

ALASKA LEGISLATURE

2714

HOUSE and SENATE FINANCE COMMITTEE FILES, 2003-2004

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

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

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

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

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

July 15, 2003

ASSESSMENT NOTICE

ABC Company
123 First St
Anywhere, USA

NAIC # 12345

Attention: Corporate Tax or Regulations Department

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

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

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

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

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

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



Alaska Chapter

March 1, 2004

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

Dear Senator Bunde:

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

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

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

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

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

Sincerely,

Eden Larson
President & CEO

cc: Senate Labor & Commerce Committee, Senate Finance Committee



Alaska Municipal League Joint Insurance Association, Inc.

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

February 28, 2004

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

RE: SB276

Dear Senators Wilken and Green:

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

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

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

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

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

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

Thank you for your consideration.

Sincerely,

Kevin Smith
Executive Director

cc Senate Finance Committee

Subject: [Fwd: [Fwd:SB276]]

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

From: Jane Alberts <Jane_Alberts@Legis.state.ak.us>

Organization: Alaska State Legislature

To: Sheila Peterson <Sheila_Peterson@legis.state.ak.us>

Sheila-

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

jane

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

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

From: Senator Con Bunde <senator_con_bunde@legis.state.ak.us>

To: Jane Alberts <Jane_Alberts@Legis.state.ak.us>

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

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

From: Roy Agloinga <roy_agloinga@yahoo.com>

To: Senator_Con_Bunde@legis.state.ak.us, Senator_Hollis_French@legis.state.ak.us,
Senator_Ralph_Seekins@legis.state.ak.us, Senator_Bettye_Davis@legis.state.ak.us,
Senator_Gary_Stevens@legis.state.ak.us

CC: wmcocity@starband.org, Senator_Donny_Olson@legis.state.ak.us

To: Senate Labor Commerce Committee Members

Regarding: SB276

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

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

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

Sincerely yours,

Roy Agloinga

• [Fwd: [Fwd:SB276]]

Mayor, City of White Mountain

Do you Yahoo!?

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

Jane Alberts, Senate Labor and Commerce Committee Aide <jane_alberts@legis.state.ak.us>

Legislative Position Papers on

HB289; Construction Contractor Bonding/Insurance

HB311/SB323; Employer Responsibility for Workers Compensation

HB403/SB276; Alaska Insurance Guaranty Association

HB450/SB311; Insurance & Worker's Compensation System

Prepared & Presented by

Alaska Independent Insurance Agents & Brokers, Inc.

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

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

House Bill 289

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

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

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

This Is Respectfully Submitted,

The Alaska Independent Insurance Agents and Brokers, Inc.

House Bill 311 and Senate Bill 323

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

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

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

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

This Is Respectfully Submitted,

The Alaska Independent Insurance Agents and Brokers, Inc.

House Bill 403/Senate Bill 276

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

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

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

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

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

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

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

This Is Respectfully Submitted,

The Alaska Independent Insurance Agents and Brokers, Inc.

House Bill 450/Senate Bill 311

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

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

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

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

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

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

This Is Respectfully Submitted,

The Alaska Independent Insurance Agents and Brokers, Inc.

3/1/2004 8:08 AM

SB

276

SFIN

FILE

SENATE FINANCE COMMITTEE REPORT

DATE: 2/18/04

REPORTED OUT

MAR 22 2004

SENATE FINANCE
COMMITTEE

FURTHER:

DATE TURNED
IN TO OFFICE: 3/22/04

Finance Committee considered SENATE BILL NO. 276

SB 276 ALASKA INSURANCE GUARANTY ASSOCIATION

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

and recommends:

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

Senate Bill:

Same Title

New Title

House Bill:

Same Title

Technical Title Change

New Title w/ SCR # _____

NEW FISCAL NOTE(S):

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

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#

APPROPRIATION - no fiscal note

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

MAR 22 2004

SENATE FINANCE
COMMITTEE

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

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

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

Expenditures/Revenues (Thousands of Dollars)

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

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

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-Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

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

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

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

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

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

MAR 22 2004

SENATE FINANCE
COMMITTEE

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

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

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

Expenditures/Revenues (Thousands of Dollars)

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

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

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--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

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

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

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

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

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

REPORTED OUT

MAR 22 2004

SENATE FINANCE
COMMITTEE

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

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

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

Expenditures/Revenues (Thousands of Dollars)

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

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

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						
1007 I/A Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

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

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

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

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

SENATE FINANCE COMMITTEE
3 / 22 / 2003 COMMITTEE ACTION

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

ADOPTED

WORK DRAFT

WORK DRAFT

WORK DRAFT

23-GS2105Q
Bullock
3/18/04

CS FOR SENATE BILL NO. 276(FIN)

**IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-THIRD LEGISLATURE - SECOND SESSION**

BY THE SENATE FINANCE COMMITTEE

**Offered:
Referred:**

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

A BILL

FOR AN ACT ENTITLED

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

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

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

6 (a) The association

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

1 compensation policy; the association is not obligated

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

31 (b) The association may

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

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

7 (3) sue or be sued;

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

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

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

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

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

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

Frank H. Murkowski, Governor



Division of Insurance

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

Telephone: (907) 465-2515 • Fax: (907) 465-3422 • Text Telephone: (907) 465-5437

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

Workers Compensation

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

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

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

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

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

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

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

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

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

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

Alaska Insurance Guaranty Association

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

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

Alaska Insurance Guaranty Association

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

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

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

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



Alaska Municipal League Joint Insurance Association, Inc.

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

February 28, 2004

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

RE: SB276

Dear Senators Wilken and Green:

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

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

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

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

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

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

Thank you for your consideration.

Sincerely,

Kevin Smith
Executive Director

cc Senate Finance Committee

Subject: [Fwd: [Fwd:SB276]]

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

From: Jane Alberts <Jane_Alberts@Legis.state.ak.us>

Organization: Alaska State Legislature

To: Sheila Peterson <Sheila_Peterson@legis.state.ak.us>

Sheila~

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

jane

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

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

From: Senator Con Bunde <senator_con_bunde@legis.state.ak.us>

To: Jane Alberts <Jane_Alberts@Legis.state.ak.us>

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

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

From: Roy Agloinga <roy_agloinga@yahoo.com>

To: Senator_Con_Bunde@legis.state.ak.us, Senator_Hollis_French@legis.state.ak.us,
Senator_Ralph_Seekins@legis.state.ak.us, Senator_Bettye_Davis@legis.state.ak.us,
Senator_Gary_Stevens@legis.state.ak.us

CC: wmcocity@starband.org, Senator_Donny_Olson@legis.state.ak.us

To: Senate Labor Commerce Committee Members

Regarding: SB276

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

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

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

Sincerely yours,

Roy Agloinga

Mayor, City of White Mountain

Do you Yahoo!?

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

Jane Alberts, Senate Labor and Commerce Committee Aide <jane_alberts@legis.state.ak.us>

THE
FOLLOWING
DOCUMENT(S)
ARE
POOR
ORIGINAL
COPIES

Re: SB 276 Ak Insurance Guaranty Assoc.

Frank H. Murkowski, Governor



Division of Insurance

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

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

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

FAX Transmittal

TO: Sheila Peterson

DATE: 3-19-04

FAX NUMBER: 465-4714

FROM:

Linda Hall

**Total # of pages
Including cover 4**

Attachment:

Attached please find:

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

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

Thanks

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

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

Provided by Gary Wilken

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

Authority: AS 21.80.070

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

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

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

Authority: AS 21.80.040
AS 21.80.060
AS 21.80.070

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

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

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

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

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

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

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

July 15, 2003

ASSESSMENT NOTICE

ABC Company
123 First St
Anywhere, USA

NAIC # 12345

Attention: Corporate Tax or Regulations Department

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

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

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

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

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

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



Alaska Chapter

March 1, 2004

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

Dear Senator Bunde:

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

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

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

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

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

Sincerely,

Eden Larson
President & CEO

cc: Senate Labor & Commerce Committee, Senate Finance Committee

Legislative Position Papers on

HB289; Construction Contractor Bonding/Insurance

HB311/SB323; Employer Responsibility for Workers Compensation

HB403/SB276; Alaska Insurance Guaranty Association

HB450/SB311; Insurance & Worker's Compensation System

Prepared & Presented by

Alaska Independent Insurance Agents & Brokers, Inc.

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

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

House Bill 289

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

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

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

This Is Respectfully Submitted,

The Alaska Independent Insurance Agents and Brokers, Inc.

House Bill 311 and Senate Bill 323

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

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

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

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

This Is Respectfully Submitted,

The Alaska Independent Insurance Agents and Brokers, Inc.

House Bill 403/Senate Bill 276

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

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

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

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

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

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

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

This Is Respectfully Submitted,

The Alaska Independent Insurance Agents and Brokers, Inc.

House Bill 450/Senate Bill 311

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

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

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

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

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

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

This Is Respectfully Submitted,

The Alaska Independent Insurance Agents and Brokers, Inc.

3/1/2004 8:08 AM

SENATE FINANCE
COMMITTEE

Amendment Number: # 1

Bill Number: SB 276

Sponsor: Bunde Date: 2/27/04

Logged In By: Mindy

23-GS2105\1.1

Bullock

2/26/04

AMENDMENT

HOLD

per
Sen Bunde OR BUNDE

don't
distribute

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

1 Page 5, line 28:

2 Delete "earnings reserve account established under AS 37.13.145"

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

6 Page 6, following line 4:

7 Insert new bill sections to read:

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

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

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

17 Renumber the following bill section accordingly.

19 Page 6, line 5:

20 Delete "This"

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

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

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

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

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

Expenditures/Revenues (Thousands of Dollars)

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

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

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						
1104 AK Municipal Bond Bank Auth.						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

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

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

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

LEGAL SERVICES

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

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

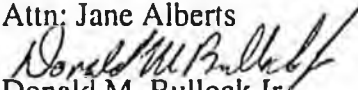
State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

February 26, 2004

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

TO: Senator Con Bunde
Attn: Jane Alberts

FROM: 
Donald M. Bullock Jr.
Legislative Counsel

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

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

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

If I may be of further assistance, please advise.

DMB:mdr
04-071.mdr

Enclosure



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

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

February 26, 2004

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

Dear Senator Bunde,

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

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

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

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

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

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

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

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

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

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

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

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

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

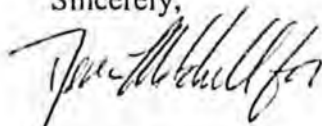
As of April 2004, the Bond Bank will have \$355,380,878 in bonds outstanding. Activity since January 2003 includes:

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

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

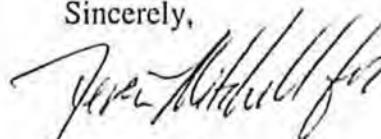
Thank you for your consideration, and please let us know if you have any questions. Or you also may contact Deven Mitchell, Executive Director, at 465-3750.

Sincerely,



Desi Mayo
Chairman of the Board

Sincerely,



Mark Pfeffer
Vice-Chairman of the Board

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

Alaska State Legislature

Senator Con Bunde

District P

Chair: Senate Labor & Commerce Committee

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

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

Letter of Intent

pertains
to
Amend #1
must be adopted

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

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

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

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

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

Expenditures/Revenues (Thousands of Dollars)

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

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

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						
1104 AK Municipal Bond Bank Auth.						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

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

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

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

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

SENATE COMMITTEE REPORT First Committee of Referral

DATE: 1/23/04

FURTHER: Finance

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

DATE TURNED
IN TO OFFICE: 2/18/04

Labor and Commerce Committee considered SENATE BILL NO. 276

SB 276 ALASKA INSURANCE GUARANTY ASSOCIATION

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

and recommends:

be replaced with CS SB 276 (LTC)

adopt previous CS ()

attached amendment(s)

adopt Letter of Intent by LTC Committee

further referral to Committee

Senate Bill:

- Same Title
- New Title

House Bill:

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

NEW FISCAL NOTE(S):

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

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#

APPROPRIATION - no fiscal note

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

French
Seekins
C. Stevens

Bunde

SENATE FINANCE COMMITTEE

SIGN-IN

SB 276-ALASKA INSURANCE GUARANTY ASSOCIATION

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

Do you wish to testify? Yes No Respond To Questions

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

Do you wish to testify? Yes No Respond To Questions

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

Do you wish to testify? Yes No Respond To Questions

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

Do you wish to testify? Yes No Respond To Questions

SB

277

HFIN

FILE

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: SB 277
(S) Publish Date: 1/23/2004

Revision Date/Time (corrected): 12/12/03 12:42pm Dept. Affected: Administration
Title: An act relating to the Alaska Commission on Postsecondary RDU: Centralized Administrative Services
Education: ... relating to an exemption from the State Procurement Code... Component: Purchasing
Sponsor: Rules
Requester: Governor Component No.: 60

Expenditures/Revenues (Thousands of Dollars)

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

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

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

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-Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2004) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

The bill would exempt Alaska Commission on Postsecondary Education contracts for guaranteeing and disbursing financial aid money to institutions of postsecondary education from the State Procurement Code (AS 36.30).

Bill has no fiscal impact.

Prepared by: Vern Jones, Chief Procurment Officer Phone: (907)465-5684
Division: General Services Date/Time: 12/15/03 10:00 AM
Approved by: Mike Miller, Commissioner Date: 12/15/2003
Agency: Administration

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 2
Bill Version: SB 277
(S) Publish Date: 1/23/04

Revision Date/Time (Note if correction): _____ Dept. Affected: DCED
Title ASLC Return Funds to State RDU Investments (122)
Component Investments
Sponsor Rules
Requester By Request of the Governor Component No. 383

Expenditures/Revenues (Thousands of Dollars)

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

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

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

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--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2004) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

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

Prepared by: Greg Winegar, Director
Division: Investments
Approved by: Edgar Blatchford, Commissioner
Agency: Department of Community & Economic Development

Phone (907) 465-2510
Date/Time 12/12/03 4:22 PM
Date 12/12/2003

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 5
 Bill Version: CSSB 277(HES)
 (S) Publish Date: 2/19/04

Revision Date/Time (Note if correction): _____ Dept. Affected: Education
 Title An Act relating to ACPE; relating to ASLC; relating RDU ACPE
to bonds of the corporation; relating to loan and grant programs... Component Program Administration & Operations
 Sponsor Rules Committee
 Requester (S) FIN Component No. 2738

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims	120.0	120.0	120.0	120.0	120.0	120.0
Miscellaneous						
TOTAL OPERATING	120.0	120.0	120.0	120.0	120.0	120.0

CAPITAL EXPENDITURES	85.0					
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CHANGE IN REVENUES (bond proceeds)	75,000.0					
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FUND SOURCE (Thousands of Dollars)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
1002 Federal Receipts	120.0	120.0	120.0	120.0	120.0	120.0
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other						
TOTAL	120.0	120.0	120.0	120.0	120.0	120.0

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

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)
 This bill would allow the Alaska Student Loan Corporation (ASLC) to issue bonds and use the proceeds for purposes other than the sole funding of financial aid programs currently authorized in law. This creates a mechanism for the ASLC to return money, not otherwise required to fund core agency programs, to the state through financing of state capital projects. As of this date, the ASLC anticipates utilizing this mechanism to return approximately \$260.0 million to the state over a three-year period beginning in FY2005. *Amounts for FY06 and FY07 will be determined next year.
 This bill also would create an administrative collection order to be used for establishing a lien on property belonging to a borrower who has defaulted on an education loan.
 This bill also amends the state's needs-based grant program so that grants may only be awarded to

Prepared by: Sheila King, Financial Officer Phone 465-6757
 Division Finance Date/Time 2/12/04 12:22 PM
 Approved by: Diane Barrans, Executive Director Date 2/12/2004
 Agency Alaska Commission on Postsecondary Education

FISCAL NOTE #5

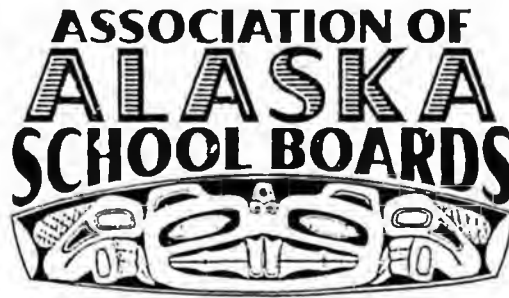
STATE OF ALASKA
2004 LEGISLATIVE SESSION

BILL NO. CSSB 277(HES)

ANALYSIS CONTINUATION

students attending qualified education programs in Alaska and authorizes the Alaska Commission on Postsecondary Education to give preference to students enrolled in programs of study required for entry into Alaska's labor shortage areas. This bill authorizes the ASLC to fund this financial aid program from corporate receipts, as they may be available, and to use those corporation funds to leverage an additional \$120,000 in federal matching dollars. The ASLC currently anticipates funding up to approximately \$600,000 in grants per year beginning in FY2005.

The \$85,000 capital budget request is to procure a web-based, grant management software tool to insure the grant application, eligibility certification, and awarding process is highly automated and requires minimal staffing resources on the part of the Commission and participating Alaska postsecondary institutions. The capital request is for the expenditure of corporation receipts, fund source 1106.



Advocates for Alaska's Youth

Position Paper
In Support of
HB 404
ESTABLISHING A NEEDS-BASED
STUDENT GRANT PROGRAM
TO MEET LABOR SHORTAGE NEEDS

HB 404 establishes a "needs-based" grant program to be funded from corporate receipts and federal matching dollars. Grants must be used for qualified Alaska education programs focused on meeting Alaska's labor shortage needs. A priority is placed on students enrolled in programs of study (such as health care and education) where there is a severe shortage of trained individuals in Alaska.

The Association of Alaska School Boards supports HB 404 and the Alaska Commission on Postsecondary Education in its efforts to meet labor shortage needs in Alaska.

Alaska currently provides an estimated 30 percent of newly hired educators in a given year. Like the rest of the nation, Alaska struggles to attract and retain qualified personnel in the classroom. A student grant program would increase Alaska's capacity to provide qualified classroom teachers. This is a positive step if we are to attract new prospects within the state's teaching profession.

It is our understanding the Alaska Department of Labor will serve as the entity that determines where a severe shortage of trained individuals exists. The Association of Alaska School Boards looks forward to working closely with the department in this capacity.

February 19, 2004

Governor's transmittal letter dated January 22:

Dear President Therriault:

Under the authority of article III, section 18, of the Alaska Constitution, I am transmitting a bill relating to the Alaska Commission on Post-secondary Education (ACPE) and the Alaska Student Loan Corporation (ASLC). This bill is a result of ASLC board members and management, in consultation with financial advisors, proposing a mechanism where (1) the state could optimize the use of its financial assets and deliver a greater return to Alaskans for its initial investment in ASLC and ACPE; and (2) continue to effectively administer ACPE/ASLC financial aid programs.

The bill would allow ASLC to issue bonds utilizing future cash flow that is in excess of that needed for effective and efficient operation of corporation programs. ASLC predicts it can return \$260 million to the state over a three-year period beginning in 2004; the proceeds from which would be available to finance capital projects.

The ASLC's primary mission is to support, promote, and provide access to postsecondary education for Alaskans. The objective of this legislation is to continue to serve that mission, but to do so in a way that permits ASLC to serve broader state interests through the efficient allocation of financial resources. As part of the development process, cash flow models were developed to ensure the corporation has and will continue to have the financial capacity to discount loan interest rates and deliver outstanding borrower benefits to its primary customers -- Alaska students and their families.

The bill establishes a "needs-based-grant" program to be funded from corporate receipts and federal matching dollars. Grants must be used for qualified Alaska education programs focused on meeting Alaska's labor shortage needs. A priority is placed on students enrolled in programs of study (such as health care and education) where there is a severe shortage of trained individuals in Alaska.

The bill also creates an "administrative collection order" and a process for establishment and use of such an order by ACPE. An administrative collection order would allow ACPE to establish a lien on borrower's property when that person has broken their promise to re-pay an education loan.

Finally, the bill exempts ACPE and ASLC contracts for disbursing and guaranteeing financial aid money from Alaska's procurement code. This creates efficiencies in the internal operations of ACPE and ASLC and meets the needs of participating post-secondary institutions (ACPE contracts with a guaranty agency and disbursing agents to electronically guarantee and/or disburse financial aid money for students to colleges and universities).

I urge your prompt and favorable action on this measure.

Sincerely yours,

/s/

Frank H. Murkowski

Governor

ALASKA COMMISSION ON POSTSECONDARY EDUCATION
SECTIONAL ANALYSIS
SB 277(FIN) (3/19/04)

BILL SECTION	AK STATUTE SECTION TITLE	PAGE	LINE	PURPOSE OF SECTION	TYPE OF CHANGE
1	ACPE authorized functions. 14.42.030(e)	1-3	7-1	Adds authority to establish and enforce collection orders on defaulted loans and provide for borrower appeals of collection orders.	Amended Language
2	Education loan fund. 14.42.210(a)	3	2-9	Conforming change to add revised grant program.	Amended Language
3	14.42.210(b)	3	10-19	Conforming change; by reference, specifically authorizes grant program funding.	Amended Language
4	Bonds of the corporation. 14.42.220(a)	3	20-31	Expand the use of bond proceeds to pay costs of state projects.	Amended Language
5	Bonds of the corporation. 14.43.220(g)	4	1-3	Places a cap on the aggregate amount of bonds the corporation may issue to finance state capital projects.	New Language
6	Conditions of loans. 14.43.120(u)	4	4-14	Makes determination of an origination fee a corporation function and automatically places fees into the education loan fund of the corporation.	Amended Language
7	Consolidation of loans. 14.43.122(a)	4	15-23	Increases flexibility for offering loan consolidation options.	Amended Language
8	Default. 14.43.145 (a)	4-5	24-8	Provides authority to establish a collection order as a means of recovering on defaulted loans.	Amended Language
9	Authority and procedure to administratively establish and enforce a collection order. 14.43.151	5	9-16	Describes administrative process for establishing a lien through a collection order.	New Language
	Initiation of administrative action to establish a collection order; required notice. 14.43.152	5-6	17-11	Steps for establishing collection order; notice to borrower.	

BILL SECTION	AK STATUTE SECTION TITLE	PAGE	LINE	PURPOSE OF SECTION	TYPE OF CHANGE
	Hearings in administrative action to establish a collection order; burden of proof. 14.43.153	6-7	12-5	Provides due process for borrower to contest establishment of collection order through administrative hearing.	
	Collection order as judgments. Sec. 14.43.154	7	6-11	Provides that collection order is equivalent to judgment.	New Language.
	Nature of remedies. 14.43.155	7	12-13	Provides that collection order is an alternate remedy to commission.	New Language
10	Purpose; creation. 14.43.161	7	14-19	Conforming change of trademark name.	Amended Language.
11	Repayment of loans. 14.43.166	7	20-29	Requires immediate repayment of consolidation loans.	Amended Language.
12	Default. 14.43.168(b)	7-8	30-1	Conforming change to incorporate new administrative collection order authority.	Amended Language
13	Creation, purpose. 14.43.170	8	2-11	Conforming change of trademark name.	Amended Language
14	Applicability of other laws. 14.43.171	8	12-17	Changes applicable cite to allow for consolidation of supplemental education loans.	Amended Language
15	Eligibility. 14.43.172(c)	8-9	18-9	Revised so borrower that has fully repaid a defaulted loan may be eligible for new loan without a cosigner.	Amended Language
16	Eligibility. 14.43.172(d)	9	10-15		
17	Limits and conditions of loans. 14.43.300(a)	9	16-26	Eliminates reference to guarantee fees on memorial scholarship loans	Amended Language
18	Purpose: creation. 14.43.400	9-10	27-4	Revised to rename and describe grant program.	Amended Language
19	Administration. 14.43.405(a)	10	5-7	Conforming change of name of grant program to be administered as provided in 14.42.030.	Amended Language
20	Applicability of other laws. 14.43.406	10	8-17	Conforms by incorporating reference to other aid programs, grant program residency requirement, confidentiality of financial need information, repayment for an ineligible recipient, and definitions.	New Language

BILL SECTION	AK STATUTE SECTION TITLE	PAGE	LINE	PURPOSE OF SECTION	TYPE OF CHANGE
21	Distribution of funds. 14.43.410	10	18-23	Conforming change of name of grant program.	Amended Language
22	4.43.410(b)	10	24-28	Revised to permit grants for half-time study.	New Language
23	Eligibility; priority. 14.43.415	10-11	29-27	Revised to require in-state attendance. Requires prioritization of eligible programs of study based on state workforce needs.	Amended Language
24	Limitation on grants. 14.43.420(a)	11	28-31	Revises minimum and maximum grant amounts.	Amended Language
25	14.43.420(c)	12	1-3	Sets maximum grant dollars per recipient.	New Language
26	Loan terms and conditions. 14.43.740(a)	12	4-8	Removes student-specific loan maximum; permits loan consolidation and administrative collection from liens.	Amended Language
27	14.43.740(g)	12	9-11	Permits commission to set loan limits by regulation.	New Language
28	Definition. 14.43.990	12	12-18	Provide definition for AlaskAdvantage, the agency's service mark registered under the Trademark Act.	New Language.
29	Repayment condition for program participants. 14.44.040(c)	12	19-22	Conforming change to include new authority for collection order for defaulted WICHE PSEP loans.	Amended Language
30	Application of this chapter. General Provisions to state procurement code. 36.30.850(b)	12	23-27	Excludes contracts for electronic services entered into by the Commission and Corporation for financial aid administration.	Amended Language

BILL SECTION	AK STATUTE SECTION TITLE	PAGE	LINE	PURPOSE OF SECTION	TYPE OF CHANGE
31	Repealer section.	12	28-29	<p>Repeal AS 14.42.110. Purpose of corporation.</p> <p>Repeal AS 14.42.220(f), limits aggregate amount of bonds that can be issued in two consecutive years other than through legislation.</p> <p>Repeal 14.43.122(b). Limits consolidated loan interest rate to be weighted average of the interest rates on loans being consolidated.</p> <p>Repeal 14.43.300(g). ACPE authority to set loan origination fee on memorial education loans. Duplicate language of 14.43.120(u) incorporated by reference.</p> <p>Repeal 14.43.405(b). Student aid provisions applicable to the grant program. Replaced in Sec. 18.</p> <p>Repeal 14.43.420(b). Allows grant to be used at accredited postsecondary educational institution, already stated in eligibility section 14.43.415. See Sec. 20.</p> <p>Repeal 14.43.500 Defines resident. Replaced in Sec. 18 by incorporating residency requirement of 14.43.162. Defines undergraduate. Term not used in remaining text.</p>	Amending Language.
32	Transition language.	12-13	30-4	Authorization to promulgate regulations.	
33	Instructions to Revisor	13	5-12	Conforming changes to titles in Articles 5 and 8.	
34	Instructions to Regulations Attorney	13	13-19	Instructions to make conforming changes to insert "Alaska Advantage" in regulations.	

BILL SECTION	AK STATUTE SECTION TITLE	PAGE	LINE	PURPOSE OF SECTION	TYPE OF CHANGE
35	Effective date section.	13	20	Providing for Sec. 6 to be effective January 1, 2005.	
36	Effective date section.	13	21-22	Providing for, except as stated in Sec. 35, this Act to have an immediate effective date.	

SB

277

SFIN

FILE

SENATE FINANCE COMMITTEE REPORT

DATE RETURNED: 3/15/04

REPORTED OUT MAR 22 2004 SENATE FINANCE COMMITTEE SENATE BILL NO. 277

FURTHER:

DATE TURNED IN TO OFFICE: 22 March 2004

Finance Committee considered

SB 277 STUDENT LOAN PROGRAMS

"An Act relating to the Alaska Commission on Postsecondary Education; relating to the Alaska Student Loan Corporation; relating to bonds of the corporation; relating to loan and grant programs of the commission; relating to an exemption from the State Procurement Code regarding certain contracts of the commission or corporation; making conforming changes; and providing for an effective date."

and recommends:

- be replaced with _____ CS SB 277 (FIN)
- adopt previous _____ CS Conforming (_____)
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to _____ Committee

Senate Bill:	
<input checked="" type="checkbox"/>	Same Title
<input type="checkbox"/>	New Title
House Bill:	
<input type="checkbox"/>	Same Title
<input type="checkbox"/>	Technical Title Change
<input type="checkbox"/>	New Title w/ SCR # _____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero.	FN#

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#
Education	9/2/04	120.0			#5
DCE D	12/2/03			✓	#2
Admin	12/12/03			✓	#1

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
<i>Paul Ryan</i>			✓	
<i>John H. ...</i>			✓	
<i>David ...</i>			✓	
<i>Ben Stevens</i>	✓			
COCHAIR: <i>Linda Green</i>	✓			
COCHAIR: <i>Greg ...</i>	✓			

ADOPTED

WORK DRAFT

WORK DRAFT

WORK DRAFT

23-GS2003\Q
Cook
3/17/04

CS FOR SENATE BILL NO. 277(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-THIRD LEGISLATURE - SECOND SESSION

BY THE SENATE FINANCE COMMITTEE

**Offered:
Referred:**

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

A BILL

FOR AN ACT ENTITLED

1 **"An Act relating to the Alaska Commission on Postsecondary Education; relating to the**
2 **Alaska Student Loan Corporation; relating to bonds of the corporation; relating to loan**
3 **and grant programs of the commission; relating to an exemption from the State**
4 **Procurement Code regarding certain contracts of the commission or corporation;**
5 **making conforming changes; and providing for an effective date."**

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

7 *** Section 1. AS 14.42.030(e) is amended to read:**

8 **(e) The commission may**

9 **(1) adopt regulations under AS 44.62 (Administrative Procedure Act)**

10 **to**

11 **(A) carry out the purposes of**

12 **(i) AS 14.43.091 - 14.43.750, 14.43.990, AS 14.44, and**

13 **AS 14.48; and**

1 (ii) AS 14.43.910 and 14.43.920 as they relate to the
2 purposes of AS 14.43.091 - 14.43.750, 14.43.990, AS 14.44, and
3 AS 14.48; [AND]

4 (B) ensure compliance with the requirements imposed by state
5 and federal statutes and regulations governing the guaranty, insurance,
6 purchase, or other dealings in eligible loans by federal agencies,
7 instrumentalities, or corporations; and

8 (C) establish standards for the

9 (i) administration of hearings conducted under
10 AS 14.43.153; and

11 (ii) administrative enforcement of collection orders
12 under AS 14.43.151 - 14.43.155;

13 (2) delegate to the executive director of the commission or a
14 subcommittee of the commission any duty imposed on or power granted to the
15 commission by this chapter, AS 14.43, AS 14.44, or AS 14.48, except its power to
16 adopt regulations and its duty to consider appeals under AS 14.43.100(b) and
17 AS 14.48.120;

18 (3) establish task forces, committees, or subcommittees, not
19 necessarily consisting of commission members, to advise and assist the commission in
20 carrying out its functions;

21 (4) contract with or use existing institutions of postsecondary
22 education or other individuals or organizations to make studies, conduct surveys,
23 submit recommendations, or otherwise contribute to the work of the commission;

24 (5) establish fees for the review of an out-of-state institution that

25 (A) requests approval for participation in the programs under
26 AS 14.43.091 - 14.43.750, 14.43.990, and AS 14.44; and

27 (B) is not accredited by a national or regional accreditation
28 association recognized by the Council for Higher Education Accreditation; and

29 (6) collect all fees and costs incurred in collection of the amount owed
30 on a loan or repayment obligation if the loan or repayment obligation becomes
31 delinquent or in default; in this paragraph, fees and costs include attorney fees, court

1 costs, and collection fees charged by a collection agency.

2 * **Sec. 2.** AS 14.42.210(a) is amended to read:

3 (a) The education loan fund is established in the corporation. The education
4 loan fund is a trust fund to be used to carry out the purposes of AS 14.42.100 -
5 14.42.990, AS 14.43.091 - 14.43.175, 14.43.400 - 14.43.420, 14.43.600 - 14.43.700,
6 14.43.710 - 14.43.750, 14.43.990, and AS 14.44.025. The fund consists of money or
7 assets appropriated or transferred to the corporation for the fund and money or assets
8 deposited in it by the corporation. The corporation may establish separate accounts in
9 the fund.

10 * **Sec. 3.** AS 14.42.210(b) is amended to read:

11 (b) Money and other assets of the education loan fund may be used to

12 (1) secure bonds of the corporation;

13 (2) pay the costs of administration of the fund;

14 (3) invest in education loans and investments under AS 37.10.071;

15 (4) finance programs approved under AS 14.43.091 - 14.43.175,
16 14.43.400 - 14.43.420, 14.43.600 - 14.43.700, 14.43.710 - 14.43.750, or
17 AS 14.44.040; and

18 (5) pay the costs of administering and collecting the loans and
19 repayment obligations under the financial aid programs listed in (4) of this subsection.

20 * **Sec. 4.** AS 14.42.220(a) is amended to read:

21 (a) The [SUBJECT TO (f) OF THIS SECTION, THE] corporation may
22 borrow money and may issue bonds, on which the principal and interest are payable
23 from its income and receipts or other assets or a designated part or parts of them. The
24 corporation may use the proceeds of its bonds for any purposes that the
25 corporation considers appropriate, including providing money to

26 (1) make or purchase education loans;

27 (2) finance programs identified in AS 14.42.210;

28 (3) finance projects of the state as those projects may be identified
29 by law; and

30 (4) pay for any other purpose or program of the corporation that
31 is authorized in AS 14.42.100 - 14.42.310.

1 * **Sec. 5.** AS 14.42.220 is amended by adding a new subsection to read:

2 (g) The corporation may not issue bonds to finance projects under (a)(3) of
3 this section in an aggregate amount that exceeds \$280,000,000.

4 * **Sec. 6.** AS 14.43.120(u) is amended to read:

5 (u) The corporation [COMMISSION] by regulation shall set a loan
6 origination fee, not to exceed five percent of the total education loan amount, to be
7 assessed upon an education loan that is funded from the education loan fund of the
8 corporation [ALASKA STUDENT LOAN CORPORATION]. The loan origination
9 fee shall be deducted by the commission at the time the loan is disbursed. The
10 [SUBJECT TO APPROPRIATION, THE] loan origination fees shall be deposited into
11 an origination fee account within the education loan fund of the corporation
12 [ALASKA STUDENT LOAN CORPORATION], and subsequently used by the
13 corporation to offset losses incurred as a result of death, disability, default, or
14 bankruptcy of the borrower.

15 * **Sec. 7.** AS 14.43.122(a) is amended to read:

16 (a) The commission may offer

17 (1) a borrower who has received more than one education loan
18 [UNDER AS 14.43.091 - 14.43.160] the option of consolidating the multiple loans
19 into a single loan; or

20 (2) to consolidate education loans made [UNDER AS 14.43.091 -
21 14.43.160] to married borrowers if the married borrowers agree to be jointly and
22 severally liable for repayment of the consolidated loan, regardless of the borrowers'
23 future marital status or the death of one of the borrowers.

24 * **Sec. 8.** AS 14.43.145(a) is amended to read:

25 (a) For the purposes of this chapter, a loan is in default after a loan payment
26 has become 180 or more days past due or, for a loan under AS 14.43.161 - 14.43.168
27 or 14.43.170 - 14.43.175, the default requirements established by the commission have
28 been met. Upon default,

29 (1) repayment of the remaining balance is accelerated and due;

30 (2) the commission may take the borrower's permanent fund dividend
31 under AS 43.23.067;

1 (3) the commission may issue an order to withhold and deliver under
2 AS 14.43.147;

3 (4) the commission may provide notice of the default to a licensing
4 entity for nonrenewal of the license under AS 14.43.148; [AND]

5 (5) the commission may record the lien created under AS 14.43.149;
6 and

7 (6) the commission may establish an administrative collection
8 order under AS 14.43.151 - 14.43.155.

9 * Sec. 9. AS 14.43 is amended by adding new sections to read:

10 **Sec. 14.43.151. Authority and procedure to administratively establish and**
11 **enforce a collection order.** If a judgment in favor of the commission has not been
12 entered by the court regarding a defaulted loan awarded under this chapter, the
13 commission may establish a duty to repay the defaulted loan through a collection order
14 using the procedures prescribed in AS 14.43.152 - 14.43.155 and may enforce the
15 collection order. Action under this section may be undertaken at the commission's
16 discretion if the borrower is in default under AS 14.43.145.

17 **Sec. 14.43.152. Initiation of administrative action to establish a collection**
18 **order; required notice.** (a) An action to establish a collection order authorized under
19 AS 14.43.151 is initiated by the commission's serving on the borrower a notice of
20 establishment of collection order. The notice shall be served by mailing the notice to
21 the borrower at

22 (1) the borrower's most recent address provided to the commission by
23 the borrower; or

24 (2) another address known to the commission.

25 (b) The notice served under (a) of this section must state

26 (1) the amount of the liability for default under AS 14.43.145 for
27 which the borrower is found to be responsible; the amount stated under this paragraph
28 shall include all principal, interest, and collection fees;

29 (2) that a lien may be recorded against the borrower's property as
30 authorized under AS 14.43.145(a)(5);

31 (3) that the borrower may appear at a hearing held by the commission

1 and show cause that a collection order should not be entered because, at the time of the
2 notice,

3 (A) no loan payment was more than 180 days past due or, for a
4 loan under AS 14.43.161 - 14.43.168 or 14.43.170 - 14.43.175, the default
5 requirements established by the commission had not yet been met; or

6 (B) the borrower had entered into, or was in compliance with,
7 an agreement to forbear default with the commission; and

8 (4) that, if the borrower served with the notice does not request a
9 hearing within 30 days after the date of mailing of the notice, a collection order will be
10 entered and the property of the borrower will be subject to a lien under AS 14.43.149
11 in the amount stated in the collection order without further notice or hearing.

12 **Sec. 14.43.153. Hearings in administrative action to establish a collection**
13 **order; burden of proof.** (a) A borrower served with a notice of establishment of
14 collection order under AS 14.43.152 is entitled to a hearing before the commission if
15 the request for a hearing is served on the commission by registered mail, return receipt
16 requested, within 30 days after the date the notice is mailed to the borrower.

17 (b) If a request for a hearing in accordance with (a) of this section is made, the
18 issuance of a collection order is automatically stayed pending the decision of the
19 hearing officer for the commission. If a request for a hearing is not made, the
20 collection order is final at the expiration of the 30-day period specified in (a) of this
21 section.

22 (c) A borrower claiming that the notice is incorrect has the burden at hearing
23 to document the existence of one of the conditions described in AS 14.43.152(b)(3)(A)
24 and (B).

25 (d) Within 60 days after the date of the hearing, the hearing officer shall enter
26 a decision determining whether default has occurred and, if default has occurred,
27 specifying the amount of the collection order and declaring that the property of the
28 borrower is subject to a lien under AS 14.43.149 in the amount of the collection order.

29 (e) If the borrower who requested the hearing fails to appear at the hearing, the
30 hearing officer shall enter a decision

31 (1) confirming that a default has occurred;

1 (2) confirming the amount of the collection order;

2 (3) declaring that the property of the borrower is subject to a lien under
3 AS 14.43.149 in the amount stated under (2) of this subsection.

4 (f) The decision of the hearing officer is a final decision that may be appealed
5 to the superior court under the Alaska Rules of Appellate Procedure.

6 **Sec. 14.43.154. Collection orders as judgments.** A collection order is
7 equivalent to a judgment and becomes vested

8 (1) at the expiration of the 30-day period described in AS 14.43.153(b)
9 if a hearing is not requested; or

10 (2) on the date the hearing officer enters a decision in favor of the
11 commission if a hearing was requested by the borrower.

12 **Sec. 14.43.155. Nature of remedies.** AS 14.43.154 provides a remedy in
13 addition to and not as a substitute for any other remedies available to the commission.

14 * **Sec. 10.** AS 14.43.161 is amended to read:

15 **Sec. 14.43.161. Purpose; creation.** There is established the AlaskAdvantage
16 [ALASKA ADVANTAGE] loan program to provide postsecondary educational
17 financial assistance through the federal guaranteed student loan program. The
18 AlaskAdvantage [ALASKA ADVANTAGE] loan program is the primary source for
19 financial aid to eligible borrowers under this chapter.

20 * **Sec. 11.** AS 14.43.166 is amended to read:

21 **Sec. 14.43.166. Repayment of loans.** A borrower's obligation to commence
22 repayment of the principal and interest on a loan under AS 14.43.161 - 14.43.166 and
23 14.43.168 [AS 14.43.161 - 14.43.168] begins six months after the borrower's
24 completion or other termination of the postsecondary education program. The
25 commission may accelerate the repayment of any loan made in error or in reliance
26 upon a false statement made by the borrower. The commission shall determine the
27 period over which loans are repaid; however, the maximum period of repayment of
28 loans may not exceed the maximum period permitted under applicable provisions of
29 the federal guaranteed student loan program.

30 * **Sec. 12.** AS 14.43.168(b) is amended to read:

31 (b) The provisions of AS 14.43.145 - 14.43.155 [AS 14.43.145 - 14.43.150]

1 apply to loans under AS 14.43.161 - 14.43.168 that are in default.

2 * **Sec. 13.** AS 14.43.170 is amended to read:

3 **Sec. 14.43.170. Creation; purpose.** There is created the Alaska supplemental
4 education loan program to provide postsecondary educational supplemental financial
5 assistance. Supplemental financial assistance is available only if the financial aid
6 available through the AlaskAdvantage [ALASKA ADVANTAGE] loan program is
7 insufficient to cover the costs of attendance at a postsecondary institution or if the
8 borrower does not qualify for financial aid under the federal guaranteed student loan
9 program. The commission shall make the public aware of the Alaska supplemental
10 education loan program to facilitate providing loans to as many eligible borrowers as
11 possible.

12 * **Sec. 14.** AS 14.43.171 is amended to read:

13 **Sec. 14.43.171. Applicability of other laws.** The provisions of
14 AS 14.43.120(d)(4), 14.43.122, 14.43.135, 14.43.140, 14.43.145 - 14.43.160,
15 14.43.164, 14.43.166. and 14.43.168 [AND 14.43.166 - 14.43.168] apply to the loans
16 made under AS 14.43.170 - 14.43.175 as if the loans were made under those
17 applicable provisions.

18 * **Sec. 15.** AS 14.43.172(c) is amended to read:

19 (c) In addition to the provisions of (a) of this section, a borrower is eligible for
20 a loan under AS 14.43.170 - 14.43.175 if the borrower

21 (1) is not delinquent in payment [ON AND HAS NEVER BEEN IN
22 DEFAULT] on a loan previously awarded by the commission;

23 (2) at the time of application or loan disbursement, does not have a
24 past due child support obligation established by court order or by the child support
25 enforcement division under AS 25.27.160 - 25.27.220;

26 (3) has not, within the previous five years, had a loan discharged or
27 written off by the commission for any reason;

28 (4) does not have a status, at the time of application for a loan or
29 disbursement of loan money, that would prevent the borrower from repaying the loan
30 as it becomes due;

31 (5) has not, within the previous five years, defaulted on another loan

1 made to the borrower by a lending entity unless the borrower can show good faith
2 efforts to repay the loan and extraordinary circumstances that led to the default;
3 [AND]

4 (6) does not have a credit history, at the time of application for a loan,
5 that demonstrates chronic inability or unwillingness to pay an extension of credit or
6 loan as it becomes due; and [.]

7 (7) has [AS] complied with the military selective service registration
8 requirements imposed under 50 U.S.C. App. 453 (Military Selective Service Act), if
9 those requirements were applicable to the person.

10 * Sec. 16. AS 14.43.172(d) is amended to read:

11 (d) The commission may not make a loan to a borrower who has been in
12 default on a loan previously awarded by the commission unless [IF

13 (1)] the previously awarded loan has been paid in full [; AND

14 (2) ANOTHER INDIVIDUAL WHO SATISFIES THE
15 REQUIREMENTS OF (c) OF THIS SECTION COSIGNS THE LOAN].

16 * Sec. 17. AS 14.43.300(a) is amended to read:

17 (a) An education loan to a recipient under AS 14.43.250(b)(1) - (4) or (6) may
18 not exceed \$2,500 a school year for an undergraduate student or \$5,000 a school year
19 for a graduate student [, EXCLUSIVE OF LOAN GUARANTEE FEES UNDER (g)
20 OF THIS SECTION,] and may not be made to a student for more than six years. An
21 education loan to a recipient under AS 14.43.250(b)(5) may not exceed the cost of
22 tuition and required fees, [LOAN GUARANTEE FEES UNDER (g) OF THIS
23 SECTION,] books and educational supplies, room and board, and transportation for
24 two round trips between the recipient's home and school each year. A loan under
25 AS 14.43.250(b)(5) may not be made for more than five years of undergraduate study,
26 five years of graduate study, or a combined maximum of eight years of study.

27 * Sec. 18. AS 14.43.400 is amended to read:

28 Sec. 14.43.400. Purpose; creation. There is created [ESTABLISHED] the
29 AlaskAdvantage education [ALASKA STATE EDUCATIONAL INCENTIVE]
30 grant program to provide financial assistance to eligible students to enable them to
31 attend, or continue their attendance at, postsecondary educational institutions. Funds

1 designated by the corporation or appropriated for this program may [SHALL] be
2 used as matching funds for the state's participation in the federal [STATE STUDENT
3 INCENTIVE] grant program under 20 U.S.C. 1070c - 1070c-4 [(P.L. 92-318; 20
4 U.S.C. 1070c - 1070c-3)].

5 * **Sec. 19.** AS 14.43.405(a) is repealed and reenacted to read:

6 (a) The AlaskAdvantage education grant program created under AS 14.43.400
7 - 14.43.420 shall be administered by the executive director of the commission.

8 * **Sec. 20.** AS 14.43 is amended by adding a new section to read:

9 **Sec. 14.43.406. Applicability of other laws.** (a) To the extent they are not in
10 conflict with the provisions of AS 14.43.400 - 14.43.420, the provisions of
11 AS 14.43.162(b), 14.43.910, and 14.43.920 apply to a grant made under AS 14.43.400
12 - 14.43.420.

13 (b) In determining a student's eligibility for a grant under AS 14.43.400 -
14 14.43.420, the executive director of the commission shall apply the standards
15 contained in the definitions of "full-time student," "half-time student," and "school
16 year" in AS 14.43.160 as if those provisions were applicable to application for the
17 grant.

18 * **Sec. 21.** AS 14.43.410 is amended to read:

19 **Sec. 14.43.410. Distribution of funds.** The funds [APPROPRIATED] for the
20 AlaskAdvantage education [EDUCATIONAL INCENTIVE] grant program may
21 [SHALL] be allocated to eligible students in accordance with the provisions of the
22 federal [STATE STUDENT INCENTIVE] grant program under 20 U.S.C. 1070c -
23 1070c-4 and regulations adopted under AS 14.43.105 and 14.43.405.

24 * **Sec. 22.** AS 14.43.410 is amended by adding a new subsection to read:

25 (b) The commission may set aside a portion of grant awards for otherwise
26 eligible applicants whose employment prevents them from attending school on a full-
27 time basis. The commission shall adopt regulations to carry out the purposes of this
28 subsection.

29 * **Sec. 23.** AS 14.43.415 is repealed and reenacted to read:

30 **Sec. 14.43.415. Eligibility; priority.** (a) For an applicant to be eligible for a
31 grant under AS 14.43.400 - 14.43.420, the applicant must be

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(1) a resident of this state;

(2) enrolled or about to be enrolled

(A) at an institution approved to participate in federal financial aid programs under 20 U.S.C. 1070 - 1099c-2, as amended, located in this state; and

(B) on at least a half-time basis; and

(3) able to demonstrate financial need in accordance with standards for determining financial need established by the commission under 20 U.S.C. 1070c-2, as amended.

(b) The commission shall give an applicant eligible under (a) of this section priority for a grant award if that applicant is, or is about to be, enrolled in a program of study that is preparatory for employment in an occupation or profession for which the Department of Labor and Workforce Development, or another workforce data source selected as reliable by the commission, indicates there is a severe shortage of trained individuals in this state. Additionally, the commission may give an applicant priority for a grant award if that applicant has participated in a secondary education program of study that can be demonstrated to the commission to be a predictor for success at the postsecondary education level for a program of study described in this subsection. For purposes of this subsection,

(1) "occupation or profession" means a job for which specific postsecondary certification is a prerequisite for entry-level placement;

(2) "severe shortage" means a current or recurring job vacancy rate of 15 percent or greater, as determined by the Department of Labor and Workforce Development or by another workforce data source determined reliable by the commission.

(c) The commission shall adopt regulations to establish a prioritization process for awarding grants under AS 14.43.400 - 14.43.420.

* Sec. 24. AS 14.43.420(a) is amended to read:

(a) A grant made under AS 14.43.400 - 14.43.420 [AS 14.43.400 - 14.43.500] may not be in an amount less than \$500 [\$100] nor more than \$2,000 [\$1,500] for each school [ACADEMIC] year.