

LEGISLATIVE FINANCE-HOUSE / SENATE FINANCE COMM. FILES 8879

SB 254 cont. - SB 260 643

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Program Features That  
Have Affected Operations

Officials in the six states have adjusted program requirements and benefits to achieve two sometimes conflicting objectives-- increasing enrollment and controlling costs. Efforts to make the programs more attractive to potential enrollees, mainly involving improved benefits, tend to increase operating losses. Program officials have found that, in particular, reductions in and waivers of preexisting condition waiting periods contribute to increased program losses. However, when program administrators have attempted to control costs through premium increases and benefit restrictions, enrollment has either decreased or increased at a lower rate.

State program officials have not made a detailed analysis of how various changes have affected program operations. According to officials, many factors affect the operations of a risk pool, and it is difficult to isolate the impact of a change or event from the impact of the other factors. Nonetheless, program officials told us that the programs' enrollment history and fiscal experience can provide insight into the impact policy changes are likely to have on program operations.

Efforts to Increase  
Enrollment

Minnesota has the largest enrollment of the six risk pool programs reviewed, and that enrollment has grown steadily since 1983. Minnesota law limits risk pool premium rates to 125 percent of comparable private insurance rates. However, despite significant loss increases, the state insurance department has not authorized an increase in premium rates since 1985 even though the law would have permitted it. As a result, the program has the lowest premium rates of the six programs reviewed.

Wisconsin has taken several steps to boost enrollment. In 1985 it implemented a program, financed by state revenues, to subsidize risk pool premiums for low-income individuals. Persons with a household income of less than \$16,500 are eligible for the premium subsidy, which varies with income. Table 12 shows the percentage of premium subsidies and the number of policyholders assisted as of December 31, 1986.

**Table 12: Subsidy Percentage by Income and Number of Persons Assisted by the Wisconsin Program**

<u>Household income</u>	<u>Subsidy as a percentage of premium</u>	<u>Number of policies</u>
Under \$9,000	33.3	253
\$9,000-\$11,999	29.0	151
\$12,000-\$14,999	23.0	138
\$15,000-\$16,499	17.0	<u>57</u>
Total		<u>599</u>

Participants in this program represented about 29 percent of risk pool enrollees as of December 31, 1986. Wisconsin officials estimated that \$433,000 was spent for premium subsidies in 1987. In 1988, the state will introduce a program to also subsidize deductibles for low-income individuals.

Provisions to waive the waiting period for coverage of preexisting medical conditions have proven costly. In 1983, Indiana authorized a waiver for enrollees who paid a 10-percent premium surcharge. Losses increased sharply during 1983 and 1984, and program officials attributed the increase to the waiver provision. Similarly, North Dakota introduced a waiver in 1985 to attract enrollment. According to North Dakota officials, the additional revenue gained from the 50-percent premium surcharge did not cover the sharp increase in claims expense. The state has since terminated this waiver provision.

### Efforts to Control Costs

The Connecticut program experienced sharply increased losses in part due to court action that required the program to provide unlimited coverage for mental and nervous conditions. To moderate losses, Connecticut increased premiums and doubled both deductibles and out-of-pocket expense limits for enrollees in 1985. Enrollment declined by about 20 percent between December 31, 1984, and December 31, 1985. Program officials identified the changes as a major factor in the enrollment decline. The state's robust economy and federal legislation extending health benefits to laid-off workers also contributed to the decline, according to the officials.

In 1983, Wisconsin took various steps to reduce risk pool losses. It raised the limit on risk pool premiums from 130 to 150 percent of comparable private premiums, extended the waiting period for coverage of preexisting medical conditions from 30 days to 6 months, and increased the enrollee's liability for out-of-pocket medical expenses from \$1,500 to \$2,000. Growth in program participation has been modest, despite the previously noted premium subsidies provided to low-income enrollees.

To reduce losses that occurred as a result of waiving the waiting period for coverage of preexisting medical conditions, Indiana increased base premiums significantly and, in January 1986, increased the waiver surcharge from 10 to 25 percent. Despite this action, losses continued to increase. Program officials believe that the higher premiums resulted in only those with the most costly health conditions enrolling or continuing their enrollment. Average claims paid per policyholder were \$3,713 in 1986, the highest of the six programs reviewed. Program officials believe that enrollees paid the higher premiums and the 25-percent waiver surcharge because they had an immediate need for medical care. Indiana has since eliminated the waiver provision.

### ENROLLEE CHARACTERISTICS

Risk pool enrollees are most likely to be middle aged. The limited data available suggest that enrollees incur higher medical costs generally and incur higher costs for heart and circulatory diseases, cancer, and diabetes specifically than does the population at large. State officials are concerned about, but have little information on, the potential cost impact on their programs concerning the treatment of AIDS patients.

Researchers who have studied risk pools believe that from 0.5 to 1 percent of the population is medically uninsurable. Their estimates, however, are rough approximations, not supported by detailed research on the size and demographic makeup of this population.

Demographics of Risk  
Pool Enrollees

Risk pool enrollees are more likely to be between the ages of 40 and 64 than the general population. Five of the six states reviewed maintained data on the age and sex of enrollees. Table 13 compares the age distribution of enrollees in the five states as of December 31, 1986, to that of the U.S. population in 1986. About 54 percent of the enrollees in these states were females, compared to about 52 percent of the national population.

Table 13: Comparison of Age Distribution of Risk Pool  
Enrollees to the National Population  
as of December 31, 1986<sup>a</sup>

<u>Age</u> <u>category</u>	<u>Percent distribution</u>	
	<u>Risk pool</u> <u>enrollees</u>	<u>National</u> <u>population</u>
Under 30	22	47
30-39	14	16
40-49	15	11
50-59	26	9
60-64	19	5
Over 64	4	12

<sup>a</sup>The Census Bureau does not publish age distribution estimates for individual states for age categories comparable to those the risk pools maintain. Analysis of Census Bureau state-level data shows that differences between age distribution in the five states and the nation are not significant.

Insurance officials described various factors that influence the makeup of risk pool enrollment. First, women are less likely to participate in the labor force than men and are more likely to depend on their spouse for access to employer-sponsored group insurance plans; and as a result, women are at greater risk of losing access to group insurance because of divorce or death of a spouse. Second, middle-aged workers who lose coverage under group plans because of layoffs or terminations are more likely than younger workers to be in poor health and to experience difficulty in obtaining commercial health insurance. Finally, large numbers of persons 65 and older may not be enrolled because they are generally covered by Medicare.

Wisconsin has conducted periodic surveys to obtain demographic information on its program enrollees. In 1986, Wisconsin surveyed 1,919 enrollees and received responses from 1,101, or about 57 percent. The results of this survey may not accurately represent the characteristics of all enrollees in that state, but do provide information on the respondents. Wisconsin found that

- 61 percent were not employed, and 13 percent were employed part time; and
- 88 percent of those who were employed worked for firms employing 25 or fewer people--firms less likely to provide group health insurance.

Cost and Nature of  
Medical Services Used

The six states we reviewed did not gather consistent data on the health care costs risk pool enrollees incur. Available information on medical expense reimbursements made to enrollees, however, indicates that the costs they incur are higher than those of the average person. Table 14 presents 1986 claims expenses per policyholder, based on the average number of policies outstanding for the year in the six states. The states did not maintain consistent data on claims expenses per insured person, and these figures may slightly overstate average annual expenses for an individual to the extent that more than one person was insured under a policy.

Table 14: Average 1986 Claims Expenses per Policyholder  
for State Risk Pool Programs

<u>State</u>	<u>Average claims expense per policyholder</u>
Connecticut	\$1,742
Florida	2,504
Indiana	3,713
Minnesota	1,804
North Dakota	2,495
Wisconsin	1,555

As the table shows, average claims expense per policyholder, not including deductible and coinsurance expenses paid by the policyholder, varied considerably. The weighted average for the six states was \$2,140. In comparison, according to estimates prepared by the Department of Health and Human Services, per capita health care expenses, including deductible and coinsurance payments, averaged about \$1,620 nationally in 1986.

Three states have gathered information on the conditions that enrollees suffer from, and one state has gathered information on the conditions that made it difficult for them to obtain insurance in the private market. The company that administers the Florida, Indiana, and Wisconsin programs summarizes claims expenses by the health conditions that led enrollees to seek treatment. These data indicate that enrollees in these states incur more expenses for the

treatment of heart and circulatory diseases, cancer, and diabetes than national averages for all persons the company insures. Table 15 shows the data from the three states.

Table 15: Comparison of 1986 Claims Expenses Incurred, by Medical Condition, for Three State Risk Pool Programs, to Company's 1986 Average Claims Expense

<u>Medical condition</u>	<u>Percent of claims expenses paid</u>			
	<u>Company average</u>	<u>Florida</u>	<u>Indiana</u>	<u>Wisconsin</u>
Heart and circulatory diseases	12	12	15	23
Cancer	7	15	18	13
Abdominal conditions	10	18	10	7
Diabetes	1	5	3	6
Blood disease	1	5	1	6
All other	69	45	53	45

In its periodic surveys, Wisconsin asks enrollees about the health conditions that prevented them from obtaining private insurance. In 1986, about 22 percent of those who responded reported that heart-related diseases prevented them from obtaining insurance. About 11 percent cited hypertension; 14 percent, diabetes; and 9 percent, cancer.

Impact of AIDS on Risk Pool Programs

Both insurance industry and advocacy group officials have indicated that risk pools can help finance the cost of treating AIDS patients. The president of the Health Insurance Association of America, for example, has written that no institution by itself can bear the burden of "the alarming medical bill for AIDS." Likewise, the executive director of the Gay Men's Health Crisis, an organization interested in AIDS-related health care issues, has acknowledged that insurance companies have legitimate concerns about the catastrophic cost of treating AIDS patients. Both have endorsed risk pools as part of the solution to the problem of financing AIDS care.

Program officials in the six states reviewed expressed concern about the potential impact of AIDS-related costs on their risk pool program. None of the states limit coverage of AIDS, and four states--Indiana, Iowa, Minnesota, and Nebraska--specifically make individuals diagnosed with AIDS eligible for their programs. None of the states, however, had studied whether individuals likely to develop AIDS were enrolled in their programs or whether enrollees were being treated for the disease. In two states, officials noted that the types of medical services being provided certain enrollees appeared to be consistent with an AIDS diagnosis.

## HAVE THE PROGRAMS MET EXPECTATIONS?

The six states we reviewed have not formally assessed risk pool program performance. Risk pool legislation emerged in response to a perception that opportunities to purchase health insurance were decreasing for persons with serious health problems. According to state officials and insurance industry representatives, the legislation generally was a compromise response to other approaches that would have required all insurers to offer open enrollment. Legislators concluded that the risk pool would distribute the burden of persons with chronic or costly medical conditions among insurers more equitably. Legislation authorizing the risk pools did not establish specific goals but rather contained general statements about assisting the medically uninsurable. Legislative histories of the programs generally offered limited insight into what legislators expected the programs to accomplish.

The information that would be needed to evaluate program performance generally has not been developed. Officials in the six states reviewed have not estimated the size of the medically uninsurable population in their states. Consequently, program officials do not know what portion of this population their programs serve. Further, the states generally do not compile information on the makeup of the enrollee population. As a result, program officials do not know which population segments find the programs most attractive or, more importantly, which segments to target in order to bring coverage to those in need. Officials in the six states reviewed generally believe that their programs are not serving all the medically uninsurable in their states.

## SUMMARY

Risk pools provide subsidized health insurance to that segment of the uninsured population that cannot obtain it because of poor health. The six programs that we reviewed have assisted a limited number of persons. As of February 1988, conclusive evidence to show that risk pools are or are not effective, and data that would allow comparison of risk pools to other mechanisms for financing health care for the uninsured, had not been developed.

STATES IN WHICH BLUE CROSS AND BLUE SHIELD  
PLANS OFFER OPEN ENROLLMENT

District of Columbia  
Maryland  
Massachusetts  
Michigan  
New Hampshire  
New Jersey  
New York  
North Carolina  
Pennsylvania  
Rhode Island  
Vermont  
Virginia

STATES THAT CONSIDERED, BUT DID NOT ENACT,  
LEGISLATION AUTHORIZING A RISK POOL DURING 1987

Alaska  
California  
Georgia  
Mississippi  
Missouri  
New York  
Ohio  
South Carolina  
South Dakota  
Texas  
Vermont  
West Virginia

PRIVATE GROUPS AND ORGANIZATIONS  
CONTACTED TO OBTAIN INFORMATION ON RISK POOLS

American Diabetes Association  
Washington, D.C.

Blue Cross and Blue Shield Association  
Washington, D.C.

Center for Health Affairs  
Chevy Chase, Maryland

Communicating for Agriculture  
Minneapolis, Minnesota

Employee Benefits Research Institute  
Washington, D.C.

Health Insurance Association of America  
Washington, D.C.

Intergovernmental Health Policy Project  
Georgetown University  
Washington, D.C.

National Association of Insurance Commissioners  
Kansas City, Kansas

National Governors' Association  
Washington, D.C.

National Health Policy Forum  
George Washington University  
Washington, D.C.

The Center for Study of Social Policy  
Washington, D.C.

Urban Institute  
Washington, D.C.

Washington Business Group on Health  
Washington, D.C.

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# BUSINESS

SUNDAY  
SECTION **B** Jan. 22, 1989

## Health insurance costs rise feverishly

Workers at a loss as employers cut back on benefits

By **HAL BERTON**  
Daily News reporter

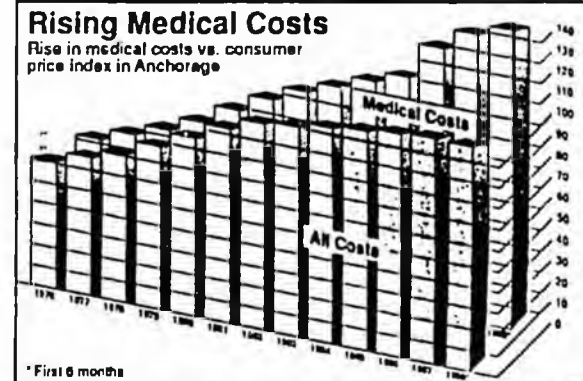
**L**ester Snow has worked as an Alaska disc jockey for 19 years, and one benefit he always counted on was health insurance. That meant a lot to Snow because his wife, Jennifer, has a serious heart condition that requires medication and close monitoring.

Then last February, Snow got bad news from his employer, Sourdough Broadcasters Inc. Owner Patty Harpel said she couldn't afford the 70 percent price increase demanded by the company's insurer, and couldn't find a cheaper alternative. Group insurance for the station's 15 employees would be dropped.

Snow fell back on a Veterans Administration policy to cover his own ailments but he also needed a family policy for his wife and two teen-age children. He found Jennifer's heart condition drove the cost of that policy out of sight. "My family has nothing," Snow says. "If we have a



Disc jockey Lester Snow was left scrambling when his employer was forced to drop health benefits for employees.



100 percent, according to brokers Walt Baldwin, Bill Purrington and Dave Stratton.

Those rate increases have pushed the cost of many Alaska policies far above the national average. For an Alaska Railroad union worker and family, for example, the total cost of annual insurance is \$5,845, more than double the national average.

In years past, employers tried to dodge rate increases by changing to another insurer. But this year, the market's tightened and finding another insurer is much harder to do, says Baldwin.

Employee exams often are required before new insurers agree to write the policies, and if they don't like what they find, then they back away or refuse to insure already existing conditions.

The cost of individual policies — a fall back for those whose employers don't offer insurance — also is soaring. Blue Cross of Washington and Alaska, a major state insurer, is seeking an average 70 percent

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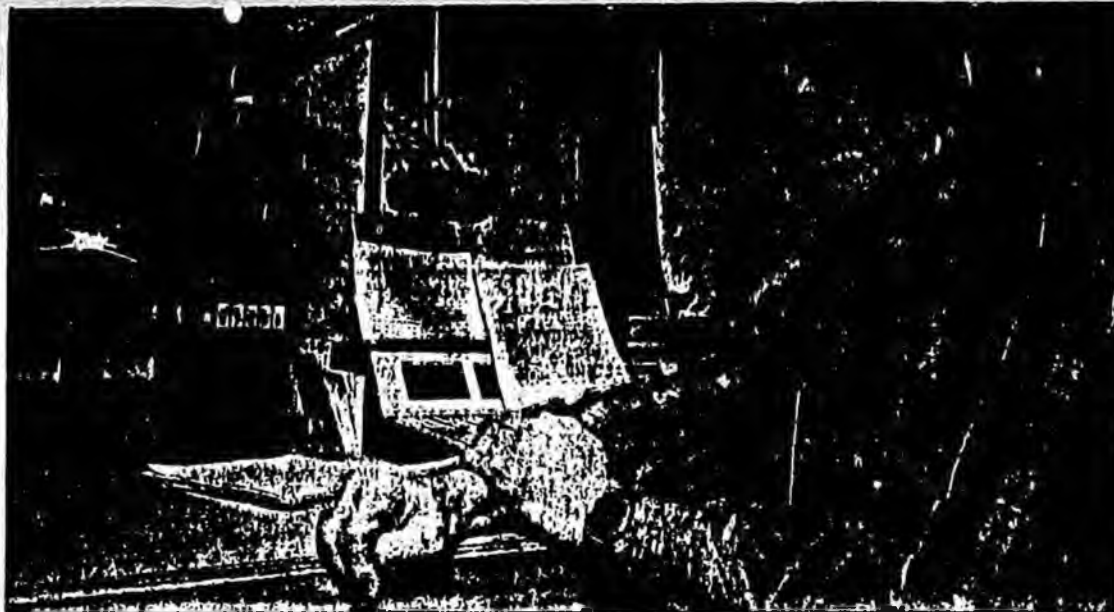
Snow fell back on a Veterans Administration policy to cover his own ailments but he also needed a family policy for his wife and two teen-age children. He found Jennifer's heart condition drove the cost of that policy out of sight. "My family has nothing," Snow says. "If we have a catastrophic accident or illness, I will be up against a wall."

Snow is experiencing the harsh edge of a new Alaska business trend — the slashing of employee health-care benefits.

Throughout the state — and particularly in Anchorage — employers already reeling from several years of recession are being shell-shocked by huge annual increases in the cost of health-care benefits.

They're responding by cutting back on these benefits and forcing employees to share more of the costs, and in some cases dropping such coverage altogether. And they're joining a debate already in progress among insurers, those who offer medical services and state officials about why rates are skyrocketing and just what can be done to control them.

Often hit hardest by increases are small employers already operating on thin profit margins.



Disc jockey Lester Snow was left scrambling when his employer was forced to drop health benefits for employees.

"You just don't get good rates if you have anyone with medical problems," says Harpel, the station manager. "And you never know how long you will be able to keep a policy before it's canceled and you're out on the big wide ocean looking for another lifesaver."

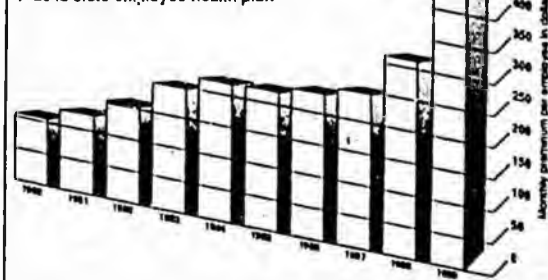
A state survey estimated that 40,000 working Alaskans and their dependents lack any type of health insurance — either from private or public sources.

The state's shrinking health-care coverage represents a sharp reversal from the boom years of the early '80s, when Alaska employers — both public and private — developed some of the nation's best health benefits to help recruit workers from the Lower 48. Many policies were what insurance agents call "cadillacs," featuring minimal out-of-the-pocket expenses for employees.

But many of the "cadillacs" are turning into hum-

### Growth in State Insurance Bill

Alaska state on \$1000 health plan



Anchorage Daily News charts/Pete Engstrom

ble Fords and Chevs, or worse, as employers struggle to cope with the rising insurance costs. That has made health insurance a major issue in state, municipal and private sector union negotiations, and in Juneau, where politicians already have drafted bills to create a new state health insurance corporation.

"It's a serious problem, and one that we're going to face for the rest of our

lives," says Bill Quinn, a union leader who serves on an Alaska Railroad Corp. health insurance committee. "Those of us in the baby boom may not be faced with what kind of health insurance we want when we retire, but whether we'll be able to afford it."

The Alaska health-care inflation parallels a nationwide surge in benefit costs, but premium inflation here

appears to be particularly acute.

Three nationwide surveys reported by Business Insurance, The Wall Street Journal and Health Week cited average 1989 increases of 11 to 25 percent for group health plans.

In Alaska, a few companies contacted by the Daily News report they've managed to hold the line on health costs. Alaska Commercial Co., for example, an Anchorage-based merchandising chain employing 450 people, this year reports no increase in its policy premium.

"We manage the benefits very carefully," says Sam Salkin, Alaska Commercial's president. "We have (medical) authorization procedures, second opinions."

But Alaska Commercial is the exception, not the norm.

Three major Alaska insurance brokers indicated average 1989 increases of 30 to 60 percent are the norm.

And some increases top

Those rate increases have pushed the cost of many Alaska policies far above the national average. For an Alaska Railroad union worker and family, for example, the total cost of annual insurance is \$5,845, more than double the national average.

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The cost of individual policies — a fall-back for those whose employers don't offer insurance — also is soaring. Blue Cross of Washington and Alaska, a major state insurer, is seeking an average 70 percent jump in the cost of individual insurance policies.

"The point is not just that it's expensive, but whether it will even be available," said Paul Roller, director of the state Division of Insurance. "People just cannot afford those rates."

The debate over Alaska's rising health costs is often dominated by discord.

Doctors say their Alaska costs are high, because overhead is much higher, and they point the finger at insurance companies.

"I think a lot of the problems, from the physician's perspective, are generated by the insurance companies," says Richard Neubauer, an Anchorage internist. "They set up a lot of obstacles for prompt payment of bills, and maximize the amount of paperwork."

Please see Page B-3, HEALTH

## Harvard MBAs take ethics to heart

By PAUL WILKES  
The New York Times

**B**OSTON — At the Harvard Business School early this year, a group of students gath-



"I have to agree. This is a business decision, pure and simple. We're paid to make the most profit possible. When you start getting into sociology and all that, you lose sight of what job you're supposed to do."

## Office space market closes in on recovery

The latest office space market study documents the



# HEALTH INSURANCE: Employers cut benefits in face of rising costs

Continued from Page B-1

"They set up quality insurance programs, review types of things, and call for justification."

Broker Farrington accuses Blue Cross, a major — and non-profit — Alaska insurer, of predatory pricing — cutting rates when major competition shows up, then jacking them up once that competition's gone. In 1985, for example, Blue Cross cut many of its group rates to help fend off an unsuccessful attempt by Humana Care Plus to grab a piece of the Alaska market.

Stephen Clark, executive vice president of Blue Cross, says the problem doesn't lie with the insurance companies. He says Alaska doctors and hospitals charge much more than in the Lower 48, and their company just passes through the ever-inflating costs. Alaska laboratory tests, for example, averaged 72 percent higher in Alaska than Washington, according to Blue Cross data.

"If we are to contain the excessive costs of health care in Alaska, we've got to work in unison with the physicians, hospitals, employers and individual subscribers," Clark says.

State officials don't keep detailed financial data on all of the more than 30 insurers selling health insurance in Alaska. But they do monitor Blue Cross, due to its special status as a non-profit medical service corporation. And in 1987, the last year in which financial information is available, state records indicate Blue Cross roughly broke even in Alaska, paying out \$81 million in claims and administrative costs and taking in the same amount in premiums.

Aetna Life & Casualty, in a report to a state task force, indicated that since 1985, the insurance plan covering state employees lost more than \$10 million.

State insurance division officials cite several major national trends forcing up the cost of Alaska health insurance. They include:

- The use of ever-more-costly technology to examine, treat and prolong the life of patients, including victims of AIDS and other terminally ill patients.

- "Our society hasn't reached the point yet where we say we can't afford to absorb the cost of a heart transplant for a 60-year-old guy who's been smoking six packs of cigarettes all his life," says Warren Dvorak, benefits manager for the Anchorage School District.

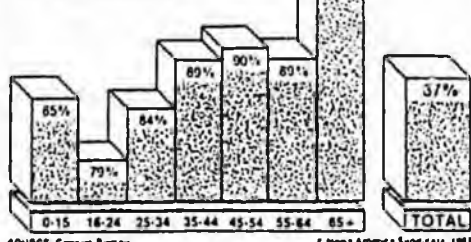
- Increased salaries to help hospitals and other institutions deal with an ever more severe shortage of nurses and other medical personnel.

- Cost shifting. As the federal government cuts

## Most Americans have health insurance

Most Americans — 87 percent — have private or government health insurance. By age group, 99 percent of those 65 years and older are covered, compared to 75 percent of those aged 16-24 years.

AMERICANS COVERED BY HEALTH INSURANCE  
By age group, in percent.



back on Medicare and other medical payments, hospitals are trying to compensate by raising rates for patients with private insurance.

Recent federal laws requiring employers to extend temporary health benefits to former employees and full benefits to some seasonal and temporary employees.

Regional trends also fuel the inflation, according to the state insurance division, industry officials and a draft report of the Governor's Interim Commission on Health Care:

- Huge increases in the cost of Alaska malpractice insurance — both for doctors and hospitals — have been passed on to health care consumers. And the threat of damage suits has prompted more defensive medicine. Doctors order additional, at times unnecessary, tests and exams to help protect them from patients who might later decide to sue.

- With the past three years, a major increase in the use of an ever-expanding array of Alaska health care services. Last year, for example, Charter North Medical Center opened an expensive new facility for in-patient treatment of disturbed children. That prompted a more than doubling of admissions from state employees and their families. And hospital charges to the state's insurance program soared from \$320,446 in fiscal year 1987 to \$1.2 million in fiscal year 1988.

- The increased use, industry officials say, also results from skittish workers who — in a down economy — fear for job security, and want to make sure any health problems are dealt with while they still have coverage.

- The sagging economy also has caused a big increase in free medicine by the hospitals. Within the past three years, Providence Hospital's unreimbursed medical services jumped from \$7 mil-

lion to \$17 million. During that same time period, Humana's jumped from \$5 million to \$12 million, the hospitals say.

That tends to drive up the cost of services for those who can afford to pay, state officials say.

In the Lower 48, the struggle to gain control of health care costs — and often intense competition for patient dollars — has triggered a revolution in health care delivery. In many major urban areas, employers can choose from a wide range of programs, such as pre-paid health-care plans in which doctors and hospitals guarantee services for a fixed fee. Other programs involve doctors and hospitals who team up to offer employers discount services in exchange for large volumes of business.

In the health-care industry, such programs are known as "managed care," and many view them as the wave of the future.

"An increasingly high percentage of people who are insured receive some sort of managed care," says Doug Hastings, a Washington, D.C., attorney specializing in hospital and health care issues. "And most experts predict that growth will continue."

But in Alaska, such programs are in their infancy. That's due, in part, to the state's isolation and sparse population, which make it difficult to organize large-volume health care programs profitably.

Another obstacle to their development is the state's doctors, many of whom view such programs with distrust and outright hostility. "I'm extremely happy that those things have not come here,"

*"You just don't get good rates if you have anyone with medical problems. And you never know how long you will be able to keep a policy before it's canceled."*

— Patty Harpel

said Neubauer, the internist. "... Maybe the cost of insurance will go down, but so will the quality of care and I'm not sure it's worth it."

Neubauer said the managed care systems tend to screen out those who are really sick, since they may need lots of expensive treatment that will cut away the profits from a pre-paid or discount plan.

Other Alaska doctors say managed care means more insurance company bureaucracy and inferior care for everyone: Doctors withholding treatment for fear the next test — or the next operation — will erode the profit from a pre-determined fee.

Insurance companies disagree and are frustrated by the Alaska doctors' reluctance to embrace the new systems. "You're opening a very interesting and very sensitive area," says Robert Simons, a physician employed as Aetna's medical director. Simons said he sent letters to state physicians asking them to join in new managed care program with Aetna, and found "no real interest."

Blue Cross says it will attempt to impose health-care management on physicians by drafting new discount policies that only reimburse patients for the average cost of a physician's service. The average broken arm, for example, costs \$67 to set in Alaska, but some doctors charge \$150.

If a doctor's cost is way over the average — and there are no special complications to justify that, then the new policy would prod the patient to a cheaper doctor, said Clark, the Blue Cross vice president.

Aetna and Blue Cross have had more success dealing with hospitals.

Aetna has convinced Humana to offer a 30 percent discount in services, according to Simons. In return for helping fill the hospital's beds with a steady stream of its insured.

Blue Cross has teamed up with Providence in a similar program. And Providence recently struck out on its own to offer such discounts directly to Alyeska Pipeline Service Co. and several other

large employers.

The employers who purchase such discounted services use an economic hammer to insure their employees go to the right hospital. Employees pay a low deductible if they attend the preferred hospital, a much higher deductible if they attend the competition.

Such plans were first introduced to Anchorage in the mid '80s, and as rates rise, their appeal grows, both to employers and employees.

The Alaska Railroad, for example, after months of tough bargaining reached a 1987 union agreement that included a three-year freeze on employer payments toward health benefits. At the time, it looked like a good settlement because those payments covered all the costs of a gilt-edged medical plan jointly insured through the railroad and Aetna.

But last year, Aetna hit the railroad with a 40 percent rate increase for the standard plan. Then they offered a more modest alternative, a 14 percent rate increase for those employees who would join a "preferred hospital" plan with Humana.

Under that plan, employees who chose Providence would have to pocket 40 percent — rather than the standard 20 percent — of initial hospital costs.

Other cost management efforts included insurance company approval of non-emergency surgery and a financial penalty for not obtaining a second opinion on prospective surgery.

Non-union railroad employees chose to sign up for the preferred plan, but union workers opted against it. Then this year, facing another 32 percent increase, the unions decided to go with the preferred option.

Even with the preferred plan, the new insurance doesn't come cheap. A family policy will cost each union member \$2,049 out of pocket.

Quinn, the union leader, said he's talked with the rank and file about cutting benefits to try to bring that expense down farther. But for the moment, his members say no. "The employees still want the plan they have. They aren't willing to downscale it — yet."

# Trad susp souc

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"If you are break open: undercover and go doo: time to do it: the good law; are out of former Depa: tice attorney senting suspe

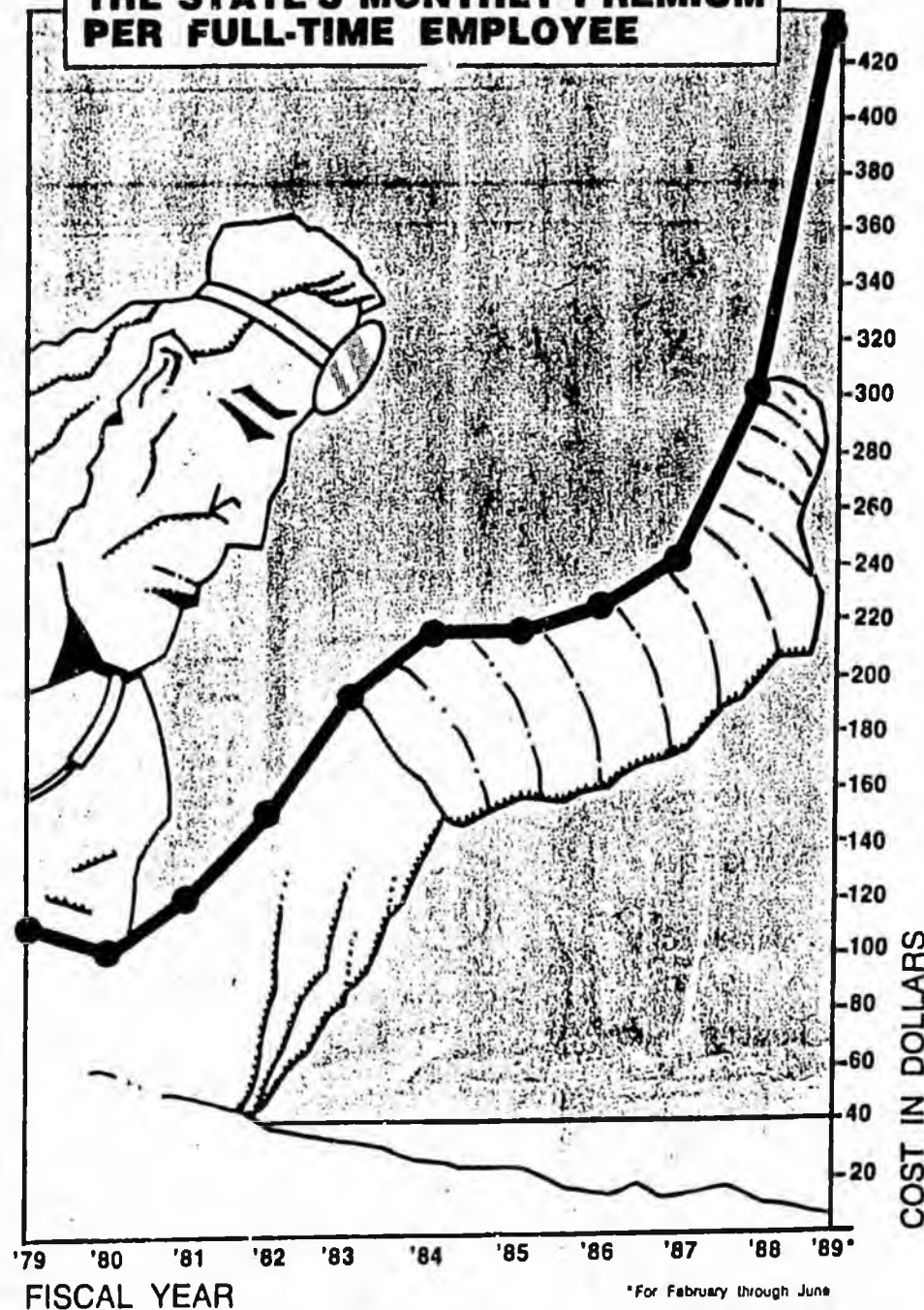
## CD RATES FOR THE SERIOUS INVESTOR.

Maturity	Rate
60 Days	8.75%
91 Days	9.00%

# New Year's Clearance

Christmas sales have dropped off, and our year-end inventories are far too high! To reduce our stock we've drastically cut prices on all popular computer systems. All units must go, but prices are limited to stock on hand. save now during the largest inventory clearance in our his.

Anch Daily News

**THE STATE'S MONTHLY PREMIUM  
PER FULL-TIME EMPLOYEE**


Source: Alaska Department of Labor

Anchorage Daily News/Peter Dunlap-Shohl

# State health insurance: \$104 million

## Cowper seeks more money for state workers' coverage

By DAVID POSTMAN

Daily News reporter

**JUNEAU** — State employees' top-of-the-line health insurance policy will cost \$104 million this year, \$20 million more than the state has budgeted to pay for it.

The plan costs the state an average of \$431 a month per employee, 520 percent more than it did a dozen years ago. It covers 90 percent of the costs of everything from plastic surgery to year-long stays in mental hospitals.

"We have the best plan. Everything is covered," said Chuck Taylor, deputy commissioner of the Department of Administration.

Because the policy costs more money than the state has appropriated for it, Gov. Steve Cowper is asking for a special appropriation of about \$20 million to pay for this year's increases. But Cowper, Taylor and legislative leaders say the health coverage may be too expensive for these days of limited money.

The state is locked into the plan through contracts with its labor unions. Those contracts call for the state to provide the same level of coverage even if the costs go up or there is less money to pay for the policy.

"There's not any consideration for what happens in a down economy," Cowper said at last week's budget summit with legislative leaders. "I think it's fair to say that this is just a situation nobody ever anticipated. If everything had kept going up it would have worked just fine."

But as costs skyrocketed, state income dropped and the state is now stuck with a boom-time health plan.

All full-time employees, including legislators, are

Please see Back Page, **INSURANCE**

## INSURANCE: For state workers

Continued from Page A-1

covered by the policy at no cost. Part-time employees can buy into the plan at about half the state's cost, according to Taylor.

Under the policy, Taylor said:

- 90 percent of all medical costs are paid. Only 8 percent of public employee insurance policies in the country have 90 percent coverage.

- 100 percent of the premium for dependent coverage is paid. Alaska is one of 12 states with that provision.

- State employees have a \$100 deductible and pay less out-of-pocket medical expenses than all but 3 percent of public employees nationwide.

As medical costs have gone up, so have insurance costs. But Alaska's public employees' plan, issued by Aetna Life Insurance Company, has also gotten more expensive because of its extremely liberal terms and because people are going to the doctor a lot more often, according to Taylor.

The biggest increases have been for chiropractic care and psychiatric and substance abuse treatment, according to a survey of state employee insurance claims filed during the past two years. Charges for chiropractic care went up 27 percent in the past year. But that is not due so much to higher costs as it is to people going to the chiropractor more often.

State figures show employees visited chiropractors 25 percent more often in the past year.

A Juneau chiropractic clinic, Davis Valley Chiropractic, is No. 9 on the list of payments made to doctors and clinics, receiving \$315,620 from Aetna.

Treatment for mental ill-

ness and substance abuse accounts for 40 percent of all hospital stays paid for by the plan. For Aetna's other Alaska insurance policy holders, mental illness and substance abuse accounted for just 16 percent of all hospital stays.

And the state pays for people to go to whatever hospital they want and to stay as long as they want. Five of the 14 most expensive hospital stays paid for from July 1986 to June 1987 were for mental disorders. One 16-year-old boy, the son of a state worker, spent more than a year in Camelback Hospital in Phoenix, Ariz., at a cost of \$131,000, for neurotic depression. Another 15-year-old spent 350 days at the same hospital for what insurance records show as "childhood mental disorders."

Charter North Hospital, which specializes in mental illness and substance abuse treatment, had the highest charges per hospital admission of any hospital used by state employees last year. Charter North charged an average of \$15,441 per admission compared to Providence Hospital at \$6,115 and Humana Hospital-Alaska at \$5,487.

Taylor said some of the high costs of treatment for mental illness and substance abuse are due to high alcoholism and divorce rates in Alaska and the fact that many people do not have family here and more readily turn to professionals for help.

"It's also my opinion that you are seeing the impact of television advertising," Taylor said. "Turn on the tube and what do you see, 'Problems with your kid? Send them here. Cocaine problems, come see us.'"

Taylor also said the rise

in chiropractic costs might also be attributed to heavy television advertising.

Whatever the reason, state leaders say something must be done to at least slow the rising costs. But since the insurance is part of union contracts, there is little that can be done.

Any change would have to be negotiated with the unions or the legislature would have to amend state labor relation laws to allow Cowper to make changes in the benefit package.

Cowper, House Speaker Sam Cotten and Senate President Tim Kelly agree they will "take a look at" the benefit package, but because of the contract requirements they stop short of saying they will take action to cut the plan.

"If something was to appear before us magically maybe we could take a look at it," Kelly said at last week's budget summit.

But this week Kelly said in an interview that the costs were clearly out of control.

He said it is unfair to the Alaskans that do not share in the plan to keep paying out more and more money to insure state employees. "It comes down to creating an elite class of people who are living better than the people they are working for."

Cotten said that to balance next year's budget it might be necessary to cut services, raise some taxes and repeal an oil-company tax break, and that state employees should not be exempt from taking a hit, too.

But even with changes this year, the cost of the plan will keep going up, according to Taylor. "If I cut the plan and contain costs, I still have to deal with 20 and 30 percent increases each year."

3/29/90  
SFC

Anchorage, Alaska  
March 22, 1990

Memorandum

To: Larry Houde  
From: Director, Personnel  
Subject: SB254 - An Act Relating to the State Insurance Authority

Per your request for a position paper on this bill, the ARRC opposes this bill for the following reasons:

- The ARRC has its own health care program which seems to work well at this time.
- To help control costs, the management and union have established a cost containment committee to deal with plan changes to cut costs.
- The ARTA requires the railroad to be in a position to sell the ARRC. The health plan should remain separate from the state's for this purpose.
- The ARRC is not included in state personnel plans under AS39; the health care plan should not be either.
- Pursuant to AS42.20.010, the ARRC is a state instrumentality which has a legal existence independent and separate from the state. The health and life insurance plans should also be separate.

If you need any additional information, please let me know.



Ronald W. Stocker

(WPPER1/11)

**FISCAL NOTE**

**REQUEST:**

Revision Date: \_\_\_\_\_ Agency Affected: Education  
 Title: Group Health Insurance BRU: \_\_\_\_\_  
 Sponsor: Duncan Components: \_\_\_\_\_  
 Requestor: Duncan

**EXPENDITURES/REVENUES: (Thousands of Dollars)**

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL						
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REVENUE						
---------	--	--	--	--	--	--

**FUNDING: (Thousands of Dollars)**

GENERAL FUND	-0-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
TOTAL						

**POSITIONS:**

FULL-TIME						
PART-TIME						
TEMPORARY						

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

The increased cost to the Department of Education for health coverage of part time employees cannot be anticipated at this time. Any increase or decrease in cost to school districts must be absorbed within local districts budgets.

Prepared by: Mary Hakala Phone: 465-2800  
 Division: Commissioner's Office Date: 1/29/90

Approved by Commissioner: William G. Demmert Date: 1/29/90  
 Agency: Education

Distribution (by preparer):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

*This fiscal note did not accompany the bill.*

*Bill does not relate to nor impact DOE* page 1 of 1

# FISCAL NOTE

**REQUEST:**

Revision Date: As Act relating to group  
 Title: WALSH  
 Sponsor: DUNCAN  
 Requestor: Senate Finance

Agency Affected: Admin  
 BRU: 12-12  
 Components: 12-12

**EXPENDITURES/REVENUES:** (Thousands of Dollars)

OPERATING	FY91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES	129.6	129.6				
TRAVEL	58.0	58.0				
CONTRACTUAL	310.6	325.4				
SUPPLIES	1.3	2				
EQUIPMENT	33.3	5				
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING						
CAPITAL						
REVENUE						

**FUNDING:** (Thousands of Dollars)

GENERAL FUND	528.2	485.5				
FEDERAL FUNDS						
OTHER						
TOTAL						

**POSITIONS:**

FULL-TIME						
PART-TIME						
TEMPORARY						

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

3/29/90

*Draft FN submitted by DON  
by Mike Caughlin. No formal  
FN submitted, per Senator Duncan*

Prepared by \_\_\_\_\_ Phone: \_\_\_\_\_  
 Division: \_\_\_\_\_ Date: \_\_\_\_\_

Approved by Commissioner: \_\_\_\_\_ Date: \_\_\_\_\_  
 Agency: \_\_\_\_\_

- Distribution by preparer:
- Legislative Finance
  - Legislative Sponsor
  - Requestor
  - Office of Management and Budget
  - Impacted Agencies



DRAFT

Travel

Assume 7 Board meetings for FY 91 and every 2 months thereafter at an average cost of \$400 per member per trip.

\$400 X 15 X 7 = \$42.0

Administrative travel for Director:

Board Meetings \$400 X 7 = 2.8  
Organizational meetings \$600 X 12= 7.2

**Total Travel \$52.0**

Contractual

Office Space--500 sq. ft. @\$1.75 X 11 mos. \$9.6  
Telephone--\$300 X 11 mos. 3.3  
Courier services--\$200 X 11 mos. 2.2  
Postage--\$500 X 11 mos. 5.5  
Advertising and Printing 10.0  
Professional Services Contract(s) 280.0

which could include:

- \* carrier surveys and analysis
- \* provider data collection
- \* provider meetings
- \* rate studies and analyses
- \* financial consulting
- \* self vs fully insured analyses
- \* development of plan design

**Total Contractual Services \$310.6**

Supplies:

\$500 per employee \$1.5  
Software 1.8

**Total Supplies \$3.3**

DRAFT

Equipment:

3 PCs and printer		\$15.0
Phone system		2.6
Photocopier		1.3
Fax machine		1.8
Office furniture:		
1 management unit	4.0	
2 support workstations	5.0	
3 chairs	1.2	
3 side chairs	.8	
2 file cabinets	.9	
bookcase	.1	
storage cabinet	.6	
Total furniture		12.6

**Total Equipment**

**33.3**

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_ Agency Affected: Administration  
 Title: An Act relating to group health insurance BRU: Retirement and Benefits  
 Sponsor: Duncan Components: Retirement and Benefits  
 Requestor: Sen. State Affairs

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

Based on assumptions outlined on page 2, it is estimated that there will be no increase to either the operating expense of the division or the group insurance premiums for the State of Alaska.

Prepared by: Sally Smith *Mike Caughlin* Phone: 465-4460  
 Division: Retirement and Benefits Date: 1/29/90  
 Approved by Commissioner: Frank S. Baxter Date: 1/30/90  
 Agency: Department of Administration

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

Changes in CS SB 254 (SA) have no fiscal impact. This fiscal note is SB appropriate.

Senate Bill 254  
Analysis of the Fiscal Implications for Employee Benefits  
Prepared by the Division of Retirement and Benefits  
Department of Administration

Analysis: This bill would create the Alaska State Group Health Insurance Authority. The Authority would be required to purchase group insurance for the State of Alaska, municipalities and school districts. Unless granted a waiver, all entities must purchase their group insurance benefits through the Authority. The State would not be allowed a waiver. It is understood the intent of the bill is to create economies of scale and provide low cost group insurance for public organizations throughout the state.

With this purpose in mind, it is estimated that the State of Alaska would not suffer any increase in premiums as a result of this bill based on the following assumptions:

1. that the level of benefits offered by the authority would be no greater than that offered by the State of Alaska now;
2. that each entity would be separately underwritten and the State of Alaska would not be subsidizing higher costs of other, smaller employers;
3. that the administrative costs in support of the Authority would not increase the current overall premium costs;
4. that the administrative and premium costs would be borne equally by each employer and not allocated by employee numbers;
5. that the Authority's selected claims payor would perform as favorably (e.g. financial accounting) as the State's current arrangement; and
6. that staff costs, whether contracted out or through additional State employees, will be borne by the Authority.

## FISCAL NOTE

**REQUEST:**

Revision Date: \_\_\_\_\_  
Title: An Act relating to group health insurance  
Sponsor: Duncan  
Requestor: Senate State Affairs

Agency Affected: Commerce & Economic Dev.  
BRU: Alaska State Group Health Insurance Authority  
Components: \_\_\_\_\_

**EXPENDITURES/REVENUES:** (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES	141.9	141.9				
TRAVEL	50.4	50.4				
CONTRACTUAL	283.1	283.1				
SUPPLIES	4.5	4.5				
EQUIPMENT	32.0					
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>511.9</b>	<b>479.9</b>	*	*	*	*
<b>CAPITAL</b>						
<b>REVENUE</b>						

**FUNDING:** (Thousands of Dollars)

GENERAL FUND	511.9	479.9				
FEDERAL FUNDS						
OTHER						
<b>TOTAL</b>						

**POSITIONS:**

FULL-TIME	3.0	3.0				
PART-TIME						
TEMPORARY						

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

\*Given the nature of this organization, it is not possible to predict the costs for the subsequent fiscal years.

Prepared by: Guy Bell, Director  
Division: Administrative Services

Phone: 465-2505  
Date: 3/5/90

Approved by Commissioner: Larry Mercurieff  
Agency: Department of Commerce & Economic Development

Date: 3/5/90

**Distribution (by preparer):**

- Legislative Finance
  - Legislative Sponsor
  - Requestor
  - Office of Management and Budget
  - Impacted Agency(ies)
- 64080-1/3590a

CSSB 254: "An Act relating to group health insurance; and providing for an effective date."

Personal Services:

Executive Director	24A	\$73.2
Administrative Assistant II	14A	39.3
Clerk Typist III	8B	29.4
Total Personal Services		\$141.9

Travel:

Assume board meetings every two months for 17 board members at an average cost of \$400 per trip.

$\$400 \times 17 \times 6 = \$40.8$

Staff travel for Executive Director:

Board meetings	\$400 x 6	\$2.4
One meeting per month	\$600 x 12	\$7.2

Total Travel \$ 50.4

Contractual:

Office Space - 500 sq. ft. @ \$1.75 x 12 months	\$10.5
Telephone - \$300 x 12 months	3.6
Courier Services - \$250 x 12 months	3.0
Postage - \$500 x 12 months	6.0
Advertising and Printing	10.0
Professional Services Contract(s)	250.0

which may include:

- Assessment of insurance availability and affordability
- Rate studies
- Financial Advisor
- Options analysis

Total Contractual Services \$283.1

Supplies:

\$1,000 per employee	\$3.0
Software	1.5

Total Supply \$ 4.5

**Equipment:**

3 PC's and a printer	\$15.0	
3 bookcases with 3 shelves @ \$120	.4	
3 file cabinets/5 drawers legal @ \$525	1.6	
Management Workstation	4.0	
Technician Workstation	2.5	
Support Workstation	2.5	
Phone system	1.0	
1 calculator desk	.5	
1 chair, executive swivel with arms	.4	
2 chair posture tilt with arms @ \$425	.9	
2 side chairs @ \$275	.6	
Photocopier	2.0	
Telecopier	.6	
<b>Total Equipment</b>		<b>\$ 32.0</b>

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_ Agency Affected: Administration  
 Title: An Act relating to group health insurance BRU: Retirement and Benefits  
 Sponsor: Duncan Components: Retirement and Benefits  
 Requestor: Sen. State Affairs

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

Based on assumptions outlined on page 2, it is estimated that there will be no increase to either the operating expense of the division or the group insurance premiums for the State of Alaska.

Prepared by: Sally Smith *Mike Caughlin* Phone: 465-4460  
 Division: Retirement and Benefits Date: 1/29/90  
 Approved by Commissioner: Frank S. Baxter *Frank Baxter* Date: 1/30/90  
 Agency: Department of Administration

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

Senate Bill 254  
Analysis of the Fiscal Implications for Employee Benefits  
Prepared by the Division of Retirement and Benefits  
Department of Administration

Analysis: This bill would create the Alaska State Group Health Insurance Authority. The Authority would be required to purchase group insurance for the State of Alaska, municipalities and school districts. Unless granted a waiver, all entities must purchase their group insurance benefits through the Authority. The State would not be allowed a waiver. It is understood the intent of the bill is to create economies of scale and provide low cost group insurance for public organizations throughout the state.

With this purpose in mind, it is estimated that the State of Alaska would not suffer any increase in premiums as a result of this bill based on the following assumptions:

1. that the level of benefits offered by the authority would be no greater than that offered by the State of Alaska now;
2. that each entity would be separately underwritten and the State of Alaska would not be subsidizing higher costs of other, smaller employers;
3. that the administrative costs in support of the Authority would not increase the current overall premium costs;
4. that the administrative and premium costs would be borne equally by each employer and not allocated by employee numbers;
5. that the Authority's selected claims payor would perform as favorably (e.g. financial accounting) as the State's current arrangement; and
6. that staff costs, whether contracted out or through additional State employees, will be borne by the Authority.

**FISCAL NOTE**

**REQUEST:**

Revision Date: \_\_\_\_\_  
Title: Regarding Group Health Insurance

Agency Affected: Commerce & Economic Dev.  
BRU: Insurance

Sponsor: Senator Duncan  
Requestor: Senate State Affairs

Components: \_\_\_\_\_

**EXPENDITURES/REVENUES: (Thousands of Dollars)**

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	0	0	0	0	0	0
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REVENUE	0	0	0	0	0	0
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**FUNDING: (Thousands of Dollars)**

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	0	0	0	0	0	0

**POSITIONS:**

FULL-TIME	0	0	0	0	0	0
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary) No fiscal impact for FY 90.

Prepared by: James J. Jordan, Acting Director  
Division: Insurance

Phone: 465-2515  
Date: 1/26/90

Approved by Commissioner: Larry Mercurieff  
Agency: Department of Commerce & Economic Development

Date: 1/29/90

Distribution (by preparer):  
Legislative Finance  
Legislative Sponsor  
Requestor  
Office of Management and Budget  
Impacted Agency(ies)  
LW/dg16208D/12990a

S B

2 5 6

SENATE COMMITTEE REPORT

FURTHER

4/8/89

DATE TURNED INTO OFFICE 4/11/89

Mr. President:

Finance

Committee considered SB 256

reimbursement to persons and municipalities for costs incurred as a result of released hazardous substance; efd

and recommended

- replace with \_\_\_\_\_ CS \_\_\_\_\_ )  same title
- or adopt \_\_\_\_\_ CS SB 256 (CLRA) )  new title
- attached amendment(s) and  technical title change (HB only)
- \_\_\_\_\_ letter of intent adopted

do pass

do not pass

no recommendation

individual recommendations

further referral to \_\_\_\_\_

- FISCAL NOTE(S)  <sup>New</sup> zero  fiscal impact  appropriation no FN
- new  <sup>Docu</sup> updated  previous DEC
- same as previous fiscal note(s) published \_\_\_\_\_

MEMBERS SIGNING DO PASS

OTHER RECOMMENDATIONS

[Signature]

Paul Gish

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

[Signature]  
Chairman signature and recommendation

Committee Backup attached

[Signature] Co-Chair

2/1/89

R/0 JFC 4-11-89

STATE OF ALASKA  
1989 LEGISLATIVE SESSION

BILL VERSION: CSSB 256 (C&RA)  
PUBLISH DATE: \_\_\_\_\_

### FISCAL NOTE

**REQUEST:**

Revision Date: \_\_\_\_\_ Agency Affected: Department of Law  
 Title: "An Act relating to reimbursement for costs...released hazardous substance..." BRU: Prosecution, Legal Services  
 Sponsor: Senate C&RA Components: All  
 Requestor: Senate C&RA

**EXPENDITURES/REVENUES:** (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

**FUNDING:** (Thousands of Dollars)

GENERAL FUND	-0-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
TOTAL						

**POSITIONS:**

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

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

Please see the attached analysis.

*Richard I. Pegues*

Prepared by: Richard I. Pegues, Director Phone: 465-3672

Division: Administrative Services Date: April 6, 1989

Approved by Commissioner: Richard I. Pegues /FOR/  
Douglas B. Bailey, Attorney General Date: April 6, 1989

Agency: Department of Law

Distribution (by preparer):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

**RECEIVED**  
APR 7 1989

# CONTINUATION of FISCAL NOTE ANALYSIS

For Bill/Resolution No. CSSB 256

This bill, because it imposes no new responsibilities on the department, will not have a fiscal impact on the Department of Law. However, the department anticipates a major impact on state resources arising out of litigation that it expects in respect to the collection of state imposed civil penalties, pursuit of claims by the state for damages against the responsible parties, and the defense of damage claims against the state by fishermen and other affected persons, as a result of the Exxon Valdez oilspill. Because this impact is not directly related to the bill it will be addressed separately by the department. Penalty collections and claims litigation will be extensive and very expensive. The department hopes to be able to advise the legislature on these matters within the next few days.

r/o SEC 4-11-89

4/6

STATE OF ALASKA  
1989 LEGISLATIVE SESSION

BILL VERSION: CS SB 256 (C & RA)  
PUBLISH DATE: 4/8/89

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_ Agency Affected: Environmental Conservation  
Title: An Act relating to reimbursement to persons and municipalities for costs incurred as a result of a released hazardous substance BRU: EO  
Sponsor: Senator Szymanski Components: \_\_\_\_\_  
Requestor: \_\_\_\_\_

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	0	0	0	0	0	0
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REVENUE	0	0	0	0	0	0
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FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS: None

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

CHANGES IN CEQA CO HAVE  
NO FISCAL EFFECT. THIS IS  
APPROPRIATE.

Prepared by: Mark Thorson Phone: 765-2621  
Division: Administrative Services Date: 4/5/89

Approved by Commissioner: Mark D. Thorson for DDK Date: 4/5/89  
Agency: Environmental Conservation

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

Original sponsors: Szymanski, Kerttula,  
Kelly, and Sturgulewski

1 IN THE SENATE  
2  
3 CS FOR SENATE BILL NO. 256 (C&RA)  
4 IN THE LEGISLATURE OF THE STATE OF ALASKA  
5 SIXTEENTH LEGISLATURE - FIRST SESSION  
6 A BILL  
7 For an Act entitled: "An Act relating to reimbursement for costs incurred  
8 and recovery of money expended as a result of a  
9 released hazardous substance; and providing for an  
10 effective date."  
11 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:  
12 \* Section 1. AS 46.08.070(b) is amended to read:  
13 (b) The attorney general, at the request of the commissioner,  
14 shall immediately [MAY] seek to recover money expended by the depart-  
15 ment under this chapter or other law to contain and clean up oil or a  
16 hazardous substance that has been released or to control the threat-  
17 ened release of oil or a hazardous substance.  
18 \* Sec. 2. AS 46.08.070(c) is amended to read:  
19 (c) The department may reimburse a municipality for actual  
20 expenses, other than normal operating expenses, incurred in the abate-  
21 ment of a release or threatened release of oil or a hazardous sub-  
22 stance if  
23 (1) the municipality has entered into an agreement with the  
24 commissioner under AS 46.09.020(e) [BEFORE INCURRING THE EXPENSES FOR  
25 WHICH REIMBURSEMENT IS SOUGHT]; and  
26 (2) the commissioner determines that the expenses were for  
27 a necessary emergency first response to a release or threatened re-  
28 lease that posed an imminent and substantial threat to the public  
29 health or welfare, or to the environment.  
\* Sec. 3. This Act is retroactive to March 24, 1989.

1 \* Sec. 4. This Act takes effect immediately under A. 01.10.070(c).



## Alaska Environmental Lobby, Inc.

P.O. Box 22151 Juneau, Alaska 99802

907-586-2345

### AEL ISSUE PAPER-SB 256: REIMBURSEMENT FOR COSTS INCURRED AS A RESULT OF OIL/HAZARDOUS SUBSTANCE RELEASE

**The Alaska Environmental Lobby supports the Senate Community And Regional Affairs CS for SB 256.** It is absolutely necessary that the money spent on the Prince William Sound cleanup by the Department of Environmental Conservation, municipalities, and other entities be recovered from the responsible parties.

The Exxon Valdez oil spill disaster has had tragic consequences for the environment and the communities of Prince William Sound, and beyond. This crisis required an immediate, emergency response. **Substantial costs have been incurred both by DEC and the communities of Prince William Sound in this large-scale cleanup and containment effort.** It is essential that this money be recovered from those responsible for this grave environmental, social, and economic catastrophe.

**The Alaska Environmental Lobby commends the Senate in this effort to create a framework for containment and clean up expenditure reimbursement.** With this assurance of reimbursement, local entities and municipalities will be more likely to participate in future oil and hazardous substance release prevention and cleanup.

Karen Brewster  
April 11, 1989

ALASKA CENTER FOR THE ENVIRONMENT • ALASKA CHAPTER, SIERRA CLUB • JUNEAU GROUP, SIERRA CLUB • SITKA GROUP, SIERRA CLUB  
KNIK GROUP, SIERRA CLUB • DENALI GROUP, SIERRA CLUB • ANCHORAGE AUDUBON SOCIETY • ARCTIC AUDUBON SOCIETY  
DENALI CITIZENS' COUNCIL • ALASKA FRIENDS OF THE EARTH • JUNEAU AUDUBON SOCIETY • KACHEMAK BAY CONSERVATION SOCIETY  
KENAI PENINSULA AUDUBON SOCIETY • KODIAK AUDUBON SOCIETY • LYNN CANAL CONSERVATION • ALASKA WILDLIFE ALLIANCE  
SITKA CONSERVATION SOCIETY • NORTHERN ALASKA ENVIRONMENTAL CENTER • SOUTHEAST ALASKA CONSERVATION COUNCIL  
KNIK KANOERS AND KAYAKERS



# Alaska State Legislature

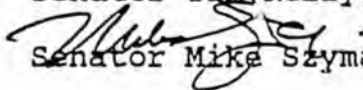
Senator Mike Szymanski

**While in Session:**  
P.O. Box V  
State Capitol, Room 11  
Juneau, Alaska 99811  
(907) 465-4978/4979  
FAX (907) 465-2652

**During Interim:**  
3111 C Street, Suite 510  
Anchorage, Alaska 99503  
(907) 561-7617

165 E. Parks Highway  
Legislative Information Office  
Wasilla, Alaska 99687  
(907) 376-MIKE

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

TO: Senator Tim Kelly, President of the Senate  
FROM:  Senator Mike Szymanski  
DATE: April 3, 1989  
SUBJ: Introduction of Legislation Related to Oil  
and Gas Hazardous Substance Releases Fund.

The purpose of this legislation is to clarify the Commissioner of the Department of Environmental Conservation's authority to enter into agreements with Municipalities to be reimbursed for costs from the date of the release of oil or hazardous substances.

Under current law, it appears that AS 46.08.070(c)(1) would require an agreement be in place before incurring expenses for reimbursement. The obvious problem here is that we have had several communities, i.e. Cordova and Valdez, who have incurred expenses from the moment of the Exxon/Valdez tanker accident. While it is important to have an agreement, it is equally important to allow the Commissioner the flexibility to have such agreements cover, when appropriate, expenses from the date of the tanker accident.

Senate District E

Mat-Su • So. Anchorage • Bird/Indian • Girdwood • Whittier • Nikiski • Cooper Landing • Hope • Seward • Cordova • Valdez

# STATE OF ALASKA

STEVE COWPER, GOVERNOR

## DEPT. OF ENVIRONMENTAL CONSERVATION

OFFICE OF THE COMMISSIONER  
PO BOX 0, JUNEAU, ALASKA 99811-1800

(907) 465-2600

April 4, 1989

Senator Mike Szymanski  
Alaska State Senate  
PO Box V  
Juneau, AK 99811

Dear Senator Szymanski:

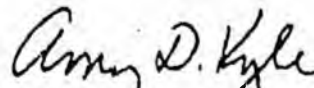
I am writing to state our support for the intent of SB 256. This bill would allow the Department to reimburse the City of Seward for legitimate expenditures for response to the oil spill in Prince William Sound.

At present, the oil and hazardous substance fund may be used for reimbursement to a municipality only if the Department has signed an agreement with the municipality before the expenditure is made. In this case, the City of Seward made expenditures to prepare to keep product away from sensitive areas before an agreement could be signed with the Department.

The Department believes that the City should not be precluded from reimbursement for these expenses simply because an agreement had not been signed. The expenditures will be reviewed by the Department according to procedures established for all municipalities participating in this response. Expenditures will be submitted for payment by EXXON before state funds are used.

Please let me know if there are any additional questions.

Sincerely,



Amy D. Kyle  
Deputy Commissioner

S B

2 5 6

# HOUSE COMMITTEE REPORT

(11)

Date Referred: April 19, 1989

FURTHER REFERRALS:

Date of Committee Action: 4/24/89

The FINANCE Committee considered:

CSSB 256 (C&RA)

CS FOR SENATE BILL NO. 256 (C&RA)

[REIMBURSEMENT FOR COSTS/HAZARDOUS SUB.]

"An Act relating to reimbursement for costs incurred and recovery of money expended as a result of a released hazardous substance; and providing for an effective date."

**RECOMMENDATIONS:**

- be replaced with CS SB 256 (C&RA)  the same title
- have attached amendment(s)  a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the \_\_\_\_\_ Committee

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

ATTACHES NEW FISCAL NOTE(s):  
(Dept)

APPROVES PREVIOUS:

(Date/Dept)

- fiscal impact \_\_\_\_\_
- zero fiscal note \_\_\_\_\_
- zero with analysis \_\_\_\_\_

- fiscal note(s) \_\_\_\_\_
- zero fiscal note(s) \_\_\_\_\_
- zero fn/analysis Law: 4/11/89 DEC 4/6/89

**SIGNING DO PASS:**

**SIGNING:**

(Check approp. column)

Do Not  
Pass      No Rec      Amend

\_\_\_\_\_  
Hoffman

\_\_\_\_\_  
Larson

\_\_\_\_\_  
Swackhammer

\_\_\_\_\_  
Brown

\_\_\_\_\_  
Koponen

\_\_\_\_\_  
Ulmer

\_\_\_\_\_  
Barnes

\_\_\_\_\_  
Phillips

\_\_\_\_\_  
Wallis

<i>Steve Rieger</i>		<input checked="" type="checkbox"/>	

CO- \_\_\_\_\_  
Chairman's Signature

CO- \_\_\_\_\_

## FISCAL NOTE

**REQUEST:**

Revision Date: \_\_\_\_\_  
 Title: An Act relating to reimbursement to persons and municipalities for costs incurred as a result of a released hazardous substance  
 Sponsor: Senator Szymanski  
 Requestor: \_\_\_\_\_  
 Agency Affected: Environmental Conservation  
 BRU: EO  
 Components: \_\_\_\_\_

**EXPENDITURES/REVENUES:** (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	0	0	0	0	0	0
---------	---	---	---	---	---	---

REVENUE	0	0	0	0	0	0
---------	---	---	---	---	---	---

**FUNDING:** (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

**POSITIONS:** None

FULL-TIME						
PART-TIME						
TEMPORARY						

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

*CHANGES IN CIRA IS HAVE  
NO FISCAL EFFECT. THIS IS  
APPROPRIATE.*

Prepared by: Mark Thorson Phone: 765-2621  
 Division: Administrative Services Date: 4/5/89

Approved by Commissioner: Mark Thorson for DDK Date: 4/5/89  
 Agency: Environmental Conservation

**Distribution (by preparer):**

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

## FISCAL NOTE

**REQUEST:**

Revision Date: \_\_\_\_\_ Agency Affected: Department of Law  
 Title: "An Act relating to reimbursement for costs...released hazardous substance..." BRU: Prosecution, Legal Services  
 Sponsor: Senate C&RA Components: All  
 Requestor: Senate C&RA

**EXPENDITURES/REVENUES:** (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

**FUNDING:** (Thousands of Dollars)

GENERAL FUND	-0-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
<b>TOTAL</b>						

**POSITIONS:**

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

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

Please see the attached analysis.

*Richard I. Pegues*

Prepared by: Richard I. Pegues, Director Phone: 465-3672  
 Division: Administrative Services Date: April 6, 1989  
*Richard I. Pegues FOR*  
 Approved by Commissioner: Douglas B. Bailly, Attorney General Date: April 6, 1989  
 Agency: Department of Law

**Distribution (by preparer):**

Legislative Finance  
 Legislative Sponsor  
 Requestor  
 Office of Management and Budget  
 Impacted Agency(ies)

RECEIVED

APR 7 1989

## CONTINUATION of FISCAL NOTE ANALYSIS

For Bill/Resolution No. CSSB 256

This bill, because it imposes no new responsibilities on the department, will not have a fiscal impact on the Department of Law. However, the department anticipates a major impact on state resources arising out of litigation that it expects in respect to the collection of state imposed civil penalties, pursuit of claims by the state for damages against the responsible parties, and the defense of damage claims against the state by fishermen and other affected persons, as a result of the Exxon Valdez oilspill. Because this impact is not directly related to the bill it will be addressed separately by the department. Penalty collections and claims litigation will be extensive and very expensive. The department hopes to be able to advise the legislature on these matters within the next few days.

Original sponsors: Szymanski, Kerttula,  
Kelly, and Sturgulewski

1 IN THE SENATE

BY THE COMMUNITY AND REGIONAL  
AFFAIRS COMMITTEE

2

CS FOR SENATE BILL NO. 256 (C&RA)

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

SIXTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6

For an Act entitled: "An Act relating to reimbursement for costs incurred  
7 and recovery of money expended as a result of a  
8 released hazardous substance; and providing for an  
9 effective date."

10

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

11

\* Section 1. AS 46.08.070(b) is amended to read:

12

(b) The attorney general, at the request of the commissioner,

13

shall immediately [MAY] seek to recover money expended by the depart-  
14 ment under this chapter or other law to contain and clean up oil or a  
15 hazardous substance that has been released or to control the threat-  
16 ened release of oil or a hazardous substance.

17

\* Sec. 2. AS 46.08.070(c) is amended to read:

18

(c) The department may reimburse a municipality for actual

19

expenses, other than normal operating expenses, incurred in the abate-  
20 ment of a release or threatened release of oil or a hazardous sub-  
21 stance if

22

(1) the municipality has entered into an agreement with the

23

commissioner under AS 46.09.020(e) [BEFORE INCURRING THE EXPENSES FOR  
24 WHICH REIMBURSEMENT IS SOUGHT]; and

25

(2) the commissioner determines that the expenses were for

26

a necessary emergency first response to a release or threatened re-  
27 lease that posed an imminent and substantial threat to the public  
28 health or welfare, or to the environment.

29

\* Sec. 3. This Act is retroactive to March 24, 1989.

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

# STATE OF ALASKA

STEVE COWPER, GOVERNOR

## DEPT. OF ENVIRONMENTAL CONSERVATION

OFFICE OF THE COMMISSIONER  
PO BOX 0, JUNEAU, ALASKA 99811-1800

(907) 465-2600

April 4, 1989

Senator Mike Szymanski  
Alaska State Senate  
PO Box V  
Juneau, AK 99811

Dear Senator Szymanski:

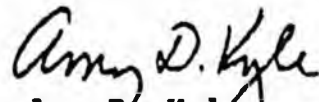
I am writing to state our support for the intent of SB 256. This bill would allow the Department to reimburse the City of Seward for legitimate expenditures for response to the oil spill in Prince William Sound.

At present, the oil and hazardous substance fund may be used for reimbursement to a municipality only if the Department has signed an agreement with the municipality before the expenditure is made. In this case, the City of Seward made expenditures to prepare to keep product away from sensitive areas before an agreement could be signed with the Department.

The Department believes that the City should not be precluded from reimbursement for these expenses simply because an agreement had not been signed. The expenditures will be reviewed by the Department according to procedures established for all municipalities participating in this response. Expenditures will be submitted for payment by EXXON before state funds are used.

Please let me know if there are any additional questions.

Sincerely,



Amy D. Kyle  
Deputy Commissioner



# Alaska Environmental Lobby, Inc.

P.O. Box 22151 Juneau, Alaska 99802

907-586-2345

## **AEL ISSUE PAPER-SB 256: REIMBURSEMENT FOR COSTS INCURRED AS A RESULT OF OIL/HAZARDOUS SUBSTANCE RELEASE**

**The Alaska Environmental Lobby supports the Senate Community And Regional Affairs CS for SB 256.** It is absolutely necessary that the money spent on the Prince William Sound cleanup by the Department of Environmental Conservation, municipalities, and other entities be recovered from the responsible parties.

The Exxon Valdez oil spill disaster has had tragic consequences for the environment and the communities of Prince William Sound, and beyond. This crisis required an immediate, emergency response. **Substantial costs have been incurred both by DEC and the communities of Prince William Sound in this large-scale cleanup and containment effort.** It is essential that this money be recovered from those responsible for this grave environmental, social, and economic catastrophe.

**The Alaska Environmental Lobby commends the Senate in this effort to create a framework for containment and clean up expenditure reimbursement.** With this assurance of reimbursement, local entities and municipalities will be more likely to participate in future oil and hazardous substance release prevention and cleanup.

Karen Brewster  
April 11, 1989

- ALASKA CENTER FOR THE ENVIRONMENT • ALASKA CHAPTER, SIERRA CLUB • JUNEAU GROUP, SIERRA CLUB • SITKA GROUP, SIERRA CLUB
- KNIK GROUP, SIERRA CLUB • DENALI GROUP, SIERRA CLUB • ANCHORAGE AUDUBON SOCIETY • ARCTIC AUDUBON SOCIETY
- DENALI CITIZENS COUNCIL • ALASKA FRIENDS OF THE EARTH • JUNEAU AUDUBON SOCIETY • KACHEMAK BAY CONSERVATION SOCIETY
- KENAI PENINSULA AUDUBON SOCIETY • KODIAK AUDUBON SOCIETY • LYNN CANAL CONSERVATION • ALASKA WILDLIFE ALLIANCE
- SITKA CONSERVATION SOCIETY • NORTHERN ALASKA ENVIRONMENTAL CENTER • SOUTHEAST ALASKA CONSERVATION COUNCIL
- KNIK KANGERS AND KAYAKERS



# Alaska State Legislature

Senator Mike Szymanski

**While in Session:**  
P.O. Box V  
State Capitol, Room 11  
Juneau, Alaska 99811  
(907) 465-4978/4979  
FAX (907) 465-2652

**During Interim:**  
3111 C Street, Suite 510  
Anchorage, Alaska 99503  
(907) 561-7617

165 E. Parks Highway  
Legislative Information Office  
Wasilla, Alaska 99687  
(907) 376-MIKE

## MEMORANDUM

TO: Representative Eileen Maclean, Chairperson  
House Community and Regional Affairs Committee

FROM: Senator Mike Szymanski

RE: Senate Bill 256

The purpose of this legislation is to clarify the authority given the Commissioner of the Department of Environmental Conservation to enter into agreements with municipalities. This clarification is necessary in order to allow the DEC to provide reimbursements from the oil and hazardous substance fund to municipalities for expenses related to oil containment and cleanup activities.

Under current law (AS 46.08.070[c]), the DEC Commissioner must first enter into an agreement with a municipality before any payments can be made from the oil and hazardous substance fund. SB 256 will amend current statute by allowing the Commissioner to reimburse communities for expenses dating from March 24, 1989.

Senate District E

Mat-Su • So. Anchorage • Bird/Indian • Girdwood • Whittier • Nikiski • Cooper Landing • Hope • Seward • Cordova • Valdez

S

B

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7

SENATE COMMITTEE REPORT

FIRST COMMITTEE OF REFERRAL

Date of 5-DAY NOTICE \_\_\_\_\_  
IN ACCORDANCE WITH UNIFORM RULE 23

FURTHER

\*\*FISCAL NOTE(S) MUST BE ATTACHED  
IN ACCORDANCE WITH AS 24.08.035

DATE TURNED INTO OFFICE \_\_\_\_\_

4/4/89

Mr. President:

Finance \_\_\_\_\_ Committee considered SB 257

payment of insurance claims under certain policies providing to the state; efd

and recommended:

- replace with CS \_\_\_\_\_  same title
- attached amendment(s) and  new title
- \_\_\_\_\_ letter of intent adopted

do pass

do not pass

*Bill died in Committee.*

no recommendation

individual recommendations

further referral to \_\_\_\_\_

FISCAL NOTE(S) attached  zero  
 appropriation no FN attached

fiscal impact  
 Gov. FN introduced w/ bill

MEMBERS SIGNING DO PASS

OTHER RECOMMENDATIONS

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

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\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Chair's signature and recommendation

Committee backup attached

BY THE RULES COMMITTEE BY  
REQUEST (For the Health Care  
Cost Containment Task Force)

1 IN THE SENATE

2 SENATE BILL NO. 257

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to payment of insurance claims under  
7 certain policies provided to the state; and providing  
8 for an effective date."

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

10 \* Section 1. AS 21.89.030 is amended to read:

11 Sec. 21.89.030. PAYMENT. Except as provided in (b) of this  
12 section, an [AN] insurance company doing business in this state may  
13 not pay a judgment or settlement of a claim in this state for a loss  
14 incurred in this state with an instrument other than a negotiable bank  
15 check payable on demand and bearing even date with the date of writ-  
16 ing.

17 \* Sec. 2. AS 21.89.030 is amended by adding a new subsection to read:

18 (b) An insurance company may pay a judgment or settlement of a  
19 claim in this state for a loss incurred under a policy or contract  
20 purchased under the provisions of AS 39.30, with a bank draft. In  
21 this subsection, "bank draft" has the meaning given in AS 45.03.-  
22 104(b)(1).

23 \* Sec. 3. This Act takes effect immediately under AS 01.10.070(c).  
24  
25  
26  
27  
28  
29

**STATE OF ALASKA  
1989 LEGISLATIVE SESSION**

BILL VERSION: SB 257  
PUBLISH DATE: \_\_\_\_\_

**FISCAL NOTE**

**REQUEST:**

Revision Date: \_\_\_\_\_ Agency Affected: Commerce & Econ. Dev.  
Title: Payment of Insurance Claims BRU: Insurance  
Under Certain Vehicles Provided to the State  
Sponsor: Rules (Health Care Cost Components: \_\_\_\_\_  
Requester: Senate Finance /Containment Task Force)

**EXPENDITURES / REVENUES : (Thousands of Dollars;**

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	0	0	0	0	0	0
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REVENUE	0	0	0	0	0	0
---------	---	---	---	---	---	---

**FUNDING: (Thousands of dollars)**

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	0	0	0	0	0	0

**POSITIONS:**

FULL-TIME	0	0	0	0	0	0
PART-TIME						
TEMPORARY						

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

Prepared by: Paul Roller, Director Phone: 465-2515  
Division: Insurance Date: 4-7-89

Approved by Commissioner: Larry Mercurieff Phone: 465-2500  
Agency: Department of Commerce & Economic Development Date: 4/10/89

Distribution (by preparer):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

S B

2 5 8

SENATE COMMITTEE REPORT

FIRST COMMITTEE OF REFERRAL

Date of 5-DAY NOTICE 4/7/89 *Waived*  
IN ACCORDANCE WITH UNIFORM RULE 23

FURTHER

\*\*FISCAL NOTE(S) MUST BE ATTACHED  
IN ACCORDANCE WITH AS 24.08.035

DATE TURNED INTO OFFICE 4/10/89

4/4/89  
Mr. President:

FINANCE Committee considered SB 258

state exemption from certain insurance premium taxes; efd

and recommended:

- replace with CS SB 358 (Fin)  same title
- attached amendment(s) and  new title
- \_\_\_\_\_ letter of intent adopted

do pass

do not pass

no recommendation

individual recommendations

further referral to \_\_\_\_\_

FISCAL NOTE(S) attached  <sup>DELETED</sup> zero  
 appropriation no FN attached

fiscal impact  
 Gov. FN introduced w/ bill

MEMBERS SIGNING DO PASS

OTHER RECOMMENDATIONS

*[Handwritten signatures]*  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

*[Handwritten signature]*  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

Committee backup attached

Chair: *[Signature]* signature and recommendation

*[Signature]* Co-CHAIR  
DO PASS

R/S SFC 4-10-89

STATE OF ALASKA  
1989 LEGISLATIVE SESSION

BILL VERSION: CS SB 258 (Finance)  
PUBLISH DATE: \_\_\_\_\_

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_ Agency Affected: Commerce & Econ. Dev.  
Title: State exemption from certain BRU: Insurance  
insurance premium taxes  
Sponsor: Rules (Health Care Cost Components: \_\_\_\_\_  
Requester: Senate Finance /Containment Task Force)

EXPENDITURES / REVENUES : (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	0	0	0	0	0	0
---------	---	---	---	---	---	---

REVENUE	0	0	0	0	0	0
---------	---	---	---	---	---	---

FUNDING: (Thousands of dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary.)

Prepared by: Paul Roller, Director Phone: 465-2515  
Division: Insurance Date: 4-7-89

Approved by Commissioner: Larry Mercurieff Phone: 465-2500  
Agency: Department of Commerce & Economic Development Date: 4/10/89

Distribution (by preparer):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

Changes in the Fin CS have no fiscal effect. This fiscal note is appropriate. SFC: 4/10/89

Original sponsor: Rules/Health Care Cost  
Containment Task Force

1 IN THE SENATE

BY THE FINANCE COMMITTEE

2 CS FOR SENATE BILL NO. 258 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the state exemption from certain  
7 insurance premium taxes; and providing for an effec-  
8 tive date."

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

10 \* Section 1. AS 21.09.210(i) is amended to read:

11 (i) Premiums paid by the state for insurance policies and con-  
12 tracts purchased under the provisions of AS 39.30 are exempt from  
13 taxation under this section. An insurer may not include the tax  
14 imposed under this section in a premium charged on an insurance policy  
15 or contract purchased by the state under the provisions of AS 39.30.  
16 An insurer may claim the [CLAIMS FOR] exemption [SHALL BE MADE] on  
17 forms provided by the division of insurance.

18 \* Sec. 2. This Act takes effect January 1, 1989.

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OFFICE OF THE PRESIDENT

MEMBER

TENTH ALASKA LEGISLATURE  
ELEVENTH ALASKA LEGISLATURE  
TWELFTH ALASKA LEGISLATURE  
THIRTEENTH ALASKA LEGISLATURE  
FOURTEENTH ALASKA LEGISLATURE  
FIFTEENTH ALASKA LEGISLATURE  
SIXTEENTH ALASKA LEGISLATURE



SENATOR TIM KELLY

APR 6 1989

P.O. BOX V  
JUNEAU, ALASKA 99811  
(907) 465-3822

P.O. BOX 210001  
ANCHORAGE, ALASKA 99521  
(907) 561-7612

April 6, 1989

Senator Rick Uehling, Co-chair  
Finance Committee  
Alaska State Senate  
Box V  
Juneau, Ak 99811

Re: Scheduling SB 257 and SB 258.

Dear Senator Uehling,

I would appreciate the scheduling SB 257 and SB 258 for a Finance Committee hearing at your earliest convenience. These two bills are recommended by the Health Care Cost Containment Task Force. They are in the nature of technical changes to existing law. Their enactment would allow the Department of Administration to affect substantial health care cost savings for both FY 89 and FY 90.

For your information, the Task Force will be meeting again on Wednesday, April 12.

Thank you for your consideration of this request.

Sincerely,

A handwritten signature in cursive script that reads "Tim".

TIM KELLY  
Alaska State Senator

SB 258

## 2.01 PREMIUM TAXES

Currently, required by State Law (AS 39.30), Aetna charges a premium tax based upon the total premium collected, applies for a tax refund at the end of the year, and then credits the retention charge.

During our review, it was discovered that Aetna had collected the 1987 calendar year refund, but it had not been credited. The 1988 refund has not been applied for as of yet (estimated 1987 credit \$1,650,000, estimated 1988 credit \$1,750,000, for a total of \$3,400,000).

It is recommended that Aetna reduce the premiums due during remaining year 1989 by the amount of the 1987 & 1988 tax credit.

## 2.01A AS 39.30

This law should be amended to exempt the State from paying this premium tax. It would simplify the administration and retain the money in Alaska.

STATE OF ALASKA HEALTHCARE COST CONTAINMENT TASK FORCE

Provided by: Arthur J. Gallagher & Co.  
Aetna Life Insurance Company

April 3, 1989

At its March 29, 1989 meeting, the Healthcare Cost Containment Task Force requested additional information on three financial issues. The following material provides Arthur J. Gallagher's and Aetna's comments on the three issues.

1. **Premium Taxes.** There is a great deal of confusion on the Premium Tax issue. Currently, premium taxes are paid to the State on the Health plans and then Aetna files for a refund of the taxes. Thus, the net effect on the plan should be zero. In determining the State's premium rates it is assumed there is no tax liability.

In order to recover the 1987 tax credit of \$1,700,000 (\$1,300,000 active and \$400,000 retirees) the following needs to occur:

1. Combine plan financials at year end. This allows Aetna to cross apply Premium Stabilization Account Funds.
2. The State Revenue Department has to issue 1988 premium tax refund to Aetna prior to July 1, 1989.
3. Section 1 AS21.09210 (i) is amended effective January 1, 1989.

Aetna will credit \$1,700,000 as directed by administration.

2. **Extended Liability Reserves.** Under the State's plan there is an extension of benefits which continues Medical coverage for up to 12 months for employees who are totally disabled at contract termination. This is deferred liability which cannot be measured while the plan is active.

Aetna provides for this liability by establishing reserves at each renewal. The extended liability reserves established as of the July 1, 1988 renewal are as follows:

	<u>Extended Liability</u>	<u>Extended Maturity</u>	<u>Total</u>	<u>80%</u>
Actives	\$2,178,045	\$857,139	\$3,035,184	\$2,400,000
Retirees	1,162,282	27,189	1,189,471	900,000

Note: These reserves were outlined on page 18A of Arthur J. Gallagher's March 29, 1989 Report on the Task Force.

Aetna would be agreeable to transferring the extended liability to the State in the event of contract termination. With the transfer of liability, 80% of the reserves would no longer be required. The remaining 20% of the reserves would be required to provide for extended liabilities while the contract is in force.

To accomplish the transfer of liability, Aetna would need to make a change to the contract with the State. Also, a notice would need to be provided to employees indicating that the State has assumed this liability.

State of Alaska Healthcare Cost Containment  
Page Two

If the State wishes to proceed with this change we would need an effective date. Once implemented, Aetna would credit the State for that portion of the reserves. Aetna will credit Extended reserves of \$3,300,000, as directed by Administration.

3. **Minimum Premium.** Aetna has a minimum premium product available called the Split Funded Group Plan (SFGP). There are two types of SFGP available: one where Aetna retains terminal liabilities and reserves, and one where terminal liabilities and reserves are transferred to the State. All further discussion will assume the State is responsible for terminal liabilities and reserves.

The following table outlines the reserves available to the State:

	<u>Actives</u>	<u>Retirees</u>
July 1, 1988 Reserves:		
Unpaid claim	\$ 7,808,469	\$4,127,414
Extended Liability	<u>3,035,184</u>	<u>1,189,471</u>
Total	\$10,843,653	\$5,316,885
Estimated Float Claims	<u>-2,175,000</u>	<u>-925,000</u>
	\$ 8,668,653	\$4,391,885
Reserve Release Charge	<u>-346,746</u>	<u>-175,675</u>
Net Reserve Release	<u>\$ 8,321,907</u>	<u>\$4,216,210</u>

Note: SBS Option I benefits are combined with basic benefits to avoid producing two separate claim transactions and the expenses associated with two transactions. It is assumed that Option I would also convert to SFGP to continue these expense savings.

Aetna would need to retain a portion of the reserves to cover "float" claims outstanding on the conversion date. Float claims are those claims where a claim check has been issued but not recorded as paid. The liability is estimated to be approximately two weeks of claims.

In addition, if the reserves are released in a lump sum there is a charge made to cover the opportunity costs associated with the conversion of assets to cash. Currently, the charge is equal to 4% of the lump sum payment. The charge would be waived if the reserves were released in 12 installments.

Upon the conversion to SFGP, Aetna's costs would increase as follows:

	<u>Actives</u>	<u>Retirees</u>
Lost Interest	\$ 867,492	\$425,351
Banking and Administration	86,000	37,000
Additional Risk	<u>54,218</u>	<u>26,584</u>
TOTAL	<u>\$1,007,710</u>	<u>\$488,935</u>

Currently, Aetna is crediting interest to the State on the claim reserves at an annual rate in the range of 7.5% to 8.5%. This interest is used to offset some of the expenses under the plan. Once released, the net expenses increase by the amount of the lost interest. Aetna has assumed 8% in this illustration.

State of Alaska Healthcare Cost Containment  
Page Three

The banking and administration charges cover the added costs associated with SFGP. Although terminal liabilities and reserves shift to the State, Aetna guarantees payment of these liabilities in the event the State cannot provide the funds. Aetna assesses an additional risk charge for this guarantee. The risk charge could be waived if there is Letter of Credit for 120% of the reserves.

It would be necessary to increase the "conventional" premium rates to provide for these additional expenses.

Under a SFGP arrangement, the following additional documents are required to implement SFGP:

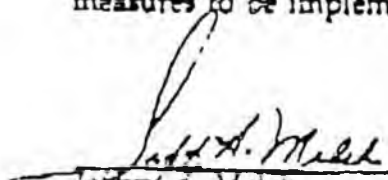
- The Letter of Intent (Exhibit A) outlines the State's desire to implement SFGP and accepts in principal the various Agreements.
- The Banking Agreement (Exhibit B) sets up the wire transfer of funds between the State and Connecticut National Bank.
- The Split Funded Agreement (Exhibit C) amends the insurance contract and outlines the various terms and conditions of the arrangement.
- The Retrospective Premium Agreement (Exhibit D) provides for the call on any unused Claim Liability Limit to fund an accounting deficit.
- The Termination Liability Fund (Exhibit E) is necessary to assure that adequate reserve funding is available at all times.

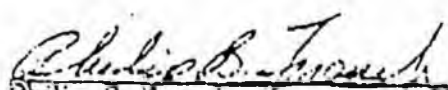
In addition to these documents, a notice needs to be sent to the employees announcing the change to SFGP.

Under SFGP, the conventional premium would be split into two components. A basic premium component equal to the estimated expenses would be developed and paid to Aetna monthly. The basic premium level is not guaranteed and would be "trued up" at year end based upon actual plan costs. The remainder of the conventional premium would be retained by the State's for claim payment.

Due to associated costs and ease of administration, it is recommended that the State review Split Funding where Aetna retains terminal liabilities and reserves. The net impact of this on FY 89, 90 depends upon the actual claims paid and the State's accounting practices.

It is further recommended that the Task Force continue to pursue Cost Containment measures to be implemented in FY 90.

  
Jeffrey A. Malek  
Assistant Area Vice President  
Employee Benefits  
Arthur J. Gallagher & Co.

  
Philip B. French  
Assistant Vice President  
Western Home Office  
Aetna Insurance Co.

S B

260



STATE OF ALASKA  
1989 LEGISLATIVE SESSION

BILL VERSION: CS SB 260  
PUBLISH DATE: April 28, 1989

FISCAL NOTE

REQUEST:

Revision Date: April 20, 1989  
Title: An Act Imposing 5¢/Bbl  
fee on crude oil production  
Sponsor: Kerttula & Szymanski  
Requestor:

Agency Affected: Revenue  
BRU:  
Components:

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
OPERATING						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	-	-	See Analysis	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

POSITIONS:

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

ANALYSIS: (Attach a separate page if necessary)

Prepared By: Charles L. Logsdon  
Division: Oil & Gas Audit Division

Phone: 277-5627  
Date: April 28, 1989

Approved by Commissioner: *[Signature]*  
Agency: Department of Revenue

Date: *4/28/89*

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

*Royce Weller to revise  
pp. 3 & 4 of F/N*

CSSB260  
April 28, 1989  
Page 2

CSSB 260  
Fiscal Note Analysis

1. This bill imposes an additional severance tax on oil of \$.05 per barrel. This tax revenue is deposited into the general fund but a special accounting is to be kept of these deposits. Once the balance of deposits from this tax equals or exceeds \$25 million the tax is discontinued until such time as the balance falls below \$25 million at which point the tax is reimposed.

2. The FY 1990 number is for the 12 month period. Depending on the actual effective date, the numbers can be multiplied proportionally.

3. The volumes are based on the mid-price scenario of the Spring 1989 Department Revenue forecast.

4. The sum of revenue collected from this tax under our current assumptions from FY 1990 through FY 1994 is \$140 million, well above the \$25 million cap. It is likely that a significant portion of the revenue collected under this tax between FY 1990 and FY 1994 would be expended to ameliorate impacts of the EXXON/Valdez spill. The following table illustrates therefore, the maximum revenue that could be generated from a \$.05/bbl tax and the cumulative amount which could theoretical be made available in the event of another catastrophic oil spill.

5. The following table also illustrates the projected revenue potential of increasing the tax to \$.10/bbl and imposing the tax on State royalty barrels. Each increase in the tax of \$.05/bbl increases revenues by roughly \$30 million per year with a declining difference as Alaska production declines. The taxing of royalty barrels has the effect of transferring part of the royalty income (general fund and permanent fund) to the spill fund and has no net fiscal effect on State revenues.

6. Because the of the imposition-suspension feature of the tax, the practical effect of the \$25 million fund size is to limit the size of the check which could be immediately written to cover oil spill costs. There are several considerations with respect to the size of the fund. The ability to generate revenues into this fund is tied to future production. That is, it is harder to replenish the fund in later years as Alaskan production declines. For instance referring to the table, if a catastrophic spill occurred in 1995 which required the State to spend \$100 million, and the fund was capped at \$25 million, the fund could not be replenished until the following year. And if it is assumed that future fund revenues are available to cover the remaining \$75 million in costs associated with this hypothetical spill, this would take 6 years (2000).

Comparison of Revenue Potential of a Severance Tax of  
\$.05/bbl and \$.10/bbl With and Without Exemption of  
State Royalty Production  
(Millions \$)

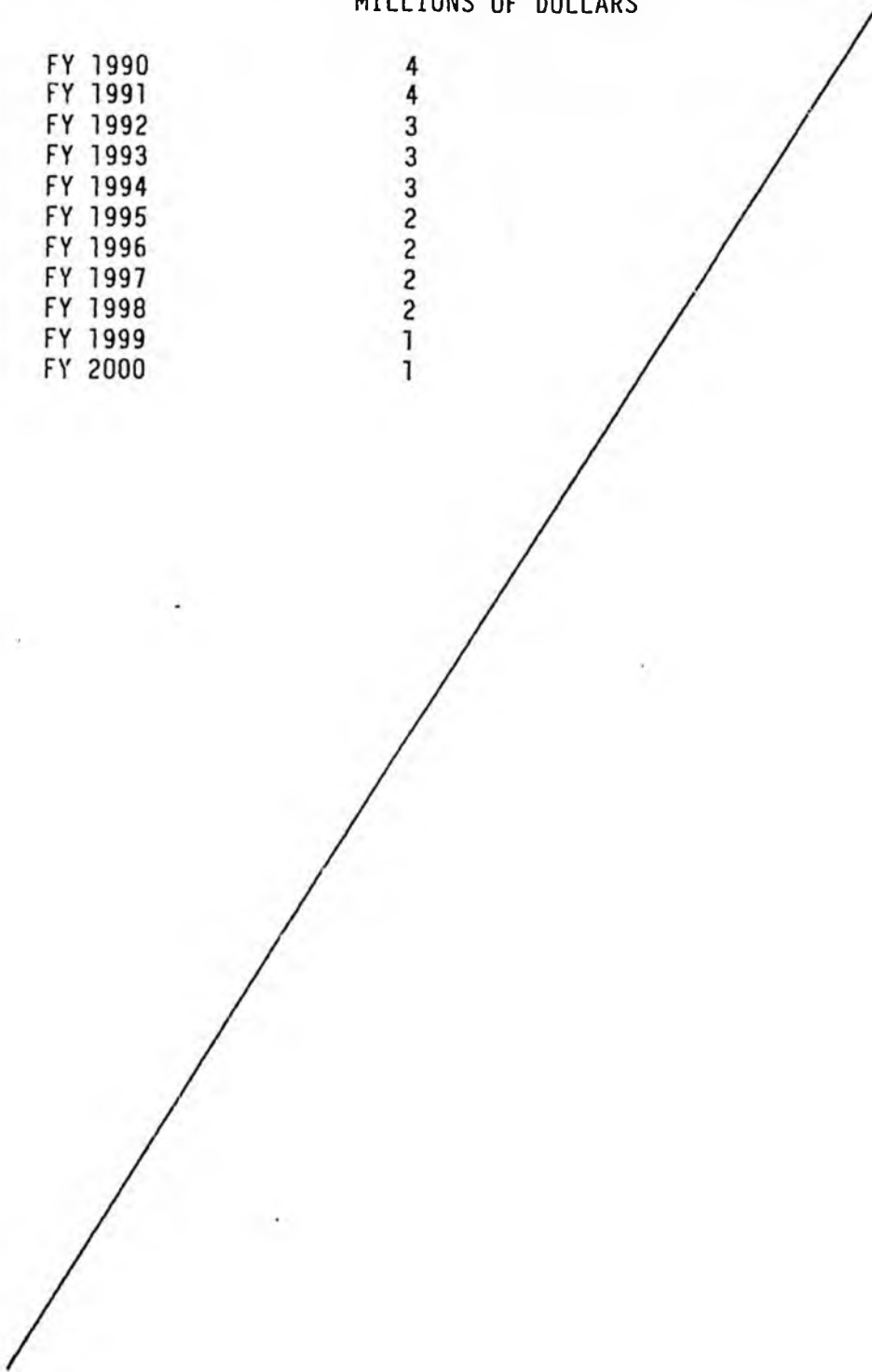
	five cents		five cents	
	w/o roy	accum	w/roy	accum
1990	32	32	36	36
1991	30	62	35	71
1992	28	91	33	104
1993	26	117	30	134
1994	23	140	27	160
1995	20	160	23	184
1996	17	178	20	204
1997	15	193	17	221
1998	13	206	15	236
1999	11	217	13	248
2000	9	226	11	259
2001	8	234	9	269
2002	7	241	8	277
2003	6	247	6	283
2004	5	252	6	289
2005	4	255	4	293
2006	3	259	4	297
2007	3	261	3	300
2008	2	264	3	302

	ten cents		ten cents	
	w/o roy	accum	w/roy	accum
1990	63	63	73	73
1991	61	124	70	142
1992	57	181	65	208
1993	52	233	60	267
1994	47	280	54	321
1995	41	321	47	367
1996	35	355	40	407
1997	30	385	34	442
1998	26	411	30	471
1999	22	433	25	497
2000	19	452	22	518
2001	16	469	19	537
2002	14	482	16	553
2003	11	494	13	566
2004	10	504	11	577
2005	7	511	9	586
2006	6	517	7	593
2007	5	523	6	599
2008	5	528	6	605

REDUCTION OF SEVERANCE TAX FROM SB 260  
MILLIONS OF DOLLARS

FY 1990	4
FY 1991	4
FY 1992	3
FY 1993	3
FY 1994	3
FY 1995	2
FY 1996	2
FY 1997	2
FY 1998	2
FY 1999	1
FY 2000	1



Original sponsors: Kerttula and Szymanski

1 IN THE SENATE

BY THE FINANCE COMMITTEE

2 CS FOR SENATE BILL NO. 260 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act imposing a conservation surcharge on oil  
7 subject to the oil and gas properties production tax;  
8 authorizing the appropriation of the proceeds of the  
9 surcharge to the oil and hazardous substance release  
10 response fund; providing for suspension of the sur-  
11 charge when cumulative deposits of revenue generated  
12 by the surcharge equal or exceed cumulative expendi-  
13 tures from the fund by \$50,000,000, and for reimposi-  
14 tion of the surcharge when cumulative deposits of  
15 revenue generated by the surcharge do not exceed  
16 cumulative expenditures from the fund by \$50,000,000  
17 or more; requiring suspension of the surcharge under  
18 other conditions; and providing for an effective  
19 date."

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

21 \* Section 1. FINDINGS AND PURPOSE. (a) The legislature finds that the  
22 March 24, 1989, oil spill disaster in Prince William Sound demonstrates a  
23 need for the state to have an independent spill containment and cleanup  
24 capability in the event of future discharges of oil or a hazardous sub-  
25 stance.

26 (b) It is the purpose of this Act to provide assurance to the people  
27 of the state that their health, safety, and well-being will be protected  
28 from the adverse consequences of oil and hazardous substance releases of a  
29 magnitude that presents a grave and substantial threat to the economy and

1 the environment of the state.

2 \* Sec. 2. AS 43.55 is amended by adding new sections to read:

3 ARTICLE 2. CONSERVATION SURCHARGE.

4 Sec. 43.55.200. SURCHARGE LEVIED. (a) Every producer of oil  
5 shall pay a surcharge of \$.05 per barrel of oil produced from each  
6 lease or property in the state, less any oil the ownership or right to  
7 which is exempt from taxation.

8 (b) The surcharge imposed by (a) of this section is in addition  
9 to and shall be paid in the same manner as the tax imposed by AS 43.-  
10 55.011 - 43.55.150.

11 (c) A producer of oil shall make reports of production in the  
12 same manner and under the same penalties as required under AS 43.55.-  
13 011 - 43.55.150.

14 Sec. 43.55.210. DISPOSITION OF PROCEEDS OF SURCHARGE. (a) The  
15 commissioner shall deposit the proceeds of the surcharge levied by  
16 AS 43.55.200 into the general fund.

17 (b) The commissioner of administration shall separately account  
18 for all proceeds of the surcharge that are deposited into the general  
19 fund.

20 Sec. 43.55.220. USE OF REVENUE DERIVED FROM SURCHARGE. The  
21 legislature may appropriate the annual estimated balance of the ac-  
22 count established under AS 43.55.210 to the oil and hazardous sub-  
23 stance release response fund established by AS 46.08.010.

24 Sec. 43.55.230. SUSPENSION AND REIMPOSITION OF THE SURCHARGE.  
25 (a) Not later than 30 days after the end of each calendar quarter,  
26 the commissioner of administration shall determine the cumulative  
27 total of money

28 (1) that has been deposited through that calendar quarter  
29 into the general fund under AS 43.55.210;

1 (2) expended through that calendar quarter from the oil and  
2 hazardous substance release response fund established in AS 46.08.010.

3 (b) Within 15 days after making the determinations required by  
4 (a) of this section, the commissioner of administration shall report  
5 to the commissioner the difference between the amount determined under  
6 (a)(1) of this section and amount determined under (a)(2) of this  
7 section.

8 (c) If the commissioner of administration reports that the  
9 difference determined under (b) of this section equals or exceeds  
10 \$50,000,000, the commissioner of revenue shall suspend imposition and  
11 collection of the surcharge levied and collected under AS 43.55.200.  
12 Suspension of the imposition and collection of the surcharge begins on  
13 the first day of the calendar quarter next following the commission-  
14 er's receipt of the commissioner of administration's report under (b)  
15 of this section. Before the first day of a suspension authorized by  
16 this subsection, the commissioner shall make a reasonable effort to  
17 notify all persons who are known to the department to be paying the  
18 surcharge under AS 43.55.200 that the surcharge will be suspended.

19 (d) Except as provided in AS 43.55.240, if the commissioner of  
20 administration reports that the difference determined under (b) of  
21 this section is less than \$50,000,000, the commissioner of revenue  
22 shall require imposition and collection of the surcharge authorized  
23 under AS 43.55.200. Reimposition of the surcharge begins on the first  
24 day of the calendar quarter next following the commissioner's receipt  
25 of the commissioner of administration's report under (b) of this  
26 section. Before the first day of reimposition of the surcharge au-  
27 thorized by this subsection, the commissioner shall make a reasonable  
28 effort to notify all persons who are known to the department to be  
29 required to pay the surcharge under AS 43.55.200 that the surcharge

1 will be reimposed.

2 Sec. 43.55.240. SURCHARGE NOT IMPOSED. The surcharged author-  
3 ized by AS 43.55.200 is not levied during any fiscal year for which  
4 the estimated revenue from the surcharge would be sufficient to re-  
5 store the balance of the oil and hazardous substance release response  
6 fund on the first day of the fiscal year to at least \$50,000,000, and

7 (1) the legislature does not, during the regular legisla-  
8 tive session preceding the first day of the fiscal year, appropriate  
9 money from the general fund to the oil and hazardous substance release  
10 response fund sufficient to restore the balance of that fund on the  
11 first day of the fiscal year to at least \$50,000,000; or

12 (2) the legislature, during the regular legislative session  
13 preceding the first day of the fiscal year, appropriates money from  
14 the general fund to the oil and hazardous substance release response  
15 fund sufficient to restore the balance of that fund on the first day  
16 of the fiscal year to at least \$50,000,000 and, because of gubernar-  
17 torial veto or reduction in the amount of the appropriation, restor -  
18 tion of the balance of the fund to at least \$50,000,000 does not  
19 become law.

20 Sec. 43.55.290. DEFINITION. In AS 43.55.200 - 43.55.290 "sur-  
21 charge" means the surcharge levied by AS 43.55.200.

22 \* Sec. 3. APPLICATION OF AS 43.55.240. (a) AS 43.55.240, added by  
23 sec. 2 of this Act, does not apply to prevent the levy and collection of  
24 the surcharge imposed by AS 43.55.200 until the first day of the fiscal  
25 year next following the day on which the balance of the oil and hazardous  
26 substance release response fund first exceeds \$50,000,000.

27 (b) The commissioner of administration shall certify to the commis-  
28 sioner of environmental conservation, the commissioner of revenue, and the  
29 division of legislative finance the date on which the balance of the oil

1 and hazardous substance release response fund first exceeds \$50,000,000.

2 \* Sec. 4. APPLICABILITY OF ACT. This Act does not relieve a person  
3 responsible for an oil terminal facility, offshore exploration or produc-  
4 tion facility, or a vessel that transports crude oil, or a person who has  
5 control of a hazardous substance, from the responsibility for containing  
6 and cleaning up a discharge of oil or the hazardous substance as required  
7 by law.

8 \* Sec. 5. SEVERABILITY. If any provision of this Act, or the applica-  
9 tion of this Act to any person or circumstance, is held invalid, the re-  
10 mainder of this Act and its application to other persons or circumstances  
11 shall not be affected by that holding.

12 . \* Sec. 6. This Act takes effect July 1, 1989.

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4/29/89  
ADOPTED

Original sponsors: Kerttula and Szymanski

1 IN THE SENATE

2 CS FOR SENATE BILL NO. 260 ( )

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act imposing a nickel-per-barrel fee on crude  
7 oil; authorizing the appropriation of the proceeds of  
8 the fee to the oil and hazardous substance release  
9 response fund; providing for suspension of the fee  
10 when cumulative deposits of revenue generated by the  
11 fee equal or exceed cumulative expenditures from the  
12 fund by <sup>50,000,000</sup> \$25,000,000, and for reimposition of the fee  
13 when cumulative deposits of revenue generated by the  
14 fee do not exceed cumulative expenditures from the  
15 fund by <sup>75,000,000</sup> \$25,000,000 or more; requiring suspension of  
16 the fee under other conditions; and providing for an  
17 effective date."

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

19 \* Section 1. FINDINGS AND PURPOSE. (a) The legislature finds that the  
20 March 24, 1989, oil spill disaster in Prince William Sound demonstrates a  
21 need for the state to have an independent spill containment and cleanup  
22 capability in the event of future discharges of oil or a hazardous sub-  
23 stance.

24 (b) It is the purpose of this Act to provide assurance to the people  
25 of the state that their health, safety, and well-being will be protected  
26 from the adverse consequences of oil and hazardous substance releases of a  
27 magnitude that presents a grave and substantial threat to the economy and  
28 the environment of the state.

29 \* Sec. 2. AS 43 is amended by adding a new chapter to read:



1 under (d) of this section are delinquent the first day following the  
2 day the fee is due. Each person required to report under (d) of this  
3 section is subject to a penalty of \$1,000 a day for each day during  
4 which the report is not filed. The penalty for failure to file a  
5 report is in addition to the penalty for delinquent fees under (h) of  
6 this section, and is a lien against the assets of the person required  
7 to report under (d) of this section.

8 (f) The department may

9 (1) require a person who is obligated to pay the fee due  
10 under this chapter, the agent or employee of the person, or the owner  
11 or former owner of a royalty interest in crude oil, to furnish addi-  
12 tional information that is considered by the department as necessary  
13 to compute the amount of the fee;

14 (2) examine the books, records, and files of a perso  
15 identified in (1) of this subsection;

16 (3) conduct hearings and compel the attendance of witnesses  
17 and the production of books, records, and papers of any person identi-  
18 fied in (1) of this subsection; and

19 (4) make an investigation or hold an inquiry that is con-  
20 sidered necessary to a disclosure of the facts as to the volume of  
21 crude oil transported.

22 (g) The department may determine whether or not a report re-  
23 quired under this chapter is correct. If a person makes an untrue or  
24 incorrect report, or fails or refuses to make a report, the department  
25 shall, under regulations prescribed by it, determine the correct  
26 amount of crude oil on which the fee is payable and compute the fee.

27 (h) When the fee provided for in this chapter becomes delin-  
28 quent, it bears interest at the rate prescribed in AS 43.05.225. If a  
29 person fails to make a report required by this chapter within the time

1 prescribed by law for the report, the department shall examine the  
2 books, records, and files of the person to determine the amount and  
3 value of the crude oil delivered to compute the fee, and the depart-  
4 ment shall add to the fee the cost of the examination, together with  
5 any penalties accrued.

6 (i) In case of overpayment, duplicate payment, or payment made  
7 in error, the department may issue a certificate stating the facts and  
8 the amount of the refund to which the person required to pay the fee  
9 is entitled. Upon presentation of the certificate to the Department  
10 of Administration, the Department of Administration shall issue a  
11 warrant for the refund.

12 (j) The department may adopt regulations for the purpose of  
13 making and filing reports required by this chapter and otherwise  
14 necessary to the enforcement of this chapter. The department may  
15 require a sufficient bond from every person charged with the making  
16 and filing of reports and the payment of the fee. The bond shall run  
17 to the state and shall be conditioned upon the making and filing of  
18 reports as required by law, upon compliance with the regulations of  
19 the department, and for the prompt payment, by the principal on the  
20 bond, of all fees due the state by virtue of this chapter.

21 (k) If reports required have not been filed or are insufficient  
22 to furnish the information required by the department, the Department  
23 of Law shall institute, in the name of the state upon relation of the  
24 department, the necessary action or proceedings to enjoin the person  
25 from continuing operations until the reports are filed.

26 Sec. 43.59.030. DISPOSITION OF PROCEEDS OF FEE. (a) The com-  
27 missioner shall deposit the proceeds of the fee into the general fund.

28 (b) The commissioner of administration shall separately account  
29 for all proceeds of the fee deposited into the general fund.

1           Sec. 43.59.040. USE OF REVENUE DERIVED FROM FEE. The legisla-  
2           ture may appropriate the annual estimated balance of the account  
3           established under AS 43.59.030 to the oil and hazardous substance  
4           release response fund established by AS 46.08.010.

5           Sec. 43.59.050. SUSPENSION AND REIMPOSITION OF THE FEE. (a)  
6           Not later than 30 days after the end of each calendar quarter, the  
7           commissioner of administration shall determine the cumulative total of  
8           money

9                     (1) that has been deposited through that calendar quarter  
10           into the general fund under AS 43.59.030;

11                    (2) expended through that calendar quarter from the oil and  
12           hazardous substance release response fund established in AS 46.08.010.

13           (b) Within 15 days after making the determinations required by  
14           (a) of this section, the commissioner of administration shall report  
15           to the commissioner the difference between the amount determined under  
16           (a)(1) of this section and amount determined under (a)(2) of this  
17           section.

18           (c) If the commissioner of administration reports that the  
19           difference determined under (b) of this section equals or exceeds  
20           <sup>750,000,000</sup> ~~\$25,000,000~~, the commissioner of revenue shall suspend imposition and  
21           collection of the fee levied and collected under AS 43.59.010. Sus-  
22           pension of the imposition and collection of the fee begins on the  
23           first day of the calendar quarter next following the commissioner's  
24           receipt of the commissioner of administration's report under (b) of  
25           this section. Before the first day of a suspension authorized by this  
26           subsection, the commissioner shall make a reasonable effort to notify  
27           all persons who are known to the department to be paying the fee under  
28           this chapter that the fee will be suspended.

29           (d) Except as provided in AS 43.59.060, if the commissioner of

1 administration reports that the difference determined under (b) of  
2 this section is less than \$25,000,000, the commissioner of revenue  
3 shall require imposition and collection of the fee authorized under  
4 AS 43.59.010. Reimposition of the fee begins on the first day of the  
5 calendar quarter next following the commissioner's receipt of the  
6 commissioner of administration's report under (b) of this section.  
7 Before the first day of reimposition of the fee authorized by this  
8 subsection, the commissioner shall make a reasonable effort to notify  
9 all persons who are known to the department to be required to pay the  
10 fee under this chapter that the fee will be reimposed.

11 Sec. 43.59.060. FEE NOT IMPOSED. The fee authorized by this  
12 chapter is not levied during any fiscal year for which the estimated  
13 revenue from the fee would be sufficient to restore the balance of the  
14 oil and hazardous substance release response fund on the first day of  
15 the fiscal year to at least <sup>\$50,000,000</sup> \$25,000,000, and

16 (1) the legislature does not, during the regular legisla-  
17 tive session preceding the first day of the fiscal year, appropriate  
18 money from the general fund to the oil and hazardous substance release  
19 response fund sufficient to restore the balance of that fund on the  
20 first day of the fiscal year to at least \$25,000,000; or

21 (2) the legislature, during the regular legislative session  
22 preceding the first day of the fiscal year, appropriates money from  
23 the general fund to the oil and hazardous substance release response  
24 fund sufficient to restore the balance of that fund on the first day  
25 of the fiscal year to at least \$25,000,000 and, because of gubernatorial veto or reduction in the amount of the appropriation, restoration of the balance of the fund to at least \$25,000,000 does not  
26 become law.  
27  
28

29 Sec. 43.59.100. DEFINITIONS. In this chapter

*Also for Governor's bill & was adopted. P. 6 - Lines 11-28  
Barbara Suggs*

- 1 (1) "barrel of oil" has the meaning given in AS 43.55.140;  
2 (2) "fee" means the fee levied by AS 43.59.010;  
3 (3) "navigable waters" has the meaning given in AS 38.05.-  
4 965;  
5 (4) "oil" has the meaning given in AS 43.55.140;  
6 (5) "ownership or right to which is exempt from taxation"  
7 has the meaning given in AS 43.55.140;  
8 (6) "vessel" has the meaning given in AS 46.04.120.

9 \* Sec. 3. APPLICATION OF AS 43.59.060. (a) AS 43.59.060, added by  
10 sec. 2 of this Act, does not apply to prevent the levy and collection of  
11 the fee imposed by AS 43.59 until the first day of the fiscal year next  
12 following the day on which the balance of the oil and hazardous substance  
13 release response fund first exceeds \$25,000,000.

14 (b) The commissioner of administration shall certify to the commis-  
15 sioner of environmental conservation, the commissioner of revenue, and the  
16 division of legislative finance the date on which the balance of the oil  
17 and hazardous substance release response fund first exceeds \$25,000,000.

18 \* Sec. 4. APPLICABILITY OF ACT. This Act does not relieve a person  
19 responsible for an oil terminal facility, offshore exploration or produc-  
20 tion facility, or a vessel that transports crude oil, or a person who has  
21 control of a hazardous substance, from the responsibility for containing  
22 and cleaning up a discharge of oil or the hazardous substance as required  
23 by law.

24 \* Sec. 5. This Act takes effect July 1, 1989.  
25  
26  
27  
28  
29

STATE OF ALASKA  
THE LEGISLATURE

POUCH Y STATE CAPITOL  
JUNEAU, ALASKA 99811  
907 465 3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

April 28, 1989

SUBJECT: CSSB 260 ( ) - sectional analysis

TO: Senator Rick Uehling, Co-Chair  
Senate Finance Committee

FROM: Jack Chenoweth  
Legislative Counsel

The draft legislation imposes a nickel-per-barrel fee on certain crude oil and prescribes the manner of its administration, authorizes appropriation of revenue generated by the fee to the oil and hazardous substance release response fund (AS 46.08.010), and provides a mechanism by which the levy and collection of the fee will "click on" and "click off" under certain circumstances.

Bill section 1 offers a statement of the purpose for the legislation. The statement appears in other Senate-sponsored legislation that is part of this four-bill package.

Bill section 2 adds a new chapter, chapter 59, to AS 43:

Sec. 43.59.010 levies the fee. The fee is payable by persons delivering crude oil to a port for transportation by a vessel in the navigable water of the state.

Sec. 43.59.020 details the manner of administration of the fee. The language is based on and draws from the provisions governing administration of the severance tax.

Sec. 43.59.030 directs payment of the revenue from the fee into the general fund and a separate accounting of the amounts so deposited.

Sec. 43.59.040 authorizes the legislature to appropriate from the account (in the general fund) to the oil and

hazardous substance release response fund (AS 46.08.010) an existing fund.

Sec. 43.59.050 contains one element of the "on/off" feature applicable to levy and collection of the fee. Comparing amounts deposited into the general fund to amounts expended from the oil and hazardous substance release response fund: when cumulative revenue generated by the fee exceeds cumulative expenditures from the fund by \$25,000,000 or more, levy and collection of the fee is suspended; when cumulative revenue from the fee exceeds cumulative expenditures from the fund by less than \$25,000,000, levy and collection of the fee is reimposed. The cumulative totalling is done 30 days after the close of the calendar quarter; a comparison of the two figures follows; the change (i.e. suspension or reimposition of the fee) takes effect the first day of the next following calendar quarter. The commissioner of revenue must alert taxpayers to the change(s).

Sec. 43.59.060 addresses the second element of the "on/off" feature applicable to the levy and collection of the fee. If, during a forthcoming fiscal year, estimated revenue from the fee would be sufficient to restore the balance of the oil and hazardous substance release response fund to \$25,000,000, the fee may not be imposed during that fiscal year

-- if the legislature adjourns from a regular session without appropriating revenue from the fee from the general fund over to the oil and hazardous substance release response fund sufficient to restore the balance of that fund to at least \$25,000,000; or

-- if the legislature makes the appropriation but the governor, exercising veto powers, does not allow the appropriation of an amount sufficient to restore the balance of that fund to at least \$25,000,000.

Sec. 43.59.100 adds definitions pertinent to the chapter.

Bill section 3 is included in order to meet the argument that, in its first year, the estimated revenue from the fee may not be sufficient to bring the balance in the oil and hazardous substance release response fund to at least \$25,000,000. In essence, the "on/off" feature does not trigger until the balance of that fund first reaches \$25,000,000.

Senator Rick Uehling  
Page 3  
April 28, 1989

Bill section 4, a provision common to the various bills in this package, is included to make clear that this legislation does not relieve a party from exercising responsibility for a containment or cleanup as may be required by law.

Bill section 5 gives the bill July 1, 1989 effective date.

JC:gc  
WKG10/011

STATE OF ALASKA  
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

APR 24 1989

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

MEMORANDUM

April 24, 1989

SUBJECT: Draft CSSB 260 ( )  
TO: Senator Drue Pearce  
ATTN: Elizabeth Ziegler  
FROM: Jack Chenoweth  
Legislative Counsel

This bill draft substitutes the contents of CSSB 266 ( ), 6-1180 H, 4/21/89, for the material originally included in SB 260.

To be consistent with the bill sponsor's intent, the change you inquired about--substituting "or" for "and" in line 9 of page 6--should not be made. To cut off operation of the fee, two conditions were intended: (1) the availability of anticipated revenue and (2) legislative failure or refusal to appropriate.

More troublesome, however, and something that should receive attention, would be the legislature's appropriation coupled with a gubernatorial veto or reduction of that appropriation. In that event, in my judgment, the language as offered must be literally applied so that despite the actual failure to move money from the general fund into the oil and hazardous substance release response fund (because of the imposition of a veto), the tax would not be suspended but would continue to operate since the legislature did appropriate. If the point is unclear or not consistent with a committee's intent, we would need to give more attention to that section.

In any event, I sense some confusion as to how AS 43.59.060 is to work.

This section works, as I've noted, in two steps. The legislature must look ahead one fiscal year and determine, on the basis of estimates, whether the nickel-per-barrel fee pro-

Senator Drue Pearce  
Page 2  
April 24, 1989

ceeds payable into the general fund will yield \$25,000,000. If the answer to that is "yes," the legislature, before it closes up shop for the session, must appropriate from the general fund over to the oil and hazardous substance release response fund. (In that respect, the process follows current state appropriations practice: the annual general appropriations act--the budget--appropriates anticipated receipts of that fiscal year, not cash in hand, and puts the money on the agencies' books, available for use, effective the first day of the fiscal year.) This bill might operate with more certainty if the legislature looked not to anticipated receipts during a following fiscal year but to estimated receipts for the year in which the legislature was convened, or what the late Senator Don Bennett had thought to do with the operation of state government under an approach that would appropriate actual, not anticipated, receipts. But the shift from one fiscal year's anticipated receipts back to expected receipts for the preceding fiscal year is a policy judgment, not for me to decide.

JC:gc  
WKG9/080

Enclosure