

**ALASKA LEGISLATURE**

**2015**

**HOUSE and SENATE FINANCE COMMITTEE FILES, 1999 - 2000**

*166*

*Reason: Consistency with PERS and TRS.*

\* **Section 27.** Adds language specifically authorizing self-insurance of retiree medical, dental, vision, audio, and long-term care plans. This authorization applies to PERS, TRS, JRS and EPORS.

*Reason: Codifies practice and clarifies current statute.*

\* **Section 28.** This section makes PERS board membership separate from the Personnel Board. Currently the three appointed members on the PERS Board serve by virtue of their appointment to the Personnel Board. This would make PERS Board appointment separate. Rationale: the PERS Board meets almost monthly to hear disability appeals and has other broad responsibilities. The level of activity has risen to the point where separate appointment is appropriate.

*Reason: Board request.*

\* **Section 29.** Adds language to change how the winner in a PERS board election is determined. Current language uses the term "majority." A majority of votes cast means the winner must receive greater than 50% of the cast votes. This is virtually impossible since a PERS board election usually draws ten or more candidates. The use of the term "majority" virtually assures a runoff election, therefore doubling the cost of the election process. With this change the winner is the person who receives the most votes. If two seats are open, then the top two vote getters are elected.

*Reason: Board request and efficiency measure.*

\* **Section 30.** Two physicians sit on the TRS and PERS boards when medical disability appeals are heard. The current statute requires the Governor to appoint two physicians from each of the four judicial districts in the state. The statute goes on to require that the physicians residing in the locality of the appeal hearing are first to be called to serve. Practically speaking, the Governor has had a very difficult time recruiting physician board members. This change would simplify the appointment

process by requiring the Governor to appoint two physicians and two alternate physicians to serve on the PERS Board. This amendment also provides that when two physicians are not available, one physician may satisfy the quorum rules for a medical disability case. There is difficulty in appointing physician members and scheduling meetings to mesh with the schedules of those who have been appointed. Efficiencies and cost savings would follow if but one physician member would satisfy the statute, provided there is a need. The TRS parallel is section 2.

*Reason: Board request and efficiency measure.*

\* **Section 31.** This amendment provides for an honorarium payment to PERS board members consistent with that paid to members of the Alaska State Pension Investment Board (currently \$150/day) and recognizes the significant workload entrusted to board members. This provision requires no general fund money. It is financed by the PERS fund. The TRS parallel is section 3.

*Reason: Board request.*

\* **Section 32.** This section allows the PERS Board to adopt regulations defining a quorum for the conduct of its business. Subsection 12 is added giving the PERS Board authority over setting the contribution surcharge for noncertificated school district employees who elect to have their service calculated using the TRS schedule. This provision was added through Senate Bill 9, which passed last session. This section brings the setting of the contribution surcharge into an open forum. The TRS parallel is section 4.

*Reason: Board request/clarification of legal authority.*

\* **Section 33.** The first part of this section clarifies that the PERS board has the authority to adopt regulations for the conduct of hearings. The second part addresses an inconsistency in statute relating to the issuance of subpoenas, administration of oaths, depositions and affidavits. The board already has similar authority to that addressed in this subsection, but curiously only for hearings concerning waivers of

adjustments under AS 39.35.522. This new subsection extends that authority to all board hearings. However, the scope of the authority is limited to the hearing proceedings themselves, and by its terms does not extend to prehearing discovery. The goal is to ensure that appropriate evidence may be presented at a hearing without complicating proceedings by broadening the scope to prehearing discovery. In addition, this is added to allow the board to appoint hearing officers to hear and decide appeals. This provision would allow (but not necessarily require) the board to appoint hearing officers for these situations. By regulation, the Board could identify the types of appeals it might hear itself and set qualifications for hearing officers. Appellants would always have the option to appeal to the Board, even if a hearing officer has considered their cases.

If the board's vote on an appeal is a tie vote of those members present and voting, the administrator's decision is affirmed; the board, by regulation, shall provide for a method for it to reconsider a decision it has reached. This codifies the current and past practice of the board. Finally, this section adds final decisions of the board may be appealed by an aggrieved party to the superior court. The TRS parallel is section 5.

*Reason: Board request. This provision restates rights that exist as a matter of case law, and also amplifies that a "final" decision by the board is a precondition to further appeal.*

\* **Section 34.** This amendment clarifies a conflict that existed in statute. This clarification places retirement system eligibility of employees, including compensated elected officials, in the control of the employer.

*Reason: Addresses conflict in statute.*

\* **Section 35.** This section eliminates an inequity in current law. Currently, a PERS member who retires early (not under the RIP) and returns to work receives a penalty for their early retirement. On returning to work, the member's early retirement benefit stops. When the member subsequently retires, their early retirement benefit resumes

and they receive a second benefit based on their reemployment service. There is no adjustment for the early retirement benefits foregone. This section will authorize the division to make an actuarial adjustment to make the member whole. This same inequity would be corrected for level income option benefit recipients who return to work before age 65. It is anticipated that this section will have no financial impact to the TRS fund. The TRS parallel is section 6.

*Reason: Addresses inequity in current law and member request.*

\* **Section 36.** This amendment removes the irrevocability of election by a noncertificated school district employee under authority of SB 9, which passed last legislative session.

*Reason: Clarification of SB 9, which passed the last legislative session.*

\* **Section 37.** This amendment removes the irrevocability of an election by a noncertificated school district employee under authority of SB 9, which passed last legislative session. Revocation would only be allowed when a person changes their work status from seasonal to full year employment (and vice versa).

*Reason: Clarification of SB 9, which passed the last legislative session.*

\* **Section 38.** Adds a new section that sets out the conditions under which a qualified employee of the State of Alaska may make an election once they have passed the initial opportunity at hiring.

*Reason: Clarification of SB 9, which passed the last legislative session.*

\* **Section 39.** This amended to remove the irrevocability of election as this does not consider those instances when a qualified employee of a school district, regional educational attendance area or other qualified employer may change their work status from seasonal to full year employment.

*Reason: Clarification of SB 9, which passed the last legislative session.*

\* **Section 40.** Adds a new section that sets out the conditions under which a qualified employee of a school district, regional educational attendance area or other qualified employer may make an election once they have passed the initial opportunity at hiring.

*Reason: Clarification of SB 9, which passed the last legislative session.*

\* **Section 41.** This amends a section of the PERS statute requiring, unless there are extraordinary circumstances, a member to file a nonoccupational disability application within 90 days after the member terminated employment. The TRS parallel is section 9.

*Reason: Establishes consistency between PERS and TRS disability requirements.*

\* **Section 42.** This adds a subsection to the PERS statute requiring, unless there are extraordinary circumstances, a member must file an occupational disability application within six months of the date the member's disability began or 90 days after the member terminated employment (whichever is later). The TRS parallel is section 9.

*Reason: Establishes consistency between PERS and TRS disability requirements.*

\* **Section 43.** Clarifies language regarding the "level income option" that was repealed effective July 1, 1996. This section simply recognizes that people hired before that date have a right to the level income option.

*Reason: State Constitution requirement.*

\* **Section 44.** Amends PERS language to clarify that an alternate payee under a qualified domestic relations order (QDRO) has a right to the contribution account of a member, not just any benefit payment. TRS parallel is Section 13.

*Reason: This clarifies and simplifies QDRO procedures.*

\* **Section 45.** Adds language that allows the PERS to pay a lump sum distribution directly to an Individual Retirement Account - IRA. The parallels are sections 14 (TRS), 23 (JRS), 26 (NGNMRS) and 59 (EPORS).

*Reason: Simplifies procedures for members.*

\* **Section 46.** Removes requirement that the PERS board must rule on a waiver of adjustment appeal within 120 days of its receipt. The purpose is to have a consistent process for all appeals. TRS parallel is Section 11.

*Reason: Board request to increase flexibility to appellants and the PERS.*

\* **Section 47.** This repeals language no longer needed with the additions to AS 39.35.077. Makes the hearing process consistent for all types of hearing. This supports section 33.

*Reason: The purpose is to have a consistent process for all appeals.*

\* **Section 48.** This repeals language no longer needed with the additions to AS 39 35.077. Makes the hearing process consistent for all types of hearing. This supports section 33.

*Reason: The purpose is to have a consistent process for all appeals.*

\* **Section 49.** This section adds language in PERS authorizing the division's long-standing practice of deducting retiree insurance premiums (medical, dental, vision, audio, and long-term care) from retirement checks. The parallels are sections 10 (TRS) and 24 (JRS).

*Reason: Codifies practice.*

\***Section 50.** This amendment protects PERS employers from costs arising from requests by employee groups to change their retirement system coverage.

*Reason: System efficiency.*

\***Section 51.** This section updates PERS statutes relating to fraud, making such actions class A misdemeanors. TRS parallel is in Sections 15 and 16.

*Reason: Clarification of the law.*

**\*Section 52.** This section clarifies the purposes of Senate Bill 9, enacted during the 1999 legislative session. Under SB9, a person can elect to receive a year of service credit for working at least 172 days in a school year. This amendment clarifies calculation of average monthly compensation for this group.

*Reason: Legal clarification.*

**\* Section 53.** Adds language in PERS that defines a compensation limit for pension plan purposes for all members first hired on or after July 1, 1996. All members hired after that date must follow the limitations set by Section 401(a)(17) of the IRS code (initially set at \$150,000). The parallels are sections 17 (TRS) and 21 (JRS).

*Reason: Compliance with federal law.*

**\* Section 54.** Clarifies that the income and interest earned by the PERS fund belong to the fund. Codifies the practice in place since PERS was established in the 1960s and the trust requirements of the retirement fund. The TRS parallel is section 19.

*Reason: Codifies practice.*

**\* Section 55.** Companion to Section 44. Amends the PERS definition of QDRO to clarify that a former spouse has a right to the contribution account of a member. Current language limits the former spouse to the benefit payable. The parallels are sections 13 (TRS), 25 (JRS), 26 (NGNMRS) and 59 (EPORS).

*Reason: Addresses legal inconsistency.*

**\* Section 56.** Both the PERS and the TRS statutes require appointment of physician board members to hear disability appeals. Due to the disclosure requirements of AS 39.50 (especially disclosure of individual patients), the division and the Governor's Office have had great difficulty recruiting physicians to board appointment. This would amend the law to remove physicians appointed to the PERS and TRS boards from the definition of public official under AS 39.50.

*Reason: Conflict with patient confidentiality.*

\* **Section 57.** Repeals sections relating to PERS board hearings that are no longer necessary with the addition of AS 39.35.077 in Section 33.

*Reason: Addresses statutory consistency.*

\***Section 58.** Allows an EPORS member to receive a refund of any principle or interest paid on prior indebtedness. Also grants EPORS members the right to repay an indebtedness at any time up to the time of retirement. This language makes EPORS rules consistent with other state retirement systems. Parallels section 22 (JRS).

*Reason: Makes EPORS statute consistent with PERS and TRS.*

\***Section 59.** Places qualified domestic relations order (QDRO) language in EPORS which is equivalent to that contained in PERS and TRS statutes. Also creates the mechanism for members to transfer their contribution account to another qualified plan or IRA. The parallels are sections 13 and 18 (TRS), 25 (JRS), 26 (NGNMRS), 44 and 55 (PERS).

*Reason: Makes EPORS statute consistent with PERS and TRS.*

\* **Section 60.** Parallels Section 28, which separates the PERS Board from the Personnel Board. Addresses length of initial appointment of PERS Board appointees.

*Reason: Ensures continuity of membership on the PERS Board.*

### Anchor School District Supports -

Support the K version of CSMB 277 (FIN)

Over the next 8-10 yrs., <sup>our</sup> the Nation's Schools will have to hire more than 2 million teachers.

Experts say this crunch has many causes:

DELETED  
DUE TO  
TIME

- 1) The graying of today's teaching corps
- 2) high rates of attrition among young teachers
- 3) nationally - a booming enrollment
- 4) and increased popularity of class size reductions

A particular concern in Alaska and nation wide is the scarcity of special education related services personnel; speech therapists, audiologists, psychologists and others

CSMB 277 (FIN) will <sup>provide</sup> be a needed tool to help school districts in Alaska fill these required positions.

Many other states, notably South Carolina, California and Texas have adopted similar measures.

We encourage you to pass CSMB 277 (FIN) today to help us fill the gap.



# Teleconference Participants

TCN: 10813

## Participant Lists

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## Participants

Unidentified Testifiers:  Unidentified Observers:

### MATSU (MAT)

1 Name: Ms. Sheila Dickman Phone:  
Address: Affiliation:  
City /St /Zip: Type: Testifier  
Bill: HB 335: STATE RETIREMENT SYSTEMS AND BENEFITS

SENATE FINANCE COMMITTEE

SIGN-IN

HB 335-STATE RETIREMENT SYSTEMS AND BENEFITS

NAME: Guy Bell / Bill Church Subject/Bill No: HB 335  
Co./Dept./Title: Division of Retirement & Ben Phone: 465-5700  
Address: State Office Bldg Zip: \_\_\_\_\_  
Do you wish to testify?  Yes  No  Respond To Questions

NAME: John Cyr Subject/Bill No: HB-335  
Co./Dept./Title: NEA - AK Phone: 586-3090  
Address: Juneau Zip: \_\_\_\_\_  
Do you wish to testify?  Yes  No  Respond To Questions

NAME: \_\_\_\_\_ Subject/Bill No: \_\_\_\_\_  
Co./Dept./Title: \_\_\_\_\_ Phone: \_\_\_\_\_  
Address: \_\_\_\_\_ Zip: \_\_\_\_\_  
Do you wish to testify?  Yes  No  Respond To Questions

NAME: \_\_\_\_\_ Subject/Bill No: \_\_\_\_\_  
Co./Dept./Title: \_\_\_\_\_ Phone: \_\_\_\_\_  
Address: \_\_\_\_\_ Zip: \_\_\_\_\_  
Do you wish to testify?  Yes  No  Respond To Questions

**HB**

**337**

**HFIN**

**FILE**

HOUSE COMMITTEE REPORT

Date Referred to Committee: March 8, 2000

FURTHER REFERRALS:

Date of Committee Action: 3/16/00

The FINANCE Committee considered:

HB 337

HOUSE BILL NO. 337

CLAIMS AGAINST PERM FUND DIVIDENDS

"An Act relating to claims against permanent fund dividends to pay certain amounts owed to state agencies and to fees for processing claims against and assignments of permanent fund dividends; and providing for an effective date."

recommends it be replaced with the following committee substitute CS HB 337 (JUD) [ ] the same title [x] a new title

[ ] additional referral to Committee [ ] attached amendment(s)

ADOPTS: Letter of Intent

ATTACHES NEW FISCAL NOTE(s): (Dept) APPROVES PREVIOUS: (Dept/Date)

[ ] fiscal note(s) [x] fiscal note(s) labor 2/4/00

[ ] zero fiscal note(s) [x] zero fiscal note(s) Revenue 2/23/00

Table with columns: SIGNING WITH RECOMMENDATIONS, DP, DNP, NR, AM. Rows include signatures and names: Theriault, Bunde, Ausherman, J. DAVIS, Moses, g. DAVIS, Williams, Phillips, Foster.

CO CHAIR'S SIGNATURE [Signature]

FISCAL NOTE Bill Version: HB 337

No: 1

STATE OF ALASKA  
2000 LEGISLATIVE SESSION

(H) Publish Date: 2/4/00

Revision Date/Time (Note if correction):  
Title: An Act relating to . . . Admin collection  
of Perm. Fund Div. . . . for amounts owed to State  
Sponsor: Rules Committee  
Requestor: Governor

Department Affected: Labor  
BRU: Employment Security  
Component: Unemployment Insurance  
COMPONENT SERIAL NO. 2276

EXPENDITURES/REVENUES: (Thousands of Dollars)

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

OPERATING	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS & CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

CAPITAL						
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CHANGE IN REVENUE	377.1	569.8	385.4	385.4	385.4	385.4
FUND SOURCE #	1004	1004	1004	1004	1004	1004

FUNDING: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipt						
1006 GF/MHTIA						
Other (Specify Type)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year (FY00) impact: \$ 0.0

ANALYSIS: (Attach a separate page if necessary)  
  
(See Attached)

Prepared by: Rebecca Gamez, Director Phone: 465-2711  
Division: Employment Security Division Date/Time: 1/12/00 11:36 AM

Approved by Commissioner: Ed Flanagan, Commissioner  
Agency: Department of Labor and Workforce Development Date: 1/12/2000

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ATTACHMENT

HB 337

Fiscal Note for Governor's Bill... "Administrative Collection of Permanent Fund Dividends... for amounts owed to state."

The Alaska Department of Labor and Workforce Development, Employment Security Division, Benefit Payment Control Unit, is responsible for recovery of overpaid unemployment insurance (UI) benefits and fraud penalties. The current outstanding debt owed to the state for overpayments is a little over 9 million dollars; comprised of \$4,900,000 paid erroneously due to a fraudulent act committed by the claimant; \$1,500,000 paid due to error, most often the claimant's; and \$3,000,000 in statutory penalty applied for receipt of benefits through fraudulent acts.

In order to obtain federal administrative funding from the U.S. Department of Labor, our division must continue to improve the percentage of overpayments we recover. Currently, the only way to attach a Permanent Fund Dividend is by voluntary assignment, a judgment through small claims action, or through a criminal prosecution judgment. The latter two actions are lengthy and time consuming and are used in less than 5% of the cases. Authority to attach Permanent Fund Dividends through administrative action would simplify the process and increase the Department's recovery of improperly received payments and penalties.

Attachment of Permanent Fund Dividends would only be used after proper notice of liability has been given and appeal rights have expired or been exhausted. It would only be used on past due accounts.

No fiscal impact to the operational costs of the Unemployment Insurance program is anticipated. The costs related to the legislation will be replaced by efficiencies and related savings realized by a reduction in the number of judgments required through small claims action, or through a criminal prosecution.

Alaska statute 23.20.390 (a) requires that the over paid UI payment when recovered is to be returned to the UI trust fund. Since unemployment insurance benefits are primarily paid through taxes from Alaska's employers, the recovery of these overpaid benefits has a positive impact on employer tax rates. Alaska statute 23.20.390 (f) requires that any penalty recovered will be deposited into the state general fund.

After all other administrative remedies are exercised, the department anticipates levies on permanent fund dividend funds will result in recovery of overpaid UI payments and penalties as follows:

<u>First Calendar Year of Implementation effective January 1, 2001</u>	
Fraud overpays	\$1,148,200
Non-fraud overpays	<u>\$362,600</u>
<b>Total Returned to UI Trust Fund</b>	<b>\$1,510,800</b>
<b>Penalties Recovered for GF deposit</b>	<b>\$754,200 (a)</b>
 <u>Second &amp; Subsequents Calendar Years</u>	
Fraud overpays	\$638,300
Non-fraud overpays	<u>\$128,900</u>
<b>Total Returned to UI Trust Fund</b>	<b>\$767,200</b>
<b>Penalties Recovered for GF deposit</b>	<b>\$385,400 (a)</b>

In the first calendar year of implementation of the permanent fund levy, the UI overpay and penalty calculations represent the backlog which is greater than what would typically be expected on an ongoing annual basis. The second and subsequent year calculations is what we expect annually after the backlog is recovered.

FOOTNOTE:

(a) the state fiscal year distribution (see fiscal note form) of penalties recovered for deposit to the state general fund due to the 1/1/2001 effective date is as follows:

\*FY2001 = \$377,100 (50% of 1<sup>st</sup> calendar year penalties)

\*FY2002 = \$377,100 (50% of 1<sup>st</sup> calendar year penalties)

\*FY2002 = \$192,700 (50% of 2nd calendar year penalties)

\*FY2003 & subsequent fiscal years = \$385,400

mac 2 of 2

# FISCAL NOTE

Bill Version: CSHB 337 (STA)

(H) Publish Date: 2/23/00

## STATE OF ALASKA 2000 LEGISLATIVE SESSION

Revision: Date/Time (Note if correction)	Dept. Affected	Revenue
Title: <u>Claims Against Permanent Fund Dividends</u>	BRU	Revenue Operations
	Component	Permanent Fund Dividend
Sponsor: <u>Rules</u>		
Requester: <u>House State Affairs</u>	Component Serial No.	<u>981</u>

### Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ( )						
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### FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of current year (FY2000) cost: 0.0

### POSITIONS

Full-time						
Part-time						
Temporary						

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

This bill allows state agencies to file claims against Permanent Fund Dividends of individuals with unpaid debts owed to state agencies. Section 2 of this bill allows the Permanent Fund Dividend Division to collect an administrative fee to cover costs associated with processing these claims. This existing fee of \$2 per claim (as set out in regulation) is based on state agencies using electronic media to transmit any and all claims to the dividend division. The division may have to increase the fee to a particular agency if that agency is unable to transmit its claims electronically and instead creates additional paperwork and manual processing for the dividend division.

Prepared by Nanci A. Jones, Director  
 Division Permanent Fund Dividend  
 Approved by Wilson L. Condon  
 Commissioner Department of Revenue  
 Agency Department of Revenue

Phone 465-2323  
 Date/Time February 8, 2000  
 Date February 8, 2000

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Good afternoon Mr. Chairman, Representatives

Thank you for the opportunity to appear today to discuss this bill.

For the record, I am Ron Hull, Deputy Director of the Employment Security Division of the Department of Labor and Workforce Development.

I know you are pressed for time and will keep my statements as short as possible:

I would like to explain what this bill accomplishes. One of ESD's responsibilities is the unemployment insurance program. ESD's mandate is to protect the UI trust fund. This bill would provide an additional tool for improving the collection rate of overpaid benefits.

The PFD statute prioritizes the state entities that can attach an individual's PFD. It would place ESD at number 6 along with other state agencies not already named in the existing statute.

The total debt balance we are speaking to, as of 12/31/99 was \$9, 574,892

Fraud	\$4, 912, 834
Non-fraud	\$1, 516, 888
Penalty	\$3, 145, 620

The two categories of Fraud and Non-fraud are actual overpaid UI benefits and when collected would be returned to the trust fund.

The penalty amount is deposited directly into the general fund.

We strongly believe maintaining a healthy UI trust fund precludes us from having to raise the employer tax rate.

We have conservatively estimated a yearly deposit to the general fund of \$385 - 400 thousand in penalty collections to the general fund.

That concludes my prepared statements, I would be happy to entertain any questions.

Original bill included all depts  
STA amended to delete all but DOL  
Jed amended to this version

# FISCAL NOTE

No: 1

**STATE OF ALASKA**  
**2000 LEGISLATIVE SESSION**

Bill Ver. #: HB 337  
 (H) Publish Date: 2/4/00

Revision Date/Time (Note if correction): \_\_\_\_\_  
 Title: An Act relating to . . . Admin collection  
 of Perm. Fund Div. . . . for amounts owed to State  
 Sponsor: Rules Committee  
 Requestor: Governor

Department Affected: Labor  
 BRU: Employment Security  
 Component: \_\_\_\_\_  
Unemployment Insurance  
 COMPONENT SERIAL NO. 2276

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

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PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
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GRANTS & CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

CAPITAL						
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CHANGE IN REVENUE	377.1	569.8	385.4	385.4	385.4	365.4
FUND SOURCE #	1004	1004	1004	1004	1004	1004

**FUNDING:** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipt						
1006 GF/MHTIA						
Other (Specify Type)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**POSITIONS:**

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year (FY00) impact: \$ 0.0

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

(See Attached)

Prepared by: Rebecca Gamez, Director Phone: 465-2711  
 Division: Employment Security Division Date/Time: 1/12/00 11:36 AM

Approved by Commissioner: Ed Flanagan, Commissioner  
 Agency: Department of Labor and Workforce Development Date: 1/12/2000

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Attachment of Permanent Fund Dividends would only be used after proper notice of liability has been given and appeal rights have expired or been exhausted. It would only be used on past due accounts.

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Alaska statute 23.20.390 (a) requires that the over paid UI payment when recovered is to be returned to the UI trust fund. Since unemployment insurance benefits are primarily paid through taxes from Alaska's employers, the recovery of these overpaid benefits has a positive impact on employer tax rates. Alaska statute 23.20.390 (f) requires that any penalty recovered will be deposited into the state general fund.

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Fraud overpays	\$1,148,200
Non-fraud overpays	\$362,600
<b>Total Returned to UI Trust Fund</b>	<b>\$1,510,800</b>
<b>Penalties Recovered for GF deposit</b>	<b>\$754,200 (a)</b>

Second & Subsequents Calendar Years

Fraud overpays	\$638,300
Non-fraud overpays	\$128,900
<b>Total Returned to UI Trust Fund</b>	<b>\$767,200</b>
<b>Penalties Recovered for GF deposit</b>	<b>\$385,400 (a)</b>

In the first calendar year of implementation of the permanent fund levy, the UI overpay and penalty calculations represent the backlog which is greater than what would typically be expected on an ongoing annual basis. The second and subsequent year calculations is what we expect annually after the backlog is recovered.

FOOTNOTE:

(a) the state fiscal year distribution (see fiscal note form) of penalties recovered for deposit to the state general fund due to the 1/1/2001 effective date is as follows:

\*FY2001 = \$377,100 (50% of 1<sup>st</sup> calendar year penalties)

\*FY2002 = \$377,100 (50% of 1<sup>st</sup> calendar year penalties)

\*FY2002 = \$192,700 (50% of 2nd calendar year penalties)

\*FY2003 & subsequent fiscal years = \$385,400

mal 2/1/2

# FISCAL NOTE

Bill Version: CSHB 337 (STA)

(H) Publish Date: 2/23/00

**STATE OF ALASKA  
2000 LEGISLATIVE SESSION**

Revision Date/Time (Note if correction)	Dept. Affected	Revenue
Title <u>Claims Against Permanent Fund Dividends</u>	BRU	Revenue Operations
	Component	Permanent Fund Dividend
Sponsor <u>Rules</u>		
Requester <u>House State Affairs</u>	Component Serial No.	<u>981</u>

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

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

OPERATING EXPENDITURES	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

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

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

**FUND SOURCE (Thousands of Dollars)**

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of current year (FY2000) cost: 0.0

**POSITIONS**

Full-time						
Part-time						
Temporary						

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

This bill allows state agencies to file claims against Permanent Fund Dividends of individuals with unpaid debts owed to state agencies. Section 2 of this bill allows the Permanent Fund Dividend Division to collect an administrative fee to cover costs associated with processing these claims. This existing fee of \$2 per claim (as set out in regulation) is based on state agencies using electronic media to transmit any and all claims to the dividend division. The division may have to increase the fee to a particular agency if that agency is unable to transmit its claims electronically and instead creates additional paperwork and manual processing for the dividend division.

Prepared by Nanci A. Jones, Director  
 Division Permanent Fund Dividend  
 Approved by Wilson L. Condon  
 Commissioner Department of Revenue  
 Agency

Phone 465-2323  
 Date/Time February 8, 2000  
 Date February 8, 2000

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TONY KNOWLES  
GOVERNOR  
2000-2008

STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

February 2, 2000

The Honorable Brian Porter  
Speaker of the House  
Alaska State Legislature  
State Capitol  
Juneau, AK 99801-1182

Dear Speaker Porter:

Some state agencies are currently allowed to seek from individuals overdue payments of money due the state through a simple administrative collection of permanent fund dividends. But most state agencies still need to use a time consuming and costly court action to attach an individual's permanent fund dividend. It makes sense for all our state agencies to have access to this "fast track" method of collecting from a person who receives a permanent fund dividend while in arrears with payments lawfully due to the state. This bill I transmit today accomplishes this change in law.

Examples of agencies now able to attach permanent fund dividends with a simple administrative action include the Department of Health and Social Services, for reimbursement of certain court-ordered treatment, and the Alaska Commission on Postsecondary Education for student loans in default.

But the Department of Labor and Workforce Development, for example, must file a small claims court action or seek criminal prosecution to recover overpaid unemployment insurance benefits and fraud penalties. Partly as a result of this cumbersome method, the department estimates the state is owed \$4.5 million in outstanding benefits received by fraudulent means, \$3.6 million in statutory penalties, and \$1.6 million for overpaid benefits. Not only will this bill increase recovery rates, but because these owed benefits are paid by employer taxes, it will reduce employer tax rates within the state.

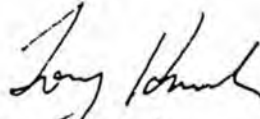
A state agency would not be required to use these new procedures for collection. Any agency that elects to use the new procedures would be required to notify the individual of the claim with a fair opportunity for a hearing at which the individual could contest the

The Honorable Brian Porter  
February 2, 2000  
Page 2

agency's claim to the permanent fund dividend. If a hearing is not requested or the claim is resolved in favor of the state agency, the agency may collect the money from the individual's permanent fund dividend without filing a court action.

Passage of this measure gives state agencies an additional tool to recover money that is lawfully owed to the state under existing state laws.

Sincerely,

A handwritten signature in black ink, appearing to read "Tony Knowles". The signature is written in a cursive style with a large initial "T".

Tony Knowles  
Governor

**HB**

**337**

**SFIN**

**FILE**

# SENATE FINANCE COMMITTEE REPORT

DATE: 4/16/00

REPORTED OUT OF  
SFC 4/18/00

FURTHER:

DATE TURNED  
IN TO OFFICE: 4/18/00

Finance Committee considered CS FOR HOUSE BILL NO. 337(JUD)

"An Act relating to claims against permanent fund dividends to pay amounts owed to the Department of Labor and Workforce Development under the Alaska Employment Security Act and to fees for processing certain claims against permanent fund dividends; and providing for an effective date."

and recommends:

- be replaced with ✓ CSC AB 337 ( FIN )
- adopt previous \_\_\_\_\_ ( \_\_\_\_\_ )
- attached amendment(s)
- adopt Letter of Intent by Forthcoming nittee
- further referral to the CS nittee

- Senate Bill:**  
 same title  
 new title  
**House Bill:**  
 same title  
 technical title  
 new: SCR# \_\_\_\_\_

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
<u>1000 F 1000</u>	✓	<u>John Kelly</u>	✓		
<u>Greg Webb</u>	✓	<u>Al Colman</u>	X		
<u>Loren D. Heman</u>	✓				
Co-Chair: <u>John Kelly</u>	✓	Co-Chair:			
Co-Chair: <u>Al Colman</u>	✓	Co-Chair:			

**NEW FISCAL NOTE(S):**

Department	Date	Zero	Fiscal

**PREVIOUS FISCAL NOTE(S):\***

Department	Date	Zero	Fiscal
<u>Revenue</u>	<u>2/15/00</u>	✓	
<u>Labor</u>	<u>1/12/00</u>		\$

APPROPRIATION -- no fiscal note

\*include fiscal notes accompanying Governor's bill

**FISCAL NOTE**

Bill Vers: HB 337

STATE OF ALASKA  
2000 LEGISLATIVE SESSION

REPORTED OUT OF  
SFC 4/18/00

(H) Publish Date: 2/4/00

Revision Date/Time (Note if correction): \_\_\_\_\_  
Title: An Act relating to . . . Admin collection  
of Perm. Fund Div. . . for amounts owed to State \_\_\_\_\_  
Sponsor: Rules Committee  
Requestor: Governor

Department Affected: Labor  
BRU: Employment Security  
Component: \_\_\_\_\_  
Unemployment Insurance  
COMPONENT SERIAL NO. 2276

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

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

OPERATING	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS & CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

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

CHANGE IN REVENUE	377.1	569.8	385.4	385.4	385.4	385.4
FUND SOURCE #	1004	1004	1004	1004	1004	1004

**FUNDING:** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipt						
1006 GF/MHTIA						
Other (Specify Type)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**POSITIONS:**

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year (FY00) impact: \$ 0.0

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

Prepared by Rebecca Gamez, Director  
Division: Employment Security Division

Phone: 465-2711  
Date/Time: 1/12/00 11:36 AM

Approved by Commissioner: Ed Flanagan, Commissioner  
Agency: Department of Labor and Workforce Development

Date: 1/12/2000

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**ATTACHMENT**

HB 337

**Fiscal Note for Governor's Bill .."Administrative Collection of Permane. Fund Dividends...for amounts owed to state."**

The Alaska Department of Labor and Workforce Development, Employment Security Division, Benefit Payment Control Unit, is responsible for recovery of overpaid unemployment insurance (UI) benefits and fraud penalties. The current outstanding debt owed to the state for overpayments is a little over 9 million dollars; comprised of \$4,900,000 paid erroneously due to a fraudulent act committed by the claimant; \$1,500,000 paid due to error, most often the claimant's; and \$3,000,000 in statutory penalty applied for receipt of benefits through fraudulent acts.

In order to obtain federal administrative funding from the U.S. Department of Labor, our division must continue to improve the percentage of overpayments we recover. Currently, the only way to attach a Permanent Fund Dividend is by voluntary assignment, a judgment through small claims action, or through a criminal prosecution judgment. The latter two actions are lengthy and time consuming and are used in less than 5% of the cases. Authority to attach Permanent Fund Dividends through administrative action would simplify the process and increase the Department's recovery of improperly received payments and penalties.

Attachment of Permanent Fund Dividends would only be used after proper notice of liability has been given and appeal rights have expired or been exhausted. It would only be used on past due accounts.

No fiscal impact to the operational costs of the Unemployment Insurance program is anticipated. The costs related to the legislation will be replaced by efficiencies and related savings realized by a reduction in the number of judgments required through small claims action, or through a criminal prosecution.

Alaska statute 23.20.390 (a) requires that the over paid UI payment when recovered is to be returned to the UI trust fund. Since unemployment insurance benefits are primarily paid through taxes from Alaska's employers, the recovery of these overpaid benefits has a positive impact on employer tax rates. Alaska statute 23.20.390 (f) requires that any penalty recovered will be deposited into the state general fund.

After all other administrative remedies are exercised, the department anticipates levies on permanent fund dividend funds will result in recovery of overpaid UI payments and penalties as follows:

**First Calendar Year of Implementation effective January 1, 2001**

Fraud overpays	\$1,148,200
Non-fraud overpays	\$362,600
<b>Total Returned to UI Trust Fund</b>	<b>\$1,510,800</b>

**Penalties Recovered for GF deposit** \$754,200 (a)

**Second & Subsequents Calendar Years**

Fraud overpays	\$638,300
Non-fraud overpays	\$128,900
<b>Total Returned to UI Trust Fund</b>	<b>\$767,200</b>

**Penalties Recovered for GF deposit** \$385,400 (a)

In the first calendar year of implementation of the permanent fund levy, the UI overpay and penalty calculations represent the backlog which is greater than what would typically be expected on an ongoing annual basis. The second and subsequent year calculations is what we expect annually after the backlog is recovered.

**FOOTNOTE:**

(a) the state fiscal year distribution (see fiscal note form) of penalties recovered for deposit to the state general fund due to the 1/1/2001 effective date is as follows:

\*FY2001 = \$377,100 (50% of 1<sup>st</sup> calendar year penalties)

\*FY2002 = \$377,100 (50% of 1<sup>st</sup> calendar year penalties)

\*FY2002 = \$192,700 (50% of 2nd calendar year penalties)

\*FY2003 & subsequent fiscal years = \$385,400

REPORTED OUT OF  
SFC 4/12/00

**FISCAL NOTE**

No: \_\_\_\_\_  
Bill Version: CSHB 337 (STA)  
(H) Publish Date: 2/23/00

**STATE OF ALASKA  
2000 LEGISLATIVE SESSION**

Revision Date/Time (Note if correction) \_\_\_\_\_ Dept. Affected \_\_\_\_\_ Revenue \_\_\_\_\_  
Title Claims Against Permanent Fund Dividends BRU Revenue Operations  
Component Permanent Fund Dividend  
Sponsor Rules  
Requester House State Affairs Component Serial No. 981

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

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

OPERATING EXPENDITURES	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ( )						
------------------------	--	--	--	--	--	--

**FUND SOURCE (Thousands of Dollars)**

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of current year (FY2000) cost: 0.0

**POSITIONS**

Full-time						
Part-time						
Temporary						

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

This bill allows state agencies to file claims against Permanent Fund Dividends of individuals with unpaid debts owed to state agencies. Section 2 of this bill allows the Permanent Fund Dividend Division to collect an administrative fee to cover costs associated with processing these claims. This existing fee of \$2 per claim (as set out in regulation) is based on state agencies using electronic media to transmit any and all claims to the dividend division. The division may have to increase the fee to a particular agency if that agency is unable to transmit its claims electronically and instead creates additional paperwork and manual processing for the dividend division.

Prepared by Nanci A. Jones, Director  
Division Permanent Fund Dividend  
Approved by Wilson L. Condon  
Commissioner Department of Revenue  
Agency

Phone 465-2323  
Date/Time February 8, 20000  
Date February 8, 20000

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Phillips COMMITTEE  
2000 COMMITTEE ACTION

<b>Bill Number</b>	<i>HB 337</i>		
<b>Amendment</b>	<i>#1</i>		
<b>Motion</b>			
<b><u>Motion by</u></b>	<i>✓</i>		
<b><u>Objection by</u></b>			
<b>Removed</b>			
<b>Second Objection by</b>			
<b><u>Committee Member</u></b>	<b>Y</b>	<b><u>Vote</u></b>	<b>N</b>
Senator Randy Phillips			
Senator Dave Donley			
Senator Loren Lemar			
Senator Al Adams			
Senator Gary Wilken			
Senator Pete Kelly			
Senator Lyda Green			
Co-Chair Sean Parnell			
Co-Chair John Torgerson			
<b><u>Tally</u></b>			
Yea			
Nay			
Absent			
<b><u>MOTION</u></b>	<i>no objection</i>		

## HB 337 TALKING POINTS

- The Employment Security Division (ESD) of the Department of Labor and Workforce Development administers the Unemployment Insurance Program.
- That entails the collection of taxes from Alaska's employers and the paying out of benefits to Alaskans who are temporarily out of work. Last year over \$129 million was paid out in benefits.
- Inherent in the responsibility of administering the program is the protection of the UI Trust Fund.
- By protection, I mean the detection, prevention, and the collection of improperly paid benefits.
- As of 12/31/99 the overpayment balances were as follows:

Fraud	\$4,912,384
Non-Fraud	\$1,516,888
Penalty	\$3,145,620 (Statutory penalty for fraud)
- This bill would speed the recovery of overpaid UI benefits that are a debt to the state.
- The overpaid benefits would be returned to the Trust Fund. This would have a beneficial effect on the employers' UI tax rates.
- The Penalty amount would be deposited in the General Fund.
- With the passage of this bill we estimate in the first year we could return over \$1.5 million to the Trust Fund, and over \$750 thousand to the General Fund.
- Every year thereafter, it is estimated between \$700 - \$800 thousand would be returned to the Trust Fund and between \$400 - \$500 thousand would be deposited in the General Fund.
- The passage of this bill is good for the UI Trust Fund, its good for the General Fund, and its good for Alaska's employers.

TONY KNOWLES

GOVERNOR

## STATE OF ALASKA

OFFICE OF THE GOVERNOR

JUNEAU

February 2, 2000

The Honorable Brian Porter  
Speaker of the House  
Alaska State Legislature  
State Capitol  
Juneau, AK 99801-1182

Dear Speaker Porter:

Some state agencies are currently allowed to seek from individuals overdue payments of money due the state through a simple administrative collection of permanent fund dividends. But most state agencies still need to use a time consuming and costly court action to attach an individual's permanent fund dividend. It makes sense for all our state agencies to have access to this "fast track" method of collecting from a person who receives a permanent fund dividend while in arrears with payments lawfully due to the state. This bill I transmit today accomplishes this change in law.

Examples of agencies now able to attach permanent fund dividends with a simple administrative action include the Department of Health and Social Services, for reimbursement of certain court-ordered treatment, and the Alaska Commission on Postsecondary Education for student loans in default.

But the Department of Labor and Workforce Development, for example, must file a small claims court action or seek criminal prosecution to recover overpaid unemployment insurance benefits and fraud penalties. Partly as a result of this cumbersome method, the department estimates the state is owed \$4.5 million in outstanding benefits received by fraudulent means, \$3.6 million in statutory penalties, and \$1.6 million for overpaid benefits. Not only will this bill increase recovery rates, but because these owed benefits are paid by employer taxes, it will reduce employer tax rates within the state.

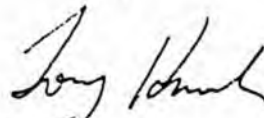
A state agency would not be required to use these new procedures for collection. Any agency that elects to use the new procedures would be required to notify the individual of the claim with a fair opportunity for a hearing at which the individual could contest the

The Honorable Brian Porter  
February 2, 2000  
Page 2

agency's claim to the permanent fund dividend. If a hearing is not requested or the claim is resolved in favor of the state agency, the agency may collect the money from the individual's permanent fund dividend without filing a court action.

Passage of this measure gives state agencies an additional tool to recover money that is lawfully owed to the state under existing state laws.

Sincerely,

A handwritten signature in black ink, appearing to read "Tony Knowles". The signature is written in a cursive style with a large initial "T".

Tony Knowles  
Governor

SENATE FINANCE COMMITTEE

SIGN-IN

HB 337-CLAIMS AGAINST PERM FUND DIVIDENDS

NAME: Ron Hull Subject/Bill No: HB 337

Co./Dept./Title: \_\_\_\_\_ Phone: \_\_\_\_\_

Address: \_\_\_\_\_ Zip: \_\_\_\_\_

Do you wish to testify?  Yes  No  Respond To Questions

NAME: \_\_\_\_\_ Subject/Bill No: \_\_\_\_\_

Co./Dept./Title: \_\_\_\_\_ Phone: \_\_\_\_\_

Address: \_\_\_\_\_ Zip: \_\_\_\_\_

Do you wish to testify?  Yes  No  Respond To Questions

NAME: \_\_\_\_\_ Subject/Bill No: \_\_\_\_\_

Co./Dept./Title: \_\_\_\_\_ Phone: \_\_\_\_\_

Address: \_\_\_\_\_ Zip: \_\_\_\_\_

Do you wish to testify?  Yes  No  Respond To Questions

NAME: \_\_\_\_\_ Subject/Bill No: \_\_\_\_\_

Co./Dept./Title: \_\_\_\_\_ Phone: \_\_\_\_\_

Address: \_\_\_\_\_ Zip: \_\_\_\_\_

Do you wish to testify?  Yes  No  Respond To Questions

**HB**

**338**

**HFIN**

**FILE**

# FISCAL NOTE

Bill Version: CSHB 338 (JUD)  
 (H) Publish Date: 4/11/00

**STATE OF ALASKA  
 2000 LEGISLATIVE SESSION**

Revision Date/Time (Note if correction) \_\_\_\_\_ Dept. Affected Department of Corrections  
 Title An Act relating to crimes involving computers, BRU Administration and Operations  
access devices, other technology, identification documents. Component All  
 Sponsor Rules Committee  
 Requester Governor Component No. #0694

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

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

OPERATING EXPENDITURES	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous	14.3	28.7	42.9	57.3	64.4	96.6
<b>TOTAL OPERATING</b>	<b>14.3</b>	<b>28.7</b>	<b>42.9</b>	<b>57.3</b>	<b>64.4</b>	<b>96.6</b>

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ( )						
------------------------	--	--	--	--	--	--

**FUND SOURCE (Thousands of Dollars)**

1002 Federal Receipts						
1003 GF Match						
1004 GF	14.3	28.7	42.9	57.3	64.4	96.6
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>14.3</b>	<b>28.7</b>	<b>42.9</b>	<b>57.3</b>	<b>64.4</b>	<b>96.6</b>

Estimate of any current year (FY2000) cost: 0.0

**POSITIONS**

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)  
 See attached.

Prepared by: Candy Brower, Legislative Liaison Phone 465-3307  
 Division Commissioner's Office Date/Time 2/22/00 9:17 AM  
 Approved by Commissioner Margaret M. Pugh *Margaret M. Pugh* Date 2-22-00  
 Agency Dept. of Corrections

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## FISCAL NOTE

STATE OF ALASKA  
2000 LEGISLATIVE SESSION  
DEPARTMENT OF CORRECTIONS

BILL NO. HB 338  
PAGE 2 of 2  
DATE 2/22/00

If passed, this legislation would greatly enhance the ability to prosecute those who would use technology for harm. Cybertheft, theft of identity, theft of access cards and electronic transmission of child pornography are all targets of this bill. Technology is creating a new breed of criminal because of the ease with which someone with particular skill and knowledge can steal, disrupt and otherwise harm without detection. Law enforcement is not easy in these cases and the expertise and equipment required to keep pace with those who are perpetrating such crimes will be critical.

The Department of Corrections anticipates that the criminals prosecuted for these crimes will likely be new to the system. It is anticipated that the first year, there may be four convictions for C felonies resulting in a Suspended Imposition of Sentence of 24 months with 21 suspended for a period of 5 years. That would result in a period of confinement of 2 months for each individual. The fact that these would likely be first time offenders and not violent, they will likely serve their confinement in Community Residential Centers at a rate of \$59.61 per day. The first year fiscal impact would be approximately \$14 300.

It is anticipated that the numbers of criminals being prosecuted will increase each year as law enforcement becomes more adept at apprehending them. For FY 02, it is anticipated there may be six convictions with a similar sentencing for a total of \$21,500 plus one person from the previous year who violated his probation for an additional 6 months sentence with four months to serve totalling \$7,200. FY 02 would see a total fiscal cost of \$28,700.

FY 03 is estimated to have eight convictions using the same formula as above, that would result in \$28,600. In addition, it is expected that two of the previous ten would violate probation for a net result of six months each with four months to serve totalling 14,300. The total estimate for FY 03 is \$42,900.

FY 04 is estimated to reach ten convictions using the same formula as above, resulting in a cost of \$35,800. If probation violations occur, as expected, there would be an additional three inmates subject to additional time of approximately 4 months each for \$21,500. The total fiscal impact in FY 04 would be \$57,300.

If prosecutions and convictions continue to increase, we would anticipate 12 convictions in FY 05 at a resulting cost of \$42,900. If three probationers violate, the resulting cost would be \$21,500 for a total of \$64,400.

FY 06, if increases continue as expected, could result in 15 convictions for a total of \$53,700 plus four probation revocations at an average of 9 months each, 6 months to serve totalling 42,900. The total fiscal impact for FY 06 would be approximately \$96,600.

The increase in sentencing for probationers is a result of the possibility of re-offenders getting additional time for coming back before the court again. This fiscal note does not reflect costs of community supervision.

**FISCAL NOTE**

Bill Version: HB 338  
 (H) Publish Date: 2/4/00

**STATE OF ALASKA**  
**2000 LEGISLATIVE SESSION**

Revision Date: \_\_\_\_\_  
 Title: "An Act relating to crimes involving computers..."

Department Affected: Administration  
 BRU: Legal and Advocacy Services  
 Component: Public Defender Agency

Sponsor: Rules Committee  
 Requestor: Governor

COMPONENT SERIAL NO. 1631

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

OPERATING EXPENDITURES	FY 2001	FY 2002	FY 2 003	FY 2004	FY 2005	FY 2006
PERSONAL SERVICES	46.5	46.5	46.5	46.5	46.5	46.5
TRAVEL	3.5	3.5	3.5	3.5	3.5	3.5
CONTRACTUAL	26.3	26.3	26.3	26.3	26.3	26.3
SUPPLIES	1.9	1.9	1.9	1.9	1.9	1.9
EQUIPMENT	6.5					
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>84.7</b>	<b>78.2</b>	<b>78.2</b>	<b>78.2</b>	<b>78.2</b>	<b>78.2</b>

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

1002 Federal Receipts						
1003 GF Match						
1004 GF	84.7	78.2	78.2	78.2	78.2	78.2
1005 GF/Program Receipts						
1037 GF/Mental Health						
OTHER						
<b>TOTAL</b>	<b>84.7</b>	<b>78.2</b>	<b>78.2</b>	<b>78.2</b>	<b>78.2</b>	<b>78.2</b>

Estimate of any current year (FY 00) cost: \$ \_\_\_\_\_

**POSITIONS:**

FULL-TIME	1	1	1	1	1	1
PART-TIME						
TEMPORARY						

**ANALYSIS:** (Attach a separate page if necessary.) This bill amends current law and adds new statutes to enable prosecution of a wide variety of "Cybercrimes."

Prosecution and defense of Cybercrimes will require sophisticated technical expertise. The Public Defender Agency does not currently have staff who have the technical knowledge necessary to defend criminal cases that could be brought under this new legislation.

The Public Defender Agency will need to hire an Analyst Programmer I in order to consult with and train the attorneys appointed to defend these cases. The Analyst Programmer will be based in Anchorage. In addition to providing technical assistance on individual cases in Anchorage, the Analyst Programmer would also be responsible for training attorneys and investigators in all Public Defender Agency offices on technical issues in these cases. One-time equipment costs for computer equipment is also included in the first year.

Prepared by: Barbara Brink, Director  
 Division: Public Defender Agency

Phone: (907) 264-4414  
 Date: \_\_\_\_\_

Approved by Commissioner: Robert Poe Jr.  
 Agency: Department of Administration

Phone: \_\_\_\_\_  
 Date: 12/15/99

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# FISCAL NOTE

Bill Version: HB 338

(H) Publish Date: 2/4/00

## STATE OF ALASKA 2000 LEGISLATIVE SESSION

Revision Date/Time (Note if correction)	Dept. Affected	Law
Title "An Act relating to crimes involving computers, access devices, other technology, identification documents ..."	BRU	Criminal Division
Sponsor Rules Committee	Component	1st Judicial Dist; 4th Judicial Dist; Criminal Appeals/Special Litigation
Requester Governor	Component No.	2198;2201;2203

### Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Personal Services						
Travel	3.3	3.3	3.3	3.3	3.3	3.3
Contractual	6.7	6.7	6.7	6.7	6.7	6.7
Supplies						
Equipment	5.0	5.0	5.0	5.0	5.0	5.0
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>15.0</b>	<b>15.0</b>	<b>15.0</b>	<b>15.0</b>	<b>15.0</b>	<b>15.0</b>

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

1002 Federal Receipts						
1003 GF Match						
1004 GF	15.0	15.0	15.0	15.0	15.0	15.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>15.0</b>	<b>15.0</b>	<b>15.0</b>	<b>15.0</b>	<b>15.0</b>	<b>15.0</b>

Estimate of any current year (FY2000) cost: \_\_\_\_\_

#### POSITIONS

Full-time						
Part-time						
Temporary						

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

This bill amends and expands the substantive criminal law to address the use of computers and other technology in the widespread perpetration of crimes. Child pornography, theft of personal information with the intent to defraud, theft of personal information resulting in damage to a person's financial reputation, deceptive business practices, "hacking" to get unauthorized information or introduce false information, introducing damaging viruses, eavesdropping on other peoples' voice or e-mail are all offenses where technology has offered new ways for criminals to victimize individuals. The amendments in this bill will update existing law to help law enforcement prosecute those who cause harm to others through the use of computers and other technology.

Prepared by: Joan M. Kasson *Joan M. Kasson*  
Division: Attorney General's Office

Phone 465-5370  
Date/Time 12/15/99, 8:37 AM

Approved by Commissioner Bruce M. Botelho, Attorney General  
Agency: Department of Law

Date 12/15/99

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**ANALYSIS CONTINUATION**

Much of the bill expands on existing crimes already being prosecuted, and is not anticipated to cause increased workload. The new crimes defined in the bill are expected to result in approximately ten new prosecutions in the first year, with the number increasing in future years. These new white-collar cases will be handled by existing staff. Although no new personnel are believed to be necessary, other resources will be needed.

Investigation and prosecution of cybercrimes require that the prosecutor keep up with the constantly changing world of information technology. Those who use computers to commit crimes are very knowledgeable about technology, and usually have state-of-the-art equipment. Prosecutors must have the same or better knowledge and equipment as those who use the equipment for illegal purposes.

The Department of Law intends to have three of its prosecutors specialize in this technology driven area of law: one in Anchorage OSPA, and one each in the Juneau and Fairbanks district attorney's offices. These assistant district attorneys will need on-going training to stay ahead of the inventive ways people come up with to use technology to cause harm to others and to keep up with how law enforcement is responding in other jurisdictions. The department estimates \$10.0 per year will be spent on training, divided equally between the three components. \$5.0 per year is included to maintain state-of-the-art computer equipment, software, peripherals, and associated communications devices in Anchorage OSPA as a resource for the entire Criminal Division to use in preparing and presenting its cases.

**FISCAL NOTE**

Bill Version: HB 338

(H) Publish Date: 2/4/00

**STATE OF ALASKA  
2000 LEGISLATIVE SESSION**

Revision Date		Dept. Affected	Public Safety
Title	An Act relating to crimes involving computers, BRU		Alaska State Troopers
	access devices, other technology, and identification documents ...	Component	Criminal Investigations Bureau
Sponsor	Rules Committee		
Requester	Governor	Component No.	830

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

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

OPERATING EXPENDITURES	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Personal Services	73.1	73.1	73.1	73.1	73.1	73.1
Travel	3.0	3.0	3.0	3.0	3.0	3.0
Contractual	22.4	22.4	22.4	22.4	22.4	22.4
Supplies	4.6	4.6	4.6	4.6	4.6	4.6
Equipment	42.5	3.0	3.0	3.0	3.0	3.0
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>145.6</b>	<b>106.1</b>	<b>106.1</b>	<b>106.1</b>	<b>106.1</b>	<b>106.1</b>

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

1002 Federal Receipts						
1003 GF Match						
1004 GF	145.6	106.1	106.1	106.1	106.1	106.1
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>145.6</b>	<b>105.1</b>	<b>106.1</b>	<b>106.1</b>	<b>106.1</b>	<b>106.1</b>

Estimate of any current year (FY2000) cost: 0.0

**POSITIONS**

Full-time	1	1	1	1	1	1
Part-time						
Temporary						

**ANALYSIS:** (see attachment for more details)

This bill will greatly enhance the ability of law enforcement to deal with computer related criminal activity, including: child pornography in electronic format or on the internet; using credit cards or electronic access devices fraudulently; identity theft; and committing deceptive business practices with the aid of a computer. This bill will also increase the penalties for engaging in such practices if the person commits the offense by computer.

This fiscal note would add 1 full time position (Trooper Investigator) and associated support costs in the Criminal Investigations Bureau. This position will be located in Anchorage. One time equipment request, in FY2001, is necessary to provide this position with sophisticated computer equipment adequate to meet new and expanded responsibilities provided for in this legislation.

Prepared by:	Royce Weller, Special Assistant	Phone	465-4322
Division	Office of the Commissioner	Date/Time	12/23/1999 12:00:00
Approved by	Commissioner Ronald L. Otte	Date	12/23/99
Agency	Department of Public Safety		

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**Fiscal Note: "An Act relating to crimes involving computers..."  
(FY2001 - start up costs)**

<b>PERSONAL SERVICES</b>		
76A, salary schedule 1A, 144 hrs OT		73,100
<b>TRAVEL and PER DIEM</b>		3,000
<b>CONTRACTUAL</b>		
Telephone, postage	1,080	
Film processing	600	
PSEA Physical exam, avg	400	
Fuel	1,272	
HWCF vehicle - Class 115 oper & replacement	11,256	
Training	7,800	
Total Contractual		22,408
<b>SUPPLIES and MATERIALS</b>		
Initial issue uniform	3,435	
Film, office supplies	600	
Consumables (1st aid, chains, flares, batteries, etc.)	600	
Total Supplies/Materials		4,635
<b>EQUIPMENT</b>		
Forensic computer, software, printers, storage devices	15,000	
Trooper interceptor vehicle (fully equipped)	27,500	42,500
<b>Total first-year cost of a new State Trooper:</b>		<b>145,643</b>

TONY KNOWLES  
GOVERNOR  
2000 STATE HOUSE

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Juneau, Alaska 99801  
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STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

February 2, 2000

The Honorable Brian Porter  
Speaker of the House  
Alaska State Legislature  
State Capitol  
Juneau, AK 99801-1182

Dear Speaker Porter:

The advances in technology in the last decade have given us dazzling and practical tools for working together and communicating with the entire world. With these advances, however, come opportunities for criminals to victimize individuals and the public in devious and harmful ways. This bill I am transmitting today will help law enforcement prosecute those who cause harm and commit crimes through the use of computers and other high technology.

This bill recognizes that theft of personal information, known as "identity theft," can damage people in financial loss and reputation, which is difficult to repair. Moreover, it is often difficult for the owner of the identity to get help from law enforcement because that person is not considered the victim; the bank, credit card company, or retailer who advanced the property or services is considered the victim.

Deceptive business practices, such as fraud and false advertising, can more easily be perpetrated through electronic communication methods with a limitless number of potential victims. Additionally, offenses such as the production of child pornography are much more harmful to victims when the material is widely dispersed in an electronic format.

To address all of the above issues, the bill specifically makes the following changes in our criminal laws:

- Eliminates any potential confusion that placing child pornography in an electronic format and then onto a computer network or computer system is a serious crime.
- Replaces "credit card" with "access device" in our theft statutes so they clearly include identification numbers and telephone information in addition to credit card numbers.

The Honorable Brian Porter

February 2, 2000

Page 2

- Allows a person to be prosecuted for obtaining an "access device" with intent to use it fraudulently, and for using the device to defraud.
- Establishes a class B felony to use identity information of another person without authorization and for damaging the financial reputation of that person. A class B felony is punishable by imprisonment for up to 10 years and by a fine of up to \$50,000.
- Raises the stakes for engaging in deceptive business practices with the use of a computer by making it a class C felony, punishable by up to five years incarceration and a \$50,000 fine.
- Broadens the definition of criminal use of a computer, a class C felony, to include obtaining proprietary information, information that is only available to the public for a fee, introducing information that damages the computer, and encrypting information.
- Makes it a class A misdemeanor to eavesdrop on another person's electronic or voice mail or other communication in electronic storage. A class A misdemeanor is punishable by up to one year in jail and a fine of up to \$5,000.

This bill is timely and necessary to keep law enforcement in pace with modern technology.

Sincerely,



Tony Knowles  
Governor

# FISCAL NOTE

Bill Version: CSHB 338 (JUD)

(H) Publish Date: 4/11/00

**STATE OF ALASKA  
2000 LEGISLATIVE SESSION**

Revision Date/Time (Note if correction) \_\_\_\_\_ Dept. Affected Department of Corrections  
 Title An Act relating to crimes involving computers, BRU Administration and Operations  
access devices, other technology, identification documents. Component All  
 Sponsor Rules Committee  
 Requester Governor Component No. #0694

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

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

OPERATING EXPENDITURES	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous	14.3	28.7	42.9	57.3	64.4	96.6
<b>TOTAL OPERATING</b>	<b>14.3</b>	<b>28.7</b>	<b>42.9</b>	<b>57.3</b>	<b>64.4</b>	<b>96.6</b>

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

1002 Federal Receipts						
1003 GF Match						
1004 GF	14.3	28.7	42.9	57.3	64.4	96.6
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>14.3</b>	<b>28.7</b>	<b>42.9</b>	<b>57.3</b>	<b>64.4</b>	<b>96.6</b>

Estimate of any current year (FY2000) cost: 0.0

**POSITIONS**

Full-time						
Part-time						
Temporary						

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

See attached.

Prepared by: Candy Brower, Legislative Liaison Phone 465-3307  
 Division Commissioner's Office Date/Time 2/22/00 9:17 AM  
 Approved by Commissioner Margaret M. Pugh Date 2-22-00  
 Agency Dept. of Corrections

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## FISCAL NOTE

STATE OF ALASKA  
2000 LEGISLATIVE SESSION  
DEPARTMENT OF CORRECTIONS

BILL NO. HB 338  
PAGE 2 of 2  
DATE 2/22/00

If passed, this legislation would greatly enhance the ability to prosecute those who would use technology for harm. Cybertheft, theft of identity, theft of access cards and electronic transmission of child pornography are all targets of this bill. Technology is creating a new breed of criminal because of the ease with which someone with particular skill and knowledge can steal, disrupt and otherwise harm without detection. Law enforcement is not easy in these cases and the expertise and equipment required to keep pace with those who are perpetrating such crimes will be critical.

The Department of Corrections anticipates that the criminals prosecuted for these crimes will likely be new to the system. It is anticipated that the first year, there may be four convictions for C felonies resulting in a Suspended Imposition of Sentence of 24 months with 21 suspended for a period of 5 years. That would result in a period of confinement of 2 months for each individual. The fact that these would likely be first time offenders and not violent, they will likely serve their confinement in Community Residential Centers at a rate of \$59.61 per day. The first year fiscal impact would be approximately \$14,300.

It is anticipated that the numbers of criminals being prosecuted will increase each year as law enforcement becomes more adept at apprehending them. For FY 02, it is anticipated there may be six convictions with a similar sentencing for a total of \$21,500 plus one person from the previous year who violated his probation for an additional 6 months sentence with four months to serve totalling \$7,200. FY 02 would see a total fiscal cost of \$28,700.

FY 03 is estimated to have eight convictions using the same formula as above, that would result in \$28,600. In addition, it is expected that two of the previous ten would violate probation for a net result of six months each with four months to serve totalling 14,300. The total estimate for FY 03 is \$42,900.

FY 04 is estimated to reach ten convictions using the same formula as above, resulting in a cost of \$35,800. If probation violations occur, as expected, there would be an additional three inmates subject to additional time of approximately 4 months each for \$21,500. The total fiscal impact in FY 04 would be \$57,300.

If prosecutions and convictions continue to increase, we would anticipate 12 convictions in FY 05 at a resulting cost of \$42,900. If three probationers violate, the resulting cost would be \$21,500 for a total of \$64,400.

FY 06, if increases continue as expected, could result in 15 convictions for a total of \$53,700 plus four probation revocations at an average of 9 months each, 6 months to serve totalling 42,900. The total fiscal impact for FY 06 would be approximately \$96,600.

The increase in sentencing for probationers is a result of the possibility of re-offenders getting additional time for coming back before the court again. This fiscal note does not reflect costs of community supervision.

FISCAL NOTE

Bill Version: HB 338  
 (H) Publish Date: 2/4/00

STATE OF ALASKA  
 2000 LEGISLATIVE SESSION

Revision Date: \_\_\_\_\_  
 Title: "An Act relating to crimes involving computers..."  
 Sponsor: Rules Committee  
 Requestor: Governor

Department Affected: Administration  
 BRU: Legal and Advocacy Services  
 Component: Public Defender Agency

COMPONENT SERIAL NO. 1631

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING EXPENDITURES	FY 2001	FY 2002	FY 2 003	FY 2004	FY 2005	FY 2006
PERSONAL SERVICES	46.5	46.5	46.5	46.5	46.5	46.5
TRAVEL	3.5	3.5	3.5	3.5	3.5	3.5
CONTRACTUAL	26.3	26.3	26.3	26.3	26.3	26.3
SUPPLIES	1.9	1.9	1.9	1.9	1.9	1.9
EQUIPMENT	6.5					
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>84.7</b>	<b>78.2</b>	<b>78.2</b>	<b>78.2</b>	<b>78.2</b>	<b>78.2</b>

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ( )						
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FUND SOURCE: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	84.7	78.2	78.2	78.2	78.2	78.2
1005 GF/Program Receipts						
1037 GF/Mental Health						
OTHER						
<b>TOTAL</b>	<b>84.7</b>	<b>78.2</b>	<b>78.2</b>	<b>78.2</b>	<b>78.2</b>	<b>78.2</b>

Estimate of any current year (FY 00) cost: \$ \_\_\_\_\_

POSITIONS:

FULL-TIME	1	1	1	1	1	1
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary.) This bill amends current law and adds new statutes to enable prosecution of a wide variety of "Cybercrimes."

Prosecution and defense of Cybercrimes will require sophisticated technical expertise. The Public Defender Agency does not currently have staff who have the technical knowledge necessary to defend criminal cases that could be brought under this new legislation.

The Public Defender Agency will need to hire an Analyst Programmer I in order to consult with and train the attorneys appointed to defend these cases. The Analyst Programmer will be based in Anchorage. In addition to providing technical assistance on individual cases in Anchorage, the Analyst Programmer would also be responsible for training attorneys and investigators in all Public Defender Agency offices on technical issues in these cases. One-time equipment costs for computer equipment is also included in the first year.

Prepared by: Barbara Brink, Director  
 Division: Public Defender Agency

Phone: (907) 264-4414  
 Date: \_\_\_\_\_

Approved by Commissioner: Robert Poe Jr. *Robert M. Selge*  
 Agency: Department of Administration

Phone: \_\_\_\_\_  
 Date: 12/15/99

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# FISCAL NOTE

Bill Version: HB 338

(H) Publish Date: 2/4/00

## STATE OF ALASKA 2000 LEGISLATIVE SESSION

Revision Date/Time (Note if correction): _____	Dept. Affected	Law
Title "An Act relating to crimes involving computers, access devices, other technology, identification documents ..."	BRU	Criminal Division
Sponsor Rules Committee	Component	1st Judicial Dist; 4th Judicial Dist; Criminal Appeals/Special Litigation
Requester Governor	Component No.	2198;2201;2203

### Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Personal Services						
Travel	3.3	3.3	3.3	3.3	3.3	3.3
Contractual	6.7	6.7	6.7	6.7	6.7	6.7
Supplies						
Equipment	5.0	5.0	5.0	5.0	5.0	5.0
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>15.0</b>	<b>15.0</b>	<b>15.0</b>	<b>15.0</b>	<b>15.0</b>	<b>15.0</b>

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

### FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	15.0	15.0	15.0	15.0	15.0	15.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>15.0</b>	<b>15.0</b>	<b>15.0</b>	<b>15.0</b>	<b>15.0</b>	<b>15.0</b>

Estimate of any current year (FY2000) cost: \_\_\_\_\_

### POSITIONS

Full-time						
Part-time						
Temporary						

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

This bill amends and expands the substantive criminal law to address the use of computers and other technology in the widespread perpetration of crimes. Child pornography, theft of personal information with the intent to defraud, theft of personal information resulting in damage to a person's financial reputation, deceptive business practices, "hacking" to get unauthorized information or introduce false information, introducing damaging viruses, eavesdropping on other peoples' voice or e-mail are all offenses where technology has offered new ways for criminals to victimize individuals. The amendments in this bill will update existing law to help law enforcement prosecute those who cause harm to others through the use of computers and other technology.

Prepared by: Joan M. Kasson *Joan M. Kasson*  
 Division: Attorney General's Office  
 Approved by Commissioner: Bruce M. Botelho, Attorney General  
 Agency: Department of Law

Phone: 465-5370  
 Date/Time: 12/15/99, 8:37 AM  
 Date: 12/15/99

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**ANALYSIS CONTINUATION**

Much of the bill expands on existing crimes already being prosecuted, and is not anticipated to cause increased workload. The new crimes defined in the bill are expected to result in approximately ten new prosecutions in the first year, with the number increasing in future years. These new white-collar cases will be handled by existing staff. Although no new personnel are believed to be necessary, other resources will be needed.

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# FISCAL NOTE

Bill Version: HB 338

(H) Publish Date: 2/4/00

**STATE OF ALASKA  
2000 LEGISLATIVE SESSION**

Revision Date \_\_\_\_\_ Dept. Affected Public Safety  
 Title An Act relating to crimes involving computers, BRU Alaska State Troopers  
access devices, other technology, and identification documents ... Component Criminal Investigations Bureau  
 Sponsor Rules Committee  
 Requester Governor Component No. 830

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

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

OPERATING EXPENDITURES	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Personal Services	73.1	73.1	73.1	73.1	73.1	73.1
Travel	3.0	3.0	3.0	3.0	3.0	3.0
Contractual	22.4	22.4	22.4	22.4	22.4	22.4
Supplies	4.6	4.6	4.6	4.6	4.6	4.6
Equipment	42.5	3.0	3.0	3.0	3.0	3.0
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>145.6</b>	<b>106.1</b>	<b>106.1</b>	<b>106.1</b>	<b>106.1</b>	<b>106.1</b>

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ( )						
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**FUND SOURCE (Thousands of Dollars)**

1002 Federal Receipts						
1003 GF Match						
1004 GF	145.6	106.1	106.1	106.1	106.1	106.1
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>145.6</b>	<b>106.1</b>	<b>106.1</b>	<b>106.1</b>	<b>106.1</b>	<b>106.1</b>

Estimate of any current year (FY2000) cost: 0.0

**POSITIONS**

Full-time	1	1	1	1	1	1
Part-time						
Temporary						

**ANALYSIS:** (see attachment for more details)

This bill will greatly enhance the ability of law enforcement to deal with computer related criminal activity, including: child pornography in electronic format or on the internet; using credit cards or electronic access devices fraudulently; identity theft; and committing deceptive business practices with the aid of a computer. This bill will also increase the penalties for engaging in such practices if the person commits the offense by computer.

This fiscal note would add 1 full time position (Trooper Investigator) and associated support costs in the Criminal Investigations Bureau. This position will be located in Anchorage. One time equipment request, in FY2001, is necessary to provide this position with sophisticated computer equipment adequate to meet new and expanded responsibilities provided for in this legislation.

Prepared by: Royce Weller, Special Assistant Phone 465-4322  
 Division Office of the Commissioner Date/Time 12/23/1999 12:00:00  
 Approved by Commissioner Ronald L. Otte Date 12/23/99  
 Agency Department of Public Safety

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**Fiscal Note: "An Act relating to crimes involving computers..."**  
**(FY2001 - start up costs)**

<b>PERSONAL SERVICES</b>		
76A, salary schedule 1A, 144 hrs OT		73,100
<b>TRAVEL and PER DIEM</b>		3,000
<b>CONTRACTUAL</b>		
Telephone, postage	1,080	
Film processing	600	
PSEA Physical exam, avg	400	
Fuel	1,272	
HWCF vehicle - Class 115 oper & replacement	11,256	
Training	7,800	
Total Contractual		22,408
<b>SUPPLIES and MATERIALS</b>		
Initial issue uniform	3,435	
Film, office supplies	600	
Consumables (1st aid, chains, flares, batteries, etc.)	600	
Total Supplies/Materials		4,635
<b>EQUIPMENT</b>		
Forensic computer, software, printers, storage devices	15,000	
Trooper interceptor vehicle (fully equipped)	27,500	42,500
<b>Total first-year cost of a new State Trooper:</b>		<b>145,643</b>

# FISCAL NOTE

Bill Version: CSHB 338 (JUD)

(H) Publish Date: 4/11/00

## STATE OF ALASKA 2000 LEGISLATIVE SESSION

Revision Date/Time (Note if correction) \_\_\_\_\_ Dept. Affected Department of Corrections  
 Title An Act relating to crimes involving computers, BRU Administration and Operations  
access devices, other technology, identification documents. Component All  
 Sponsor Rules Committee  
 Requester Governor Component No. #0694

### Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous	14.3	28.7	42.9	57.3	64.4	96.6
<b>TOTAL OPERATING</b>	<b>14.3</b>	<b>28.7</b>	<b>42.9</b>	<b>57.3</b>	<b>64.4</b>	<b>96.6</b>

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ( )						
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### FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	14.3	28.7	42.9	57.3	64.4	96.6
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>14.3</b>	<b>28.7</b>	<b>42.9</b>	<b>57.3</b>	<b>64.4</b>	<b>96.6</b>

Estimate of any current year (FY2000) cost: 0.0

### POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

See attached.

Prepared by: Candy Brower, Legislative Liaison

Phone 465-3307

Division Commissioner's Office

Date/Time 2/22/00 9:17 AM

Approved by Commissioner Margaret M. Pugh

Date 2-22-00

Agency Dept. of Corrections

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## FISCAL NOTE

STATE OF ALASKA  
2000 LEGISLATIVE SESSION  
DEPARTMENT OF CORRECTIONS

BILL NO. HB 338  
PAGE 2 of 2  
DATE 2/22/00

If passed, this legislation would greatly enhance the ability to prosecute those who would use technology for harm. Cybertheft, theft of identity, theft of access cards and electronic transmission of child pornography are all targets of this bill. Technology is creating a new breed of criminal because of the ease with which someone with particular skill and knowledge can steal, disrupt and otherwise harm without detection. Law enforcement is not easy in these cases and the expertise and equipment required to keep pace with those who are perpetrating such crimes will be critical.

The Department of Corrections anticipates that the criminals prosecuted for these crimes will likely be new to the system. It is anticipated that the first year, there may be four convictions for C felonies resulting in a Suspended Imposition of Sentence of 24 months with 21 suspended for a period of 5 years. That would result in a period of confinement of 2 months for each individual. The fact that these would likely be first time offenders and not violent, they will likely serve their confinement in Community Residential Centers at a rate of \$59.61 per day. The first year fiscal impact would be approximately \$14,300.

It is anticipated that the numbers of criminals being prosecuted will increase each year as law enforcement becomes more adept at apprehending them. For FY 02, it is anticipated there may be six convictions with a similar sentencing for a total of \$21,500 plus one person from the previous year who violated his probation for an additional 6 months sentence with four months to serve totalling \$7,200. FY 02 would see a total fiscal cost of \$28,700.

FY 03 is estimated to have eight convictions using the same formula as above, that would result in \$28,600. In addition, it is expected that two of the previous ten would violate probation for a net result of six months each with four months to serve totalling 14,300. The total estimate for FY 03 is \$42,900.

FY 04 is estimated to reach ten convictions using the same formula as above, resulting in a cost of \$35,800. If probation violations occur, as expected, there would be an additional three inmates subject to additional time of approximately 4 months each for \$21,500. The total fiscal impact in FY 04 would be \$57,300.

If prosecutions and convictions continue to increase, we would anticipate 12 convictions in FY 05 at a resulting cost of \$42,900. If three probationers violate, the resulting cost would be \$21,500 for a total of \$64,400.

FY 06, if increases continue as expected, could result in 15 convictions for a total of \$53,700 plus four probation revocations at an average of 9 months each, 6 months to serve totalling 42,900. The total fiscal impact for FY 06 would be approximately \$96,600.

The increase in sentencing for probationers is a result of the possibility of re-offenders getting additional time for coming back before the court again. This fiscal note does not reflect costs of community supervision.

**FISCAL NOTE**

Bill Version: HB 338  
 (H) Publish Date: 2/4/00

**STATE OF ALASKA**

**2000 LEGISLATIVE SESSION**

Revision Date: \_\_\_\_\_  
 Title: "An Act relating to crimes involving computers..."  
 Sponsor: Rules Committee  
 Requestor: Governor

Department Affected: Administration  
 BRU: Legal and Advocacy Services  
 Component: Public Defender Agency  
 COMPONENT SERIAL NO. 1631

**EXPENDITURES/REVENUES:**

(Thousands of Dollars)

OPERATING EXPENDITURES	FY 2001	FY 2002	FY 2 003	FY 2004	FY 2005	FY 2006
PERSONAL SERVICES	46.5	46.5	46.5	46.5	46.5	46.5
TRAVEL	3.5	3.5	3.5	3.5	3.5	3.5
CONTRACTUAL	26.3	26.3	26.3	26.3	26.3	26.3
SUPPLIES	1.9	1.9	1.9	1.9	1.9	1.9
EQUIPMENT	6.5					
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>84.7</b>	<b>78.2</b>	<b>78.2</b>	<b>78.2</b>	<b>78.2</b>	<b>78.2</b>

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ( )						
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**FUND SOURCE:**

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	84.7	78.2	78.2	78.2	78.2	78.2
1005 GF/Program Receipts						
1037 GF/Mental Health						
OTHER						
<b>TOTAL</b>	<b>84.7</b>	<b>78.2</b>	<b>78.2</b>	<b>78.2</b>	<b>78.2</b>	<b>78.2</b>

Estimate of any current year (FY 00) cost: \$ \_\_\_\_\_

**POSITIONS:**

FULL-TIME	1	1	1	1	1	1
PART-TIME						
TEMPORARY						

**ANALYSIS:** (Attach a separate page if necessary.) This bill amends current law and adds new statutes to enable prosecution of a wide variety of "Cybercrimes."

Prosecution and defense of Cybercrimes will require sophisticated technical expertise. The Public Defender Agency does not currently have staff who have the technical knowledge necessary to defend criminal cases that could be brought under this new legislation.

The Public Defender Agency will need to hire an Analyst Programmer I in order to consult with and train the attorneys appointed to defend these cases. The Analyst Programmer will be based in Anchorage. In addition to providing technical assistance on individual cases in Anchorage, the Analyst Programmer would also be responsible for training attorneys and investigators in all Public Defender Agency offices on technical issues in these cases. One-time equipment costs for computer equipment is also included in the first year.

Prepared by: Barbara Brink, Director  
 Division: Public Defender Agency

Phone: (907) 264-4414  
 Date: \_\_\_\_\_

Approved by Commissioner: Robert Poe Jr.  
 Agency: Department of Administration

Phone: \_\_\_\_\_  
 Date: 12/15/99

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# FISCAL NOTE

Bill Version: HB 338

(H) Publish Date: 2/4/00

**STATE OF ALASKA  
2000 LEGISLATIVE SESSION**

Revision Date/Time (Note if correction)	Dept. Affected	Law
Title "An Act relating to crimes involving computers, access devices, other technology, identification documents ..."	BRU	Criminal Division
Sponsor Rules Committee	Component	1st Judicial Dist; 4th Judicial Dist; Criminal Appeals/Special Litigation
Requester Governor	Component No.	2198;2201;2203

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

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

OPERATING EXPENDITURES	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Personal Services						
Travel	3.3	3.3	3.3	3.3	3.3	3.3
Contractual	6.7	6.7	6.7	6.7	6.7	6.7
Supplies						
Equipment	5.0	5.0	5.0	5.0	5.0	5.0
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>15.0</b>	<b>15.0</b>	<b>15.0</b>	<b>15.0</b>	<b>15.0</b>	<b>15.0</b>

<b>CAPITAL EXPENDITURES</b>						
<b>CHANGE IN REVENUES ( )</b>						

**FUND SOURCE (Thousands of Dollars)**

1002 Federal Receipts						
1003 GF Match						
1004 GF	15.0	15.0	15.0	15.0	15.0	15.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>15.0</b>	<b>15.0</b>	<b>15.0</b>	<b>15.0</b>	<b>15.0</b>	<b>15.0</b>

Estimate of any current year (FY2000) cost: \_\_\_\_\_

**POSITIONS**

Full-time						
Part-time						
Temporary						

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

This bill amends and expands the substantive criminal law to address the use of computers and other technology in the widespread perpetration of crimes. Child pornography, theft of personal information with the intent to defraud, theft of personal information resulting in damage to a person's financial reputation, deceptive business practices, "hacking" to get unauthorized information or introduce false information, introducing damaging viruses, eavesdropping on other peoples' voice or e-mail are all offenses where technology has offered new ways for criminals to victimize individuals. The amendments in this bill will update existing law to help law enforcement prosecute those who cause harm to others through the use of computers and other technology.

Prepared by: <u>Joan M. Kasson</u> <i>Joan M. Kasson</i>	Phone <u>465-5370</u>
Division <u>Attorney General's Office</u>	Date/Time <u>12/15/99, 8:37 AM</u>
Approved by <u>Commissioner</u> <i>Kad for</i> <u>Bruce M. Botelho, Attorney General</u>	Date <u>12/15/99</u>
Agency <u>Department of Law</u>	

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FISCAL NOTE

STATE OF ALASKA  
2000 LEGISLATIVE SESSION

BILL NO. HB 338

ANALYSIS CONTINUATION

Much of the bill expands on existing crimes already being prosecuted, and is not anticipated to cause increased workload. The new crimes defined in the bill are expected to result in approximately ten new prosecutions in the first year, with the number increasing in future years. These new white-collar cases will be handed by existing staff. Although no new personnel are believed to be necessary, other resources will be needed.

Investigation and prosecution of cybercrimes require that the prosecutor keep up with the constantly changing world of information technology. Those who use computers to commit crimes are very knowledgeable about technology, and usually have state-of-the-art equipment. Prosecutors must have the same or better knowledge and equipment as those who use the equipment for illegal purposes.

The Department of Law intends to have three of its prosecutors specialize in this technology driven area of law: one in Anchorage OSPA, and one each in the Juneau and Fairbanks district attorney's offices. These assistant district attorneys will need on-going training to stay ahead of the inventive ways people come up with to use technology to cause harm to others and to keep up with how law enforcement is responding in other jurisdictions. The department estimates \$10.0 per year will be spent on training, divided equally between the three components. \$5.0 per year is included to maintain state-of-the-art computer equipment, software, peripherals, and associated communications devices in Anchorage OSPA as a resource for the entire Criminal Division to use in preparing and presenting its cases.

**FISCAL NOTE**

Bill Version: HB 338

(H) Publish Date: 2/4/00

**STATE OF ALASKA  
2000 LEGISLATIVE SESSION**

Revision Date		Dept. Affected	Public Safety
Title	An Act relating to crimes involving computers, access devices, other technology, and identification documents ...	BRU	Alaska State Troopers
Sponsor	Rules Committee	Component	Criminal Investigations Bureau
Requester	Governor	Component No.	830

**Expenditures/Revenues**

(Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Personal Services	73.1	73.1	73.1	73.1	73.1	73.1
Travel	3.0	3.0	3.0	3.0	3.0	3.0
Contractual	22.4	22.4	22.4	22.4	22.4	22.4
Supplies	4.6	4.6	4.6	4.6	4.6	4.6
Equipment	42.5	3.0	3.0	3.0	3.0	3.0
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>145.6</b>	<b>106.1</b>	<b>106.1</b>	<b>106.1</b>	<b>106.1</b>	<b>106.1</b>

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

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	145.6	106.1	106.1	106.1	106.1	106.1
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>145.6</b>	<b>106.1</b>	<b>106.1</b>	<b>106.1</b>	<b>106.1</b>	<b>106.1</b>

Estimate of any current year (FY2000) cost: 0.0

**POSITIONS**

Full-time	1	1	1	1	1	1
Part-time						
Temporary						

**ANALYSIS:** (see attachment for more details)

This bill will greatly enhance the ability of law enforcement to deal with computer related criminal activity, including: child pornography in electronic format or on the internet; using credit cards or electronic access devices fraudulently; identity theft; and committing deceptive business practices with the aid of a computer. This bill will also increase the penalties for engaging in such practices if the person commits the offense by computer.

This fiscal note would add 1 full time position (Trooper Investigator) and associated support costs in the Criminal Investigations Bureau. This position will be located in Anchorage. One time equipment request, in FY2001, is necessary to provide this position with sophisticated computer equipment adequate to meet new and expanded responsibilities provided for in this legislation.

Prepared by:	Royce Weller, Special Assistant	Phone	465-4322
Division	Office of the Commissioner	Date/Time	12/23/1999 12:00:00
Approved by Commissioner	Ronald L. Otte 	Date	12/23/99
Agency	Department of Public Safety		

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**Fiscal Note: "An Act relating to crimes involving computers..."**  
**(FY2001 - start up costs)**

<b>PERSONAL SERVICES</b>		
76A, salary schedule 1A, 144 hrs OT		73,100
<b>TRAVEL and PER DIEM</b>		3,000
<b>CONTRACTUAL</b>		
Telephone, postage	1,080	
Film processing	600	
PSEA Physical exam, avg	400	
Fuel	1,272	
HWCF vehicle - Class 115 oper & replacement	11,256	
Training	7,800	
 Total Contractual		 22,408
<b>SUPPLIES and MATERIALS</b>		
Initial issue uniform	3,435	
Film, office supplies	600	
Consumables (1st aid, chains, flares, batteries, etc.)	600	
 Total Supplies/Materials		 4,635
<b>EQUIPMENT</b>		
Forensic computer, software, printers, storage devices	15,000	
Trooper interceptor vehicle (fully equipped)	27,500	42,500
 <b>Total first-year cost of a new State Trooper:</b>		 <b>145,643</b>

**HB**

**339**

**HFIN**

**FILE**

(11)

# HOUSE COMMITTEE REPORT

Date Referred to Committee: April 3, 2000

FURTHER REFERRALS:

Date of Committee Action: 4/4/00

The FINANCE Committee considered:

HB 339

HOUSE BILL NO. 339

CFAB LOANS FOR TOURISM & NAT RESOURCES

"An Act authorizing the Alaska Commercial Fishing and Agriculture Bank to make loans relating to tourism and development or exploitation of natural resources."

recommends it be replaced with the following committee substitute

CS HB 339 (FIN)

the same title  
 a new title

additional referral to \_\_\_\_\_ Committee  
 attached amendment(s)

ADOPTS: \_\_\_\_\_ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) \_\_\_\_\_

APPROVES PREVIOUS: (Dept/Date) \_\_\_\_\_

fiscal note(s) \_\_\_\_\_

fiscal note(s) \_\_\_\_\_

zero fiscal note(s) \_\_\_\_\_

zero fiscal note(s) DCED 4/3/00

SIGNING WITH RECOMMENDATIONS		DP	DNP	NR	AM
<i>Therriault</i>	Therriault			X	
<i>Eldon Mulder</i>	Mulder	✓			
<i>Chas Bunde</i>	Bunde			✓	
<i>Alan Austerman</i>	Austerman	X			
<i>Ben Grussendorf</i>	Grussendorf	✓			
<i>W. Mises</i>	Mises	✓			
<i>G. Davis</i>	G. Davis			X	
<i>W. Williams</i>	Williams		X		
<i>J. Davis</i>	J. Davis	X			
<i>Toshu</i>	Toshu	X			
<i>Phillips</i>	Phillips				✓

CO-CHAIR'S SIGNATURE *Therriault* *Eldon Mulder*

# FISCAL NOTE

Bill Version: CSHB 339 (L&C)

(H) Publish Date: 4/3/00

## STATE OF ALASKA 2000 LEGISLATIVE SESSION

Revision Date/Time (Note if correction) \_\_\_\_\_ Dept. Affected Community & Econ. Dev.  
 Title CFAB Loans For Tourism & Nat Resources BRU Banking, Securities, and Corporations  
 Component Banking, Securities, and Corporations  
 Sponsor Rep(s) Mulder, Hudson, Austerman  
 Requester H L&C Component Serial No. 1233

### Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ( )						
------------------------	--	--	--	--	--	--

### FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY00) cost: \_\_\_\_\_

### POSITIONS

Full-time						
Part-time						
Temporary						

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

The division does not anticipate any fiscal impact with this proposed legislation.

The bill would have little to no effect on the department's requirement to examine CFAB. It could take some additional time to analyze the new policies associated with the new types of lending and to analyze the new loans put on the books, but the additional time is not expected to be significant.

Prepared by Franklin T. Elder, Director  
 Division Banking, Securities and Corporations  
 Approved by Commissioner Deborah B. Sedwick  
 Agency Community and Economic Development

Phone 465-2521  
 Date/Time 2/24/00 9:25 AM  
 Date 2/24/00

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# FISCAL NOTE

Bill Version: CSHB 339 (L&C)

(H) Publish Date: 4/3/00

**STATE OF ALASKA  
2000 LEGISLATIVE SESSION**

Revision Date/Time (Note if correction) \_\_\_\_\_ Dept. Affected Community & Econ. Dev.  
 Title CFAB Loans For Tourism & Nat Resources BRU Banking, Securities, and Corporations  
 Component Banking, Securities, and Corporations  
 Sponsor Rep(s) Mulder, Hudson, Austerman  
 Requester H L&C Component Serial No. 1233

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

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

OPERATING EXPENDITURES	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

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

**FUND SOURCE (Thousands of Dollars)**

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY00) cost: \_\_\_\_\_

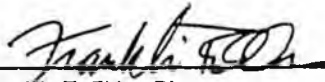
**POSITIONS**

Full-time						
Part-time						
Temporary						

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

The division does not anticipate any fiscal impact with this proposed legislation.

The bill would have little to no effect on the department's requirement to examine CFAB. It could take some additional time to analyze the new policies associated with the new types of lending and to analyze the new loans put on the books, but the additional time is not expected to be significant.



Prepared by Franklin T. Elder, Director  
 Division Banking, Securities and Corporations  
 Approved by Commissioner Deborah B. Sedwick  
 Agency Community and Economic Development

Phone 465-2521  
 Date/Time 2/24/00 9:25 AM  
 Date 2/24/00

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## REPRESENTATIVE ELDON MULDER

DISTRICT 23 - MULDOON & FORT RICHARDSON  
ALASKA STATE LEGISLATURE  
HOUSE OF REPRESENTATIVES  
"PROUD TO BE A MULDOONER"



### SPONSOR STATEMENT

#### House Bill 339

**"An Act relating to the Alaska Commercial Fishing and Agriculture Bank."**

HOUSE BILL 339 expands the lending authority of the Commercial Fishing and Agriculture Bank (CFAB) and enables it to make loans to Alaskan small business enterprises involved in natural resource development and tourism. Presently, CFAB may make loans to Alaska residents engaged only in commercial agriculture or fishing. The bank seeks expanded authority to provide financing opportunities to small Alaskan business entrepreneurs who generally have trouble obtaining commercial loans because of their relative small size and lack of financial experience.

The Alaska State Legislature created CFAB in AS 44.81 in 1980. This statute governs CFAB's operation and provides for its accountability to the Legislature and Administration. Because CFAB is incorporated under this unique and specific statute, it requires legislative approval for any changes in operational authority.

Twenty years ago, limited access to commercial financing by resident Alaska commercial seafood harvesters, processors and farmers stimulated the need for of CFAB as a private cooperative. The State of Alaska responded by providing CFAB's initial capital through the purchase of \$32.0 million of Special Preferred Stock in 1980. CFAB began making monthly payments in 1991 to the State of Alaska, repurchasing increments of the stock. In September of 1998, the stock repurchase agreement was completed as specified in statute and today CFAB is owned solely by its past and present borrowing members.

In 1986, The Alaska Supreme Court identified CFAB as a private entity. AS44.81 states it is not subject to the Alaska Cooperative Corporation Code or the Alaska Banking Code. It pays federal and state corporate income tax, state auditing fees and is subject to legislative audits. In short, CFAB is now a private lender operating within the free enterprise system with limited ties to the State of Alaska.

CFAB's auditors, from both the public and private sector, give the bank favorable reviews but consistently note the concentration in agricultural and fishing industry loans results in an unusual level of risk exposure and vulnerability to the ups and downs of these industries.

House Bill 339 recognizes these underlying concerns and resolves the issue by allowing CFAB to go beyond the present restrictions found in AS 44.81.215 and expand its customer base to other Alaskan industries needing loan assistance.

# LEGAL SERVICES

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

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

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

## MEMORANDUM

February 8, 2000

**SUBJECT:** Sectional Summary of HB 339; An Act authorizing the Alaska Commercial Fishing and Agriculture Bank to make loans relating to tourism and development or exploitation of natural resources. (HB 339)

**TO:** Representative Eldon Mulder  
Attn: Dale Anderson

**FROM:** George Utermohle *GU*  
Legislative Counsel

You have requested a sectional summary of HB 339; An Act authorizing the Alaska Commercial Fishing and Agriculture Bank to make loans relating to tourism and development or exploitation of natural resources.

A sectional summary of a bill is not an authoritative interpretation of the bill. The bill itself is the best statement of its contents.

**Section 1** of the bill amends AS 44.81.010(a) to make a technical conforming amendment made necessary by the renumbering of the paragraphs of AS 44.81.215 by sec. 2 of the bill.

**Section 2** of the bill amends AS 44.81.215 by adding new paragraphs which authorize the Alaska Commercial Fishing and Agriculture Bank to make loans relating to tourism and to development or exploitation of natural resources within the state.

**Section 3** of the bill amends AS 44.81.350 by adding definitions for key terms that are added to AS 44.81 by this bill: natural resources, coal, gas, geothermal system, oil, other minerals, tourism, and water.

GU:jdr:glc  
00-068.jdr

amended Pg 4 line 28

adopted 4/4/00 100 085

**CS FOR HOUSE BILL NO. 339(FIN)**

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

**TWENTY-FIRST LEGISLATURE - SECOND SESSION**

**BY THE HOUSE FINANCE COMMITTEE**

**Offered:  
Referred:**

**Sponsor(s): REPRESENTATIVES MULDER, Hudson, Austerman**

**A BILL**

**FOR AN ACT ENTITLED**

1 "An Act authorizing the Alaska Commercial Fishing and Agriculture Bank to  
2 make loans relating to tourism and development or exploitation of natural  
3 resources."

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

5 \* **Section 1.** AS 44.81.010(a) is amended to read:

6 (a) There is established the Alaska Commercial Fishing and Agriculture Bank.  
7 The exercise by the bank of the powers conferred by this chapter is considered to be  
8 for a public purpose. In the exercise of its powers under AS 44.81.215(11)  
9 [AS 44.81.215(7)], the bank is acting as an agent under the express authority and  
10 reservations of the state as the issuer of limited entry permits under AS 16.43. The  
11 bank is exempt from the provisions of AS 06.05 (Alaska Banking Code) and AS 10.15  
12 (Alaska Cooperative Corporation Act) in its structure and operations and in the  
13 exercise of powers granted by this chapter.

14 \* **Sec. 2.** AS 44.81.215 is amended to read:

1           **Sec. 44.81.215. Lending powers of the bank.** The bank may

2                   (1) make loans to individuals, including married couples, who are  
3 residents of the state and who are engaged in commercial agriculture or fishing,  
4 including harvesters, processors, suppliers, and marketers, if at least one of the primary  
5 obligors on the loan is a member of the bank;

6                   (2) make loans to corporations, partnerships, or limited liability  
7 companies engaged in commercial agriculture or fishing if the majority interest of the  
8 corporation, partnership, or limited liability company is beneficially owned by residents  
9 of the state and a majority of the owners are residents of the state, and if at least one  
10 of the primary obligors on a loan is a member of the bank; however, the bank may not  
11 make a loan under this paragraph to a corporation, partnership, or limited liability  
12 company for the purchase of a new or existing fishing boat or for the repair or  
13 renovation of an existing fishing boat if the primary purpose of the fishing boat is to  
14 commercially harvest fishery resources, unless the corporation, partnership, or limited  
15 liability company is wholly owned and controlled by residents of the state, and unless  
16 at least one of the primary obligors on the loan is a member of the bank;

17                   (3) make loans for limited entry permits to individuals who fish  
18 commercially if the individual is a state resident; loans made under this paragraph are  
19 subject to AS 44.81.231;

20                   (4) make loans not to exceed \$500,000 to individuals, including  
21 married couples, who are residents of the state and who will use the loan proceeds  
22 to commercially engage in tourism within the state if at least one of the primary  
23 obligors on the loan is a member of the bank;

24                   (5) make loans not to exceed \$1,000,000 to corporations,  
25 partnerships, or limited liability companies that will use the loan proceeds to  
26 commercially engage in tourism within the state if the majority interest of the  
27 corporation, partnership, or limited liability company is beneficially owned by  
28 residents of the state and a majority of the owners are residents of the state, and  
29 if at least one of the primary obligors on the loan is a member of the bank;

30                   (6) make loans not to exceed \$500,000 to individuals, including  
31 married couples, who are residents of the state and who will use the loan proceeds

1 to commercially engage in the development or exploitation of natural resources  
2 within the state if at least one of the primary obligors on the loan is a member of  
3 the bank;

4 (7) make loans not to exceed \$1,000,000 to corporations,  
5 partnerships, or limited liability companies that will use the loan proceeds to  
6 commercially engage in the development or exploitation of natural resources  
7 within the state if the majority interest of the corporation, partnership, or limited  
8 liability company is beneficially owned by residents of the state and a majority of  
9 the owners are residents of the state, and if at least one of the primary obligors  
10 on the loan is a member of the bank;

11 (8) [(4)] make a loan for capital investment or operating capital to a  
12 shore-based fish processor, a timber processor, or an agricultural processor or harvester  
13 who does not meet the resident ownership requirements of (1) or (2) of this section if  
14 a facility of the processor or harvester is located in the state and the majority interest  
15 in the processor or harvester is beneficially owned by residents of the United States;

16 (9) [(5)] make a loan to a person, regardless of residency, if the board  
17 determines that the loan is necessary to preserve the value of property held by the bank  
18 as security for a loan that was made under AS 44.81.210 or this section and that is in  
19 default;

20 (10) [(6)] make loans, as provided in (1), (2), or (4) - (8) [(1), (2), OR  
21 (4)] of this section, that are secured by liens subordinate to valid first liens and  
22 security agreements granted to another creditor;

23 (11) [(7)] accept the pledge of a limited entry permit as security for  
24 a loan made under this chapter subject to the conditions set out in AS 44.81.236 on  
25 pledges of limited entry permits;

26 (12) [(8)] make loans in participation with other lenders as provided  
27 in (1), (2), or (4) - (8) [(1), (2), OR (4)] of this section, whether or not an obligor is  
28 a member of the bank;

29 (13) [(9)] purchase or acquire participations in loans from other lenders  
30 if the participations conform to the provisions of (1), (2), or (4) - (8) [(1), (2), OR (4)]  
31 of this section, whether or not an obligor is a member of the bank;

1           (14) [(10)] issue certificates of loan participation to members and to  
2 other individuals, corporations, partnerships, and limited liability companies, but the  
3 bank may not issue a certificate of loan participation if the certificate would allow  
4 participation by the member, individual, corporation, partnership, or limited liability  
5 company in loans that individually or cumulatively involve more than 20 percent of  
6 the commercial fishery entry permits issued for one type of gear in a specific fishery  
7 resource administrative area.

8 \* Sec. 3. AS 44.81.350 is amended by adding new paragraphs to read:

9           (9) "natural resources" includes water, coal or other minerals, oil or gas,  
10 and geothermal systems; in this paragraph

11                   (A) "coal" means all forms of coal, including lignite;

12                   (B) "gas" includes all natural gas and all hydrocarbons produced  
13 at the wellhead that are not oil;

14                   (C) "geothermal system" means a stratum, pool, reservoir, or  
15 other geologic formation containing geothermal resources;

16                   (D) "oil" includes crude petroleum oil and other hydrocarbons  
17 regardless of gravity that are produced at the wellhead in liquid form and the  
18 liquid hydrocarbons known as distillate or condensate recovered or extracted  
19 from gas, other than gas produced in association with oil and commonly known  
20 as casinghead gas;

21                   (E) "other minerals" means clay, stone, sand, gravel,  
22 metalliferous and non-metalliferous ores, and other solid materials or  
23 substances of commercial value excavated in solid form from natural deposits  
24 on or in the earth; "other minerals" does not include coal or minerals that occur  
25 naturally in liquid or gaseous forms;

26           (10) "tourism" means the provision or presentation of goods, supplies,  
27 equipment, food and food stuffs, accommodations, entertainment, cultural practices and  
28 attractions, natural resource access, or transportation for Alaska ~~[tourism]~~ tourists

29           (11) "water" has the meaning given in AS 46.15.260.

# FISCAL NOTE

**STATE OF ALASKA**  
**2000 LEGISLATIVE SESSION**

**BILL NO. HB339**

Division Date/Time (Note if correction) \_\_\_\_\_ Dept. Affected Community & Econ. Dev.  
 Title CFAB Loans For Tourism & Nat Resources BRU Banking, Securities, and Corporations  
 Component Banking, Securities, and Corporations  
 Sponsor Rep(s) Mulder, Hudson, Austerman  
 Requester H L&C Component Serial No. 1233

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

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

OPERATING EXPENDITURES	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

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

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

**FUND SOURCE (Thousands of Dollars)**

1002 Federal Receipts						
1003 GF Match						
1004 GF						
05 GF/Program Receipts						
J37 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY) cost: \_\_\_\_\_

**POSITIONS**

Full-time						
Part-time						
Temporary						

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

The division does not anticipate any fiscal impact with this proposed legislation.

The bill would have little to no effect on the department's requirement to examine CFAB. It could take some additional time to analyze the new policies associated with the new types of lending and to analyze the new loans put on the books, but the additional time is not expected to be significant.

*Franklin T. Elder*

Prepared by Franklin T. Elder, Director  
 Division Banking, Securities and Corporations  
 Approved by Commissioner Deborah B. Sedwick  
 Agency Community and Economic Development

Phone 465-2521  
 Date/Time 2/24/00 9:25 AM  
 Date 2/24/00

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## CFAB BACKGROUND NOTES

*Excerpts from January 12, 1996 reports by Division of Legislative Audit for the review by the members of the Legislative Budget and Audit Committee in accordance with the provisions of Title 24 of the Alaska Statutes. Audit in its entirety can be found on the web by going to the Legislative Homepage, clicking AUDIT, and then going to the 1996 Audit List.*

### ALASKA COMMERCIAL FISHING AND AGRICULTURE BANK

January 12, 1996  
Audit Control Number  
08-4525-96

*page 3...* CFAB makes loans for most fishing or farming related purposes. The most common purposes are the purchase, modification, or refinancing of a vessel; purchase of a limited entry fishing permit; gear, engine, or equipment replacement or upgrade; general operating capital; and fish processing. There are no "standard" repayment terms or programs.

In order to be eligible to be a CFAB borrower, an applicant must be engaged in the commercial fishing or farming industries. An individual applicant must be an Alaska resident, and a partnership must have majority ownership by Alaska residents. When the applicant is a corporation, the majority ownership and control must rest with Alaska residents.

Eligibility, however, is only the first step of the lending process. To obtain a CFAB loan, an applicant must be found by CFAB to be capable and creditworthy within the context of the specific loan request. The standards used by CFAB are essentially the same as those of any responsible lender. However, CFAB's specialized purposes, and their experience, has allowed them to consider a broader range of applicant qualifications than most other lenders.

*Page 5...* In the late 1970's, the commercial fishing industry expressed dissatisfaction with the available credit sources to finance operations and the development of the industry. In response, the legislature commissioned a study in the fall of 1977 to evaluate the adequacy of the available financing sources for the commercial fishing industry in Alaska.

The study concluded that there was a need for improved access by the Alaska commercial fishing industry to sources of credit. Several alternatives to improve such access were discussed in the report. One of the options recommended was for the State to form a private, cooperative development bank for the Alaska commercial fishing industry that could leverage its capital with funds from the Federal Farm Credit System.

As a result of the study, in 1978 the legislature passed a bill that created the Alaska Commercial Fishing and Agriculture Bank (CFAB or Bark). It was to provide financing for the commercial fishing and agriculture industries within the State by leveraging its capital with funds from the Federal Farm Credit System as recommended.

The concept of CFAB was patterned after the Federal Farm Credit System (System) which provides a source of credit to farmers, ranchers, and producers or harvesters of aquatic products. The Federal Farm Credit Act of 1933 provided for the organization of thirteen Banks for Cooperatives (BCs). BCs were initially capitalized by the federal government and remained largely owned by the government until the Farm Credit Act of 1953 was passed. This act provided for a means of control of the entire System by its users and paved the way for the ultimate retirement of all the federal government capital investment in the System. The Federal Farm Credit Act of 1971 recodified all the prior laws governing the System, modernized its functions, broadened its lending powers (e.g., loans to producers and harvesters of aquatic products), and brought decision making closer to its borrowers.

BCs are cooperatives themselves. They are financial institutions whose business is to provide credit and related services to their agricultural and aquatic cooperative members. BCs obtain a major portion of their loan funds through the sale of securities backed by the notes of borrowers. These securities are sold through a fiscal agent with the aid of a nationwide group of securities dealers. Through the issuance of these securities, BCs provide their cooperative members with direct access to the nation's money markets which helps to ensure an adequate supply of dependable credit.

*Page 13...* Not only is CFAB the State's only mechanism to access capital from the Federal Farm Credit System, it is also one of only two sources of capital for Alaska residents to finance the purchase of a limited entry permit. Financing from CFRLF is the only alternative.

In 1972, Article VIII, Section 15 of the Alaska Constitution was amended to allow a limited entry program to be created by the State for fisheries resource conservation and development purposes. Then, in 1973 the legislature enacted the Commercial Fisheries Limited Entry Act (AS 16.43).

This Act contained limitations and restrictions on permits that were designed to keep control of the permit in the hands of the holder and to not allow direct or indirect control by third parties, i.e., canneries, financial institutions, or speculative investors. Specifically, AS 16.43.150(g) stated:

*An entry permit may not be:*

- (1) pledged, mortgaged, or encumbered in any way;*
- (2) transferred with any retained right of repossession or foreclosure; or*
- (3) attached, distrained, or sold on execution of judgment or under any other process or order of any court.*

In 1978, this statutory section was amended to allow the fishers to take advantage of the value of their permits to fund their operations or if they no longer wanted to participate in the fishery. With the passage of Chapter 83, SLA 1978, CFRLF was authorized to make and foreclose on limited entry permit purchase loans to Alaska residents. The aim of the State was to place more limited entry permits in the hands of Alaskans. CFRLF loans would still be consistent with the original intent of the Limited Entry Act, as the State would be the holder of the foreclosed permit in the case of default on the loan by the fisher. This would ensure the permit would be sold to a qualified person under the Limited Entry Act requirements, allowing the State to maintain control over its fisheries resource management. In addition, if the sale of the foreclosed permit were financed by CFRLF, the purchaser must meet the residency requirements of the loan program.

The next year, the legislature passed an amendment to CFAB's statutes that gave the Bank the same authority to make limited entry permit loans as was given to CFRLF. The sectional analysis of the bill stated in part:

*. . . This language parallels the existing law that allows the state division of loans to make limited entry permit loans. . . . The purpose of this section is to expand the bank's power to provide for limited entry permit loans to Alaskans. Since the Bank provides for loans only to resident Alaskans, this additional capital source will be an advantage to Alaskans who want to get into the fishery in the future. At least one-third of Alaska's salmon fishermen is still nonresidents . . . . This expansion of loan authority to the Commercial Fishing and Agriculture Bank will provide another source of capital to Alaskans who want to move into the salmon fisheries in the state.*

Again, the limited entry permit loans made by CFAB were considered consistent with the intent of the Limited Entry Act. As CFAB was a creature of Alaska law, the procedures for foreclosure could be set by statute, thus protecting the State's right to control the transfer of any foreclosed limited entry permit. Also, any purchaser of a foreclosed limited entry permit that obtained financing for the purchase from CFAB would have to meet its statutory residency requirement.

In 1995 there were 13,364 limited entry fishing permits held by fishers. Of those, 1,363 had liens against them by CFRLF and 383 by CFAB.

*Page 22...* In enacting the limited entry system, the legislature recognized that, for the purpose of conservation, the State needed to retain control of its fishery resources. In view of this, the legislative intent of the limited entry permit program was that an entry permit would not be the property of its holder but rather a use privilege, which can be modified or revoked by the legislature without compensation.

The legislature further recognized that the absence of a property right in a limited entry permit would not allow the holder the ability to obtain financing for its purchase or to use it as collateral to obtain financing for his/her commercial fishing operations. In order to provide a source of capital to the fishers, the legislature amended the Alaska Commercial Fisheries Entry Commission in 1978 (Ch. 83, SLA 1978) to allow the Commercial Fishing Revolving Loan Fund to take limited entry permits as security for its loans to fishers. Then in 1981 (Ch. 51, SLA 1981), similar legislation was passed which provided for CFAB to take limited entry permits as security for loans.

.....end of Legislative Audit background

Excerpts from 1999 audit by the Division of Bank, Securities and Corporations, DCED

*Cover letter...*

The overall condition of your bank is satisfactory with significant improvement since the last examination. Asset quality has improved notably in relationship with the overall condition of the fishing industry. Overall capital remains strong and is available to mitigate the credit risk of lending exclusively into the Alaskan commercial fishing industry. Management's efforts to seek expanded areas in which to lend would help to mitigate the concentration of risk and make the bank's successful operation less reliant upon these volatile industries.

*Page 1... ASSET QUALITY*

Asset quality has improved... As bank management performs a satisfactory job of administering the loan portfolio, the irregular numbers appear to be a function of the unpredictable nature of the fishing industry. Efforts by management to gain entry to other areas of allowable lending would greatly aid in mitigating the effect the fishing industry has on the bank.

*Page 3... MANAGEMENT*

Management's present challenge is to generate new loan business to grow the bank... to increase the size of its loan portfolio, management is taking steps to amend the current statutes under which the bank operates. The amendment would allow CFAB to loan into other resource based industries, including tourism. Should this be accomplished, it would not only increase its reach to new potential borrowers, but it would also diversify the risk of concentration of credit to the fishing and agricultural industries.

*Page 5... CAPITAL ADEQUACY*

The bank continues to maintain the strong capital position necessary to mitigate its exposure to the inherent risks of lending entirely to the Alaskan commercial fishing and agriculture industry.

*Page 7... EARNINGS*

... a variety of factors make earnings performance and trend analysis problematic. The primary factor causing earnings fluctuations noted above is the lack of portfolio diversification. In a commercial financial institution, the loan portfolio would typically be diversified in a variety of industries, as well as geographic areas. CFAB was chartered to promote agriculture and fishing industries in Alaska. Initially the opportunity for diversification was limited to fishing and agriculture with the agricultural diversification becoming nil.

.....end of audit



2550 Denali Street, Suite 1201  
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January 2000

21.47% Returned

NO ONLY 2.9%

NO w/COMMENT 11.8 14.7

AMBIGUOUS w/COMMENT 3.7

YES ONLY 42.6

YES w/COMMENTS 39.0

81.6  
 100%

## A SPECIAL MESSAGE – AND OPPORTUNITY – FOR ACTIVE CFAB MEMBERS

Your CFAB Board of Directors consists of seven persons – five elected by the CFAB membership and two appointed by the Governor of Alaska – who are charged with the overall governance and direction of the institution and who are granted broad authorities, by both the “CFAB law” and CFAB’s Bylaws, to aid in meeting those responsibilities.

The direction and oversight of CFAB’s basic and day-to-day operations, making loans, is rather straightforward. It consists of assuring that sound and rational credit policies are in place, that the staff possesses a high level of competence and expertise, that lending decisions are equitable, and that there is adequate accounting capacity, etc.

However, there are sometimes more challenging issues, such as establishing overall financial strategies, administering various aspects of CFAB’s equities programs, and determining fundamental directions. These are often made difficult because CFAB represents several different (but not necessarily competing) interests. For example, there are many members who once borrowed from CFAB but do not do so today; they continue to own Class B Preferred Stock and retained patronage. They expect the values of those equities to be protected and to one day be paid to them. There are also those members who are today’s borrowers; while they hold CFAB equities also they tend to be more focused on the effectiveness of CFAB’s operations today in order to enjoy the lowest possible costs of borrowing. And there are tomorrow’s members, the resident Alaska fishermen and farmers who will borrow in the 21<sup>st</sup> century. We cannot identify them – they cannot identify themselves – but we know we must strive to assure that CFAB exists, that it is strong, and that it is stable, when it is needed.

Quite likely, each past and present borrower/stockholder holds his or her own view as to CFAB's effectiveness. There is no doubt in our collective mind within CFAB itself that the institution's very existence has resulted in meaningful benefits to every resident Alaska farmer or seafood harvester who has borrowed from any source during the past 20 years; CFAB sets a standard for costs and services which other lenders must equal or exceed in order to attract discerning borrowers.

The aspect of CFAB's long-term performance of which we are perhaps the most proud – but which seems almost impossible to “sell” to prospective borrowers – can be illustrated by recounting a discussion which occurred recently at Fish Expo. A Washington State fisherman approached CFAB staff to ask if there were any way he could be eligible to apply to refinance the commercial bank loan on his vessel. Although the answer was “no,” and remained so, he went on to say, “I’ve got two buddies with CFAB loans who each got into financial trouble at times in the past. I watched how CFAB worked with them and made it possible for them to recover. I don’t believe any other lender would have done what CFAB did, and I guess I never know when I might have trouble, so I’d really feel comfortable with a CFAB loan!”

It is clear that the concept and the actuality of a focused and specialized institution provides benefits and advantages to its constituents. There is a darker side to that thought, however. The concentration of risk renders CFAB vulnerable in a manner which could result in failure at a time when it is most needed by resident Alaskans. Its level of risk concentration cannot be found in more conventional lenders. Any deposit-based and/or regulated institution would be sanctioned by its authorities, perhaps harshly, before any risk concentration reached a small fraction of that borne by CFAB. No proprietary or profit-oriented commercial lender would expose itself to such dangers!

Those dangers, of course, manifest themselves in loan portfolio performance. CFAB makes a careful analysis of the discrete risk inherent to any individual loan which it makes. In doing so, it recognizes that the uncertainties of commercial fishing will result in stress and/or temporary non-performance by some unforeseeable number of those individual borrowers. That does indeed happen; at any point in time over the past years, 15% to 25% of CFAB's borrowers have been in a delinquent or “non-performing” status. Usually these

is a stratum of small and/or entrepreneurial operators in Alaska resource-related industries other than commercial fishing and agriculture (and other than those forest products activities that CFAB's statute defines as "agriculture") which does not have reliable access to adequate commercial credit. For the purposes of legislation, CFAB views "resource-related" industries to include timber, minerals, oil and gas, water, etc., and tourism.

Complimenting those thoughts is the reality that it is extremely difficult for CFAB to fully utilize the capacities of its existing resources – in particular, the credit expertise personified by its staff – within the constraints of lending only to commercial fishing and agriculture. Generally, there are intense but relatively brief periods of new loan activity during the Winter and Spring, and a time of collection efforts in the late Fall. The remainder of the year is committed to routine servicing and maintenance. This under-utilization of resources results in an incalculable but meaningful "extra" burden which is reflected in borrowers' interest costs.

Neither CFAB's Board of Directors nor its member-owners have the authority to make fundamental changes to CFAB's lending activities. CFAB's mandate is derived from Alaska Statute 44.81. CFAB's Directors and Management have had discussions with legislators, and anticipates further such discussions, concerning the potential for legislation in the 2000 session which would permit CFAB to diversify into the areas mentioned.

We are aware that some of CFAB's existing members, or other commercial seafood harvesters, may perceive that financing tourism-based enterprises implies – at least to some degree – support of interests in conflict with their own. However, it is from CFAB's own membership that the greatest number of actual loan requests for such purposes are received, i.e., from commercial harvesters seeking financing to diversify themselves into charterboat operations, bed and breakfasts, outfitting or guiding, etc.

CFAB's Directors (six of whom are commercial harvesters) have discussed and considered the matter and believe that both the appearance and the fact of conflict can be minimized. It is not particularly difficult to establish policies and practices to assure that "sensitive" loans are never more than a small fraction of CFAB's total loan portfolio (the final page of this paper is an excerpt from the proposed statutory amendment, showing the