73 GOVERNOR'S BUDGET
400	TOTAL					.4	
490	Office Supplies	-0-	-0-			400	
940	INTER-AGENCY CHARGES						

EXPLANATION:

24

FY 73

OTHER OPERATING EXPENSES
CONTRACTUAL SERVICES

AGENCY Office of the Governor	CATEGORY	IX	Gen. Government
DIVISION Councils & Commissions	PROGRAM		
Law of the Sea	SUB-PROGRAM		
	ELEMENT		
	SUB-ELEMENT		

CODE	CONTRACTUAL SERVICES CLASSIFICATION	FY 71 ACTUAL	FY 72 AUTHORIZED	FY 73 AGENCY Maintenance	FY 73 AGENCY Change	FY 73 AGENCY Request	GOVERNOR'S BUDGET
300	TOTAL					4.2	
310	Communications					1,440	
320	Printing & Advertising					600	
330	Rents & Utilities					960	
360	Rent of Equipment					600	
370	Insurance and Bonding					100	
930	INTER-AGENCY CHARGES					500	

EXPLANATION:

Introduced: 3/3/72
Referred: Resources and Finance

IN THE HOUSE

BY THE RESOURCES COMMITTEE BY REQUEST

HOUSE BILL NO. 718

IN THE LEGISLATURE OF THE STATE OF ALASKA

SEVENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act creating the Commission on the Conference of the Law of the Sea."

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

* Section 1. INTENT. It is the intent of this Act to establish a commission for the development of a state policy on resources in the coastal marine environment vital to Alaska, international fishery rights, and the law of the sea as it relates to both. In implementing this policy it is intended that efforts be made to assure that Alaskan interests be represented at all Law of the Sea Conferences, and that before any Conference, the policies formulated be coordinated with Canada and other interested coastal states.

* Sec. 2. AS 44.19 is amended by adding new sections to read:

ARTICLE 9G.

Sec. 44.19.789. CREATION. There is created in the Office of the Governor the Commission on the Conference of the Law of the Sea.

Sec. 44.19.791. COMPOSITION. The Commission on the Conference of the Law of the Sea is composed of the following persons:

(1) a member of the House of Representatives appointed by the Speaker of the House;

(2) a member of the Senate appointed by the President of the Senate;

(3) the director of international fisheries to serve as executive secretary of the commission;

(4) four members to be appointed by the governor.

Sec. 44.19.793. TERMS OF MEMBERSHIP AND COMPENSATION. (a) The term of office of each elected member of the commission does not survive his resignation or removal. Appointed members serve for overlapping six-year terms. The first members appointed serve as follows: one member for one year, two members for two years, and two members for four years.

(b) Members receive no salary, but are entitled to per diem and travel expenses authorized by law for other boards and commissions.

Sec. 44.19.795. MEETINGS. The commission shall meet at least twice a year, and shall submit a written report to the legislature on February 1 of each year.

Sec. 44.19.797. DUTIES. The duties of the Commission on the Conference of the Law of the Sea include, but are not limited to,

(1) gathering, analyzing, and compiling basic data on resources found in the sea or in the seabed off the coast of Alaska;

(2) developing a state position on

(A) the management, harvest or utilization, and conservation of the various resources in the marine environment vital to Alaska, including but not limited to, minerals, oil and gas, and fish and shellfish; and

(B) the extent of the maximum limits of jurisdiction, including the territorial limits, most appropriate for the state;

(3) actively working to assure that adequate and fair representation is given to Alaska in the Conference on the Law of the Sea in 1973, and at all subsequent conferences, and that permanent conference advisors from Alaska are appointed by the U.S. State Department.

Sec. 44.19.799. POWERS OF THE COMMISSION. The commission may

(1) employ necessary personnel, including an executive director;

(2) hold hearings throughout the state to collect data related to its duties in sec. 797 of this chapter;

(3) solicit and obtain the services of other state departments and agencies in collecting and compiling data necessary to carry out its duties under sec. 797 of this chapter;

(4) seek the cooperation of and enter into agreements with other coastal states for the wise development and conservation of marine resources;

(5) receive and expend grants and appropriations from private and governmental sources for the purpose of carrying out its duties under sec. 797 of this chapter.

RECORDS CERTIFICATION

I, the undersigned, an employee of the State of Alaska, do hereby certify that the microfilm images on this microform are accurate reproductions of the original records of the State of Alaska as accumulated during the regular course of business, and that it is the established policy and practice of this State to microfilm its records and to dispose of the original records after microfilm reproductions have been made.

James O. Smith
Signature of Camera Operator

4/4/89
Date

02-519 (REV 8/78)

"An Act relating to facilities for safe water and hygienic sewage and solid waste disposal in villages."

Committee Report

H O U S E O F R E P R E S E N T A T I V E S

[illegible]/72

Date

Mr. Speaker

The Committee on FINANCE has had HB 71[illegible] under consideration. A majority of the members of the Committee

/X/ recommends it do pass

/ / recommends it do not pass

/ / recommends it do pass with attached amendment(s)

/ / recommends it be replaced with CS for ________ and that CS for ________ do pass

/ / (and) recommends it be referred to the ________ committee

/ / reports it back without recommendation

/X/ (other) [illegible]

MEMBERS SIGNING THE MAJORITY REPORT:

MEMBERS NOT CONCURRING IN THE MAJORITY REPORT:

recommends: No Rec

recommends: [illegible]

recommends:

recommends:

recommends:

CHAIRMAN

The Legislature of the State of Alaska
FISCAL NOTE
Second Session - Seventh State Legislature

I. REQUEST
Bill Identification: HB 719
Title: Facilities for safe water and hygenic sewage and solid waste disposal
Requested by: Chairman, House HWE Committee Date: April 18, 1972
Return Date Requested: April 19, 1972
Agency: Environmental Conservation Program: Water and Air Quality Control

II. FISCAL DETAIL
Budget Request Unit(s) Affected:
A. EXPENDITURES: (Thousands of dollars)

	OBJECT	FY 72	FY 73	FY 74	FY 75	FY 76	FY 77
100	PERSONAL SERVICES		98	269	96	96	96
200	TRAVEL		17	50	24	14	14
300	CONTRACTUAL		20	100	0	0	0
400	COMMODITIES		15	60	135	135	135
500	EQUIPMENT		5	10	5	5	5
600	LAND & STRUCTURES		1,000	3,000	0	0	0
700	GRANTS. CLAIMS, ETC.						
	TOTAL		1,155	3,489	260	250	250

B. FUNDING: (Thousands of dollars)

GENERAL FUND		155	489	260	250	250
FEDERAL FUNDS						
OTHER		1,000	3,000	0	0	0

C. POSITIONS:

PERMANENT/TEMPORARY	/	5.5/0	16.5/0	12/0	12/0	12/0
MAN MONTHS (P./T.)	/	66/0	198/0	144/0	144/0	144/0

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)
Assumptions: Staffing and construction season limitations will permit construction of three facilities during the summer and fall of 1973, with an additional nine facilities from the remaining $2 million of present authorization, plus an additional $1 million included in SB 277 in 1974; hopefully, an average of three facilities can be constructed for each $1 million, plus an overhead of approximately 12% initially, not including the cost of local operator plus assistance with fuel costs and maintenance.

Code 100 includes office staff and engineering personnel to plan and design projects as well as native aides to operate. Code 300 includes rental of office space in Juneau, Anchorage, and Fairbanks; plan reproduction; telephone and communications; etc. Code 400 includes estimate of $5,000 per village for fuel oil and other operating supplies for the facility. Code 500 includes local office equipment. After FY 1974, continuing costs are attributable to operation and maintenance. In addition to State subsidy of projects under Code 400, it is assumed that average village could pay half of total subsidy, or about $20,000 per year per village.

V. DATE: 4/21/72 PREPARED BY: James B. Anderson

Original: Legislative Finance
cc: Budget and Management
Prime Sponsor (First Legislator Named)

Introduced: 3/3/72
Referred: Health,Welfare & Education and Finance

BY THE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

IN THE HOUSE

HOUSE BILL NO. 719

IN THE LEGISLATURE OF THE STATE OF ALASKA

SEVENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to facilities for safe water and hygienic sewage and solid waste disposal in villages."

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

* Section 1. AS 46.07.010 is amended to read:

Sec. 46.07.010. STATEMENT OF PURPOSE. It is the purpose of this chapter to establish a program designed to provide safe water and the collection, transportation, storage, processing, and ultimate disposal of sewage and solid wastes [HYGIENIC SEWAGE DISPOSAL FACILITIES] in villages in the state in a manner which protects and enhances the public health and welfare, the natural environment, and the industrial and economic status of the citizens of the villages and the state. This purpose will be carried out through the development of plans and proposals, the authorization and construction of facilities, the institution and operation of facilities and services, and the conduct of related educational and informational activities.

* Sec. 2. AS 46.07.020 is amended to read:

Sec. 46.07.020. PROVISION OF FACILITIES. The commissioner shall institute and carry out a program to provide for [THE INSTALLATION OF SUCH] safe water and the collection, transportation, storage, processing and ultimate disposal of sewage and solid wastes [HYGIENIC SEWAGE DISPOSAL FACILITIES] in villages in the state [AS ARE NECESSARY] to assure that these essential facilities and services will be available [THERE WILL BE AT LEAST ONE FACILITY FOR SAFE WATER AND HYGIENIC SEWAGE DISPOSAL] in each village.

* Sec. 3. AS 46.07.030 is amended to read:

Sec. 46.07.030. NATURE AND LOCATION OF FACILITIES. (a) A facility or service constructed or established under authority of this chapter shall be constituted and operated as a public utility, shall be available for use by the public, and shall be designed and instituted in such a manner as to assure year-round operation and use on an economically feasible basis. Facilities and services provided in accordance with this chapter shall be developed and operated as an integral part of facilities and services meeting the total public health and welfare, environmental protection, industrial development, and economic needs of the community. The facility or service shall be compatible with climatic and other physical conditions prevailing at the site and shall include[,] at a minimum, a source of safe [CLEAN] water, such as well with pumping facilities or utilization or surface water treated so it is safe and healthful for use, shower bath facilities, an adequate means of hygienic sewage disposal, appropriate means for solid waste management, and facilities for the washing of clothes. The building housing the facility or service shall also contain, if the commissioner determines it to be feasible and appropriate suitable quarters to be used as a community health service office.

(b) The location of facilities and services provided [A FACILITY CONSTRUCTED] under this chapter shall be determined by the commissioner after consultation with appropriate public and private agencies [THE GOVERNING BODY OF THE VILLAGE IN WHICH THE FACILITY IS LOCATED, AS WELL AS WITH APPROPRIATE PUBLIC AGENCIES, INCLUDING BUT NOT LIMITED TO THE ALASKA STATE HOUSING AUTHORITY AND THE FEDERAL FIELD COMMITTEE FOR DEVELOPMENT PLANNING IN ALASKA]. The aim of the consultation is to achieve maximum coordination in public development plans and activities affecting the community [IN] which the facility is to serve. The commissioner shall assume leadership in coordination of all resources for planning, development, construction, operation, and maintenance of facilities and services provided under this chapter.

* Sec. 4. AS 46.07.040 is repealed and re-enacted to read:

Sec. 46.07.040. PLANNING, FINANCING, CONSTRUCTION AND OPERATION OF FACILITIES AND SERVICES. (a) The commissioner shall provide for the construction of facilities and implementation of services under this chapter, and is authorized to:

(1) enter into contracts and agreements, receive and expend funds, and otherwise take such action as he considers necessary to efficiently coordinate and utilize public and private funds and other resources in implementation of the purposes of this chapter;

(2) employ personnel and enter directly into planning, design, construction and operation of facilities and services or to contract with an individual, group, or public or private entity to accomplish the purposes of this chapter;

(3) finance functions, services, and facilities and program administration;

(4) acquire, own, and transfer ownerhip, in the name of the state, real property, machinery, vehicles, generators, incinerators, heating plants, and other equipment and supplies necessary for the purposes of this chapter;

(5) prepare specifications and standards for facilities and services and to provide for maintenance and operation of the facilities and services in conformity with established specifications and standards;

(6) take whatever action is necessary to relate and integrate the facilities and services for safe water, and the collection, transportation, storage, processing and ultimate disposal of sewage and

solid wastes with other energy, utility, and related facilities and services in a village;

(7) require and promote among villages and state agencies, joint planning, funding, operation, support, and maintenance of related energy and environmental management facilities and services in the interest of achieving maximum service efficiency and economy within the purposes of this chapter.

(b) No contribution toward the cost of the construction of a facility constructed under provisions of this chapter may be required from its users but a reasonable charge shall be made for use of facilities and services to assure continued maintenance and operation.

(c) In the construction of a facility or establishment of a service under this chapter, workmen from the village in which the facility is being constructed or the service is being operated shall be utilized to the maximum extent feasible.

* Sec. 5. AS 46.07.050(a) is amended to read:

Sec. 46.07.050. RESPONSIBILITY OF THE LOCAL GOVERNING BODY [OPERATION OF FACILITIES]. (a) It is the responsibility of a recipient [THE] village, borough, service area, community or city governing body to maintain and operate the facilities and services in accordance with established standards and specifications. Upon [SAFE WATER AND HYGIENIC SEWAGE DISPOSAL FACILITY, AND UPON] completion of the facility and upon community demonstration of ability to operate and maintain the facilities and services, the commissioner shall execute the necessary transfers of title to vest complete ownership of the facility in the appropriate local governing body. The commissioner may not construct a facility unless he first receives satisfactory assurances from the local [VILLAGE] governing body that it will, upon completion of a facility, accept ownership and responsibility for the operation and maintenance of the facility.

* Sec. 6. AS 46.07.050(b) is amended to read:

(b) Whenever the commissioner determines that the local [VILLAGE] governing body does not have sufficient financial resources to operate and maintain necessary facilities and services, [THE FACILITY,] the commissioner may make grants to the local governing body from funds appropriated specifically for this purpose in amounts which, when combined with other financial assistance available to it, will enable the local governing body to operate and maintain the facility.

* Sec. 7. AS 46.07.050(c) is repealed and re-enacted to read:

(c) When necessary, the commissioner may require the creation of a nonprofit corporation in a village and may contract with that corporation in order to carry out the purposes of this chapter. The contract shall provide that if the contracting entity or part of it is subsequently incorporated as a city the contract shall terminate when the succeeding city or cities can satisfactorily provide the utility functions and services provided under this chapter.

* Sec. 8. AS 46.07.060 is amended to read:

Sec. 46.07.060. EDUCATIONAL AND INFORMATIONAL PROGRAM. The commissioner shall conduct, or arrange to have conducted, in each village where there is located a facility or service provided pursuant to the provisions of this chapter, [SAFE WATER AND HYGIENIC SEWAGE DISPOSAL FACILITY,] an appropriate educational and informational program designed to familiarize the users of the facility or service of [RESIDENTS OF THE VILLAGE AS TO] the health and other advantages to be achieved by the utilization of the facility or service.

* Sec. 9. AS 46.07.070 is amended to read:

Sec. 46.07.070. ECONOMY OF ADMINISTRATION. In order to prevent duplication of effort and to promote economy of administration, the commissioner shall, to the maximum extent feasible, utilize existing governmental [THE] facilities and services [OF APPROPRIATE PUBLIC] or private agencies, and may encourage cooperative action among villages to form entities or organizations, in the administration of the provisions of this chapter.

* Sec. 10. AS 46.07.080 is amended to read:

Sec. 46.07.080. DEFINITIONS. In this chapter

(1) "commissioner" means the commissioner of environmental conservation [HEALTH AND SOCIAL SERVICES];

(2) "village" means an incorporated or unincorporated community which has between 25 and 600 people residing within a three-mile [TWO-MILE] radius [, OR A FOURTH CLASS CITY];

(3) "safe water facilities" means facilities and services which supply water which complies with the Alaska Water Quality criteria for drinking and includes the plant, equipment, and services necessary for the procurement, treatment, storage, and distribution of the water.

RECORDS CERTIFICATION

I, the undersigned, an employee of the State of Alaska, do hereby certify that the microfilm images on this microform are accurate reproductions of the original records of the State of Alaska as accumulated during the regular course of business, and that it is the established policy and practice of this State to microfilm its records and to dispose of the original records after microfilm reproductions have been made.

James O. Smith
Signature of Camera Operator

4/4/89
Date

02-519 (REV 8/78)

"An Act establishing a self-insurance fund, providing for its administration and providing for an effective date."

Committee Report

HOUSE OF REPRESENTATIVES

4/?/78

_____________________ Date

Mr. Speaker

The Committee on FINANCE has had HB 733 under consideration. A majority of the members of the Committee

/X/ recommends it do pass

/ / recommends it do not pass

/ / recommends it do pass with attached amendment(s)

/ / recommends it be replaced with CS for ____________ and that CS for ____________ do pass

/ / (and) recommends it be referred to the ____________ committee

/ / reports it back without recommendation

/X/ (other) reports it back with individual recommendations

MEMBERS SIGNING THE MAJORITY REPORT:

Do Pass

Do Pass

MEMBERS NOT CONCURRING IN THE MAJORITY REPORT:

______ recommends: Do Pass

______ recommends:

______ recommends:

______ recommends:

______ recommends:

CHAIRMAN

Introduced: 3/15/72
Referred: Commerce and Finance

IN THE HOUSE

BY THE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

HOUSE BILL NO. 733

IN THE LEGISLATURE OF THE STATE OF ALASKA

SEVENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act establishing a self-insurance fund, providing for its administration; and providing for an effective date."

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

* Section 1. AS 44.21.020 is amended by adding a new paragraph to read:

(11) administer the state self-insurance fund.

* Sec. 2. AS 44.21 is amended by adding new sections to read:

Sec. 44.21.150. SELF-INSURANCE FUND. (a) There is established a state self-insurance fund, administered by the Department of Administration. The fund consists of

(1) appropriations;

(2) damages, settlements, or other amounts which may be received by the state as a result of claims to which the state is a party and which the Department of Administration considers proper to apply to purposes of the fund;

(3) interest;

(4) reserves for unpaid losses, liabilities, and administrative expenses.

(b) The self-insurance fund shall be applied to insure the state against potential losses and liabilities which are the customary subject of insurance contracts and for settlement and defense of claims for these liabilities. Specific areas to which the fund may be applied include but are not limited to workmen's compensation claims, claims against the state under AS 09.50.250 - 300, and property damage or loss.

The Department of Administration may determine which potential losses and liabilities are to be covered by the fund.

(c) The Department of Administration shall contract with the attorney general for legal defense and related services for liabilities covered by the fund.

* Sec. 3. This Act takes effect July 1, 1972.

The Speaker stated that without objection, the reading of the Commerce Committee report on HOUSE BILL NO. 733 would be waived and it would appear in the Journal. There being no objection, the report appears as follows: HB 733

"HOUSE BILL NO. 733

This bill, which would establish a revolving State self-insurance fund, will provide the means whereby the State may fund certain risks of accidental loss as an alternative to the customary method of transferring such risks to a commercial insurance carrier. In the long run it will not generally prove economically feasible to purchase insurance to fund certain risks or losses which occur with reasonably predictable frequency. Risks which may be appropriate subjects for self-insurance include liability under the Alaska Workmen's Compensation Act, liability for claims brought against the State under AS 09.50.250-300, and certain types of risks involving potential loss of damage to property.

The Department of Administration would:
- administer the self-insurance fund
- determine appropriate programs of excess insurance in those cases where complete self-insurance would expose the State to losses the magnitude of which would cause budgetary dislocation, and
- provide for the defense, adjustment and settlement of all self-insured losses and claims.

In evaluating the economic feasibility of self-insurance, each risk of loss would be thoroughly evaluated and its potential magnitude measured.

The self-insurance fund would be a continuing, revolving fund to provide for the continuity of desirable self-insurance program(s) over a period of years. The funding of the program would be based on informed projections of anticipated losses and expenses. The difference between fund appropriations and other assets and actual losses paid and/or reserved remains in the fund.

The fund is needed to round out a proposed Risk Management Program. The art of managing one's risk is done by identifying the risk, attempting to reduce it through comprehensive safety practices, and providing for losses. Premiums can be reduced and tax dollars saved by diminishing hidden accident costs such as loss of efficiency, substituting or replacing employees during their convalescence, employer's time in filling out accident forms, etc.

Should the self-insurance fund be approved, the State would establish an Office of Risk Management. The office will be vested with the responsibility for safety engineering, risk identification, risk abatement, claim handling and placement of insurance at levels above self-assumed risk.

Risk management is as important a function as any other area of management. To set up, maintain, and operate a comprehensive Risk Management Program, a self-insurance fund must be established. By doing so considerable tax dollars can be saved.

HB 733 Sincerely yours,

Jalmar Kerttula, Chairman
House Commerce Committee

Willard Bowman

– Bad Bill, Bad Report
Dick Randolph

Jess Harris

Earl Hillstrand

Frank Peratrovich

Helen Fischer"

HCR 18 The Health, Welfare and Education Committee has had HOUSE CONCURRENT RESOLUTION NO. 18 (relating to a study of secondary education policies and programs in Alaska) under consideration and a majority of the members of the Committee recommends it do pass with the following amendment:

amendment No. 1 by the Health, Welfare and Education Committee:

Page 1, line 27: After "insure" delete the remainder of line 27. Delete all of line 28. On line 29 delete through "of". Lines 27-29 should read: "Eighth Legislature, First Session, to insure maximum educational opportunities at the secondary level."

The report was signed by Mrs. Chance, Chairman, and concurred in by Chance, Naughton, Whittaker, Moore and Moses. Not concurring was Specking who recommends do not pass.

HOUSE CONCURRENT RESOLUTION NO. 18 [illegible] referred to the Finance Committee.

HB 709 The Health, Welfare and Education Committee has had HOUSE BILL NO. 709 (relating to the terms of office of members of school boards) under consideration and a majority of the members of the Committee recommends it do pass. The report was signed by Mrs. Chance, Chairman, and concurred in by Chance, Naughton, Specking, Whittaker, Colletta and Moore.

The Legislature of the State of Alaska
FISCAL NOTE
Second Session - Seventh State Legislature

I. REQUEST
Bill Identification: HB 733 "An Act establishing a self-
Title: insurance fund, providing for its administration, and ..."
Requested by: Legislative Finance Date: 4/7/72
Return Date Requested: 4/14/72
Agency: Dept. of Administration Program: General Government

II. FISCAL DETAIL
Budget Request Unit(s) Affected:
A. EXPENDITURES: (Thousands of dollars)

OBJECT	FY 72	FY 73	FY 74	FY 75	FY 76	FY 77
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL						

B. FUNDING: (Thousands of dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						

C. POSITIONS:

PERMANENT/TEMPORARY	/	/	/	/	/	/
MAN MONTHS (P./T.)	/	/	/	/	/	/

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

See Attached

IV. ATTACHMENTS

V. DATE: 4/14/72 PREPARED BY: M. L. [signature]

Original: Legislative Finance
cc: Budget and Management
Prime Sponsor (First Legislatc Named)

April 14, 1972

FISCAL NOTE

Re: House Bill No. 733 - An Act Establishing a Self-Insurance Fund.

This Bill, which would establish a revolving State self-insurance fund, will provide the means whereby the State may fund certain risks of accidental loss as an alternative to the customary method of transferring such risks to a commercial insurance carrier. In the long run it will not generally prove economically feasible to purchase insurance to fund certain risks or losses which occur with reasonably predictable frequency. Risks which may be appropriate subjects for self-insurance include liability under the Alaska Workmen's Compensation Act, liability for claims brought against the State under AS 09.50.250-300, and certain types of risks involving potential loss of or damage to property.

The Department of Administration would

- administer the self-insurance fund
- determine appropriate programs of excess insurance in those cases where complete self-insurance would expose the State to losses the magnitude of which would cause budgetary dislocation, and
- provide for the defense, adjustment and settlement of all self-insured losses and claims.

In evaluating the economic feasibility of self-insurance, each risk of loss would be thoroughly evaluated and its potential magnitude measured.

The self-insurance fund would be a continuing, revolving fund to provide for the continuity of desirable self-insurance program(s) over a period of years. The funding of the program would be based on informed projections of anticipated losses and expenses. The difference between fund appropriations and other assets and actual losses paid and/or reserved remains in the fund.

The fund is needed to round out a proposed Risk Management Program. The art of managing one's risk is done by identifying the risk, attempting to reduce it through comprehensive safety practices, and providing for losses. Premiums can be reduced and tax dollars saved by diminishing hidden accident costs such as loss of efficiency, substituting or replacing employees during their convalescense, employer's time in filling out accident forms, etc.

Should the self-insurance fund be approved, the State would establish an Office of Risk Management. The office will be vested with the responsibility for safety engineering, risk identification, risk abatement, claim handling and placement of insurance at levels above self-assumed risk.

It is impossible at this point to estimate the dollar savings which the state will appreciate should a Self-Insurance/Risk Management program be implemented. We are positive, however, that savings will be appreciable:

Why it is difficult to pin down exact dollar savings:

- Market Conditions - If we project costs now and market goes up, we could not show exact savings.

- Reserve and Fund Investments - We do not know what our claims will be, therefore, cannot determine how much interest we can realize

cont'd

from investments, also we do not know what interest rates will be.

- Loss Prevention - A viable loss prevention program will reduce losses subsequently reducing premiums and claims costs. We cannot say how much. Another point which, is an intangible, but important, is loss of employee's time etc. if injured.

- Claims Handling - There are several alternatives to claims handling.

  1. By the State

  2. By a Servicing Company

  3. By an Insurance Company

  each would have different cost projections

It might be well to note that the state is presently non-insured on Fire and Personal Property. The Fire Policy is at $100,000 deductible per occurrence and an aggregate stop loss of $250,000. Personal Property is totally self-assumed. The problem is there is not a fund to cover these losses. Monies would have to come from operating budgets or via supplemental appropriation.

Risk management is as important a function as any other area of management. To set up, maintain, and operate a comprehensive Risk Management Program, a self-insurance fund must be established. By doing so considerable tax dollars can be saved.

We would appreciate the opportunity to discuss subject legislation with you in more detail. If this seems appropriate, please give us a call.

SCHEDULE IV

WORKMEN'S COMPENSATION AND LIABILITY EXPERIENCE

POLICY PERIOD	EARNED PREMIUM	INCURRED LOSSES	LOSS RATIO	NUMBER OF CLAIMS
Workmen's Compensation				
8/1/66 to 7/1/67	$ 277,737	$ 167,644	60.0%	399
7/1/67 to 7/1/68	279,992	247,273	88.9	367
7/1/68 to 2/17/69	183,100	369,036	201.5	397
2/17/69 to 7/1/70	811,931	340,598	41.9	724
7/1/70 to 7/1/71	440,392	430,710	97.8	549
	$1,993,152	$1,555,261	77.8%	2,385
General Liability				
8/1/66 to 7/1/67	$ 35,684	845,257	2369.0%	46
7/1/67 to 7/1/68	69,282	85,396	123.2	17
7/1/68 to 2/17/69	44,352	76,807	173.1	47
2/17/69 to 7/1/70	132,142	186,657	141.3	25*
7/1/70 to 7/1/71	124,955	106,789	85.4	20
	$ 406,415	$1,300,906	320.1%	155
Auto Liability				
8/1/66 to 7/1/67	$ 66,557	$ 13,875	20.8%	38
7/1/67 to 7/1/68	55,907	50,390	9[illegible]1	63
7/1/68 to 2/17/69	39,997	26,821	67.0	46
2/17/69 to 7/1/70	142,218	36,286	25.5	100*
7/1/70 to 7/1/71	309,579	168,547	54.4	108
	$ 614,258	$ 295,919	48.1%	355

*Estimated - combined auto and general liability claims totaled 125

POLICY PERIOD	EARNED PREMIUM	INCURRED LOSSES	LOSS RATIO	NUMBER OF CLAIMS
Combined General and Auto Liability				
8/1/66 to 7/1/67	$ 102,241	$ 859,132	840.3%	84
7/1/67 to 7/1/68	125,189	135,786	108.5	80
7/1/68 to 2/17/69	84,349	103,628	122.8	93
2/17/69 to 7/1/70	274,360	222,943	81.2	125
7/1/70 to 7/1/71	434,534	275,336	63.3	128
	$1,020,673	$1,596,825	156.4%	510
Combined Workmen's Compensation & Liability				
8/1/66 to 7/1/67	$ 379,978	$1,026,776	270.2%	423
7/1/67 to 7/1/68	405,181	383,059	94.5	456
7/1/68 to 2/17/69	267,449	472,664	176.7	490
2/17/69 to 7/1/70	1,086,291	563,541	51.8	849
7/1/70 to 7/1/71	874,926	706,046	80.6	677
	$3,013,925	$3,152,086	104.5%	2,895
7/1/68 to 7/1/71	$2,228,666	$1,742,251	78.1%	2,016

RISK MANAGEMENT AUDIT

STATE OF ALASKA

November, 1971

Report By:

Warren, McVeigh & Associates
3440 Wilshire Blvd.
Los Angeles

CONTENTS

W/.RREN, McVEIGH & ASSOCIATES
RISK MANAGEMENT CONSULTANTS

680 B' ACH STREET, SAN FRANCISCO, CALIFORNIA 94109 · TELEPHONE (415) 885-4677

State of Alaska
Department of Administration
Division of Supply
Juneau, Alaska

Gentlemen:

As authorized by service contract, this report details the results of an audit of the State of Alaska's insurance and risk management activities. The study emphasizes the need for a more logical and consistent policy with regard to risk retention, formation of a risk management organization for improved administration, and a better designed insurance program.

Some of the activities taken in the performance of this audit were:

- Interviews of State management personnel in various departments, the servicing agents and certain underwriters
- Analysis of past premium and loss history
- Detailed study of each property and liability insurance policy
- Review of selected legal contracts
- Physical inspections of major buildings in Juneau

Much time was spent with Mrs. Dorothy Evans and Mr. Howard Anderson in developing information necessary to produce this report. We are grateful for the assistance given by these most cooperative and knowledgeable people.

it has been a pleasure working on this assignment and we look forward to assisting the State in implementing the recommendations made in this report.

Respectfully submitted,

WARREN, McVEIGH & ASSOCIATES

By C. C. Griffin

C. C. Griffin, CPCU

SUMMARY AND RECOMMENDATIONS

Total risk costs for the State of Alaska are now substantial and are increasing at an accelerating pace. Present risk costs may be summarized, as follows:

- Uninsured losses, which will exceed $500,000 annually,
- Expenditures for loss prevention efforts, which are presently minimal.
- Insurance premiums which now exceed $3 million annually,
- Costs of administration, which in the absence of a risk management organization are relatively insignificant.

We believe these costs can be controlled and brought into balance with resultant annual savings in the high six figures.

This study has developed many recommendations which are found throughout our report. These recommendations call for improvements in the following broad areas:

(1) Better protection against catastrophic losses

(2) More effective administration

(3) Lower costs

With regard to better protection, it is important to increase certain policy limits and to purchase additional coverage for significant risks presently uninsured. Of particular importance is the need to increase the public employees blanket bond limit to at least $2 million and to arrange a broad excess liability program with a limit of $50 million or more. Specific improvements in policy coverage are listed below.

To effectively administer an efficient risk management program, the State should form and staff a separate Division of Risk Management reporting directly to the Commissioner of Administration.

Substantial reductions in cost can result by (1) the expanded retention of risk and (2) the remarketing or restructuring of certain insurance programs. We have set forth in Section II of this report the approaches which seem most promising, but it is not possible to outline precisely the exact form that the State's insurance and risk retention program will take until the insurance marketplace is thoroughly tested for the availability and cost of excess insurance. Although cost savings cannot be pinpointed until this is done, we estimate that annual savings should exceed $250,000.

A considerable amount of time will be needed to accomplish remarketing and restructuring of the entire program. During this period of time, there will be a need for continued guidance and help, which may be achieved by use of Warren, McVeigh & Associates on a retainer basis.

Specific major recommendations are as follows:

	Discussed on pages
1) The critical need for a State loss control engineer is discussed on pages	17-25

	Discussed on pages
2) The State should establish a tolerable limit of acceptable loss. The following amounts are recommended: $250,000 per any single occurrence, or $1,000,000 for any fiscal year where probability exists of more than one loss in same year.	32
3) Because of its present high cost, efforts should be taken to remarket the State's property risk retention and insurance program. Various approaches for the structuring of an improved program are discussed on pages	36-43
4) Self-insurance funding and excess insurance should be arranged to cover all types of property, and not just buildings.	44
5) Various uninsured perils are discussed on pages	44-46
6) The State should purchase a public employees faithful performance bond with a limit no less than $2 million. Consideration should be given to a bond limit of $10 million, or higher, if premium cost is reasonable.	47
7) A properly designed workmen's compensation and liability program, incorporating elements of self-insurance and excess catastrophe insurance, can result in substantial savings. Appropriate proposals	

Discussed on pages

and quotations should be obtained from insurance companies and independent service firms. 48-53

8) The size of a self-insurance fund for workmen's compensation and liability risks should be based on current premium rates. 54-57

9) A blanket limit of $50 million per occurrence is recommended for airport liability insurance with respect to all airports except Anchorage and Fairbanks, where a limit of $100 million is needed, because of Boeing 747 traffic. 57-58

10) Aircraft liability insurance should be broadened, should apply to both owned and non-owned aircraft and the limit of liability should be increased to $50 million per occurrence, under a combination of primary and excess liability insurance contracts. 58-59

11) A broad blanket excess liability insurance program is recommended to cover the State against all liability, marine and non-marine, to a limit of at least $50 million per occurrence. 59-60

12) With regard to the Fish & Game vessel fleet, hull & machinery insurance should be discontinued on all vessels except the Resolution, Montague & Kittiwake. 63

	Discussed on pages
13) "Increased value" hull & machinery coverage should be considered for the more important ferry vessels, as current amounts of insurance are substantially less than replacement cost.	64-65
14) Premium indication should be requested from the broker for "loss of revenues" coverage on large ferry vessels.	65
15) Liability coverage is needed for non-owned vessels.	65-66
16) Although it represents an extremely remote loss possibility, war risks insurance should be considered for the ferry fleet.	66-67
17) A deductible of at least $100,000 per occurrence is recommended for the ferry fleet insurance.	67-68
18) The State should form a separate Division of Risk Management, reporting directly to the Commissioner of Administration.	69-71
19) The State should adopt a written statement of policy with regard to risks of accidental loss.	71-74
20) Development of an insurance manual is recommended.	77-78
21) Revised standards for insurance certificates are recommended.	78-84
22) Legal contracts, especially leases, should be reviewed by the risk manager.	84-88

	Discussed on pages
23) Purchase of insurance by competitive bidding is desirable only for those types of insurance where there is an open and competitive market. Competitive bidding once every 6 years is recommended, unless more frequent bidding is justified by dissatisfaction with the insurer.	88-90
24) The insurance producer's remuneration should be based on a fee for services, rather than commissions.	90
25) A complete tabulation of all personal property values by location should be made.	94
26) A professional property engineering survey should be made of major locations to determine with precision the maximum possible loss potentials.	95
27) Business interruption exposures should be analyzed at major revenue producing facilities.	95
28) Several technical recommendations with regard to the present blanket property insurance appear on pages	96-98
29) The rationale for a high employee fidelity bond limit is given on pages	103-105
30) Recommendations for modifications to the standard faithful performance bond form are set forth on pages	107-108
31) A detailed survey should be made to determine	

		Discussed on pages
	money & securities exposures at each location and the protection (safes, etc.) afforded such property.	109-110
32)	Non-employee forgery is not a highly significant risk and would appear to be within the State's risk-retention capabilities.	110
33)	With respect to the storage & distribution of Federal food stamps, the contract with Loomis Armored Car Services should be reviewed to confirm that Loomis is entirely responsible for stamps while in their possession. Loomis should be required to furnish certificates evidencing adequate insurance.	110-111
34)	With regard to the present ALPAC "retention plan" for workmen's compensation & liability insurance, the State should determine cost to limit individual losses which enter into premium calculations. It is recommended that the retention level be no less than $100,000 per occurrence nor more than $250,000.	122
35)	Various technical recommendations with regard to the present ALPAC insurance program appear on pages	123-125
36)	The police professional liability policy should be discontinued. This risk should be treated in the same manner as other liability risks.	124

	Discussed on pages
37) The potential hangarkeeper's liability exposure at State airports, should be thoroughly investigated and analyzed. The legal liability risk should be clearly identified and the maximum possible loss potential should be determined.	128
38) Current airport liability insurance limits are inadequate.	128
39) Technical recommendations with regard to the need for improved airport liability insurance conditions appear on pages	129-131
40) Coverage under the current aircraft liability policy should be immediately increased to $20 million per occurrence. When the excess liability program is completed, coverage for this risk would be included to a limit of $50 million.	133
41) Non-owned aircraft liability coverage should be purchased.	133
42) With regard to the current policy covering owned aircraft, many technical changes in coverage are recommended on pages	133-134
43) "Special hazard" personal accident insurance should be discontinued. Funding of this risk can best be accomplished by treating it as a workmen's compensation risk.	134-136

		Discussed on pages
44)	Recommendations with regard to personal accident insurance for special officers of the Dept. of Public Safety appear on page	136-137
45)	There are some apparent conflicts or redundancies in coverage between the ALPAC workmen's compensation policy and the P & I coverage afforded by the ferry fleet marine insurance policy.	144-145

SUMMARY - CURRENT INSURANCE

CHART NO.	DESCRIPTION OF COVERAGE	ANNUAL PREMIUM
PROPERTY INSURANCE		
A	Blanket Property Insurance	$783,700
B	Property Insurance - Alaska Ferry Terminal	1,974
C	Property Insurance - Computer	1,691
D	Scheduled Property Floater - State Museum	135
CRIME INSURANCE (BONDS)		
E	Public Employees Blanket Bond	2,947
F	Public Official Schedule Bond (Fish & Game)	2,399
G	Public Official Schedule Bond (Motor Vehicle)	777
H	Statutory Bonds	1,950
LIABILITY INSURANCE		
I	Workmen's Compensation	588,486
J	Comprehensive Auto & General Liability	507,139
K	Professional Malpractice Liability	36,806
L	Police Professional Liability	10,461
M	Airport Liability	312,550
N	Aircraft Liability	4,346
O	Special Hazard - Personal Accident Insurance	24,738
P	Personal Accident - Special Police Officers	4,670
MARINE INSURANCE		
Q	Alaska State Ferries - Hull/P&I	784,208
R	Excess Protection & Indemnity (Wickersham)	170
S	Dept. of Fish & Game - Hull & Machinery	37,305
T	Dept. of Fish & Game - Protection & Indemnity	11,300
Total		$3,117,802

I - RISK MANAGEMENT

A. General

The term. "risk management," is of rather recent origin. Essentially, it refers to all management activities directed toward control of and protection against risks of accidental loss. Although a relatively new concept, risk management is now recognized as a vital phase of general management.

In the past, decisions with regard to risk and insurance were made almost entirely within the framework of the coverages available within the insurance marketplace. The insurance buying function within business firms and governmental bodies was generally assigned to a person of low rank with no specialized knowledge of insurance or risk analysis. Often such unskilled insurance buyers were already overburdened with work in other areas. Expertise was concentrated in the hands of insurers and their intermediaries, with the buyer listening to their advice and promotional efforts, selecting those insurance coverages that seemed most appropriate. The result was very often overinsurance, underinsurance, gaps and redundancies in coverage, and excessive premiums.

Today, many options are available for the control of risk. The concept and techniques of risk management have been developed and refined so that management now is in a much better position to make basic decisions with regard to the needs of the organization.

The enlightened risk manager follows a sequence of steps in his efforts to control and minimize the total costs of risk. The first step involves identification and measurement of all risks of accidental loss. When this is accomplished, the risk manager must then weigh the advantages and disadvantages of various risk treatment alternatives to determine which is least costly, bearing in mind that no action should be taken which will disturb the financial integrity of the organization. Textbooks categorize these risk treatment alternatives in several ways, but briefly they consist of

- Abatement, which involves the reduction or elimination of risk,
- Retention, which involves the absorbing of loss costs as operating expenses where possible,
- Transfer, where the costs of those risks which cannot be assumed are shifted to another party, usually (but not always) a commercial insurance carrier.

It is not by accident that risk transfer is mentioned last in this patterned sequence of steps. It is a cardinal principle of risk management that the purchase of insurance should be resorted to only when other methods of risk treatment have been thoroughly considered and implemented to the extent feasible. The rationale for this statement is that, in general, it is more costly to transfer a risk to an insurance carrier than it is to retain the risk within the organization's own financial structure.

B. Risk Identification and Measurement

The first and most fundamental steps in the risk management process are to

- identify the risks of accidental loss to which the organization is exposed, and
- measure the magnitude of such risks.

Because of the size of the State of Alaska and the complexity of its activities, identification and measurement of risk is an enormous, never-ending job and one which has been neglected, possibly because of its difficulty, and management lack of awareness of its importance.

In the past, techniques used by the State for the analysis of risk were primarily those which evolved through activities of the insurers and their intermediaries. Emphasis has been given almost entirely to those risks for which conventional insurance is available. It should be pointed out, however, that the State (like any large organization) is exposed to many risks difficult or impossible to treat by insurance, such as

- flood and tidal wave
- earthquake and land movement
- war and nuclear perils
- pollution and contamination

Such risks must be recognized and a careful plan of loss funding or other risk treatment developed.

No risk manager ever clearly identified his organization's risks by sitting behind his desk. The risk manager must be prepared to personally inspect each major location and activity in order to determine the true nature of all risks to which the organization is exposed. Personal contact with key operating and administrative personnel in every State agency is imperative in order to

- better identify exposures creating risk
- open up lines of communication and means of receiving information pertaining to risk, and to
- establish proper liaison to permit the risk manager to keep abreast of changes in State operations, as they occur.

C. Risk Abatement

After risks of loss have been identified and measured, decisions must be made as to what measures should be taken to reduce or eliminate the financial consequences of such risks. Prevention or control of losses should be the first consideration in the treatment of risk. This requires informed judgments in the fields of safety to personnel and the public, fire protection engineering, security and financial auditing, etc.

1. Safety

Safety to employees and the public is the most important aspect of risk abatement, not only because of the possibilities for substantial reduction in loss costs, but also because of social and moral obligations for the protection of the citizenry from the consequences of State activities creating hazards to life and property.

The current insurance carrier for workmen's compensation and liability risks has indicated that it has allocated 2% of premium to loss prevention. Since the "standard premium" for this insurance program is $1,132,431, this suggests an insurance company expenditure for safety work of roughly $22,000. In addition, the Alaska Agents Association has agreed to contribute $15,000 toward funding of the safety program. Therefore, a total expenditure of approximately $37,000 has been promised.

At the time this report was prepared the proposed safety program had not yet been implemented, but correspondence from the carrier indicates an intention to start the program as quickly as possible.

The $37,000 allocated to this program is, of course, money paid out by the State in the form of premium dollars. The State would expect to receive full value for this expenditure. However, it should be emphasized that this is not the most efficient method of funding a safety program. A far more efficient approach would be for the State to fund the entire program directly and to look to insurance sources only for supplemental help.

It is recommended that the State formulate exact policy with regard to the structure and implementation of the safety program. Some essential elements of a sound employee safety program are:

- The active support of the Governor and all top officials must be enlisted. A written policy, endorsed by the Governor, is recommended. If employees suspect that management has only a superficial interest in the safety program, their cooperation will not be enthusiastic. Support of the program can be demonstrated by issuing top-level policy statements, assignment of clear-cut responsibilities, notification to commissioners, and department heads and other management personnel that they will be held accountable for accidents which might not have occurred had certain portions of the program been enforced, and the disciplining of employees who do not follow proper work procedures.

- All management and supervisory personnel must actively support and participate in the safety education program. The key person in all safety work is the supervisor. He is the representative of top management on the scene and the only one with a full awareness of the physical and psychological characteristics of equipment and personnel. He must be fully informed with regard to his duties and responsibilities in achieving the State's loss prevention goals. His performance should be objectively measured and he should be held accountable for performance in accordance with written standards.
- Specialists may be needed in situations where unusual safety hazards exist, such as in the fields of industrial hygiene, radioactive hazards, hearing conservation, and even industrial psychology. The State should not hesitate to use specialists, when needed. They may be available from insurance carriers or from independent firms.
- It is our understanding that some State departments now give physical examinations to certain types of employees. Consideration should be given to expansion of the practice of requiring pre-employment physical examinations, particularly for employment categories requiring hazardous or strenuous physical activity. Employment applications should be designed to help in determining the prospective employee's health history. In this

regard, previous employers should be routinely questioned. All of this can greatly help in uncovering pre-existing physical defects and other problem areas, so that employees can be placed in jobs they are physically capable of handling. This is particularly important with regard to back injuries, heart conditions, hearing and (for employments requiring operation of vehicles) eyesight.

- Educational measures should be planned on a continuing basis. Safety messages, posters, incentive programs and other motivational devices should be used to communicate the safety message to employees and to motivate them to improve their performance. This requires careful planning and a thorough knowledge of conditions throughout the organization. This is especially important for newly hired workers, as they should be given safety instructions at the time of employment.
- Safety committees and regularly scheduled employee safety meetings are an extremely valuable adjunct to the safety program.
- Computerized accident information reports should be designed to provide management with meaningful information on a timely basis. This is critical in pinpointing problem areas as they develop, so that prompt corrective action can be taken.
- Driver improvement classes should be made mandatory for employees who drive automotive vehicles for the State. Also recommended are eye tests for such employees and periodic checks of their motor vehicle records.

An efficient safety program will, of course, contain many other important elements, but the above serve to illustrate the broad scope of the function.

As previously stated, the importance of the safety function stems not only from cost reduction considerations but also from the humanitarian aspects of reduced suffering and loss of family income. The need for an efficient, well planned and coordinated safety program is so great, that we strongly recommend the State hire an experienced loss control engineer. There are a number of reasons for this recommendation:

a. Skilled attention to the structuring of safety efforts throughout all State agencies and activities can play a large part in reducing losses.

b. Without central direction from someone skilled in the subject, a considerable amount of time and money might be wasted.

c. Although insurance carriers can provide valuable safety assistance, reliance solely upon insurance company inspectors suffers from a number of important drawbacks:

   - Insurance company inspectors must necessarily be concerned primarily with physical causes of loss which can be objectively measured and made into formal recommendations. Their approach emphasizes engineering aspects of safety as opposed to managing personnel for the development of safe attitudes and procedures. This overlooks the fact that most work injuries are related not to physical conditions and hazards, but to the way people behave.
   - Field inspectors of the insurance companies are specialized

technicians, trained to observe and report unsafe conditions, but without management experience in relating hazards to other aspects of risk management.

- Under a loss rated insurance program, the insurance company profits from any increase in losses. The carriers "retention" is a factor of premium, which in turn increases as the total dollar amount of losses increases. Therefore, the insurance company does not have a strong financial incentive to control losses.

d. Legal requirements involving safety, such as providing a "safe place to work," are becoming increasingly important as plaintiffs' attorneys are directing their attention to what would seem to be minor deficiencies to develop large awards for injured persons. This trend points to the need for highly skilled and experienced direction of the safety program, which can best be achieved through a safety director at a high level within the State organizational structure.

e. Professional direction of the safety program by a full-time State employee is also indicated by certain somewhat negative aspects of safety work. For example, a written set of safety rules might be developed without knowledge or careful thought as to whether or not all rules can or will be actually carried out in practice. Then, if an injury occurs which results from management violation of a rule recorded in Sate safety literature, a smart plaintiff's attorney may be able to establish this violation as ground for developing a judgment against the State.

f. Safety assistance can be obtained from many sources, such as Federal inspectors, insurance company personnel, independent safety consultants, trade and professional associations, etc. These can most effectively be utilized and coordinated by a State safety director.

g. A large loss, which could have been prevented by the existence of a safety program, might result in personal liability of responsible officials. Legal actions against public officials, alleging failure to exercise prudent controls to conserve State assets, are possible.

2. Fire Protection and Property Conservation

The principal hazard to property is from fire, although other perils are important, such as earthquake, flood, windstorm, boiler explosion and many miscellaneous perils.

The present property protection program may be summarized, as follows:

- The Division of Buildings has the responsibility for maintenance of all State owned and occupied buildings, but funds have not been available for a truly effective "preventive" maintenance program.
- The Division of Buildings sends a "Self-Inspection Blank" to each

building occupant every six months. Presumably critical conditions shown on these forms are corrected, if funds are available.

- The State Fire Marshal inspects all buildings on a two-year basis and his reports go to the Division of Buildings.
- The present property insurer, Insurance Company of North America, has instituted a program for inspection by their engineers of all major properties.
- The servicing agent provides consultation to the Division of Buildings on important matters relating to fire protection on existing buildings to new construction.
- The Department of Labor has jurisdiction over all steam boiler inspections.

The need for fire protection assistance is critical, because

- Many of the State's buildings are old and poorly maintained.
- Fire protection facilities are often insufficient or, in many outlying areas, almost totally nonexistent.
- Aside from the potential for severe property loss, the danger of bodily injury and loss of life in hospitals, schools, office buildings, etc. represents a critical risk.

Presently the State is relying principally upon the property insurer for fire protection expertise. This is desirable to the extent the insurer's engineers are of professional caliber. The hidden threat of policy cancellation can be quite effective in forcing improvements. On the other hand, if unexperienced field men are used, they will often follow standards in their "book" to ask for protection expenditures, the cost of which is not justified by improvements achieved. Unfortunately, the insured may not be in a position to contest the recommendations, since he does not have the degree of fire protection expertise possessed by the insurer.

Whenever recommendations involve large sums of money, the insured should be represented by his own in-house or consulting fire protection engineer to achieve the balance needed for sound decisions. It is hoped that, when the State acquires a loss control engineer, he will not only be an expert safety engineer but will also have a practical working knowledge of fire protection engineering.

3. Security

Control methods for security against theft, burglary or internal embezzlement are more difficult to design and implement than those for fire protection and safety, although professional help is available in certain specified areas. A competent risk manager can accomplish a great deal by focusing attention on the more important hazards. Through his knowledge of security measures in general, and his background in collecting loss information and from personal inspections of the various locations and activities, he would be in a position to give a balanced judgment with regard to the need for installing physical devices for intrusion protection and other crime safeguards.

With regard to employee crimes, internal auditing is the first line of defense, and the risk manager often works closely with the internal auditors in developing programs and determining the need for security measures. The recent review by Peat, Marwick, Mitchell & Co. of the security arrangements in the Treasury Division is an indication of an awareness on the part of State financial management of the potential employee crime exposure.

One function of a competent risk manager with regard to security is his responsibility to determine sensitive loss situations through risk identification techniques. He may then recommend corrective measures, and in serious cases, should have authority to employ security specialists to make special studies.

D. Risk Retention

1. General

The State of Alaska is faced with the possibility of financial loss arising out of an almost infinite number of risks. Some of these risks are funded through purchase of conventional commercial insurance. Many other risks are not insured for a variety of reasons, such as

- unavailability of insurance
- insurance policy exclusions
- insufficient insurance policy limits
- decisions made in the past, the rationale for which is either unknown or now in need of reevaluation

Inherent in the risk management process is the precept that risk retention should be a conscious and well planned act. The decision to retain risk should be preceded by careful evaluation of the various risks and by examination of the organization's capacity to safety absorb risk.

Assuming this is done, risk retention, as an alternative or supplement to commercial insurance, offers great potential for the reduction of the long-term costs of accidental loss. It can be one of the most effective tools available for risk treatment.

Non-insured risks may be treated in various ways, some of which may be categorized as follows:

- Payment of losses, as they occur, from operating funds, i.e., expensing

- Funded reserves
- Federal disaster assistance
- Bond issue
- Project deferment
- Additional tax levy
- Remedial legislation
- Borrowing from banks or other lending institutions
- Not replacing property destroyed.

The first two methods of risk treatment mentioned above are those with which this study is primarily concerned.

2. Expensing

This method of risk treatment involves the payment of losses out of whatever current funds are available. This technique is also referred to as "self-assumption" of losses. Unlike self-insurance, it does not involve establishing a continuing fund out of which losses are paid. Many small losses are presently paid from current operating funds. For example, most personal property (including automotive equipment and other mobile equipment) has not been insured since 1962. This is unfunded risk retention and any losses would be expensed out of operating funds. The number and size of losses which may be prudently handled in this manner will vary with the size of the State Agency involved, but even with small operating units expensing to a certain level is economically feasible.

3. Funded Reserves

Large losses, which cannot be comfortably expensed from current operating funds, must be funded in some carefully planned manner, in order to preserve the integrity of the budget and to ensure the continuance of needed services to the citizenry. It is presumed that major project deferment, additional tax levies, bond issues and remedial legislation are alternatives to be used only in the event catastrophes occur which

- are uninsurable
- exceed the funding capacity of the State, and
- do not qualify for Federal disaster assistance.

A State "self-insurance" fund would involve establishing a continuing (or revolving) reserve fund. To set up such a fund would require an initial appropriation, to which additional amounts would be added each year in the form of self-insurance assessments (comparable to insurance premiums) against the various budgetary units. As losses are incurred, they would be paid out of the fund. Surplus funds (including interest earned) would be carried forward, so that the fund would grow in size over a period of years, until a predetermined limit is reached.

4. Tolerable Loss Level

It is recommended that a decision be made as to the degree to which the State will accept the cost of accidental losses without protection from insurance. In the long run it will not generally prove economically feasible to insure non-catastrophic losses or losses which occur with any reasonably predictable frequency. The extent to which any organization may assume the financial consequences of accidental losses without insurance may be termed its "tolerable loss level." This level will vary, of course, with the size of the entity and its financial condition. It is important that the State establish a "tolerable loss level," because it provides guidelines which are useful for two purposes:

- It establishes a figure below which losses may be assumed without insurance. Accounting procedures, reserves and other administrative techniques can then be established to deal with losses below this level.
- It clearly delineates the level above which insurance or other methods of risk transfer are necessary in order to prevent undesirable budgetary dislocations.

When management does not establish written policy with regard to a tolerable loss level, it is not uncommon to find insurance being purchased for losses which are neither catastrophic nor particularly disabling in amount. In the long run this is uneconomical. On the other hand, many risks may remain uninsured and unfunded, because their potential impact has not been recognized and gauged against the measuring point of a fixed figure.

Since it involves many considerations, selection of a tolerable loss level is quite difficult. Although a number of rather rough "rules of thumb" have been suggested in risk management literature, there is no single scientific formula that will invariably produce a precise amount. The figure must be one selected by the State's chief financial officers, after full consideration of all factors involved.

One approach to risk retention capabilities, which has been used with satisfactory results by a number of large organizations, is a formula which considers the tolerable loss level to be governed by the magnitude of the organization's financial activities. The scope of the financial transactions of the State may be measured by its gross revenues. Since a fluctuation of 1% of gross revenues would not be catastrophic, it may be reasonable to arrange for all accidental losses which individually do not exceed a tenth of one percent of gross revenues to be absorbed by the State, without insurance. The assumption here is that, statistically, losses of this magnitude do not occur more than a few times per year. According to the document entitled "Revenue Sources 1970-1976," total estimated State revenues for FY 1971 are $336,553,049. Of this amount, estimated unrestricted general fund revenues are $204,070,193.

Another factor to consider is the relative fluidity of State funds. A program of high risk retention makes more funds available each year, but a sudden frequency of high losses can create an unexpected drain. Although the State is presently in a very solvent position, financial statements show expenditures exceeding revenues. This, coupled with the delay in the North Slope project, suggests careful funding of retained risks, with the technique of expensing out of current operating funds used only for relatively small losses.

Consideration of these factors leads to the recommendation that the State of Alaska accept the following amounts as tolerable loss limits:

- $250,000 per any single occurrence, or
- $1,000,000 for any fiscal year with respect to any types of loss subject to the probability (or strong possibility) of more than one loss in the same year.

Although budget considerations make it desirable to establish the tolerable loss level as an aggregate amount per fiscal year, it should be pointed out that annual aggregate excess insurance is often expensive and not always available.

In considering the recommended tolerable loss limits, the question will arise as to whether or not insurance rate credits will be adequate to justify this increased potential loss assumption. This question cannot be answered by statistical analysis of premiums and credits. It simply is not possible for anyone, even the underwriter, to determine rate credits with any appreciable degree of precision. In fact, insurance company premium credits for large deductibles are based on factors such as the state of the marketplace, internal underwriting conditions and the degree of competition, rather than a statistical analysis of the probable loss expectancy within the deductible range.

We can consider the premium dollar as being divided into two parts; one for the catastrophic losses and the other for the more frequent losses. The portion of premium attributable to catastrophe protection, which is based on a very large spread of risk, should be affected very little by the individual experience of a single insured. On the other hand, 'osses beneath the catastrophe level can be considered relatively predictable for a large organization, and such losses will directly affect premiums over a period of years.

With regard to the insurance covering the State's buildings, the insurance company has stated that the premium is based on a 40% "permissible" loss ratio, so it may be realistically assumed that every $1 in losses will cost $2.50 in premiums. The insurance plan covering the State's workmen's compensation and liability risks contemplates a permissible loss ratio of 66-2/3%, meaning that each loss dollar will result in about $1.50 in premium cost. The acceptable loss ratios for other types of insurance will lie somewhere between these figures.

II - RECOMMENDED PROGRAM

A. Insurance and Risk Retention

An ideal insurance program for the State of Alaska would consist of a single policy covering all insurable risks excess of a substantial retention, with the retained risks funded by a carefully designed and administered self-insurance fund. Because of the practicalities of insurance marketing, such an ideal program very likely cannot be achieved at any time in the near future, although it is a desirable long range goal. A single excess policy would eliminate any questions of gaps or redundancies in coverage, simplify unusual loss adjustments and concentrate the State's buying power.

The following discussion will consider each major category of risk and will set forth recommendations for the structuring of an insurance and risk retention program, which should accomplish the following objectives:

- Better protection against catastrophic losses, and
- Lower costs over a period of years.

1. Property Risks (non-marine)

The present property insurance program is described in Section III. The principal criticism that can be leveled against this program is that very high cost factors would be developed by the proposed method of "negotiating" premiums at each anniversary. As stated in correspondence from the servicing agent, the insurer would seek to maintain, through prospective premium adjustments, a 40% "permissible" loss ratio. This means that, over a period of years, the State will pay out $2.50 in premiums for every $1.00 in losses collected.

Over a period of time, under this plan, the State will pay for all of its non-catastrophic losses. A catastrophic loss presumably would not result in premium increase. The problem is that there is no information in the files to clearly indicate at what point in size a loss becomes catastrophic, and therefore not subject to prospective loss rating.

We suggest that the State will be loss rated up to an amount as high as $1 million per occurrence. This assumption is based on various factors, such as

- The type of property insured and its physical condition
- The degree of fire protection afforded (or lacking)
- The State's property loss experience
- The current rather difficult property insurance market

Although the present plan does have as an advantage the fact that the premium in any single fiscal year is a precise amount that may be budgeted, the high premium cost factors make it imperative that alternative approaches be investigated. Some of these approaches may be:

a. An increase in the deductible to $250,000 will result in some immediate premium savings, although the premium credit for a deductible of this size will probably not seem commensurate with the additional risks assumed. Nevertheless, a deductible of this size should be considered because

- Based on past experience, it would eliminate from the insurance plan all losses which can be expected to occur with relative frequency
- It is not profitable for the State to trade dollars with underwriters at the ratio of $2.50 to $1.00

It is suggested that the present insurer be asked to indicate the premium credit available for a deductible of $250,000 per occurrence, separately, and also coupled with "aggregate deductible stop losses" of $500,000, $750,000, and $1,000,000.

b. The present insurer should also be asked whether it is willing to formalize their loss rating plan, by setting forth in writing all of the various cost elements. This is one of the recommendations made in Section III of this report. Under the present arrangement there is one particular element of uncertainty (or risk) from the viewpoint of the insurer that should be considered. It is possible for the State to discontinue the program at any time and, if this is done immediately at the end of a policy year in which heavy losses were incurred, the insurer would not be able to recoup its losses by means of renewal premium adjustment.

If this element of risk can be eliminated, it is probable that costs can be reduced. This would involve a long term primary loss rating plan with all cost factors clearly identified plus a charge for excess insurance or reinsurance. This should be investigated, as a long term contractual arrangement such as this could combine elements of self-insurance with true catastrophe protection, at lower costs than the present arrangement.

c. Another alternative is to purchase excess insurance above a substantial retention level. It is probable that, for the State of Alaska, a stable and attractively priced excess property insurance program would involve a retention of as high as $1 million per occurrence. This is a very high risk retention level, yet we believe all losses occurring beneath this level will ultimately be repaid to the insurer under the present insurance arrangement by means of prospective premium adjustments.

Obviously, with a $1 million per occurrence retention there is the problem of aggregate loss fluctuations. Past loss experience is not highly credible. The frequency of losses is such that loss experience for a single fiscal year is not predictable. Therefore, orderly budgeting and cost allocation dictate that a formal plan be arranged for the funding of losses assumed under an excess program such as this. Funding may take various forms:

i. A State property self-insurance fund can be established. Because of the high level of risk retention, this would require a substantial initial appropriation. An amount of at least \$5,000,000 would be needed, although this need not all be in the form of cash. A stand-by loan agreement from a bank or other financial institution, or even from another State agency, would provide assurance that funds would be available in the event they are needed. The use of such a loan agreement would accomplish chronological stabilization of loss costs, as any loan actually made would be repaid over a period of years. If such a loan agreement could be arranged in an amount of \$4 million or more, the initial cash loss fund could be established at some more reasonable figure, such as \$1 million.

It would still be remotely conceivable that a series of large losses could occur in a single fiscal year that would total in the aggregate more than \$5 million. Although this is statistically extremely improbable, absolute security against the possibility of such an occurrence might be achieved by purchase of "aggregate excess" insurance. This may or may not be available, as the market for aggregate excess insurance is limited.

A property self-insurance fund should be set up as an inviolate revolving fund so that excess funds would be carried over from year to year. Assuming reasonably good loss experience, the fund could be expected to grow in size over a period of years until a predetermined limit in size is reached.

ii. Another, and perhaps more attractive, approach to the funding of assumed losses, involves use of a device or concept known by many names, such as

- Funded retrospective rating plan
- Funded loss rating plan
- Chronological stabilization plan
- Spread-loss plan

Of the various names given to this concept, we prefer "spread-loss plan" and will use this term in the following discussion.

Under such a plan, the State and an insurance company would enter into a long term contractual agreement - 3 to 10 years. An insurance policy would be issued covering all risks for which funding is desired. The policy limit of liability would be set at the insured's retention level, in this case $1 million. The initial premium would be an amount large enough to cover all losses over a period of time.

For the purpose of this discussion, we will assume an annual premium of $1 million. This would be referred to as a deposit premium. The insurance company would retain a small portion of this premium to cover its overhead costs and profit. This retention could range from 1% to 10% of the deposit premium.

The insurer would agree to pay all losses up to the limit of the policy. When aggregate losses in any one year exceed net premium (deposit premium less expenses), the insured would either pay an additional premium or could exercise the option of paying the excess loss back to the insurer in annual installments over a period of years. This would involve an interest charge approximately equal to or slightly higher than the prime rate.

If the insured's loss experience is good, a fund will be built up by means of the net premiums paid in excess of losses. This would be returnable to the insured either at the end of the contract period or at any time when excess funds exceed a predetermined amount. Very often it can be arranged so that the insured will receive some interest on such excess funds.

Essentially, a spread-loss plan will accomplish the following:

- Provide an orderly method for building up loss reserve funds
- Provide a means whereby the financial impact of large losses does not fall entirely in a single fiscal year by spreading their cost over a period of years

- Makes it possible to chronologically stabilize the financial impact of any type of loss, whether insurable or not
- Provides a method of funding losses, which is less costly than insurance, since the insurance company assumes no risk.

One advantage this type of plan has over a self-insurance fund is that the risks treated under a spread-loss plan are clearly described in an insurance policy. Normally, the more formal the plan for funding primary losses, the easier it is to economically place the excess insurance. Excess underwriters like to know that there is either an insured plan beneath them, or that the self-insurance plan has clearly defined parameters. The least desirable format to excess underwriters is where the insured's retention takes the form of a large deductible.

Another advantage of a plan such as this is that it would avoid the danger of legislative diversion of loss reserve funds for other purposes.

Excess insurance over large retentions i. generally placed on a layered basis, as there is little market for quota share excess limits coverage. Also, the layered excess approach has the advantage that premiums may be negotiated on the basis of only those values exposed within a given layer, which can result in substantial economies. A possible disadvantage is that the total of more than $100, 000 might be realized.

A review of the State's building loss record for the past five years (Schedule II) will illustrate the high cost of the current program. If the present insurance policy had been in effect during this period, only two losses would have exceeded the $100, 000 deductible:

Location	Date	Amount of Loss	Amount Above Deductible
Circle School	5/8/68	$111,852	$ 11,852
Metlakatla School	2/20/70	325,127	225,127
			$236,979

Although $236, 979 in losses would have been collected, a total five year premium of $3, 918, 500 would have been paid ($783, 700 X 5). Clearly, every effort should be taken to find a less costly method for the funding of property losses.

Both domestic and London markets should be tested for the availability and cost of excess insurance. In addition, it should be determined how much premium credit the present insurer will allow for a deductible of $1 million per occurrence. When the cost of insurance excess of $1 million is determined, all of the various methods of funding losses beneath this level should then be carefully considered.

All of the above discussion relates to the various methods by which property risks may be funded. The next question is:

"What risks should be funded either by insurance or by other techniques?" This question is considered below with regard to the types of property and the various perils to which property is exposed.

Types of Property

The present insurance program covers only buildings, although certain miscellaneous types of personal property are also insured. It is recommended that both self-insurance funding and excess insurance be arranged to include all types of property, and not just buildings.

Perils

The present program provides fire and extended coverage insurance and certain recommendations are made in Section III for immediate improvement of coverage under this program, pending decisions with regard to possible alternative arrangements.

In addition consideration should be given to the following perils:

- Earthquake. The State presently does not purchase earthquake insurance. This is probably an appropriate decision, but the matter should again be considered. The decision to insure or not should be documented and made a part of written risk management policy. There are a number of reasons why the purchase of earthquake insurance may not be appropriate. First, adequate amounts of earthquake insurance may not be available at any reasonable cost. Second, any major earthquake would likely result in the availability of funds under the Federal Disaster Relief Act (Public Law 91-606). It is true that this Act does not contain rigid standards for determining the precise situations in which Federal funds are available. Funds are made available at the sole discretion of the President upon the recommendation of the Governor of the State in which damage has occurred. Although the State should be able to rely upon the release of Federal funds during periods of major devastation, only time and experience under the Act will reveal the scope of this enactment. Since this peril involves the possibility of catastrophic loss, the market should be tested for the availability and cost of earthquake insurance, so that an informed decision may be made as regards retention vs. insurance.

- Boiler and machinery risks. The State does not presently purchase insurance covering explosion of pressure vessels, breakdown of machinery and burnout of electrical equipment. Such coverage is not provided under the current property insurance program because these risks would be the subject for separate boiler and machinery insurance which provides not only reimbursement for loss but also specialized inspection services.

Machinery breakdown and electrical burnout would seem to be risks of relatively low loss potential, well within the risk retention capabilities of the State. Steam boiler explosion is another matter, as it would appear to be a risk involving significant loss potential. The State owns and operates many steam boilers and pressure vessels, primarily for the heating of buildings. The scope of this audit permitted personal inspection of only a few buildings in Juneau. Nevertheless, it would appear that violent explosion of boilers, such as those contained in the basement of the State Capitol, could not only destroy the boilers but would also cause extensive damage to the building. A survey should be made to more clearly identify and measure the boiler explosion and machinery risks. Without a clear picture of the full extent of the exposures, no informed decisions can be made regarding insurance and risk retention.

Present practice is merely unfunded self-assumption of a risk, which conceivably could involve a loss potential of $1 million or more. Boilers do not blow up very often, but when they do, extensive damage can result.

- All other risks. After rearrangement or remarketing of the fire and extended coverage program, consideration should be given to purchase of "all risks" insurance (excluding earthquake). This may be accomplished by endorsement to the fire and extended coverage policy or by purchase of a separate "difference in conditions" policy. Whether or not purchase of such coverage will prove practical depends upon its price.

If the cost of such insurance rules against its purchase, perils such as landslide, collapse, flood, transit risks, water damage, theft, etc., should be incorporated into the same self-insurance (or spread-loss plan) used to fund the primary fire and extended coverage perils.

2. Crime Risks

It is recommended that the State purchase a public employees faithful performance blanket bond with a limit no less than $2 million and that serious consideration be given to a bond limit of $10 million or higher. The rationale for this recommendation is set forth in Section III.

Recommendations with regard to non-employee crime risks also appear in Section III.

3. Workmen's Compensation and Employer's Liability

The present workmen's compensation and employer's liability insurance program has the following principal advantages:

- The Alaska Pacific Assurance Company is a domestic Alaskan company. It would seem desirable for the State to favor an Alaskan company, if all other considerations are equal.
- Ownership of ALPAC was recently acquired by INA Corporation, a general business holding company which also owns Insurance Company of North America. This is one of the strongest insurance underwriting groups in the world.
- The head office of ALPAC is located in Juneau which should result in excellent communications between the State and ALPAC personnel.
- Premium is developed under a loss rating plan, which is described in Section III. Such a plan should give the underwriter

a secure feeling about his ultimate profitability, thereby promoting a stable relationship.

The following are the principal disadvantages of the present arrangement:

- Premium development under the ALPAC loss rating plan will result in premium payout of $1.50 for each incurred loss dollar. Other methods for the funding of these losses may be more economical.
- The loss rating plan does not provide protection against the financial consequences of a catastrophic loss. Any such plan should contain a provision for limitation of individual losses to some reasonable amount.

It would appear that self insurance is a feasible alternative to the present program. There is no question that the State will pay its own non-catastrophic losses over a period of time, whether insured or self-insured. The important question is: "Which method will produce lowest long term costs?"

Although exact cost comparisons cannot be made unless and until formal self insurance proposals are received, it is suggested that self insurance will in fact produce lower long term costs than the present insurance arrangement, for the following reasons:

a. Lower costs. The present loss rating plan is designed to produce a ratio of incurred losses to earned premium of 66-2/3%. This means that claim handling and other expenses will be approximately 50% of the actual incurred losses. A well administered self-insured plan should be more efficient in its results with an expense ratio which should average about 30% of incurred losses.

b. Utilization of increased cash flow. Another cost factor, which is most important, is the utility value of money prepaid for workmen's compensation premiums and loss reserves. At any time, under an insured program, the insurance company holds at least one year's premium in the form of prepaid premiums based on paid claims plus reserves for unpaid losses. The self-insurer retains this sum and may realize significant investment returns on this money. In these days of high interest rates, this hard-to-visualize value can be understood better by considering this example: for every million dollars of prepaid premiums or loss reserves held by the insurer, at an interest rate of 7.2 percent, you lose $200 per day.

c. Better control of claims. An intangible, but fundamental, aspect of a self-insured workmen's com ensation program is the psychological incentive at the operating level toward loss prevention. When managers of the various state agencies feel the impact of dollar losses directly affecting their budgets, the result on actual losses is substantial.

A self-insurance program for workmen's compensation may be arranged in two ways:

a. A self-insured and self-administered program. Since the State presently has no experienced claim adjusting personnel, this would involve utilization of the services of an independent self-insurance service firm in the following activities:

- Full service and administration of the program by the service firm during the first two years.
- Consultant services in such areas as program development, analysis of personnel requirements, recruitment, on-the-job training, etc.
- Computer programming and reports to provide management with meaningful information on a timely basis.
- Monitoring of the operation of the program as self-administration becomes effective.

Conceptually, this is an "incremental" approach to a self-insured, self-administered workmen's compensation program. At the end of two years the State could be fully self-administered with an experienced and trained staff and an operational program.