

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

1583 SCOMM 59: JNT. COMMITTEE ON ECONOMIC RECOVERY, 1988

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nd unable to attend the meeting today. A team of volunteers, community leaders, have met to consider the Alaska economy. The initial conclusions were that the framers of the Permanent Fund and the administrators have taken a conservative, wise course. It is an element of pride which Alaskans can have during difficult times. Roberts notes that a board member commented that if the \$7 billion had not been set aside, the disaster we have now in some areas would be catastrophic.

In September 1987, the Committee reviewed the earning strategies, and suggestions for use of the fund in light of current economic situations. The Report of CN has been distributed. At page 3 are 8 recommendations, which Roberts reviews, as follows.

Earnings of the fund can and should be used as a positive, counter-cyclical force in the Alaska economy. CN recommends creation of an economic index to serve as a barometer to determine when earnings left over after dividends are distributed should be injected into the economy to level out peaks and valleys of the Alaska economic cycle. The Federal Reserve Board was used as a model. Alaska does not have the monetary tool the Federal Reserve Board does, but it has the permanent fund earnings. The index should be used to make earnings available when times are tough, but "the spigot" also turned down when times are better. CN believes if the earnings are used in difficult economic times, and not when there is improvement in the economy, there will be reduction in the ups and downs of the economy.

p. Navarre asks if restraint could be exercised once earnings are touched. Roberts expresses a hope that there be a barometer written in the statute to indicate when the economy needs assistance, and when it should be turned off. Recommendation 8 suggests it not be put in the constitution, there is no protection from it being raided. CN believes the earnings are utilized and works, it will build a constituency just as the dividends have.

p. Koponen refers to discussions when the permanent fund was first suggested, and the long term projections. Koponen states the permanent fund was "sold as a source of income for the state government so taxes would not have to be increased when the economy went down." Koponen notes that recommendation 2 provides money be appropriated to municipalities, and recommendation 7 that it not be used for state government except in dire emergencies. Koponen states government grew relatively little during the oil boom, and much of the money went to the municipalities and even currently municipalities are being overfunded. Koponen states

municipal governments went heavily for programs and projects, and asks if the proposal is really the logical way to go. Roberts responds that the issue was debated at great length, and points out that the fund is held in trust for all Alaskans, current and future, and the dividend program is credible because it is "one person, one dollar" and when there is a distribution it is equal to everyone. CN believes the way to retain that equitable distribution of earnings, rather than to one program or area of the state, is to use a per capita formula, retaining the distribution which has been used in the past. CN believes when indicators drop there is no one closer to the heat of the problem than the local governments in terms of quick response. Roberts notes that the economy is spotty and that some areas do well, while others do not, so flexibility is needed. Rep. Koponen describes suggestions to increase the dividend share, allowing individuals to vote to pass it through to local government or the agency of their choice. Roberts agrees it is an alternative to be considered. CN's view is that local government should be a real player in deciding how funds should be spent, i.e., reduction of taxes, distribution, etc.

Rep. Boucher commends CN for putting together solid recommendations, and expresses concern over the forum by which decision is made. Boucher describes HB 160, which he introduced, to establish a commission on the permanent fund for a one year period because the key factor is that the majority of people need input. Boucher believes that any adjustment to the permanent fund needs public presentation. Boucher states the goal of the permanent fund must be defined. He supports the recommendation to establish a broad based economic index. Boucher believes the single most important thing to do is establish an Alaska economic index because consumer spending must be known.

Roberts states he has a copy of HB 160 and is happy to participate in any statewide dialogue on the subject. Roberts hopes a result of today's presentation will be drafting of legislation as a permanent reference in the future.

Roberts states recommendations 3 and 4 consider the missing factor in the state's spending and investment strategies over the last decade; spending lavishly to build capital projects and improve the quality of life, however they have required "feeding and watering" and have no capacity to generate the revenue to maintain and operate the facilities. Roberts states the missing piece of the equation is the investment in revenue generating projects that can diversify the economy. The graph on page 6 shows the need for such diversification. Oil revenues are described, and must be addressed.

Roberts states page 7 illustrates the type of projects urgently needed: docks, rails, causeways, electrical generating units. The infrastructure needed to attract Navy vessels to home port in Alaska is an example because the Navy rents facilities over long term periods. Roberts states the port in Anchorage is an example of generating jobs and providing a service with a ripple effect throughout the area. "It does not cost money, it makes money." CN does not believe Alaska should go in business for itself, but supports the role of providing transportation and power infrastructure to open new areas, reach new resources and develop foundations for new economies. An Alaska Development Board is recommended to research feasibility of such projects and present proposals to the legislature and the governor for approval and appropriation. The legislature would determine whether or not the projects would proceed. Roberts points out the projects would have been thoroughly examined, environmental needs addressed, and the economic feasibility considered before presentation to the Legislature. The 4th recommendation urges the Legislature to establish an Alaska Development Fund to provide a basis for funding such projects. Roberts describes the previous proposal for the Capital Investment Fund, and states "an enormous fund is not needed for the type of revenue generating capital projects" being considered -- bonding of Red Dog is an example of why large sums of money are not needed. CN believes a modest fund would be a demonstration of the Legislature's intent to diversify the economy.

Roberts points out the recommendation that proposals be written in statute rather than as constitutional amendments because oil revenues are too volatile to incorporate state spending policies into the Constitution. CN believes that if the proposals are adopted by the Legislature, then public support will keep them intact. If poorly managed, or fail, they can and should be changed by future legislation, without a constitutional amendment process.

Rep. Gruenberg clarifies that CN has presented proposed legislation, suggesting concepts embodied in three bills which the Committee members have in front of them. Gruenberg asks CN to comment on the legislation.

Roberts states the first is Amendment to Current Statute Pertaining to use of Permanent Fund Earnings, to allow for a counter-cyclical use of undistributed permanent fund earnings to be distributed to local municipalities on a per capita basis. Article 1 would establish the economic index. Article 2, using the index on an annual basis, the Department of Revenue or a council of economic advisers, shall publish the Alaska Economic Index to determine if permanent fund earnings

in excess of dividends should be added to or withdrawn from the economy. This could be written in the statute, and is recommended by CN. Recipients of the earnings, when the index calls for adding earnings to the economy, will be designated on a per capita basis to local governments. Community and Regional Affairs would receive and distribute to unorganized boroughs as was done in the 1982 per capita distribution. Each local government would be encouraged to make its own judgments as to the best use of monies received. Roberts states the statutes might include restrictions to prevent ballooning of municipal governments; the private sector might be called on.

The second suggested piece of legislation involves the Alaska Development Board. The need is to help diversify the economy. Article 2 addresses membership of the Development Board, with a recommendation that there be 6 members; Article 3 is qualifications. CN urges the Board have people with experience in creating major revenue generating projects. Article 4 is the method of operation, urging the Board to address major projects recommended by the legislature and others, maintaining a statewide perspective. Roberts points out that sometimes the statewide perspective is not considered as legislators look out for their own districts, and urges the board have a statewide perspective. Staff should be minimal much like the Permanent Fund, drawing when necessary on other departments.

The third suggested piece of legislation is the Alaska Development Fund. No specific amount of money is identified because it would be appropriate for the legislature to make that determination. Article 2 concerns management of the funds by Permanent Fund Trustees until they are deemed needed by the Legislature. Only the Legislature, with concurrence of the governor, may appropriate monies from the Development Fund. The decision, as mandated by the constitution, rests with the Legislature. Roberts points out this is a revolving fund, for projects which will return investments to the fund. Notice to the public if the Legislature or the Governor contemplate using the funds for any other purpose than as described, is required.

Rep. Boucher refers to Article 2 of the second proposal, Membership. Boucher suggests that membership be structured so that it does not create a political imbalance. Boucher discusses the recent Jobs Bill and membership qualifications. Roberts clarifies that it refers to the Development Board, not distribution of funds. Proposed legislation 2 is strictly for "bricks and mortar and projects that are revenue producing."

Rep. Koponen supports the proposal for an Economic Index, and points out that it is a complex question of indicators and public information, lag time, and other concerns. CN states indicators referred to are readily available Alaska indicators.

TAPE ONE, SIDE TWO

Rep. Ulmer refers to returns for money spent in various industries and suggests that CN analyze the concern, and make suggestions for targeting money more efficiently. Ulmer is concerned that distribution generally to municipalities may or may not produce the returns to the economy that are anticipated. Regarding municipalities, Ulmer states bureaucracy at the local level has grown, and points out that no municipality in Alaska has had a 32% reduction rate, as the State government has, in operating budgets. Ulmer questions the wisdom of per capita pass-through with municipalities because she is not certain it results in efficient use of funds.

Rep. Gruenberg notes that a need to start looking at what the Permanent Fund will ultimately be used for, and the proposal addresses this. Also, the proposal to use the Permanent Fund not only for potential funding for state government, but also as a damper on the boom and bust nature of the economy, is considered. Gruenberg supports this leveling of the economy. The mechanism proposed to determine the trigger is the Alaska Economic Index, drawn from an unstated premise of "it should not be a political decision." Gruenberg describes other methods to make it difficult to turn on the spigot, i.e., requiring a "super majority, or 3/4 vote of the Legislature." Gruenberg agrees with Rep. Ulmer that passing monies through the municipalities may increase the politicism.

Rep. Boucher states he has areas of concern because there is no feedback on the approaches. He commends CN for their efforts and presentation. Boucher believes a resolution establishing an Alaska Economic Indicator can come from this Committee.

Rep. Gruenberg points out that work to date has been done almost exclusive through the subcommittee process. Their reports will be considered on Friday. Committee members are urged, if they have legislation which they wish introduced through the Committee, to bring it to the Committee at any time.

Rep. Boucher asks for assistance in drafting proposed legislation to establish an Alaska Economic Index. CN

suggests contact with ISER, and Rep. Gruenberg states staff will assist.

Rep. Koponen asks for comments regarding a "leaky economy" in Alaska, investments "outside", safety of investments for the passive investor, and continuity in management and business. Koponen points out it is outside the immediate problem, but he believes it is a major, continuing problem, and where the Legislature can make a major contribution to the private sector without dipping into a particular fund or creating a bureaucracy. Lounsbury responds that perhaps Alaska has created a climate where it is not conducive for businesses to remain in Alaska after reaching a size; the market is inadequate to absorb their product. Lounsbury concurs that communication and transportation costs are a contributing factor. Koponen asks how to create a stable economy with a small population. Lounsbury points out that when a proposal is made to touch the Permanent Fund, the Legislature is attacked. CN made the proposal as a non-political entity because it makes sense, and can be done without "raiding the fund." Lounsbury states he was not originally supportive of municipal distribution, but has been convinced it builds a constituency for using the earnings, while retaining the "one person, one dollar" provision. Roberts points out that the Legislature can put conditions on the use of the funds, such as increasing their staff.

Rep. Gruenberg adjourns the meeting at 5:10.

Joint Committee on Economic Recovery
House
March 16, 1988

Present: Representative Max Gruenberg (Chair)
Representative Niilo Koponen
Representative Red Boucher
Representative Steve Reiger
Representative Mike Miller

Resource Subcommittee report given by Rep. Miller, highlighting subject of fish farming. Report approved as amended.

Small Business Subcommittee report given by Rep. Boucher. The recommendation was made for a business information networking system, i.e., Small Business Assistance Center. Another recommendation was establishing an economic index indicator, to evaluate our economy in a more consistent manner. Report approved. Economic index resolution approved.

Federal Home Loan Bank Bd. Southwest Plan resolution discussed. Resolution put on next day's agenda to amend.

Housing and Banking Subcommittee report, by Rep. Reiger.

Addendum prepared by Rep. Ulmer to Southeast Report, on fish farming.

Final item, Interior Subcommittee oral report by Rep. Koponen.

Rep. Gruenberg adjourned the meeting.

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Joint Committee on Economic Recovery
House
March 18-88

Present: Representative Max Gruenberg
Representative Steve Reiger
Representative Kay Brown
Representative Mike Miller
Representative Fran Ulmer

Agenda: Discussion of progress of Housing and Banking Subcommittee
Discussion of Interior Subcommittees Addendum re: Recycled
Products
Consideration of the amended version of the Southwest Plan
Resolution
Senate Recommendations

Rep. Reiger: A draft report on the H&B Subcommittee report has been released, we met yesterday to put together hopefully a final version. There were a sufficient number of changes. It should be ready soon by the next meeting. We had some discussion on some items for discussion, re: consequences of the Supreme Court decision regarding foreclosures, and what kind of actions are appropriate under deed of trust; recommendations on the bridge bank ideas; etc. A few proposed ideas we hadn't acted on, we will have completed and reviewed in the next report.

Rep. Gruenberg: We'll schedule subcommittee reports as they are ready, that way nothing will be held up.

Discussion on scheduling arrangements followed.

Pg. 2, line 7-10 of the Southwest plan resolution was discussed.

Rep. Reiger: When Sen. Stevens was here and addressed the Joint session it was brought up that they already had looked at this and a Congressional Delegation had concluded it wasn't really applicable to AK. What I know about the Southwest Plan was that there was 2 elements to it, one was an infusion of outside, Federal dollars, and the other was a consolidation program of institutions. When this was brought to the committee last time my concern was on the consolidation side, because in the state we're down to about only 4 s&l's left as it is, and I didn't see a compelling reason to be on record favoring consolidation. The purpose of the amendment is to take that side of it out and focus more on bringing federal dollars inside.

Rep. Gruenberg: Unless anyone objects, I would entertain a motion that we would adopt the amendment, put it in and ask the Rules committee to introduce it by request of our House side; unless Rep. Boucher has a objection, in which case we'll bring it back.

Rep. Brown: I'm looking at the language on P. 2 line 17, and it doesn't seem appropriate to me to extend the Southwest Plan to Alaska, because I

think the situation is completely different, they had a lot of small institutions and they were getting their efficiencies by consolidating.

Rep. Gruenberg: Since we now have 2 amendments we'll set this on the next meeting. Prepare an amendment in writing and check with Rep. Boucher, then we'll dispose of this.

I would propose we go back up to the Interior Subcommittee addendum, note the presence of Rep. Koponen.

Rep. Koponen: Since the Resource Comm. did mention the legislation, I didn't repeat that here. Enclosed to the addendum is a memo that tells some of the activities the Economic Development office of Fairbanks North Star Borough now in process. This addendum follows the original P. 4. The recommendations of the people at the Conference Saturday included the 4 items on P. 5:

1. The Dept. of Comm. and Economic Dev. in Cooperation with the AK Manufacturers Assn and the Interior Manufacturers Assn. should develop a professionally done marketing directory and brochure listing Alaskan manufacturers by name and product and distribute them...

2. Establish a state clearinghouse for business information. This was not as clearly defined. This information is available on state computer, but not everyone has access to those.

3. Procurement ombudsman to handle complaints.

4. Assist in developing a cooperative for small businesses, where the cooperative would own the facility, and provide not only space but management and bookkeeping services, technical expertise, and a central place for entrepreneurs looking for capital.

5. A complaint that came up is that they find that in dealing with state loan examiners, they do not comprehend the type of business many of them are in, and it was extended to a criticism also of bank lenders as well, oriented towards short term loans, real estate, retail, etc. Part of this problem is due to the cyclical nature of our economy.

I suggest we invite the Dept of Commerce venture capital specialist to address us on this problem sometime.

Rep. Gruenberg entertained a motion to accept the addendum as part of the Interior Delegation report. So done.

Considerations of Senate recommendations. Referred to subcommittees:
SCR30 to Housing and Banking Subcommittee
SB333 to Housing and Banking Subcommittee
Act relating to AID and export to Resources Subcommittee
SB471 to Resources Subcommittee

Rep. Gruenberg adjourned the meeting at 11:12.

Joint Committee on Economic Recovery
House
March 23, 1988

Present: Representative Max Gruenberg (chair)
Representative Al Adams
Representative Mike Navarre
Representative Steve Reiger
Representative Kay Brown

Rep. Gruenberg: We have handed out the memo dated Mar. 21 from Sen. Sturgulewski to the Senate members of the Joint Committee. Apparently they did not get through all these bills, including the HB's. The next thing on the agenda is the interim report on the Housing and Banking subcommittee.

Rep. Brown: We do have a lengthy agenda for tomorrow where we will be considering some of the legislation referenced in the report. Specifically, the mobile home resolution, where we believe more direction is needed for AHFC, to take immediate action to resolve the situation that has gone on for more than 2 years. We'll also take up discussion of HAD loans. The working group Rep. Pourchot and I have been assigned to is to look at the issue of some of the surplus condos for public housing purposes, and we have a specific strategy for that. We'll also be taking up the Senate recommendations, and HB 430-431. We've decided to postpone the discussion of the foreclosure issues until the following week. That's about where we are.

Rep. Gruenberg: Is there a motion to approve the report of the subcommittee on Housing and Banking?

So moved by Rep. Navarre. No objection.

Rep. Gruenberg: We have already discussed the House Joint bills before the Senate committee.

Discussion on SB 409 changes the senate committee made, as well as other changes they made during their meeting. Tom Begich's statement were inaudible.

Rep. Adams: What was their understanding as far as the appropriation under the Bridge Bank or ?

Tom Begich: They did not adopt 409. (Additional comments inaudible)

Rep. Reiger made a brief, partially inaudible statement.

Rep. Gruenberg: The final thing on the agenda is an executive summary. What we are doing is putting together all the reports and the executive summary in the front, and we will distributing it to all legislators and

the press and the executive branch. Since the Senate did not get to the various resolutions we have approved, we are going to be talking to the Chairman of the Rules committee, asking him to introduce them at our request.

Rep. Gruenberg: I'd like a motion to approve the executive summary and we will send it around for signatures.

Rep. Brown moved, no objections.

No other business, meeting adjourned.

Joint Committee on Economic Recovery
House
March 25, 1988

Present: Representative Kay Brown (Chair)
Representative Steve Reiger
Representative Fran Ulmer
Representative Mike Navarre
Representative Red Boucher
(Reps. Gruenberg, Koponen and Miller are excused.)

Agenda: Old Business
Subcommittee reports

Rep. Brown: The Housing and Banking Subcomm. has issued a report, with the action of the subcomm. yesterday in conceptually endorsing SCR32 and CSSB333 (L&C), which were referred to the Housing and Banking Subcomm.

Rep. Reiger recommended those go forward to the full committee.

Rep. Navarre recommended the committee endorse SB392.

Rep. Reiger asked that they hold HB 402 until Housing and Banking Subcommittee has a chance to review it further.

Rep. Navarre recommended the committee consider SB471 (inaudible).

Rep. Brown found that acceptable.

Rep. Brown: Next we want to present Senate 3 bills, one is a resolution that were adopted yesterday by the Housing and Banking Subcomm. The 1st relates to management of mobile homes (Resolution). See pg 2, line 7. I would move that the full committee support and endorse introduction of this bill by the Rules Committee at the request of the House members of the J.C.E.R..

Rep. Navarre had a brief question, to which Rep. Brown responded. Rep. Navarre had no problem with the explanation. His remarks were partially inaudible.

Rep. Brown: If there's no objection, we would ask the Rules Chairman to introduce this at the request of the House members of the J.C.E.R. The next one would be and act relating to notice requirements on the use of a deed of trust and providing for an effective date.

Rep. Reiger: What this bill does is it tries to address a problem we received in testimony where a number of people indicated that they weren't aware that when they signed a note that was secured by a deed of trust that they were also personally liable as well as liable for losing their property. This bill requires the remedies to the lender be spelled out in the note, and if it's not spelled out, it's not there.

Rep. Brown: With respect to the other issues regarding foreclosure that are still on the table, we'll be taking those up next Thursday. We may consider additional proposals then, but this was one the subcomm. felt was good to help in the future. Without objection we'd ask the Rules Chairman to introduce this bill by request of the House members of the J.C.E.R. Moving on to the H.A.D. loans bill, this was recommended by the subcommittee.

Rep. Reiger: This bill is a result of some legal research Rep. Frank has done on whether the various corporations had the ability to restructure a loan in cases where it was the most prudent thing to do. The gist of the bill is that it has to be a restructuring that would have been considered prudent by private lending standards; it's a case where you have the choice between a loss or a reduced income for a period of time.

Rep. Navarre made an inaudible statement.

Rep. Boucher: If nothing else has come out of this, just AHFC adjusting it's attitude to help solve the problem has been one of the major benefits. We've just got to keep pushing on them. I have letters all the time, that there seems to be a lack of communication, so we've just got to keep pushing to get it.

Rep. Brown: If no further discussion, we'd ask the Rules chair to introduce this bill by request of the House members of the Joint Committee. Before we leave the Housing and Banking Subcommittee, I'd like to call your attention to this supplemental report. We came up with the strategy and recommendations on using surplus housing for public purposes, and recommended that specifically we establish a mental health pilot program and that over the interim further work be done to determine the feasibility of additional programs of this type, or expansion to other areas, i.e., DD, elderly, students, handicapped, etc. Rep. Pourchot did alot of work on this area, and found this would be a suitable area to select for a pilot. We also reviewed HB429, 430 and 431. We conceptually endorse those proposals. I would move the full committee accept the recommendations of this supplemental report dated Mar. 25, 1988. No discussion or objection followed.

Rep. Boucher: Regarding the Southwest Plan, we have seen assistance, but there's just been a vacuum as far as Washington is concerned as far as this entire economic problem. If there is some assistance in whatever form it may be, we ought to look at it instead of trying to solve all the problem in Juneau. It's obvious alot of money has flowed into Texas by FDIC, FSLIC, etc. I think as the leading resource producing state suffering much the same problems, this should at least call Washington's attention to it. I think you, Rep. Brown, recommended we change it to the Alaska Plan. The only reason I left it as is, is so they'd have no problem identifying it.

Rep. Brown: Looking at pg. 2, line 16, the resolve could be reworded to "to consider extention of assistance to financial institutions in Alaska similar to the Southwest Plan. Any objection? See pg. 2, line 16. The motion is adopted. On the full resolution, without objection we'll add "a copy to the Federal Home Loan Bank Board." Without

objection, we'll ask the chairman of the Rules Committee to introduce this bill on behalf of the House members of the Joint Committee. I understand from Mr. Begich the Senate committee did not meet yesterday and therefor there is no report at this time. Apparently they plan to meet Monday.

No further business, the meeting was adjourned.

Joint Committee on Economic Recovery
House
March 30, 1988

Present: Representative Max Gruenberg (Chair)
Representative Steve Reiger

Tape begins after Senate report.

Rep. Reiger made inaudible remarks, as if he wasn't pushing his microphone button down all the time while he was talking.

Rep. Gruenberg: I would encourage you to invite members of the Senate to your subcommittee meetings to speed things along. It seems like you're both working in a parallel manner. The final item is discussion of future House committee meetings. We have a hearing scheduled for April 9, Saturday, at the Anchorage LIO. TR's will be provided for any of you who want to go. We are also dealing with the insurance crisis, as this has had a major effect on some of the small businesses, especially. What you've done with your reports is formed the backbone of this report, along with the executive summary. I'd also like you to think about whether you'd like to continue during the interim.

Rep. Gruenberg adjourned the meeting.

Joint Committee on Economic Recovery
House
April 7, 1988

Present: Representative Max Gruenberg (chair)
Representative Red Boucher
Representative Niilo Koponen
Representative Steve Reiger
Representative Kay Brown

First item on the agenda is a Committee Report from the Housing and Banking Subcommittee.

Rep. Gruenberg: One of the aspects that all of us are concerned about is the effect of the unavailability of insurance on the economics of this state, particularly the small business community, industry, etc. This is something that has not been examined from the point of view of the economics of this state. Specifically in recent weeks there has been a national focus in this because some 9 states have formed 3 lawsuits, one lawsuit involving 8 states, one lawsuit involving Texas, and these charge various insurers with collusion in violation of federal and state law to provide certain requirements in policies that have made insurance of various types either very expensive or unavailable altogether. What we are doing today is starting several hearings on this issue with several goals in mind. I would like the committee to consider several potential suggestions:

Suggestion #1: Whether this state would be well advised to join one of these lawsuits. This is the lawsuit that specifically that has been commenced by 8 states in Federal District Court in San Francisco, led by California; or indeed possibly commence it's own lawsuit here. The reason that is a suggestion I'd like to throw out is there maybe a possibility of the availability of Rule 82 attorneys fees, which might make a significant difference on whether or not we would recover if we were a prevailing party.

Suggestion #2: Whether it is in the best interest of the state to seek a repeal of the McCarran- Ferguson Act. The House, last year, passed out HJR 25, urging the repeal of that act, and that bill is presently in the Senate Labor and Commerce Committee.

Suggestion #3: Whether we should amend AK statutes to end the exemption from the state's little anti-trust act for insurance activities.

Rep. Koponen made some suggestions on how to deal with these issues.

Tom Dove: Just by way of background what we do have at the present are 8 separate lawsuits by the 8 states which have chosen to file Federal actions, for violation of the anti-trust laws of the U.S. We also anticipate that there will be additional states joining us here in San Francisco in the very near future, I would firmly recommend that possibility for the state of Alaska. This office received throughout 1985 a series of communications from business groups, citizens, non-profit organizations, and others because of the increasing

availability and affordability of liability insurance. Although we do not normally involve ourselves in day to day operations of the insurance department, the severity and the frequency of these complaints became an increasingly significant factor in this office's determination that something might be appropriate. Finally we were contacted by the mayor of a small community whose community is one of 18 cities who jointly purchased general liability insurance, and had been doing so successfully for quite a few years. However, as of the first part of 1986, despite the fact they were using professional brokerage services, and had approached by Jan. of 86 over 80 different property casualty firms who do offer general liability coverage in California, they couldn't get any insurance from any firm for any price. Our investigation took on an availability point of view analysis. We did not emphasize affordability, per se, I think you should realize that from an anti-trust point of view, the insurance industry can literally fix their own prices, and as such, for us to have spent much of any time on the question of pricing would have been difficult. We began informal activities Jan of 86, by May of 86 we discovered Texas, likewise in response to allegations concerning potential collusive activity within the industry had been undertaken beginning in March 86. As we joined forces by June 86. Throughout the summer of 86 this office and Texas issued subpoenas and conducted examinations under oath of executives, agents, brokers, etc., from the industry. By the fall of 86 we had reason to believe there was at least the possibility for collusive activity, particularly on the re-insurance side of the equation. By fall, 86, we asked other states if they were interested in joining our efforts. At that point, Massachusetts, Minnesota and New York joined in the effort. We had a 5 person team in London Mar., and April 87, and the information we obtained as a result of an earlier investigation we have completed many interviews and reviewed much material, and picked up 4 additional states along the way, regarding to claims of collusion, cooperation and conspiracy within the property casualty industry, specifically with regard to the terms and conditions under which commercial general liability insurance is available in this country. That's a quick summary of how we got to where we are.

Rep. Reiger asked why these lawsuits aren't a number of plaintiffs under one lawsuit, instead of each state individually.

Dove: Each state is trying to pursue their own state law claims, secondly with regards to the way in which lawsuits are structured, 7 of the 8 in San Francisco are class action for damages, there are minor differences between the different lawsuits, all of which led to the decision to file independent suits, but for purposes of the pre-trial proceedings, all the suits have been ordered to related and coordinated before one judge. In effect, it's going to be tried as if it was one suit. Most of the cities and counties down here who were able to buy commercial insurance at all (I.E. in California, less than 10% of any cities were able to buy any form of commercial insurance) were forced into what is known as the surplus ??? markets, where the quality of the product is significantly reduced from that which is normally available. So you have damages measures based upon increased premium and reduced product for your dollar. There are various ways to approach the question of damages.

(Some of the statements here are inaudible.)

Our suit concerns itself with quality of product. Under the anti-trust law, insurance companies can, and do regularly set premium rates and, ultimately, consumer prices. However the anti-trust laws, do apply to agreements to boycott, coerce or intimidate, including the consuming public. We have evidence of an effort by the main defendant to bring about a reduced quality product in the commercial general liability field which product was made available to the public, and it is in regard to product of the ? price that we are bringing our lawsuit.

Rep. Gruenberg asked if it would be beneficial for there to be a change in the McCarran-Ferguson Act eliminating the exemption from the Federal anti-trust act for insurance companies.

Dove: The AG, of California, went on record of repealing the McCarran-Ferguson Act exemption. All 50 A.G's have spoken to that subject. As a practical matter, you don't need the McCarran Act, it was put in place in the late 1940's when the anti-trust law was nowhere as developed as it presently is. The day to day exemptions and interpretations of the anti-trust law are such that all of the historical actuarial data that is necessary for an insurance company to have available to it to take advantage of the law of large numbers to do the kind of underwriting that needs to be done to adequately assess risk and price of the product, are all available within the 4 quarters of the Sherman Act, you do not need McCarran-Ferguson in order to run an insurance company. The industry has taken what is an exemption and treated it to be an immunity, and used it as a shield for a lot of activity for which I'm sure Congress never anticipated. This act has impeded the prosecution of anti-trust cases against the insurance industry. We've seen repeated evidence of collusion and price-fixing activity and product fixing activity that in any other industry would probably include a criminal indictment.

Rep. Gruenberg: It has been suggested to replace the ISO with public directors or alternatively to seek the establishment of a federal statistical agency in place of ISO, would you care to comment on that?

Dove: One of the things we do ask for in the lawsuits that have been filed here in San Francisco, is that we put a little sunlight into the process of ISO, and have public members appointed to the board of Directors. If you break up ISO as proposed and strip out some of it's forms probably many accounting firms would have an additional side-line business they could offer to small and moderate size insurance companies. If McCarran-Ferguson were repealed on the federal level that the inevitable result would be that ISO would have many of it's functions stripped away, in recognition of the anti-trust violations associated with those functions. On a state level, we are considering doing away with the exemption under state law. There is a reason why Alaska could not take it upon themselves to effectively regulate under state anti-trust laws the activities of ISO. However I'm hopeful that Congress will act to repeal the McCarran-Ferguson Act. I don't think it's necessary for the federal government to be involved, let's let the private industry do what it does best.

Rep. Gruenberg: Is ISO regulated by any level of government?

Dove: ISO is regulated in one form or another by all 50 states, it is recognized as a rating bureau by 49 of the 50. Your insurance commissioner could speak to the Alaska situation. The actuality of regulation of the insurance industry varies quite dramatically, there are approx. 14 states, of which California is one, where the insurance commissioner's regulation is very minor, and at the other end of the spectrum, are states where there is a very "hands on" approach. It is statutorily recognized in all 50 states and in that sense in one level or another is subject to regulation.

Rep. Gruenberg: Looking at the various lists, the 8 states involved in your series of lawsuits and Texas, the only small state is W. Virginia, I see no representative of the small, mountain western states. Do you feel it would help to have that class of state in the lawsuit?

Dove: I think so, there are about 22 states which have contacted this office and indicated a strong concern in the possibility of filing here in San Francisco. We are cooperating with any and all states which have expressed such an interest, and would welcome the filing of any state. Assuming we are successful, it would be nice to get some monies back for your cities and counties, and without a filing that's difficult. Under the state statutes pursuant to which each one of the present actions is filed, the A.G.'s of the respective states only have the authority to bring the anti-trust suits that have been brought on behalf of the public entities. That doesn't mean that private actions will not be filed and in fact are being filed right now. I'm aware of at least 5 class actions which have been filed subsequent to the filing of our suit, which represents small businesses, not-for-profit organizations, etc., so there are private industry actions being filed, but the public entity actions are normally brought by the A.G. on behalf of the public of the respective state.

Rep. Gruenberg: Do you believe it would be helpful to establish whether the situation in AK is any different as far as the liability or the activities of the defendant than in the other states?

Dove: we are interested in obtaining information from any state with regard to what we believe to be nationwide. The state of VA did a survey on availability and affordability of general liability business in VA and it matches up to California, Texas and New York. The industry constantly has stated that availability is a direct reflection of jury experience, high jury awards, increasing number of lawsuits, decreased availability, and reduced capacity companies decide to go elsewhere to do their business. When you have a state which is 60% below the national average having the exact same problems as California and the other states, so this kind of data is intriguing to all of us. Your A.G.'s office has to choose which cases are critical for them to deal with, dependent on if there's the staff and resources to be able to do so. I don't have a final figure on how much it would cost to participate, we are conducting the suit from March 1st onward on a basis of a cost sharing amongst all of the states filing, the original expenditures are almost close to \$2 mil. amongst the 5 original states.

Alaska's population being what it is and given the number of states filing, it would probably depend, it will probably be under \$50,000, plus additional expenses for travel, staffing, etc.

No further questions for Mr. Dove were raised. The committee stood at ease for a few minutes. Came back to order at 9:25 a.m. Present for questions were Mr. Paul Rohler, Dir., Div. of Insurance, Mr. Richard Monkman, Ass't. Attorney General.

Rep. Gruenberg clarified the reason for a cost to be involved in the lawsuit.

Mr. Monkman estimated the cost to be involved in the lawsuit for the remainder of 1988 would be approximately \$10,000, \$40,000 additional for 1989. If the Governor's budget passes, existing personnel would be sufficient.

Mr. Rohler stated that the lawsuit has a very sound basis from the materials reviewed thus far. On April 19 there is a briefing where California and New York will be going over the case information, so a decision as to whether to participate or not would be made by the end of the month.

Mr. Monkman: The state has been following this investigation since it began in 1986. From those briefings my personal observation is that the lawsuit has a very sound factual basis, and the legal theories on which it's based are also very sound. It's a very complicated and expensive investigation, in general the states that have participated are assigning 2-3 full time attorney generals to this case for the past 2 years. As Mr. Dove mentioned, there have been literally hundreds of witnesses that have been subpoenaed and have testified over 1 mil. documents have been reviewed in England, they've done a very thorough job in this investigation. The A.G.'s office wants us to review the materials gathered very carefully, to attend the briefing on the 19th of April, and then after that discuss the matter in depth with Gov. Cowper and go from there. A.G. Schaible does not want to rush into this decision. As to filing a lawsuit here in AK, that would be a mistake for a number of reasons. The form of lawsuit is designed to avoid getting into the multi-district litigation laws, for that reason all of the litigants have agreed to file a lawsuit if they're going to, in San Francisco. The advantages to doing that would greatly outweigh the advantages to doing it in AK. Also, as part of the multi-state team, we would have the advantage of (undecipherable), whereas if we filed in the state we'd be basically on our own, and it would be horrendously expensive.

Rep. Gruenberg: If the lawsuit were filed in the District of AK, could you, in your pleadings, ask for Rule 82 attorneys fees?

Monkman: We could ask for them, I'm not sure we would get them.

Rep. Gruenberg was wondering whether it would be helpful to file in AK. and then seek to remove and consolidate, so you'd have the advantage of the initial (undecipherable) and you could ask for Rule 82? and then get it back where it belongs?

Monkman: Each of the individual state lawsuits are alleging not only violations of the Sherman anti-trust act, but violations of specific state acts, which come in ansillary to main action. Our intention, if we were to join this lawsuit would be to defer to the team of attorneys that have been working in it who will be presenting the case, and aiding them as best we can.

Rep. Reiger: If these other states win, can't we just go in and say, Me too...what's the reason to be part of the initial group?

Roller: The main reason is to solidify the cause of action for damages early on. The liability part of the lawsuit is important, getting injunctive relief to prevent those companies from carrying on the same sort of activity in the future, and that is going to have a national impact. By being a party to the lawsuit, as it's progressing, we can establish the factual basis for liability for Alaska. The A.G. of AK can sue for damages on behalf of public entities under the Anti-Trust act and ultimately consumers under the Consumer Protection Act. A violation of the anti-trust act is unfair trade practice. What we can't do is obtain damages for some classes of businesses, etc. If we get a judgement, that can be used as evidence of liability by any other party that comes in. If the state of AK gets a judgement against these companies in Federal Court, then any private entity that's been damaged can come forward and have a case. By participating in the first part of the lawsuit, we will open the doors for injured AK businesses to get damages later on.

The fixing of the prices aspect is not a direct part of the lawsuit, but availability of types of insurance coverage that you can get is.

Rep. Gruenberg reiterated some points made earlier. He adjourned the meeting at 9:50.

Joint Committee on Economic Recovery
House

April 8, 1988

Present: Representative Max Gruenberg (Chair)
Representative Kay Brown
Representative Steve Reiger
Representative Niilo Koponen
Representative Red Boucher (Juneau)

Testifying: General Public

Rep. Gruenberg: We would like to take up several proposed pieces of legislation from AEDC, which Rep.'s Reiger and Brown have had drafted into bills. For the purpose of discussion, we have one, one page bill, labeled, An act relating to an exemption from municipal taxation for economic development property and providing for an effective date. The second is entitled, An act relating to reduced utility rates, fees and charges for qualified economic development projects, and providing for an effective date. We would like to take these up because we need to have a quorum of the committee to recommend they be introduced. Then, Rep. Boucher will need to leave and we will start taking public testimony.

Rep. Reiger; The first bill was essentially crafted by the AEDC. I looked at it and I believe it is certainly worth discussion. What the bill does is allow a local option for municipalities and that local option would be to foster economic development through a different tax for that package. The net result of the bill would be to allow a municipality to undertake such an enterprise without mandating it. After the committee processes it I think it will be a good idea.

Rep. Gruenberg: For the record, Assemblyman Jim Kubitz was on the plane with me this morning, and we discussed these bill and he said they have been reviewed by the Anchorage Municipal assembly and unanimously have been supported with a resolution to that effect.

Rep. Brown: My staff person informed me there were some changes made in the Cook Draft, line 28, sec. 2. It was the drafters suggestion we change the effective date of the act to Jan. 1, 1989, to have it conform with the beginning of a tax year. The draft submitted by AEDC has an immediate effective date. The 2nd change is the definition of economic development property, on lines 21-27.

Rep. Gruenberg: It looks like a language change. Contrasting it to the language on lines 23 and following.

Rep. Koponen: The definition extended to personal property, machinery, etc., this also extends to real property, I was wondering if that meant real estate or what, we need a tighter definition of economic development property.

Rep. Reiger: I understand Rep. Koponen's concern. My response is I could see cases where the tax incentive may apply to real property just as well as the instrument production, part of the production can be an improvement to the real estate rather than an actual piece of machinery.

Brief discussion followed. Rep. Brown mentioned the subcommittee has not formally discussed these bills.

No objection was raised, the bill will be introduced at the request of the House members of the J.C.E.R. The second bill is the utility bill.

Rep. Boucher had to leave early, so he had a brief question. Rep. Gruenberg mentioned that APUC has not discussed this bill yet, but only now will it be introduced, and the APUC will have a chance to discuss it at that time. Rep. Gruenberg suggested that because of the number of questions, the bill be held on the calendar until the next day when Scott Hawkins will be testifying and can answer questions.

Rep. Koponen suggested making an amendment to the first bill by deleting the phrase "real or" on line 22. Motion to reconsider motion to pass the bill out. Brief discussion of wording. Rep. Reiger recommended leaving the wording in to encourage discussion of that point in the full committee. Rep. Boucher agreed with Rep. Reiger, as well as Rep. Gruenberg. The amendment didn't pass, the bill will be introduced as is.

Public testimony began.

Jerry McCutcheon: Extension of Lake Hood, Anchorage is in need of float plane parking, there was a list of 1,300 people waiting. After they started charging, the list dropped down to 583. Now the list is only 58 years long. It's winter jobs in AK. There are at least 2 aircraft manufacturers, 2 potential float plane manufacturers, 4 manufacturers of aircraft skis, and 4 engine and wing cover mfgs. in the local area. It would add 1,000 new pilots, \$2 mil to the economy. The utilization of the extra spaces would add \$15 mil to the tax base, etc.. Therefore, I would like someone to move on the completion of the expansion of Lake Hood, with a completion date of summer of 1989. Second, there is a need for the military to go out on glaciers, not necessarily Eklutna, but the military does have ? Lake near Ft. Richardson. Access is needed to that lake for float plane parking. I object to the housing trades, it should be a level playing field, they shouldn't be giving their money away. The proposed ski area: I don't think the state is playing it very straight either with the legislature or with the public on the Rogner-Eagle River ski area. We have had good weather for 3 weekends in a row, and I have flown in many other times. No one ever used the area even though it's adjacent to the Arctic Valley. I don't think it's ever going to make it. There's just no snow there, I don't think it'll make it.

Rep. Reiger: There is a DOT plan for the expansion of Lake Hood. On the housing trades, my thought on that is that it would be equal year values (1988 for 1988).

Rep. Brown and Rep. Gruenberg concurred with Rep. Reiger.

Rep. Gruenberg had a question about there being no snow in the proposed ski area. Mr. McCutcheon mentioned it was more times than he could remember. He favors a road through that area through to Crow Creek Pass. Mr. McCutcheon spoke of another idea he had, on developing coal, shale, etc.

Belle Dawson: I feel we need to develop our tourism industry further, and if we open coal mines, etc., they'll only give us a few jobs, and in the long run destroy our unique features that attract people to Alaska. I really wanted to talk about small businesses. When I go to a bank for \$15-20 K, they don't even want to talk to me, it's not feasible for them. SBA won't help, they say there's no money available for small business (\$500,000 or less). One of the real needs of this session is to invest in loans for small businesses, so they can get started, provide employment and help circulate money. There are more of us than you probably realize, and we just fall through the cracks.

Rep. Gruenberg mentioned HB471. Rep. Reiger mentioned the possibility of calling it a personal loan and using it for the business.

Norman Roper: There's a number of points I'd like to raise. One of my concerns is the commercial real estate market, I've been a personal broker for 15 years, and I've been involved in giving ideas to the municipal administration. This is a very difficult problem. The biggest difficulty is putting our hands on legislation to deal with this. It seems we need to be able to form some kind of R & D group to be working on this problem. A potential idea might be some kind of joint operation between AHFC and AIDEA, and drawing on their funds for this. The AIDA has impacted the Anchorage economy with oversupply of office space. Mr. Wagman and myself agree on what's happening now and what direction AIDEA should go for in the future. One specific recommendation I'd like to make upon consultation with Mr. Wagman is to look at increasing the number on the Board of Directors of AIDEA, from 5 to at least 7 members. One reason is due to recent appointments by the Governor, there's no one from the Southcentral area on the Board now, other than Comm. Smith. There's also a limited amount of banking expertise on that Board as well. This is a small thing that could be done immediately. The idea of using the wealth in the retained earnings (AHFC reserves), it's an extraordinary source of funds we can utilize to help us get through the coming difficult years. I agree with almost every potential solution of the Housing and Banking Subcommittee.

Rep. Brown: We do recognize use of the reserves might be appropriate, we had a bill I hope that was introduced today that would authorize AHFC to use up to \$10 mil. of it's reserves for projects of this type, Willow Park one on the front burner.

Rep. Reiger: On the subcommittee report where it says, "Cost to the state: little or none.", there's a theory behind that, it means recognize what would have happened anyway, a loss which would have occurred anyway if no action had been taken. As far as the AHFC earnings reserve, it's really not earnings, but there is capital there.

Mr. Roper: One suggestion for the legislature this year is to pass a resolution directing AIDEA to be prohibited from lending or participating in the lending of any new development of office space, taxable or non-taxable, forever!

Brief comments on various ideas followed.

Rep. Reiger mentioned one of the bills Housing and Banking Subcommittee introduced requires the note to specify the remedies of the lender and the securities behind the lender.

Rep. Brown asked Mr. Roper on his impressions of the Bridge Bank ideas.

Mr. Roper hadn't viewed the legislation, but knew of some of the ideas. He voiced his opinions on some of the various ideas. The AEDC proposal was the only one he thought had good merit, because of operating as a non-profit type operation, which wouldn't have to seek a large amount of state funds.

Alan Fuller made some brief remarks. Rep. Brown volunteered to make an update on bill numbers, etc., for organizational purposes to move issues along. Rep. Gruenberg adjourned the meeting.

Joint Committee on Economic Recovery
House
April 9, 1988
Anchorage

Present: Representative Max Gruenberg (Chair)
Representative Kay Brown
Representative Red Boucher (Juneau)

Testifying: Scott Hawkins, AIDC
General Public

Rep. Gruenberg: For the record, we took action on the one page bill which had been distributed yesterday recommending it be introduced. Mr. Ted ~~Moninski~~ is here to speak on the utility bill. Mr. Hawkins will explain the purpose of the bill.

Mr. Hawkins: I represent the AEDC, approved by the municipality a year ago in June, to go out and promote economic development. I took this spot 6 months ago to head the corporation. We have very quickly found that compared to other states and cities we had very little to offer in terms of economic incentives. With regard to the utility bill, it is enabling legislation. It gives the APUC clear guidelines that if the utility proposes an economic development incentive rate that under state law this does not violate any section of that law. The APUC can then go through the public process, see if at the local level there is support for that kind of a rate filing, and rule on it. They wouldn't have to be concerned then if it violated state law. It's very similar to the property tax bill, it just enables localities to make that choice.

Rep. Boucher was wondering if in the process of drafting if AEDC had coordinated with APUC. Mr. Hawkins said no, all they wanted to do was make this permissible rather than requiring anything of any local area. Rep. Gruenberg explained that the only action this committee would take is to have the bill introduced.

Mr. Moninski: This morning is the 1st time I've had a chance to see a draft of the bill. I was personally involved in the drafting of the language in the lifeline legislation that proceeded through the House last year. One concern of that was a provision of Title 42, 05.391. (Partially inaudible) We had to determine that there might be certain instances when some form of rate discrimination might be appropriate and permissible under the statute. I don't see any reference in the proposed legislation to Sec. 391, that's an area I might make some suggestions to Mr. Hawkins about. Some other concerns, again referring back to the lifeline legislation, was if you have a utility whose ability to earn is subject to the APUC's jurisdiction, the process we go through in our proceeding is the utility demonstrates it should be allowed to earn and cover certain cost expenses, including a reasonable profit. We refer to that process as the termination of the revenue requirement for that utility. Once the revenue requirement has been

determined the utility has a legal right to earn that revenue requirement. If during the course of setting rates we shift some of that recovery process from one customer class to another, the utility still has a right to be made whole (?). The implication is that other customer classes must somehow make up the difference. I'm sure that's essentially the logic that's behind the anti-discriminatory provision of the statutes, and certainly something we look at closely. What's unclear to me as I read the proposed change to pp. M of Sec. 381 is how that process would take place. The only other item, there's some reference here to the political subdivision in which the project is being developed. Having some responsibility for determining whether or not this is one of the projects that might be eligible for these special utility rates. Clearly that seems to be an appropriate thing to do where a political subdivision actually owns and operates the utilities and providing the services. Where you might have other corporate entities, utilities provide the service within the boundaries of the municipality, it's confusing as to what authority or responsibility the political subdivision would have for these other entities, i.e., Chugach Electric providing services within the boundaries of the municipality of Anchorage, it's not clear to me what the relationship would be between those involved.

Rep. Gruenberg: Given the fact that we have just less than a month left, do you think you'll have enough time to review this thing, if the bill is introduced?

Mr. Moninski: I don't think there'll be a problem.

Brief discussion followed.

Mr. Hawkins: Inserting a time limit into the bill is a good suggestion. Our intention is to provide capital recovery, not to provide a perpetual subsidy. We have coordinated with a couple of major utilities, Chugach and MLMP. We want to make sure that whoever gets this incentive will bring new economic activity and expand the economic base. Also, in response to Rep. Brown's question, as the economy contracts, the amount of revenue the utilities makes contracts. The result is higher utility rates and lower income for the utility. They have a great deal of incentive to promote a stable economy, to expand the economic base, etc., that gives them a more stable environment. At this point in our economic cycle, increased economic activity could actually lower rates for utilities and higher earnings for the utility. The question will be what kinds of businesses it could apply to. There will be clear cases where there is no competition, i.e., if a manufacturing plant comes in to produce a product that's not currently being produced here, or air transportation company would provide service that's not currently offered. The assembly or whoever would have to waive whatever competitive effects it would have with the worth of the expanded economic base. Under the bill we submitted, that group would be the assembly. Once the rate was filed and approved, the project would have to go to the assembly to be approved at a reduced rate. One way to cap this would be a maximum load demand. Those projects under that cap might not have to go before a board for consideration.

Rep. Gruenberg: If you have any changes to make in the draft, see Tom Begich of my staff, then we will bring this before the committee for a motion on whether or not it will be introduced. It sounds like Rep. Brown has some ideas as well. We have another bill: An act relating to exemption from municipal taxation, for economic development property. I would appreciate it if you would explain to the committee what the bill does. There was one amendment, line 22, delete phrase, "real, or". Mr. Hawkins.

Mr. Hawkins: This bill is similar to the one we just saw. It's enabling legislation that gives localities the flexibility to offer property tax incentives as a tool for economic development. We did propose a 5 year limit, and we proposed it be approved by the local governing body on a case by case basis. It's a taxation and revenue matter. We don't feel a blanket program would be appropriate because of the inherent level of concern on such matters. The inclusion of real property is key to this bill.

Rep. Gruenberg: Would it be helpful to state "exempt or defer" from taxation, because a municipality may not choose to exempt somebody from taxation. The committee has already voted on this, but I didn't think of this at the time.

Mr. Hawkins: That's an excellent suggestion. When we drafted it, the terms "in full or in part" I thought might include deferring, but if that's not the case, I think that change should be included.

End OF TAPE 1, SIDE 1.

Rep. Boucher thinks the utility piece of legislation needs alot of work. Mr. Hawkins is smiling and nodding his head.

Rep. Gruenberg: On the one page bill, would there be any objection to amending line 12 to "exempt or defer from taxation"? I'll walk that around to see if anyone has a problem with that.

Charles Konigsberg: You want suggestions for economic stability, and given the way our system works, as Mr. Hawkins has just demonstrated, stability is impossible in our system. We never have developed this here. We know enough to prevent boom-bust but we didn't do it. What do you gain by allowing marginal operations to come into being and then under certain conditions which are inevitable, they fail? The only sensible thing in my view for the legislature to do at this time is to let the economy sift itself out, so then it demonstrates what it's capable of maintaining and sustaining on a stable long term basis. Nothing that has been said is any different than in our economic boom. You use the same language, people are coming to you for the same kind of subsidies, even when there were millions available. Isn't there something wrong with a system which, in it's decline, as well as in it's descent, you talk about things in exactly the same way? That's what I mean with the issue of stability is absurd. People are not trying for stability, they are just trying for more, more, more. So let's be honest about it. I'm not pointing fingers at anybody. Don't get too close to it, you'll get confused. Why is it necessary for public funds

to be used in the manner in which was recently suggested, exempting public utility rates, taxation, etc.? Where are the millions and billions that were made by people here in the boom? Why hasn't that money been put to work? Why is it only public money that must be addressed? Is there any guarantee that we will benefit from what you're proposing in these bills, anymore than we did then? That money's probably in Hawaii or somewhere. One would have thought that with the advantage of hindsight Anchorage could develop a socio-economic system from the lessons of the states below. If you're in Alaska you get a little more, it's get...get...get. My suggestion is do as little as possible. You don't know what is going to be good, I don't think you should be helping groups out, individuals, O.K. If you want to help people in depressed conditions, find out what people were doing traditionally, that worked, and help them do that a little better. The only reason I moved to speak is we try to keep people unsatisfied so they want more.

Rep. Brown mentioned helping the tourism industry would be a good industry to enhance and help support to keep and bring money into the state.

Mr. Konigsberg made brief additional comments.

Jack Keene: The philosophy of where are we going and what do we want to achieve is a good one at this time. One thing I don't see in here is the possibility of building up our university system. Regarding the economic problem, one thing we need is new money, not only from tourists, but also from students, loans, grants, etc.. Some of the talk about excess housing being used by students is an excellent idea; taking the idea one step further to making an introductory offer to advertise and draw additional students here. If we looked at that as some help for the economy and a social benefit, we might find some good in it.

Rep. Gruenberg: Anyone else who wants to testify? Thank you, this meeting is adjourned.

Joint Committee on Economic Recovery
House
April 11, 1988

Present: Representative Max Gruenberg (chair)
Representative Mike Navarre
Representative Steve Reiger
Representative Kay Brown
Representative Niilo Koponen

Testifying:

Mr. Rohler (Dir of Div. of Insurance)

Mr. Craig Barrington (Gen. Council to the Amer. Insurance Assoc.)

Mr. Rohler: I'd like to speak on the exemption of the McCarran-Ferguson Act from the anti-trust statutes. In 1946 when McCarran-Ferguson was passed, that anti-trust exemption applied to the business of insurance, and specifically to the insurance companies themselves. Since then there have been a number of court cases which have narrowed this exemption, and now the exemption on that act is exactly equal to the state anti-trust exemption. There'll be disagreement on this point, but I honestly believe this. Under Title 21, 36 080, there's a specific exclusion under state law regarding this act. I would very carefully look into the issue of whether you want to repeal any anti-trust protections, because in my opinion those belong to the state. I am against repealing the McCarran-Ferguson because as I stated earlier the allegations and complaints that have been filed recently by 8 states are true, McCarran-Ferguson is not going to act as a shield, I can assure you today that the insurance companies will raise McCarran-Ferguson as a defense, and I feel equally sure it isn't going to be a valid defense, because if the insurance companies were acting outside the scope of the regulatory authority of the states, they are going to be held liable. The second point, is the factual allegations of the complaint. I spoke with someone from the ass't A.G.'s office, and he advised me he has a confidential, factual report from the various A.G.'s offices investigating this matter, he told me I could not look at that report. Right now I can't state whether a valid cause of actions exists, but I can say under the rules of pleading in a federal court, when the attorneys bringing this action file, they are going to have to attest to this good faith belief that they can sustain their burden of proof in this action. If those allegations are true, then they should be redressed in the courts.

Rep. Reiger asked a question? Partially inaudible.

The London market is a very powerful market, and it may very well have been the case that the foreign offices, with much less control than that here, may have had something to do with these actions.

Rep. Gruenberg voiced the possibility of clarifying the statute in this action and make certain to eliminate some costly and lengthy litigation

and let the citizens of the state know they can bring a private cause of action. Mr. Rohler said he thought the Div. of Insurance would support such an amendment to the statute making it clear that a citizen could use this for a cause of action.

Mr. Barrington: I'd like to comment on the McCarran-Ferguson Act, the relationship between the insurance code in AK to the AK anti-trust law. I noticed a discussion about repealing the state McCarran with the assumption that there is such a law exempting insurance from the AK anti-trust laws. But my reading of the statutes indicates there is no such AK law, therefore there's nothing to repeal. Under AK law, it is unregulated industries which are generally the subject of the states general purpose anti-trust laws, Title 45, Art. 5. That law has a list of exemptions, sec. 572, including labor, agricultural and horticultural organizations, certain fishing associations, public utilities and the arrangements necessary to carry out the AK Native Claims Settlement Act. There is also a general purpose regulated industries exemption that pertains to activities required or permitted by state regulatory agencies, but there is no exemption for the insurance industry, so there would appear to be nothing to repeal. I should add however, that the general principle of statutory ? requires that the specific provisions of one statute must be followed rather than the general provisions of another(?), thus it is well settled law that no act undertaken by regulated parties under statutory regulation could be held to violate the general provisions of an anti-trust law. That is true in regard to insurance but it would be true in governing any other regulating industry as well. This insurance is regulated in AK. I'd like to describe some provisions of the AK insurance code, because I don't think you can adequately discuss the claim between the insurance code and the anti-trust law unless it's well understood what the insurance code does, and what it allows and prohibits. The AK insurance code is really a plenary statute, it covers the entire insurance business, i.e., in a separate chapter (39), which creates the procedure for establishing rates and authorizing the operations of rating organizations by the organization, the insurance commissioner has very broad authority. Chap. 39, cooperation among insurers and rating organizations is specifically authorized, but that cooperation is subject to the authority of the insurance director, who has the absolute authority to disapprove any cooperative practice, the insurance commissioner also has the absolute authority to approve or disapprove any insurance rate that's proposed or the use of any insurance form in the state. Moreover, when we get into the question of trade practices, it's important to note that the insurance code has an entire chapter (36) devoted to that issue, and in that chapter there's a long list of enumerated unfair practices. In addition to those unfair practices, the insurance director is authorized to determine that "undefined practices constitute an unfair method of competition or unfair or deceptive act of practice", and when he is so determined, if necessary he can authorize the A.G. to enjoin that practice in court. Therefore, under the specific language of the insurance code, any activity that would be considered an anti-trust violation and if not specifically authorized and regulated by the insurance commissioner may not lawfully be undertaken. AK today ? protection to it's insurance code, prohibiting the anti-competitive practices. With regard to McCarran-Ferguson, such a resolution coming

from a state legislature like AK seems particularly interesting because if McCarran were repealed it would be up to to AK to decide how it wants to regulate the insurance industry in AK would also be repealed. It's the McCarran Act that allows you to decide the terms of AK regulation. McCarran is often misdescribed as an insurance anti-trust exemption, that's not really the story. McCarran says that certain anti-trust laws not be enforceable in any state that decides to regulate the business of insurance. If the state decides not to regulate insurance, all federal anti-trust laws will apply. If McCarran were repealed, Ak insurance regulations, other state insurance regulations would be in trouble, because the legality of those regulations last along ? subject to a just made doctrine in the anti-trust field which is known as the state Action Doctrine. Under the state action Doctrine, only state law that is absolutely safe from being overturned under the anti-trust laws is state law and regulation that is designed to be up to the courts to displace competition, and that is actively enforced, actively supervised by the state (?) Regulation like the AK insurance regulation is designed to foster competition, not to displace competition in a regulatory structure would be immediately open to challenge. Even if the regulatory statute survived that initial litigation attack, it would be constantly open to additional expensive litigation on the grounds that any on instance by any one individual that if the code or the issue was not being actively supervised by the state. The McCarran Act was enacted to give the states the widest latitude of forming their own insurance policy. Modification or repeal of McCarran would eliminate that state authority. That's not just my view, but also that of the Nat'l. Conf. of State Legislatures, rejected last year a resolution to support repeal of the McCarran Act, also respected by the Nat'l. Conference of Insurance Commissioners, also by AR. Governor, as well as many others. With that background, let me say a few words about the court case itself. The case was announced to the press before it was announced to the defendants, with a great deal of political rhetoric. The Governor stated that these defendants have sucked the blood of our nations economic well being. That type of political rhetoric gets headlines, but it has no place in the lawsuit at all. The suit focuses on a narrow point of law, on the development of a new commercial insurance policy....I'd like to respond to the unpredictability of coverage under the old insurance policy. Basically the old policy was being interpreted by courts in ways the insurers never expected when the policies were written. It required pay outs for which appropriate premiums had never been charged. Problems raised the need to develop new forms to eliminate the uncertainties, the responsibility for managing that process was in insurance services office that operates under state law in AK and elsewhere and is subject to the absolute control of insurance commissioners. Under any such procedures, 2 new policy forms are publically proposed, debated, presented to insurance commissioners, along with a current policy form and a claims paid form. Commissioners required changes before accepting the forms, and some rejected the claims paid form outright. Far from being private collusion, development of the forms was a public process, insurers carrying out their responsibility. I might add a response to the question this morning with regards to directors and officers ... in medical malpractice insurance hasn't changed, and any allegation with regard to those activities, no allegations with regard to auto insurance, and despite

the political rhetoric used, the case is very narrowly drawn. If insurers they were fighting state insurance ?, what was the law suit about? The attorney generals don't like the ISO mandate, the mandate ? laws which pertain to advisory organizations and rating organizations and they don't like insurance regulation under current law, such as the AK law, and have said so publicly. Therefore it is their privilege with having failed to enact statutory changes in the state legislatures they're now trying to get their changes through litigation. I think the insurance companies and the insurance services office actually caused the liability crisis by developing the claims made form, but the charge just won't wash. Start by looking at the times trade (?) during which the policy form was about. Although the suit alleged that the use of this form caused the liability crisis, the form was not even approved by the states until 1986. Substantially after the liability insurance crisis had it started and in many cases peaked. How then could this activity which is really the guts of the lawsuit, have caused the crisis? I asked A.G. John VandeCamp of California that question twice, on the McNeil-Lehrer news Hour, and twice he couldn't respond? Why? I believe because there is no good response. Let's look next at the ? coverage I was asked by the A.G. Indeed if you look at the guts of the lawsuit, which you have to go 42-44 pages into it to find, in the claims, you'll find it deals with London reinsurers, and the rest of the lawsuit deals with pollution coverage(?) So the A.G. claims that this new policy form caused availability problems and ? coverage. But that charge is not only unfounded it's hokey. Commercial insurance policies started with a 1984 court decision which is generally referred to the Jackson Township case. In that case, the court ruled that a 20 year seepage from a landfill in New Jersey was a and thus was covered under the old insurance policy. Insurers reacted to that decision and to similar decisions by making individual business decisions that pollution coverage would be too expensive and unpredictable to provide under those circumstances. The 1986 change on the ISO form on pollution therefore noted the changes that had already occurred on the market after Jackson Township. And now the A.G. has brought the suit, it'll probably be years before the case is resolved and as some have speculated the case is thrown out of federal court in the near future. While it's not possible to litigate the case outside of the courtroom, one fact is clear even now, that is that the political rhetoric of the A.G. used to promote this suit is simply untrue. The insurance companies didn't create the liability crisis through some scheme to establish a new policy form, and to boycott an old one. There are 3,500 insurance companies in the U.S. ? has more than 8.6% of the market. Competition, as filed by every study, flourishes in the market. There has been no evidence of coercion. Should this committee recommend that AK join the lawsuit? Ultimately that's your decision. You might also be interested in the Wall Street Journal's article, that says the judge will probably dismiss the claim. It will be an expensive and drawn out affair, and ultimately I believe it will prove to be wrong.

Rep. Gruenberg: In reference to the McNeil Lehrer appearance, from March 23, 1988, you stated on page 7 (quotes from transcript) Mr. Van de Camp did answer your question, did he not?

Mr. Barrington: His first paragraph, those who control the forms control the coverage, assumes that the approach to decision making resulted in there being no occurrence form left. That is untrue, there was always an occurrence form as well as the new claims paid form.

END OF TAPE 1, SIDE 1

Until an insurance form is approved by the insurance commissioner, a policy cannot be used, and while that differs in some states, in AK it is absolutely clear under the assurance code that the insurance commissioner has the final authority, with regard to approval of the forms. The second point with regards to the 43 reinsurers, I thought that that was an interesting comment. Those 43 reinsurers were all London reinsurers operating in Britain under British law, and there's nothing which begins to deal with the question of whether there's any jurisdiction over foreign corporations acting under their own state law, which may be different from American law. I don't believe he answered the question very well.

Rep. Reiger: What percentage of commercial general liability insurance goes to the overseas reinsurance market?

Mr. Barrington: Insurers need to have reinsurance, as everyone understands, reinsurance is basically insurance for insurance companies, they sell a policy and then ? buy a particular piece of the liability and the more reinsurance you're able to obtain the greater capacity you have for selling insurance, primary insurance, so in the U.S. in order to provide the insurance necessary for an expanding economy, you need to have a great amount of reinsurance. It also makes sure the individual claimants will get their claims covered in a large claim, so it will not be an extraordinary demand on any one company. I can't give you the exact figures. Generally, primary insurers will engage in contractual relationships from which reinsurers call treaties under which those reinsurers agree to provide reinsurance for particular type of risk. The insurance company writes those types of risks, and they become covered through the reinsurance treaty. A primary insurer is absolutely obligated to the policy holder, and there have been instances when reinsurers have not paid when obligations have come due, but that has not relieved primary insurers of their obligation to the policy holder.

Rep. Reiger: In liability insurance is there a rule of thumb as to the cut off where a company will stop solely primary insuring?

Mr. Barrington: It differs by company and line of insurance. Insurance commissioners have a great deal of interest in making certain that an insurance company's solvency is maintained, and so alot of reinsurance is done with an eye to that.

Rep. Koponen: What was the general percentage of losses not made up 3-4 years ago when the reinsurers didn't pay up?

Barrington: I don't know that. Whenever a reinsurer does not pay what it is obligated to pay it does negatively effect the capacity of an insurance company to write additional insurance, because the capital

that would have been available to write that new insurance is then required to provide coverage on the claim. The court system at that time was yielding out decisions on perpetuations of policy forms that had been written years and years ago, that resulted in large claims...when those kinds of decisions come about, the asbestos decision being a good example, they impacted capacity, impact as to how policies will be written in the future, and they impact the type of insurance you're going to write in the future. Another area had to do with the dislocations caused by the mass of changes in interest rate, occurring in the late 70's and early 80's. You'll recall we had interest rates in the 19-20% level, highest since the civil war, and those rate increases, a lot of the prices of insurance were caused to go down, because insurance companies get their money through premiums and through investment income off of that premium that's used until claims are made. So when investment income is high, premium costs can be lowered and the consumer gets a better break. Those policy holder costs went below what an actuarial estimate of losses would show to be prudent. There was no way to predict how far down interest rates would come after they had peaked, and moreover insurance commissioners looking out for the interest of consumers would have been quite unhappy if insurance companies were making substantial profits on investments and not passing along those profits to consumers through lower premium rates. Then interest rates came down, there was not the investment income to offset the loss that was taken on the writing of premiums, then premiums went up as well.

Rep. Gruenberg: Only one of our interests is this lawsuit, the legislative interest is the public policy involved. Should the main focus of the public interest be to insure that there be a certain income to the insurance companies, or should it be that there be relative stability from the consuming point of view. Just because interest rates fall, etc, should that play any part at all from the cost of the policy, isn't that totally separate from the public's point of view?

Barrington: I don't think those aspects have any thing to do with the coverage of the policy. The policy changes came about because of the unpredictable court decision. This lawsuit isn't about the cost of insurance. You can't have assurance of predictability for policy holders if you have companies that are going out of business and leaving policy holders. Every state has protection for individuals for claims with companies that go out of business. A guarantee fund is financed by assessments of existing insurance companies remaining. So, the insurance commissioner has an obligation to insurance stability by making sure insurance companies are operating soundly and appropriately and also from the standpoint of protection of policy holders. No rate goes into effect without the insurance commissioners permission. With regard to physicians and workers comp, the problems is people fail to understand that those rates reflect what's happening in society. The insurance rates have to reflect the payout. (example of medical malpractice.)

We could decide to have a workers comp system which allows an ever increasing type and amount of payout, but we couldn't also have lower rates.

Rep. Koponen: Does the ISO collect data available for legislators so we can make public policy based on hard data?

Barrington: ISO does have info which it provides to insurance commissioners, it also has done some studies regarding tort reform, but there is no perfect information re: lawsuit issues.

Rep. Koponen had a question about restricting the market to domestic insurers, and what the McCarran-Ferguson Act would allow the state to do.

Barrington: The question of whether you can restrict the market to domestic insurers is not a McCarran question, but it's an important constitutional question, about restriction on commerce, it's a constitutional issue. The authority under McCarran is for the states to enact whatever insurance regulation they like which passes constitutional muster. I'm not sure a state could pass legislation restricting the business of insurance in the state to companies that are domicile in the state, under the U.S. Constitution's commerce clause, but that should be examined carefully. From a policy standpoint you might be denying citizens competition in rates by denying some from competing in the AK market.

Rep. Koponen stated he isn't interested in doing that, but just determining the limitations of power under the McCarran Act.

Rep. Gruenberg: Do any states have any say in how the insurance company invests its money?

Mr. Barrington: I'm not aware they do, except that insurance commissioners are authorized to examine the insurance companies for solvency purposes.

Rep. Gruenberg: So, to review, there have been gradual evolution of tort theories, that have changed as technology increased and the complexity of life became greater, and as people began to do this, the courts have responded to those expansions. Now we're looking at that in the so-called tort reform area. And that has increased the exposure of insurance companies for such things as pollution. The other thing you've mentioned, however, is something entirely unrelated, and that is due to the change of the yield of the stock market portfolio invested by most of these companies, as inflation went down, so did their return. Now, if we look at this as a see-saw, and we try to maintain equilibrium in the see-saw, and we have a public body, board, etc., that regulates only one end of the see-saw and the other end of the see-saw is fluctuating wildly, with no control, don't you think we should be examining the other end of the see-saw as well?

Mr. Barrington: I would challenge the notion that it's fluctuating wildly. Given that assumption, in the late 70's early 80's it caused disruption of every major industry in the U.S., including the insurance industry. There's nothing the insurance industry can do about those kinds of fluctuations.

Rep. Gruenberg: Don't you think we should regulate the insurance industry like we regulate the banking industry?

Barrington: You're wrong with regards to regulation. Regulation is very, very strong. I would not hold up regulation of the banking industry as a model for anything, there have been more failures in the banking industry in the last several years than any time since the great depression. During the high interest rate period, banks provided all kinds of loans to third world countries, and most are going unpaid and the banks are writing them off, as are loans that went into the oil business, so banking regulations aren't a model for anything. The stability of the insurance market and primary insurers has been really extraordinary. The one thing you want to avoid in the insurance industry is the lack of competition, so it's not regulation of a monopoly, but regulation of a business to assure public protection but try to get as much responsible competition as you can possibly get. The insurance code has formal procedures with regard to rate determination, and they are there for the insurance commissioner to exercise in an appropriate way. It also provides for hearings and provides for individuals to file complaints with the insurance commissioner. The commissioner has the responsibility of protecting the interests of the people of the state.

Rep. Gruenberg: Are you aware of any other states where there is an office charged with protecting the consumers interest?

Barrington: I don't believe so, there was some discussion in California, but no legislation has been enacted. It's important to examine the authority the insurance commissioner has. We believe in strong and appropriate regulation of the industry. It doesn't serve any of my member companies well to have a regulatory system which allows some companies to act improperly and then go out of business, because everybody left picks up the pieces of that. In a lot of states it's true that the insurance industry through fees finances the regulatory process, and we have always been willing to pay those fees to get solid regulation for the public interest.

Rep. Gruenberg: It has been alleged by a number of different sources that the insurance commissioners (and I'm not referring to Alaska, I want that understood) are hand in glove with the industry are really pretty toothless, comment?

END OF TAPE 1 SIDE 2.

TAPE 2, SIDE 1

Barrington: The insurance industry has never opposed increasing the amount of insurance fees necessary to have an effective enforcement program. I want to emphasize that; I don't know the financing mechanism in AK. As to your argument, we have no formal position. While you do not want either the appearance of impropriety, or impropriety itself, you do want regulators to know the industry well enough to regulate it well. Can you find people who have that knowledge who don't come from the industry? Sometimes, academics, lawyers, economists, etc. With regard to people leaving regulation and going back to the industry, I

know, for example there are rules of conduct for individuals leaving positions in the federal gov't and returning to private industry. I could understand the desire of the public to see rules pertaining to that.

Rep. Koponen: As far as the laws and regulations, we do have a fairly stringent set of laws in AK, but the fund we receive from premium tax go into the general fund where it's constitutionally limited, we do not have any dedicated funds other than the Permanent Fund and certain pre-statehood funds, so our Division of Insurance is fairly small, and as problems arise they find themselves behind in gathering data or attempting to enforce law so that compounds the problem. One of the questions people have raised is if you know if insurance employees are involved in the tort reform efforts?

Barrington: There has been insurance industry participation, yes. We have participated strongly in those efforts, as have many groups. The tort reform movement is broader than just the insurance industry.

Rep. Gruenberg thanked the testifying individuals and adjourned the meeting.

Joint Committee on Economic Recovery
House
April 15, 1988

Present: Representative Max Gruenberg (chair)
Representative Steve Reiger
Representative Niilo Koponen
Representative Kay Brown
Representative Mike Navarre

Testifying: Doug Mertz, Dept. of Law
Mr. Knudson (Exec. Dir., Health Assoc. of Alaska)

Mr. Mertz: Comm. Kelso of DEC asked me to come here and relate to you a couple of episodes that department had with the insurance industry in 1981-82. These arose out of the requirement in the then fairly new law regarding oil spills requiring oil terminal facilities and tank vessels to have proof of financial responsibility to respond to damages in oil spills, both clean up and damages in the legal sense to any damaged parties. That law requires either insurance, surety bond guarantee or self insurance. We discovered very early on in the process that after the initial spurt of availability of insurance policies that suddenly insurers were declining to write policies. In fact, we got outright refusals from the Water Quality Insurance Syndicate, the largest domestic group of pollution insurers, and underwriters of Lloyds and the P and I clubs, protection and indemnity clubs, which provide insurance or reinsurance for major tank vessels. We went through a long series of meetings with representatives of these organizations, both here and outside, trying to find out exactly what the problem was and why insurance was not being written, and they were being quite frank about it: it was not so much a matter of the inherent risks, as they wanted us to change our law, either by statute or regulation change to make certain provisions less onerous on them and they were also insistent they were not going to cooperate with any state liability schemes that exceeded or differed from federal pollution law, in fact the P and I clubs were insisting they were not going to cooperate with any scheme of pollution liability that did not conform to international standards. AK, they were determined, was with 5-6 other states out in front in applying it's own standards and that was not going to be allowed as far as they were concerned. Shortly after that we began to get similar protests and positions from insurers of tug and barge lines, also carrying oil to AK, where they were refusing to pull out of the market whatsoever and basically starve those communities here that are dependent on tug and barge oil, which basically means all of your coastal communities along AK's entire coast, unless we rewrote some of our critical regulations and indeed some of the statutes. In one of those cases we actually did end up in effect rewriting the law, through an A.G.'s opinion and giving them part of what they wanted. In the other case we simply declined to withdraw from the field altogether, which is what the water quality insurance syndicate and the british organizations, the P and I clubs and the underwriters of Lloyds wanted. What we

did eventually was to take on a major effort of trying to find insurers on our own, going out there and beating the bushes of the market, tho we finally found one or 2 small insurers willing to write policies. Once that happened the dam burst and all the others started writing them again. But, we had an attempt that was partially successful by these groups to change AK's law and interpretation of it's law, for financial responsibility for oil spills.

Rep. Reiger asked what a P and I club is.

Mr. Mertz: It stands for protecting and indemnity; ancient British institutions who are large scale insurers or large scale reinsurers who specialize in insuring large vessels, there are 15-16 of them; almost all based in England or British possessions. They are pretty much the major players in maritime insurance. This report came out with the conclusion that there was nothing we could do about this refusal to write policies and that if they wanted our law changed we better change it. This information was never forwarded to the municipalities because they didn't think they (the insurance companies) would be able to keep holding off until the end, to a point where it would effect the municipalities.

Rep. Koponen requested copies of this report.

Rep. Gruenberg asked that Mr. Mertz discuss this situation with Mr. Monkman, that it is most important, and that the information he is providing would be helpful to the attorneys interested in the insurance lawsuit. He stated having this additional evidence would assist in that lawsuit and would be a reason why we should participate as opposed to simply filing a friend of the court brief.

Rep. Reiger: In these transactions, is that a domestic or international transaction?

Mr. Mertz: It is normally carried out from the point of view of the entity being insured, as a domestic one through a domestic broker, they don't actually make contact with a P and I club or the underwriters of Lloyds, they work through an American broker. I suspect here that we have a situation where if there is some sort of joint collusion or joint communications, whatever by the British based entities, it probably happens in Britain, whereas the water quality insurance syndicate and the other domestic insurance companies are very much domestic companies. At the time we were dealing with the domestic insurers they pointed out as part of their show of their ability to put us in an uncomfortable position, that Florida had had a very far-reaching pollution ? law, they made similar threats to Florida that they would basically dry up the availability of oil on the market, and they said that Florida caved in and changed, I don't know what.

Rep. Gruenberg: Do you anticipate that any such threats would occur as a result of these 2 new laws which a number of us strongly support?

Mertz: It depends on how we enforce them. My opinion has been all along that most of the things we would be able to do under the strengthened

liability law, HB 459, we could probably do under the common law anyway, altho we would have to wade through a lot of defenses to get a court judgement that way. Insurance carriers are well aware of that and well aware of the problems of writing that kind of insurance and the pitfalls. Whether they should be concerned or not, really comes down to how we enforce it, so I suspect they will be looking at that, rather than at the actual terms of the statute itself.

Mr. Knudson (Health Assoc. of AK) The health assoc. of AK represents nursing homes, and I want to make 3 points: 1. I wish we could tell you the suit is correct, but we wish you well in this effort. 2. The captive position and hospital captive insurance companies have also gone through the dilemma of what's going on, and I would urge you to involve those folks in your deliberations. 3. This problem has been with us a long time, and during the past 2 years we've seen a 2 mil. increase in liability premiums for hospitals and long term care facilities. We share the frustration with you on these issues.

Rep. Navarre: I want to comment on the charts here, there is a likelihood that some of the numbers on the increasing costs are misleading, because in alot of cases, the numbers have gone down or remained about the same, or only seen small increases. It is also due to a reduction of the coverage. I think the numbers are misleadingly low.

Rep. Gruenberg: I would be grateful if it would be possible for you to make any adjustment or indicate in footnotes or something on this sheet whether the policy payments went down, but the coverage also went down, in some of these cases. I think Rep. Navarre's point is a crucial one and for us to be able to make any valid comparison we would have to see the other side of the coin, what are you buying for the same amount of money?

Mr. Knudson: We'd be delighted to provide the premium with the coverage, and share it back with you.

Mr. Monkman (Dept. of Law): Rep. Navarre had a question about coverages and availability, which leads to the heart of the anti-trust lawsuit, that it's not so much that premiums have gone up, but that availability has gone down, with less coverage, and the time coverages of the policies have been limited. If you compared what costs would have been that hospitals were getting a couple years ago, the figures might be different. Mr. Mertz's comments certainly seem to be right along with what seems to have been common practice during that time around the country.

Brief discussion on scheduling and bill status followed.

Rep. Gruenberg adjourned the meeting.

Joint Committee on Economic Recovery
House

April 22, 1988

Present: Representative Max Gruenberg (chair)
Representative Kay Brown
Representative Niilo Koponen
Representative Fran Ulmer
Representative Red Boucher
Representative Steve Reiger

Rep. Gruenberg: We have an addendum from the Interior Region Subcommittee of the House side of the Joint Committee.

Rep. Koponen: This is a notice of some of the areas we have been looking at. The university plays an important role in the Fairbanks economy. I'd like to just add this addendum on the university and the role of the university in economic recovery.

Hearing no objection, this addendum was added to the Interior subcommittee report.

Tom Begich: HB 549 has passed it's first committee of referral and is scheduled in the Judiciary committee for Monday. HB550 is scheduled in Finance for Monday. HB555 is currently in State Affairs (substandard housing). HB 557 passed C&RA Committee, that will hopefully be scheduled in Finance next week. HCR52 is up today in Finance. HCR54 is up Tuesday in Finance. HJR 72 is in Rules, waiting to get on the Calendar. HJR 37 is the same status as 72. The other sheet you have, these are the various subcommittee recommended or supported bills. This sheet is self-explanatory. The last sheet is Senate bills. Three of them remain in the Senate, the rest of them are in the House in their first committee of referral. SB392, SB471 and SCR32 all scheduled next week in HL&C committee. SB322 has been the subject of intensive hearings.

Rep. Gruenberg: Now we want to see what we can do to assist in the passage of these bills.

Rep. Brown: In Finance now we have HB432, and it is my proposal we move forward as rapidly as possible, and hold a work session this weekend. I'm having a new draft prepared in the State Affairs committee. I understand from Rep. Donley that he has removed his objection to the passage of that legislation. My proposal would be to take HB 432 and incorporate all the changes that have been proposed to date and bring that to Finance ASAP, perhaps by Monday.

Rep. Gruenberg: Does HB555 have a relationship to 432?

Rep. Brown: HB555 started out as a backstop for Willow Park, to allow AHFC to expand reserves for demolition of public housing. The

administration was not in favor of that approach, and asked the administration to develop another concept, and the material they came back with is what's pending in the proposed State Affairs CS for 555. The administration has worked it's way through that issue and has come up with a package of material that will address not only trade up-trade down, but the condo problem in general. It's a more comprehensive package of the legal authorities that the AG advises them they need. I also support it. The material could have been inserted on either bill. I would propose to expedite the process that we have one bill, that would be HB432.

Rep. Reiger: On HB555, I hear the governor has some hangup with the dollar figure, the \$10 mil. I think his concern that that would automatically take that money out of AHFC reserves and use it for some other purpose. I'd like to work with the governor's office on that, my concern is the reverse of that. I'm going to oppose throwing the 2 bill together. I think they treat different subjects, and 555 treats a whole array of different subjects.

Rep. Brown: I would agree if HB555 had started out as the comprehensive package. HB555 started out addressing just Willow Park, or the demolition fund. Part of what the subcommittee has dealt with has been the trade issue. I guess in my view the administration could have suggested that material be added on to HB432 as easily as HB555, since they both started out as bills to address a particular part of the problem.. My interest is in seeing this work accomplished, we've done a lot of positive work in the Housing and Banking subcommittee. It seems to me that the timing is a very critical thing. If we hold up and wait for 555 to come out, and to come up to Finance and get referred to a subcommittee, we've lost at least several days. Recently I received correspondence from Barbara Morse Quinn, indicating she is still in need of a direct appropriation, and the Governor has still not come forward with that. I'm wondering if there's a potential for us to include that as a direct appropriation, if we'd receive support from the other members of the JERC committee. Even if that bill does pass, we're going to have the administration of the program by the agency, and it's going to take them some time to deal with that. I ask for your support on that.

Brief discussion followed.

Rep. Gruenberg: We are having a joint meeting with the Senate side on Tuesday. We are having Dean Lester Thoreau, from the School of Business at MIT. He is one of the countries leading economists. To bring you up to date on the insurance lawsuit; Dick Monkman from the AG's office spent the last few days meeting with the AG's office in California. We met with him this morning. He is going to be presenting his recommendations to our AG and some other commissioners, and they will make a joint recommendation to the Governor. The preliminary indications are that there is merit in the lawsuit. This meeting should take place next week, and towards the end of next week they'll be making their official recommendation to the Governor. I think we should make a draft proposal to participate in this. The next item on the agenda: we are starting to work on the final wrap up of the committees reports of our work this session. We should get this together next week. We

should consider whether we want to keep the House side of this committee going during the interim.

Rep. Boucher thought it would be a good idea to keep it active, and shared some ideas on how it should be continued.

Rep. Koponen supported the positive approach to creating new ideas as a major part of the committee purpose.

Rep. Gruenberg said he'd contact each member individually and get an idea as to whether or not to continue. With that, the meeting was adjourned.

Joint Committee on Economic Recovery
House
Interior Subcommittee

March 12, 1988

Present: Representative Niilo Koponen
Representative Mike Davis

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Leslye A. Korvola
Fairbanks, Alaska

Mayor Juanita Helms
Fairbanks, Alaska

Elstun Lauesen

int312

Fairbanks, Alaska

Carl S. Benson
Arctic Institute
Fairbanks, Alaska

Robert Keller
Fairbanks Native Association
Fairbanks, Alaska

TAPE ONE, SIDE ONE

Rep. Koponen calls the meeting to order at 10:00 o'clock. Koponen states the purpose of the meeting is take testimony, distribute a preliminary draft report, and share a research paper on the economic impact of the University of Alaska on the Fairbanks economy. Rep. Koponen points out this is very preliminary and incomplete.

Koponen states there are two views, (1) short term -- are there acts of legislation needed to help the economic situation, and (2) what are people doing on their own to recover. Koponen states giving people information on what is being done, market developments, etc. have assisted people in the recovery. Koponen points out there is limited money available, and from the construction viewpoint, the economy may have a boom problem if outside firms are hired rather than local firms.

Rep. Davis states legislators from the Northwest Territory are in town as part of an economic recovery team, and will join the subcommittee to learn what the Interior is doing for recovery.

Rep. Davis refers to recent newspaper articles concerning Economic Limit Factor (ELF) stating it will be more substantial a tax break than was anticipated, and the impact on the treasury is approximately \$15 million. Decrease in the price of oil also creates difficult decisionmaking processes for the Legislature.

Rep. Koponen explains the "posted" price as opposed to "market price" for oil, stating the oil companies tell Alaska what they will pay for the oil. Davis states events in Panama have a direct impact on Alaska because Alaska oil is transported via the Panama Canal.

Al Seeliger joins the committee. Seeliger does not have testimony prepared. He states the Interior economy is very fragile, and during his nearly 50 years in the area the only economic development he has seen has been government spending, which is not economic development, but is subsistence. Seeliger discusses tourism activities and use of the Highway for tourism purposes. Seeliger states mining is depressed,

but tourism is expandable. Seeliger points out that Prudhoe Bay is an enormous asset to Alaska, but there is no free access to the market. Seeliger believes it is essential to get into that market -- the Highway -- for recovery and development of tourism, to produce jobs and business.

Rep. Davis states Rep. Brown has introduced legislation which will identify areas of the state which require expansion of tourism, including the Interior. Davis refers to arctic research being done in Florida, which could be done in the Interior. Seeliger points out that what people want is primary dollars, paid by the oil companies, and tourism dollars.

Rep. Koponen states the Premier of British Columbia and government leaders of the Yukon are meeting with Governor Cowper to discuss these matters. Interparliamentary visits with the Yukon have been occurring during the past several years, and Rep. Koponen describes cooperative efforts between Alaska and its Canadian neighbors.

Buzz Otis addresses the Committee. Otis serves on the local Main Street Steering Committee (Main Street) and describes positive events which are taking place in the area. Otis describes Main Street as a three year program, currently gathering letters of support to be presented to the Legislature. Otis states Main Street participants have agreed on a 50-50 match with local funds for state funds. Main Street is based on a 4-point program of organization, design, promotion and economic restructuring. Rep. Koponen advises Otis that there is a Historic District Loan Program in statute, but all funds have been loaned out at this time, through Alaska Industrial Development Authority.

Representatives from Canada have now joined the Committee. They are pleased to be present and thank the Committee for the invitation to join them. One member suggests a slogan of "Think North, Buy North First, and Manufacture North First."

Buzz Otis continues his description of Main Street, which is similar to the successful program at Whitehorse. Main Street is a partnership of private businesses and the Borough, striving to improve the tax base and provide economic development to the community. Otis describes a successful project in New Mexico where the State spent \$200,000. and created 75 new jobs, with rehabilitation of 60 existing structures, and \$3.9 million private money was reinvested by the community, and 25 new businesses started. Otis believes Main Street is a win-win situation.

Burt Sampson, owner of Elongated Advertising of Alaska, and second vice president of Interior Alaskan Adventurers, joins the Committee. Sampson's business is elongating coins and putting advertising messages on them, mostly for collectors

nationwide, and manufactures pins, for the fastest growing "collector" item in the nation today. Sampson describes events for which elongated cents have been made and points out the advantages of his pins, which are designed and manufactured locally. Sampson describes his goal of becoming a master engraver and to make Fairbanks the hub of die engraving for the United States, which will result in hiring and training new personnel and expansion of the business. Sampson belongs to Interior Alaska Manufactures, and believes it is the best way to support local businesses and local hire. Sampson states there are many positive things to consider when working on pending legislation, including SB 363, HB 403, SB 67, HB 404, all relating to mandatory insurance. Sampson states 75% of the members of local business organizations oppose these bills, believing that the coverage should be optional and the business can purchase insurance if they can afford it, but if it is mandatory the cost of policies will be increased, and prohibit local industry and manufacturing. Sampson states the cost to Alaska businessmen if these bills are passed will be detrimental and prohibitive.

Rep. Koponen refers to figures from Blue Cross which indicates that spreading cost over a substantial number will reduce costs. Koponen states the insurance industry is not an open market.

Dick Farris, 38 year resident of Fairbanks, addresses the Committee. Farris supports the slogan of "Think Alaska, Buy Alaska" and describes efforts to increase tourism, especially Japanese tourists, and cites the difficulties, such as lack of a bus system and drivers, etc.

TAPE ONE, SIDE TWO

Farris discusses the proposed insurance legislation and states health insurance coverage is essential because it means jobs for Alaskans. Farris describes a local folk festival association which is attempting to have the 1989 Folk Festival in Fairbanks. No public funds will be sought, but efforts will be made to bring people to Alaska for the project. Farris states a tourism representative has suggested that if an extensive bus system were available, there would be more tourists. Farris suggests a special project coordinator to get more Alaskans hired in the tourism industry. Farris also suggests there be a permanent economic recovery committee, with volunteers, to have an on-going dialogue.

Rep. Davis points out that Alaska has tourism offices in Japan and Korea, and there are plans to increase the number of tourists from Japan to Alaska.

Mary Hamilton joins the Committee. She is a member of the Borough Transit Commission and is present to address the issue of transportation in the community. Hamilton states it is

important economically to retain the transit system, and believes it could and should tie in with the Main Street proposal to develop the downtown area. Hamilton points out the importance of the transit system for tourists and those coming from villages, attending conventions, the elderly, children and others who do not drive. Hamilton states that historically the transit system has been controversial, and local residents are not bus riders; thus the system needs to be promoted locally to encourage ridership.

Rep. Koponen states there are concerns about a statewide program for transit systems with matching funds. The question is an equitable distribution and support, and asks if the system has studied routes, and other data. Hamilton responds that the system has recently been cut back to two routes, between downtown and the University. Revenue sharing has been considered. Koponen states revenue sharing was originally intended to cover such programs, and give the community flexibility as to where and how it would be used, but it was not given with the thought there would be no programs supported by the monies.

Royal Bidwell addresses the Committee and states economic hard times have some distinct advantages: (1) we do things we probably should have been doing anyway, and (2) we now have more time to do those things. Bidwell states his plumbing and heating business is active. However, in 20 years in the area, he has always been upset at the amount of business which goes to Seattle. Bidwell's business opened in 1983, and since that time they have aggressively sought business which was previously sent to Seattle and outside companies. Capturing more business that goes outside could make a significant impact on the local economy. Bidwell is uncertain how the State can assist in that respect. Bidwell believes the bill which has been introduced is an "overkill", it is a good thing to give locals an equal footing, but too large a competitive advantage will be costly to the state. With regard to long term plans, Bidwell states there is no early childhood program in place currently, although nationally there are. Bidwell urges that Alaska strive to be a leader in the area of early childhood. Bidwell describes the concept of "business incubator" -- a facility to allow several new business to join together to obtain services in a pool. Rep. Koponen confirms it is a process similar to a farmers' co-op. Bidwell suggests the state might be involved via small business loans, making available management and consulting services from the University, and start-up services.

Rep. Davis states there is a new draft of the Alaska preference bill, and his concern is that attorneys have warned it can be thrown out in court.

Charles Deer of Alaska Window Company addresses the Committee. Deer speaks on behalf of the Interior Manufacturers

Association (IMA) and outlines the history of IMA, which addresses needs of cold weather product manufacturing. Deer states there has been considerable support in the Fairbanks area, which has attributed to the success of IMA. Objectives of IMA include providing service to people in the Interior, to gather information about organization members for distribution in a useable form for members of the public and potential customers. IMA recommends establishment of a clearing house to address unjust transactions, similar to the ombudsman's office. Rep. Koponen states the delegation is attempting to have the ombudsman's office reopened. Deer describes the difficulties of the ombudsman's office to function because "politics water down the decision maker." Deer cites a need for promotion of use of Alaska made products. Deer believes it is important that the cities of Fairbanks and Anchorage must have less animosity because manufacturers suffer from it.

Roger Burggraf joins the Committee. Burggraf states that loss of many government jobs has hurt the private sector. Burggraf is a self-employed hard rock miner who was "regulated out of business". Burggraf states the Canadians are leading the way in hard rock mining development. He states that the placer mining industry has also been regulated out of business, and miners are moving to Canada where placer mining is active. Burggraf discusses the increase in the price of gold and precious metals. Burggraf states one mine, small by Canadian standards, pumps \$250,000.00 into the Fairbanks economy every month. Burggraf believes that with the right economic, political and regulatory atmosphere, mining could provide a bright future for Fairbanks. No federal or state funding is provided for mine development although they create jobs and contribute to a healthy economy. Burggraf believes tourism and recreation should also be encouraged to improve the economy. Burggraf discusses placer mining, the development of technology, the environmental pressures on miners, and the lack of meaningful legislation to provide relief to placer miners. Burggraf states Canada has excellent policies for development of the resources, while Alaska has no policies. Burggraf states legislation must be passed to allow placer mining operations because current regulations make it impossible for successful placer mining.

Leslye Korvola is involved in an economic analysis of the Fairbanks community, and speaks on behalf of the Tanana Valley State Fair Association. Korvola explains the state fair process in Alaska.

TAPE TWO, SIDE ONE

Korvola states the fair is a \$1 million business which provides employment for scores of individuals, including many young people. The facilities are used on a year around basis. Korvola states stabilization of the economy of the interior through diversification has been a long term goal of the

community, and realistically energies must be focused to develop those activities through which the interior has a competitive advantage in order to succeed. Korvola states a need to review the historical record of successful enterprises, the military, tourism, and state participation. Korvola states the fair is a showplace of the achievements, opportunities and products of the Interior and is a popular tourist attraction. Korvola states that support of the fair is support for local jobs and businesses. Funding for the state fair has been cut from the state budget, and Korvola urges financial support for all fairs. Korvola points out that the fairs bring in new money to the area and is a healthy economic enterprise. Korvola points out that the military participates via ex officio seats on the fair board.

Mayor Juanita Helms thanks the Committee for the opportunity to speak to them. Helms expresses concern about economic recovery and cautions that actions not be taken that will burn bridges. Helms states there are potential for development in the Borough, but new capital is needed to accomplish that development, and describes fabricating at the North Slope is an example, either through joint venture or other process. Helms states a product to be considered is the human resource, inventive, capable people, who encounter considerable obstacles in their endeavors. Helms refers to testimony concerning transit needs and expresses belief that local municipalities have some responsibilities to address, although the state has responsibilities for other transportation methods and facilities. Regarding animosity between Fairbanks and Anchorage, Helms states there is competitiveness, but she is not aware of animosity. Helms is aware of an Anchorage resolution to have the light infantry division moved from the Fairbanks area, but considers that competitiveness.

Elstun Lauesen joins the Committee. Lauesen appears as a private citizen about economic development and issues relating to community enterprise. Lauesen describes past experience as an employee of the Gas Pipeline Office, including visits by a Swedish delegation, and resource laws and regulations. Lauesen points out that in the past many products were manufactured locally, and the area exported agricultural products, describing the area as the "bread basket" of Alaska. The area now is dependent upon imports and has become a service based economy. Venturing Back to the Future is a group looking into development of a self-sufficient economy, and Lauesen urges support for this group. Lauesen states finance is a major obstacle to development of small businesses in the area, and points out that failure of banks compiles the problem. Insurance expense is cited as an additional hurdle to business development. Lauesen believes the legislature can address that problem. Lauesen states marketing is an important issue because there is no financing and assistance available for the necessary marketing. Rep. Koponen suggests the Alaska Industrial Development Authority as a source of

aid. Lauesen points out there is need for research and marketing support to aid local businesses because they provide jobs and a stable future. Rep. Koponen states the Commissioner for economic development will be present on Monday to discuss the local situation.

Carl Benson joins the Committee as a private citizen and on behalf of the Arctic Institute which headquarters in Alberta, Canada, and in Fairbanks. Benson states his main theme of discussion is that the testimony has focused on the local community, and not statewide. Benson states research is the best single industry in Fairbanks today, yet it is ignored in planning and government activities. Research contributed \$40 million to the Fairbanks economy in the last year, but it is not supported locally. Benson states 20% of the federal funds spent in the United States goes to arctic and sub-arctic research. Reduction would eliminate stable jobs. Benson describes funding for research as very complex, coming primarily from federal sources, and done through universities. Benson urges expansion of research activities. Benson recites the history of research in Alaska, and describes the reasons for a strong research university. Benson states much of the oil development research is done in Alaska, and there is need for research of the humanities and related issues in Alaska. Benson describes earthquake and seismic research done in Alaska. Benson states the federal government is asking states to absorb more of the cost of research. Benson urges support for the natural sciences building at the University because the entire State of Alaska will suffer from delay. Rep. Davis asks Benson to put his testimony in writing for presentation to the Legislature, and urges Benson to share his recommendations with the Administration.

TAPE TWO, SIDE TWO

Robert Keller of Fairbanks Native Association (FNA) addresses the Committee. Keller states FNA has operated an economic development program since 1982, and notes concurrence with statements of Mr. Lauesen concerning needs of small business enterprises. Keller describes a need for assistance in marketing, believing that marketing assistance is more beneficial use of monies than actual business loans. Keller proposes a northern Alaska marketing institute to serve the Interior and Northern areas to develop marketing plans. Keller describes a conference conducted by Elstun Lauesen as an innovative and far reaching aid and urges support for future similar events. Keller advises that incentives by the State is essential to induce industries to Alaska. Keller supports the Main Street project because it has input from communities across the nation. Keller suggests an Alaska Highway museum as an attraction tourists and visitors at Tok. Keller discusses consideration of use of permanent fund earnings to establish a small business investment company. Keller notes that CHAUDRAY is operating in the Department of

Commerce for minority and small businesses, being a federally and state, 50-50 funded 5-year grant program, and urges that Alaska continue the program, and that the federal funds should be provided as originally agreed.

Rep. Koponen asks the delegates from the Northwest Territories to comment. A representative comments on remarks of the businessmen and representatives of Fairbanks, and states the needs are a reflection of the issues in all of the Northwest Territories are experiencing. The concept of Thinking North, Buying North, and Building the North should apply to all of the North, and that is why the delegates from Canada are in Alaska at this time -- to develop Alaskan economy as well as the Canadian. Many issues of economic recovery are similar -- transportation, tourism, renewable resource development, non-renewable resource development, mining, oil and gas -- all are essential to Alaska and the Canadians, as well as cultural and social issues. The representative states that many students from Canada have attended the University of Alaska through an arrangement for northern students, and there is room for development of education relationships. Research on cold weather construction, scientific research, mining technology and other issues are a common interest. Canada has a preferential arrangement program of matching funds to assist entrepreneurs. Canadians are interested in manufacture and marketing of products for the north, and urges consideration of joint venture relationships. It is pointed out that arctic char is a product which many countries in the far East desire. Transportation in Alaska is an attraction to Canadians -- there are numerous other examples which we must consider.

The meeting is adjourned.

Drafts, Reports,
of Subcommittees,
Executive Summary,
Alerts Final Report,
Memos

State of Alaska

House Majority Leader

COMMITTEES

HOUSE HEALTH, EDUCATION
AND SOCIAL SERVICES
HOUSE JUDICIARY
HOUSE RULES

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MEMORANDUM

TO: COMMITTEE MEMBERS AND ALL REPRESENTATIVES

FROM: MAX F. GRUENBERG, JR., HOUSE CHAIR,
JOINT COMMITTEE ON ECONOMIC RECOVERY

DATE: JANUARY 18, 1988

RE: JOINT COMMITTEE ON ECONOMIC RECOVERY

Because we have time constraints, I have set out an outline of committee activities below.

Today we will establish eight House subcommittees. These subcommittees are: Housing, Banking, Small Business, Employment and Industry, Resource Development, Rural Alaska, Interior Alaska, and Southeast Alaska. House subcommittee chairs will be: Representative Kay Brown - Housing, Representative Steve Rieger - Banking, Representative Red Boucher - Small Business, Representative Mike Miller - Employment and Industry, Representative Mike Navarre - Resource Development, Representative Al Adams - Rural Alaska, Representative Niilo Koponen - Interior Alaska, and Representative Fran Ulmer - Southeast Alaska. Members will sign up for subcommittees through noon Wednesday. By the close of business Wednesday House subcommittee memberships should be finalized and preliminary subcommittee work can begin. Next week the full committee will undertake an economic overview, followed by a series of statewide teleconferences in each of the eight subcommittee topic areas, to be conducted by the subcommittees.

There are three main areas of focus the full committee and the subcommittees should address within these eight subjects. First the committee or subcommittee should identify and prioritize existing legislation relating to economic recovery. Second, the committee should identify areas which should be addressed in new legislation. That legislation should be prepared. Finally, the committee and subcommittees should develop a series of long-term issues and viable solutions for use by the sixteenth legislature and other governmental entities (eg. federal or municipal.) As well as

HAS
BEEN
REVISED
SEE
ATTACHED

making interim reports and introducing legislation, the full committee will prepare a report near the end of the session.

In the first area, identifying existing legislation that should be prioritized or "fast tracked", each subcommittee will identify relevant legislation relating to its particular subject area. The subcommittees will report back within two weeks of their formation. Subcommittee recommendations will be brought to the full committee. At the end of the first thirty days the full committee will publicly present a list of priority legislation drawn from the subcommittee reports and approved by the full committee. These are the bills that will be pushed through the legislative process.

Second, simultaneously with the first area but, continuing for a longer period of time, the subcommittees will identify proposals for economic recovery to be enacted this session that are not covered in existing legislation. These proposals will be drafted, introduced by the full committee, and added to the list of "fast tracked" priorities developed in the first thirty days.

The third area, ongoing throughout the earlier processes, will identify non-legislative solutions, long term proposals and ideas which could not be fully addressed during this Legislature. These may be in the form of legislation to be considered by future legislatures and other branches of government (federal and local). These will also be developed in each subcommittee, then brought to the full committee.

Critical to the success of this effort is a strict timetable that must be followed by all subcommittees. This will require minimum partisanship and maximum cooperation for both houses -- a worthwhile achievement in itself. Below I have outlined a tentative schedule contingent on passage of HCR 31 and 32 by the Senate this week.

<u>week</u>	<u>full committee</u>	<u>subcommittees</u>
1 - 3	Full committee begins meeting. Overview is held in second week. The subcommittees begin to identify needed legislation. The full committee establishes the calendar in the first meeting.	
3	At the end of the third week the full committee meets to debate and formulate the priority list.	Subcommittees hold hearings weekly, or more often, to develop priority lists.

Meanwhile, as each subcommittee completes its initial bill identification during this time, they report back to the full committee. Full committee meetings are held 2 to 3 times weekly, preferably near the end of the week, and, if on schedule, should address two of the subjects each time.

- | | | |
|-------|--|---|
| 3 | Priority list is publicly announced by the full committee. | Subcommittees begin debate and markup on legislation. |
| 3 - 6 | At the end of the sixth week the full committee meets to debate legislation, marks up bills, and determines additions to priority lists. | Subcommittees report findings to the full committee. |

During this time the subcommittees continue to report back to the full committee much as they did in the first phase.

- | | | |
|---|---|--|
| 6 | Needed legislation is introduced and pursued. | Subcommittees begin developing comprehensive proposals within each of their subject areas for inclusion in the final report. |
|---|---|--|

8 WEEKS

6 - 17 Extensive public testimony is taken by both the full committee and the subcommittees as ideas are generated for the last phase of the committee (the proposals for the future and other branches of government.) At the conclusion of the public hearings, the full committee meets to address the various proposals. A summary of committee conclusions are prepared and presented. This precedes the final report to appear two weeks later.

- 17 The final report is presented to the public.

It will be necessary to keep up the pressure in all subcommittees to ensure that the work gets done. Because most of the concrete proposals, that is to say those that can be directly undertaken by this Legislature, are addressed early in the process, this should ensure active and fruitful participation by many members.

Thanks for your consideration of this outline. We'd welcome your comments, criticisms and suggestions. Please contact Tom Begich, my staff assistant for this committee, or myself at 3718, 4968, or 4986.

SUBCOMMITTEE MEMBERSHIP

HOUSING AND BANKING: REPRESENTATIVE BROWN (CO-CHAIR)
REPRESENTATIVE REIGER (CO-CHAIR)

REPRESENTATIVE COLLINS
REPRESENTATIVE SPRINGER
REPRESENTATIVE DAVIS
REPRESENTATIVE DONLEY
REPRESENTATIVE ULMER
REPRESENTATIVE PHILLIPS

RESOURCE DEVELOPMENT, TRANSPORTATION, EMPLOYMENT AND INDUSTRY:

REPRESENTATIVE NAVARRE (CO-CHAIR)
REPRESENTATIVE MILLER (CO-CHAIR)

REPRESENTATIVE DAVIDSON
REPRESENTATIVE LARSON
REPRESENTATIVE PEARCE
REPRESENTATIVE SUND
REPRESENTATIVE PETTYJOHN
REPRESENTATIVE CATO
(REPRESENTATIVE ELLIS)
(REPRESENTATIVE ULMER)

SMALL BUSINESS:

REPRESENTATIVE BOUCHER, CHAIR
REPRESENTATIVE ELLIS
REPRESENTATIVE HERRMAN

RURAL:

REPRESENTATIVE ADAMS, CHAIR
REPRESENTATIVE CATO
REPRESENTATIVE WALLIS

INTERIOR:

REPRESENTATIVE KOPONEN, CHAIR
REPRESENTATIVE DAVIS

SOUTHEAST:

REPRESENTATIVE ULMER, CHAIR
REPRESENTATIVE SUND

State of Alaska

House Majority Leader

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January 18, 1988

TO: ALL REPRESENTATIVES

FROM: MAX F. GRUENBERG, JR., HOUSE CHAIR
JOINT COMMITTEE ON ECONOMIC RECOVERY 

RE: MEMBERSHIP AND SUBCOMMITTEE CHAIRS

LISTED BELOW ARE THE HOUSE MEMBERS ON THE NEW COMMITTEE ON
ECONOMIC RECOVERY AND THE SUBCOMMITTEES THEY CHAIR.

THE SENATE MEMBERS WILL BE APPOINTED AFTER THE BILL PASSES THE
SENATE FLOOR.

REP. MAX GRUENBERG	- CHAIR OF THE COMMITTEE
REP. KAY BROWN	- CHAIR, HOUSING SUBCOMMITTEE
REP. AL ADAMS	- CHAIR, RURAL SUBCOMMITTEE
REP. NILO KOPONEN	- CHAIR, INTERIOR SUBCOMMITTEE
REP. MIKE NAVARRA	- CHAIR, RESOURCE DEVELOPMENT SUBCOMMITTEE
REP. RED BOUCHER	- CHAIR, SMALL BUSINESS SUBCOMMITTEE
REP. FRAN ULMER	- CHAIR, SOUTHEAST SUBCOMMITTEE
REP. MIKE MILLER	- CHAIR, EMPLOYMENT AND INDUSTRY SUBCOMMITTEE
REP. STEVE RIEGER	- CHAIR, BANKING SUBCOMMITTEE

Max:

January 18, 1988

Steve Rieger's suggestion was to add a target date at eight weeks for passage of legislation. This I will do on the final document.

Navarre, Brown and Boucher talked about merging the subcommittees. My suggestion remains conducting Joint subcommittee hearings on subjects (Niilo's wholistic approach) and concentration in individual areas. Perhaps ask chairs to develop more accurately descriptive names. All seem to agree that the overviews sometime next week will flush out the areas that the subcommittees should address.

I will set up Wednesday afternoon appointments for you with the members to discuss the subcommittee assignments.

- Tom

Tape # 1, 1

Joint Committee on Economic Reform 1/18/88
Organizational Meeting

4:18 PM, Meeting called to order.
All members present.

tape #'s

26 -- subcommittees discussed

80 - subcommittee membership, methods

110 -- proposed three phases of the committee process
described

143 -- Rep. Brown: Wishes to focus on Commercial and
residential real estate market.

168 -- Rep. Koponen: Discusses a need to go beyond just a
return to "where we were". Take advantage of the decline of
the dollar and realize the benefits to tourism.

215 -- Senate involvement discussed.

240 -- Rep. Ulmer: Asks why there is no Southcentral Regional
Committee. General Discussion ensues regarding the committee
structure.

275 -- Rep. Rieger: Describes the necessary overlaps that
will occur with the subcommittees.

380 -- Boucher wishes to discuss successful small businesses
as opposed to failures.

General discussion of subcommittees, overlapping and merging.
Rep. Rieger asks if there might be a deadline or date for the
"passage" of legislation added to the list.

Meeting is adjourned at 4:50 PM

State of Alaska

House Majority Leader

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MEMORANDUM

TO: ALL REPRESENTATIVES AND SENATORS

FROM: MAX F. GRUENBERG, JR., HOUSE CHAIR
JOINT COMMITTEE ON ECONOMIC RECOVERY *Max*

DATE: MARCH 23, 1988

RE: EXECUTIVE SUMMARY AND SUBCOMMITTEE REPORTS

Attached please find a copy of the reports of each of the subcommittees of the House side of the Joint Committee on Economic Recovery. The cover document is an executive summary of those reports.

These subcommittee reports include items the House members of the Committee recommend for consideration by this legislature and their general policy recommendations.

The work of the House Committee continues. We will keep you updated.



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EXECUTIVE SUMMARY OF LEGISLATIVE ACTIONS HOUSE JOINT COMMITTEE ON ECONOMIC RECOVERY

When the Joint Committee on Economic Recovery was established by resolution this past January, the House side of the committee adopted a subcommittee framework within which three phases of action would be undertaken. The first phase was to examine the overall Alaska economic picture and identify existing legislation that should be promoted or addressed by the legislature. The second phase was to determine what new legislative proposals might be implemented to address these problems. The final phase of the House effort was to promote long term solutions at the state, federal and local level which might better prepare Alaskans to deal with similar economic situations. At this time we present the attached reports addressing the first two phases of our efforts.

In these reports each subcommittee has endeavored to present, where necessary, those pieces of legislation they believe might contribute most to the economic recovery of the state. Though initially focused on short-term proposals, the final lists of legislation also represent a number of ideas that will have significant long-term implications if adopted by the legislature. Some examples of these latter proposals include HB 492 (the Alaska Bottomfish Development Plan), and HB 430 and HB 431 (Neighborhood Business Development Initiative).

The subjects covered by these reports range from resource development to the housing market and include both Senate and House legislative proposals. While the Resource Development, Transportation, Employment and Industry subcommittee report focuses mainly on specific legislative proposals, other reports, such as the Interior and Southeast subcommittees, address the broader economies encompassed within their purview. The remaining subcommittees, Small Business, Housing and Banking and Rural, discuss broad policy questions and legislative actions.

In identifying new proposals not already introduced, the main emphasis and effort fell upon the Housing and Banking subcommittee. The members of this subcommittee found themselves immersed in the economic problems foremost in the public eye: the collapse of the residential housing and commercial real estate markets and the apparent deterioration of Alaska's banking industry, all areas which few legislative proposals initially addressed.

Other subcommittees, notably Small Business, recommended enhancement of existing programs to fill gaps not covered by legislative proposals.

Following a brief description of the Full Committee's meetings a short review of the activities of each subcommittee shall be presented.

The Full Committee

The Full House Committee has met consistently -- at times jointly with the Senate Committee -- since January 29 of this year. The initial meetings provided an overview of the Alaska Economy from a public, private and regional perspective. These meetings were followed by presentations generated outside of the legislature on plans and proposals to improve the economy. These were in turn followed by preliminary presentations of the subcommittee reports and actions which, after full committee review and amendment, were presented in final form. At present the House Committee is addressing legislative proposals passed from the Senate Committee and has submitted their reports and actions to that committee for review.

Housing and Banking

The Housing and Banking subcommittee, Co-chaired by Representatives Kay Brown and Steve Rieger, held extensive hearings and identified two broad policy recommendations for the state to pursue. The first of these was the improvement of the residential housing market. The second was to maximize the ability of the market to solve commercial real estate and loan problems while minimizing State intervention. Within the first area, specific strategies proposed included directing state agencies with institutionally-owned properties (REO's) to cooperate in demolishing unsafe and substandard housing, providing funding support for the demolition of the Willow Park Apartments, exploring the use of surplus housing for public purposes, directing AHFC to exercise prudent judgement and take prompt action in the management of its REO portfolio (including multi-family and mobile homes), and providing aid to distressed homeowners in the form of workouts, potential trades of property and flexible policies, through AHFC and other state agencies involved in the residential housing market. Other strategies under consideration include the revision of state lending programs -- both commercial and residential -- and the clarification of rules regarding foreclosure.

Within the second area, the subcommittee recommended relaxing limitations on the Alaska Industrial Development Export Authority (AIDEA) enabling them to better respond to current economic conditions.

As legislation was introduced in both the House and the Senate on issues affecting their purview, the subcommittee also considered those bills and made recommendations on many of them, often incorporating them into their strategies.

At this time the Housing and Banking subcommittee still has issues and proposals before them, and will hear them in the near future. These issues may lead to further recommendations of policy or legislation.

Small Business

This subcommittee, chaired by Representative Red Boucher, held public hearings to determine and help develop the level of communication between small Alaskan businesses.

Specifically, the subcommittee recommended that the Small Business Development Center for Alaska, the Alaska Center for International Business the Alaska Business Assistance Center (for rural Alaska) and the Made in Alaska program coordinate their activities -- potentially through the University of Alaska -- to allow greater access by Alaska small businesses to information and assistance presently provided by the state.

Along with support of a number of existing bills, the subcommittee also recommended the State pursue the development of a regulatory clearing house, establish an Alaska Economic Index, and improve the competitiveness of Alaska products.

Resource Development, Transportation, Employment and Industry

Chaired by Representatives Mike Navarre and Mike Miller, this subcommittee report concentrated on the three topic areas in their title. Their task was particularly difficult as it carried over into a number of sensitive areas presently under consideration in standing committees.

In Part One of their report particular emphasis was given to the Alaska Bottomfish Development Plan, HB 492. This was also the subject of a specific hearing of the subcommittee. Other bills the subcommittee believed merited consideration included legislation relating to fishing, tourism and resource agency funding. The controversial mariculture and forest management issues were also dealt with in this section through general policy statements that recognized present legislative activities in regard to these issues.

Part two of the report discussed a number of issues relating to employment and industry. Continued support for the Alaska Center for International Business, the subject of another hearing of the committee, was one of these issues supported by the subcommittee. Other areas the subcommittee believed would encourage economic recovery included the development of port authorities, bidder preference for state goods and recycled products, and both legislation and a general policy statement regarding local hire.

The third part of the report provided a brief overview of transportation measures, and recommended support of one measure, HB 479, relating to an appropriation to the Alaska Marine Highways system.

Interior

Through public hearings and solicited responses the Interior subcommittee, chaired by Representative Niilo Koponen, developed a report that merged legislative proposals with policy recommendations -- both long-term and short-term.

After a brief overall policy overview the report dealt extensively with the 11 pieces of legislation they recommend for passage. Among these were the Alaska Research Policy (HB 253), the Alaska Science and Technology Foundation (HB 390 and HB 391), the Neighborhood Business Development Initiative (HB 430 and HB 431), and the Alaska Energy Efficient Home Equity bill (HB 318 and SB 308). Specific emphasis was also devoted to HB 523, regarding recycled Alaska products, which would have direct impact on a local business within the Interior region. The subcommittee also referred to the activities of the non-regional subcommittees and supported proposals identified in those reports.

Besides legislation their report also addressed recommendations for administrative action, including information and market development services for Alaska manufacturers, centralized procurement practices, and the development of an import substitution strategy with State efforts to develop a resource export strategy.

The report concluded with a number of suggestions proposing broader long-term policy goals for the State and strategies to meet those goals.

Rural

The Rural subcommittee, chaired by Representative Al Adams, submitted a short, comprehensive, and well-documented list of recommendations to the Full Committee. Taking into account the large geographical area encompassed within the subcommittee purview, the members recommended proposals that would apply in the broadest possible manner with the maximum beneficial effect.

The subcommittee supported the passage of HB 439, with the accompanying \$3.6 million fiscal note, an act which would raise the minimum entitlement under the state revenue sharing program from \$25,000 to \$50,000 per year -- a number that has not been increased since 1981. The subcommittee also supported greater funding in the operating budget for the village public safety officer program and public health nursing, and increased capital budget funding for village safe water facilities, educational facilities, and waste heat and other appropriate power projects. These and other programs described in the report were deemed important to the social and economic well being of rural Alaska.

Southeast

The Southeast subcommittee report presented a generally optimistic overview of the economy of that region and specifically focused on topical issues effecting Southeast rather than on particular pieces of legislation.

Areas of importance stressed in this report included adequate funding of resource management in natural resource agencies, the development of export industries and markets for Southeast resources -- including tourism, support of the Alaska Marine Highways System at adequate levels, support for fisheries and mariculture development -- though excluding salmon and continuing the moratorium on pen reared salmon, and strong support for local hire and training initiatives.

The report concluded by stressing the need for stable public sector funding policies and emphasizing the interrelationship of the economy through each of the described subject areas.

Each of these reports is attached. It is the intent of the House members of the Joint Committee on Economic Recovery to include these in a final report addressing the need for long-term focus and direction for Alaska's economy.

BY:

Max F. Gruenberg, Jr. House Chair

Al Adams
Al Adams

Red Boucher
Red Boucher

Kay Brown
Kay Brown

Nile Koponen
Nile Koponen

Mike Miller
Mike Miller

Mike Navarre
Mike Navarre

Steve Rieger
Steve Rieger

Fran Ulmer
Fran Ulmer

Report of the Subcommittee on Small Business

Joint Committee on Economic Recovery

members

Rep. Red Boucher, Chair
Rep. Bill Hudson, Vice-chair
Rep. Johnny Ellis
Rep. Adelheid Herrmann
Rep. Lyman Hoffman
Rep. Steve Frank

Background

The Small Business Subcommittee held seven teleconferences between February 4 - 16, 1988. The teleconference sites included Anchorage, Juneau, Fairbanks, Mat-Su, Homer, Bethel, Sand Point, Kodiak and Dillingham. The Small Business Subcommittee's agenda was to listen to, identify the needs of, and network small businesses with the agencies and services currently available.

Discussion

The participants most frequently said they lacked information about what funding, services and agencies are available to help them.

Small business has long been touted as the backbone of the American economy. A recent study indicates that the formation and expansion of firms that employ fewer than twenty people have generated virtually all of America's net employment gains since 1981.

The strength of Alaska's economy rests on a vigorous and diverse small business community. Small business produces more new jobs, ideas and technology than any other sector. As they prosper, new enterprises account for significant government revenues, and their innovative entrepreneurial policies stimulate industries to greater productivity.

Policies favoring economic diversification, import substitution, and value-added exports are an unqualified call-to-action for Alaska's small businesses and manufacturers. As other states with similar policies have discovered, direct investments in the development of marketable products is the most cost effective and expedient means of establishing a stable employment base.

The Subcommittee on Small Business has reviewed the following programs and services already established in the state and believes that the efforts of business assistance should be focused through a delivery system that utilizes these programs and services.

The Small Business Development Center of Alaska (SBDC) represents a unique partnership between the Alaska Department of Commerce and Economic Development, the Small Business Administration, and the statewide University of Alaska System. SBDC has offices in Juneau, Fairbanks, Anchorage, Kenai, Kodiak, Valdez, Bethel, Kotzebue, Nome and Ketchikan.

The Small Business Development Center is funded by the State of Alaska and the Federal Small Business Administration. Because of its association with a federal agency and the state University system, SBDC can access national, state and local procurement systems, international trade networks and various databases.

The Small Business Development Center provides instruction in the areas of development of new ideas for products and services, financial management, marketing, export and importing financing information, export and import trends and potential of a region. Additionally, it offers courses, seminars and workshops on current business topics. SBDC has a natural tie with the Alaska Center for International Business which, like SBDC, is a part of the University system.

The Alaska Center for International Business conducts research, including research on market information and market strategies, relating to trade by businesses in the state with foreign nations, and, in particular, Asian nations.

Additionally, the Center for International Business assesses the potential of various markets for the state's natural resources and technical and informational resources. It identifies and analyzes the import requirements of and trade barriers to commodity sales in other nations. It also identifies the state's trade competitors and assesses the public policy and programs used by the competitors to foster trade with potential markets for the state's goods and services.

Another program that has been invaluable for its hands-on technical assistance and training to small businesses in rural Alaska is the Alaska Business Assistance Center. The Business Assistance Center helps rural Alaskans through the myriad requirements of establishing and running a small business in the state. The Business Assistance Center has helped many people regarding loan foreclosures. Foreclosing on loans is cumbersome and confusing to rural Alaskans, and the Assistance Center has prevented many people from losing their loans and their livelihood. Through the efforts of the Assistance Center, many loans have been saved before they got to the point of foreclosure.

The three-year-old Made In Alaska program of the Department of Commerce and Economic Development remains the most substantive state effort to stimulate manufacturing jobs in Alaska to date. However, this program remains unfunded.

The problem, as previously discussed, deals with informing and offering instructional assistance to small business persons. The Small Business Subcommittee believes that networking and instruction can be implemented very easily. The University of Alaska Anchorage Department of Instructional Television Service has the equipment and facilities to produce and edit the courses, seminars and workshops that are being planned by the Small Business Center, the Alaska Business Assistance Center, the Center for International Business and the Made in Alaska Program.

These tapes can then be distributed and aired on the public access channel on the

local cable television systems. Currently there are twenty-four cable systems in the state. Under this plan, interested persons will be able to view these instructional and informational programs in their homes. Additionally, Public Service Announcements over the RATNET system can be utilized to make areas of the state not served by cable television aware of what is available and who to contact for more information, etc.

In Anchorage, these programs can be viewed by those who do not currently have cable television. The Anchorage schools, with the exception of Bartlett, are cabled. Interested business persons can go to their neighborhood schools to view the various taped programs on the public access channel.

Another way for interested business persons to utilize these programs will be through the municipal library systems. Tapes could be checked out, just like a book, and viewed on a VCR.

The implementation of this plan will further the intent of CSHB 40 which was enacted to develop and implement a cost-effective policy for managing the state's information and information technology resources so that state government may better serve the people.

The Small Business Subcommittee believes the small business person will also benefit from the Alaska Neighborhood Business Initiative. This would be a valuable referral tool for small businesses and manufacturers.

Conclusions

If the state is going to work towards stabilization and expansion of our economy, then we should be doing everything possible to establish a climate conducive to the development and communication of ideas of small business.

Small business in Alaska is concerned with the proliferation of regulations and other expensive permitting processes on both the local and state level, all of which increase the costs of doing business.

There is a need for a regulatory clearing house to receive the complaints and constructive proposals of small business. The clearing house would work to reduce the costs of doing business.

The budget efforts for this business assistance system should involve all departments and agencies that are concerned with small business.

In addition to improving the business climate, the State needs to find new ways to improve the competitiveness of Alaska manufactured products.

Recommendations

The Department of Commerce and Economic Development, the Department of Community and Regional Affairs, the University of Alaska, the Division of Tourism, etc. to identify a few, should jointly budget and develop a comprehensive program to promote royalty-based product development investments that create permanent jobs at the least cost.

The Legislature should establish a broad-based economic index, written in law, which will enable the Legislature and the Governor to determine objectively the performance of the economy and its outlook and which will become the basis for formulating the state's fiscal policy.

This Alaska Economic Index should include indicators such as:

Consumer spending, savings and investments, public and private sector employment, wage and salary rates, housing starts, retail and wholesale sales, value on contract construction, personal income, gross state products and state revenues.

The Legislature should also:

Support passage of **HB 45** - Alaska Bidder Preference

Support passage of **HB 430** - Neighborhood Business Development Fund

Support passage of **HB 431** - Appropriation: Neighborhood Business Development Fund.

Support passage of **SB 166** - Regulations that Affect Small Businesses and Municipalities.

Support passage of **SB 219** - Creating AK Center/International Business

Support passage of **SB 220** - Appropriation: AK Center/International Business

Support passage of **SB 322** - Revision of Worker's Comp Laws

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Since the initial March 2 draft report, many bills previously under consideration by this subcommittee are no longer under review, though some are certainly still under consideration by full standing committees. Further deliberation on these bills revealed that either broad based policy questions needed to be addressed before those bills were passed, or that they simply had little or no effective positive impact on our economy.

PART ONE: RESOURCE DEVELOPMENT MEASURES

FISHERIES AND TOURISM

As stated in the subcommittee's March 2 report, Alaska's two foremost renewable resource industries are Commercial Fishing and Tourism. Though they must be considered an integral part of any overall economic recovery and stabilization effort, Fishing and Tourism can have such a positive short term effect, with such strong potential for long range economic stability, that the subcommittee feels they should be given primary consideration.

* HB 492 - Appropriation: Alaska Bottomfish Development Plan. Sponsors: Herrmann, Gruenberg, Sund & Ellis.

This measure proposes appropriations totaling \$6,828,000 to implement an Alaskan bottomfish development plan. The specifics of this bill will be the subject of debate, as there are serious questions as to the availability of the funding necessary to implement this (or any) plan.

On March 14, the subcommittee heard a presentation by Mary Gross, City Manager, and Gary Daly, Port Manager, City of Unalaska. The spoke in favor of the legislation. HB 492 incorporates several million dollars in capital improvements for Unalaska, necessary to adequately service the rapidly growing bottomfish industry. Last year, some 1.2 million metric tons of processed product was transshipped through Dutch Harbor. With the grants, the City of Unalaska would upgrade their water, sewer, and dock facilities in order to better serve the industry. This is part of implementation of the development plan.

Development of Alaska's bottomfish industry is fundamental. It can result in increased seasonal and year-round jobs, and a greater tax base for both the state and municipalities. This adds another stabilizing factor to Alaska's economy. HB 492 is legislation that can accomplish that end.

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RESOURCE DEVELOPMENT MEASURES (cont'd.)

*** HJR 64 - Alaska fishing in exclusive economic zone.
Original Sponsors: Herrmann, Sund & Ellis.**

This measure is a logical companion to HB 492, and relates to state participation in the bottomfish industry.

*** HB 408 - Fisheries business tax - 'outside' processing
Sponsor: Davidson et al.**

This measure would levy a tax on fisheries resources (primarily bottomfish) that are processed outside of the state by a floating processor and are brought into the state for transshipment. The bill would generate substantial additional state revenue (estimated at some \$44 million), which is currently "leaking" from the Alaskan economy. Just as the current distribution system works, the tax would be shared with the borough or municipality into which the resources were first brought. Revenues generated to the municipality through this mechanism would be an economic boon to the local areas, providing an incentive for expansion of fishery support projects and services. The measure would also increase the Alaska Seafood Marketing Institute's operating budget, through the .03% value of processed goods paid by processors to the Dept. of Revenue (for appropriation to ASMI).

*** SB 410 - Operation of state hatcheries by contract.
Original sponsors: Eliason, Jones & Kerttula.**

This measure would allow the state to contract the operation of hatcheries, providing a preference to regional aquaculture associations. The measure can assist in keeping hatcheries open that otherwise would close, thus keeping certain fisheries enhancement programs (and their related fisheries) active.

MARICULTURE/AQUATIC FARMING ISSUES

The issue of mariculture is a complicated one. Through debate conducted on this subject during the previous and current session, one thing has become clear: The state needs to develop some overall policies on mariculture.

Fish farming has been a controversial subject in Alaska. It offers the potential of new economic development of our natural resources. It also poses questions about resource allocation and management conflicts, as well as economic impacts on established industries.

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The salmon farming industry in British Columbia, Canada, which was initiated and developed rather rapidly, has brought with it a multitude of problems. Insufficient gathering and analysis of information prior to permitting salmon farming seems to have contributed significantly to this situation. We must make sure not to duplicate the mistakes of others.

The committee believes that mariculture has promise in Alaska. However, given the uncertainty of the biological impacts that salt water pen rearing of salmon could have on one of Alaska's largest industries, we believe that the moratorium which applies to salt water pen rearing of salmon should be continued. At the same time, the State should undertake additional research and analysis without delay to obtain the answers needed to allow all possible but biologically compatible, uses of our ocean resources.

In the area of Shellfish Mariculture: Shellfish farming, while not a major industry, is scarcely new. There are many shellfish farming operations in existence, with other options available for research and development. The subcommittee feels that this could add to the stability of Alaska's economy, and it appears Alaska can move forward with more assurance in this area. The subcommittee supports this, as long as it is done in a biologically and ecologically sound manner. Another area that merits investigation is the farming and marketing of aquatic plant life.

* HB 423 - Appropriation: Tourism and recreation projects.
Sponsors: Brown, Ellis, Reiger et al.

This bill proposes appropriations totaling \$9,920,925, funding some 40 different projects around the state. The projects would have a twofold impact: immediate employment during development and construction, and a long term economic impact to both the local areas and the state as a whole. While the availability of funds to accomplish this program is in question at this time, the subcommittee strongly believes that this is the type of legislation that clearly aids the goals of economic recovery and stability.

* HJR 49 - South Denali visitor's center. Sponsors: Pearce, Springer, Pettyjohn, et al. (identical to SJR 49, by Sturgulewski, Josephson, Rodey, et al.)

This measure supports the development of a visitor's center and related facilities on the south side of the Alaska Range.

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OTHER RESOURCE DEVELOPMENT MEASURES & ISSUES:

* HCR 48 - Natural resource agency funding. Sponsors: Sund, Ellis and Ulmer.

This measure calls for a \$14,000,000 increase in Resource agencies operating budgets for fiscal year '89, with subsequent increases over the next two fiscal years, to insure that by FY 1991, resource agency operating budgets total 10% of the total state operating budget.

The subcommittee supports the concept of HCR 48. Additionally, the subcommittee feels establishing a comprehensive resource management and development policy for Alaska is essential. State agencies, though they may be dealing with the same resources, often have different missions. This is understandable. Better dialog between departments is a first step. This will help to initiate a coordinated effort for resource management. With such an effort, we believe an overall resource development policy can be achieved, without compromising the expressed goal of any department.

HCR 48 has yet to be debated. It seems clear, however, that a critical review of resource agency operating budgets (with an eye toward increasing those budgets) is justified. Along with any budget increase, both the legislature and administration have an obligation to provide some clear policy direction to the agencies.

It is our understanding that the standing House Resources Committee has undertaken these tasks, and the subcommittee strongly supports those efforts.

* HJR 13 - Foreign export of Alaska crude oil. Sponsors: Davis, Martin, Brown, Adams, et al.

Requests the U.S. Congress to enact laws providing for the export of Alaska crude oil, regardless of the oil's production point within the state.

FOREST MANAGEMENT ISSUES

The March 2 subcommittee report identified SB 112 and HB 141 as potential vehicles to advance discussion of this topic. The House Resources Committee is currently working on consensus language for SB 112; however, the language is not available for distribution at this time.

The subcommittee believes the issue of comprehensive, long term management of timber resources on a statewide level should be addressed as a policy question by the legislature. For this reason, we support further efforts

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to identify committee substitute language for SB 112 which will be acceptable to all parties interested in this issue.

PART TWO: EMPLOYMENT & INDUSTRY MEASURES

*** SB 220 - Appropriation: Alaska Center for International Business. Sponsor: Rules by request of the Governor.**

This measure appropriates \$5,400,00 as a grant to the University of Alaska as an endowment for the Alaska Center for International Business. At their February 26 meeting, the subcommittee listened to a presentation by Dr. John

Choon K. Kim, Executive Director of the Alaska Center for International Business. During the course of his presentation, Dr. Kim discussed ongoing projects of the center.

Dr. Kim's presentation pointed out that immense economic potential exists for Alaskan businesses to participate in the Pacific rim market.

The Alaska Center for International Business has laid a substantial amount of groundwork in this area, and appears to be a viable mechanism to aid Alaskan resource related industries in identifying and/or establishing markets and taking advantage of foreign trade opportunities.

Obviously, the question of continued funding for the Alaska Center for International Business, and the level of that funding, is something that requires debate and a decision by the full legislature.

The subcommittee feels that continued funding is justified, to help the Alaskan business community capture a larger share of the Pacific Rim markets. This will add to diversification of our state's economy, and to long term stability.

*** HB 45 - Alaska bidder preference.
Sponsors: Donley, et al.**

This measure establishes a sliding scale percentage preference (based on the amount of the contract) for Alaskan firms bidding on state contracts.

*** HB 209 - Port authority for municipalities.
Sponsor: Larson, et al.**

This bill creates a framework by which municipalities can establish & operate port authorities, and defines port

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authority powers. The concept is to further development of Alaskan ports, adding another stabilizing factor to the Alaskan economy.

* HB 450 - Out of state solicitation for state contracts & employees. Sponsor: Pearce, et al.

This measure prohibits state agencies from procuring or contracting outside the state unless it has been determined in writing that no responsible bidder or supplier exists within the state, prevents state agencies

from hiring outside the state without a determination in writing, of the agency's inability, within a six month period, to find a qualified person for the vacant position.

* SB 135 - Limiting hire of nonresident teachers. Sponsor: Josephson, Kelly.

Prohibits hire of non-resident teachers by school districts or state agencies without a diligent and reasonable effort to secure qualified people in the state.

* SCR 42 - In-state fabrication of mini-modules.
Sponsor: Faiks

This measure urges the administration to work with private industry to foster development of fabrication of oil drilling production modules within Alaska, rather than outside Alaska, thus employing skilled Alaskan workers.

* HB 162 - Work in underground mines
Sponsor: Ulmer

This measure would increase the amount of time that may be worked in a 24 hour period in an underground mine from 8 hours to 10. This change would allow miners who must travel sizable distances to a mine site to put in a longer work day. The measure would also change the current declaration by the legislature that work "in underground mines IS injurious to health and dangerous to life and limb" to "MAY BE injurious"

* HB 523 - Recycled Alaska Products
Sponsor: Frank

Under HB 523, recycled products would be eligible for the existing Alaska bidder preference and Alaska product preference, as are other Alaskan produced goods. The current version of this legislation CS HB 523 (State Affairs) does not propose any additional subsidy for

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recycled products. However, it would require the State to purchase recycled products from Alaskan companies if those products are priced competitively, appropriate for the intended use, and are of comparable quality to products found elsewhere.

OTHER EMPLOYMENT MEASURES:

There are a number of resolutions and bills that urge hiring and training of Alaskan workers for private and federal construction projects. These all have the same basic thrust, so are not individually described here.

The subcommittee supports legislation promoting the hiring of qualified Alaskans (to the fullest extent possible) by both the private and public sector.

PART THREE: TRANSPORTATION MEASURES

As stated in the March 2 report, the operating and capital budgets are the major means of causing a meaningful impact on the economy. The ongoing operating and capital budget programs initiated by DOT/PF for state transportation are basically sound, and tend to help accomplish the goals of employment and economic stability, with the emphasis on long term impact. However, periodic review of these programs to address regional inequities or imbalances is required. One recommended measure, addressing the Marine Highway System's operating budget, follows.

* HB 479 - Appropriation: Alaska Marine Highway System.
Sponsor: Goll.

This bill would appropriate \$3,797,100 in program receipts and \$1,100,000 from the general fund, for the Marine Highway System for FY 89.

**REPORT BY THE INTERIOR REGION SUBCOMMITTEE
OF THE
JOINT COMMITTEE ON ECONOMIC RECOVERY
MARCH 8, 1988**

Over the past few months, the Interior Region Subcommittee members have discussed, both amongst themselves and with individuals who reside in the Interior, their thoughts and ideas concerning economic recovery for our region. Our Committee felt that a major responsibility for the legislative session was to solicit opinions from individuals in Fairbanks whose occupations fill the economic spectrum: business, transport, clergy, labor, manufacture, finance, property management and education. Both Representative Davis and myself have met with Fairbanks North Star Borough employees whose responsibilities involve working with community groups to create the conditions for economic recovery. Brad Pierce from House Research has also written an excellent report for our Committee concerning the "Economic Impact of University of Alaska, Fairbanks on the Fairbanks Economy." The Subcommittee plans on presenting this and other information in a more complete format by the end of the legislative session.

You have asked our Committee to prepare a report on identifying legislation that will aid in Alaska's economic recovery. Being a geographically defined Subcommittee, it is difficult to focus on specific pieces of legislation that more specialized committees were created to examine. We feel that the legislation chosen by Subcommittees such as Resource Development, Transportation, Employment and Industry Committee, Housing and Banking and Small Business can and will have a valuable impact for the Interior Region.

We also believe that legislation alone cannot solve the difficult problems the Alaskan economy is facing at this time. The Committee feels legislation can provide a framework within which individuals and groups can organize and act to create their own economic destiny. We do not endorse the concept of a political "command economy." Many of the concepts developed in the various pieces of proposed legislation and the background information/research received on that legislation are useful but laws and resolutions are not the only answers for economic recovery. Finally, the following list of proposals for legislation is not in a specific order, it is merely a list of bills that should be considered for passage.

HB 430 - HB 431 - "An Act Relating to the neighborhood business development program," HB 430 and the companion appropriation bill HB 431 is a program modeled after an existing program run by a non-profit corporation in

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Anchorage. The concept of the program is to leverage state money with secondary financial markets to redevelop commercial business zones. A statute enacted during the first session allows non profit organizations to borrow from AIDEA. This can benefit programs of this nature proposed in HB 430. The goals and objectives of this program will benefit Fairbanks in the areas of:

- 1) creating new short term and long term jobs
- 2) creating incentive mechanisms for attracting new businesses to defined business zones such as downtown Fairbanks
- 3) helping make existing business more viable, attractive, and stable
- 4) leveraging business loans made with conventional financing.

This bill will offer an opportunity to develop an expanded public/private partnership in Fairbanks, North Pole, Nenana and other Interior communities.

HB 253 - "An Act relating to the Alaska Research Policy Act and the science and engineering advisory commission."

HB 390, HB 391 - "An Act establishing the Alaska Science and Technology Foundation; relating to the membership of the science and engineering advisory commission; and it's companion HB 391, "An Act making an appropriation to the Alaska Permanent Fund Corporation to establish the Alaska Science and Technology Endowment."

All three bills together establish a research grant program which will act to spur economic development. The foundation will promote and enhance Alaska's economic development, technical innovation and capability, and public health by encouraging and supporting basic and applied research. The foundation would fund research proposals for work in the scientific and engineering fields dealing with Alaska and the Arctic. Preference would be given to Alaskan Scientists and engineers whose proposals meet the criteria. This bill would benefit the University of Alaska and private research and engineering establishments, create new jobs and will lead to economic diversification for the state.

HB 202 - "A Revision of the Cooperative Codes Revision Act." This bill would modernize and improve the current law, bringing the cooperative corporation code into parallel form with other areas of the Code Revision Commission's updates of Alaska corporation law. The result of improved Alaska cooperative corporation law will be to expand the practical range of economic options open to Alaskan producers and consumers in organizing the form of business most suitable for their particular enterprise. This bill is another tool for economic development in Alaska.

HB 394 - "An Act relating to electric and telephone cooperatives." This bill expands the capabilities of Alaska's electric and telephone co-operations and provides safeguard from 'takeovers' by Outside capital.

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If this bill becomes law, cooperatives will be able to make donations for the public welfare or for charitable, scientific, or educational purposes. This will allow more businesses, cooperatives and corporations in the State to offer programs or internships for university students to participate in either research or hands on experience in business. Co-operatives would also be able to consolidate operations for economies of scale or offer other services, such as district heating through use of waste heat from power plants. Should the Municipality of Fairbanks wish to divest itself of its utilities, Fairbanks consumers could own the utility directly through membership in a successor co-operative; a matter of some importance to Interior businesses and homeowners.

SB 166 - "An Act relating to regulations that affect small businesses and small municipalities." This legislation requires state agencies to make an economic analysis of the effects of new regulations on small businesses or small municipalities. This will provide a salutary reminder to agencies that they must assess all positive and negative aspects of regulations before they are promulgated, rather than focusing only on technical details.

HJR 66 - "Relating to the Headquarters of the Sixth Infantry Division." This resolution supports the full deployment of the Division into Fairbanks, Alaska. The federal funding of this measure must be secured in order to protect Fairbanks and the State from further fiscal impact. Transfer of the Headquarters Company will not only provide the Light Infantry Unit with needed leadership, but brings in ranking personnel who should have a positive impact on the local economy.

SB 308 and HB 318 - "An Act establishing the Alaska energy efficient home equity fund." This measure would create an Alaska Energy Efficient Home Equity Fund governed by the Department of Community and Regional Affairs. It would be state policy to encourage the building of homes to the energy efficient standards of the Alaska Craftsman Home Program. The bill states, "State money now being spent to subsidize energy bills, to weatherize and repair poorly constructed homes, and to improve the health of people affected by poor indoor air quality would be reduced or eliminated as existing homes are replaced by homes that are built to Alaska Craftsman Home Program standards." This program is beneficial in all areas of economic recovery for the state, but is particularly important in the Interior, where long winters and persistent below zero temperatures are a severe economic hardship on residents and local business.

The following are ideas suggested by Fairbanksans during our first meeting in that community. The proposal to develop winter tourism in the Interior, whether through greater co-operation between existing ski lodges or through development of new ski - areas has merit, although development of new areas is bound to be controversial.

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OF THE
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Development of a 'science-park' in proximity to the University would provide not only a site for private research, engineering or technological firms, but a location for local manufacture and assembly of high technology components that have been and will continue to be designed locally.

The local manufacturing scene has been a striking contrast to the other wise depressed economic picture. Increasingly high transportation costs have served as a spur to import substitution for all manner of items - even mattresses! Many locally made items in Fairbanks, such as the arctic windows made by Alaska Window and the vehicle batteries made by Alaska Battery Inc. (ABI) are superior to similar items made elsewhere. The current 'import substitution' strategy initiated by the State Government must be pursued vigorously and with real continuity.

The Borough dump is the raw material source for K & K Recycling a local firm which has pushed the state of the art to new heights. K & K operates the Borough landfill on contract, employs three times the workers the borough did (sorting is labor intensive) and makes money. Not only does K & K sort and sell metals and similar valuables, they also manufacture fuel pellets which are mixed with Healy coal to produce a clearer burning, high BTU fuel. Another product from K & K is insect and rot proof planks and fence posts from scrap plastic. Passage of HB 523 will allow use of materials made from recycled materials in Alaska by state agencies.

The Borough Economic Development Office has been engaged in an intense organizing and informational exchange effort focussing on positive economic development, both on-going and potential. This focus on positive, rather than negative aspects of the economic picture, is stimulating and in sharp contrast to approaches found else where. It is having a real impact in fostering and entrepreneurial activity, but does uncover areas where state legislative or administrative action may be required. A memorandum, appended to this report, illustrates the broad scope of activities covered during a briefing by the Borough office for Department Commerce and Economic Development Commissioner Tony Smith.

While the Borough meeting with Commissioner Smith was in process, the Interior subcommittee held a public meeting at the Legislative Information Office jointly chaired by Representative Koponen and Representative Mike Davis, with the participation of the delegation from the Northwest Territories Legislative Assembly. Nineteen members of the public, representing groups such as the Interior Manufactures Association (an affiliate of the Alaska Manufacturers Association) the Chamber of Commerce, Arctic Institute of North America, Job Services, Tanana Valley State Fair Association, Main Street Project, Alaska Miners Association etc, attended. Testimony covered a broad range and included proposals stimulating highway tourism by opening the Haul Road and maintaining guiding and trapping by keeping it closed; support for a state health insurance pool and early