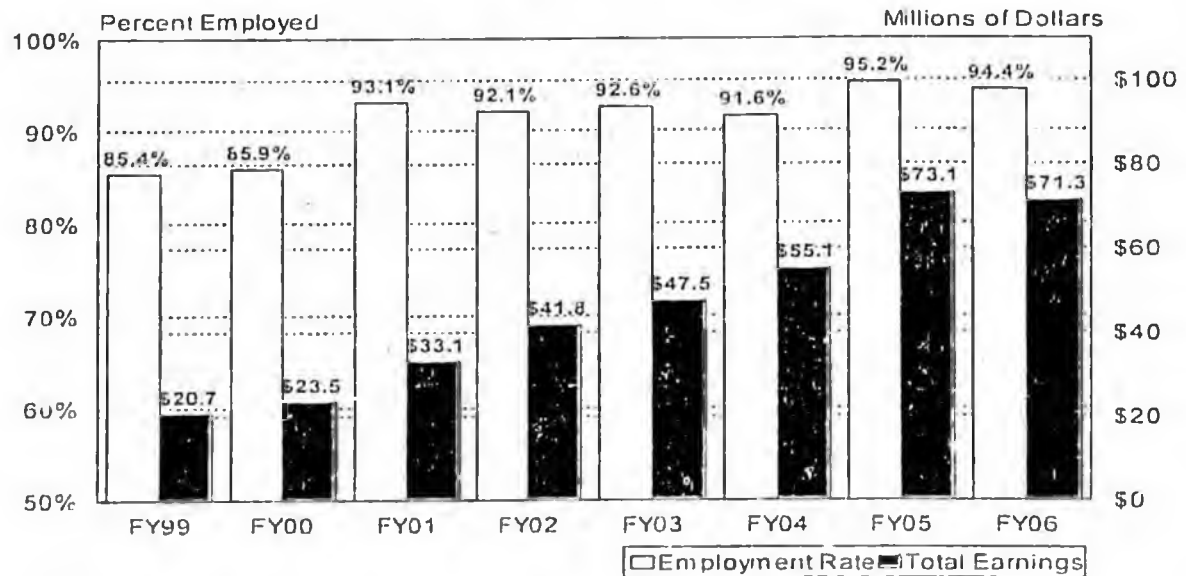


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Exhibit 4

Alaska Employment Rate and Total Earnings in the 12 Months Following Exit from STEP FY99-FY06



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

EMPLOYMENT AND EARNINGS

Employment and earnings outcomes are measured using Alaska wage record information provided by employers on a quarterly basis for all wage and salary workers in the state. Because some workers may be employed out of state, these figures should be viewed as conservative measures of the employment and earnings of program participants.

Because STEP participants generally have a good work history at the time of enrollment, the pre-training and post-training performance comparisons may not look as dramatic as those for other training programs. In FY06, in post-training employment was identical to the 12 months prior to entering the program (1,649). The post training employment rate in the year following exit for FY06 participants was over 94%.

One measure of STEP's success is the wage recovery, or the ability of STEP participants who finish the program to earn wages comparable to or higher than those earned before entering STEP. Total and median earnings increased dramatically when comparing the year prior to training with the year following exit from the program. Total Alaska wage and salary earnings for FY06 participants in the year following exit from the program were approximately \$71.3 million (see Exhibit 4), an increase of over 35% over the comparable pre-training period while median total earnings increased by 47.3%.

Average earnings per worker in the year following exit were \$43,217 versus \$40,674 in FY05. The increase in pre-training to post-training earnings occurred despite no overall increase in employment. Once again, construction had by far the most employment with natural resources, mining, and agriculture second and trade, transportation and utilities third. Only one industry sector with over 30 training participants had an employment percentage change in double digits (health care and social assistance - 18.2%). All other industry sectors had post-training employment percentage changes in single digits. In FY06, the industries with large increases in

average annual earnings included leisure and hospitality; natural resources, mining, and agriculture; professional and business services, and health care and social assistance.

PERFORMANCE VARIES BY TYPE OF PARTICIPANT

Approximately 53% of STEP participants were eligible for the program due to unemployment at time of registration and over 36% of those unemployed had actually exhausted their unemployment benefits by the time they had registered. The remainder of participants were eligible for the program because of potential reductions in force, changing job skill requirements, elimination of job, dependence on seasonal work, low pay, and/or underemployment (see Exhibit 5).

The greatest percentage improvement in average and total earnings, in the year after exit from STEP when compared with earnings in the year prior to enrollment, was for those participants that had exhausted their unemployment benefits. This is not surprising given that participants with a longer spell of pre-training unemployment would have fewer earnings prior to enrollment and would show the greatest post-training improvement.

By far, the highest average post-training earnings were received by participants that lost their jobs due to Reduction in Force (\$66,247). The Reduction in Force category was the second smallest with only 30 participants. The smallest category of participants was of those who had their jobs eliminated (19). This group had the second highest average wage following training (\$48,924), followed closely by the group with the highest earnings last year - those who faced a change in their job skills (\$47,621).

	Number of Participants	Number Employed		Earnings in Dollars		% Change In Earnings
		Before	After	Before	After	
All Exiting Participants	1,747	1,649	1,649	\$52,736,585	\$71,264,532	35.1
Unemployed	927	875	877	27,905,323	38,582,883	38.3
Exhausted UI benefits	337	295	315	7,600,185	12,704,092	62.9
Receiving UI benefits	590	580	562	20,105,138	25,878,791	28.7
Employed	160	156	156	5,961,616	7,973,904	33.8
Change in job skills	111	109	110	3,965,463	5,238,336	32.1
Reduction in workers by employer (RIF)	30	28	28	1,385,802	1,854,929	33.9
Elimination of job	19	19	18	610,351	880,639	44.3
Other-including seasonal, low paid, underemployed.	660	618	616	18,869,646	24,707,745	30.9

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

EMPLOYMENT AND EARNINGS BY DEMOGRAPHIC CHARACTERISTIC

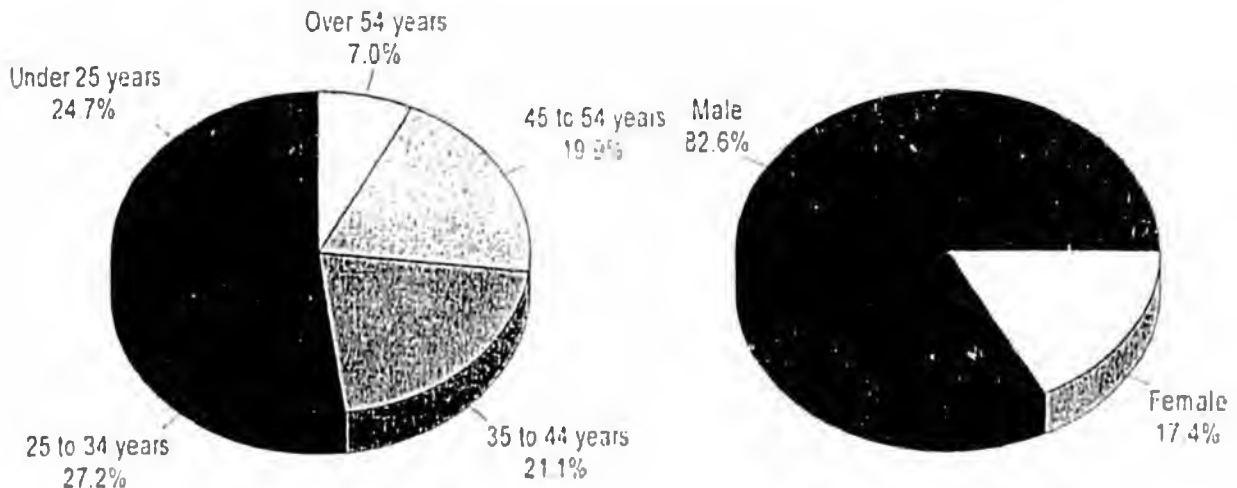
Just under 52% of FY06 exiting STEP participants were age 34 and younger. The highest percentage average and total annual earnings gains were achieved by these younger workers (69.1% for participants under 25 years and 38.1% for 25-34), while the highest average earnings were obtained by those workers in the 45 to 54 age group. These experienced workers earned an average of \$48,773 in the year following exit.

The lowest employment rate following exit was for black participants with 86.2%. The other racial groups all had post-training employment rates of at least 92.3%, with Asians (100%) and Hispanics (98.4%) leading. The highest post-training average annual earnings were achieved by White participants (\$47,104). Hispanics had the second highest post-training average earnings (\$41,183). Other groups were between \$36,200 and \$40,500 with the exception of Alaska Natives, who had average earnings of \$33,060. Despite having the lowest average post-training earnings, Alaska Natives still had an increase of about \$6,600 from FY05.

More than 82% of exiting STEP participants in FY06 was male. Males and females had an almost identical post-training employment rate (94.5% versus 93.8%), but females showed greater total and average earnings percentage gains when comparing the pre-training versus post-training four quarter period. Males earned an average of almost 52% more than females in the post-training period—males earned \$45,924 versus \$30,262 for females.

Exhibit 6

FY06 Exiting STEP Participants By Age and Gender



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

Exhibit 7

Employment and Earnings of Exiting STEP Participants in FY06 Four Quarters Before and After STEP Training

Demographic Characteristic	Number of Participants	Number Employed		Earnings		% Change in Earnings
		Before	After	Before	After	
By Age Group						
Under 25 years	432	406	410	\$9,154,249	\$15,478,055	69.1
25 to 34 years	476	449	452	\$13,848,873	\$19,129,554	38.1
35 to 44 years	369	350	346	\$12,686,476	\$16,234,365	28.0
45 to 54 years	347	331	330	\$13,098,412	\$16,095,220	22.9
Over 54 years	123	113	111	\$3,948,576	\$4,327,337	9.6
By Race*						
White	1,233	1,170	1,168	\$41,770,308	\$55,017,379	31.7
Black	58	48	50	\$1,223,820	\$1,832,666	49.7
Hispanic	61	59	60	\$1,642,212	\$2,470,988	50.5
Asian	31	30	31	\$873,804	\$1,247,097	42.7
Hawaiian	13	13	12	\$288,045	\$485,419	68.5
American Indian	72	69	67	\$2,051,967	\$2,426,635	18.3
Alaska Native	445	418	418	\$9,262,205	\$13,819,331	49.2
By Gender						
Male	1,443	1,366	1,364	\$47,073,516	\$62,639,860	33.1
Female	304	283	235	\$5,663,070	\$8,624,671	52.3
By Region						
Anchorage/Mat-Su	1,228	1,172	1,164	\$40,777,112	\$4,665,095	34.1
Alaska Statewide	519	477	485	\$11,959,474	\$16,599,437	35.1

*Note: Participants may report more than one race.
Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

EMPLOYMENT AND EARNINGS BY PLACE OF RESIDENCE

STEP participants come from all areas of the state and a wide variety of backgrounds, with virtually all STEP participants being Alaska residents as measured by PFD recipient status. Looking at performance by borough or census area, all but Aleutians East, Haines, and North Slope boroughs had post-training earnings gains. Anchorage and Fairbanks North Star boroughs had the largest number of participants and earnings gains were around average for the state. However, the areas with the highest percentage improvement in earnings (and more than 20 participants) included the Nome Census Area (52%), Juneau Borough (48.1%), and the Yukon-Koyukuk Census Area with 45.6%. The areas with the lowest post-training employment rates (and 20 or more participants) were Nome (85%), Kodiak Island (90.7%) and Southeast Fairbanks at 92.2%.

Exhibit 8

Employment and Earnings of STEP Participants in FY06 Four Quarters Before and After STEP by Place of Residence

Place of Residence	Number of Participants	Employment Pre-Training	Employment Post-Training	Pre-Training Earnings	Post-Training Earnings	% Change in Earnings
Total	1,747	1,649	1,649	\$52,736,585	\$71,264,531	35.1%
Aleutians East	5	5	5	N/D	N/D	-9.1%
Aleutians West	2	2	2	N/D	N/D	57.7%
Anchorage	419	390	398	\$12,701,658	\$17,443,351	37.3%
Bethel	40	37	38	\$666,285	\$865,314	29.9%
Bristol Bay	8	8	7	\$140,889	\$225,749	60.2%
Denali	9	9	9	\$250,437	\$448,388	79.0%
Dillingham	10	10	10	\$77,617	\$132,296	70.4%
Fairbanks North Star	413	394	392	\$12,830,511	\$17,133,982	33.5%
Haines	4	4	3	N/D	N/D	-17.2%
Juneau	95	90	92	\$3,191,389	\$4,727,484	48.1%
Kenai Peninsula	91	83	87	\$2,924,802	\$4,053,493	38.6%
Ketchikan Gateway	97	94	90	\$3,023,179	\$3,136,088	3.7%
Kodiak Island	43	42	39	\$1,957,733	\$2,391,080	22.1%
Lake and Peninsula	19	16	18	\$207,718	\$599,034	188.4%
Mat-Su	217	210	207	\$8,414,241	\$11,397,439	35.5%
Nome	20	19	17	\$273,247	\$415,250	52.0%
North Slope	7	7	7	\$183,285	\$153,617	-16.2%
Northwest Arctic	4	3	4	N/D	N/D	243.1%
POW-Outer Ketchikan	17	13	13	\$302,588	\$449,418	48.5%
Sitka	15	14	15	\$316,139	\$418,774	32.5%
Skagway-Hoonah-Angoon	6	6	5	\$96,301	\$221,721	130.2%
Southeast Fairbanks	51	47	47	\$1,478,755	\$2,042,621	38.1%
Valdez-Cordova	32	32	30	\$926,905	\$1,213,507	31.5%
Wade Hampton	45	43	43	\$727,507	\$933,826	29.0%
Wrangell-Petersburg	14	14	14	\$305,602	\$590,472	93.2%
Yakutat	1	1	1	N/D	N/D	31.1%
Yukon-Koyukuk	58	52	55	\$1,212,301	\$1,764,895	45.6%
Unknown	5	4	0	N/D	N/D	-100.0%

N/D = Non-disclosable data. N/D data are included in the total

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

EMPLOYMENT AND EARNINGS BY INDUSTRY OF POST TRAINING EMPLOYMENT

Fifty-three percent of STEP participants employed in the year following exit from the program were employed in the construction industry. Other major employing industries included natural resources, mining, and agriculture and also trade, transportation, and utilities. Almost 60% of all earnings received by STEP participants in the year following exit from the program were construction industry earnings.

The percentage increase in total earnings after training varied significantly by industry of post-training employer. Workers that achieved the highest percentage increase in total earnings over

the pre-training period were employed in leisure and hospitality (106.8%), natural resources, mining, and agriculture (80.4%), and health care and social assistance (80.2%). Highest average post-training earnings were obtained by participants working in the information; educational services' and natural resources, mining, and agriculture industries.

Exhibit 9						
Employment and Earnings of Exiting STEP Participants in FY06 Four Quarters Before and After STEP Training by Major Industry of Post-Training Employment						
Industry of Employment After Exit	Exiting Participants	Number Employed		Earnings		% Change in Earnings
		Before	After	Before	After	
Total	1,747	1,649	1,649	\$52,736,585	\$71,264,532	35.1
Natural Resources, Mining, and Agriculture	133	129	138	\$4,138,016	\$7,464,703	80.4
Construction	874	848	874	\$30,953,975	\$42,634,009	37.7
Manufacturing	65	64	65	\$2,701,678	\$2,556,691	-5.4
Trade, Transportation and Utilities	127	120	127	\$3,608,708	\$5,259,053	45.7
Information	36	36	36	\$1,871,666	\$2,333,396	24.7
F.I.R.E	20	20	20	\$392,924	\$526,832	34.1
Professional and Business Services	60	58	60	\$1,663,645	\$2,663,202	60.1
Educational Services	5	4	5	N/D	N/D	31.7
Health Care and Social Assistance	39	33	39	\$634,861	\$1,144,060	80.2
Leisure and Hospitality	22	20	22	\$282,855	\$584,860	106.8
Other Services	72	71	72	\$1,358,714	\$1,788,720	31.6
Local Government	80	75	80	\$1,416,288	\$2,261,999	59.7
State Government	17	16	17	\$439,453	\$603,382	37.3
Unknown	192	155	94	\$3,046,436	\$1,144,231	-62.4

1/Excludes fish harvesting workers
N/D = Non-disclosable data. N/D data are included in the total
Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section.

EMPLOYMENT AND EARNINGS BY TRAINING VENDOR

Training expenditure data for the largest STEP training vendors were matched with the employment and earnings of the FY06 exiting STEP participants that received their training services. The largest providers of training services were construction apprentice related training programs. Overall, these programs had very high post-training employment rates.

Specifically, Alaska Operating Engineers and the Alaska Laborers Training Trust had the most participants (441 and 364, respectively). There were 21 vendors with at least 10 participants in FY06. Out of those, AK Roofers & Waterproofers, Local 190 (30%), Delta Mine Training Center (22.2%), and University of Alaska Fairbanks - Bristol Bay Campus (18.2%) were the STEP vendors that had the greatest increases in percentage of those employed between pre-training and post-training. In addition, six vendors experienced no change between pre- and post-training employment and seven vendors had decreases.

Only three vendors showed a decrease in pre- and post-training total earnings of their participants, with the University of Alaska Anchorage Campus having the greatest drop at 19.4%. On the other hand, four vendors had triple-digit increases between pre- and post-

training total earnings. Alaska Works Partnership, Inc. and the University of Alaska Fairbanks – Bristol Bay Campus each had over 160% increase in total earnings. So while employment increases were not a major benefit of training, increases in earnings were.

Exhibit 10							
Employment and Earnings of Exiting STEP Participants in FY06							
Four Quarters Before and After STEP Training by STEP Training Vendor							
Vendor	Number of Participants Served	Number Employed Before and After STEP		% Change in Employment	Earnings 12 Months Before and After STEP		% Change in Earnings
		Before	After		Before	After	
Alaska Operating Engineers	441	429	424	-1.2%	\$20,255,179	\$27,791,876	37.2%
Alaska Laborers Training Trust	364	346	341	-1.4%	\$10,299,525	\$13,284,299	29.0%
IBEW AK Joint Electrician Apprentice Training	132	131	131	0.0%	\$4,272,053	\$5,172,114	21.1%
Alaska Works Partnership Inc (AWP)	123	109	118	8.3%	\$1,714,716	\$4,467,669	160.5%
Fairbanks Carpenter Training Center	119	112	111	-0.9%	\$4,336,397	\$4,324,732	-0.3%
U of A Southeast Ketchikan Campus	85	82	78	-4.9%	\$2,679,214	\$2,610,052	-2.6%
Rural AK Community Action Program (RURALCAP)	56	54	56	3.7%	\$950,866	\$1,178,058	23.9%
Southern Alaska Carpenters Training Center	42	35	37	5.7%	\$869,609	\$1,492,446	71.6%
Alaska Trowel Trades	34	33	32	-3.0%	\$550,092	\$571,837	4.0%
Delta Mine Training Center	33	27	33	22.2%	\$670,668	\$1,521,629	126.9%
Northern Industrial Training LLC NIT	32	30	29	-3.3%	\$605,956	\$967,229	59.6%
ASRC Energy Services	30	30	30	0.0%	\$1,035,541	\$1,684,082	62.6%
Yuut Elitnaurviat People Learning Center	26	25	25	0.0%	\$485,676	\$556,879	15.1%
Center For Employment Education CEE	21	20	20	0.0%	\$448,326	\$706,579	57.6%
Piledrivers Local 2520	18	17	17	0.0%	\$408,650	\$615,631	50.6%
Southwest Alaska Vocational & Ed Center	14	14	13	-7.1%	\$70,820	\$153,519	116.8%
U of A Fairbanks - Bristol Bay Campus	14	11	13	18.2%	\$175,878	\$460,333	161.7%
AK Roofers & Water proofers Local 190	13	10	13	30.0%	\$200,032	\$289,834	44.9%
U of A Anchorage Campus	12	9	10	11.1%	\$294,753	\$237,436	-19.4%
AVTEC AK Vocational Tech Education Center	10	9	10	11.1%	\$151,038	\$184,967	22.5%
Career Academy Inc	10	9	9	0.0%	\$119,214	\$176,971	48.4%

Note: Participants may have been provided services by more than one vendor.
Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

UNEMPLOYMENT INSURANCE AND STEP

A major goal of STEP is to reduce unemployment and the number, duration and recidivism rate of unemployment insurance claims in Alaska. Though there was an increase in the number of new unemployment insurance claims, in general, there was a significant decline in the amount of benefits paid to FY06 claimants exiting STEP when comparing the 12 months prior to STEP enrollment with the 12 months following exit from the program, amounting to 16.3% or \$362,516. This decline in unemployment insurance payments is less than the goal of a 40% reduction.

AWIB also asked that no more than 45% of STEP participants with an active unemployment insurance claim at enrollment file an unemployment insurance claim in the 12 months following exit from STEP. While close, the actual percentage still exceeded the goal. Over 47% of FY06 exiting STEP participants filed an unemployment insurance claim in the twelve months following exit from the program.

Another AWIB goal is to reduce the duration of claims as measured by the exhaustion rate of those STEP participants that are receiving unemployment insurance. AWIB asked that no more than 55% of STEP participants exhaust their benefits. A claimant that exhausts their benefits has used up the maximum payments that they were allowed, and therefore has not been successful in quickly obtaining employment. While higher than last year, STEP fared better than the goal with this measure, with 30.0% (compared to 20.9%) of those receiving unemployment insurance benefits at the time of STEP registration using up those benefits to exhaustion.

Exhibit 11 FY06 STEP Exiting Participants Unemployment Insurance Claims Before and After STEP		
All Terminated Participants	12 Months Before	12 Months After
Total New UI Claim	791	832
Total Benefits Paid	\$2,229,237	\$1,866,721
Total Weeks Claimed	10,049	8,268
Exhausted Claims	237	143
Total Benefits Paid	\$964,317	\$559,838
Total Weeks Paid	4,501	2,649
Early Intervention Claimant	183	99
Total Benefits Paid	\$454,516	\$216,731
Total Weeks Paid	2,049	899
Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section		

With early intervention, there was a dramatic reduction in unemployment insurance weeks and benefits paid. Unemployment insurance claimants provided STEP services within five weeks of an initial claim are defined as early intervention claimants. These STEP participants that received services early in their unemployment insurance cycle showed the largest percentage reduction in benefits paid when comparing the pre-training and post-training period.

In addition to the positive Unemployment Insurance Trust Fund impact of a reduction in unemployment insurance benefits, taxes are paid into the Trust Fund for workers by the employers and workers themselves. For calendar year 2006, workers' wages are taxable up to \$28,700 per year. Most STEP participants were either unemployed or likely to be unemployed at the time of enrollment. STEP program participants working after exit from the program earned about \$71.3 million in UI taxable wages subject to an average combined employer-employee UI tax rate of 2.94%.

CUSTOMER SATISFACTION IS HIGH

STEP clients are surveyed after exit from STEP as to their overall satisfaction with the program. The overall customer satisfaction with STEP is very high, with over 35% of a large sample of FY06 exiting STEP participants giving the program a perfect "10" in a follow-up customer satisfaction survey. Over 95% of respondents gave the program a score of "5" or greater on a 10-point scale for this same overall satisfaction measure. Survey respondents gave the program similar high marks for having met their expectations and comparing favorably to what they perceived as the "ideal" set of services.

Exhibit 12						
Reported Customer Satisfaction of Sample of STEP FY06 Exiting Participants						
Scale	Overall Satisfaction		Did Program Meet Your Expectations?		How well did the services you received compare with the ideal set of services?	
	Respondents	Percent	Respondents	Percent	Respondents	Percent
Low=1	10	1.5	17	2.5	14	2.1
2	3	0.4	9	1.3	6	0.9
3	11	1.6	9	1.3	11	1.6
4	6	0.9	13	1.9	11	1.6
5	43	6.3	73	10.8	68	10.0
6	33	4.8	36	5.3	42	6.2
7	59	8.6	94	13.9	81	11.9
8	162	23.7	170	25.1	144	21.1
9	116	17.0	99	14.6	76	11.2
High 10	240	35.1	158	23.3	228	33.5
Total	683	100.0	678	100.0	681	100.0

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

2/22/08

DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT
OFFICE OF THE COMMISSIONER

Sarah Palin, Governor

P. O. Box 111149
Juneau, AK 99811-1149

PHONE: (907) 465-2700
FAX: (907) 465-2784

January 24, 2008

The Honorable Joe Thomas
Alaska State Senate
State Capitol, Room 510
Juneau, AK 99801-1182

Joe
Dear Senator ~~Thomas~~:

The State Training and Employment Program (STEP) authorized by Alaska Statute 23.15.620 is administered by the Alaska Department of Labor and Workforce Development. The Department would like to provide you with additional information regarding this important program.

STEP was established as a pilot program in 1989 to increase training opportunities for Alaskans affected by fluctuations in the economy or by technological changes in the workplace. Since its inception the program has been reauthorized by the legislature six times. House Bill 226 would extend this extremely successful program, but I believe its success warrants it being made permanent (or at least its extension for another ten years through completion of the Alaska gasline).

The target population for the STEP services is adults who may be unemployed or underemployed and who have worked in a job covered by Unemployment Insurance. The STEP serves workers that are Alaska residents, have a good work history and a good probability for success in the training and ultimately the workforce.

The STEP has continually proven itself to be one of the most successful employment and training programs in the state and by larger comparison with federally funded training programs in the Nation.

STEP services are provided to the public through two main methods. First, the Department makes STEP funds available through the Alaska Job Center Network. There are currently 23 job centers throughout the state where eligible individuals can receive training and employment related services through STEP. In state fiscal year 2007, the Department provided \$1,119,611 of STEP services through the job centers.

The Honorable Joe Thomas
January 24, 2008
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The Department also provides grants to organizations that are capable of providing training and related services to STEP eligible persons. Annually, the Department publishes Requests for Grant Applications that detail the specific requirements of STEP and the Department's priorities for funding. The Request for Grant Applications is a competitive process and typically results in grant applications with total requests substantially exceeding the available funds.

The responsive STEP grant applications are reviewed and assessed by an independent team of qualified and knowledgeable individuals. The review teams usually include a member of the Alaska Workforce Investment Board and other knowledgeable representatives from the private sector. Each responsive application is assessed and evaluated according to published criteria and how well the application meets the purposes of the STEP. Finally, with guidance from the review team and my staff, as Commissioner of Labor and Workforce Development, I make the final decisions on the STEP competitive awards.

There are occasions in which the commissioner may make an award using discretion if it is the best interest of the state in meeting our statutory mission to train a prepared workforce and meet industry demand. For example, new applicants or those not familiar with the STEP occasionally are awarded grants at the discretion of the Department. Recently the Department exercised its authority and directed that a training grant to train specialty technicians be negotiated with a seafood processing company despite a review committee not recommending an award. The administration recognized that \$55 million had been invested by the state in revitalizing the fishing industry and that the applicant had submitted a request for foreign labor worker certification because of a lack of qualified Alaskans. By funding this training, the Department supported the state's investment in the seafood industry, mitigated the need to hire foreign workers, and fulfilled the purpose of the STEP, which is to increase training opportunities to the state's workers to protect against fluctuations in the economy and to prepare for technological changes in the workplace.

This is a competitive process, and we are usually unable to make awards to all applicants due to limited funds, and usually not for the total amount requested for successful applicants. In other instances, grant applications are not awarded due to ineligible project activities, inadequate grant applications, or the inability of an applicant to meet the Department's due diligence requirements. Department staff works with unsuccessful applicants to either improve their applications for future solicitations or to attempt to identify other funding sources that may be more appropriate for the proposed project.

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During state fiscal years 2006 and 2007, the Department made \$6 million available for award and received 77 STEP grant applications that requested funding totaling \$16.4 million. Nineteen of these applications were from union training organizations requesting \$4.2 million. The remaining 58 applications were from other organizations requesting \$12.2 million in STEP funding. In those two years, the Department expended \$5.6 million to 42 different entities that served 2,899 individuals of which 682 or 23.5 percent were from rural communities. Of this amount, \$3.4 million was provided through 18 grants to union training organizations and \$2.2 million was provided through 24 grants to other organizations. The union training organizations contributed \$7.6 million in goods or services to the grants while the other organizations provided grantee contributions totaling \$1.4 million. The union training organizations trained 2,257 individuals at an average cost per participant to the STEP of \$1,519 and the other organizations trained 641 individuals at an average cost per participant to the STEP of \$3,434.

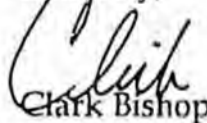
Within the last year, the Department undertook actions to make improvements in the administration of the STEP. As a continuation of this effort, I am appointing a STEP Task Force to review and assess the Department's administration of STEP and to make recommendations on areas for improvement. The STEP Task Force will be led by Deputy Commissioner David Stone and Director of Business Partnerships Corine Geldhof and will include primarily representatives from the private sector.

Historically the STEP has been established and reauthorized as a pilot program and is scheduled to sunset on June 30, 2008 (enclosed is the legislative history for STEP). This state program has served over 23,000 Alaskans since its inception in 1989. Additionally, STEP has consistently been the job training program in the state with the highest level of success. For example, in fiscal year 2006, 94 percent of the STEP participants were employed during the 12 months following their training.

With construction of the Alaska gasline on the horizon, increasing nonresident employment in Alaska, and the aging of our workforce, continuation of the STEP and training Alaskans for Alaska's skilled jobs is more important today than ever before.

Please let me know if the Department can provide you with any additional information regarding STEP.

Sincerely,



Clark Bishop
Commissioner

Enclosure

2/22/00

Legislative History of the State Training and Employment Program (STEP)

SB 191

Chapter 95 - SLA 89

Establishment of two-year pilot project program

SB 188 am

Chapter 17 - SLA 91

Extended pilot program to June 30, 1993

SB 57

Chapter 17 - SLA 93

Extended pilot program to June 30, 1996

SB 229

Chapter 116 - SLA 96

Extended program two years (June 30, 1998); raised maximum weekly Unemployment Insurance (UI) benefit amount; changed coordinating entity from Alaska Job Training Council to Alaska Human Resource Investment Council AHRIC); imposed a 20 percent cap on administrative overhead

HCS CSSB 334(FIN) am H

Chapter 85 - SLA 98

Extended program to June 30, 2002; established administration of AHRIC (membership, meetings and per diem, committees, assessment and evaluation criteria, administrative costs, council funding mechanism, etc).

SB 252

Chapter 86 - SLA 02

Extended program to June 30, 2004; realigned statute to Alaska Workforce Investment Board (AWIB) from AHRIC; further changed membership, # of yearly meetings; made changes in response to state's audit of program; established yearly performance report to legislature, etc.

HB 559 am

Chapter 86 - SLA 04

Extended program to June 30, 2008

HB 226

CS HB 226 (FIN)

Extends program to June 30, 2009 (one-year only), requires a review of the program and published report to the legislature.

HB 224

2/22/08



February 20th, 2008

Senator Lyman Hoffman
Senator Bert Stedman
Co-Chairmen
Senate Finance

Dear Senators Hoffman and Stedman:

As you consider HB 226 in your committee, please be aware of the following information in regard to the State Training and Employment Program (STEP).

The current version of the bill requires the department of labor to conduct a review of the STEP program and report back to the legislature by June 30, 2008. Extending the life of the program prior to that review and report should not be considered without a close look at what has happened with the program in the last 10 months, since the review and report requirement was added to the legislation.

The Request for Grant Applications (RGA) issued by the department of labor and dated May 8, 2007, contains what appear to be some serious problems. For instance, under the Scope of Services it states:

The department is allocating STEP grant funds for the following services. **Industry Specific Training.** Industry specific training is for industries that need trained workers by industry. . . This includes union and non-union journeyman training and apprenticeships. . .

Though it appears that STEP funds may, in some cases, be used for apprenticeship training, it is very clear that a journeyman does not fit within that definition. Workers who are qualified to be classified as journeymen are already well trained and working in some of the highest paying jobs in Alaska. While they sometimes have to receive training to keep certifications current, STEP funds should never be used for this type of training when we have

so many other Alaskan who do not earn anywhere near the average annual wage in Alaska because they do not have the training necessary to get jobs that pay these types of wages.

Further the Due Diligence section of the RGA states:

Due Diligence Standards: In order to be considered for a grant award pursuant to this request, all applicants must. . . 5. Not be in violation *or have matters pending with* the Departments' Occupational Health and Safety, Workers Compensation, Wage and Hour, and Unemployment Insurance Requirements . . .

While those who have been found to be in violation of the referenced statutes should be disqualified from receiving grants, it is inappropriate and likely illegal to disqualify an applicant who has a matter pending with the referenced departments. This seems to be an attempt to debar an applicant from a STEP grant in such a way this is in direct conflict with the debarment provisions of the Alaska Procurement Code.

In addition, the **Ownership of Grant Applications** section is a direct violation of the Public Records Act. A public entity like the Department of Labor and Workforce Development cannot give out public money taken from a public trust fund and refuse to disclose the applications and documents related to the review and grant process. While there might be some limited section of a grant that an applicant could argue is proprietary, it is totally inappropriate to give applicants the impression that the entirety of the application and attachments can be deem proprietary and not accessible to the public.

Finally, the most recent RGA brought up two new issues that must be addressed. To begin with, the RGA indicated that grants would be denied based on layout and typographical issues, rather than merit. This resulted in a large number of grants being denied. The outcry from those applicants who were denied required the department to reconsider those grants, thus delaying the release of grants by several months. That in turn led to a reduced amount of time for awardees to use the grant funds and complete their training. At least one entity rejected the grant they were awarded due to these constraints. In addition, the RGA indicated that the department reserved the right to "renew" grants at their discretion, without a competitive proposal process. This does not bode well for anyone, given the history of this program.

Thank You for Your Consideration-

Rebecca Logan
President
ABC Alaska

Chairman Stedman & committee members

Chris HARMON

2/22/08

IBEW 1547 MEMBER

I recently went through the apprenticeship program and was a recipient of the STEP FUNDS

These funds were an essential part of my training - I received Commercial Driver training; It helped with travel expenses & housing while away from home. Without these funds I may not have been able to complete the apprenticeship. Thanks to these funds I now have the knowledge needed to be a skilled craftsman.

I hope to see these funds continued for future skilled labor training.

THANKS

~~HB~~ Legislature PASS House Bill 226

Suggestions ARIC?
ROBERT - mention single PARENT!

HB 226

2/22/08

Robert Cesar

- I am an apprentice electrician in the Federal registered Alaska Joint Electrical Apprenticeship & Training Trust *working for Ever Electric here in Juneau*
- I have a home here in Juneau and a family, with a young son who recently went through bone marrow transplants *amazing father* ~~to save his life, and this~~ *which* ~~has left us~~ *me* ~~with medical bills and~~ *some* financial burdens
- I recently attended the first of my 5 seven week classroom training sessions in Anchorage from October 29 through December 20, 2007.
- Due to some administrative problems between our training programs' grant submittal and the Dept. of Labor my class was not able to receive any help from STEP,
- I understand from others that have attended school in Anchorage from our area that those moneys have helped them immensely while having to maintain two households
- ~~I'm not looking for a handout just some help and~~ *I* urge you pass House Bill 226 and extend the STEP program so that I, my family, and others might get that help

Thank You.

HB 226

HB

228

HFIN

FILE

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: CSHB 228(L&C)
(H) Publish Date: 4/16/07

Revision Date/Time (Note if correction): 4/13/2007 Dept. Affected: Administration
Title: An act relating to fees for medical treatment RDU: Risk Management
under the Alaska Workers' Compensation Act Component: Risk Management
Sponsor: Representative Kelly
Requester: House Labor and Commerce Component No.: 71

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
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 (FY2007) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2008 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This bill extends the current medical fee schedule from 8/1/2007 to 3/31/2009 with a new adjustment based on the Anchorage area Consumer Price Index medical care component.

Risk Management administers the self insurance program providing workers' compensation protection for all State employees. Future Risk Management's workers' compensation assessments to State agencies will reflect costs incurred as premiums charged each agency are developed from actual claims expenses incurred.

Without this new indexed fee schedule the current schedule sunsets. Therefore this agency anticipates a zero fiscal impact.

Prepared by: J. Brad Thompson, Director Phone: 465-5723
Division: Risk Management Date/Time: 4/13/2007 2:00 p.m.
Approved by: Kevin Brooks, Deputy Commissioner Date: 4/13/2007
Agency: Department of Administration

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note: 2
Bill Version: CSHB 228(L&C)
(H) Publish Date: 4/16/07

Revision Date/Time (Note if correction): _____ Department: Labor and Workforce Development
Title: Workers' Comp. Medical Treatment Fees RDU: Workers' Compensation
Sponsor: Representative Kelly Component: Workers' Compensation
Requester: House Labor and Commerce Component Number: 344

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
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)

FUND SOURCE	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
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 (FY2007) cost: None
Mark this box (X) if funding for this bill is included in the Governor's FY 2008 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

There is no anticipated fiscal impact to the department as a result of this legislation.

Prepared by: Paul F. Lisankle, Director Phone: 465-6059
Division: Workers' Compensation Date/Time: 4/12/07 4:23 PM
Approved by: Click Bishop, Commissioner Date: 4/12/2007
Agency: Department of Labor and Workforce Development

Alaska State Legislature

Juneau

State Capitol Bldg., Rm. 513
Juneau, AK 99801-1182
Phone (907) 465-4976
Fax (907) 465-3883
Toll Free 866-465-4976



Fairbanks

1292 Sadler Way, Ste 323
Fairbanks, AK 99701
Phone (907) 452-6084
Fax (907) 452-6096

Member

House Finance Committee
Legislative Budget & Audit

Representative Mike Kelly

House District 7

Sponsor Statement

HB 228

In 2005 the Alaska Legislature passed SB 130 which was a rework of the Workers Compensation statutes. As part of this rework, medical payments were frozen at the 2004 fee schedule so that a review could be done of the underlying reasons for premium increases. This review was to be jointly done by a special Workers Compensation Legislative Taskforce in concert with the Department of Labor & Workforce Development Medical Review Committee. Two important tasks of the committee were to look at program design problems and to study the underlying reasons for medical cost increases experienced in the program. Following this, the taskforce was to develop recommendations to moderate program increases in the future. As part of the conditions of the medical rate freeze, the Taskforce was to have completed their review by February of 2006 and the rate freeze would sunset in August of 2007 (to be replaced by a new fee schedule).

The Taskforce did not complete its report by February of last year and we are facing the sunset of the medical rate freeze in August of this year. There is not yet a plan for the post rate freeze sunset period and that is why this legislation was introduced.

Under HB 228, the medical rate freeze would be extended two years to allow time for recommendations to be developed. It implements an annual rate increase based on the CPI index. This extension of the freeze should allow time for the insurance companies to compile and submit their analysis and recommendations after reviewing care costs for injured workers so that the Legislature can address the underlying reasons for premium increases.

Alaska Timber Insurance Exchange
Workers' Compensation Medical Cost Concerns
March 2, 2007

Introduction:

Employers in Alaska have experienced significant increases to their workers' compensation premiums over the last several years. The Oregon Workers' Compensation Premium Rate Ranking released in January 2007 by the State of Oregon Department of Consumer and Business Services reports that Alaska has the highest workers' compensation premium rates in the United States. This report was based upon premium rates in effect during 2006.

Workers' compensation rates in Alaska decreased for 2007 but it is anticipated that this will be short lived since the cost of providing medical care for injured workers is expected to escalate significantly when the use of the current workers' compensation medical fee schedule is discontinued in August 2007.

This paper outlines the history of workers' compensation medical fee schedules in Alaska; it then addresses why there should be concern about not having a workers' compensation medical fee schedule after August 2007 and then offers a solution to this problem.

Background:

In 1988 the Alaska Legislature passed Senate Bill 322 (SB 322). SB 322 contained changes to the Alaska Workers' Compensation Act that were designed to reduce workers' compensation costs for Alaskan employers. One provision of SB 322 required that the Alaska Workers' Compensation Board (AWCB) adopt usual, customary and reasonable workers' compensation medical fee schedules at least once each year.

The AWCB, through regulation, specified that workers' compensation medical expenses were to be paid at the 90th percentile of the usual, customary and reasonable fees. Each year a new medical fee schedule was created with updated fees (usually higher) and any new medical procedure codes that might have been created during the past year.

Senate Bill 130 (SB 130), which became law in August 2005, repealed and replaced the existing medical fee language found in Alaska Statute 23.30.095(f). AS 23.30.097(a)(1), the replacement statute, specified that the fee schedule to be used to determine amounts paid for medical fees and services would be the fee schedule specified by the AWCB in its published bulletin dated December 1, 2004.

Section 75 of SB 130 repeals the medical fee schedule replacement language, AS 23.30.097(a)(1), in August 2007.

Essentially, the amount paid to medical providers for procedures listed in the medical fee schedule are "frozen" from August 2005 to August 2007.

The Reason For Concern:

In August 2007 when the medical fee schedule statute sunsets, there will be no cap on the amount that can be charged to workers' compensation insurers and self-insured employers, including the State of Alaska, for the medical services provided for workers' compensation claimants.

Recent medical bills received by ATIE indicate that a significant increase in medical care costs is expected if no cap exists on the amount paid for medical services. The following table illustrates this:

<u>Procedure</u>	<u>Billed Amount</u>	<u>Fee Schedule Amount</u>	<u>Increase</u>	
			<u>Amount</u>	<u>%</u>
Office Visit Moderate to High Severity 25 Minutes	\$ 306	\$ 184	\$ 122	66%
Emergency Dept Visit Moderate Severity	345	212	133	63%
Laminotomy with decompression, 1 interspace lumbar	1,682	1,345	337	25%
Office Visit Moderate to High Severity 25 Minutes	278	184	94	51%

Another concern is that the expected increase in medical care costs due to not having a workers' compensation medical fee schedule was not included in the 2007 workers' compensation loss cost (rate) filing with the Alaska Division of Insurance. If the average medical costs that ATIE is required to pay increase by 20% in August 2007, the rates being charged for workers' compensation insurance by ATIE and other workers' compensation insurers should be approximately 11% higher than they currently are to compensate for this increase.

Possible Solution:

In an Informal Opinion regarding SB 130 dated July 18, 2005, the State of Alaska, Department of Law stated in footnote 91, "Even if subsec. (a)(1) is repealed, the general power of the board to regulate medical charges, contained in AS 23.30.097(a), authorizes the board to adopt regulations setting fees lower than those allowed by AS 23.30.097(a)(2) or (3)."

AS 23.30.097(a) states, "All fees and other charges for medical treatment or service are subject to regulation by the board consistent with this section."

The AWCB, with its statutory authority to enact regulations addressing fees for medical treatment, should exercise its power and enact regulations to replace the expiring medical fee schedule as quickly as possible.

For further information or questions regarding the above please contact either Michael Hinchey or Pamela Scott at 907-225-9451.

Alaska State Legislature

Juneau
State Capitol Bldg., Rm. 513
Juneau, AK 99801-1182
Phone (907) 465-4976
Fax (907) 465-3883
Toll Free 866-465-4976



Fairbanks
1292 Sadler Way, Ste 323
Fairbanks, AK 99701
Phone (907) 452-6084
Fax (907) 452-6096

Member
House Finance Committee
Legislative Budget & Audit

Representative Mike Kelly

House District 7

MEMORANDUM

DATE: April 10, 2007
TO: Representative Mike Kelly
FROM: Derek Miller
RE: Sectional Analysis for HB 228
(Version No. 25-LS0773\E)

A sectional summary of a bill should not be considered an authoritative interpretation of the bill. The bill itself is the best statement of its contents. If you would like an interpretation of the bill as it may apply to a particular set of circumstances, please advise.

Section 1. Specifies that fees and other charges for medical treatment or service provided before August 1, 2007 do not exceed the fees in the fee schedule specified by the Workers' Compensation Board in its published bulletin dated December 1, 2004. Specifies that fees and other charges for medical treatment or service provided after August 1, 2007, but before March 31, 2009 is the percentage change between 2004 and 2006 in the medical care component of the Consumer Price Index for the Anchorage metropolitan area.

Section 2. Repeals AS 23.30.097(a)(1), specifying fees and other charges for medical treatment or service may not exceed the fees in the fee schedule specified by the Workers' Compensation Board in its published bulletin dated December 1, 2004.

Section 3. Allows the Department of Labor and Workforce Development to adopt regulations necessary to implement this act.

Section 4. Section 3 of this act takes effect immediately.

Section 5. Section 1 and 2 of this act take effect July 31, 2007.

Who Does ASHNSHA Represent?

The *Alaska State Hospital and Nursing Home Association* membership includes 24 acute care hospitals, 2 behavioral health facilities, 6 assisted living facilities (Alaska Pioneer Homes), and 5 free-standing nursing facilities. Nine of our 24 acute care hospitals also provide nursing home services. We believe ASHNSHA's rich composition of private, federal, state, and tribal health care facilities provides a balanced viewpoint on important health care policy matters. ASHNSHA's membership authorized the position expressed in this testimony.

ASHNSHA STRONGLY SUPPORTS CSHB 228:

ASHNSHA members' strong support for CSHB 228 stems from their unique dual role as both providers and employers within their communities. Alaska's employers will experience a major increase in workers compensation premiums unless action is taken to modify and extend the provider rate freeze implemented under SB 130 during the 2005 legislative session. Legislation is needed because the Administration had indicated they cannot extend this freeze by administrative regulation.

In 2005, ASHNSHA agreed to compromise legislation that froze medical payments for two years pending review of the underlying reasons for premium increases, including both medical costs and general program design problems. This review was to be done jointly by a special Worker's Compensation Legislative Taskforce working in concert with the Department of Labor & Workforce Development's Medical Review Committee.

The rate freeze enacted by SB 130 is scheduled for sunset in 2007 yet the Legislative Taskforce did not complete its work before its authority expired earlier this year, in part because the medical cost analysis has not been provided by insurers. Allowing the rate freeze to sunset without adopting well thought out permanent reform to take its place will lead to severe financial losses by workers compensation insurers and ultimately significant increases in employer premiums. This will impact small and medium employers most dramatically as most large employers are self-insured.

Passage of CSHB228 will extend the sunset date for the rate freeze along with a modest fee adjustment based on the medical CPI to give time for comprehensive reform recommendations to be developed and presented to the Legislature.

ASHNSHA members urge your support of CSHB 228 and passage from this Committee.

This Testimony is on Behalf of the Following Alaska Health Care Facilities

Alaska Regional Hospital, Alaska Native Medical Center, Alaska Pioneer Home System, Bartlett Regional Hospital, Bassett Army Community Hospital, Central Peninsula General Hospital, Cordova Community Medical Center, Denali Center Nursing Home, Fairbanks Memorial Hospital, Heritage Place Nursing Home, Kakanak General Hospital, Ketchikan General Hospital, Maniilaq Health Center, Mary Conrad Center, Mat-Su Regional Hospital, Mt. Edgecumbe Hospital SEARHC, Norton Sound Regional Hospital, Petersburg Medical Center, Providence Alaska Medical Center, Providence Extended Care Center, Providence Kodiak Island Medical Center, Providence Seward Medical & Care Center, Providence Valdez Medical Center, Sitka Community Hospital, South Peninsula Hospital, St. Elias Specialty Hospital, USAF 3rd Medical Group- Elmendorf, Wrangell Medical Center, Yukon Kuskokwim Delta Regional Hospital, Alaska Psychiatric Institute, North Star Behavioral Health System, Wildflower Court Nursing Home.





807 G Street, Suite 356, Anchorage, AK 99501

T 907.258.2625 | F 907.279.3615 | Toll Free in AK 1.800.337.3682 | www.amljia.org

March 30, 2007

The Honorable Mike Kelly
House of Representatives
Alaska State Legislature
State Capitol
Juneau, Alaska 99801-1182

Dear Representative Kelly:

The Alaska Municipal League Joint Insurance Association (AMLJIA) supports House Bill 228.

The AMLJIA is a not-for-profit self-insurance pool for approximately 152 cities, boroughs and school districts organized under AS 21.76. Member local government entities self-insure for the first \$500,000 of each workers' compensation loss and purchase reinsurance to statutory limits.

By its design, the pool is considered an efficient risk-financing mechanism because there is no pressure to generate shareholder profit. Rates are calculated to cover expected losses, loss development from prior years, any incurred but not reported losses, the cost of reinsurance and administrative overhead (claims handling, etc.).

As you are obviously aware, when the Alaska State Legislature passed the workers' compensation reform package in 2005, medical costs were frozen at 2004 rates until August of 2007. As August approaches and the session has reached its half-way point, I have become increasingly concerned about the thawing of the 2004 rate freeze. Although I'm not a legal scholar, it appears to me that this important issue can only be resolved by a legislative action this session.

Shortly after the passage of SB130, the Medical Services Review Committee was resurrected to advise the Alaska Workers' Compensation Board and the Department of Labor in matters involving the appropriateness, necessity, and cost of medical and related services under the Alaska Workers' Compensation Act. I was appointed to this committee along with eight others. Throughout 2005, the committee met to formulate recommendations specifically surrounding this issue. The report was provided to the legislative task force chaired by then Senator Seekins. I felt there were several good recommendations in the report. The report is available from the Division of Workers' Compensation and I encourage you to review it during the interim as we forge ahead to solve Alaska's Workers' Compensation problems.

While I lack sufficient knowledge to recommend what adjustment is appropriate, it does seem fair to me to provide for some inflationary protection for the providers.

Thank you for addressing this critical issue. Please let me know if I can be of further help.

Sincerely,

Kevin Smith
Executive Director

RECEIVED
APR 0 2007

PROTECT

A SERVICE of the ALASKA MUNICIPAL LEAGUE

Alaska Physicians & Surgeons, Inc.

4120 Laurel Street, Suite 206

Anchorage, Alaska 99508

Phone: 907-561-7705 Fax: 907-561-7704

Website: www.apsdoctors.org**Board of Directors**

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April 13, 2007

The Honorable Representative Mike Kelly
State Capital Building
Juneau Alaska 99801

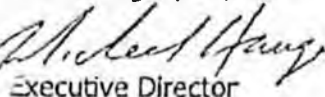
Re: HB228

Dear Representative Kelly,

Alaska Physicians & Surgeons recognizes that the Workers Compensation system in Alaska has been in need of a comprehensive fix for several years, and in 2005 agreed that a freeze in provider rates was the best short term solution to allow for further study of the system's many problems. The rate freeze is set to expire this summer. Given the lack of progress in finding a long term solution, my board of directors feels that an additional extension of the rate freeze with a cost of living adjustment is a better short term solution than letting the system suffer the potential effects of no fee schedule at all. Therefore we are in support of HB228, as the only viable solution in the short run.

If the physician community's participation in formulating a permanent fix is to occur, the insurance industry's 3 year lack of production of data, identifying the cost drivers in the Workers Compensation system, must somehow be addressed in the next year.

Mike Haugen, JD, MBA


Executive Director



central peninsula hospital

heritage place

April 6, 2007

Rep. Kurt Olson, Chair
House Labor and Commerce Committee
Alaska State Legislature
State Capital (MS 3100)
Juneau, Ak. 99801-1182

Re: HB 228—Worker's Compensation

Dear Kurt:

I am writing today to ask for your assistance concerning HB 228, "An Act relating to fees for certain medical treatment and service under the Alaska Worker's Compensation Act; and providing for an effective date." I see that Labor and Commerce is the first committee of referral.

I'm pleased that this legislation has been introduced by Rep. Kelly. It is my understanding that without the passage of this legislation the Dept. of Labor does not have adequate direction with respect to the fee structure for medical providers under the worker's compensation program in Alaska.

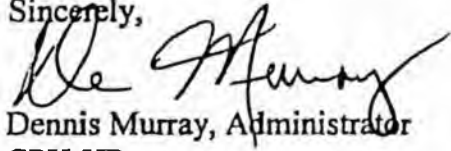
As you are aware, I was appointed to serve on the Medical Review Committee within the Div. of Worker's Compensation in 2004. Although authorized by regulation, Labor did not have a committee in place when the administration and legislature were considering changes to the Alaska Statutes on Worker's Compensation. Our committee met several times in 2004-5 to address the questions raised by the Worker's Compensation Taskforce with respect to the medical component of the program. The committee made recommendations to the Taskforce. Unfortunately, the taskforce was not able to complete it's work.

As well, our committee has not met for more than a year. It had been our intent to examine the underlying questions with the increases in the cost of medical care under worker's compensation. We had made important progress in engaging the Worker's Compensation Insurers in methodology to obtain information about the specifics of where expenses have changed. The committee had discussed requesting of the taskforce and the legislature funding to complete an analysis of the data provided by the Insurers.

I believe the legislation is a good first step, but it does not resolve the underlying questions that the legislature and administration had posed during their work in 2004-5. The legislation would certainly be strengthened if language was added that required the medical advisory committee to complete its work and provide an analysis of the reasons for the medical cost increases over the past several years.

Thank you for the opportunity to provide input on this important legislation. I hope it receives favorable consideration in this year's legislature. Without it, there may likely be more problems with the program.

Sincerely,



Dennis Murray, Administrator
CPH-HP

cc. Rep. Mike Kelly
Ryan Smith, CEO-CPH-HP
Mr. Rod Betit, President, ASHNHA

Alaska State Medical Association

4107 Laurel Street • Anchorage, Alaska 99508 • (907) 562-0304 • (907) 561-2063 (fax)

April 13, 2007

Honorable Kurt Olson
State Capitol, Room 408
Juneau, AK 99801

Transmitted by Fax: 907-465-3835

RE: HB228 – Workers Compensation Fee Schedule

Dear Representative Olson:

The Alaska State Medical Association (ASMA) represents physicians statewide and is primarily concerned with the health of all Alaskans.

First, ASMA must state that these comments pertaining to HB228 represent what its leadership's best guess is as to the reaction of its members. ASMA is not and can not be a "union" binding its individual members to anything.

ASMA has been involved with the efforts to examine the workers compensation system and to work towards appropriate and meaningful change. ASMA is represented on the Medical Services Review Committee (MSRC) and was represented on the Workers Compensation Task Force. All along the physician community has held that good data is necessary to conduct a meaningful review and study of the medical care component of the workers compensation system. ASMA believes that all stakeholders in the system agreed to that necessity. This request for data began in the Fall of 2004.

SB130 was enacted in 2005 which provided for a "freeze" in the payment schedule for all medical care providers at the schedule set on December 1, 2004. (It is ASMA's understanding that this fee schedule was established using claims data with the most recent data coming from 2003). The "freeze" ends on August 1, 2007.

It is ASMA's contention that its members acceded to this "freeze" on the belief that meaningful data would be provided in time to conduct a thorough review before its expiration. The data was to include claims data for a period of 5 years – first broken down by provider type (e.g. hospital, physician, physical therapist, chiropractor, etc); and secondarily broken down by CPT code for the physician claims. Finally, a "data call" was instituted by the State Division of Insurance in early December, 2006. The data was to be collected by the National Council on Compensation Insurance (NCCI) and provided in June 2007. ASMA recently learned that this data will not be provided until late 2007. ASMA expects that this circumstance will not be favorably viewed by its members.

It must be pointed out that it is ASMA's understanding that physicians do not have a different fee schedule for injured workers than for other patients. Their practice overhead expenses continue to increase just like any other employer; yet they have gone along with the "freeze".

ASMA expects that the increase in the payment schedule proposed in HB228 will be appreciated by the physician community. But, again that schedule is set for 20 months (8/1/07 – 3/31/09). ASMA believes that its membership will skeptically view this new freeze. An amendment to tie in the provision of meaningful data could be expected to ameliorate some of the building skepticism. One possibility would be to mandate the yearly reporting of data to the MSRC along with a clear mandate for the Department of Labor to establish the appropriate fee schedules by regulation to be effective on a calendar year basis.

The system used prior to the current freeze set the fee schedule on a "Usual, Customary, and Reasonable" basis using the 90th percentile as the cut-off point. It is ASMA's understanding that this was based on workers compensation claims data. The new approaches seem to be moving toward a governmentally set fee. ASMA expects that many of its members will find this objectionable. One only needs to look to the access to care problems involving Medicare beneficiaries and the federal workers compensation system.

ASMA urges you to not take action that will adversely impact an injured worker's access to care.

Sincerely,



By: Roland Gower, MD, President
For: The Alaska State Medical Association

ANALYSIS OF THE SUNSET OF THE ALASKA PHYSICIAN FEE SCHEDULE EFFECTIVE AUGUST 1, 2007

NCCI estimates that the August 1, 2007 sunset of the Alaska physician fee schedule, as currently provided in AS 23.30.097(a), will result in an overall workers compensation system cost increase in Alaska of between +4.5% and +5.8%.

Summary

The current workers compensation medical fee schedule in Alaska became effective December 1, 2004. This fee schedule based the maximum allowable reimbursements (MARs) on the 90th percentile of usual, customary and reasonable fees for similar services as reported to Ingenix at the time the fee schedule was established. Senate Bill 130, enacted in 2005, froze the medical fee schedule at the December 2004 levels until August 1, 2007, after which time the fee schedule would sunset.

Actuarial Analysis

The methodology used to price the sunset of the physician fee schedule is as follows:

Charges for various medical procedures under the physician fee schedule were obtained from medical transaction data. These charges were adjusted to reflect changes from past price levels to the price levels projected to be in effect once the fee schedule sunsets on August 1, 2007. Trend factors used for the projections were based on the U.S. and Western region professional components of the medical consumer price index (MCPI), along with the U.S. and Anchorage MCPI (all medical components) for the period 2004-2006, shown in the following table:

Year	U.S. MCPI (Prof. Component)		Western Region MCPI (Prof. Component)		U.S. MCPI (All Medical Components)		Anchorage MCPI (All Medical Components)	
	Value	Change	Value	Change	Value	Change	Value	Change
2003	261.16	2.9%	245.17	3.3%	297.08	4.0%	N/A	N/A
2004	271.48	4.0%	255.52	4.2%	310.13	4.4%	N/A	N/A
2005	281.70	3.8%	264.65	3.6%	N/A	N/A	344.20	N/A
2006	289.33	2.7%	271.54	2.6%	N/A	N/A	356.10	3.5%

Source: Economy.com; N/A = Not Available

Based on the changes to the above indices, annual trend factors of +2.5% to +4.5% were applied to medical transaction data for physician services performed in 2003-2004 to project the price levels that would be in effect after the fee schedule sunsets. The lesser of the projected charge and the current maximum allowable fee was used to determine the current cost level for each procedure.

Total current physician costs were calculated by multiplying the current cost level for each procedure, as determined above, by the frequency for that procedure. Total current physician costs are the sum of these costs for all procedures.

Similarly, the overall physician charges after the schedule sunsets is the product of the average charge for each procedure adjusted to the cost levels estimated to be in effect on August 1, 2007 (using trends described above) multiplied by the frequency for that procedure. Estimated total physician costs after the schedule sunsets are the sum of these projected costs for all procedures. Our methodology does not contemplate additional changes in billing practices (i.e. change in utilization) that may accompany the fee schedule sunset.

The estimated impact on physician costs was determined to be an increase of between +9.7% and +12.5%. This was calculated as the ratio of the total projected costs of procedures after the fee schedule sunsets to the total projected costs of procedures under the current (12/1/2004) fee schedule.

This impact was then multiplied by the estimated ratio of physician costs to medical costs in Alaska (66.4%) to yield an increase on medical costs of between +6.4% and +8.3%. The impact on medical costs was then multiplied by the projected ratio of medical costs to total benefit costs in Alaska (70.2%) to yield an overall increase of between +4.5% and +5.8%.

The results are summarized in the table below:

	Impact
(1) Impact on Physician Costs	+9.7% to +12.5%
(2) Physician Costs as % of Medical Costs in Alaska	66.4%
(3) Impact on Medical Costs = (1) x (2)	+6.4% to +8.3%
(4) Medical Costs as % of Total System Costs in Alaska	70.2%
(5) Impact on Overall Workers Compensation System Costs in Alaska = (3) x (4)	+4.5% to +5.8%



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Measuring Price Change for Medical Care in the CPI

Medical care is one of eight major groups in the Consumer Price Index (CPI). There are two medical care groups, medical care commodities (MCC) and medical care services (MCS), each containing several item categories (strata). This fact sheet focuses on the four medical care categories—prescription drugs, professional services, hospital services and health insurance—that generate the most questions and concerns.

MCS, the larger component of medical care in sample size and expenditure levels, is organized into three expenditure categories (EC):

- professional services;
- hospital and related services; and
- health insurance.

MCC, the other major component of medical care, includes:

- prescription drugs and medical supplies; and
- nonprescription drugs and medical supplies.

Table 1 gives the specific definitions for all published categories of the medical care group, along with each category's relative importance (see below) and the number of quotes, or sampled prices, in the current CPI sample.

Table 1. Definitions of published medical care indexes, the number of unique price observations (quotes), and relative importance as of December 2005.

Item	Definition	Number of quotes	Relative importance (percent)
Medical care	Medical care commodities and medical care services.	7,205	6.281
Medical care commodities	Prescription drugs, nonprescription over-the-counter-drugs, and other medical equipment and supplies.	2,606	1.446
Prescription drugs	All drugs dispensed by prescription. Mail order outlets are included. Prices reported represent transaction prices	1,222	1.018

	between the pharmacy, patient, and third party payer, if applicable.		
Nonprescription drugs and medical supplies	All nonprescription medicines, vitamins, dressings, equipment, and supplies.	1,384	.428
Internal and respiratory over-the-counter drugs	Nonprescription medicines taken by swallowing, inhaling, and as suppositories and enemas (i.e. aspirin, cough medicine, and vitamins).	889	.294
Nonprescription medical equipment and supplies	Nonprescription medicines and dressings used externally, contraceptives, and supportive and convalescent medical equipment (i.e. adhesive strips, heating pads, athletic supporters, and wheelchairs).	495	.135
Medical care services	Professional medical services, hospital services, nursing home services, and health insurance imputation.	4,599	4.834
Professional services	Physicians, dentists, eye care providers, and other medical professionals.	2,445	2.817
Physicians' services	Services by medical physicians in private practice, including osteopaths, which are billed by the physician. Includes house, office, clinic, and hospital visits. (Excludes ophthalmologists. See Eyeglasses and eye care.)	647	1.616
Dental services	Services performed by dentists, oral or maxillofacial surgeons, orthodontists, periodontists, or other dental specialists in group or individual practice. Treatment may be provided in the office or hospital.	763	.721
Eyeglasses and eye care	Services provided by opticians, optometrists, and ophthalmologists. Includes eye exams, dispensing of eyeglasses and contact lenses, office visits, and surgical procedures in the office or hospital.	682	.225
Services by other medical professionals	Services performed by other professionals such as psychologists, chiropractors, physical therapists, podiatrists, social workers, and nurse practitioners in or out of the office.	353	.255
Hospital and related services	Services provided to inpatients and outpatients. Includes emergency room visits, nursing home care and adult day care. Includes transaction	2,154	1.630

	prices only.		
Hospital services	Services provided to patients during visits to hospitals, ambulatory surgical centers, or other similar settings.	1,628	1.542
Inpatient* hospital services	Services for inpatients. Includes a mixture of itemized services, DRG-based services, per diems, packages, or other bundled services.	N/A	N/A
Outpatient* hospital services	Services provided to patients classified as outpatients in hospitals, free standing services facilities, ambulatory surgery, and urgent care centers.	N/A	N/A
Nursing home and adult day care services	Charges for residential care at nursing homes, nursing home units of retirement homes, and convalescent or rest homes. Also includes non-residential adult day care, a newer item with few price observations at this time.	526	.089
Health Insurance	Indirect approach based on retained earnings method. See health insurance section.	N/A	.386

N/A: Data not adequate for publication.

* Substratum index.

Although medical insurance premiums are an important part of consumers' medical spending, the direct pricing of health insurance policies is not included in the CPI. As explained below, BLS reassigns most of this spending to the other medical categories (such as Hospitals) that are paid for by insurance. The extreme difficulty distinguishing changes in insurance quality from changes in its price forces the CPI to use this indirect method.

General Information on CPI Medical Care

The CPI measures inflation at the retail level, and reflects the average price change over time for a constant quality, constant quantity market basket of goods and services. In most cases it approximates what households spend *out-of-pocket* on goods and services used for day-to-day living. Therefore, medical care indexes are limited to items with an out-of-pocket expenditure, although in the case of medical care the term out-of-pocket includes any health insurance premium amounts that are deducted from employee paychecks.

The Consumer Expenditure Survey (CE) collects annual consumer spending for each CPI category; this provides the basis for the item category weights. BLS replaces these weights every two years with ones based on more recent Consumer Expenditure Surveys. To obtain the category weights, BLS combines expenditures from the CE's for two years and updates them for price change to the December before their first use in the CPI. For example, the expenditures reported on CE's for 2001 and 2002 updated to December 2003 became the basic weights for use in the CPI from January 2004 through December 2005. Every month, to compute that month's index, BLS updates the base weights for price change from the

previous month. Every year, the BLS publishes *relative importances* for the previous December; these are base weights updated for price change and expressed as a percentage of total weight. Weights for components with greater than average price change will increase more than those with smaller than average price change. As a result, the change in a component's relative importance from one December to the next reflects its price change relative to that of all other categories as well as every two years, the biennial weight replacement.

For the medical care categories the CE collects information on household out-of-pocket expenses. These may include data such as healthcare services received, who received it, the amount of payment made, and insurance reimbursements received. Medical care expenditures eligible for the CPI include out-of-pocket expenses paid by the consumer. These include fees (not recouped through health insurance) that consumers paid directly to retail outlets for medical goods and to doctors and other medical providers for medical services, as well as health insurance premiums that consumers paid (including Medicare Part B). To arrive at the consumer out-of-pocket medical expense, the CE nets out direct insurance reimbursements to the consumer from the total amounts paid by the consumer.

Since medical care only includes consumers' out-of-pocket expenditures (and excludes employer provided health care), its share in the CPI is smaller than its share of gross domestic product (GDP) and other national accounts measures.

Medical Care Outlet and Item Selection

Throughout the year, the Bureau conducts household Point-of-Purchase surveys (POPS) in the CPI pricing areas. The POPS provides the sampling frame of outlets or retail businesses for most CPI item categories including those in the medical care indexes. BLS selects the outlet sample for each item category in each pricing area using probability proportional to the reported expenditure. Approximately one quarter of the outlets "rotate" annually so that over a four year period the entire outlet sample is reselected. This keeps the sample up to date and replenishes outlets lost to refusals and going out-of-business. BLS sends its field staff to the selected outlets to select a sample of items that the outlet sells in each assigned category; thus, the item sample rotates over the four year period. The field staff uses probability proportional to reported outlet sales for sampling goods and services priced in the CPI. During the initial visit to a business, the field staff verifies that the outlet carries the item category to be priced, proceeds to select a small sample of items in the category based on the outlet's estimated or actual revenue, and records all price-determining features for the selected items. Some medical care items, such as prescription drugs or hospital services, require special sampling procedures to reduce the burden on the outlets' respondents. Additionally, specific items, such as prescription drugs, are re-sampled more frequently due to frequent innovation and new product introduction.

Prescription Drugs

The *prescription drugs* index is comprised of drugs one may purchase by prescription at a retail, mail order or Internet pharmacy. However, prescription drugs that are primarily consumed and paid for as part of hospital visits are not included in this sample.

Item sampling: This index employs a streamlined sampling method. At each of the pharmacies selected, the BLS field staff selects a specific item for each of the assigned number of items to be priced. To do this, the field staff obtains a list of the last 20 prescriptions dispensed. This "last 20 list" serves as a proxy for *all* the prescription drugs dispensed at that pharmacy, and a price is obtained for each prescription on the list. The

price includes both patient and insurance contributions to the pharmacy, and the sum of all 20 prices makes up total spending (by the consumer at this pharmacy). Thus, each price represents an observed share of total spending, and the probability of any one prescription being selected is proportional to its share in total spending. The more frequently a certain drug shows up in the "last 20 list" and the more expensive it is, the more likely it is to be selected for the index. This item selection procedure is done for every outlet when it is initiated for pricing. In addition, in each outlet prescription drugs are re-sampled after two years to capture current consumer purchase behaviors and bring new goods and services into the *medical care* index.

Special pricing procedures for prescription drugs:

Drugs losing patent protection: When a brand-name drug in the sample loses its patent protection, generic versions of the drug receive a one-time chance to replace the original, brand-name drug even if the sample pharmacy continues to sell the brand name drug. Six months after a drug in the sample loses patent protection, CPI field staff selects among all drugs (including the original) that the Food and Drug Administration deems to be therapeutically-equivalent. Delaying the reselection for six months allows emerging generic drugs an opportunity to gain market share. The chance of drug selection is proportional to the number of prescriptions sold for each version of the drug over the previous 3 months. If a generic is selected, the CPI treats any price difference between the original drug and its selected substitute as a price change, and reflects this change in the index in the month when the procedure was performed.

When prescription drugs become available over-the-counter (OTC), the CPI continues to price them in the *prescription drug and medical supplies* index until they rotate out under normal rotation procedures. They are not transferred to the *non-prescription drugs and medical supplies* index. The observations remain in the prescription drug sample, and any price change is reflected in the *prescription drug and medical supplies* index. Similarly, if any over-the-counter drugs were to change so they required prescriptions, they would remain in the *non-prescription drugs and medical supplies* index until the next rotation and any resulting price change would occur in that index.

Professional Services

The *professional services* index covers services that are performed and billed by private-practice medical doctors, dentists, eye care providers, and other medical providers. Physicians' and dental services have most of the weight for this category. Below is an example of initiating physicians' services, but the methodology applies to all providers in this EC.

Item sampling: At the initial visit CPI field staff establishes the practitioner's specialty, disaggregates to an appropriate service, and describes the characteristics of the selected visit and any related procedures on a CPI-specific checklist. Current Procedural Terminology (CPT) codes are collected to help describe the item accurately. Unless the selected combination of services changes or the CPT code is modified, the item descriptions remain fixed for pricing. The *physicians' services* index includes consumer out-of-pocket payments, Medicare B payments, and insurance reimbursements. The total fee reported for each priced service reflects the amount the physician expects to receive from the patient and/or insurance carrier.

Hospital Services

There is a growing consensus that the most appropriate way to measure hospital services is by tracking treatment outcomes rather than medical inputs consumed. From this vantage point, a day spent occupying a hospital room and the time in an operating room are not separate consumer services, but individual components of *one* hospital visit which may be all or part of a medical treatment. The current CPI method follows medical treatments, a method that lies between the old medical-inputs method and the ideal medical-outcomes method. Measuring the value of different treatment outcomes is the subject of research in the industry, but not yet a feasible methodology for the CPI medical care indexes.

Item sampling: Hospital services include inpatient and outpatient services. The pricing unit is the hospital visit, defined by a date of admission, a date of discharge as documented on a hospital bill, and the specific diagnosis or medical condition. At the initial visit CPI field staff works with the respondent to select a hospital bill based on revenues generated by eligible payers (i.e. privately insured and uninsured patients). Then, the field staff describes the item in terms of the bundle of goods and services consumed during that visit, or the physical (or mental) state required for the patient to be discharged from the hospital. Bills used for the CPI are sanitized of patient-identifying characteristics and do not contravene the Health Insurance Portability and Accountability Act of 1996 (HIPPA) confidentiality mandates.

The objective of sampling for the hospital stratum is to identify a specific eligible payer to follow over time. The sampling is based on hospital revenue. The items are distinguished by their reason(s) for admission to the hospital (i.e. heart attack, emergency visit, scheduled surgery, chronic illness, diagnostics, etc.), and associated primary diagnosis type. They are further broken down by the insurers' reimbursement arrangements in the contract (i.e. itemized charges, diagnosis related group-DRG, case rate, per diem, etc.) and the patients' expected payments (if any).

The goal of the *hospital services* index is to follow the transaction prices of selected services over time while keeping price-determining characteristics constant. The transaction price is the reimbursement received by the provider from all eligible sources; it is the amount paid by the insurance carrier (if applicable) and/or patient's out-of-pocket payments. With the exceptions of fee-for-service and fee schedule, each type of reimbursement reflects a lump sum payment based on the diagnosis, the type of procedure performed, or a flat fee per unit of service. Only quotes with payer-based transaction prices are eligible for inclusion in the priced sample of hospital services.

Health Insurance

The CPI does not publish a *health insurance* index, although BLS is testing its feasibility with an experimental index. The weights in the CPI do not include employer-paid health insurance premiums or tax-funded health care such as Medicare Part A and Medicaid. Currently, the index employs an indirect method for measuring price changes for health insurance premiums. Under this indirect method, the *medical care* index will not be affected by changes in policy characteristics, such as modifications to policy benefits and utilization changes. The approach implicitly assumes that the level of service from individual carriers is strictly a function of benefits paid. While other components may affect the index, such as more convenient claims handling or a 24-hour nurse line, their effects are probably small. This indirect approach factors medical insurance premiums into two parts:

- Changes in the prices of medical care items covered by health insurance policies
- Changes in the cost of administering policies, maintaining reserves and, as appropriate, profits.

Most expenditure for health insurance goes to the first item above, and reflects insurers' payments for medical treatments. The CPI allocates this portion to the indexes that account for medical care items (i.e. physicians' services). Thus, the weights for most of MCS indexes reflect out-of-pocket expenditures plus allocated health insurance benefit payments. (It is for this reason that provider's reimbursements from insurance companies are valid prices for the CPI's MCS indexes.)

The price change that the CPI uses for the remaining weight, changes in the retained earnings of health insurance carriers (the second item above), is the product of two relatives of change:

- The change in the retained earnings ratio, and
- The change in the cost of medical items from elsewhere in *CPI medical care*.

Retained earnings ratios are calculated based on data obtained from various industry sources. BLS acquires calendar year data on premium income, benefits payments, and retained earnings from national non-profit health insurance carriers and from Bests Insurance for commercial carriers. The relative of change is calculated by dividing the previous year's ratio by the current year's ratio. The relative of change is then converted to a monthly relative (by taking its twelfth root), and these changes are used monthly to reflect retention margins.¹ The second relative reflects price change for the eight medical care items whose basic weight includes allocated health insurance premiums.

Challenges to pricing *health insurance* The current indirect method for measuring health insurance premium changes does not mimic the way consumers pay for health care and it forces the medical care indexes to measure changes in what medical care providers receive from insurance companies rather than what consumers pay for the medical items out of pocket. A direct measure that would have an index for health insurance premiums along with out-of-pocket indexes for the various medical items would be an ideal way to measure medical care price change—provided that BLS could produce an accurate constant-quality index for health premiums. A 1984-85 test of the feasibility of directly pricing health insurance policies showed that there were major barriers to obtaining data on changes in quality variables such policy benefits and utilization (the number of claims per insured). Consequently, BLS was unable to produce consistent constant-quality premiums for health insurance policies for use as CPI prices. BLS plans further research to find more appropriate ways to price this index and currently the CPI is again re-testing the direct pricing of health insurance.

Further information may be obtained from the Office of Prices and Living Conditions, Bureau of Labor Statistics, 2 Massachusetts Avenue, NE., Room 3615, Washington, DC, 20212, or by calling (202) 691-6985.

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(1) A hypothetical example of the calculation of the change in retained earnings for commercial carriers:

Year	Income	Benefit	Retention	Retention-benefit ratio
1	\$100,000	\$94,000	\$6,000	.063830
2	\$108,000	\$100,000	\$8,000	.080000

Year 2 adjustment for change in retentions:

- a. Year 2 ratio / Year 1 ratio = $.080000 / .063830 = 1.253329$ relative of change, or 25.33 percent, which is the annual increase in the retention to benefits ratio.
- b. Spreading this annual change equally over 12 months is done as follows: take the 12th root of the 12 month change of 1.253329, which equals 1.018995 or 1.9 percent per month.

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U.S. Bureau of Labor Statistics
 Division of Consumer Prices and Price Indexes
 Suite 3130
 2 Massachusetts Avenue, NE
 Washington, DC 20212-0001

URL: <http://www.bls.gov/CPI>
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How Does the Producer Price Index Differ from the Consumer Price Index?

It is often assumed that the direction and magnitude of price change in the Producer Price Index (PPI) for finished goods anticipates a similar change in the Consumer Price Index (CPI) for all items. When this assumed relationship is contradicted by the actual movements of the two series, as it often is, many data users ask why the PPI and CPI show different price movements.

The answer is that conceptual and definitional differences between the PPI and CPI--differences which are consistent with the uses of the two measures--contribute to the differences in their price movements. A primary use of the PPI is to deflate revenue streams in order to measure real growth in output. A primary use of the CPI is to adjust income and expenditure streams for changes in the cost of living. The different uses cause definitional differences that can be categorized into two critical areas: (1) the composition of the set of commodities and services they include and (2) the types of prices collected for these items.

Compositional differences

The Producer Price Index for Finished Goods tracks the average change in prices over time of domestically produced and consumed commodities. The index is comprised of prices for both consumer goods and capital equipment, but excludes prices for services. Weights for the finished goods PPI are currently based on the value of shipments of products as reported by producers for the 1997 economic census.

The All Items CPI measures the average change in prices over time of goods and services purchased for personal consumption by urban U.S. households, regardless of the item's country of origin. This index is comprised solely of prices for consumer goods, thus it excludes prices for capital equipment. In addition, CPI weights correspond to the Consumer Expenditure Survey (currently for the years 2001-2002).

Differences in the type and timing of prices collected

Sales and excise taxes. The price collected for an item included in the PPI is the revenue received by its producer. Sales and excise taxes are not included in the producer price because they do not represent revenue to the producer. The price collected for an item included in the CPI is the out-of-pocket expenditure by a consumer for the item. Sales and excise taxes are included in the price because they are necessary expenditures by the

consumer for the item. As a consequence, changes in the tax rates on cigarettes or alcoholic beverages, for example, can cause the CPI to move relative to the PPI.

Distribution costs. The price (revenue) received by a producer for a particular product may differ from the price paid by a consumer for that same product for important reasons besides taxes. The product in question, such as food or apparel, may have followed a distribution path from producer through wholesaler and retailer before its final sale to the consumer. In this case, the price paid by the consumer for the product likely reflects intermediate markups to cover the costs of shipping it from one party to another, as well as the costs of doing business by both the wholesaler and retailer.

Timing of collection. Another possible source for discrepancies in price movements between the PPI and CPI is the difference in the timing of data collection in the two programs. The PPI uses primarily a mail survey, which is sent to respondents on a monthly basis. In contrast, the CPI collects price quotes by telephone or personal visits by BLS representatives. Because respondents sometimes do not return PPI survey forms on a timely basis, indexes are routinely subject to revision 4 months after original publication to reflect late reports and price corrections. Once revised, PPI indexes are considered final. When PPI indexes are first released, they are typically based on a substantial portion of the total number of prices that will eventually be received from respondents; hence, subsequent revisions are normally minor. The CPI, on the other hand, does not routinely revise indexes.

The PPI targets the price of goods on a specific date, the Tuesday of the week containing the 13th of the month. CPI prices are typically collected throughout the first 18 working days of each month. If a particular event or pricing decision occurred late in the month, it is possible that it would be reflected in the CPI prior to the PPI.

Prices for some product and service categories in the CPI are collected every other month. Because of this "bi-monthly" price collection, the CPI reflects the price movement for some items over a 2-month period. In the PPI, all price quotations are collected monthly.

In addition, different methods may be employed for the introduction of new models of priced goods. In the PPI, a new model is priced when the producer stops selling the previous model. Most items in the CPI are priced at the outlet until they are no longer available for sale, although for some items, such as new cars and trucks, the new model is first priced when it out-sells the previous model. Therefore, in some cases, a new model might be priced in the PPI well before it shows up in the CPI. For example, in the PPI most new passenger cars are introduced in October; for the CPI, new models are introduced over a longer period (4 to 6 months beginning in September), as dealers close out old inventory and begin selling the newer models.

"Pass through" of price change from the PPI to the CPI

Some assume that a price change recorded in a particular component of the PPI will eventually and directly be seen in the same or most similar component of the CPI. In reality, it is difficult to project whether, and to what extent, an increase in the PPI will "pass through" to the CPI. For example, an increase in the price paid to a producer for a good may not be passed on by a retailer if conditions in the retail market preclude such an action. Alternatively, the retailer may increase the selling price for the good in question, but not by the full extent of the increase in the price paid to the producer.

For a more detailed discussion of price pass through relating to the PPI and CPI stage of

processing price system see <http://www.bls.gov/opub/mlr/2002/11/art1full.pdf>.

Summary

The conceptual and definitional distinctions of the PPI and CPI are consistent with the uses of these two major economic indicators. The PPI is used to deflate revenue to measure real growth in output and the CPI is used to adjust income and expenditures for changes in the cost of living. In brief, the CPI includes services, imports, and sales taxes, whereas the PPI excludes them. Distribution costs are included in the CPI but not in the PPI. Finally, the PPI includes capital equipment and the CPI does not.

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U.S. Bureau of Labor Statistics
Producer Price Index
Suite 3840
2 Massachusetts Ave., NE
Washington, DC 20212-0001

URL: <http://www.bls.gov/PPI>
Phone: (202) 691-7705
Fax: (202) 691-7754
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Alaska State Medical Association

4107 Laurel Street • Anchorage, Alaska 99508 • (907) 562-0304 • (907) 561-2063 (fax)

April 24, 2007

Honorable Kevin Meyer, Co-chair, House Finance Committee
Honorable Mike Chenault, Co-chair, House Finance Committee
State Capitol, Room 515
Juneau, AK 99801-1182

RE: CSHB228 – Workers Compensation Fee Schedule

Dear Representatives Chenault and Meyer:

The Alaska State Medical Association (ASMA) represents physicians statewide and is primarily concerned with the health of all Alaskans.

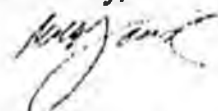
Attached is a copy of the written testimony provided to the House Labor and Commerce Committee. ASMA realizes that the critical element at this point in time is to enact legislation that will define a new payment schedule for medical services because of the current schedule being eliminated on August 1, 2007. As such ASMA supports the passage of CS HB228. Furthermore, ASMA commends Representative Kelly for introducing HB228 and seeing it through the process.

The requested data regarding the medical payments under the workers compensation system is necessary to appropriately evaluate and work towards any warranted changes. The cost, in general terms, is the result of multiplying the price (charge) for a service times the number of the times that services is provided. This data obviously is important to evaluate the price aspect but is absolutely necessary when evaluating the utilization element (i.e. the number of times a service is provided). It is critical that evaluations of the utilization element be done by those most familiar with what the appropriate standard of care is for that service. ASMA and its members have and will continue to volunteer to assist in such evaluation for the services provided by physicians.

ASMA only requests one clarification be made. That clarification is relative to CS HB228, page 2, line 2. The adjustment basis is defined as the "medical care component" of the CPI. The clarification is whether that refers to the component identified on the U.S. Department of Labor, Bureau of Labor statistics website as the "U.S. Medical Care, 1982-84 = 100 - CUUR0000SAM" or the "U.S. Medical Care Services, 1982-84 = 100 - CUUR0000SAM2". It is ASMA's understanding that the "U.S. Medical Care" component contains prescription and non-prescription drugs and prescription and non-prescription medical equipment which are not elements affected by the change made in the payment schedule under CS HB228. ASMA views such clarification as "editorial" and would support the Committee's and Representative Kelly's determination as to the most appropriate index.

ASMA asks you to expeditiously address and pass CS HB228.

Sincerely,



By: Roland Gower, MD, President
For: The Alaska State Medical Association

HB 228

House Finance

April 25, 2007

Division of Insurance

I. BILL PURPOSE

A. PROBLEM

1. 2005 Workers' Compensation Reform Bill
 - a. Limited medical service fee schedule to that adopted by the Work Comp Board on December 1, 2004
 - b. Freeze repealed effective August 1, 2007
2. Effect – On August 1, 2007 there will be no limitation on medical fees which will likely result in medical costs escalating

B. SOLUTION

1. Some legislation to re-establish maximum allowable reimbursements
2. Bill – Provides for a cap adjusted for inflation for provider fees

II. COST

A. SYSTEM (ATTACHMENT 1 & 2)

1. Medical
2. Indemnity

B. PREMIUM

1. Loss Cost
 - a. Historical System Cost
 - b. Trending
2. Expense – Individual Carrier Component

III. RATE HISTORY

A. NATIONAL RANKING

1. 2004 Oregon Study (ATTACHMENT 3)
2. 2006 Oregon Study (ATTACHMENT 4)

B. ALASKA RATES (ATTACHMENT 5)

IV. IMPACT (ATTACHMENT 6)

A. WITHOUT CAP

1. NCCI estimate
2. No certainty or stability or ability to predict
3. Costs continue to grow

B. WITH CAP

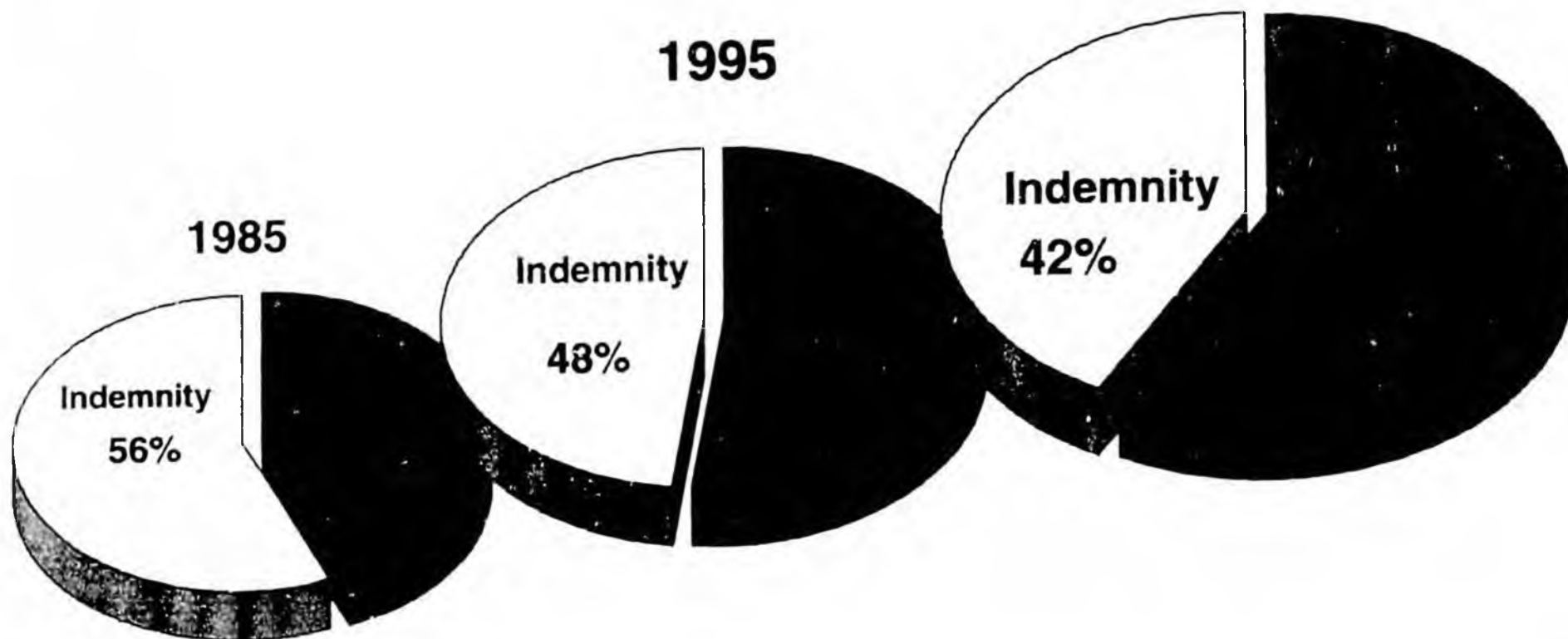
1. NCCI estimate
2. EMPHASIS – NOT mean no rate increase or decrease – just one component of rate making

#1 STATES
All

Workers Compensation Losses

All Claims—NCCI States

2005p



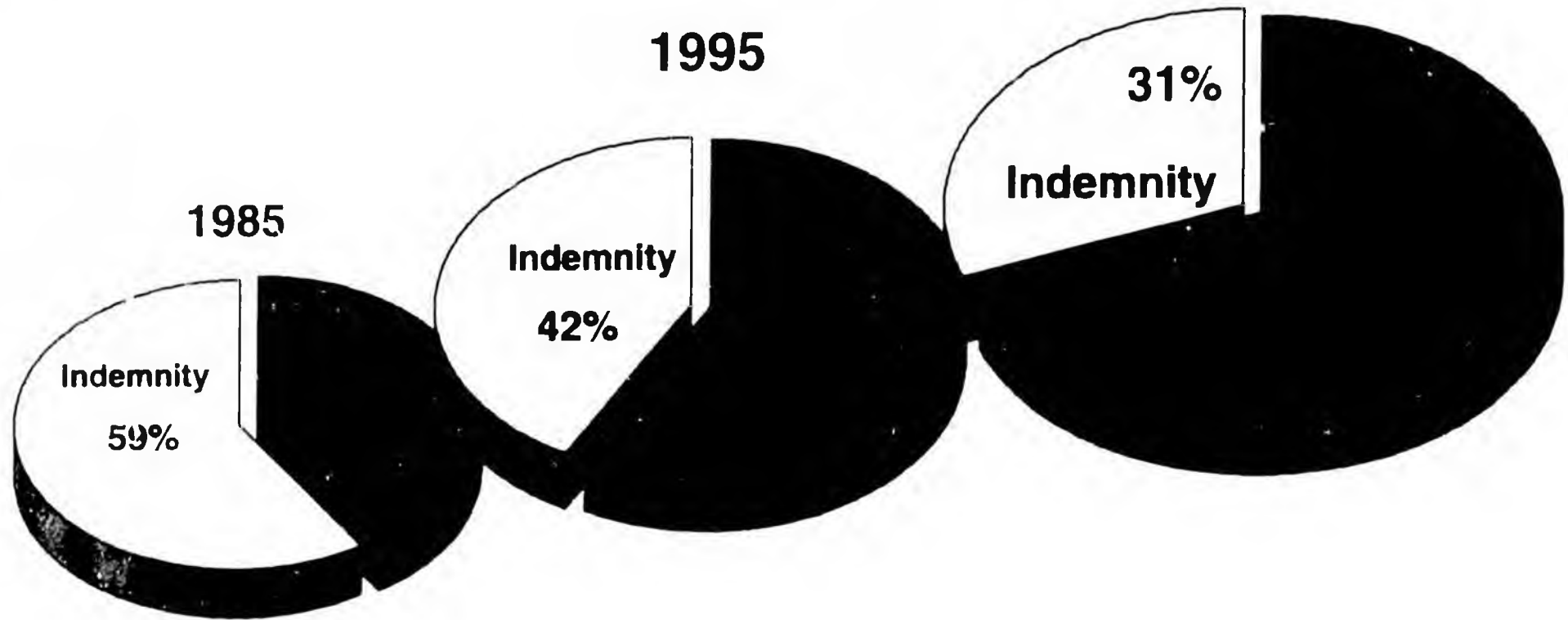
2005p: Preliminary based on data valued as of 12/31/05
1985, 1995: Based on data through 12/31/04, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes the effects of deductible policies



Workers Compensation Losses in Alaska

All Claims—Alaska

2005p



2005p: Preliminary based on data values as of 12/31/05

1985, 1995: Based on data through 12/31/04, developed to ultimate

Based on the states where NCCI provides ratemaking services

Excludes the effects of deductible policies



#3 - 2004
Oregon

Table 2. Workers' compensation premium rate ranking

2004 Ranking	2002 Ranking	State	Index Rate	Effective Date
1	1	California	6.08	January 1, 2004
2	15	Alaska	4.39	January 1, 2004
3	2	Florida	4.20	October 1, 2003
4	3	Hawaii	3.73	January 1, 2004
5	14	Ohio	3.59	July 1, 2003
6	18	Kentucky	3.48	September 1, 2003
7	4	Delaware	3.44	December 1, 2003
8	10	Montana	3.41	July 1, 2003
9	7	Louisiana	3.37	January 1, 2004
10	17	District of Columbia	3.28	November 1, 2003
11	13	Connecticut	3.23	January 1, 2004
12	18	New Hampshire	3.19	January 1, 2004
13	8	Maine	3.08	January 1, 2004
14	5	Texas	3.08	January 1, 2003
15	18	Oklahoma	3.07	2/1/02 State Fund, 1/1/04 private
16	6	Rhode Island	3.01	November 1, 1998
17	25	Vermont	2.99	April 1, 2003
18	9	New York	2.97	December 1, 2003
19	12	Alabama	2.88	March 1, 2004
20	23	Pennsylvania	2.82	April 1, 2003
21	22	Minnesota	2.74	January 1, 2004
22	28	Missouri	2.67	January 1, 2004
23	20	Illinois	2.65	January 1, 2004
24	24	West Virginia	2.64	July 1, 2003
25	29	Tennessee	2.62	March 1, 2003
26	11	Nevada	2.58	January 1, 2004
27	38	New Mexico	2.56	January 1, 2004
28	38	Wyoming	2.43	January 1, 2004
29	31	New Jersey	2.38	January 1, 2004
30	30	Michigan	2.34	January 1, 2004
31	21	Colorado	2.33	January 1, 2004
32	34	North Carolina	2.32	August 29, 2003
33	32	Wisconsin	2.27	October 1, 2003
34	27	Idaho	2.25	January 1, 2004
35	45	Washington	2.20	January 1, 2004
36	33	Mississippi	2.19	March 1, 2003
37	28	Georgia	2.14	November 1, 2001
38	39	Nebraska	2.10	February 1, 2003
39	42	South Carolina	2.08	January 1, 2004
40	40	Maryland	2.08	January 1, 2004
41	48	South Dakota	2.05	July 1, 2003
42	38	OREGON	2.05	January 1, 2004
43	43	Iowa	1.91	January 1, 2004
44	41	Kansas	1.81	January 1, 2004
45	37	Massachusetts	1.70	September 1, 2003
46	44	Utah	1.63	December 1, 2003
47	49	Virginia	1.57	April 1, 2003
48	47	Arkansas	1.57	July 1, 2001
49	46	Arizona	1.49	October 1, 2003
50	50	Indiana	1.24	January 1, 2004
51	51	North Dakota	1.06	July 1, 2003

Based on updated information, the 2002 ranking has been revised since it was originally published.

Although some states may appear to have the same index rate, the ranking is based on calculations prior to rounding to two decimal places. The index rates reflect appropriate adjustments for the characteristics of each individual state's residual market. Rates vary by classification and insurer in each state. Actual cost to an employer can be adjusted by the employer's experience rating, premium discount, retrospective rating, and dividends.

Employers can reduce their workers' compensation rates through accident prevention, safety training, and by helping injured workers return to work.

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Salem, OR 97309-0405
(503) 378-8254

440-2082 (12/04/COM)

4
Oregon 2006

Table 2. Workers' compensation premium rate ranking

2006 Ranking	2004 Ranking	State	Index Rate	Percent of study median	Effective Date
1	2	Alaska	5.00	201%	January 1, 2006
2	1	California	4.13	166%	January 1, 2006
3	7	Delaware	3.91	158%	December 1, 2005
4	6	Kentucky	3.78	152%	October 1, 2005
5	8	Montana	3.69	149%	July 1, 2005
6	3	Florida	3.32	134%	January 1, 2006
7	17	Vermont	3.24	130%	April 1, 2005
8	13	Maine	3.21	129%	January 1, 2006
9	19	Alabama	3.17	128%	March 1, 2005
10	18	New York	3.15	127%	October 1, 2005
11	9	Louisiana	3.10	125%	September 1, 2005
12	5	Ohio	3.00	121%	July 1, 2005
13	15	Oklahoma	2.98	119%	2/1/06 State Fund, 7/1/05 Private
14	11	Connecticut	2.90	117%	January 1, 2006
15	4	Hawaii	2.89	116%	January 1, 2006
16	10	District of Columbia	2.86	115%	November 1, 2005
17	14	Texas	2.84	114%	January 1, 2006
18	20	Pennsylvania	2.80	113%	April 1, 2005
19	12	New Hampshire	2.75	111%	January 1, 2006
20	23	Illinois	2.69	108%	January 1, 2006
21	21	Minnesota	2.69	108%	January 1, 2006
22	16	Rhode Island	2.68	108%	January 1, 2006
23	29	New Jersey	2.52	102%	January 1, 2006
24	22	Missouri	2.50	101%	January 1, 2006
25	39	South Carolina	2.50	101%	July 1, 2004
26	25	Tennessee	2.48	100%	July 1, 2005
27	27	New Mexico	2.41	97%	January 1, 2006
28	28	Wyoming	2.40	96%	January 1, 2006
29	31	Colorado	2.40	96%	January 1, 2006
30	26	Nevada	2.36	95%	January 1, 2005
31	36	Mississippi	2.29	92%	March 1, 2005
32	34	Idaho	2.29	92%	January 1, 2006
33	28	Nebraska	2.25	91%	February 1, 2005
34	24	West Virginia	2.20	88%	January 1, 2006
35	33	Wisconsin	2.18	88%	October 1, 2005
36	35	Washington	2.17	88%	January 1, 2006
37	32	North Carolina	2.17	87%	April 1, 2005
38	46	Utah	2.06	83%	December 1, 2005
39	30	Michigan	2.05	82%	January 1, 2006
40	40	Maryland	2.03	82%	January 1, 2006
41	37	Georgia	2.02	82%	July 1, 2005
42	42	OREGON	1.97	79%	January 1, 2006
43	44	Kansas	1.84	74%	January 1, 2006
44	41	South Dakota	1.83	74%	July 1, 2005
45	43	Iowa	1.75	71%	January 1, 2006
46	49	Arizona	1.73	70%	October 1, 2005
47	45	Massachusetts	1.70	68%	September 1, 2005
48	48	Arkansas	1.59	64%	July 1, 2005
49	47	Virginia	1.52	61%	November 1, 2005
50	50	Indiana	1.24	50%	January 1, 2006
51	51	North Dakota	1.10	44%	July 1, 2005

Although some states may appear to have the same index rate, the ranking is based on calculations prior to rounding to two decimal places. The index rates reflect appropriate adjustments for the characteristics of each individual state's residual market. Rates vary by classification and insurer in each state. Actual cost to an employer can be adjusted by the employer's experience rating, premium discount, retrospective rating, and dividends.

Employers can reduce their workers' compensation rates through accident prevention, safety training, and by helping injured workers return to work.

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(503) 378-8254

#5
Rate
History

Historical Workers Comp Rate Changes in Alaska

Date	Total Premium Level Change	Change Due to Experience	Effect of Law and other changes	Cumulative Change
8/1/1959	6.0%	0.854	1.241	1.060
12/1/1960	-1.3%	0.986	1.001	1.046
12/31/1961	6.2%	1.062	1.000	1.111
12/31/1962	-0.4%	0.993	1.003	1.106
12/31/1963	-5.4%	0.946	1.000	1.047
10/1/1964	15.1%	1.096	1.050	1.204
9/1/1965	-0.3%	0.987	1.000	1.201
10/1/1966	-11.8%	0.870	1.014	1.059
11/1/1967	-3.1%	0.969	1.000	1.027
1/1/1969	7.2%	1.049	1.022	1.101
11/1/1969	1.6%	1.061	0.958	1.119
10/1/1970	5.4%	0.988	1.067	1.179
4/1/1972	-5.2%	0.948	1.000	1.118
8/15/1972	15.6%	1.000	1.158	1.295
3/1/1973	-3.1%	0.969	1.000	1.254
6/1/1974	34.2%	1.207	1.112	1.884
6/1/1975	46.3%	1.109	1.320	2.464
11/1/1976	3.7%	0.918	1.130	2.556
2/1/1977	0.6%	1.000	1.060	2.709
9/1/1977	-18.6%	1.000	0.814	2.205
3/1/1978	-3.6%	1.040	0.927	2.127
6/1/1978	-0.8%	1.000	0.992	2.110
10/1/1978	13.1%	1.131	1.000	2.386
12/1/1979	1.8%	0.985	1.034	2.430
4/1/1980	-5.9%	1.000	0.941	2.287
1/1/1981	9.8%	1.100	0.998	2.510
1/1/1982	4.5%	1.034	1.011	2.624
1/1/1983	-4.6%	0.954	1.000	2.503
1/1/1984	-8.0%	0.893	1.030	2.303
7/1/1984	5.0%	1.000	1.050	2.418
1/1/1985	0.1%	1.001	1.000	2.420
5/1/1985	7.3%	1.000	1.073	2.597
3/1/1986	0.0%	1.000	1.000	2.597
1/1/1987	14.3%	1.143	1.000	2.968
1/1/1988	25.1%	1.251	1.000	3.713
7/1/1988	-5.7%	1.000	0.943	3.501
1/1/1989	0.0%	1.000	1.000	3.501
1/1/1990	-4.1%	0.959	1.000	3.358
1/1/1991	-6.2%	0.983	1.000	3.301
1/1/1992	-3.2%	0.968	1.000	3.195
1/1/1993	-8.5%	0.915	1.000	2.924
1/1/1994	2.4%	1.024	1.000	2.994
1/1/1995	2.6%	1.026	1.000	3.072
1/1/1996	-7.1%	0.929	1.000	2.853
1/1/1997	-10.3%	0.897	1.000	2.560
1/1/1998	-8.3%	0.917	1.000	2.347
1/1/1999	-8.5%	0.915	1.000	2.148
1/1/2000	0.0%	1.000	1.000	2.148
7/1/2000	7.9%	1.000	1.079	2.317
1/1/2001	0.0%	1.000	1.000	2.317
1/1/2002	10.2%	1.100	1.002	2.554
1/1/2003	3.5%	1.035	1.000	2.643
1/1/2004	21.2%	1.212	1.000	3.204
1/1/2005	12.0%	1.120	1.000	3.588
1/1/2006	7.0%	1.070	1.000	3.839
1/1/2007	-10.5%	0.895	1.000	3.436
Cumulative Change		1.565	2.452	

*In 1999 NCCI began filing loss costs for the voluntary market
 **NCCI implemented a new methodology for determining the assigned risk expense load
 ***Includes change in methodology for maritime classes

**ANALYSIS OF THE CHANGES TO THE ALASKA PHYSICIAN FEE SCHEDULE
PROPOSED IN CSHB 228 (L&C), AS AMENDED, TO BE EFFECTIVE AUGUST 1, 2007**

NCCI estimates that the changes to the physician fee schedule proposed in House Bill (HB) 228, as amended, will result in an overall workers compensation system cost increase in Alaska of between +0.8% and +1.3% (\$3.7 M to \$6.0 M).

If there is no change to the current law, the existing physician fee schedule will sunset on August 1, 2007, with no replacement. NCCI estimates that the impact of the fee schedule sunset, with no replacement schedule, would result in an overall workers compensation system cost increase in Alaska of between +4.5% and +5.8%.

Background

The current workers compensation medical fee schedule in Alaska became effective December 1, 2004. This fee schedule was based on the 90th percentile of usual, customary and reasonable fees for similar services as reported to Ingenix at the time the fee schedule was established. Senate Bill 130, enacted in 2005, froze the medical fee schedule at the December 2004 levels until August 1, 2007.

Alaska HB 228, as amended, proposed to be effective August 1, 2007, increases the maximum allowable reimbursements (MARs) from the December 1, 2004 physician fee schedule by the change in the medical care component of the U.S. Consumer Price Index for all urban consumers from 2004 to 2006. This proposed fee schedule would apply to services provided on or after August 1, 2007 but before March 31, 2009.

Actuarial Analysis

The methodology used to estimate the cost impacts due to the changes proposed in HB 228, as amended, is as follows:

Charges for various medical procedures under the physician fee schedule were obtained from medical transaction data. These charges were adjusted to reflect changes from past price levels to the price levels projected to be in effect on August 1, 2007. Trend factors used for the projections were based on the U.S. and Western region professional components of the medical consumer price index (MCPI), along with the U.S. and Anchorage MCPI (all medical components) for the period 2004-2006, shown in the following table:

Year	U.S. MCPI (Prof. Component)		Western Region MCPI (Prof. Component)		U.S. MCPI (All Medical Components)		Anchorage MCPI (All Medical Components)	
	Value	Change	Value	Change	Value	Change	Value	Change
2003	261.16	2.9%	245.17	3.3%	297.08	4.0%	N/A	N/A
2004	271.48	4.0%	255.52	4.2%	310.13	4.4%	N/A	N/A
2005	281.70	3.8%	264.65	3.6%	323.20	4.2%	344.20	N/A
2006	289.33	2.7%	271.54	2.6%	336.20	4.0%	356.10	3.5%

Source: Economy.com; N/A = Not Available

#6
8.2

Based on the changes in the above indices, annual trend factors in the range of +2.5% to +4.5% were applied to medical transaction data for physician services performed in 2003-2004 to project the price levels that would be in effect on August 1, 2007. The lesser of the projected charge and the current maximum allowable fee was used to determine the current cost level for each procedure. Similarly, the lesser of the projected charge and the proposed maximum allowable fee was used to determine the proposed cost level for each procedure. The proposed maximum allowable fees were determined by increasing the current maximum allowable fees by the change in the U.S. MCPI from 2004 to 2006 of 8.4% ($= 336.20 / 310.13 - 1$).

The estimated impact on physician costs was determined to be an increase of between +1.8% and +2.9%. This was calculated as the ratio of the total projected costs of procedures under the proposed fee schedule to the total projected costs of procedures under the current fee schedule.

This impact was then multiplied by the estimated ratio of physician costs to medical costs in Alaska (66.4%) to yield an increase on medical costs of between +1.2% and +1.9%. The impact on medical costs was then multiplied by the projected ratio of medical costs to total benefit costs in Alaska (70.2%) to yield an overall increase of between +0.8% and +1.3%.

The results are summarized in the table below:

	Impact
(1) Impact on Physician Costs	+1.8% to +2.9%
(2) Physician Costs as % of Medical Costs in Alaska	66.4%
(3) Impact on Medical Costs = (1) x (2)	+1.2% to +1.9%
(4) Medical Costs as % of Total System Costs in Alaska	70.2%
(5) Impact on Overall Workers Compensation System Costs In Alaska, based on 8.4% Increase to current 12/1/2004 physician fee schedule = (3) x (4)	+0.8% to +1.3%

April 24, 2007

Representative Mike Kelly
State Capital Room 513
Juneau, Alaska 99801

Representative Kelley,

The Alaska State Chamber of commerce strongly supports HB 228, temporarily capping medical costs for worker's compensation. The Alaska State Chamber of Commerce has been working towards lowering the costs associated with worker's compensation insurance for many years. The current cap on medical costs enacted when workers compensation reforms were adopted in 2005 was a stop-gap measure. The cap will sunset this fall. The 2005 cap was put into effect as a temporary measure in lieu of fundamental changes addressing the system's cost drivers. Until fundamental changes occur, passage of HB 228 is paramount to controlling costs.

Medical costs are the largest cost driver in the Alaska workers compensation system. Substantive reforms are needed to get at the quality of medical utilization and other factors such as frequency, severity of accidents and costs associated with particular accidents. When SB 130 passed in 2005, two committees were appointed, the Workers Compensation Legislative Taskforce and the Department of Labor and Workforce Development Medical Review Committee. Two important tasks of the committees were to look at program design problems and to study underlying reasons for medical cost increases. The committees were to develop recommendations to ease rate increases going forward. The committees were to have completed their work by February of 2006 and the medical rate freeze would sunset in August of 2007, replaced with a newly recommend rate fee.

The Taskforce has not completed their work and submitted it to the legislature for further review. The task force ended via a sunset provision in the 2005 legislation. The task force did not submit a HB 228 would extend the medical rate freeze until March 2009. It includes an annual rate increase based on the Consumer Price Index. The extension will allow time for the committee to complete its data gathering and analysis and develop their recommendations. This will allow sufficient time for the Legislature to address the underlying reasons for premium increases.

The medical review committee is in effect within the Dept of Labor. The committee is still waiting for research and data compilation associated with the worker's compensation system. The committee is expected to meet sometime later in the summer and work towards substantive recommendations and reform after reviewing the data. Until the committee meets and makes recommendations to the legislature, substantive changes to the worker's compensation system cannot occur. Therefore it is of great importance to all businesses that costs associated with worker's compensation insurance be controlled through passage of HB 228.



ALASKA STATE
CHAMBER
OF COMMERCE

Headquarters

217 2nd Street
Suite 201
Juneau
Alaska 99801
(907) 586 2323
FAX 463 5515

Regional Office

601 W. 5th Ave.
Suite 700
Anchorage
Alaska 99501
(907) 278 2722
FAX 278 6643

In a recent study, Alaska's employers are paying the highest premium rates in the nation- more than twice the national median rate. Without substantive reforms, Alaska businesses will continue to struggle to meet the high-costs associated with worker's compensation insurance. HB 228, may only be a stop-gap measure, without it Alaska's employers may be forced to lay off employees or close their doors altogether.

We are hopeful the legislature can move this bill quickly through the legislative process.

Sincerely,

A handwritten signature in cursive script, appearing to read "Wayne A. Stevens".

Wayne A. Stevens
President/CEO



HB

229

HFIN

FILE

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: HB229-COM-ARRC-03-30-07
 Bill Version: HB 229
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Commerce
 Title Kenai Gasification Project; Railroad Bond RDU _____
 Component Alaska Railroad Corporation
 Sponsor Chenault
 Requester House Finance Component No. _____

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
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 (FY2007) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2008 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

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

This legislation authorizes the Alaska Railroad Corporation (ARRC) to issue up to \$2,600,000,000 in tax-exempt bonds to finance a portion of the Agrium Kenai Gasification Project which includes facilities and equipment for the transportation of Alaska coal; and facilities and equipment for coal gasification and electrical power generation adjacent to the Agrium fertilizer plant located in Kenai.

Lower-cost debt for the Project will enhance the Project's economics, increasing its feasibility. Payment of debt service allocable to facilities and equipment that would not be owned by ARRC would be provided through a long term contract or other agreement between ARRC and the Project's owner or operator.

Prepared by: Wendy Lindskoog, Assistant Vice President, Corporate Affairs
 Division: Alaska Railroad Corporation
 Approved by: Emil Notti, Commissioner
 Agency: Commerce, Community, and Economic Development

Phone 907.265.2498
 Date/Time 3/30/07 6:32 PM
 Date 3/30/2007

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

BILL NO. HB 229

ANALYSIS CONTINUATION

Payment of debt service for rolling stock, locomotives, track, facilities and other infrastructure owned by ARRC would be paid for by ARRC funds. Per AS 42.40.690, in no event will the general credit of the State of Alaska be pledged for the repayment of these bonds.

ARRC is a public corporation supported by revenues generated through its freight, passenger and real estate services. Because ARRC does not receive state funding for operations or capital improvements and is operated as an independent state-owned enterprise, this legislation would not create a fiscal impact for the State.

failed 2-5

25-LS0737\C.1
Kane
4/13/07

AMENDMENT |

OFFERED IN THE HOUSE
TO: HB 229

BY REPRESENTATIVE GARA

1 Page 4, line 4, following "this Act,":

2 Insert "and compliance with the requirement of (b) of this section,"

3

4 Page 4, following line 23:

5 Insert a new subsection to read:

6 "(b) The Alaska Railroad Corporation may not issue bonds under the authorization
7 and approval set out in this section unless the Department of Environmental Conservation
8 certifies that the coal gasification and electrical power generation facility will be designed and
9 operated in a manner that does not release more carbon dioxide into the atmosphere, per
10 megawatt of power produced, than the average carbon dioxide released per megawatt during
11 calendar year 2006 by the Beluga natural gas power plant, located on the western coast of
12 Cook Inlet."

13

14 Reletter the following subsections accordingly.

2007 HOUSE FINANCE COMMITTEE VOTE SHEET

DATE: 4-13-07

Amendment: #1

HB 224

MEMBER

Favor

Oppose

MEMBER	Favor	Oppose
THOMAS		✓
CRAWFORD		
FOSTER		
GARA	✓	
HAWKER		✓
JOULE		
KELLY		✓
NELSON	✓	
STOLTZE		✓
CHENAULT		
MEYER		✓

Yea 2

Nay 5



MATANUSKA-SUSITNA BOROUGH

Borough Manager

350 East Dahlia Avenue • Palmer, AK 99645

Phone (907) 745-9688 • Fax (907) 745-9669

jduffy@natsugov.us

April 13, 2007

Representative Bill Stoltze
Alaska State Legislature
State Capitol, Rm 501
Juneau, AK 99801-1182

Dear Representative Stoltze,

Please accept these comments on behalf of the Matanuska-Susitna Borough (Borough) regarding House Bill 229, Kenai Gasification Project – Railroad Bonds. The Borough supports the proposed Kenai Gasification Project and believes its economic feasibility is enhanced through the utilization of Port MacKenzie.

Port MacKenzie will provide significant, long lasting benefits for the proposed Kenai Gasification project, as well as the state. Port MacKenzie has a deep draft dock that does not need annual dredging and can already serve the world's largest ships (Panamax and Cape Class vessels). The Port's upland 8,940 acres and 1,300 tideland acres provides sufficient space for bulk resource storage, transport, and processing like no other port in Alaska. It also has the advantage of not shoehorning facilities into existing confined spaces. This ability eliminates potential land use and transport conflicts that other ports may have. The planned three mile oval rail loop will allow trains to load or unload without breaking up into smaller units or having to turn around.

A rail extension will be required to access Port MacKenzie. This can be accomplished and meet the Kenai Gasification project schedule. Constructing a rail extension to Port MacKenzie will significantly assist the Agrium-Kenai Gasification project, expand employment and the availability of high paying jobs statewide, increase the state's industrial tax base, increase natural resource development, and support natural gas pipeline construction and supply.

Over a 30 year period, it is estimated that a rail extension to Port MacKenzie will save \$257 million in freight costs, as compared to the Port of Anchorage.

In addition to supporting the Kenai Gasification project, utilizing Port MacKenzie makes possible several new resource development projects to develop in Interior and Southcentral Alaska. These projects include strategic minerals such as molybdenum, copper, zinc, and lead,

limestone excavation and additional coal export, as well as refined fuel products. Moreover, using Port MacKenzie creates the opportunity to establish a new industry, cement manufacturing.

The use of Port MacKenzie to support the Agrium Gasification project creates numerous state-wide benefits. At the same time, using Port MacKenzie will also eliminate potential conflicting land use controversies that are likely at the Port of Anchorage-Government Hill site. Port MacKenzie will also eliminate costly rail operations caused by the need to "break up" trains in order to access the Port of Anchorage.

Moreover, moving a 100 plus rail car on the established tracks through the already-congested Wasilla-to-Anchorage corridor will cause serious auto/rail conflicts along the numerous at-grade rail crossings in the Borough. The 100-car train will compound the congestion headaches and reduce safety on busy Borough roads, in particular at the Knik-Goose Bay Road and Parks Highway intersection, which is in the fastest growing area of the state. Congestion further erodes any opportunity for commuter rail service between the Borough and Anchorage.

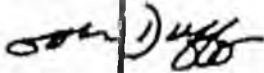
The construction of the rail line will generate over \$350 million in direct, indirect and induced economic output, and over 3,000 jobs (1,700 - 1,900 direct rail line construction jobs). The operation of the new rail line is estimated to generate at least \$2.7 million in wages per year, and between 10 and 35 long term jobs. Associated development projects facilitated and encouraged by the rail line are estimated to generate at least \$56 million in annual economic output.

We can construct the rail line to meet the Agrium schedule to begin operations, as is noted below:

- Pre-Design and Environmental 2007-2009
- Design 2008-2009
- Construction 2009-2011
- Operation 2011-2012

Clearly, Port MacKenzie provides a significantly more reliable and lower risk alternative than the Port of Anchorage. Thank you very much for the opportunity to comment on this important state-wide economic development project.

Sincerely,



John Duffy
Borough Manager

Alaska State Legislature

State Capitol, Room 505
Juneau, AK 99801-1182
Phone: 465-3779
Fax: 465-2833
Toll Free (800) 469-3779



145 Main Street Loop
Second Floor
Kenai, Alaska 99611
Phone: 907-283-7223
Fax: 907-283-7184

Representative Mike Chenault

Sponsor Statement HB 229

Title: "An Act authorizing the Alaska Railroad Corporation to participate in a project consisting of the acquisition, construction, improvement, maintenance, equipping, or operation of real and personal property, including facilities and equipment, for the Kenai gasification project, authorizing the corporation to issue bonds to finance all or a portion of the project, and identifying these as bonds for an essential public and governmental purpose; and providing for an effective date."

Agrium U.S. Inc. currently owns and operates an ammonia and urea complex in Kenai, which is in danger of being permanently shut down due to a lack of adequate natural gas feedstock. Such a closing would have a harmful effect on the state through loss of jobs and tax base. The Agrium Kenai Gasification Project (the "Project") addresses this issue by bringing coal from Healy to Kenai, where low emission coal gasification and electricity generation plants would be constructed, allowing Agrium to continue to operate its fertilizer plants at optimal capacity.

House Bill 229 will authorize the Alaska Railroad Corporation (ARRC) to issue up to \$2,600,000,000 in tax-exempt bonds to finance a portion of the Project which includes:

- facilities and equipment for the transportation of coal from Healy to Kenai; and
- facilities and equipment for coal gasification and electrical power generation adjacent to the Agrium fertilizer plant located in Kenai.

Lower-cost debt for the Project will enhance the Project's economics, increasing its feasibility. Payment of debt service allocable to facilities and equipment that would not be owned by ARRC would be provided through a long term contract or other agreement between ARRC and the Project's owner or operator. Payment of debt service for rolling stock, locomotives, track, facilities and other infrastructure owned by ARRC would be paid for by ARRC funds. Per AS 42.40.690, in no event will the general credit of the State of Alaska be pledged for the repayment of these bonds.

ARRC is uniquely suited to participate in the Project by virtue of its ability to issue tax-exempt debt as authorized by the federal Alaska Railroad Transfer Act. A viable Project could mean significant incremental revenues to ARRC through movement of up to an additional 3 million metric tons of coal annually. The Project will also generate competitively priced surplus electricity for the regional power grid, generate excess carbon dioxide that could be used to enhance oil recovery from the wells in Cook Inlet and continue to supply Alaska businesses and organizations with fertilizer.

ARRC will have the flexibility to issue the bonds in a single issuance or in several issuances. The ARRC Board of Directors is required to approve each bond issuance.

Adopted: March 9, 2007

Resolution No. 2007-09

Relating to an Authorization for the Corporation to Take Necessary and Appropriate Steps to Prepare for the Issuance of Bonds to Finance all or a portion of the Agrium Kenai Gasification Project

WHEREAS, the Alaska Railroad Corporation ("ARRC") is a public corporation and instrumentality of the State of Alaska ("State"), organized and established pursuant to the Alaska Railroad Corporation Act ("Act"), whose mission includes providing transportation for freight and passengers and promoting the development of the State's land and natural resources and the long-term economic growth of the State; and

WHEREAS, Agrium, Inc.'s ("Agrium") urea and ammonia plants in North Kenai are in danger of being permanently shut down due to a lack of adequate natural gas feedstock in the area; and

WHEREAS, closure of the Agrium plants would result in a loss of a significant number of high paying jobs and tax base for the Kenai Peninsula as well as tax revenue to the State of Alaska ("State"); and

WHEREAS, Agrium's Kenai Gasification Project will bring low-sulfur coal from Healy to North Kenai where a low emission coal gasification plant and electricity generation plant will be built on land adjacent to Agrium's existing urea and ammonia plants; and

WHEREAS, producing gas from coal will provide Agrium with an alternative feedstock to natural gas which is in short supply in Southcentral Alaska and will allow Agrium to continue to operate its urea and ammonia plants for the foreseeable future; and

WHEREAS, the Agrium Kenai Gasification Project will also generate competitively priced electricity for the regional power grid and excess carbon dioxide that could be used to enhance oil recovery from the wells in Cook Inlet; and

WHEREAS, ARRC desires to participate in Agrium's Kenai Gasification Project, which consists of the acquisition, construction, improvement, maintenance, equipping, and operation of real and personal property including facilities and equipment for the transportation of coal from Healy to North Kenai and for facilities and equipment for coal gasification and electrical power generation adjacent to the Agrium fertilizer plants in North Kenai, and to finance all or a portion thereof through the issuance of its bonds (the "Project"); and

WHEREAS, the Project furthers the purposes of both the State and ARRC by creating a new market for the State's coal reserves at Healy that will be transported by rail, thus generating new revenue for ARRC and for the State and providing employment opportunities for residents of the State; and

WHEREAS, ARRC desires to issue one or more series of bonds or notes in an aggregate principal amount not to exceed \$2,600,000,000 (collectively, the "Bonds"), in order to finance all of a portion of the Project; and

WHEREAS, ARRC desires to authorize its Chief Executive Officer, Chief Financial Officer, General Counsel, Bond Counsel, Financial Advisors, Architects, Engineers and any other officer or official of the ARRC (collectively, the "Authorized Persons") to take certain preliminary actions with respect to the Project and the issuance of the Bonds; and

WHEREAS, in accordance with Section 42.40.285 of the Act, ARRC desires to request approval and authority from the legislature of the State for ARRC to issue the Bonds and enter into leases or other agreements in connection with the Project; and

WHEREAS, ARRC intends to be reimbursed (i) for expenditures for the Project paid not more than 60 days prior to the date of this Resolution, (ii) for expenditures pertaining to costs of issuance, (iii) for expenditures that do not exceed the lesser of \$100,000 or 5% of the portion of the proceeds of the issue used to finance the Project, or (iv) for expenditures that do not exceed 20% of the portion of the aggregate issue price of the Bonds used to finance the Project which constitute preliminary expenditures within the meaning of Treas. Reg. § 1.150-2(f)(2) of the Internal Revenue Code of 1986, as amended ("Code"); and

WHEREAS, ARRC intends that this Resolution be determined to be, among other things, a declaration of official intent under Treas. Reg. § 1.150-2 promulgated under the Code.

NOW, THEREFORE, the ARRC Board of Directors does resolve as follows:

Section 1. Authorization to Take Actions in Preparation for the Issuance of the Bonds. ARRC hereby authorizes the Authorized Persons to perform such acts on behalf of ARRC as shall be necessary and appropriate to prepare for the issuance of the Bonds in one or more series in a maximum aggregate principal amount not to exceed \$2,600,000,000, including, but not limited to: (a) requesting approval and authority from the legislature of the State for the issuance of the Bonds; (b) obtaining a ruling or rulings from the IRS with respect to the applicability of certain provisions of the Code to ARRC; (c) selecting one or more investment banking firms to serve as underwriter(s) for the Bonds (such selection to be made in accordance with the rules, regulations and procedures of ARRC); (d) obtaining ratings for the Bonds and credit enhancement for the Bonds, if deemed necessary or appropriate; and (e) performing such other tasks and taking such other actions necessary to structure the terms of the Bonds and to prepare documents

relating to the authorization, issuance and sale of the Bonds, including appropriate disclosure documents to be used in connection with the offering of the Bonds.

Section 2. Declaration of Official Intent. ARRC hereby declares its intent:

(a) that the issuance of the Bonds by ARRC be in an amount reasonably expected not to exceed \$2,600,000,000 in aggregate principal amount for the Project; and

(b) that ARRC be reimbursed from the proceeds of the Bonds (i) for expenditures paid for the Project not more than 60 days prior to the date of this Resolution; (ii) for expenditures pertaining to costs of issuance; (iii) for expenditures that do not exceed the lesser of \$100,000 or 5% of the proceeds of the issue; or (iv) for expenditures that do not exceed 20% of the aggregate issue price of the bonds which constitute preliminary expenditures within the meaning of Treas. Reg. § 1.150-2(f)(2); and

(c) that this Resolution be determined to be a declaration of official intent under Treas. Reg. § 1.150-2 promulgated under the Code; and

(d) that the issuance of the Bonds occur not later than 18 months after the latest of (i) the date on which the earliest expenditure subject to Treas. Reg. § 1.150-2 is paid, (ii) the date on which the property is placed in service or abandoned, but in no event more than three years after the earliest expenditure is paid, or (iii) the date otherwise permitted by the Code or Treasury Regulations promulgated thereunder; and

(e) that ARRC is making this Declaration of Official Intent while reserving the right at all times to assert that it is not subject to the provisions of Section 150 of the Code by virtue of Section 1207(a)(6)(A) of the Alaska Railroad Transfer Act and Section 149(c)(2)(C) of the Code.

Section 3. Ratification of Prior Actions. All actions heretofore undertaken by the Authorized Persons in connection with the Project and the Bonds are hereby ratified, confirmed and approved.

Section 4. Preliminary Resolution. This Resolution is the authorization by ARRC to take the necessary and appropriate steps to prepare for the issuance of the Bonds. Final authorization of the issuance and sale of the Bonds shall be by subsequent resolution or resolutions of ARRC.

Section 5. Severability. In the event that any one or more of the provisions contained in this Resolution shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Resolution, and this Resolution shall be construed and enforced as if such invalid, illegal or unenforceable provision had never been contained herein or therein.

Section 6. Repealer. All resolutions or parts thereof to the extent inconsistent herewith are hereby repealed, rescinded, canceled and annulled.

Section 7. Governing Law. The laws of the State shall govern the construction and interpretation of this Resolution.

Section 8. Effective Date. This Resolution shall take effect immediately upon adoption this 9th day of March, 2007.

Dear Legislators,

We strongly support the Willow to Port MacKenzie rail extension. We are seriously concerned about increased rail traffic through downtown Wasilla. Greater Wasilla has an active and passionate group of community leaders and residents that envision our area as the community of Alaska's future in business, the arts and economic growth. Higher rail traffic would split the community and destroy efforts to reach these goals. Knik-Fairview is one of the fastest growing areas in the borough. An historic and ecologically diverse area with residents, that value the grand scenery and Alaskan experience that is found here, make Knik-Fairview unacceptable for a rail line. The rail spur from Willow to Port MacKenzie provides the best option for both borough residents and Port MacKenzie industries.

We support the following resolution:

RESOLUTION OF THE GREATER WASILLA CHAMBER OF COMMERCE SUPPORTING
THE EXTENSION OF THE SOUTHCENTRAL RAILROAD LINE FROM WILLOW TO PORT MACKENZIE.

Whereas, a bulk natural resource development and export is important to the economy of the Fairbanks North Star Borough, the Denali Borough and the Matanuska Susitna Borough and the state of Alaska and Whereas,

Whereas, the shipment of Interior Coal, Timber, Limestone, Oil and Gas and other bulk commodities will become less costly.

Whereas, Port MacKenzie with its 8940 acres of industrial development lands and deep draft dock is a developing port with potential for bulk natural resources transport and

Whereas, Port MacKenzie is 26 miles closer to Tide Water than Anchorage, 89 miles closer than Whittier and 147 miles closer than Seward.

Whereas, Port MacKenzie is capable of handling panamax and cape size vessels and

Whereas, a shorter distance to tide water will make resource development in Interior and South-central Alaska more economical by lowering transport cost

Whereas, the rail extension provides a more efficient system for transporting coal to tidewater and thus will likely make the Agrium Kenai project more feasible, which will benefit the Kenai Borough as well as the rest of Alaska.

Whereas, the economic activity will contribute to the Matanuska Susitna Borough economy, tax base and employment.

Now therefore, be it resolved that the Greater Wasilla Chamber of Commerce strongly supports the South-central Alaska Rail Line Extension from Willow to Port MacKenzie and recommends 12 million in fund for the Environmental Study.

Linda Henning & Charles Grisham (Plant Manager - Alutiiq Manufacturing Corp, Pt. MacKenzie Plant)

9710 Gala Road (mile 13 KGB)

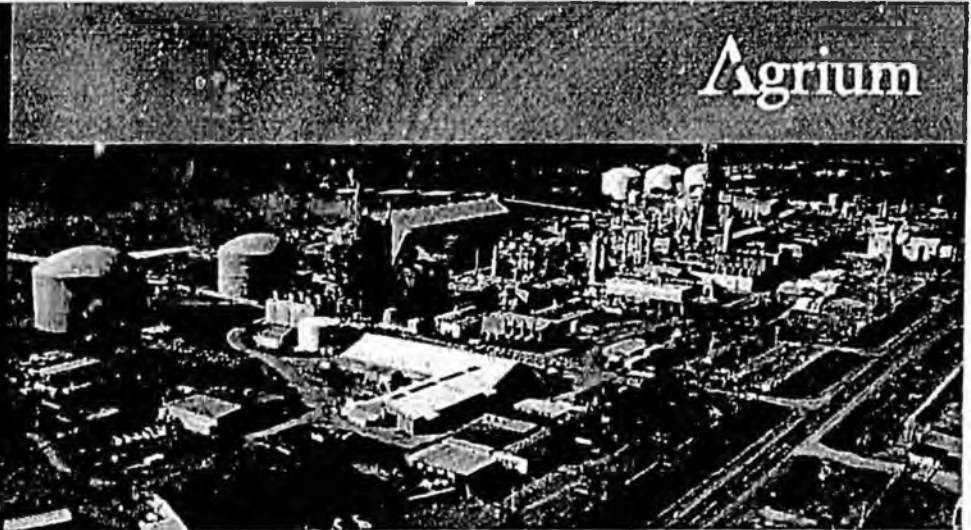
Wasilla, AK 99654

Home 907-357-9366

Cell 907-841-2453



Agrium's Kenai Gasification Project



Agrium is pursuing an environmentally friendly technology that could add decades to the life of its Kenai Nitrogen Operations, support hundreds of well-paying jobs, preserve a major tax base and provide a new source of competitively priced power.

The Kenai Gasification Project would develop a world-class, low-emission coal gasification facility that would provide Alaska's largest value-added business the feedstock required to operate over the long-term. The Kenai fertilizer plant suspended manufacturing during the 2006-2007 winter season due to a shortage of natural gas and has operated below capacity in recent years as it sought new gas supply contracts in an increasingly tight market complicated by escalating prices.

How it works

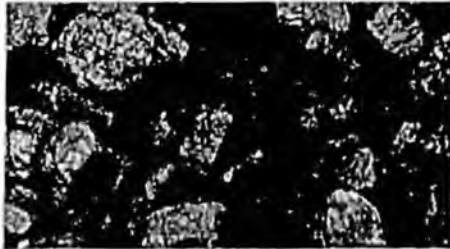
First discovered in 1792, gas made from coal provided most of the fuel gas used in U.S. homes and businesses until the 1940s when natural gas became increasingly available. Modern gasification technology efficiently turns coal into a combustible gas that can be cleaned of virtually all pollutant-forming impurities.

Gasification is essentially the controlled, but incomplete combustion of carbon. It can be applied to many feedstocks including coal, biomass and heavy oil. The Kenai Gasification Project is examining the utilization of coal to provide the required feedstock.

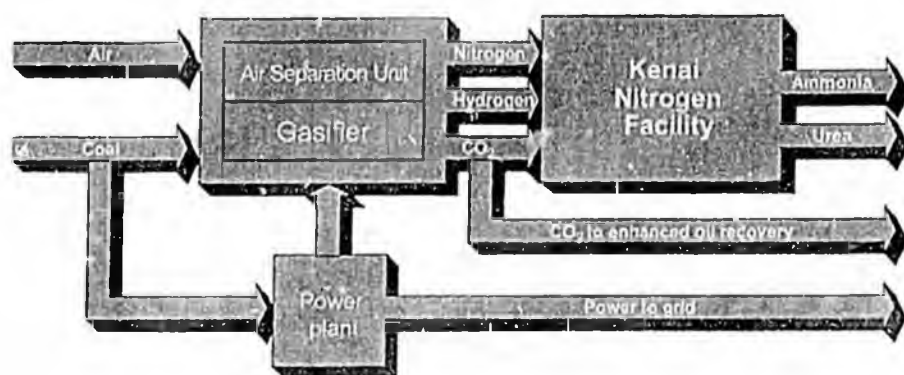
In the process, coal is fed into a gasifier unit where it is partly oxidized using pure oxygen to form a mixture of carbon monoxide and hydrogen, commonly called syngas because it can be synthesized into many forms.

Most of the syngas would be further refined into pure hydrogen using the same carbon monoxide shift reaction Agrium uses in the production of ammonia from natural gas. Water is used to convert the carbon monoxide into carbon dioxide while producing even more hydrogen. The hydrogen is used to make ammonia and the carbon dioxide is reacted with ammonia to make urea.

The project would require a new coal-fired power plant that could also supply surplus power to the Railbelt power grid. Homer Electric Association is the project partner taking the lead on power and supply issues.



The Components



All components of this project utilize existing, proven technology in a unique configuration to produce multiple benefits to Alaska and the Kenai Peninsula.

Coal – With a need of approximately three million metric tons of coal each year, the project is evaluating coal supplies along with transportation options.

Air Separation Unit – This unit processes air directly from the atmosphere to generate oxygen for the gasifier and the nitrogen used in the fertilizer process.

Gasifier – Coal is dried, pulverized and reacted with pure oxygen to form syngas. The gas is reacted with water to shift the carbon monoxide into carbon dioxide (CO₂) and hydrogen. The CO₂ is removed, along with sulfur and other impurities, and the pure hydrogen is shipped to the fertilizer plant.

Power Plant – Consists of coal-fired generation with state of the art emissions control technology. The power will supply steam and electricity to the other project components and additional electricity for sale into the grid.

Fertilizer Plant – At capacity, the facility can produce more than 1.5 million metric tons of anhydrous ammonia and urea each year. Changing the feedstock will require relatively minor modifications.

The Next Step

Agrium began investigating coal gasification during the winter of 2004 and is currently undertaking its Phase two analysis, which includes a detailed feasibility review and project permitting. If the decision is made to go forward, the facility could be operational by 2011.



Benefits for Alaska

- Provide an estimated 1,000 construction jobs, 900 direct and indirect permanent jobs.
- Utilize an economical and abundant feedstock that will provide an industrial anchor for the State's huge, but mostly undeveloped, coal reserves.
- Keep the second largest nitrogen plant in the U.S. operating for decades.
- Diversify aging power generation and help eliminate the current reliance on Cook Inlet natural gas.
- Increase the Kenai Peninsula's tax base.
- Provide a surplus of CO₂ that could be injected into the aging Cook Inlet oil fields to produce an estimated 300 million barrels of additional crude production.

Agrium



HEA Homer Electric Association, Inc.
A Sustainable Energy Cooperative



For more information, please contact:

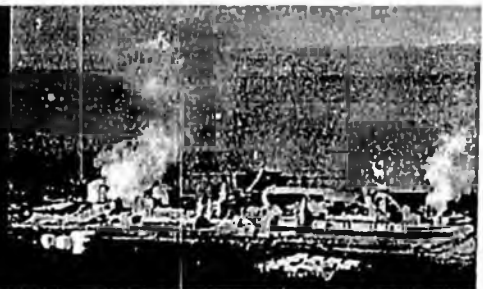
Business Lead
Tim G. Johnson
Phone: (907) 776-3117
Email: tjohnso@agrium.com

Government & Public Relations
Lisa Parker
Phone: (907) 776-3275
Email: lparker@agrium.com

Agrium

Kenai Nitrogen Operations

July, 2004



Summary of

Alaskan Direct Economic Impacts

"By Alaska economic standards, the Agrium operation is exceptional for its combination of high pay levels, amount and concentration of expenditures in the local area, and the degree of value added manufacturing that occurs in Alaska prior to export. The result is a high multiplier impact."

- McDowell Group, October 2002

A recent study completed by the McDowell Group in April 2004 identified the following direct impacts of Agrium's Kenai Nitrogen Operations:

- ✓ Agrium spent \$101 million in Alaska in 2003
- ✓ \$77 million in purchases of goods and services from 364 Alaskan businesses
- ✓ \$22.0 million in direct payroll; including benefits, expenditures are \$29.5 million
- ✓ \$2.2 million in taxes and lease payments
- ✓ \$195,000 in charitable donations to 43 non-profit organizations and groups

Summary of

Alaskan Indirect Economic Benefits

For every one thousand cubic feet of Cook Inlet natural gas used by Agrium for feedstock and power generation, \$9.35 in total economic output is generated.

- ✓ Agrium employees have 244 school age dependents or about 2.5 percent of the Central Peninsula student enrollment
- ✓ Agrium's total direct, indirect, and induced payroll impacts support 7.0 percent of the total Kenai Peninsula payroll
- ✓ Agrium total direct, indirect, and induced employment accounts for 4.0 percent of the total employment on the Kenai Peninsula

Did You Know?

- ✓ Agrium is the Kenai Peninsula's fourth largest private employer with an average employment of 230 people
- ✓ Agrium accounts for an additional 420 jobs in Alaska and the Kenai Peninsula Borough
- ✓ Agrium direct expenditures on the Kenai amounted to \$65 million in 2003 on goods and services provided by 320 Kenai Peninsula companies
- ✓ Agrium donations to local school and youth activities accounted for 54% of the company's charitable donations
- ✓ Agrium's Kenai Nitrogen Operations is the second largest nitrogen production complex in the U.S.A.
- ✓ Agrium's Kenai Nitrogen Operations accounts for about 6 percent of North America's nitrogen production
- ✓ In 2003, Agrium's Kenai Nitrogen Operations exported 1.2 million tons of ammonia and urea valued at \$200 million
- ✓ Agrium's Kenai Nitrogen Operations is one of Alaska's few value added industries

OUR VIEW

Coal could replace gas

Agrium looks at coal gasification to supply Kenai fertilizer plant

The Kenai plant has been turning natural gas into urea for fertilizer for almost 40 years, but its future may well depend on the economics of turning coal into gas into urea.

It's called the Kenai Blue Sky Project, and Agrium U.S. Inc. and its partners are spending several million dollars to see if it will work. If it does, it could mean a much brighter future for the Kenai plant, for its workers and community, and, as a bonus, a new supply of electricity for Southcentral Alaska.

As the ready supply of Cook Inlet natural gas has dwindled, and as new gas fields carry a much higher price tag, the Agrium plant has had to curtail ammonia and urea production in recent years. No gas to feed the plant, no product coming out. The plant suspended operations this winter and is expected to restart about March 1, but even then it will run at much less than full capacity for lack of sufficient gas. Agrium's contracts with gas suppliers expire Oct. 31, 2007, putting next year's operations — and a lot of jobs — in jeopardy.

Rather than wait for an uncertain North Slope gas line and possible spur line into Southcentral, and rather than staking its future on new Cook Inlet gas discoveries at affordable prices, Agrium is studying the option of buying coal

from the Usibelli mine at Healy, 200 miles north of Anchorage. One plan is to move the coal by train to Anchorage, then barge it to Kenai, though other train and barge routes are possible.



In addition, the coal-fired plant would supply electricity to the Southcentral power grid.

Turning the coal into gas is the fun part.

Coal and pure oxygen would go into the heated gasifier unit and, in a simplified explanation, out would come the nitrogen, hydrogen and carbon dioxide gases needed to produce urea and ammonia. The carbon

dioxide would be a welcome byproduct in Cook Inlet, where it can be reinjected into underground reservoirs to push out more oil. It's called "enhanced oil recovery" and it's a great way to pump more oil while keeping carbon dioxide out of the atmosphere.

In addition to producing gas feedstock for the fertilizer plant and providing for enhanced oil recovery, the coal-fired power plant at Kenai Blue Sky would have a lot of surplus electricity it could feed into the Southcentral power grid.

Agrium is evaluating proposals from different coal gasification equipment makers and anticipates selecting a company in January to handle environmental permitting for the project, which will be formidable.

Meanwhile, it is working with Usibelli to determine whether there are adequate coal reserves to supply Blue Sky for several decades. If it goes ahead, Blue Sky would consume up to 3 million metric tons of coal a year, almost twice what Usibelli mines for its existing customers.

Although Agrium had considered using coal from the Beluga field across Cook Inlet from its plant, the company decided it made more sense to buy coal from an existing mine rather than to try opening a new pit.

Agrium and its partners have put a lot of thought — and money — into Blue Sky. The Phase 1 feasibility study, at \$3 million, was all company money. Phase 2, preliminary engineering and permitting, is estimated at \$22 million, with \$2 million from the federally funded Denali Commission, \$5 million from the state, and the balance of \$15 million from Agrium and other partners.

The current schedule calls for Agrium's board to make a decision in the summer of 2008 on Phase 3, detailed engineering and design, estimated at \$100 million. Phase 4, construction, would run from spring 2009 to the end of 2011, at a cost of \$2 billion.

Blue Sky is a costly undertaking but, thankfully, Agrium is taking the chance.

BOTTOM LINE: A hopeful name for a needed project.

HB

229

SFIN

FILE

ALASKA STATE LEGISLATURE

SENATE FINANCE COMMITTEE

Senator Bert Stedman, Co-Chair
State Capitol, Room 516
Juneau, AK 99801-1182
(907) 465- 3873 - Phone
(907) 465-3922 - Fax
Senator_Bert_Stedman@legis.state.ak.us



Official Business

Senator Lyman Hoffman, Co-Chair
State Capitol, Room 518
Juneau, AK 99801-1182
Phone - (907) 465- 4453
Fax - (907) 465- 4523
Senator_Lyman_Hoffman@legis.state.ak.us

May 10, 2007

To
Miles Baker, Staff to Senator Stedman
Tim Grussendorf, Staff to Senator Lyman Hoffman

From
Mindy Rowland, Senate Finance Committee Secretary

HB 229-KENAI GASIFICATION PROJECT; RAILROAD BOND

The Committee reported this bill from Committee with a conceptual amendment, which was incorporated into a final Senate Finance Committee Substitute, 25-LS0737\E. The CS was transmitted to the Senate Secretary. Upon further review, Senator Stedman deemed additional clarification of the amendment in the language of the bill was necessary. A new final CS, 25-LS0737\M, was prepared, exchanged for the earlier final and transmitted to the Senate Secretary. A copy of this version is attached for your information and records.

SENATE CS FOR HOUSE BILL NO. 229(FIN)
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-FIFTH LEGISLATURE - FIRST SESSION

BY THE SENATE FINANCE COMMITTEE

Offered:
Referred:

Sponsor(s): REPRESENTATIVES CHENAULT, Foster
SENATORS Wagoner, Green, Huggins, Stevens, Therriault

A BILL
FOR AN ACT ENTITLED

1 "An Act authorizing the Alaska Railroad Corporation to participate in a project
2 consisting of the acquisition, construction, improvement, maintenance, equipping, or
3 operation of real and personal property, including facilities and equipment, for the
4 Kenai gasification project and Port MacKenzie rail link, authorizing the corporation to
5 issue bonds to finance all or a portion of the project, and identifying these as bonds for
6 an essential public and governmental purpose; and providing for an effective date."

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

8 * Section 1. The uncodified law of the State of Alaska is amended by adding a new section
9 to read:

10 LEGISLATIVE FINDINGS, INTENT, AND STATEMENT OF PURPOSE. (a) The
11 legislature finds that

12 (1) Agrium's urea and ammonia plants in the northern Kenai Peninsula are in
13 danger of being permanently shut down because of a lack of adequate natural gas feedstock in

1 the area;

2 (2) closure of the Agrium plants will result in a loss of a significant number of
3 high paying jobs and tax base for the northern Kenai Peninsula as well as tax revenue to the
4 state;

5 (3) Agrium's Kenai gasification project will bring low-sulfur coal from Healy
6 to North Kenai where a low-emission coal gasification plant and electrical generation plant
7 will be built on land adjacent to Agrium's existing urea and ammonia plants;

8 (4) producing gas from coal will provide Agrium with an alternative feedstock
9 to natural gas, which is in short supply in Southcentral Alaska, and will allow Agrium to
10 continue to operate its urea and ammonia plants for the foreseeable future;

11 (5) the Kenai gasification project will also generate competitively priced
12 electricity for the regional power grid and excess carbon dioxide that could be used to
13 enhance oil recovery from the wells in Cook Inlet;

14 (6) the Alaska Railroad Corporation is uniquely suited to serve essential
15 functions of the state by providing, among other things, rail transportation of coal and other
16 freight and by financing all or a portion of the Kenai gasification project;

17 (7) the Kenai gasification project furthers the purposes of both the state and
18 the Alaska Railroad Corporation by creating a new market for the state's coal reserves at
19 Healy, which will be transported by rail from Healy to Port MacKenzie and by barge to the
20 northern Kenai Peninsula, creating revenue for the Alaska Railroad Corporation and for the
21 state and providing employment opportunities for residents of the state;

22 (8) these results are essential purposes of the state, and the achievement of
23 these purposes is critical to the health and welfare of the state.

24 (b) The purpose of this Act is to clarify the statutory functions and powers of the
25 Alaska Railroad Corporation by expressly including the power to participate in the Kenai
26 gasification project and to finance all or a portion of the project with bonds as described in
27 this Act.

28 (c) It is the intent of the legislature that

29 (1) this Act be construed broadly to permit the Alaska Railroad Corporation
30 the greatest flexibility to accomplish the purposes described in (b) of this section, within the
31 limitations set out in this Act; and