ALASKA LEGISLATURE COMMITTEE FILES 1983 - 1984 8672

2571 HLC HB 304 - HB 319

2571

FACTS ON THE

Davis-Bacon Act

BUILDING AND CONSTRUCTION TRADES DEPARTMENT, AFL-CIO

One of the most common arguments used against the Davis-Bacon Act is that this law unnecessarily inflates the costs of federal construction. According to some critics, this happens because the wage rates required under Davis-Bacon tend to be set too high. Other critics claim that *any* sort of prevailing wage requirement will automatically have an inflationary effect. Neither of these arguments have much basis in logic or fact.

Davis-Bacon Wage Rates: Not Automatically the Union Rate

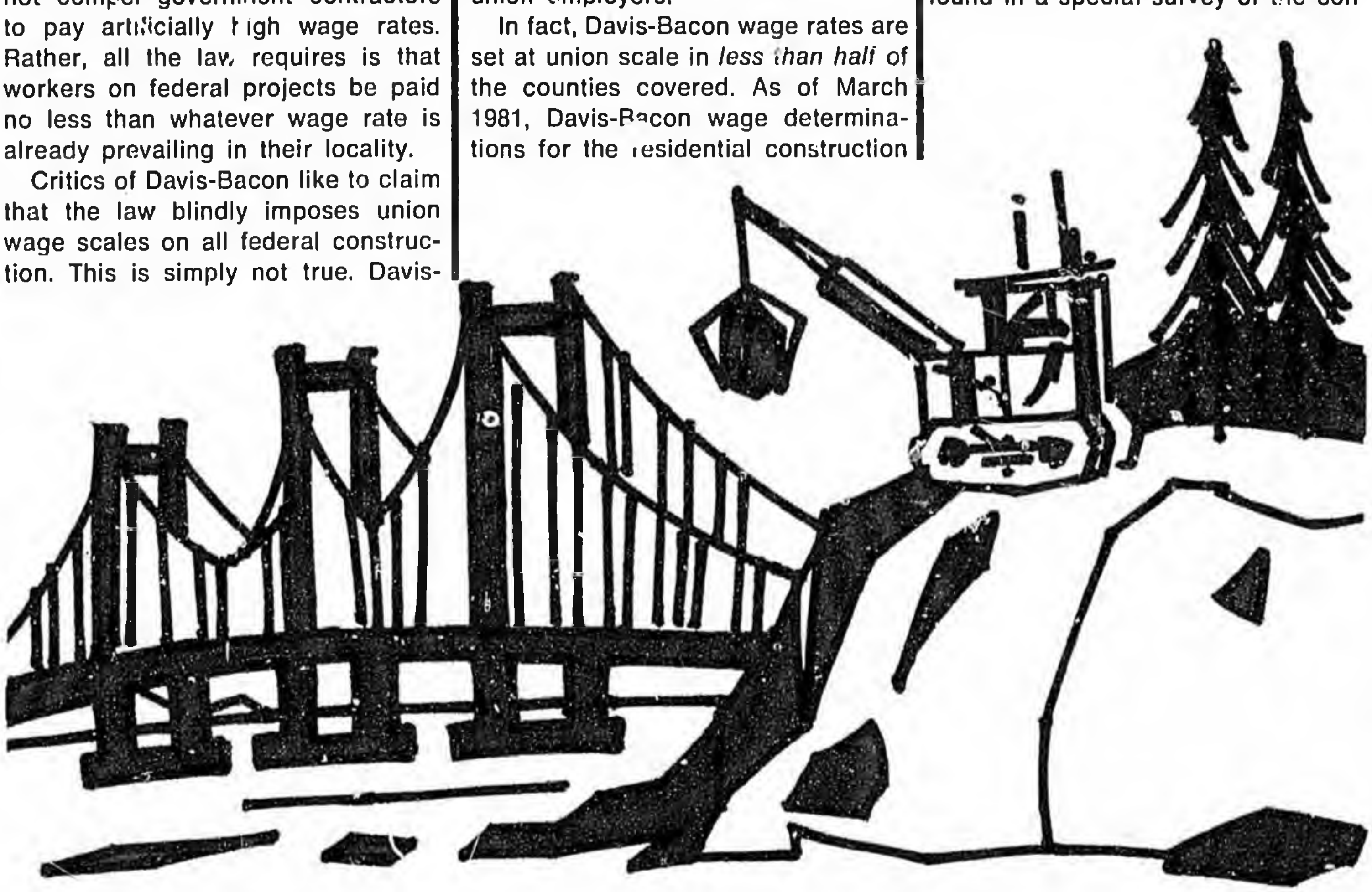
Contrary to the myths spread by its opponents, the Davis-Bacon Act does not compel government contractors to pay artificially high wage rates. Rather, all the law requires is that workers on federal projects be paid no less than whatever wage rate is already prevailing in their locality.

Critics of Davis-Bacon like to claim that the law blindly imposes union wage scales on all federal construction. This is simply not true. Davis-Bacon requires payment of union wage rates only in highly unionized areas, where these are the wages which actually prevail. In areas where open shop construction predominates, the Davis-Bacon rates will be based on the wage rates paid by non-union employers.

> "THE DAVIS-BACON ACT IS NOT INFLATIONARY"

In fact, Davis-Bacon wage rates are set at union scale in *less than half* of the counties covered. As of March 1981, Davis-Bacon wage determinations for the residential construction sector were based on union wage rates in *only 14%* of the counties covered. For the more heavily unionized commercial building sector, the Davis-Bacon determinations reflected union rates in 55% of the counties covered. For heavy construction and highway construction, the corresponding figures were 50% and 47%, respectively.[1]

Further evidence that Davis-Bacon wage determinations tend to reflect actual prevailing wages is provided in a study sponsored by the President's Council on Wage and Price Stability. The authors of this study compared the Davis-Bacon rates set by the Labor Department in 19 large cities with the average wage rates found in a special survey of the con-



struction industry conducted by the Bureau of Labor Statistics. The results confirmed that the wage rates set under Davis-Bacon are generally quite close to actual prevailing wages. For commercial building, the Davis-Bacon rates were found to be 2.7% *below* the actual averages, and for residential construction the Davis-Bacon rates were only 3.1% above average.[2]

In short, the Davis-Bacon Act does not impose union wage rates on construction employers in nonunion areas, nor does it force federal contractors to pay excessive wages to their construction workers.

Substandard Wages Are Not a Good Means of Saving Money

A second set of criticisms bypasses the issue of the accuracy of Davis-Bacon wage determinations and contends that prevailing wage laws are by their very nature inflationary. The general idea is that workers can sometimes be found who are willing to take a job for less than the locally prevailing wage. By preventing the use of this cut-rate labor, the Davis-Bacon Act is held to create unnecessarily high costs.

This argument is completely fallacious, in that it ignores important differences in skills and productivity. Well trained and highly skilled construction workers are not often willing to work for substandard wage rates. The workers who can be recruited to work below the prevailing wage are likely to be less skilled and less experienced. In many cases, these will be people with no formal construction training and only a very casual attachment to the industry.

It seems clear that qualified, well trained workers will be able to complete a project much more quickly than workers with little construction experience. There's no advantage in employing someone at a few dollars an hour less if they take twice as long to finish the job.

It's not just a matter of productivity. Skilled, experienced workers are much more likely to do a high quality job. Using poorly trained personnel hired "off the street" can lead to all sorts of quality problems. While there might be some initial savings as a result of paying below the prevailing wage rate, these savings could be quickly wiped out by the need for costly repairs and maintenance.

Department of HUD Study Shows No Link Between High Wages and High Construction Costs

Because of these important differences in skills and productivity, the only valid way of examining the relationship between Davis-Bacon and inflation is by looking not at wage rates alone, but rather at the *total costs* of projects built under the law's requirements.

The only study of this sort presently in existence was conducted by the Department of Housing and Urban Development in an effort to identify the factors leading to high costs on HUD-financed housing built on Indian reservations. One possibility that the authors considered was that Davis-Bacon prevailing wage requirements might be leading to excess costs. However, their research indicated that this was not the case:

> "A comparison of average wage rates with average dwelling construction costs shows no correlation between high wages and high construction costs. Of the five Indian Housing Authorities with the *highest* average wage rates . . . only one had average dwelling construction costs which exceeded the median." [3]

Davis-Bacon Suspension Did Not Lead to Significant Savings

The Davis-Bacon Act was suspended for a brief period in 1971 by executive order of President Nixon. According to the claims made by opponents of this law, removal of prevailing wage requirements should have immediately led to a sharp reduction in costs on federal construction contracts negotiated during the suspension.

In reality, no such reduction occurred. Data are available for 1,263 projects which were bid under prevailing wage requirements and then re-bid during the suspension. On average, the second bid was lower than the first by *only six tenths of one percent.*[4]

Even this negligible amount cannot be assumed to represent savings resulting from removal of prevailing wage requirements. Rather, some price decline should be expected when a project is re-bid. The rebidding process allows each competitor to learn the amount of the bids submitted by other contractors. In cases where a contractor discovers that he lost the job by a relatively small amount, that contractor will have an incentive to lower his bid the next time around. In fact, further studies indicate that the cost reductions under the suspension were concentrated among contracts where the winning bid and the next lowest bid differed by less than 20%.[5]

In summary, all the available evidence indicates that prevailing wage protection does not lead to excess costs on government construction projects. On the contrary, paying the prevailing wage helps ensure that skilled and experienced construction workers will be hired, and thus promotes efficient, top quality work on government jobs.

"THE GAO'S REPORT ON DAVIS-BACON: SO FLAWED AS TO BE MEANINGLESS"

Many of the statistical claims about the allegedly inflationary impact of the Davis-Bacon Act are based on a 1979 report by the General Accounting Office (GAO) entitled "The Davis-Bacon Act Should Be Repealed." This report is so flawed in its facts and methods as to render its conclusions meaningless.

The GAO's basic contention is that the Department of Labor (DOL) sometimes sets the wage rates required under the Davis-Bacon Act at a level higher than the actual prevailing wage rate, thereby leading to excess costs on federal construction projects. The evidence for this allegation comes from a series of GAO wage surveys designed to check the accuracy of the DOL figures. Any difference between the DOL wage determination and the GAO survey results was taken as proof that the Labor Department had made an error in setting Davis-Bacon wage rates.

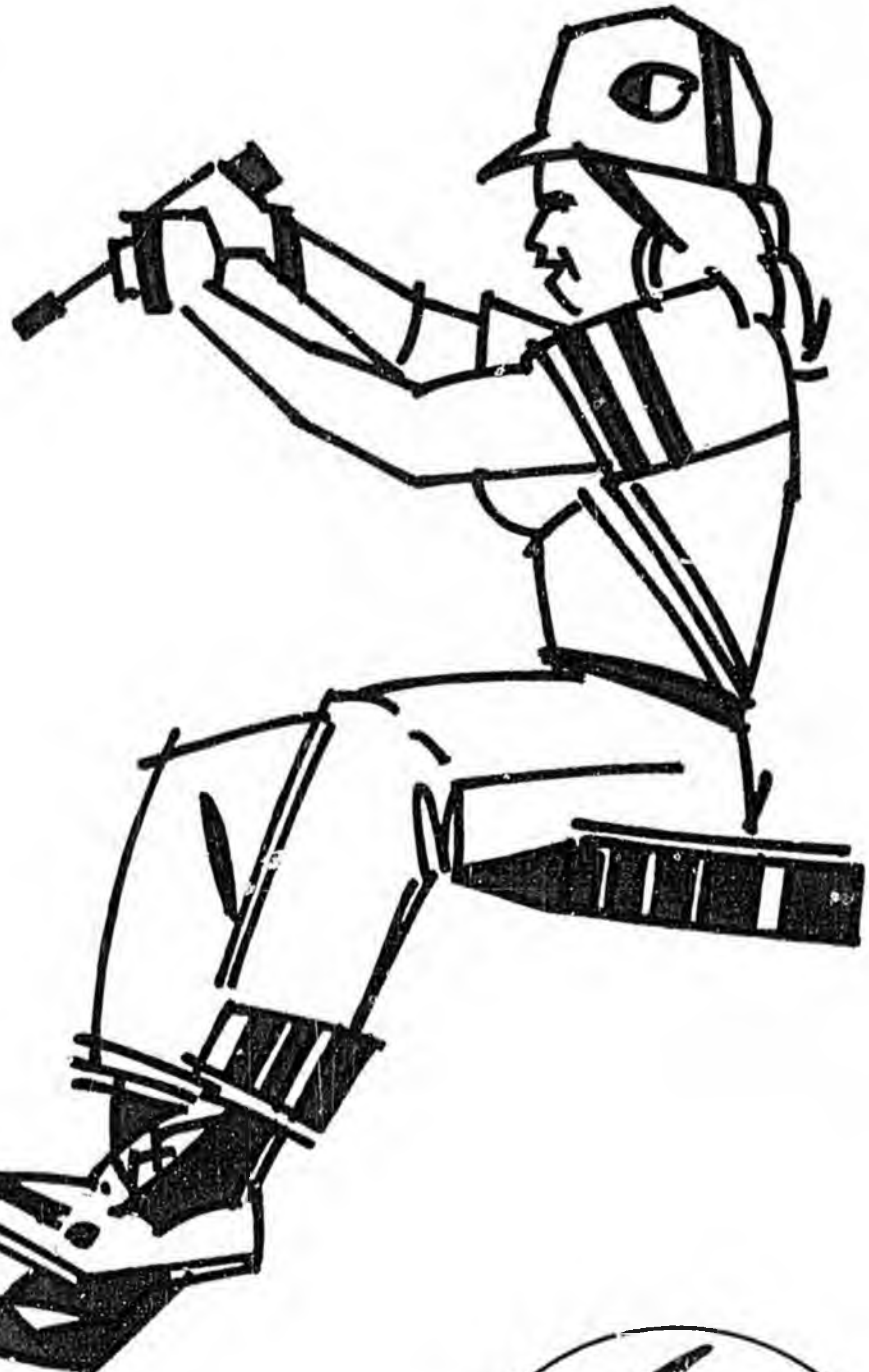
In fact, the validity of this "check" is very dubious. There are many reasons other than Labor Department error which can explain the differences between the DOL figures and the GAO figures. For example, the survey methodology used by the GAO investigators differed in important respects from that used by the Labor Department; the GAO personnel were inexperienced in conducting wage surveys; and the GAO admitted difficulties in securing the cooperation of construction employers in providing wage data. Further, in some cases, the GAO drew conclusions about prevailing wage rates for particular crafts based on wage data for only one or two workers, hardly an adequate basis for sweeping conclusions about widespread DOL error.

The GAO study used a sample of only 30 wage determinations, representing about two tenths of one percent of the more than 15,000 Davis-

Bacon wage determinations issued by the Labor Department in a typical year. In 18 of the 30 cases, the GAO concluded that the Labor Department wage determinations were too *low* rather than too high. These cases were discarded in drawing the report's conclusions, since the GAO was only interested in cases where the Davis-Bacon Act could be accused of driving up costs. The 12 remaining wage determinations (in which the GAO wage estimates were lower than the Labor Department figures) became the primary basis for the GAO's conclusions that Labor Department errors in setting Davis-Bacon wage rates could be costing the government hundreds of millions of dollars every year.

Such scanty evidence would be very weak support for any sort of conclusion and provides no basis whatsoever for the GAO's sweeping contention that the Davis-Bacon Act should be repealed.

1. Data supplied by the U.S. Department of Labor, Employment Standards Administration.
2. Robert Goldfarb and John Morrall, *An Analysis of Certain Aspects of the Administration of the Davis-Bacon Act*, a report issued by the Council on Wage and Price Stability, May 1976, p. 9.
3. U.S. Department of Housing and Urban Development, Region IX, Office of Program Planning and Evaluation, *Evaluation of the High Cost of Indian Housing*, June 1979, p. 26.
4. Armand J. Thieblot, Jr., *The Davis-Bacon Act*, Labor Relations and Public Policy Series, Report No. 10 (Philadelphia: University of Pennsylvania Press, 1975), p. 93.
5. John P. Gould and George Bittlingmayer, *The Economics of the Davis-Bacon Act: An Analysis of Prevailing Wage Laws* (Washington, D.C.: American Enterprise Institute for Public Policy Research, 1980), p. 58.



BUILDING AND CONSTRUCTION TRADES DEPARTMENT, AFL-CIO

Robert A. Georgine, President

Joseph F. Maloney, Secretary-Treasurer

815 16th Street, N.W. Washington, D.C. 20006

Davis-Bacon WORKS

FACTS ON THE

Davis-Bacon Act

BUILDING AND CONSTRUCTION TRADES DEPARTMENT, AFL-CIO

What does the Davis-Bacon Act do? It requires that workers on federally funded construction projects be paid no less than the wage rate prevailing in their local community for similar work.

This law was first proposed in Congress in 1927, and was enacted in 1931. It was designed to remedy problems which were occurring on government public works projects. Contracts were being won by fly-by-night construction companies who reaped large profits by paying very low wages to their employees in exchange for long hours of work. Many of these contractors came from outside the communities where the federal projects were being built, and sometimes brought in their own crews. These unscrupulous builders not only undercut the labor standards of the communities they operated in; all too often they also left the taxpayers saddled with a poorly constructed project.

Why a Prevailing Wage Law for Government Construction?

Wage-cutting practices, and the problems which result, are especially likely to occur on construction jobs because of the unique characteristics of the construction industry. Construction requires relatively little fixed capital, and the needed equipment can usually be leased rather than bought. Consequently, it is fairly easy to go into business as a contractor, and construction firms are constantly being formed and dissolved. The turnover in firms is matched by the turnover in employees. Generally, workers are hired only for the duration of a particular job, and move on to a new employer when the work is finished. Construction employment is also very unsteady. Last year, the unemployment rate in construction averaged 14.2%, roughly double that in the economy as a whole. All of this makes it very easy for a fly-by-night operator to go into the construction business, pick up some semi-skilled or unskilled workers at rock bottom wages, and make a quick profit.

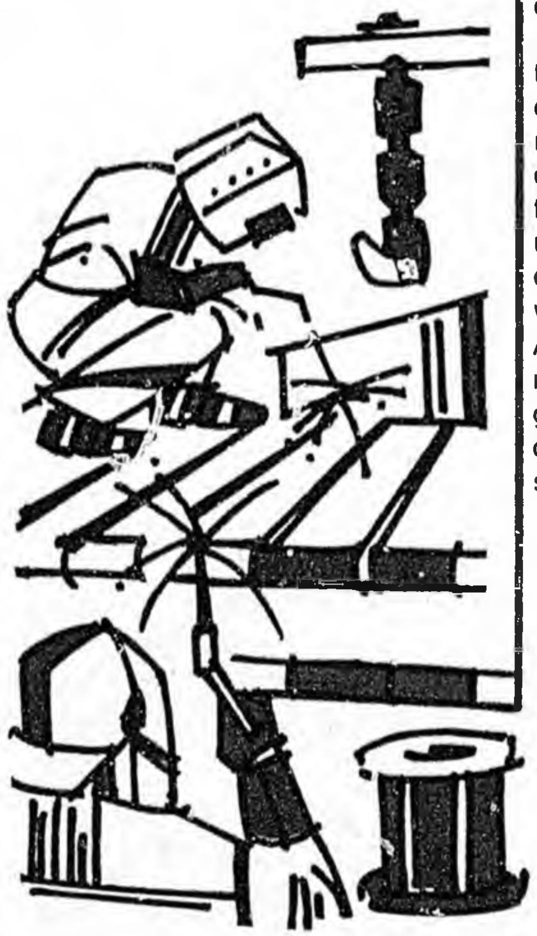
"FAIR TO WORKERS, CONTRACTORS & TAXPAYERS"

The government is particularly vulnerable to this kind of operation because of the nature of the government contracting proces. A private firm can control who it deals with, and can avoid these fast buck artists entirely and deal only with reputable businesses. The government, on the other hand, is required by law to award a contract to the lowest bidder (unless there is a compelling case that the firm is unqualified—something which is very hard to establish before the work is started). An unscrupulous contractor can easily cut costs on wages, cut corners on materials, and thereby win itself a government contract. The reputable business, committed to paying wage rates sufficient to attract and hold skilled, experienced construction workers, cannot hope to compete with these tactics.

Prevailing Wages: Fair to Workers, Contractors and Taxpayers

There are several reasons why the government has an interest in preventing these sorts of practices through prevailing wage requirements and other measures. First, this is a matter of basic fairness to the workers involved. The government should set a good example for others, and should avoid being a party to situations where the labor standards of the local community are being eroded.

Further, prevailing wage requirements provide important protections to reputable contractors by providing them with a fair chance to compete for government projects, instead of losing this work to disreputable competitors who underbid them by paying substandard wages. With a floor established under wage rates, contractors are forced to compete for public projects on the basis of their skills and efficiency, not on the basis of the low wages they pay.

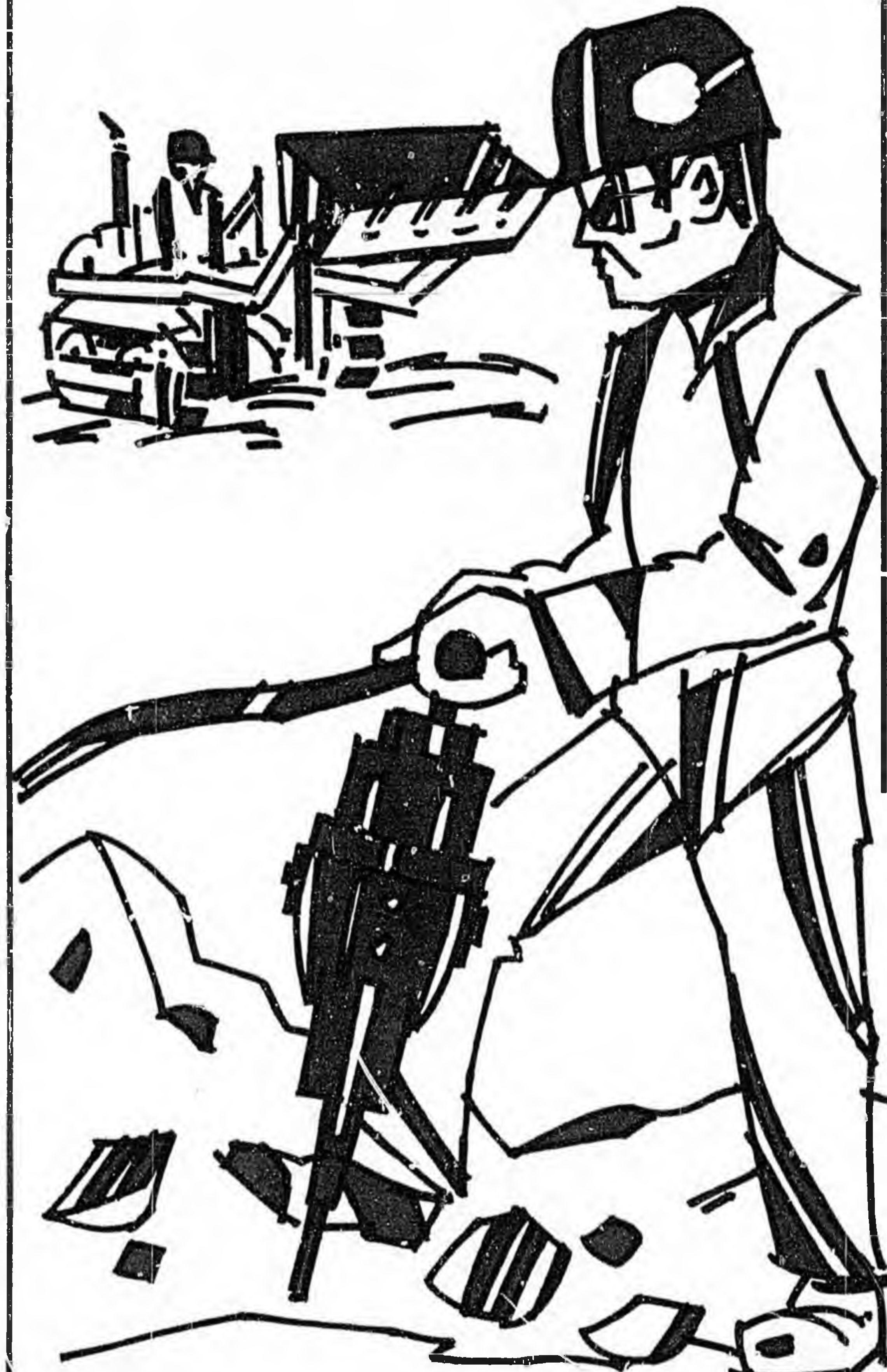


Finally, the Davis-Bacon Act protects the government and taxpayers. Skilled and experienced construction workers are not generally willing to work for substandard wages. The contractor who tries to win government work by drastic reductions in wages will hire the lowest-paid people he can find, who are almost certain to be those with the least training and experience in the industry. The likely consequences of this will be a generally shoddy construction job, extra costs and waste when faulty work must be done over, and higher expenses for maintenance and repairs over the life of the project. Of course, by the time the government finds all the problems with its new building, the contractor is likely to be long gone—off to another area to try this tactic again, or out of business to reappear later under another name.

These are the basic reasons which led Congress to pass the Davis-Bacon Act fifty years ago. The legislatures of 39 states reached the same conclusions on their own, and responded by enacting "little Davis-Bacon Acts" covering state-funded construction.

Over the past fifty years, conditions have improved greatly in the construction industry, partially as a result of the Davis-Bacon Act and other labor laws. However, the basic forces remain unchanged which allow unscrupulous contractors to win federal contracts by paying substandard wages. As a result, the Davis-Bacon Act continues to play an important role in preventing serious abuses on government construction work, and deserves to be preserved and strengthened.

Davis-Bacon WORKS



"CONTINUING ABUSES IN CONSTRUCTION SHOW THE CONTINUING NEED FOR DAVIS-BACON"

Numerous violations of the Davis-Bacon Act are detected every year by federal agencies. For example, in a two-year period, one single agency—the U.S. Department of Housing and Urban Development—instituted labor standards enforcement actions which led to more than $5 million in back wages being restored to more than 11,000 workers on federal projects.

These violations cover the whole range of possible wrongdoing—payment of substandard wages, failure to make proper payments for health insurance and other benefits, forcing workers to "kick back" a portion of their wages as a condition for continued employment, phoney use of "trainee" classifications to exploit young workers seeking to learn construction skills, and so on. Often, these labor standards problems are associated with other sorts of problems involving shoddy work and poor contractor performance. If the legal protections provided by the Davis-Bacon Act were to be removed, these types of abuses would be expected to become much more common.

Here are two recent examples which demonstrate the problems which unscrupulous contractors cause when they seek to make a fast buck by slashing wage rates. Both of these accounts come from investigative reports aired on "Arizona Weekly," a public affairs program broadcast by television station KAET in Phoenix, Arizona.

The first of these stories involves a $5 million federal housing project on the San Carlos Indian Reservation in Arizona, a project where the contractor, Mendoza Drywall, relied on low-wage labor supplied by illegal aliens, among others:

REPORTER: ". . . we also found blatant violations of federally mandated wage rates. Who were the victims? The illegal aliens. The ones who couldn't speak up and go to the authorities, who had very few options as they lived and worked each day on the project. They were young men like Pedro.

"How much is he getting?"

ANSWER: "$1.50 an hour."

REPORTER: ". . . he wasn't the only one who was shortchanged. Other illegal aliens were paid just half the amount federal regulations required. The aliens were cheap labor, and that meant high profits for someone else.

"We soon discovered that Pedro didn't live like a citizen. He lived in this unfinished home on the project, where for some time there was no water, no heat, not even basic facilities. There were more than ten workers living in this house at one time. At least eight of them, their job foreman told us, were illegal aliens. The others were Navajo Indians. They slept on the floor on old matresses and they cooked on camp stoves. But mostly they just worked on the project . . ."

A second case involved Copper State Builders, a contractor working on several government projects, who was also found to have violated the Davis-Bacon Act by paying workers well below the prevailing wage. As is often the case with firms using cutrate labor, there seemed to be serious problems with the company's reliability and the quality of its work. Among other things, Station KAET's investigation disclosed that this firm had obtained its electrical contractor's license through forgery:

REPORTER: "Arizona Weekly has learned that the Registrar of Contractors is investigating all of the company's licenses because of this forgery (shown on camera). It appears on Copper State's electrical license. . . . In effect, the company said it was qualified to do electrical work when in reality no one in the firm was approved by the state to do it.

"Copper State Builders has never been reluctant to seek federal jobs though. The firm bid successfully on a project to improve federal housing on the west side of Phoenix. This contract was worth more than $185,000. The Executive Director of the Maricopa County Housing Authority, John Hollar, the man who administered the federal project, describes it as the worst job he's ever experienced. . . . Hollar says the biggest problem was that the work was never done right the first time. It had to be done over and over again. And each time it was redone, the project's inspectors and architect had to go back out and recheck the work. That cost taxpayer money. How much? Hollar says he doesn't know, but the taxpayers were footing the bill for the company's mistakes."

Continuing violations of the Davis-Bacon Act such as these serve as a reminder of the potential for serious abuse which still exists in construction. If the legal deterrents provided by Davis-Bacon were eliminated, it is safe to assume that these abuses would become more widespread, to the detriment of workers, fair contractors and taxpayers.

BUILDING AND CONSTRUCTION TRADES DEPARTMENT, AFL-CIO

Robert A. Georgine, President

Joseph F. Maloney, Secretary-Treasurer

**815 16th Street, N.W.
Washington, D.C. 20006**

Davis-Bacon WORKS

#097

STATE OF ALASKA
FISCAL NOTE

Revision Date , 1983

I. REQUEST
Bill/Resolution No.: HB 304
Title: Wage Rates on Public Construction
Sponsor: Representative Herrmann
Requestor: House Labor & Commerce

II. FISCAL DETAIL
Agency Affected: Community & REgional Affai
Program Category Affected: Development
BRU, Program of Subprogram(s) Affected:
Local Government Assistance

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 83	FY 84	FY 85	FY 86	FY 87	FY 88
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC						
TOTAL OPERATING		-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND		-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER (Specify Source)						

POSITIONS:

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

III. SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

Sponsor did not specify.

IV. ANALYSIS: Attach a separate page for any Analysis

Prepared By: Doug Griffin Phone: 465-4707
Division: Local Government Assistance Date: 4/15/83

Approved by Commissioner: Date: 4/15/83
Department: Community & Regional Affairs

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3/8/83

Bill Sheffield, Governor

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

OFFICE OF THE COMMISSIONER

POUCH B
JUNEAU, ALASKA 99811
PHONE: (907) 465-4700

April 15, 1983

BILL ANALYSIS

RE: HB 304

SPONSOR: Representative Herrmann

Program Effects of the Bill

This bill would exempt communities with a population of 5000 or less from the provisions of AS. 36.

Comments

It is the position of this Department that the provisions of AS. 36 currently discourage local hire in rural communities

The requirement that prevailing wages be paid discourages "on the job training" of local labor and encourages importation of outside labor.

If this bill were to pass we feel it would, at least, remove one road block in the path of increasing local employment through state construction grants.

Mark Lewis, Commissioner

21-P1LH

HB

308

Alaska National
INSURANCE COMPANY

A policy of service and protection

April 6, 1983

The Honorable Walt Furness, Representative
Chair House
Labor and Commerce Committee
Alaska State Senate
Pouch Y
Juneau, Alaska 99811

Re: HB #308 An Act relating to insurance.

Dear Mr. Furness:

This measure in its current form is very much opposed by us. On the other hand, the areas of our serious concern can be easily remedied by some amendments, in which case the general thrust of the bill would be acceptable. We, therefore, urge the Committee to adopt the recommended amendments if it intends to proceed with this legislation.

BACKGROUND

For reasons, some of which may be valid, the municipal league, or at least several municipalities, have felt it desirable to have statutory authority to establish a means of exchanging insurance contracts among themselves as an alternative to purchasing insurance from commercial insurance markets. At an early stage in the legislative process when the municipality's interest in establishing their own insurance program first became known to us, we suggested using the reciprocal insurer authority already granted in the Insurance Code. They have accepted this recommendation and House Bill 308 is the result. Unfortunately in the drafting, several specific exceptions from appropriate obligations imposed on insurers were carved out for the municipal reciprocals, and we believe such is wholly inappropriate.

It is the purpose of this letter to indicate these areas and to point out the responsibilities that every other insurer currently has and ought to have in connection with sustaining the workers' compensation system in this State which even a municipal reciprocal should be required to support.

ASSIGNED RISK POOL

[AS21.39.155 (a) - HB 308 Page 1, Line 9 -10]

The proposed amendment would exempt <u>all</u> reciprocals from having to participate in the contributions to the assigned risk pool.

Currently, all commercial insurers writing workers' compensation in the State of Alaska are required to pay an assessment to support the assigned risk pool. The amount of the assessment is a pro-rata charge necessary to cover the extent to which losses and expenses exceed the premium collected in the pool. Assessment based on workers' compensation writings by workers' compensation carriers is a logical way to support the pool since it spreads the cost for supporting the undesirable risks among all other employers in the State. Currently, any employer insured in a commercial insurer, including all municipalities which are insured by commercial insurers, are paying indirectly the assessment to support the assigned risk pool.

To the extent that a group of employers are exempted from having to pay their pro-rata share, the burden falls on a smaller population who must then pay a higher assessment. In effect, by exempting the municipal reciprocal from having to pay the assigned risk pool, all other employers are going to have to pay a slightly higher assessment.

We find it totally inequitable and without justification that the municipalities as employers be relieved of any obligation which any other employer is obligated to pay as part of the cost of hiring employees in this State.

Furthermore, because of the way the provision was drafted, <u>all</u> reciprocals are excluded. As drafted, this means that the Timber Insurance Exchange, which is a private commercial reciprocal insurer owned and operated by the loggers, would also be exempted from supporting the assigned risk pool. I believe this was not intended but is the result of an error in drafting.

<u>RECOMMENDATION</u>

Section 1 of the proposed bill be stricken in its entirety.

<u>ALLOWABLE FUNDING</u>

[Section 2 AS21.75.050 (c) - HB #308 Page 1, Line 15 - 21]

This provision allows only those reciprocals which are formed by two or more muncipalities to post a bond in lieu of otherwise admissible assets to capitalize the reciprocal insurer. Frankly, we believe that places the municipalities in the position of establishing an insurance company with little or none of the capital requirements imposed upon any other commercial insurer and is to that degree inequitable. On the other hand, we recognize that municipalities have a certain financial capability because of their taxing authority which other commercial employers do not have, and therefore, though we would prefer not to see the statutes drafted with authority to post a bond in lieu of cash, will not object to the bill on that ground alone.

On the other hand, there are two amendments that need to be made to this section in order to limit the authority to the specific concessions intended by the legislature:

A. Arguably, a reciprocal could be formed by two or more municipalities and then insure non-municipalities as part of their business operations. Such ought not to be permitted, thus, I would urge the following recommended amendment; and

B. The bond should be permitted only for the initial capital and not for any of its reserves or surplus.

To meet these points, I would urge the following change in language:

> "A domestic reciprocal insurer formed under this chapter by and insuring only, two or more municipalities shall (1) comply with (a) of this section or post a bond for an amount equal to the capital that would be required of a domestic stock insurer writing the same lines of insurance for which the reciprocal insurer seeks to be authorized, and (2) maintain a surplus in admitted assets of $250,000 or a surplus sufficient to operate the reciprocal insurer for one year, whichever is greater." [Emphasis on language to be added.]

EXEMPTION OF PUBLIC UTILITIES FROM GUARANTEE ASSOCIATION.

[Section 5 AS21.80.180 (5) - Page 2, Line 6 and Section 6 AS21.80.180 (6) - Page 2, Line 14.]

These sections deal with the Guarantee Association, which is a facility established by Alaskan law to protect workers whose employer has acquired workers' compensation insurance from an insurance facility which ultimately becomes insolvent. The protection is provided through the Guarantee Association's ability to assess all other workers' compensation insurers doing business in the State pro-rata to their workers' compensation insurance writings to provide the funds necessary to pay the claims of the insolvent insurer.

The are two sections in that law referred to in the bill define:

A. Which insurers are protected by the Insolvency Fund and,

B. Which insurers must contribute to the assessment in the event another insurer becomes insolvent.

We pointed out to the Senate Labor and Commerce Committee that either the municipal insurer must be included both as a contributor to the assessment and be protected by the Guarantee Association or excluded from both of those. The Labor and Commerce Committee agreed and elected to exclude the municipality from both the assessability and coverage provisions of the Guarantee Association. We support their choice in this regard, however, in creating the exclusion from the application of the Guarantee Association for reciprocals formed by municipalities they added reciprocals formed by public utilities.

We absolutely oppose the exclusion of a reciprocal formed by any commercial enterprise from the obligation imposed upon any other commercial insurer doing business in the State. There is no reason why a business which is operating in this State owned by stockholders who have formed a company for profit, should be excluded from sharing in the obligations that all other corporations formed for profit are obligated to support. All the insured employers of any other commercial insurer indirectly contribute to the Guarantee Association assessment by virtue of that cost being loaded into their premium. It creates a lack of competitive parity when a reciprocal can be formed by a specially defined group and be excluded from having to share in that cost.

RECOMMENDATION

We would propose that the language "or public utilites" be stricken from both line 6 and line 14 of page 2 of the bill.

As a further matter of clarity, on line 5 and line 14 the language should be modified so that it reads as follows:

"Reciprocal insuer formed by and insuring only municipalities."

We would appreciate your favorable consideration of these recommendations.

Yours cordially,

Richard Block
President

RB/krl

Alaska National
INSURANCE COMPANY
A policy of service and protection

March 22, 1983

The Honorable Dick Eliason, Senator
Alaska State Senate
Pouch Y
Juneau, Alaska 99811

Attn: Sheila Peterson, Legislative Analyst

Dear Dick:

Sheila was kind enough to send me a working draft of CSSB 66 (L&C) which is marked "Sofo 3-14-83." Shortly after receiving this draft, I was called by Wes Coyner, who indicated that there were some mistakes made in the drafting; and, in fact, numerous portions of that working draft are not intended to be included. The changes which I was given are as follows:

A. From line 10 strike "AS 23.30.075 (b)"

B. From line 16 strike "AS 23.30.075 (b) by the state or a political subdivision" and insert instead "by a municipality"

C. From page 1, line 28 to page 2, line 2 strike all of the definition and instead insert "municipality is defined as provided in AS 29.78.010 (8)"

D. From page 2, line 5 strike "or policital subdivision of the state, public utilities," and insert in line 5 "a municipality of" so that line 5 reads" reciprocal insurer formed by a municipality of the state ...".

E. Strike all of Section 6.

F. Strike all of Section 7.

My comments deal with the bill as modified.

BASIC THRUST OF THE BILL

The bill seems to permit municipalities to form a reciprocal insurer and changes the Reciprocal Law to permit two or more, as opposed to 25 or more persons, to form a reciprocal insurer. These basic policy changes are acceptable.

7001 Jewel Lake Road • Post Office Box 3440, Anchorage, Alaska 99510 • Telephone (907) 248-2642 • Telex (090) 25-456

The bill goes further, however, and makes three other changes which I find objectionable in various degrees.

1. Allowing the capital and surplus to be satisfied with a bond. Every other insuring entity in the State of Alaska is required to post cash or other admitted assets in order to do business in the State. The reason, of course, is that only cash and immediately liquidable assets can be made available to pay claims to the extent claims and expense exceed premiums. To permit the requirement to be met with a bond, is to work an utmost hardship on claimants and creditors in the event the premiums are not adequate to meet expenses for operations and claims.

   It should be noted that there is already a significant advantage afforded entities utilizing this new statute since any other carrier writing workers' compensation only in the State of Alaska, must have $250,000 more in assets than is required of the municipal reciprocal. To compound the problem, by allowing this minimal capital and surplus to be put up in the form of a bond as opposed to admitted assets, permits both an unreasonably unfair level of competition among insurers and subjects the claimant to questionable protection for their rights under the Workers' Compensation Act.

2. Section 5 attempts to exempt a municipal reciprocal from its obligations to pay an assessment to fund an insolvency by an insurance carrier formed under existing laws. There may be some argument to be made for excluding them from the obligation to pay assessments of the Guarantee Association, but only if the companion provision which is that the claims of an insolvent municipal reciprocal are not covered by the Guarantee Association, is also included.

   Note that your work draft excludes the reciprocal from AS Section 21.80.180 (6) (A), (Who Must Pay an Assessment for an Insolvency) but does not exclude them from AS 21.80.180 (5) (A) (Who's Insolvency Must Be Protected By The Guarantee Association.) It is my position that the municipal reciprocal must be included as part of the Guarantee Association both as to assessability and coverage, or excluded from the Guarantee Association both as to assessability and coverage. Because of the highly political nature of such a program and because I do not believe that the minimum criteria for forming a municipal reciprocal provides adequate protection for the long term growth and stability of such an organization, I would elect to have them not included in the Guarantee Association and exempt them from assessment.

3. For some reason <u>all</u> reciprocals are exempted from assessment to fund the assigned risk pool. I believe that drafting Section 1 to exclude all reciprocals was an inadvertant error on the part of the drafters since there are commercial workers' compensation

reciprocals in this State that certainly should not be exempted from the assigned risk pool. The more pertinent issue is should the municipal reciprocal be exempted from paying assessments for the assigned risk pool. On this point, I restate a portion of my January 21, 1983, letter to Representative Rick Uehling on a similar subject.

IT IS IMPORTANT TO MAINTAIN A PREMIUM BASIS
NECESSARY TO PROVIDE SUPPORT FOR SYSTEM OBLIGATIONS

There are several components to the complete workers' compensation system which are funded by assessment of insurance companies, and those assessments are a function of the premiums written. It was recognized that since all employers were required to purchase insurance, assessing insurance companies based on their pro-rata writings of workers' compensation insurance was an equitable and efficient means for funding collateral aspects of the workers' compensation system. If significant shares of premium were allowed to "escape" the system because insurance pools were allowed to exist under the sham name of "group self-insurance", then the assessment base would be reduced placing a larger burden on those employers remaining insured through traditional insurance markets and relieving other employers of their obligation to pay their fair share of these collateral program costs.

It is, of course, true that a truly self-insured employer does escape some of these obligations, and in other states there has been a tendency to require the truly self-insured employer to be subjected to assessment to the same extent they would be had they been insured through an insurance company. Though that is not the current State of Alaska law with respect to true self-insured employers, the problem should not be exacerbated by allowing the fiction of group self-insurance to permit substantial additional premium to be removed from the premium base.

Some of these collateral programs are:

Assigned Risk Pool

Since insurance is required to be carried by all employers, but insurance companies are not legally obligated to provide insurance to a particular employer, it was necessary to create a mechanism for poor risks, or risks that underwriters chose not to write voluntarily, to obtain their workers' compensation insurance. In Alaska an assigned risk pool has been established, and any employer who cannot obtain their insurance through negotiation with an insurance company may obtain their insurance from the assigned risk pool at standard rates. The net cost of operating the assigned risk pool, that is, the amount by which losses from pool risks exceed premium from pool risks, is paid by assessment of all other insurance companies pro-rata to their writings of workers' compensation insurance. In short, the cost of underwriting pool risks is borne by the workers' compensation system.

I very much appreciate your allowing me an opportunity to comment on your work draft and hope that my comments are a value to you.

Yours cordially,

Richard L. Block
President

RB/krl

STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF COMMERCE &
ECONOMIC DEVELOPMENT

DIVISION OF INSURANCE

POUCH D
JUNEAU, ALASKA 99811
PHONE: 465-2515

March 23, 1983

Honorable Richard I. Eliason
Chairman
Committee on Labor and Commerce
Alaska State Senate
Pouch V
Juneau, Alaska 99811

Dear Senator Eliason:

RE: Position Paper SB 66

The Administration has carefully reviewed the ramifications of SB 66 and concludes that the public would best be served by a committee substitute that deletes the content of the current bill and replaces it with the enclosed changes which are similar to those forwarded to you on March 1, 1983.

SB 66 would allow two or more municipalities to pool their workers' compensation liabilities in a self-insured pool. The terms "self-insured pool" and "group self-insured" are anomalous terms. Self-insurance for two or more entities is insurance. The insurance code would normally apply to such situations. The bill as written, however, does not treat the combination of municipalities as an insurer. It would be more consistent with the general approach of the insurance code to treat this combination of municipalities the same as other combinations of other entities.

We recommend that SB 66 be replaced with a CS that would continue the regulation of insurers (group self-insurers) in the insurance code and apply the requirements for formation of an insurer to a group of municipalities. The requirements that would apply to municipalities, as well as public utilities, can be reasonably eased in view of the nature of those entities. The recommended easing would incorporate four changes. These are:

1. Reduction of the financial requirements for municipalities by permitting the use of a bond in lieu of cash surplus and by reducing the amount of operational surplus necessary;

2. Removal of any assigned risk liabilities that might otherwise accrue to an insurer formed by a group of municipalities or public utilities;

3. Reduction of the number of entities required to form a reciprocal insurer; and,

4. Removal of any liabilities in the Alaska Guaranty Association for insolvencies of other insurers if the insurer formed by a group of municipalities or public utilities is an assessable reciprocal insurer.

We believe that this is a reasonable stance which provides adequate public protection for claimants and policyholders.

Very truly yours,

Richard A. Lyon
Commissioner

RAL/cw#2113

Enclosure

cc: Art Peterson
Department of Law

Summary of CSSB 66

Section 1 — This section exempts reciprocal insurers from the assigned risk pool. The rationale is that a reciprocal insurers only a specialized group of individuals with similar activities, and should be responsible with their own classification of insurance.

Description of an assigned risk pool.

Assigned Risk Pool

Since insurance is required to be carried by all employers, but insurance companies are not legally obligated to provide insurance to a particular employer, it was necessary to create a mechanism for poor risks, or risks that underwriters chose not to write voluntarily, to obtain their workers' compensation insurance. In Alaska an assigned risk pool has been established, and any employer who cannot obtain their insurance through negotiation with an insurance company may obtain their insurance from the assigned risk pool at standard rates. The net cost of operating the assigned risk pool, that is, the amount by which losses from pool risks exceed premium from pool risks, is paid by assessment of all other insurance companies pro-rata to their writings of workers' compensation insurance. In short, the cost of underwriting pool risks is borne by the workers' compensation system.

Section 2 — This section states or allows a municipality to post a bond equal to the amount necessary for capitalization minus $250,000 which must be cash. The required capital for a domestic stock insurer would be $1 million if only one form of insurance is covered, for example workers' comp, and $1.5 million if two forms of insurance are covered.

Section 3 - The number of persons needed to form a reciprocal was reduced to two.

Section 4 - The new definition of municipality is included. It was felt this definition encompassed the municipalities who could participate, ie those with taxing powers.

Section 5 - Defines "member insurer" to exclude an assessable reciprocal which in turn takes an assessable reciprocal out of the Guaranty Act.

The Guaranty Act is established to protect Insurers if an insurance company folds up. An assessable reciprocal is responsible for its own insurers + therefore should not be responsible for others

AS 21.80180 (5) should probably be amended to exclude municipalities, public utilities from "insolvent insurer". If this were done then the municipalities + utilities would neither participate in the Guaranty nor would they be protected by it.

Dick Block
Ak National
Insurance
Company

Note that your work draft excludes the reciprocal from AS Section 21.80.180 (6) (A), (Who Must Pay an Assessment for an Insolvency) but does not exclude them from AS 21.80.180 (5) (A) (Who's Insolvency Must Be Protected By The Guarantee Association.) It is my position that the municipal reciprocal must be included as part of the Guarantee Association both as to assessability and coverage, or excluded from the Guarantee Association both as to assessability and coverage. Because of the highly political nature of such a program and because I do not believe that the minimum criteria for forming a municipal reciprocal provides adequate protection for the long term growth and stability of such an organization, I would elect to have them not included in the Guarantee Association and exempt them from assessment.

ALASKA RURAL ELECTRIC COOPERATIVE ASSOCIATION, INC.

237 E. FIREWEED LANE • SUITE 301
ANCHORAGE, ALASKA 99503 • (907) 276-3235

April 15, 1983

House Labor and Commerce Committee
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Committee Members:

The purpose of this letter is to explain our support for HB 308 and provide you with background information regarding the insurance program our association provides its members.

In 1979, the Alaska Rural Electric Cooperative Association applied to the Workers' Compensation Board for a self-insurance certificate for our member utilities. The certificate was issued effective January 1, 1980, and was renewed for a year effective January 1, 1981. Our program has been completely successful in meeting its obligations to the employees of its participants and in saving the participants substantial sums of money in insurance costs. Other associations, including the Municipal League, expressed interest in adopting group self-insurance programs modeled after ours.

At the beginning of 1982, our certificate was renewed for only a few months, and we were told that the Board was "reviewing the situation." In February 1982, Ms. Jacqueline McClintock of the Department of Labor requested an Attorney General's opinion regarding the legal status of group self-insurance programs in Alaska. In April, the Attorney General's opinion declared that since group self-insurance is not specifically mentioned in the Alaska statutes and it is in some other jurisdictions, it can be interpreted that group self-insurance is not authorized in this state.

Based on this opinion from the Attorney General, the Workers' Compensation Board terminated our certificate effective September 30, 1982. We appealed this action to the Superior Court, and we were successful in obtaining a stay of the Board action pending appeal. At the present time we are self-insured as a group by order of the Superior Court.

In principle, what our program does, is to buy a group insurance policy with a large deductible, and the deductible amount is shared within the group. Our retained risk on worker's compensation claims is $200,000 per occurrence. Above that level, we are insured by an excess insurance company. Corroon & Black/Dawson & Company is our broker and has been since the beginning of our program. Each year they calculate what the commercial insurance premium would be for each of our members, including the individual experience modification for each member. Our Board of Directors then determines what discount, if any, will be allowed to the participants for that year. Discounts in our program have been: 1980-0, 1981-10%, 1982-15%, 1983-15%.

We have an active safety program for our members which is paid for as a cost of our self-insurance program. Claims are administered on a professional basis for us by Scott Wetzel Services. After paying expenses and claims (including reserves for claims not yet paid), we have finished each year with a substantial surplus which is held in trust for our members. This money is retained in the program for a few years in order to make sure we have an adequate reserve on hand, but these savings will be paid back to our members. The ultimate beneficiaries of our program are the electric consumers.

We must have a legislative resolution of our uncertain status this year. We began this session by seeking legislation to specifically authorize group self-insurance. This proposal was vigorously opposed by portions of the insurance industry. The Senate Labor and Commerce Committee fashioned a compromise which was later introduced as HB 308.

The compromise basically provides:

(1) We will give up our status as a self-insured group and become a reciprocal insurer. This will require us to establish and maintain reserves of $1,125,000 and place us under regulation of the Division of Insurance.

(2) The reciprocal insurer statutes would be amended to make it possible for us to qualify as a reciprocal, and reciprocals would be relieved of inappropriate cost factors to which they are now subjected.

Section 1 exempts reciprocals from participating in the assigned risk pool. By its very nature a reciprocal is a mutual enterprise which only serves its members. It is inappropriate that reciprocals should be forced to help provide insurance to the high risk businesses in other industries.

Sections 2 and 4 deal only with reciprocals established by municipalities, so I will make no comment on them.

Section 3 reduces the number of participants required to establish a reciprocal from 25 to 2. This is especially important to us because there are only 14 electric cooperatives in Alaska.

Sections 5 and 6 exempt <u>assessable</u> reciprocals organized by municipalities or public utilities from participation in the insurance company guarantee fund. The purpose of the fund is to protect policy holders against loss in case of financial failure by an insurance company. The financial responsibility of an assessable reciprocal is guaranteed by its participants.

The fund could only be called upon to pay the claims for such a reciprocal in the event of bankruptcy of <u>all</u> of its participants. Section 5 exempts these reciprocals from the "benefits" of the fund, and Section 6 exempts them from the costs of the fund.

We think this is a reasonable compromise, and we give it our full support. Please give this bill a "do pass" recommendation and help get it enacted.

The only change we recommend is the correction of a printing error on page 2, line 15. Only the comma should be underlined, not the word Alaska.

Sincerely,

Dave Hutchens

David Hutchens
Executive Director

HB-311

REACH POINT

HB-319 {

BASE WAGE;

BENEFITS

scheduled injury 35%

last two calendar years ÷ 100

66 2/3 %

80 % SPENDABLE

BENEFITS LOST

PAYROLL TAXES; SOCIAL SECURITY

(HB-308) RECIPROCAL INSURANCE COMPANY

1) BOND

2) EXCUSED FROM PAYING GUARANTEES ASSOCIATION, INSURANCE CODE

3 HOW MUCH CASH WOULD A MUNICIPALITY HAVE TO PUT UP TO BECOME SELF-INSURANCES

PAY CLAIMS TO ALL CLAIMANTS; INSOLVENT - 3-M - ASSESSMENTS TO OTHER COMPANIES

308

- EXEMPT FROM ASSESSMENT / GUARANTEE ASSOCIATION - LOOK TO TAX BASE

PUBLIC UTILITIES - EMPLOYERS EXEMPTED FROM CHARGE

CONTRIBUTION TO ASSIGNED RISK POOL
EXEMPTION FROM ASSIGNED RISK POOL

Introduced: 3/30/83
Referred: Labor & Commerce

BY THE LABOR AND COMMERCE COMMITTEE

IN THE HOUSE

HOUSE BILL NO. 308

IN THE LEGISLATURE OF THE STATE OF ALASKA

THIRTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to insurance."

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

* Section 1. AS 21.39.155(a) is amended to read:

(a) The director may require carriers, except a reciprocal
By a GROUP OF MUNICIPALITIES
insurer formed under AS 21.75, as a condition of writing a line of insurance dealing with workers' compensation, to participate in an assigned risk pool if the director finds that mandatory carrier participation is in the public interest.

* Sec. 2. AS 21.75.050 is amended by adding a new subsection to read:

(c) A domestic reciprocal insurer formed under this chapter by two or more municipalities shall (1) comply with (a) of this section or post a bond for an amount equal to the capital that would be required of a domestic stock insurer writing the same lines of insurance for which the reciprocal insurer seeks to be authorized, and (2) maintain a surplus of $250,000 or a surplus sufficient to operate the reciprocal insurer for one year, whichever is greater.

* Sec. 3. AS 21.75.060(a) is amended to read:

(a) Two [TWENTY-FIVE] or more persons domiciled in this state may organize a domestic reciprocal insurer and make application to the director for a certificate of authority to transact insurance.

* Sec. 4. AS 21.75 is amended by adding a new section to read:

Sec. 21.75.340. DEFINITIONS. In this chapter "municipality" means a political subdivision incorporated under the laws of the state that is a home rule or general law city, a home rule or general law borough, or a unified municipality.

* Sec. 5. AS 21.80.180(5) is amended to read:

(5) "insolvent insurer" means an insurer

(A) authorized to transact insurance in this state, except an assessable reciprocal insurer formed by municipalities ~~or public utilities~~, the Medical Indemnity Corporation of Alaska, and the Health Care Providers Joint Underwriting Association established under AS 21.88.010 - 21.88.900, either at the time the policy was issued or when the insured event occurred, and

(B) determined to be insolvent by a court of competent jurisdiction;

* Sec. 6. AS 21.80.180(6) is amended to read:

(6) "member insurer" means a person, except an assessable reciprocal insurer formed by municipalities or public utilities, the Medical Indemnity Corporation of Alaska, and the Health Care Providers Joint Underwriting Association established under AS 21.88.010 - 21.-88.900, who

(A) writes any kind of insurance to which AS 21.80.-010 - 21.80.190 apply under AS 21.80.020 including the exchange of reciprocal or inter-insurance contracts, and

(B) is licensed to transact insurance in this state;

Honorable Walt Furnace, Chairman
Labor and Commerce Committee
House of Representatives
Pouch V
Juneau, Alaska, 99811

Re: House Bill 308

Dear Representative Furnace,

It has come to my attention that there is some misunderstanding concerning how the workers' compensation assigned risk pool operates in this State, and particularly, how the operation differs from the operation of the automobile assigned risk plan.

The automobile assigned risk plan operates as a mechanism for assigning , in rotation, to <u>all</u> carriers writing automobile insurance, those risks which cannot obtain auto insurance in the voluntary market. The carrier that receives the assignment charges and keeps the premium due in respect of that policy and pays the claims arising out of that policy. The carrier to which that risk is assigned lives with the fortunes of the particular risks assigned to it.

On the other hand, the workers' compensation assigned risk pool operates as a separate insuring facility that takes the premium from all risks using the facility and pays all claims arising out of those risks. The facility is operated by the National Council on Compensation Insurance, an insurance industry funded and managed rating and statistical bureau. The day to day handling of the administrative functions, such as policy issuance, claim handling, audit, collection, etc. is handled by some of the carriers in this state on a contract basis. The carriers doing that work have solicited the right to provide that service at a fee. No carrier is obligated to <u>service</u> workers' compensation assigned risk policies.

At the end of the year, the net difference between claims and expense on the one hand and premiums on the other, paid and received by the pool are charged or paid pro-rata to all insurers writing workers' compensation in the State.

It can thus be seen that a reciprocal insurer seeking to provide its administrative facilities only to its members, is not, by virtue of participating in the workers' compensation assigned risk pool obligated to do more than pay its pro-rata share of the net results in the pool.

It remains our firm position that the reciprocal insurers writing workers' compensation should share in the net cost of the pool in the same way as do all other carriers doing business in this state.

Thank you for the opportunity to clarify this point.

yours cordially

Richard L. Block

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April 21, 1983

The Honorable Walter Furnace
Chair, Labor & Commerce Committee
Alaska State House
Pouch V
Juneau, Alaska 99811

Re: HB 308

Dear Representative Furnace:

This letter is submitted on behalf of the American Insurance Association.

The basic justification for regulation of the insurance industry is to protect buyers of insurance and injured parties against the insolvency or incompetency of insurers, and to assure that benefits will be there when they are needed. Thus, capitalization requirements, guaranty associations and the like are provided as means of protecting those who rely on the insurance, and assigned risk pools are set up to be sure that the insurance is available to all who need it.

The costs of these protective measures are ultimately borne by the insurance-buying public, as they are passed along by insurers as costs of doing business.

When it is suggested that these safety measures should not apply to certain insurers, we have to ask, first whether the insureds and claimants directly involved are adequately protected; and second, whether the bill is fair to the other companies, and their customers, who pay for the guaranty association, assigned risk pool, etc.

The assigned risk pool for workers' compensation does not require that participating insurers take on individual insureds as their own insureds. There is a servicing carrier for the pool, and the residual cost of the pool (the amount not picked up in premium charges) is assessed to the other insurers. I am not sure what, if any, assessments have been made in recent years; the director of insurance would know. Given that reciprocals are not asked to take assigned risk insureds as members, or even to service them, we must ask what social policy is being served by exempting one form of insurer from the contingent liability of the pool's expense.

The bill also exempts some reciprocals, those who issue assessable policies, from the Guaranty Association, (Sections 5 and 6). To the extent that financial requirements are lessened (as in Section 2 of the bill, relating to municipal reciprocals), they should probably not be included in the Guaranty Association, since that would unfairly burden other members who have had to guard against insolvency by meeting more stringent capitalization standards. Ironically, by recognizing that assessable reciprocals are somewhat better able to stand on their own than non-assessable reciprocals, the bill puts only those who are more likely to have solvency problems on the backs of the solvent insurers. Perphaps a separate solvency mechanism for self-insureds and any others, like the proposed municipal reciprocals, who have lesser financial standards should be considered.

It may be that the special relationship of the Legislature to the municipalities, and their ultimate guarantees of solvency by taxation or state appropriation, makes it possible to allow somewhat lower financial requirements for municipal reciprocals, as is done in this bill. We do not believe it is fair for them to be exempted as well from carrying the other normal burdens of insurance in this state, however, where the result would be to increase the burden on other insureds. We also suggest that, whatever arguments exist to create special exceptions for municipalities, they do not apply to commercial organizations, including public utilities. It is a little difficult to see where the line is next to be drawn - do certificated air carriers occupy the same kind of favored position?

The policies behind the imposition of these burdens are well thought out, and the mechanisms have generally worked well. Any exception to them should stand on strong policy grounds and be fair to other insureds in this state, and we suggest that Sections 1, 5 and 6 of this bill do not meet those standards.

Thank you for the chance to comment on this bill.

Very truly yours,

M. T. Thomas

MTT/pl

CORROON & BLACK/DAWSON & CO., INC.

4220 "B" Street
Anchorage, Alaska 99503
907-562-2266 Telex: 25-109

TESTIMONY HOUSE BILL 308

The ARECA insurance program was formed to insure member REA's for General Liability, Auto Liability, Worker's Compensation and also to develop broader coverages and stabilize pricing of their insurance coverages.

The insurance cost is limited to reinsurance cost plus claims and loss prevention services. This eliminates the REA's having to purchase insurance from a carrier at cost plus insurance company profit.

Insurance Companies will lose profit and therefore will be opposed to formation of such Reciprocal insurance companies.

Since the reciprocal insurers will be non profit such as ARECA, the savings will ultimately be passed on to consumers in the form of lower and or more stable utility rates.

While we sympathize with the insurance carrier for loss of profit we feel the public interest is best served by allowing public utilities to form a Reciprocal insurance company

By participation in the Assigned Risk Pool, a small reciprocal such as ARECA would be reducing their surplus with no great benefit to the profit structure of standard carrier's. It would appear, therefore, to be an insignificant and minimal benefit for the large participating carrier but at the same time a significant and unnecessary exposure to the reciprocal insuror. We must remember, again, that in the case of ARECA which is comprised of only 13 non-profit REA's, the passage of House Bill 308 in its present form will provide cost savings to approximately 100,000 consumers.

You may hear testimony from insurance companies who want this bill changed to require participation in the workmens compensation assigned risk pool. I submit to the committee that their reasoning is strictly from a selfish nature, and some that come to mind are as follows:

Insurance companies would lose profits because the reciprocal insuror would write business at cost and insurance companies would not have a chance to write these various accounts in the open market.

To synopsis, Insurance companies will state that they believe reciprocal insurors should participate in the Assigned Risk Pool to primarily allow for reduction of their contribution for payment of losses.

This is totally without merit, and we submit the following facts in argument:

(A) The reciprocal insuror percentage would be so small, there would be no significant benefit for their participation.

(B) The statement is meant to create doubt and uncertainty as to a contingent liability of the potential reciprocal member so that the reciprocal will not become a reality.

(C) The end result of a reciprocal not being formed would place each member back into the open market, thus the insurance companies would be able to write business at a profit. This is their ultimate goal.

I urge passage of the bill in its current form.

Respectfully Submitted,

Wayne Brown

Wayne W. Brown, Jr.
Chief Operating Officer
Corroon & Black/Dawson & Co., Inc.

WB/cmp

Alaska National
INSURANCE COMPANY

A policy of service and protection

April 6, 1983

The Honorable Walt Furness, Representative
Chair House
Labor and Commerce Committee
Alaska State Senate
Pouch Y
Juneau, Alaska 99811

Re: HB #308 An Act relating to insurance.

Dear Mr. Furness:

This measure in its current form is very much opposed by us. On the other hand, the areas of our serious concern can be easily remedied by some amendments, in which case the general thrust of the bill would be acceptable. We, therefore, urge the Committee to adopt the recommended amendments if it intends to proceed with this legislation.

BACKGROUND

For reasons, some of which may be valid, the municipal league, or at least several municipalities, have felt it desirable to have statutory authority to establish a means of exchanging insurance contracts among themselves as an alternative to purchasing insurance from commercial insurance markets. At an early stage in the legislative process when the municipality's interest in establishing their own insurance program first became known to us, we suggested using the reciprocal insurer authority already granted in the Insurance Code. They have accepted this recommendation and House Bill 308 is the result. Unfortunately in the drafting, several specific exceptions from appropriate obligations imposed on insurers were carved out for the municipal reciprocals, and we believe such is wholly inappropriate.

It is the purpose of this letter to indicate these areas and to point out the responsibilities that every other insurer currently has and ought to have in connection with sustaining the workers' compensation system in this State which even a municipal reciprocal should be required to support.

ASSIGNED RISK POOL

[AS21.39.155 (a) - HB 308 Page 1, Line 9 -10]

The proposed amendment would exempt all reciprocals from having to participate in the contributions to the assigned risk pool.

Currently, all commercial insurers writing workers' compensation in the State of Alaska are required to pay an assessment to support the assigned risk pool. The amount of the assessment is a pro-rata charge necessary to cover the extent to which losses and expenses exceed the premium collected in the pool. Assessment based on workers' compensation writings by workers' compensation carriers is a logical way to support the pool since it spreads the cost for supporting the undesirable risks among all other employers in the State. Currently, any employer insured in a commercial insurer, including all municipalities which are insured by commercial insurers, are paying indirectly the assessment to support the assigned risk pool.

To the extent that a group of employers are exempted from having to pay their pro-rata share, the burden falls on a smaller population who must then pay a higher assessment. In effect, by exempting the municipal reciprocal from having to pay the assigned risk pool, all other employers are going to have to pay a slightly higher assessment.

We find it totally inequitable and without justification that the municipalities as employers be relieved of any obligation which any other employer is obligated to pay as part of the cost of hiring employees in this State.

Furthermore, because of the way the provision was drafted, all reciprocals are excluded. As drafted, this means that the Timber Insurance Exchange, which is a private commercial reciprocal insurer owned and operated by the loggers, would also be exempted from supporting the assigned risk pool. I believe this was not intended but is the result of an error in drafting.

RECOMMENDATION

Section 1 of the proposed bill be stricken in its entirety.

ALLOWABLE FUNDING

[Section 2 AS21.75.050 (c) - HB #308 Page 1, Line 15 - 21]

This provision allows only those reciprocals which are formed by two or more muncipalities to post a bond in lieu of otherwise admissible assets to capitalize the reciprocal insurer. Frankly, we believe that places the municipalities in the position of establishing an insurance company with little or none of the capital requirements imposed upon any other commercial insurer and is to that degree inequitable. On the other hand, we recognize that municipalities have a certain financial capability because of their taxing authority which other commercial employers do not have, and therefore, though we would prefer not to see the statutes drafted with authority to post a bond in lieu of cash, will not object to the bill on that ground alone.

On the other hand, there are two amendments that need to be made to this section in order to limit the authority to the specific concessions intended by the legislature:

A. Arguably, a reciprocal could be <u>formed</u> by two or more municipalities and then insure non-municipalities as part of their business operations. Such ought not to be permitted, thus, I would urge the following recommended amendment; and

B. The bond should be permitted only for the initial capital and not for any of its reserves or surplus.

To meet these points, I would urge the following change in language:

> "A domestic reciprocal insurer formed under this chapter by <u>and insuring only</u>, two or more municipalities shall (1) comply with (a) of this section or post a bond for an amount equal to the capital that would be required of a domestic stock insurer writing the same lines of insurance for which the reciprocal insurer seeks to be authorized, and (2) maintain a surplus <u>in admitted assets</u> of $250,000 or a surplus sufficient to operate the reciprocal insurer for one year, whichever is greater." [Emphasis on language to be added.]

<u>EXEMPTION OF PUBLIC UTILITIES FROM GUARANTEE ASSOCIATION.</u>

[Section 5 AS21.80.180 (5) - Page 2, Line 6 and Section 6 AS21.80.180 (6) - Page 2, Line 14.]

These sections deal with the Guarantee Association, which is a facility established by Alaskan law to protect workers whose employer has acquired workers' compensation insurance from an insurance facility which ultimately becomes insolvent. The protection is provided through the Guarantee Association's ability to assess all other workers' compensation insurers doing business in the State pro-rata to their workers' compensation insurance writings to provide the funds necessary to pay the claims of the insolvent insurer.

The are two sections in that law referred to in the bill define:

A. Which insurers are protected by the Insolvency Fund and,

B. Which insurers must contribute to the assessment in the event another insurer becomes insolvent.

We pointed out to the Senate Labor and Commerce Committee that either the municipal insurer must be included both as a contributor to the assessment and be protected by the Guarantee Association or excluded from both of those. The Labor and Commerce Committee agreed and elected to exclude the municipality from both the assessability and coverage provisions of the Guarantee Association. We support their choice in this regard, however, in creating the exclusion from the application of the Guarantee Association for reciprocals formed by municipalities they added reciprocals formed by public utilities.

We absolutely oppose the exclusion of a reciprocal formed by any commercial enterprise from the obligation imposed upon any other commercial insurer doing business in the State. There is no reason why a business which is operating in this State owned by stockholders who have formed a company for profit, should be excluded from sharing in the obligations that all other corporations formed for profit are obligated to support. All the insured employers of any other commercial insurer indirectly contribute to the Guarantee Association assessment by virtue of that cost being loaded into their premium. It creates a lack of competitive parity when a reciprocal can be formed by a specially defined group and be excluded from having to share in that cost.

RECOMMENDATION

We would propose that the language "or public utilites" be stricken from both line 6 and line 14 of page 2 of the bill.

As a further matter of clarity, on line 5 and line 14 the language should be modified so that it reads as follows:

"Reciprocal insuer formed by and insuring only municipalities."

We would appreciate your favorable consideration of these recommendations.

Yours cordially,

Richard Block
President

RB/krl

STATE OF ALASKA

POUCH V
JUNEAU, ALASKA 99811
(907) 465-3892

HOUSE LABOR AND COMMERCE COMMITTEE

April 5, 1983

To: Representative Walt Furnace, Chairman
House Labor and Commerce Committee

From: Jefferson B. Barry
Jefferson B. Barry
Professional Aide

Re: House Bill 308

Introductory Analysis

HB308 is the same bill as CSSB66(L&C). SB66 was introduced by the Governor and modified by the Senate Labor and Commerce Committee after public hearings and testimony. The bill is an attempt to allow municipalities and smaller employers to group together for the purpose of workers compensation and take advantage of the concept of "self-insurance". At the same time HB308 is designed to protect the workers and the public from any potential problems of inadequate reserves or improper management by the groups utilizing this approach to providing workers compensation. The present law allows for larger employer to become self-insured for the purpose of workers compensation if they meet the criteria established by the Workers Compensation Board. Smaller employers or a large employer and a number of smaller employers cannot band together and become "group self-insured" under the current law.

The concept of group self-insurance sounds good, but there are problems with it in practice. First, there is the very real potential that one major accident could bankrupt a number of companies and that, even then, there would be inadequate resources to settle the claims of the injured worker(s) and/or their next of kin. Second, in industries like construction, which are highly competitive and require bidding against one another, if the group excluded any one individual company there is the potential claim of restraint of trade and price fixing. The group could use the workers compensation coverage as leverage against member companies for purposes not related to the insurance or even legal. Third, insurance companies object that group self-insurance allows individual companies to open an insurance company without being subject to any of the regulations, reporting, maintenance of proper reserves and excess insurance.

There is some merit in each of these arguments. The purpose of workers compensation is to provide absolute immunity to the employer from a civil suit for negligence by providing compensation (without requiring proof of negligence) to an employee injured on the job. HB308 attempts to balance the needs of the various interested parties and allow municipalities and smaller employers to take advantage of cost savings without disrupting the framework of the workers compensation system.

The major provision of HB308 is found in the change in Section 3 where the number of persons required to form a reciprocal insurance company becomes 2 instead of 25. The effect is to allow smaller employers to band together and form their own insurnace company for the purpose of workers compensation. The protection to the public, workers, and insurance industry is that they must become, in fact, a bona fide insurance company subject to the same laws, rules, and regulations that all other insurance companies must follow. This address the three objections cited above and would also provide for the reporting of accidents to national rating agencies so that proper statistics would be kept.

In addition, there is a trade off in Section 1 in that these reciprocals would be exempt from participating in the assigned risk pool. This is a compromise. The insurance companies feel that since these persons are in competition with them as an insurance company they should take some of the high risk or bad experience companies. On the other hand, the companies feel that they are not in the business to make a profit and do not hold themselves out to the general public. They believe that they are only trying to cut the cost of workers compensation and can best accomplish their goals by providing their own safety programs and administering their own claims.

The sections of HB308 which deal with municipalities recognize the constitutional provisions allowing for cooperation between local governments. It is also felt that, while they are required to comply with the provisions of being a reciprocal insurer, they can best meet their public responsibilities by posting a bond rather that the required reserves applicable to the private sector.

Finally, passage of HB308 would solve a court case that is in litigation over the issuance of a group self-insurance certificate by the Worker's Compensation Board. When it was pointed out to the Board that there was no authority at law for them to issue a group self-insurance certificate, they cancelled the one they had issued. The group has continued to operate as a group self-insured and the matter is now in court. HB308 would solve the underlying problem and give all parties an acceptable solution. There would be no group self-insured and the current group would immediately qualify (there has never been a question about, or problem with, the performance of the particular group-only the issuance of the certificate) as a reciprocal insurer so they could continue to provide the service.

STATE OF ALASKA
FISCAL NOTE

Revision Date , 1983

I. REQUEST
Bill/Resolution No.: HB 308
Title: relating to insurance
Sponsor: Labor & Commerce Comm.
Requestor: Labor & Commerce Comm.

II. FISCAL DETAIL
Agency Affected: Commerce & Ec. Dev.
Program Category Affected: Public Prot.
BRU, Program of Subprogram(s) Affected:
Division of Insurance

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 83	FY 84	FY 85	FY 86	FY 87	FY 88
OPERATING		0	0	0	0	0
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC						
TOTAL OPERATING		0	0	0	0	0
CAPITAL		0	0	0	0	0
REVENUE		0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND		0	0	0	0	0
FEDERAL FUNDS		0	0	0	0	0
OTHER (Specify Source)						

POSITIONS:

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

III. SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

IV. ANALYSIS: ~~Attach a separate page for any~~ Analysis

Prepared By: Kenneth C. Moore, Director Phone: 465-2515
Division: Insurance Date: 4/6/83

Approved by Commissioner: Richard A. Lyon Date: 4/8/83
Department: Commerce & Economic Development

Distribution:
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Copy to Department (for Governor introduced bills)
Copy to Sponsor
Copy to Requestor (if different from Sponsor)

3/8/83

MEMORANDUM

State of Alaska

AWCB JUNEAU APR 1 1983

TO: Jackie McClintock, Director
Workers Compensation Division

DATE: April 1, 1983

FILE NO:

John E. Post

Thru: John Post, Director
Administrative Services Division

TELEPHONE NO: 465-4514

Thru: Chuck Caldwell, Chief CRC
Research and Analysis

SUBJECT: Comparison Tables for 80% of Net Spendable vs. Current Schedule of Workers Compensation

From: Elfrieda Mullin, Labor Economist EM
Research and Analysis

Attached are tables comparing 80 percent of spendable wage and the current schedule of weekly worker's compensation. These tables are quite similar to the ones we provided you last year except that we have used the new table of payroll deductions for income tax. The payroll deductions are in effect only until July 1, 1983. At that time further reductions in the payroll tax will occur.

Last year's comparison used 80 percent of spendable as was provided in HB 159. Since that law had a minimum of $110 and provided for 100% of spendable wages when weekly wages were less than $110, you will notice a significant difference at the low range. We have just observed the 80% of spendable declaration in this year's comparison.

These tables do not take into consideration the Alaska U.I. tax in calculating spendable wage (50 cents per $100 in payroll this year). Additionally, the lack of state income tax in Alaska put spendable wages higher in Alaska than would occur in states with income tax laws.

Compared to last year the spendable wage formula is slightly improved in relation to the comparable compensation for that gross wage under the current law. The low ranges of earnings would receive greater compensation under the spendable wage formula, particularly those with several dependents. On the other hand, the cost to insurance companies would be reduced since high wage earners would receive less than they currently do.

With the absence of state income tax and the reducing federal income taxes a person is less likely to be receiving more in Workers Compensation under the current law than in take home pay, however, it still can occur. Note that a single person with no dependents earning $800 a week or more would receive more in workers compensation than in normal take home pay. (These tables assume standard deduction. In actuality, higher wage earners tend to used itemized deductions and may use additional "dependents" to prevent having too much deducted from wages.)

Using the spendable wage formula would make it difficult for any claimant to be eligible for the maximum of $996. Continuing the attached tables, a single with no dependents would have to have weekly wages of $2,065.54 in order to receive the maximum. A married claimant with two children would have to have weekly wages of $1,966.79. Under the current program the maximum can be reached by any individual earning $1,494 per week.

Attachments

COLUMN NUMBER	HEADING	DESCRIPTION
1	AVERAGE WEEKLY WAGE	Self explanatory
2	FICA	The FICA tax rate for 1983 is 6.7%. The maximum taxable wage is $35,700, however, no adjustments are made for this maximum in these tables.
3	TAXABLE WAGE	This is the average weekly wage in column 1 reduced by $19.23 times the total number of dependents applicable. The amount $19.23 is $1,000/52 (the annual exemption per dependent).
4	1983 TAX DEDUCTION	This column is the amount of Federal income tax an employer will deduct in 1983 (first six months) using the Federal Percentage Method for weekly payroll. The Internal Revenue Service provides specific instructions in Circular E - Employer's Tax Guide - Publication 15. The rates used are in effect until July 1, 1983.
5	SPENDABLE INCOME	This is the Average Weekly Wage in column 1 reduced by FICA and the 1983 tax deduction.
6	80% of SPENDABLE WAGE	Self explanatory.
7	CURRENT LAW	Current law provides that the claimant receive compensation in the amount of two/thirds of his average weekly wage up to a maximum of twice the state average weekly wage ($498 x 2 = 996).
8	80% of SPENDABLE WAGE AS % of CURRENT	Self explanatory.

TABLE 1

MARRIED WITH TWO CHILDREN

AWW	FICA	TAXABLE WAGE	1983 TAX DED	SPENDABLE WAGE	80 °/° OF SPENDABLE WAGE	CURRENT LAW	80 °/° OF SPENDABLE AS °/° OF CURRENT
							°/°
$ 100	$ 6.70	$ 23.08	$ 0.00	$ 93.30	$ 74.64	$ 66.67	111.96
150	10.05	73.08	3.80	136.15	108.92	100.00	108.92
200	13.40	123.08	10.30	176.30	141.04	133.33	105.78
250	16.75	173.08	18.30	214.95	171.96	166.67	103.18
300	20.10	223.08	26.30	253.60	202.88	200.00	101.44
350	23.45	273.08	35.70	290.85	232.68	233.33	99.72
400	26.80	323.08	45.20	328.00	262.40	266.67	98.40
450	30.15	373.08	55.80	364.05	291.24	300.00	97.08
500	33.50	423.08	67.80	398.70	318.96	333.33	95.69
550	36.85	473.08	80.50	432.65	346.12	366.67	94.40
600	40.20	523.08	94.00	465.80	372.64	400.00	93.16
650	43.55	573.08	108.60	497.85	398.28	433.33	91.91
700	46.90	623.08	124.60	528.50	422.80	466.67	90.60
750	50.25	673.08	141.70	558.05	446.44	500.00	89.29
800	53.60	723.08	160.20	586.20	468.96	533.33	87.93
850	56.95	773.08	178.70	614.35	491.48	566.67	86.73
900	60.30	823.08	195.30	644.40	515.52	600.00	85.92
950	63.65	873.08	213.80	672.55	538.04	633.33	84.95
1,000	67.00	923.08	232.30	700.70	560.56	666.67	84.08
1,100	73.70	1023.08	269.30	757.00	605.60	733.33	82.58
1,200	80.40	1123.08	306.30	813.30	650.64	800.00	81.33
1,300	87.10	1223.08	343.30	869.60	695.68	866.67	80.27
1,400	93.80	1323.08	380.30	925.90	740.72	933.33	79.36
1,500	100.50	1423.08	417.30	982.20	785.76	996.00	78.89
1,600	107.20	1523.08	454.30	1038.50	830.80	996.00	83.41

TAXABLE WAGE = AWW LESS $76.92
SPENDABLE WAGE = AWW LESS FICA AND 1983 TAX DEDUCTION

MARRIED WITH NO CHILDREN

AWW	FICA	TAXABLE WAGE	1983 TAX DED	SPENDABLE WAGE	80 °/° OF SPENDABLE WAGE	CURRENT LAW	80 °/° OF SPENDABLE AS °/° OF CURRENT
							°/°
$ 100	$ 6.70	$ 61.54	$ 2.10	$ 91.20	$ 72.96	$ 66.67	109.44
150	10.05	111.54	8.40	131.55	105.24	100.00	105.24
200	13.40	161.54	16.40	170.20	136.16	133.33	102.12
250	16.75	211.54	24.40	208.85	167.08	166.67	100.25
300	20.10	261.54	33.50	246.40	197.12	200.00	98.56
350	23.45	311.54	43.00	283.55	226.84	233.33	97.22
400	26.80	361.54	53.00	320.20	256.16	266.67	96.06
450	30.15	411.54	65.00	354.85	283.88	300.00	94.63
500	33.50	461.54	77.40	389.10	311.28	333.33	93.38
550	36.85	511.54	90.90	422.25	337.80	366.67	92.13
600	40.20	561.54	104.90	454.90	363.92	400.00	90.98
650	43.55	611.54	120.90	485.55	388.44	433.33	89.64
700	46.90	661.54	137.40	515.70	412.56	466.67	88.41
750	50.25	711.54	155.90	543.85	435.08	500.00	87.02
800	53.60	761.54	174.40	572.00	457.60	533.33	85.80
850	56.95	811.54	192.90	600.15	480.12	566.67	84.73
900	60.30	861.54	209.50	630.20	504.16	600.00	84.03
950	63.65	911.54	228.00	658.35	526.68	633.33	83.16
1,000	67.00	961.54	246.50	686.50	549.20	666.67	82.38
1,100	73.70	1061.54	283.50	742.80	594.24	733.33	81.03
1,200	80.40	1161.54	320.50	799.10	639.28	800.00	79.91
1,300	87.10	1261.54	357.50	855.40	684.32	866.67	78.96
1,400	93.80	1361.54	394.50	911.70	729.36	933.33	78.15
1,500	100.50	1461.54	431.50	968.00	774.40	996.00	77.75
1,600	107.20	1561.54	468.50	1024.30	819.44	996.00	82.27

TAXABLE WAGE = AWW LESS $38.46

SPENDABLE WAGE = AWW LESS FICA AND 1983 TAX DEDUCTION

SINGLE WITH NO CHILDREN

AWW	FICA	TAXABLE WAGE	1983 TAX DED	SPENDABLE WAGE	80 °/° OF SPENDABLE WAGE	CURRENT LAW	80 °/° OF SPENDABLE AS °/° OF CURRENT
							°/°
$ 100	$ 6.70	$ 80.77	$ 7.60	$ 85.70	$ 68.56	$ 66.67	102.84
150	10.05	130.77	16.00	123.95	99.16	100.00	99.16
200	13.40	180.77	24.60	162.00	129.60	133.33	97.20
250	16.75	230.77	34.60	198.65	158.92	166.67	95.35
300	20.10	280.77	46.40	233.50	186.80	200.00	93.40
350	23.45	330.77	59.10	267.45	213.96	233.33	91.70
400	26.80	380.77	74.10	299.10	239.28	266.67	89.73
450	30.15	430.77	89.20	330.65	264.52	300.00	88.17
500	33.50	480.77	106.20	360.30	288.24	333.33	86.47
550	36.85	530.77	123.20	389.95	311.96	366.67	85.08
600	40.20	580.77	141.70	418.10	334.48	400.00	83.62
650	43.55	630.77	160.20	446.25	357.00	433.33	82.38
700	46.90	680.77	178.70	474.40	379.52	466.67	81.33
750	50.25	730.77	195.40	504.35	403.48	500.00	80.70
800	53.60	780.77	213.90	532.50	426.00	533.33	79.88
850	56.95	830.77	232.40	560.65	448.52	566.67	79.15
900	60.30	880.77	250.90	588.80	471.04	600.00	78.51
950	63.65	930.77	269.40	616.95	493.56	633.33	77.93
1,000	67.00	980.77	287.90	645.10	516.08	666.67	77.41
1,100	73.70	1080.77	324.90	701.40	561.12	733.33	76.52
1,200	80.40	1180.77	361.90	757.70	606.16	800.00	75.77
1,300	87.10	1280.77	398.90	814.00	651.20	866.67	75.14
1,400	93.80	1380.77	435.90	870.30	696.24	933.33	74.60
1,500	100.50	1480.77	472.90	926.60	741.28	996.00	74.43
1,600	107.20	1580.77	509.90	982.90	786.32	996.00	78.95

TAXABLE WAGE = AWW LESS $19.23
SPENDABLE WAGE = AWW LESS FICA AND 1983 TAX DEDUCTION

STATE OF ALASKA
FISCAL NOTE

Revision Date 4/6, 1983

I. REQUEST
Bill/Resolution No.: HB 311
Title: ".. Workers' Compensation..."
Sponsor:
Requestor: Rules Committee

II. FISCAL DETAIL
Agency Affected: Labor
Program Category Affected: Public Protection
BRU, Program of Subprogram(s) Affected:
Administration of Workers' Compensation

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 83	FY 84	FY 85	FY 86	FY 87	FY 88
OPERATING						
100 PERSONAL SERVICES		6.5	14.3	15.7	17.3	19.0
200 TRAVEL						
300 CONTRACTUAL		51.0	15.4	16.9	18.6	20.5
400 COMMODITIES		.1	.1	.1	.1	.1
500 EQUIPMENT		.7	0	0	0	0
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC						
TOTAL OPERATING		58.3	29.8	32.7	36.0	39.6
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

	FY 83	FY 84	FY 85	FY 86	FY 87	FY 88
GENERAL FUND		58.3	29.8	32.7	36.0	39.6
FEDERAL FUNDS						
OTHER (Specify Source)						

POSITIONS:

	FY 83	FY 84	FY 85	FY 86	FY 87	FY 88
FULL-TIME						
PART-TIME		1	1	1	1	1
TEMPORARY						

III. SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

Not available.

IV. ANALYSIS: Attach a separate page for any Analysis

Prepared By: NB Jacquelyn L. McClintock Phone: 465-2790
Division: Workers' Compensation Date: March 21, 1983

Approved by Commissioner: NB Jim Robison Jim Robison Date: March 21, 1983
Department: Labor
LEG:A:19

Distribution:
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3/8/83

FISCAL NOTE

THE LEGISLATURE OF THE STATE OF ALASKA
FOURTEENTH LEGISLATURE
TITLE: "An Act relating to workers' compensation, and providing for an effective date."
AGENCY AFFECTED: Department of Labor
Page 2

Data Control Clerk I (permanent halftime, 6 months first year, 12 months thereafter)

100	Personal Services	$ 6.5	
300	Contractual	1.5	
400	Supplies	.1	
500	Equipment	.7	
			$ 8.8

Other Contractual:

Redesign and printing of forms to accomodate additional questions	3.5*
Rewrite and printing of employee and employer booklets	12.0*
Composition and printing of benefit schedule booklet	7.0
Printing amendment of Act	1.0*
Design computer system and write programs (2 1/2 months x $50/hour)	22.0*
Operation costs for additional computer processing	4.0
TOTAL	$58.3

* Indicates one-time expense in FY 1984 for a total of $38.5

1.	POSITION TITLE: Data Control Clerk I			RANGE/STEP: 9A	BARG. UNIT: G	FORM 12 PAGE/LINE: FN	GOV.	APPROV. / DISAPP.
2.	TYPE OF POSITION: PPT	STAFF MONTHS: 3	RP NUMBER	PCN NUMBER	BRU PRIORITY	LOCATION: Juneau	ELECTION DISTRICT	LEG.

3. CONTINUATION LEVEL ___ ADDITION XX

	TYPE OF EXPENDITURE		AMOUNT
4.	1	2	3
	PERSONAL SERVICES		
5.	Salary 9A (1578 x 6 mos x .5)	4,734	
6.	Benefits .1587	751	
7.	Supplemental Benefits .0613	290	
8.	Fixed Benefits 240 x 3	720	
9.	TOTAL PERSONAL SERVICES	01	6.5
10.	Travel	02	
11.	Contractual	03	1.5
12.	Commodities	04	.1
13.	Equipment	05	.7
14.	Other		
15.	TOTAL COST		8.8

	RECEIPT CODE	FUNDING SOURCE	
16.		Federal Receipts 1002	
17.		G.F. Match 1003	
18.	100	General Funds 1004	8.8
19.		I-A Receipts 1005	
20.		Program Receipts 1028	
21.		Other	

FOR B&M USE ONLY
4A KEY NUMBER __ __ - __ __ - __ __ - __ __ - __ __

JUSTIFICATION

The permanent half-time Data Control Clerk I position will provide additional clerical support in the Claims Section to enter and maintain data in the Division's information handling system. This position will handle the increased workload caused by the additional data input necessary for the system to monitor the compensation rate using withholding and average weekly wage information, and the maintenance of two processing systems concurrently.

Line 11 - Contractual:	Space (transfer to DOA)	$ .9
	Indirect (13.17 x 4734)	.6
Line 12 - Commodities:	General Office Supplies	.1
Line 13 - Equipment:	Desk and Chair	.7

13 REQUEST FOR NEW POSITION

AGENCY Labor

PROGRAM Worker Protection

BRU Workers' Compensation

COMPONENT Workers' Compensation Administration

FY 84

Page 1 of 1

Revised Date

LEG:A:20

Bill No. HB 311

Title "An Act relating to Workers' Compensation; and providing for an effective date."

Date April 13, 1983

Contact: J. L. McClintock
465-2790

The Department of Labor and the Alaska Workers' Compensation Board support the provisions of HB 311. This bill is the result of an agreement reached by a committee representing labor and employers in the state and reflects over three years of hearings in which testimony was provided by workers, labor groups, emplcyers, insurers, rehabilitation and medical providers, attorneys and state agency personnel. The Workers' Compensation Board and Division worked very closely with the committee in recommending amendments that provide for a more equitable and efficient workers' compensation system for employees and employers.

The major portions of the bill will result in a redistribution of benefits which will reduce disencentives to return to work and provide long term reductions in workers' compensation costs. This is based on increases in scheduled permanent partial disabilities, the minimum compensation rate, death benefits and new methods to compute gross weekly earnings.

POSITION PAPER/Department of Labor

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April 19, 1983

Honorable Walter Furnace
Chairman, Labor & Commerce Committee
Alaska State House
Pouch V
Juneau, AK 99811

Re: HB 311

Dear Representative Furnace:

This letter is written on behalf of the American Insurance Association, a trade association of casualty and property insurers. Some of the Association's members write a substantial amount of workers' compensation insurance in Alaska.

As you know, HB 311 represents the culmination of substantial effort by representatives of employers, labor organizations, and insurers, with input from the Division of Workers' Compensation over the past two years or more. It is an important attempt to make the workers' compensation delivery system more efficient and cost effective. The AIA supports the bill and applauds the cooperative effort that went into producing it.

One of the key provisions of the bill, the change to benefit calculations based upon net spendable income, was one of the nineteen major recommendations of the National Commission in 1971. Most of the other recommendations of that commission were implemented in Alaska in 1975. The net spendable income idea is an important one, because it tends to deliver more compensation to those who need it most, and less to those who are presently overcompensated. By avoiding the possibility of paying a high-wage employee as much or more in compensation as his or her take-home pay, the new law would tend to bring those workers back to work.

The members of the Workers Compensation Committee of Alaska and others will be available to explain the sources and intended purpose of the various sections of the bill. We stand ready to try to answer any questions you may have.

The American Insurance Association urges favorable action on this bill.

Very truly yours,

Michael T. Thomas

MTT/gf

(7)

HB311

SECTION BY SECTION ANALYSIS

Section 1. This section increases the minimum compensation from $65 to $110 per week and reflects changes necessary because of the reenactment of AS 23.30.220 found in section 10 which makes the spendable weekly wage of an employee the basis of compensation.

Section 2. and 3. See comments to Section 1.

Section 4. This section changes the manner of determining compensation consistent with the repeal and reenactment of AS 23.30.220 found in section 11 which makes the employee's spendable weekly wage the basis for determining compensation.

Eighty percent of the employee's spendable weekly wage minimizes the possibility of an employee receiving more in workers' compensation than his take home pay while working. The change is consistent with recommendations of the 1972 Report of the National Commission on State Workers' Compensation Law which states at page 19:

> The decision fixing the proportion of lost wages to be replaced must balance incentives to employers to improve safety within incentives to the disabled to take full advantage of rehabilitation services and to return to work.
>
> We recommend that cash benefits for [disability compensation] be at least two-thirds of the worker's gross weekly wage. The two-thirds formulation should be used only on a transitional basis until the State adopts a provision making payments at least 80 percent of the workers' spendable weekly earnings.

Section 5. See comments to section 4.

Section 6. See comments to section 4.

Additionally, this section provides for inflationary increases in the maximum paid for "scheduled" and permanent partial disabilities.

Section 7. See comments to section 4.

Section 8. This section reflects changes consistent with the repeal and reenactment of AS 23.30.220 found in section 11.

Section 9. See comments to section 4.

Additionally, this section provides for inflationary increases in funeral expenses on death claims. The current limit for reasonable and necessary funeral expenses are not adequate and result in a hardship to the family of the deceased or the employer for payment of the additional costs.

Section 10. This section reflects changes consistent with the repeal and reenactment of AS 23.30.220 found in section 11. Additionally, the minimum weekly compensation for a widow or widower is increased from $45 to $75 per week.

Section 11. This section adopts a new basis for computing compensation known as the "spendable weekly wage". The spendable weekly wage is the employee's gross weekly earnings, minus payroll tax deductions, which are defined in section 13. The change is consistent with the 1972 report of the National Commission on State Workers' Compensation Laws.

It is an administratively feasible procedure which can simultaneously take into account the difference between gross and spendable earnings, the virtues of dependents' allowances and the impact of the progressive income tax. This procedure first determines the worker's gross earnings prior to disability (which must be determined under the present Act) and the number of his dependents. The gross earnings and dependency data are then inserted into a formula prepared and published by the Department of Labor to determine the worker's spendable earnings. Once spendable earnings are calculated, workers' compensation benefits for all sizes of families can be calculated as a fixed proportion of spendable weekly earnings. No further allowances for dependents for tax considerations are necessary or appropriate.

This section also adopts a new basis for determining the gross earnings of an injured worker. An injured worker's gross weekly earnings are computed by dividing by 100 the gross earnings of the employee in the two calendar years immediately preceding the injury. Utilizing the preceding two years tends to eliminate the cyclical nature of many industries. Dividing by 100 instead of 104 tends to adjust previous years' earnings for inflation. This section also allows the Board to adjust the average weekly wage calculation if it is unfair to the employee or employer.

Section 12. This section reflects changes consistent with the repeal and reenactment of AS 23.30.220 found in section 11.

Section 13. This section provides for new definitions.

"Gross earnings" includes payments before any authorized or lawfully required deduction such as credit union, dues check off, social security, federal withholding, or deferred compensation which is optional to the employee at the time of his injury. Specifically, deferred compensation which is optional at the time of injury refers to those employees of government and non-profit corporations and associations which may elect to defer income from a particular pay period or pay periods but have the option of terminating the deferral of that income at any time during their employment. Excluded from gross earnings are irregular bonuses, reimbursement of expenses, expense allowances and any benefits not taxable to the employee during the pay period. "Any benefit not taxable to the employee during the pay period" would include the general items referred to as "fringe benefits" such as: payments providing for health, welfare, retirement, vacation or annual leave and other similar benefits received by the employee for which he is not taxed other than deferred compensation which is optional to the employee at the time of this injury.

The value of room and board may be considered in gross earnings only for those injured workers whose gross weekly earnings otherwise computed are less than the Alaska average weekly wage at the time of injury. The value of room and board may be included only to raise the gross weekly earnings up to the level of the Alaska average weekly wage. The value of room and board that would raise an employee's gross weekly earnings above the Alaska average weekly wage is excluded.

"Payroll taxes" are defined to exclude the amount that would be withheld from an employee's gross weekly earnings under the Internal Revenue code as though he had claimed the maximum number of dependents per actual dependency, blindness, and old age. Also deducted is the amount of earnings subject to the Social Security Act irrespective of whether the employee may have paid the maximum Social Security for the year at the time the injury occurs.

Section 14. This section repeals provisions that are unnecessary or inconsistent with proposed legislation.

Section 15. This section provides that the Act apply only to injuries sustained after the effective date of this Act.

Section 16. This section provides that the Act takes effect January 1, 1984.

Average Weekly Wage Summary D/A 1/1/82 –

	NO. CASES	AVE.	1 100	101 150	151 200	201 250	251 300	301 350	351 400	401 450	451 500	501 550	551 600	601 650	651 700	701 750	751 800	801 850	851 900	901 950	951 1000	1001 1100	1101 1200	1201 1300	1301 1400	1401 1500	1501 1600	1601 1700	1701 1800	1801 1900	1901 2000	2001 9999
ALL (2/22/83)	4829	?	87	232	267	320	335	334	272	284	266	276	346	291	229	195	155	158	139	114	111	194	101	94	62	31	18	8	4	1	2	3
ALP (2/22/83)	60	$715	0	0	1	0	0	0	1	2	3	6	3	6	8	5	5	6	4	4	4	3	0	0	0	0	0	0	0	0	0	0
LP (2/23/83)	25	$587	0	1	0	0	0	0	1	5	1	5	2	0	2	2	3	0	1	0	0	1	0	0	0	0	0	0	0	0	0	0
ATTE (2/16/83)	129	$429	1	6	4	10	15	14	13	12	12	10	7	8	5	2	0	0	1	1	0	1	3	0	0	0	0	0	0	0	0	0
FISH PROCESS (4/4/83)	215	$262	20	28	37	41	29	13	8	15	4	6	4	4	3	2	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

TABLE 1

ALC

MARRIED WITH TWO CHILDREN

AWW	FICA	TAXABLE WAGE	1983 TAX DED		SPENDABLE WAGE		80 °/° OF SPENDABLE WAGE		CURRENT LAW	80 °/° OF SPENDABLE AS °/° OF CURRENT
										°/°
$ 100	$ 6.70	$ 23.08	$ 0.00	87	$ 93.30	8117	$ 74.64		$ 66.67	111.95
150	10.05	73.08	3.80	232×140	136.15	25,520	108.92		100.00	108.92
200	13.40	123.08	10.30		176.30	267	141.04	37,647	133.33	105.78
250	16.75	173.08	18.30		214.95	320	171.96	55,027	166.67	103.18
300	20.10	223.08	26.30		253.60	335	202.88	67,964	200.00	101.44
350	23.45	273.08	35.70		290.85	334	232.68	77,715	233.33	99.72
400	26.80	323.08	45.20		328.00	272	262.40	71,372	266.67	98.40
450	30.15	373.08	55.80		364.05	284	291.24	82,712	300.00	97.08
500	33.50	423.08	67.80		398.70	266	318.96	84,843	333.33	95.69
550	36.85	473.08	80.50		432.65	276	346.12	95,529	366.67	94.40
600	40.20	523.08	94.00		465.80	246	372.64	91,669	400.00	93.16
650	43.55	573.08	108.60		497.85	291	398.28	115,899	433.33	91.91
700	46.90	623.08	124.60		528.50	229	422.80	96,821	466.67	90.60
750	50.25	673.08	141.70		558.05	195	446.44	87,055	500.00	89.29
800	53.60	723.08	160.20		586.20	155	468.96	72,688	533.33	87.93
850	56.95	773.08	178.70		614.35	158	491.48	77,655	566.67	86.73
900	60.30	823.08	195.30		644.40	139	515.52	71,657	600.00	85.92
950	63.65	873.08	213.80		672.55	114	538.04	61,336	633.33	84.95
1,000	67.00	923.08	232.30		700.70	111	560.56	62,222	666.67	84.08
1,100	73.70	1023.08	269.30		757.00	194	605.60	117,486	733.33	82.58
1,200	80.40	1123.08	306.30		813.30	101	650.64	65,714	800.00	81.33
1,300	87.10	1223.08	343.30		869.60	94	695.68	65,392	866.67	80.27
1,400	93.80	1323.08	380.30		925.90	62	740.72	45,924	933.33	79.36
1,500	100.50	1423.08	417.30		982.20	31	785.76	24,358	996.00	78.89
1,600	107.20	1523.08	454.30		1038.50	18	830.80	14,954	996.00	83.41

16CY - 9999 — 18

1,677,280

1,822,330

TAXABLE WAGE = AWW LESS $76.92
SPENDABLE WAGE = AWW LESS FICA AND 1983 TAX DEDUCTION

DIFFERENCE = 145,050

8% DECREASE

TABLE 3

ACC

SINGLE WITH NO CHILDREN

AWW	FICA	TAXABLE WAGE	1983 TAX DED		SPENDABLE WAGE		80 °/° OF SPENDABLE WAGE		CURRENT LAW		80 °/° OF SPENDABLE AS °/° OF CURRENT
											°/°
$ 100	$ 6.70	$ 80.77	$ 7.60	87	$ 85.70	2455	$ 68.56		$ 66.67	5500	102.84
150	10.05	130.77	16.00	232	123.95	25,520	99.16		100.00	23,200	99.16
200	13.40	180.77	24.60		162.00	267	129.60	29,419	133.33	35,599	97.20
250	16.75	230.77	34.60		198.65	320	158.92	50,854	166.67	53,334	95.35
300	20.10	280.77	46.40		233.50	335	186.80	62,578	200.00	67,000	93.40
350	23.45	330.77	59.10		267.45	334	213.96	71,142	233.33	77,932	91.70
400	26.80	380.77	74.10		299.10	272	239.28	65,008	266.67	72,534	89.73
450	30.15	430.77	89.20		330.65	284	264.52	75,123	300.00	85,200	88.17
500	33.50	480.77	106.20		360.30	266	288.24	76,671	333.33	88,665	86.47
550	36.85	530.77	123.20		389.95	276	311.96	86,100	366.67	101,200	85.08
600	40.20	580.77	141.70		418.10	246	334.48	82,282	400.00	98,400	83.62
650	43.55	630.77	160.20		446.25	291	357.00	103,887	433.33	126,099	82.38
700	46.90	680.77	178.70		474.40	229	379.52	86,910	466.67	106,547	81.33
750	50.25	730.77	195.40		504.35	195	403.48	78,678	500.00	97,500	80.70
800	53.60	780.77	213.90		532.50	155	426.00	66,030	533.33	82,666	79.88
850	56.95	830.77	232.40		560.65	158	448.52	70,866	566.67	89,533	79.15
900	60.30	880.77	250.90		588.80	139	471.04	65,474	600.00	83,400	78.51
950	63.65	930.77	269.40		616.95	114	493.56	56,265	633.33	72,199	77.93
1,000	67.00	980.77	287.90		645.10	111	516.08	57,284	666.67	74,000	77.41
1,100	73.70	1080.77	324.90		701.40	194	561.12	108,85[illegible]	733.33	142,266	76.52
1,200	80.40	1180.77	361.90		757.70	101	606.16	61,222	800.00	80,800	75.77
1,300	87.10	1280.77	398.90		814.00	94	651.20	61,212	866.67	81,466	75.14
1,400	93.80	1380.77	435.90		870.30	62	696.24	43,166	933.33	57,866	74.60
1,500	100.50	1480.77	472.90		926.60	31	741.28	22,979	996.00	30,876	74.43
1,600	107.20	1580.77	509.90		982.90	18	786.32	14,152	996.00	17,928	78.95
1601 - 9999						18		1,590,551		1,822,320	

TAXABLE WAGE = AWW LESS $19.23

SPENDABLE WAGE = AWW LESS FICA AND 1983 TAX DEDUCTION

DIFFERENCE 231,973

13% decrease

ACP

TABLE 1

MARRIED WITH TWO CHILDREN

AWW	FICA	TAXABLE WAGE	1983 TAX DED	SPENDABLE WAGE	80 °/° OF SPENDABLE WAGE	CURRENT LAW	80 °/° OF SPENDABLE AS °/° OF CURRENT
							°/°
$ 100	$ 6.70	$ 23.08	$ 0.00	0 $ 93.30	$ 74.64	$ 66.67	111.96
150	10.05	73.08	3.80	0 136.15	108.92	100.00	108.92
200	13.40	123.08	10.30	1 176.30	1 141.04 141	133.33 133	105.78
250	16.75	173.08	18.30	214.95	0 171.96	166.67	103.18
300	20.10	223.08	26.30	253.60	0 202.88	200.00	101.44
350	23.45	273.08	35.70	290.85	0 232.68	233.33	99.72
400	26.80	323.08	45.20	328.00	1 262.40 262	266.67	98.40
450	30.15	373.08	55.80	364.05	2 291.24 582	300.00	97.08
500	33.50	423.08	67.80	398.70	3 318.96 956	333.33	95.69
550	36.85	473.08	80.50	432.65	6 346.12 2076	366.67	94.40
600	40.20	523.08	94.00	465.80	3 372.64 1117	400.00	93.16
650	43.55	573.08	108.60	497.85	6 398.28 2389	433.33	91.91
700	46.90	623.08	124.60	528.50	8 422.80 3382	466.67	90.60
750	50.25	673.08	141.70	558.05	5 446.44 2232	500.00	89.29
800	53.60	723.08	160.20	586.20	5 468.96 2344	533.33	87.93
850	56.95	773.08	178.70	614.35	6 491.48 2948	566.67	86.73
900	60.30	823.08	195.30	644.40	4 515.52 2062	600.00	85.92
950	63.65	873.08	213.80	672.55	4 538.04 2152	633.33	84.95
1,000	67.00	923.08	232.30	700.70	4 560.56 2242	666.67	84.08
1,100	73.70	1023.08	269.30	757.00	3 605.60 1816	733.33	82.58
1,200	80.40	1123.08	306.30	813.30	0 650.64	800.00	81.33
1,300	87.10	1223.08	343.30	869.60	695.68 26,701	866.67 30,014	80.27
1,400	93.80	1323.08	380.30	925.90	740.72	933.33	79.36
1,500	100.50	1423.08	417.30	982.20	785.76	996.00	78.89
1,600	107.20	1523.08	454.30	1038.50	830.80	996.00	83.41

TAXABLE WAGE = AWW LESS $76.92
SPENDABLE WAGE = AWW LESS FICA AND 1983 TAX DEDUCTION

DIFFERENCE = 3,393

11% DECREASE

SINGLE WITH NO CHILDREN

ALP

AWW	FICA	TAXABLE WAGE	1983 TAX DED	SPENDABLE WAGE	80 °/° OF SPENDABLE WAGE		CURRENT LAW		80 °/° OF SPENDABLE AS °/° OF CURRENT
									°/°
$ 100	$ 6.70	$ 80.77	$ 7.60	0 $ 85.70	$ 68.56		$ 66.67		102.84
150	10.05	130.77	16.00	0 123.95	99.16		100.00		99.16
200	13.40	180.77	24.60	162.00	1 129.60	129	133.33	133	97.20
250	16.75	230.77	34.60	198.65	0 150.92		166.67		95.35
300	20.10	280.77	46.40	233.50	0 186.80		200.00		93.40
350	23.45	330.77	59.10	267.45	0 213.96		233.33		91.70
400	26.80	380.77	74.10	299.10	1 239.28	239	266.67	266	89.73
450	30.15	430.77	89.20	330.65	2 264.52	539	300.00	600	88.17
500	33.50	480.77	106.20	360.30	3 288.24	864	333.33	999	86.47
550	36.85	530.77	123.20	389.95	6 311.96	1871	366.67	2200	85.08
600	40.20	580.77	141.70	418.10	3 334.48	1003	400.00	1200	83.62
650	43.55	630.77	160.20	446.25	6 357.00	3112	433.33	2599	82.38
700	46.90	680.77	178.70	474.40	9 379.52	3634	466.67	2733	81.33
750	50.25	730.77	195.40	504.35	5 403.48	2017	500.00	2500	80.70
800	53.60	780.77	213.90	532.50	5 426.00	2130	533.33	2666	79.88
850	56.95	830.77	232.40	560.65	6 448.52	2691	566.67	3400	79.15
900	60.30	880.77	250.90	588.80	4 471.04	1884	600.00	2400	78.51
950	63.65	930.77	269.40	616.95	4 493.56	1974	633.33	2533	77.93
1,000	67.00	980.77	287.90	645.10	4 516.08	2064	666.67	2466	77.41
1,100	73.70	1080.77	324.90	701.40	3 561.12	1683	733.33	2199	76.52
1,200	80.40	1180.77	361.90	757.70	0 606.16	24,256	800.00	30,094	75.77
1,300	87.10	1280.77	398.90	814.00	651.20		866.67		75.14
1,400	93.80	1380.77	435.90	870.30	696.24		933.33		74.60
1,500	100.50	1480.77	472.90	926.60	741.28		996.00		74.43
1,600	107.20	1580.77	509.90	982.90	786.32		996.00		78.95

TAXABLE WAGE = AWW LESS $19.23
SPENDABLE WAGE = AWW LESS FICA AND 1983 TAX DEDUCTION

DIFFERENCE = 5,838

19% DECREASE

LP

TABLE 1

MARRIED WITH TWO CHILDREN

AWW	FICA	TAXABLE WAGE	1983 TAX DED	SPENDABLE WAGE	80 °/° OF SPENDABLE WAGE	CURRENT LAW	80 °/° OF SPENDABLE AS °/° OF CURRENT
							°/°
$ 100	$ 6.70	$ 23.08	$ 0.00	0 $ 93.30	$ 74.64	$ 66.67	111.96
150	10.05	73.08	3.80	1 136.15 110	108.92	100.00	108.92
200	13.40	123.08	10.30	176.30	0 ~~141.04~~	~~133.33~~	105.78
250	16.75	173.08	18.30	214.95	0 ~~171.96~~	~~166.67~~	103.18
300	20.10	223.08	26.30	253.60	0 ~~202.88~~	~~200.00~~	101.44
350	23.45	273.08	35.70	290.85	0 232.68	233.33	99.72
400	26.80	323.08	45.20	328.00	1 262.40 262	266.67	98.40
450	30.15	373.08	55.80	364.05	5 291.24 1456	300.00	97.08
500	33.50	423.08	67.80	398.70	1 318.96 318	333.33	95.69
550	36.85	473.08	80.50	432.65	5 346.12 1730	366.67	94.40
600	40.20	523.08	94.00	465.80	2 372.64 745	400.00	93.16
650	43.55	573.08	108.60	497.85	0 ~~398.28~~	~~433.33~~	91.91
700	46.90	623.08	124.60	528.50	2 422.80 845	466.67	90.60
750	50.25	673.08	141.70	558.05	2 446.44 892	500.00	89.29
800	53.60	723.08	160.20	586.20	3 468.96 1466	533.33	87.93
850	56.95	773.08	178.70	614.35	0 ~~491.48~~	~~566.67~~	86.73
900	60.30	823.08	195.30	644.40	1 515.52 515	600.00	85.92
950	63.65	873.08	213.80	672.55	0 538.04	633.33	84.95
1,000	67.00	923.08	232.30	700.70	0 560.56	666.67	84.08
1,100	73.70	1023.08	269.30	757.00	1 605.60 605	733.33	82.58
1,200	80.40	1123.08	306.30	813.30	0 650.64	800.00	81.33
1,300	87.10	1223.08	343.30	869.60	695.68 8,884	866.67 9617	80.27
1,400	93.80	1323.08	380.30	925.90	740.72	933.33	79.36
1,500	100.50	1423.08	417.30	982.20	785.76	996.00	78.89
1,600	107.20	1523.08	454.30	1038.50	830.80	996.00	83.41

TAXABLE WAGE = AWW LESS $76.92
SPENDABLE WAGE = AWW LESS FICA AND 1983 TAX DEDUCTION

Difference = 813

8% decrease

LP

SINGLE WITH NO CHILDREN

AWW	FICA	TAXABLE WAGE	1983 TAX DED	SPENDABLE WAGE	80 °/° OF SPENDABLE WAGE	CURRENT LAW	80 °/° OF SPENDABLE AS °/° OF CURRENT
							°/°
$ 100	$ 6.70	$ 80.77	$ 7.60	0 ~~$ 85.70~~	$ 68.56	~~$ 66.67~~	102.84
150	10.05	130.77	16.00	1 123.95 110	99.16	100.00 100	99.16
200	13.40	180.77	24.60	162.00	0 ~~129.60~~	133.33	97.20
250	16.75	230.77	34.60	198.65	0 ~~158.92~~	166.67	95.35
300	20.10	280.77	46.40	233.50	0 186.80	200.00	93.40
350	23.45	330.77	59.10	267.45	0 213.96	233.33	91.70
400	26.80	380.77	74.10	299.10	1 239.28 239	266.67 266	89.73
450	30.15	430.77	89.20	330.65	5 264.52 1322	300.00 1500	88.17
500	33.50	480.77	106.20	360.30	1 288.24 288	333.33 333	86.47
550	36.85	530.77	123.20	389.95	5 311.96 1559	366.67 1833	85.08
600	40.20	580.77	141.70	418.10	2 334.48 668	400.00 800	83.62
650	43.55	630.77	160.20	446.25	0 357.00	433.33	82.38
700	46.90	680.77	178.70	474.40	2 379.52 759	466.67 933	81.33
750	50.25	730.77	195.40	504.35	2 403.48 806	500.00 1000	80.70
800	53.60	780.77	213.90	532.50	3 426.00 1278	533.33 1599	79.88
850	56.95	830.77	232.40	560.65	0 ~~448.52~~	~~566.67~~	79.15
900	60.30	880.77	250.90	588.80	1 471.04 471	600.00 600	78.51
950	63.65	930.77	269.40	616.95	0 493.56	633.33	77.93
1,000	67.00	980.77	287.90	645.10	0 516.08	666.67	77.41
1,100	73.70	1080.77	324.90	701.40	1 561.12 561	733.33 733	76.52
1,200	80.40	1180.77	361.90	757.70	0 606.16	800.00	75.77
1,300	87.10	1280.77	398.90	814.00	651.20 8061	866.67 9697	75.14
1,400	93.80	1380.77	435.90	870.30	696.24	933.33	74.60
1,500	100.50	1480.77	472.90	926.60	741.28	996.00	74.43
1,600	107.20	1580.77	509.90	982.90	786.32	996.00	78.95

TAXABLE WAGE = AWW LESS $19.23
SPENDABLE WAGE = AWW LESS FICA AND 1983 TAX DEDUCTION

DIFFERENCE: 1636

17% DECREASE

A77E

TABLE 1

MARRIED WITH TWO CHILDREN

AWW	FICA	TAXABLE WAGE	1983 TAX DED	SPENDABLE WAGE	80 °/° OF SPENDABLE WAGE	CURRENT LAW	80 °/° OF SPENDABLE AS °/° OF CURRENT
							°/°
$ 100	$ 6.70	$ 23.08	$ 0.00	$ 93.30	$ 74.64	$ 66.67	111.96
150	10.05	73.08	3.80	136.15	108.92	100.00	108.92
200	13.40	123.08	10.30	176.30	141.04	133.33	105.78
250	16.75	173.08	18.30	214.95	171.96	166.67	103.18
300	20.10	223.08	26.30	253.60	202.88	200.00	101.44
350	23.45	273.08	35.70	290.85	232.68	233.33	99.72
400	26.80	323.08	45.20	328.00	262.40	266.67	98.40
450	30.15	373.08	55.80	364.05	291.24	300.00	97.08
500	33.50	423.08	67.80	398.70	318.96	333.33	95.69
550	36.85	473.08	80.50	432.65	346.12	366.67	94.40
600	40.20	523.08	94.00	465.80	372.64	400.00	93.16
650	43.55	573.08	108.60	497.85	398.28	433.33	91.91
700	46.90	623.08	124.60	528.50	422.80	466.67	90.60
750	50.25	673.08	141.70	558.05	446.44	500.00	89.29
800	53.60	723.08	160.20	586.20	468.96	533.33	87.93
850	56.95	773.08	178.70	614.35	491.48	566.67	86.73
900	60.30	823.08	195.30	644.40	515.52	600.00	85.92
950	63.65	873.08	213.80	672.55	538.04	633.33	84.95
1,000	67.00	923.08	232.30	700.70	560.56	666.67	84.08
1,100	73.70	1023.08	269.30	757.00	605.60	733.33	82.58
1,200	80.40	1123.08	306.30	813.30	650.64	800.00	81.33
1,300	87.10	1223.08	343.30	869.60	695.68	866.67	80.27
1,400	93.80	1323.08	380.30	925.90	740.72	933.33	79.36
1,500	100.50	1423.08	417.30	982.20	785.76	996.00	78.89
1,600	107.20	1523.08	454.30	1038.50	830.80	996.00	83.41

35,938 37,827

TAXABLE WAGE = AWW LESS $76.92
SPENDABLE WAGE = AWW LESS FICA AND 1983 TAX DEDUCTION

DIFFERENCE: 1,889

5% DECREASE

TABLE 3

SINGLE WITH NO CHILDREN

ATTE

AWW	FICA	TAXABLE WAGE	1983 TAX DED	SPENDABLE WAGE	80 °/° OF SPENDABLE WAGE	CURRENT LAW	80 °/° OF SPENDABLE AS °/° OF CURRENT
							°/°
$ 100	$ 6.70	$ 80.77	$ 7.60	1 $ 85.70 85	$ 68.56	$ 66.67 66	102.84
150	10.05	130.77	16.00	6 118 123.95 660	99.16	100.00 600	99.16
200	13.40	180.77	24.60	162.00	4 129.60 518	133.33 533	97.20
250	16.75	230.77	34.60	198.65	10 158.92 1589	166.67 1666	95.35
300	20.10	280.77	46.40	233.50	15 186.80 2802	200.00 3,000	93.40
350	23.45	330.77	59.10	267.45	14 213.96 2995	233.33 3,266	91.70
400	26.80	380.77	74.10	299.10	13 239.28 3110	266.67 3,466	89.73
450	30.15	430.77	89.20	330.65	12 264.52 3174	300.00 3,600	88.17
500	33.50	480.77	106.20	360.30	12 288.24 3458	333.33 3,999	86.47
550	36.85	530.77	123.20	389.95	10 311.96 3119	366.67 3666	85.08
600	40.20	580.77	141.70	418.10	7 334.48 2341	400.00 2800	83.62
650	43.55	630.77	160.20	446.25	8 357.00 2856	433.33 3466	82.38
700	46.90	680.77	178.70	474.40	5 379.52 1899	466.67 2333	81.33
750	50.25	730.77	195.40	504.35	2 403.48 806	500.00 1000	80.70
800	53.60	780.77	213.90	532.50	0 ~~426.00~~	~~533.33~~	79.88
850	56.95	830.77	232.40	560.65	0 ~~448.52~~	~~566.67~~	79.15
900	60.30	880.77	250.90	588.80	1 471.04 471	600.00 600	78.51
950	63.65	930.77	269.40	616.95	1 493.56 493	633.33 633	77.93
1,000	67.00	980.77	287.90	645.10	0 ~~516.08~~	~~666.67~~	77.41
1,100	73.70	1080.77	324.90	701.40	1 561.12 561	733.33 733	76.52
1,200	80.40	1180.77	361.90	757.70	3 606.16 1818	800.00 2400	75.77
1,300	87.10	1280.77	398.90	814.00	0 651.20	866.67	75.14
1,400	93.80	1380.77	435.90	870.30	696.24 32,883	933.33 37,827	74.60
1,500	100.50	1480.77	472.90	926.60	741.28	996.00	74.43
1,600	107.20	1580.77	509.90	982.90	786.32	996.00	78.95

TAXABLE WAGE = AWW LESS $19.23
SPENDABLE WAGE = AWW LESS FICA AND 1983 TAX DEDUCTION

DIFFERENCE: #5064

13% DECREASE

TABLE 1

FISH

MARRIED WITH TWO CHILDREN

AWW	FICA	TAXABLE WAGE	1983 TAX DED	SPENDABLE WAGE	80 °/° OF SPENDABLE WAGE	CURRENT LAW	80 °/° OF SPENDABLE AS °/° OF CURRENT
							°/°
$ 100	$ 6.70	$ 23.08	$ 0.00	20 $ 93.30 1866	$ 74.64	$ 66.67	111.96
150	10.05	73.08	3.80	28 136.15 40 2,800	108.92	100.00	108.92
200	13.40	123.08	10.30	176.30	37 141.04 5218	133.33	105.78
250	16.75	173.08	18.30	214.95	41 171.96 7050	166.67	103.18
300	20.10	223.08	26.30	253.60	27 202.88 5883	200.00	101.44
350	23.45	273.08	35.70	290.85	13 232.68 3024	233.33	99.72
400	26.80	323.08	45.20	328.00	8 262.40 2099	266.67	98.40
450	30.15	373.08	55.80	364.05	15 291.24 4368	300.00	97.08
500	33.50	423.08	67.80	398.70	4 318.96 1275	333.33	95.69
550	36.85	473.08	80.50	432.65	6 346.12 2076	366.67	94.40
600	40.20	523.08	94.00	465.80	4 372.64 1490	400.00	93.16
650	43.55	573.08	108.60	497.85	4 398.28 1593	433.33	91.91
700	46.90	623.08	124.60	528.50	3 422.80 1268	466.67	90.60
750	50.25	673.08	141.70	558.05	2 446.44 892	500.00	89.29
800	53.60	723.08	160.20	586.20	1 468.96 468	533.33	87.93
850	56.95	773.08	178.70	614.35	491.48	566.67	86.73
900	60.30	823.08	195.30	644.40	515.52 41,370	600.00 41,164	85.92
950	63.65	873.08	213.80	672.55	538.04	633.33	84.95
1,000	67.00	923.08	232.30	700.70	560.56	666.67	84.08
1,100	73.70	1023.08	269.30	757.00	605.60	733.33	82.58
1,200	80.40	1123.08	306.30	813.30	650.64	800.00	81.33
1,300	87.10	1223.08	343.30	869.60	695.68	866.67	80.27
1,400	93.80	1323.08	380.30	925.90	740.72	933.33	79.36
1,500	100.50	1423.08	417.30	982.20	785.76	996.00	78.89
1,600	107.20	1523.08	454.30	1038.50	830.80	996.00	83.41

TAXABLE WAGE = AWW LESS $76.92
SPENDABLE WAGE = AWW LESS FICA AND 1983 TAX DEDUCTION

DIFFERENCE: 206

.5% INCREASE

TABLE 3

FISH

SINGLE WITH NO CHILDREN

AWW	FICA	TAXABLE WAGE	1983 TAX DED	SPENDABLE WAGE	80 °/° OF SPENDABLE WAGE	CURRENT LAW	80 °/° OF SPENDABLE AS °/° OF CURRENT
							°/°
$ 100	$ 6.70	$ 80.77	$ 7.60	20 $ 85.70 1214	$ 68.56	$ 66.67 1,333	102.84
150	10.05	130.77	16.00	28 123.95 3,080	99.16	100.00 2,800	99.16
200	13.40	180.77	24.60	162.00	37 129.60 4795	133.33 4,933	97.20
250	16.75	230.77	34.60	198.65	41 158.92 6,515	166.67 6,833	95.35
300	20.10	280.77	46.40	233.50	29 186.80 5,417	200.00 5,800	93.40
350	23.45	330.77	59.10	267.45	13 213.96 2,781	233.33 3,033	91.70
400	26.80	380.77	74.10	299.10	8 239.28 4,944	266.67 2,133	89.73
450	30.15	430.77	89.20	330.65	15 264.52 3,967	300.00 4,500	88.17
500	33.50	480.77	106.20	360.30	4 288.24 1,152	333.33 1,333	86.47
550	36.85	530.77	123.20	389.95	6 311.96 4,841	366.67 2,200	85.08
600	40.20	580.77	141.70	418.10	4 334.48 1,337	400.00 1,600	83.62
650	43.55	630.77	160.20	446.25	4 357.00 1,428	433.33 1,733	82.38
700	46.90	680.77	178.70	474.40	3 379.52 1,138	466.67 1,400	81.33
750	50.25	730.77	195.40	504.35	2 403.48 806	500.00 1,000	80.70
800	53.60	780.77	213.90	532.50	1 426.00 426	533.33 533	79.88
850	56.95	830.77	232.40	560.65	0 448.52	566.67	79.15
900	60.30	880.77	250.90	588.80	471.04 38,341	600.00 41,164	78.51
950	63.65	930.77	269.40	616.95	493.56	633.33	77.93
1,000	67.00	980.77	287.90	645.10	516.08	666.67	77.41
1,100	73.70	1080.77	324.90	701.40	561.12	733.33	76.52
1,200	80.40	1180.77	361.90	757.70	606.16	800.00	75.77
1,300	87.10	1280.77	398.90	814.00	651.20	866.67	75.14
1,400	93.80	1380.77	435.90	870.30	696.24	933.33	74.60
1,500	100.50	1480.77	472.90	926.60	741.28	996.00	74.43
1,600	107.20	1580.77	509.90	982.90	786.32	996.00	78.95

TAXABLE WAGE = AWW LESS $19.23
SPENDABLE WAGE = AWW LESS FICA AND 1983 TAX DEDUCTION

DIFFERENCE 2,823

7% DECREASE

HB

319

Introduced: 4/4/83
Referred: Labor & Commerce

IN THE HOUSE

BY THE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

HOUSE BILL NO. 319

IN THE LEGISLATURE OF THE STATE OF ALASKA

THIRTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the Municipal Bond Bank Authority; and providing for an effective date."

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

* Section 1. AS 39.25.110(12) is amended to read:

(12) the executive secretary [AND LEGAL COUNSEL] of the Alaska Municipal Bond Bank Authority;

* Sec. 2. AS 39.25.120 is amended by adding a new paragraph to read:

(19) employees and agents, other than the executive secretary, of the Alaska Municipal Bond Bank Authority.

* Sec. 3. AS 44.85.040 is amended to read:

Sec. 44.85.040. OFFICERS, [AND] QUORUM, AND MEETINGS. (a) The directors shall elect one of their number as chairman. The directors shall elect a secretary and a treasurer who need not be directors, and the same person may be elected to serve both as secretary and treasurer. The powers of the bond bank authority are vested in the directors, and three directors of the bond bank authority constitute a quorum. Action may be taken and motions and resolutions adopted by the bond bank authority at any meeting by the affirmative vote of at least three directors. A vacancy in the directorship of the bond bank authority does not impair the right of a quorum to exercise all the powers and perform all the duties of the bond bank authority.

(b) The bond bank authority may meet and transact business by an electronic medium if (1) public notice of the time and locations where the meeting will be held by an electronic medium has been given in the

$ 50,000.00
BOND COUNCIL

same manner as if the meeting were held in a single location; (2) participants and members of the public in attendance can hear and have the same right to participate in the meeting as if the meeting were conducted in person; and (3) copies of pertinent reference materials, statutes, regulations, and audio-visual materials are reasonably available to participants and to the public. A meeting by an electronic medium as provided in this subsection has the same legal effect as a meeting in person.

* Sec. 4. AS 44.85.070 is amended to read:

Sec. 44.85.070. STAFF. The bond bank authority shall employ an executive secretary who may with the approval of the bond bank authority select and employ additional staff as necessary. Employees and agents of the bond bank authority other than [LEGAL COUNSEL AND] the executive secretary are in the partially exempt [CLASSIFIED] service under AS 39.25. In addition to its staff of regular employees, the bond bank authority may contract for and engage the services of the bond counsel, consultants, experts, and financial advisors the bond bank authority considers necessary for the purpose of developing information, or conducting studies, investigations, hearings or other proceedings.

* Sec. 5. AS 44.85.100(b) is amended to read:

(b) The bond bank authority shall include in the report required by (a) of this section an estimate of the amount of revenue bonds of the bond bank authority to be issued during the fiscal year following the fiscal year in which the report is submitted [12-month period]. The bond bank authority may not issue revenue bonds, other than refunding bonds ~~during~~ any fiscal year [12 month period] beginning after June 30, 1981, unless the legislature, by law, approves the estimate required by this subsection for that fiscal year [12-month period].

, IN ACCESS OF 50-MILLION ~~#~~ IN ANY

* Sec. 6. AS 44.85.180(c) is amended to read:

(c) Notwithstanding the provisions of (a) and (b) of this section, the total amount of bond bank authority bonds and notes outstanding at any one time, except bonds or notes issued to fund or refund bonds or notes, may not exceed <u>$200,000,000</u> [$150,000,000].

* Sec. 7. This Act takes effect immediately in accordance with AS 01.10.070(c).

BILL SHEFFIELD
GOVERNOR

HB 319

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

March 31, 1983

The Honorable Joe L. Hayes
Speaker of the House
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Mr. Speaker:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to the Alaska Municipal Bond Bank Authority.

The bill amends AS 39.25.110(12), 39.25.120 and AS 44.85 by deleting the words "legal counsel" and moving the authority's employees, other than the executive secretary (who is in the exempt service, under AS 39.25.110(12)), from the classified service to the partially exempt service (secs. 1, 2, and 4 of the bill), authorizing the authority to hold meetings by an electronic medium (sec. 3), and increasing bonding authorization from $150,000,000 to $200,000,000 (sec. 6).

AS 44.85.100(b) currently requires an estimate of the amount of bonds to be issued for the "following 12-month period." The amendment to that section, in sec. 5 of the bill, makes it clear that the estimate is for the fiscal year following the fiscal year in which the estimate is submitted and not for the 12-month period following the submission of the estimate.

Section 6 of the bill increases the limit on the total amount of outstanding bonds and notes from $150,000,000 to $200,000,000. The authority currently has only $18,000,000 left under its present statutory limitation, and it estimates that at least $60,000,000 worth of issues are now being developed. The increase to a $200,000,000 limit would allow the authority to operate for at least another year without the necessity for an additional adjustment to the statutory limit.

Sincerely,

Bill Sheffield

Bill Sheffield
Governor

STATE OF ALASKA
FISCAL NOTE

Revision Date , 1983

pg 122

I. REQUEST
Bill/Resolution No.: HB 319
Title: Alaska Municipal Bond Bank Authority
Sponsor: Governor
Requestor: Office of Management & Budget

II. FISCAL DETAIL
Agency Affected: Revenue
Program Category Affected:
BRU, Program or Subprogram(s) Affected:
Alaska Bond Bank Authority

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 83	FY 84	FY 85	FY 86	FY 87	FY 88
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER (Specify Source)						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

III. SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

IV. ANALYSIS: Attach a separate page for any Analysis

Prepared By: Mary Rehfeld
Phone: 465-2301
Division: Commissioner's Office
Date: 3/31/83

Approved by Commissioner: [signature]
Date: 3/31/83
Department: Revenue

Distribution:
Original to Legislative Finance
Copy to Office of Management and Budget (for Legislature introduced bills)
Copy to Department (for Governor introduced bills)
Copy to Sponsor

HB 319

Page 272

IV. ANALYSIS:

Additional increase in bonding authority from $150 million to $200 million in Section 6 will require an appropriation for funds leveraging. Ten percent of the FY 84 borrowings must be backed up by leveraging reserves. A $30 million bond sale program will require $3.0 million in appropriations.

We have asked for $3.0 million in the Governor's Capital Budget to provide the reserve account for the $30.0 million worth of bonds.

STATE OF ALASKA

POUCH V
JUNEAU, ALASKA 99811
(907) 465-3892

50-million authorization
Reserve fund 15-million

HOUSE LABOR AND COMMERCE COMMITTEE

-A-Rating
Municipal Bond Bank
G.O. Bonds
Revenue Bonds
- For utilities
- 3-million dollars
- 30-million
- 150-million in bonds

April 19, 1983

To: Representative Walt Furnace, Chairman
House Labor & Commerce Committee

From: Jefferson B. Barry
Professional Aide

Re: House Bill 319

Introductory Analysis

House Bill 319 was introduced by the Governor and relates to the Muncicipal Bond Bank. The bill increases the bonding authorization by $50 million to $200 million, allow meetings to be conducted electronically, clarify reporting, and placing the employees of the authority in the partially exempt service.

*Section 1 of the bill deletes the words AND LEGAL COUNSEL from the current law. This means that if the authority were to hire (as staff) legal counsel that they would not be in the exempt service, but would be in the partially exempt service of the State Personnel Act.

*Section 2 of the bill places the employees in the partially exempt service.

*Section 3 of the bill provides a new section, AS 44.85.040 (b) which would allow the authority to meet and transact business by an electronic medium. This method of conducting meetings has been used by other agencies, including Legislative Council, and potentially could be a cost effective and timely method of conducting meetings.

*Section 4 of the bill relates to staff. Last year, the authority requested to have these employee classifications placed in the partially exempt service through HB694. The testimony of the authority was that there were only employees of the authority (executive director and executive secretary) and there was no anticipation by the authority of hiring more employees in the next year. Legal work, financial advising, etc. was all done on contract and the authority was planning on continuing this method.

The legislature did not place the employee classifications in the partially exempt service for three main reasons. First, if employees are performing work which is of a nature to legitimately place them in the partially exempt service there is a mechanism for classifying them partially exempt under AS 39.25.130. Article XII, Section 7 of the Alaska Constitution requires the state to have a personnel system based on merit. Second, in view of declining state revenues, it was felt the authority should not, or have the potential to, become political in nature and scope. It was perceived that if all employees served at the pleasure of the Governor, then <u>all</u> employees would report, analyze, recommend, and testify consistent with the Governor's <u>policy</u> rather than on a sound fiduciary basis. The potential was that if the fiscal experts under contract made recommendations or advised action contrary to the Governor's policy, they could be replaced by in-house employees who serve at the pleasure of the Governor. Third, since there were no employees in these classifications and no stated intent to hire any, the legislature did not want to encourage additions to the bureauacracy, especially by providing positions which could be filled by political patronage.

*Section 5 of the bill is clarifying language which makes it clear that the estimate contained in the required report is for the following fiscal year.

*Section 6 of the bill increases the limit on the total of outstanding bonds and notes to $200,000,000 from $150,000,000.