

ALASKA LEGISLATURE COMMITTEE FILES 1985-1986 86/2

4200 SLAB SCR 20 - SJR 2 1080



RECORDS CERTIFICATION

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James O. Smith
Signature of Camera Operator

11/24/89
Date

SCR

20



Official Business

Alaska State Legislature

Senate

Committee on Labor & Commerce

Pouch V
State Capitol
Juneau, Alaska 99811

SCR 20: Summary

Purpose of this legislation is to encourage marine insurance availability at competitive rates. This resolution requests the Governor to direct the Division of Insurance to conduct a study which will provide marine insurance underwriters with information concerning fisheries management and safety.

The resolution requests the study to include identification of factors contributing to vessel safety and recommendations to achieve safer vessel operations.

Findings of this study are to be reported to the Legislature and the Board of Fisheries so they may consider the adoption of safety regs that address the costs and availability of marine insurance.

NUKA POINT FISHERIES



P.O.B. 1113 HOMER, AK 99603-1113

(907) 235-8778

TO WHOM IT MAY CONCERN:

Regarding the insurance situation for vessels and crew, I would like to make a few comments and relate a few experiences we have had in this area.

First the boat owner is in a catch-22 dilemma. The banks loan money to buy boats and demand yearly payments. Banks also demand insurance to protect their collateral. Insurance companies name their expensive premium and demand payment. Boats do not fish until insurance is in effect. No fishing--no money for insurance or loan payments.

Secondly, the insurance premiums were affordable in the less than 3.5% range. Now 4% is the lowest (on a crab boat) and up to 10% has been quoted. If fish prices and available product climbed at the same rate insurance would still be affordable. Such is not the case.

We own a crab boat. In 1980-82 the rate was about 2%. In the fall of 1983 it was 2.85% if we purchased a stability computer; otherwise it would be 3.25%. For the fall of 84, we have port risk only awaiting the insurance market to level out. We are hoping for 4% for the 85 season. We have been warned it could go to 7%. Our lender requires we insure for 1.5 million. The premium difference is \$45,000.

Another example of outrageous premiums--Our crab boat is also a tow boat. We requested a quote for trip insurance for travelling from Homer to Nome and return with a disabled tug. Normal trading

warranties go almost to Nome. The trip would take about 20 days. The premium--\$25,000.

I don't know the answer to this problem. Insurance companies have definitely experienced tremendous claims; however, most companies I know have considerable assets and are accustomed to making substantial profits. Some companies are lax in scrutinizing clients and insure questionable boats.

One aspect that could be looked at is the liability boat owners and underwriters face regarding crewmen injuries. No other industries I know of face such all-encompassing responsibilities in the event of an accident. Several applicable laws date back years to when crewmen were slaves. Laws need to be updated to make crewmen at least partly responsible for their own safety. The boat owner should provide a safe work place but if the crewman is negligent, i.e. inebriated, the vessel owner should not be liable.

Thank you for listening.


Jessie Nelson



UNITED FISHERMEN OF ALASKA

1000 Broadway Street, Suite #10
Juneau, Alaska 99801
(907) 586-2126

Cass M. Parsons
Executive Director

January 25, 1985

Honorable Bill Sheffield
Governor
State of Alaska
Pouch A
Juneau, Alaska 99811

Dear Governor Sheffield:

The United Fishermen of Alaska are concerned about a major problem the fishing industry is currently experiencing. The problem is the prohibitive cost or unavailability of vessel insurance. From all reports we have received, the problem appears to have been caused by two factors. First, the Insurance Company of North America (INA) entered the Alaskan marine market several years ago offering premiums of around 4% (of the vessel value). This premium was much lower than other companies were offering so INA succeeded in essentially cornering the market on the larger crabbers/trawlers in Alaska. Secondly, there followed two terrible years when one out of every seven crab vessels sunk. Subsequently, INA pulled out, giving many boats only 15 days notice. The other companies remain unwilling to return to the Alaskan marine market.

The few crabbers/trawlers who can find insurance are not getting full coverage and are paying premiums as high as 12%. That means a vessel valued at \$1 million (a common value) must pay a premium cost per year of \$120,000! As a result, people are going fishing uninsured or are staying home because it costs less. Consequently, many Alaskan fishermen are in danger of losing their vessels.

This is a rather simplistic explanation as there are other factors involved, but it does provide a basic picture of what has occurred. There are two spin-offs about which you should also know. First, although full-time crabbers caused the problem, the problem now extends to vessels who are only crabbing part-time (large seiners, trawlers, etc.) and to many other vessels that don't fish for crab but are being penalized by high premiums from companies trying to spread the losses.

It is our view that several things must occur in order to help solve this problem. First, we need to discover what the principal causes of the accidents are; i.e., equipment failure, operator error, improper safety equipment, etc. and then recommend specific changes to prevent the accidents from occurring. We could mandate annual vessel checks for certain equipment and we could recommend changes in fisheries management policies so that skippers and crew are not fishing in an exhausted condition. We could recommend that every fisherman and crewmember take a course on fishing vessel safety.

It is very important that we identify the specific causes of vessel accidents. We will gather the information from the vessel owners and skippers which requires carefully worded and confidential questionnaires. We will need to contract with the underwriters for the information they have on file since it is unlikely they will want an outsider looking at confidential information. Additionally, we will need to gather accident report information from the coast guard.

We feel the UFA is the organization that should conduct this review because we have the expertise available and we have access to the fishermen. We also have the ability through our board of directors to make carefully considered recommendations that other fishermen will respect. Furthermore, the results of this study will be published in the Alaska Fisherman's Journal. Recommendations will be made to the Governor's Office, Legislature and Board of Fish.

Thank you for your consideration.

Sincerely,

Cass M. Parsons
UFA Executive Director

CMP/jb
Enclosure: Proposal and budget

cc: John George, Director
Division of Insurance

PROPOSED BUDGET

1.0 PERSONNEL

1.1 Two research-writers: 5 mos. @ \$2900/mo.	\$	29,000
1.2 Secretary: 240/hrs @ #13.00/hr.		<u>3,120</u>
	\$	32,120

2.0 TRAVEL

Seattle: 1 Rnd. trip + 3 days per diem @ \$80/day	\$	713
Anchorage: 2 Rnd. trip + 6 days per diem @ \$80/day		1,184
Kodiak: 1 Rnd. trip + 3 days per diem @ \$80/day		<u>776</u>
	\$	2,673

3.0 POSTAGE AND PRINTING

Questionnaires: 44¢ x 2 x 3500	\$	3,080
Report: 50 bound		<u>500</u>
	\$	3,580

4.0 OTHER

4.1 Computer time: 120 hrs. @ \$30/hr.	\$	3,600
4.2 Subcontract w/5 Ins. Underwriters @ \$2,500		12,500
4.3 " w/2 Coast Guard Stations @ \$2,500		<u>5,000</u>
	\$	21,100
		Subtotal: 59,473
		Administrative Overhead @ \$20: <u>11,894</u>
	\$	TOTAL: 71,367

Overhead Includes:

Bookkeeping

Administrative

Office Space

Long Distance Telephone

Printing for Questionnaires

Additional Computer & Secretarial

Publish Results in Alaska Fisherman's Journal

Dan and Debbie Veerhusen
P.C. Box 6448
Halibut Cove, Alaska 99603

To Whom it May Concern,

We are all aware many Alaskan fishermen are having a pretty rough time "hanging in there" due to declining crab and shrimp stocks, increased vessel effort and near disaster halibut and herring prices. What's making things worse is that insurance rates are sky-rocketing. It is almost impossible for many to go fishing if you are lucky enough to even find insurance.

On Dec. 31st 1984 our current insurance policy expires on our 80 foot wooden boat. I have been told by many companies it will be hard for us to find insurance in the coming year and maybe impossible if we decide to fish tanner crab. If we are lucky enough to renew for another year we can be sure premiums will be much higher than the \$36,000.00 we have paid this year. Our policy does not even have a lay-up warranty and we are allowed only nine months of fishing - unless we want to pay more of course.

So many fishermen cannot even afford to go fishing because insurance rates are currently running 5½ - 10% the value of the vessel. The rates are even higher if you plan to crab fish. I know many fishing boats will be tied to the docks this upcoming crab season; others will be out taking a chance with no insurance. We deliberated for days on whether to pay \$11,000.00 to fish tanner crab in Cook Inlet for two months. Between the insurance and the other expenses the figures barely add up to take the chance and go. Furthermore, I made dozens of phone calls checking into prospective insurance markets and was told that many companies will not write new marine policies and many more are looking for every reason possible to drop you. For instance, this crab season we were not allowed to lease out our boat; our policy would be cancelled unless we personally hired a skipper.

Many marine financial institutions are urging fishermen to convert their boats and forge into new fisheries. But I ask, how can we when we are paying these outrageous premiums for vessel insurance? We need state legislation and funds generated to create ~~a statewide or community insurance pool to alleviate this problem~~. Strict measures could be enforced on the vessels condition, upkeep and skipper creditability before joining into a pool. I see

no immediate relief in the months ahead for insurance rates to drop back down in the two to three percent range - WE NEED ACTION NOW!

Sincerely,

Deborah Dechusen

cc: United Fishermen of Alaska
cc: North Pacific Fisheries Association
cc: CFAB, Mr. Dave Rodgers
cc: Senator Fisher
cc: Andre Marrou
cc: Mike Navarre
cc: Jay Kertula
cc: Govener Sheffield
cc: Director of Division of Insurance, Mr. Ken Moore



Kamishak Bay Fishing Co. Bob Tremain - Bill Bledsoe
P.O. Box 418 - Homer, Alaska 99603 (907) 235-8076
F/V Kamishak Queen

Nov 7, 1984

To Whom It May Concern,

I am writing in regards to the problems we are having with vessel insurance in Alaska.

As you know, the crab fishing industry is at a all time low. Many fishing boats and their companies are having a hard time making ends meet. Which may be the reason for the loss of some crab fishing boats, -Lack of funds to maintain and repair as needed.

The cost of vessel insurance is steadily increasing. Where it use to cost 1.8% (of the value of your vessel) per year, went to 3.0% and now is 8.0%. In some cases even higher. We can't survive a year with rates that equate to 40,000.00 dollars to 50,000.00 dollars a year.

There needs to be some flexibility for clients with good past records. Some of us don't cut corners when it comes to our boats. We maintain our engine rooms in good running condition, at all times. We should'nt have to carry the burden for those who don't.

Possibilty a solution would be for the insurance underwriters, to be more selective with their clientele. Have a representative from their company come visit the boat requesting insurance. Have this representative be knowledgeable in both the insurance field and fishing industry. Require him (or her) to of run a vessel before, so he knows what a well maintained engine room looks like. And then charge vessel insurance rates according to that representatives report.



Kamishak Bay Fishing Co. Bob Tremain - Bill Bledsoe
P.O. Box 418 - Homer, Alaska 99603 (907) 235-8076
F/V Kamishak Queen

" My experience with insurance companies has not been good. We have never had a claim. Bob Tremain maintains his boats very well. We take great care and a good deal of time preparing for any season. We recently rerigged our vessel 'Kamishak Queen' from a crabber to a black cod longliner with freezing ability also.

We informed our insurance broker of this venture 3 months before we were actually able to leave on our first black cod trip. "There was'nt any problem" according to all the many telephone conversations we had with the insurance broker. We called to inform them that the vessel was about to leave the harbor, on her first trip for black cod and they at that time, decided to cancel us and gave us 15 days to find new coverage or fish with no insurance. Which was impossible due to our financing.

We had informed them 3 months in advance of the changes in fishing industry, skipper and fishing grounds. We were still charged for cancellation of the policy. Does that seem fair? Not to us. Especially being as we had to find a new broker and underwriters. Plus pay a large cash down payment, again. (we had sunken all our money into the rerigging for black cod) We were upset!

We need some help to form some kind of balance between us and our insurance companies. Fishing is very frustrating anyway, we don't need insurance hassles too.

Thank you for listening.

Bill Bledsoe

This article is a copy taken from the November issue of Pacific Fishing Magazine and it suggests that insurance rates will begin to drop down into the 4 to 5 percent range in January 1985. From the many insurance companies I spoke with recently this is not true; rates are expected to remain in the 5 to 10 percent range. Furthermore, domestic markets are not re-entering the commercial fishing insurance markets, as stated.



How To Survive the Insurance Squeeze

Among all the other crises facing fishermen, none is more serious than the current crisis in insurance. Insurance companies now consider the fishing industry too great of a risk and many will no longer provide hull and machinery and protection and indemnity insurance at any price. There are hundreds of stories of fishermen who are unable to find insurance for their boats. Consider these:

An Oregon fisherman with 20 years of experience and no insurance losses tried to get \$500,000 of insurance. His boat is worth \$1 million, but he decided to insure at the bare minimum. He wanted to take his 80-foot crabber to the Probabots. When that fact became known, he could not find any insurance.

Take a well known king crabber from Seattle. He was lucky and able to find somebody to cover him. The cost is what hurt. Where he had paid a bit over \$50,000 a few years ago, the insurance companies now quote him an insurance premium of over \$300,000 for the same level of hull and P & I coverage.

Although these big boats offer the most dramatic examples of the current insurance crisis, brokers up and down the coast report that all fishing vessels are suffering dramatic escalation in their insurance costs.

No Domestic Carriers

As of early September, there were at the most two domestic carriers that would even consider insuring West Coast commercial fishing vessels. This has meant that brokers must go to foreign carriers, principally located in London, to find enough insurance for their fishermen clients.

Why are the insurance companies afraid of the fishing industry? The reason is simple: they've lost a lot of money the last few years, particularly on Alaskan crabbers. In many instances, the insurance premiums paid hardly came close to matching the amount of losses claimed.

At the present time, a large Alaskan crabber can find enough insurance coverage to equal about \$2.3 million. This insurance comes from three sources. First, \$1 million from London carriers. Second, \$1 million from insurance pools. Third, \$300,000 from a couple of

domestic carriers.

This sounds like plenty of insurance at first glance, but the average Alaska king crabber has a value of \$1.5 million to \$3 million. In other words, there is not now enough insurance capacity to fully cover most crabbers.

The current squeeze does not only affect boats that fish Alaska. That used to be the case. According to most brokers, the new demarcation is not geographic but monetary. Any vessel valued at more than \$300,000 will have a difficult time finding adequate insurance coverage no matter where the boat fishes. Those vessels worth less than \$300,000 may be able to obtain adequate coverage but only at rather exorbitant rates.

A Solution Comes

The current rate structure ranges between 5½ percent and 10 percent of the value of the boat. The more losses you have had in the past, the higher the rate you'll have to pay. And, again, no one company at the present time will assume the total risk. That means that your broker must shop among several carriers until the total risk is assumed.

Most brokers expect this situation to ease within the next several months. The fact that the London carriers are willing to take even some risk on fishing vessels is a good sign. In the past, U.S. insurance carriers have followed the lead of the London carriers. In other words, look for the domestic insurance companies to re-enter the commercial fishing market.

When will they come back? Estimates range from this month to January 1985.

What about the rates then? They will be lower than now, according to most observers. Look for premiums ranging between 4 percent and 5 percent. This may not be as good as the 2 percent to 3 percent of a few years ago, but they are far more palatable than the current rates.

10 Actions To Take

There are several actions you can take to increase the chance that you'll get all the coverage you need when you need it.

1. Investigate any possible source of insurance. Keep your ear tuned to any rumors. Admittedly, your broker will probably know what's available, but never assume anything.

2. Use a major insurance broker. If you use an established broker who's familiar with the fishing industry, you'll have a better chance of finding what insurance is available.
 3. Get tenure with your broker. In other words, find a good broker and stay with him. Don't switch brokers for trivial reasons or a rate that's only marginally lower than your present rate. If you develop loyalty in your broker, your broker will work harder to find the insurance you need.
 4. Join a pool. Lay the groundwork now to get into a pool.
 5. Join a fleet. Boats in a fleet have a better chance of getting insurance. What's a fleet? Simply a group of boats that work the same area, or work for the same processor, or have some loose bond among them.
 6. Cut your insurance to cover your equity, not the full value of your boat.
 7. Have a good record. The fewer accidents, the fewer insurance claims, the better risk you are.
 8. Be an owner-operator. Absentee owners or investor-owners are not looked upon favorably by insurance companies. The skippers of these boats change too often. The insurance company feels more secure if you are sharing the risk, and as an owner-operator you do.
 9. Get an up-to-date, out-of-water survey of your boat. This will provide the basis for a realistic valuation of your boat.
 10. Accept a larger deductible where possible. Some fishermen have even gone so far as to accept "total loss risk." In other words, the boat is covered only if it is a total loss.
- Be sure not to panic in the tight insurance market. Don't jump at a deal that's too good to be true. Probably it isn't true. Be sure that the insurance you get is good insurance (see *Pacific Fishing*, February 1984).

Pacific Fishing would like to thank the following brokers for help in preparing this brief look at insurance: Dan Buckley of LaBov Haynes, 4201 21st Avenue West, Seattle, WA 98199, (206)282-1152; and Tom Caspell of Durham & Bates, 330 S.W. 6th Avenue, Portland, OR 97204, (503)888-5527.




ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

November 5, 1984

MEMORANDUM

TO: Representative Fred Zharoff

FROM: Sharman Haley 
Legislative Analyst

RE: Vessel Insurance in Crab Fisheries
Research Request 85-034

Lisa Weissler of your staff asked us for historical information on the insurance market for crab boats. She also asked what actions might make insurance cheaper and easier to purchase. I contacted representatives of fishermen's organizations, the marine insurance industry, and the State Division of Insurance for information. I found that they all are concerned about the current shortage of crab vessel insurance, but have no immediate solutions to suggest. Their assessments are provided below, along with a number of longer range policy options. I have also attached an article from the November issue of Pacific Fishing which makes several specific recommendations to fishermen seeking insurance coverage.

Overview

Five years ago there were several surplus carriers underwriting marine insurance for the Alaska crab fleet at a premium rate of 7 to 8 percent of the insured value.¹ The largest carrier was Lloyd's of London. In 1981 or so, when the high value crab boats flooded the market, the Insurance Company of North America (INA) sought to tie up the crab market by dropping their rates to 1.5 to 4 percent,² depending on the vessel and operator. The other carriers, who had been losing money even at 8 percent, pulled out. In 1982-83, INA reportedly collected \$3.5 million in premiums and incurred \$34 million worth of losses on

¹Surplus carriers are not "admitted" or regulated by the State. They can only offer classes of insurance, such as marine, which are not readily available through admitted carriers.

²At this rate they were not expecting any profit on their underwriting. Their strategy, called "cash flow underwriting," was to earn profits on their investments before claims had to be paid.

Representative Zharoff
November 5, 1984
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marine insurance. Twelve to thirteen big boats sank that year, approximately one out of seven in the fleet. The best known of these were the Americus and Altair which rolled over with a load of pots in fair weather conditions in March of 1983. Following these heavy losses INA pulled out of marine insurance for large vessels, canceling many policies on 30 days notice. The other carriers are reluctant to reenter the market in light of the recent loss experience.

All the fisheries nationwide are currently experiencing substantial rate increases for marine insurance but none is harder hit than the Bering Sea and Aleutian crab fleet. Several of the boats were not able to leave port this year for lack of insurance. The big trawlers that fish the Bering Sea and Aleutians are also having some difficulty getting insurance. The smaller crab boats that fish inside waters can get insurance, but some have reported prohibitive premium rates. Premiums on a \$575,000 Southeast seiner/crabber jumped from \$18,000 in 1983 to \$43,000 in 1984.

The current insurance crunch in the crab fishery is directly related to the boom/bust cycle of king crab. The boom in the late seventies fostered the construction of a fleet of multi-million dollar vessels. The bust in the last two seasons has radically shortened the season and made it difficult for the big boats to cover mortgage payments and operating expenses. There is more pressure on the boats to fish every hour, regardless of weather, and to transport all their pots in one load to minimize travel time. Experienced skippers and crew who expect high returns are leaving the fishery and being replaced by less experienced operators and crew. Vessel maintenance is being shorted. Vessels are being converted to trawl part-time, which radically changes their stability characteristics. Market values for the vessels have dropped radically, in many cases below the outstanding mortgage balance. There are rumors that some vessels have been deliberately sunk to collect the insurance. All these factors contribute to the high losses in recent years, and the consequent tightening of the insurance market.

High losses have also fostered a renewed concern for safety. A Fishing Industry Safety and Health Conference has already been planned for December 12, 1984, in Seattle. Sponsoring organizations include North Pacific Vessel Owners Association, Association of Marine Underwriters of Seattle, National Fisherman, and National Marine Fisheries Service, NOAA. (For more information contact National Marine Fisheries Service, NOAA, FNWR2, 7600 Sand Point Way N.E., Seattle, WA 98115).

Stability studies are being conducted at the University of Washington to analyze the causes of the vessel sinkings. The finding so far is that the problem is not primarily one of design, but human error. The operators often don't understand the stability calculation tables and

Representative Zharoff
November 5, 1984
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don't use them properly when loading their boats. Small boats are not as much of a problem because they are more responsive and easier to judge by feel. More information on stability problems is now being published in fishing journals. As renewed safety consciousness permeates the fleet, fewer losses should eventually translate into lower premium rates and more underwriting capacity.

Most insurance carriers are not very familiar with the fishing industry. The Alaska insurance brokers I spoke with felt that the premium increases on the small crab boats are not justified by their loss experience; they are simply getting caught up in the same insurance net with the big boats. They also believe that underwriting losses could be substantially reduced if the carriers paid more attention to the age, experience, and practices of the operator. Owner-operators have significantly fewer losses than absentee owners. The Alaska-based fleet also has substantially fewer losses than the Seattle-based fleet.

Several carriers are writing marine insurance, but the coverage is limited due to the shortage of reinsurance. Brokers I spoke with have been able to piece together as much as \$1 million worth of coverage through several insurance carriers. The only firm that will underwrite Bering Sea crabbers presently is Lloyd's of London, and that too is difficult to obtain. Brokers are currently negotiating with other carriers to enter the market.

Limited amounts of insurance is also available to fishermen who qualify through the four Seattle-based pools. The pools are insurance cooperatives in which any premiums in excess of losses are redistributed to the members. Premium rates are 5 percent. To be admitted to a pool, a fisherman must be recommended in writing by three members and approved by the board. The pools are very conservative about who they admit, since the members' money is directly at stake. Pool members also strive to reduce losses by policing each other's safety practices and helping each other out in risky situations. One of the pools, United Marine Fund, experienced no losses in 1983 and was able to refund 100% of members' premiums. Between the four pools, \$1 million worth of coverage is available. Pool members are also more likely to get insurance through a carrier, as they are regarded as a better risk.

POLICY OPTIONS AND PROSPECTS

1. Let the market take care of it. Brokers seeking new sources of marine coverage are currently negotiating with insurance carriers. If the price is right, carriers will reenter the market. Several of my contacts mentioned that the reinsurance market is improving again and predicted that within the next

few months carriers will reenter the marine insurance market. For the big crab boats, they are predicting premium rates of about 14 percent. There will likely be a difficult period of economic readjustment, and some boats may find that fishing is uneconomical.

2. Organize a pool. To establish a pool in Alaska, ten or more people need to incorporate and organize as a reciprocal insurer under AS 21.75. Or, if AS 21.75.330 were amended to allow marine insurance coverage, the incorporators could organize as a cooperative insurer, which is a little easier. A substantial amount of capital would be needed to get started, and the pool would have to be very conservative in its membership and coverage until it was firmly established.³
3. Legislatively create a public corporation to issue marine insurance, akin to the Medical Indemnity Corporation of Alaska which provides medical malpractice insurance. One potential problem in this approach is that the most knowledgeable people to review applications for coverage are other fishermen in the same fishery. These individuals may have difficulty, however, in turning down their friends and neighbors. This is less of a problem in pools because the reviewers have a personal financial stake in minimizing losses.
4. Improve the safety record of the fleet. Lowering losses will make the market more attractive to insurance carriers, as well as save lives. For this, fisherman education is basic. The upcoming conference is a good start. More could be done through fishermen's publications and organizations.
5. Management changes aimed at lessening the time and load pressures on fishermen might also help fishermen fish more safely. The National Council for Fishing Vessel Safety and Insurance in Washington D.C. is conducting a federally funded study on the safety impact of fish management policies. A similar study could be done for Alaska. Policy changes that could be examined include re-establishing the bait up period, timing openings and closures to avoid fishing in bad weather, instituting pot limits, or limiting the number of boats in the fishery to the point that seasons can be lengthened.

³A pool may make the remaining market less attractive to carriers, however, as pools cream off the good risks and leave the bad for the carriers.

Representative Zharoff
November 5, 1984
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6. Hiring larger vessels to transport the pots to and from the grounds would help prevent overloading and improve safety. One freighter could serve a whole fleet of Bering Sea crabbers.
7. Provide more information to insurance carriers. If the carriers were better able to discriminate between good risks and bad risks, they might be more willing to underwrite marine insurance. A study of risk factors could be funded by government or industry.
8. Fishermen engaged in joint ventures with foreign companies might be able to purchase insurance through their foreign partner.
9. Protection and indemnity insurance problems, while not as severe as hull insurance problems, could be addressed through Congressional action amending the Jones Act to institute liability limitations or establish a workers' compensation type program.

* * * *

I hope this memorandum answers your questions. If you would like me to examine any of these (or other options) in more detail, please contact me.

SH

Attachment



How To Survive the Insurance Squeeze

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Why are the insurance companies afraid of the fishing industry? The reason is simple: they've lost a lot of money the last few years, particularly on Alaskan crabbers. In many instances, the insurance premiums paid hardly came close to matching the amount of losses claimed.

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Most brokers expect this situation to ease within the next several months. The fact that the London carriers are willing to take even some risk on fishing vessels is a good sign. In the past, U.S. insurance carriers have followed the lead of the London carriers. In other words, look for the domestic insurance companies to re-enter the commercial fishing market.

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10 Actions To Take

There are several actions you can take to increase the chance that you'll get all the coverage you need when you need it.

1. Investigate any possible source of insurance. Keep your ear tuned to any rumors. Admittedly, your broker will probably know what's available, but never assume anything.

2. Use a major insurance broker. If you use an established broker who's familiar with the fishing industry, you'll have a better chance of finding what insurance is available.
3. Get tenure with your broker. In other words, find a good broker and stay with him. Don't switch brokers for trivial reasons or a rate that's only marginally lower than your present rate. If you develop loyalty in your broker, your broker will work harder to find the insurance you need.
4. Join a pool. Lay the groundwork now to get into a pool.
5. Join a fleet. Boats in a fleet have a better chance of getting insurance. What's a fleet? Simply a group of boats that work the same area, or work for the same processor, or have some loose bond among them.
6. Cut your insurance to cover your equity, not the full value of your boat.
7. Have a good record. The fewer accidents, the fewer insurance claims, the better risk you are.
8. Be an owner-operator. Absentee owners or investor-owners are not looked upon favorably by insurance companies. The skippers of these boats change too often. The insurance company feels more secure if you are sharing the risk, and as an owner-operator you do.
9. Get an up-to-date, out-of-water survey of your boat. This will provide the basis for a realistic valuation of your boat.
10. Accept a larger deductible where possible. Some fishermen have even gone so far as to accept "total loss risk." In other words, the boat is covered only if it is a total loss.

Be sure not to panic in the tight insurance market. Don't jump at a deal that's too good to be true. Probably it isn't true. Be sure that the insurance you get is good insurance (see *Pacific Fishing*, February 1984).

Pacific Fishing would like to thank the following brokers for help in preparing this brief look at insurance: Dan Buckley of LaBow Haynes, 4201 21st Avenue West, Seattle, WA 98199, (206)282-1152; and Tom Caspell of Durham & Bates, 330 S.W. 6th Avenue, Portland, OR 97204, (503)888-5527.

PF

Chairman's Information:

1) SCR 20: "Relating to insurance on fishing vessels"

a) Introduced: Sen Zharoff, Eliason, P. Fischer

b) Co-Sponsors:

- 2) INTENT: The purpose of this legislation is to encourage marine insurance availability at competitive rates. This resolution requests the Governor to direct the Division of Insurance to conduct a study which will provide marine insurance underwriters with information concerning fisheries management and safety.

This resolution requests the study to include identification of factors contributing to vessel safety and to make recommendations to achieve safer vessel operations.

Findings of this study are to be reported to the Legislature and the Board of Fish so they may consider the adoption of safety regs that address the cost and availability of marine insurance.

FISCAL NOTE: \$75.0 from the Division of Insurance
NOTE:

- 3) ADDITIONAL REFERRALS: Needs a Finance referral

4) PUBLIC HEARINGS:

a) Sponsor:

b) Public witnesses:

5) BILL ACTION:

a) Hold in committee?

b) Assign to sub committee for further review?

c) Move from Committee?

d) close public hearings?

6) COMMITTEE ACTION:

a) amendments?

b) CS adoption?

McLean
Introduced: 4/12/85
Referred: Labor & Commerce

Fineman

Numbered

Paul Gronfeldt

1 IN THE SENATE

BY ZHAROFF, ELIASON
AND P. FISCHER

CS
2 SENATE CONCURRENT RESOLUTION NO. 20

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - FIRST SESSION

5 Relating to insurance of fishing ves-
6 sels.

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

8 WHEREAS the cost of marine hull insurance for ^{*Commercial*} ~~crab, trawl, and~~
9 ~~diversified seine fishing vessels~~ in the state is prohibitively expensive,
10 and often this insurance is only available in part or not available at all;
11 and

12 WHEREAS this problem occurs statewide and is preventing vessel owners
13 from diversifying into other fisheries and in some cases preventing vessel
14 owners from fishing; and

15 WHEREAS this situation has resulted primarily from the high number of
16 fishing accidents in recent years; and

17 WHEREAS the high number of accidents has resulted in tragic and in
18 almost all cases, avoidable instances of loss of life; and

19 WHEREAS underwriters of marine insurance in the state have ceased
20 issuing policies of insurance for this type of risk due to this situation;
21 and

22 WHEREAS many marine insurance underwriters are not familiar with the
23 fishing industry and the causes of fishing accidents;

24 BE IT RESOLVED by the Alaska State Legislature that the Governor is
25 requested to direct the Department of Commerce and Economic Development,
26 division of insurance, to conduct a study to provide the underwriters of
27 marine insurance in the state with information concerning fisheries
28 management and safety that will encourage them to make insurance available
29 at competitive rates; and be it

1 FURTHER RESOLVED that the study

2 (1) quantify the contribution of operator factors and
3 nonoperator factors, such as weather;

4 (2) identify which of these operator and nonoperator factors
5 could be reduced by changes in fisheries management policy;

6 (3) identify specific types of safety problems;

7 (4) determine the viability of a statewide or industry insurance
8 pool;

9 (5) make recommendations designed to achieve safer vessel
10 operations; and be it

11 FURTHER RESOLVED that the findings of this study be reported to the
12 Alaska State Legislature and ^{2nd session of 14th Leg. Dist. of 19} to the ~~State Board of Fisheries~~ so that they
13 may consider adoption of safety regulations that address the factors
14 causing an increase in the cost of marine insurance.

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST

Bill/Resolution No.: SCR 20
 Title: Relating to Insurance
of Fishing Vessels
 Sponsor: Zharoff
 Requestor: _____
 Date of Request: _____

FISCAL DETAIL

Agency Affected: Commerce & Econ. Dev.
 Program Category Affected: _____
Consumer Protection
 BRU, Program or Subprogram(s) Affected: _____
Insurance

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL		75.0				
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING	-0-	75.0	-0-	-0-	-0-	-0-

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

REVENUE						
----------------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND		75.0				
FEDERAL FUNDS						
OTHER						
TOTAL		75.0				

POSITIONS:

FULL-TIME		-0-				
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

Prepared By: John George, Director Phone: 465-2515
 Division: Insurance Date: 4/24/85
 Approved by Commissioner: Loren H. Lounsbury Date: 4/26/85
 Agency: Commerce and Economic Development

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

Fiscal note



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James A. Smith
Signature of Camera Operator

11/24/89
Date

SCR

21

STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF LAW

POUCH K - STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3600

OFFICE OF THE ATTORNEY GENERAL

April 26, 1985

The Honorable Fred Zharoff
Chairman, Senate Labor and
Commerce Committee
Alaska State Legislature
Pouch V
Juneau, AK 99811

Re: SCR 21, Relating to local
hire

Dear Senator Zharoff:

I am responding to a request from one of your staffers for our comments regarding SCR 21, "Relating to a report on maximizing local hire." The resolution would request the Attorney General and the Commissioner of Labor to prepare a report for the Legislature on a course of action that the state may take in order to maximize local hire.

Although the Department of Law certainly could participate in a report which would outline the present legal precedents and limitations on the state's ability to encourage local hire, we believe the real need at this point is for the preparation of a study which examines the problem of unemployment in Alaska and the extent to which the employment of nonresidents in various industries affects or aggravates the unemployment problem for residents. Such a study, at least with respect to construction employment in the state, is proposed in HB 295, which has now passed the House. Ideally, such a study should be expanded (with the funds necessary to accomplish that) to include a review of the unemployment problem of Alaska residents in other industries in which the Legislature might wish to consider the possibility of creating local hire requirements (e.g., fish processing and timber).

The Honorable Fred Zharoff
Chairman, Senate Labor and
Commerce Committee

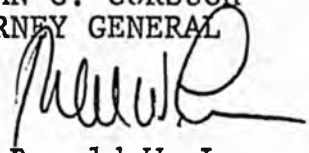
April 26, 1985
Page 2

If I can provide any further information with respect
to this matter, please do not hesitate to contact me.

Sincerely,

NORMAN C. GORSUCH
ATTORNEY GENERAL

By:


Ronald W. Lorensen
Deputy Attorney General

RWL:vrh

cc: Robert Landau
Deputy Commissioner
Department of Labor

Honorable Joe Josephson
Senator

Honorable Red Boucher
Representative

Introduced: 4/19/85
Referred: Labor and Commerce

1 IN THE SENATE BY JOSEPHSON AND ZHAROFF
2 SENATE CONCURRENT RESOLUTION NO. 21
3 IN THE LEGISLATURE OF THE STATE OF ALASKA
4 FOURTEENTH LEGISLATURE - FIRST SESSION
5 Relating to a report on maximizing local
6 hire.
7 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:
8 WHEREAS the unemployment and underemployment of Alaskans causes seri-
9 ous social and economic problems in the state; and
10 WHEREAS the legislature is seeking ways to remedy the unemployment and
11 underemployment of Alaskans;
12 BE IT RESOLVED by the Alaska State Legislature that the attorney
13 general and the commissioner of labor are requested to report to the legis-
14 lature by the first day of the Second Session of the Fourteenth Legislature
15 on a course of action the state may take in order to maximize local hire.

Chairman's Information:

- 1) SCR 21: "Relating to a report on maximizing local hire"
 - a) Introduced: Sen Josephson, and Sen Zharoff
 - b) Co-Sponsors:
- 2) INTENT: Requests that the attorney general and the commissioner of labor report to the Legislature on the first day of the second session of the 14th Legislature on a course of action the state may take to maximize local hire.

FISCAL NOTE: We have 2 fiscal note versions for this bill. One fiscal note is predicated on the passage of HB 295 (Study of unemployment and local hire issues) and is for \$69.0. If HB 295 does not pass, then a fiscal note of \$89.0 accompanies this resolution.

NOTE:

- 3) ADDITIONAL REFERRALS: Needs a Finance referral
- 4) PUBLIC HEARINGS:
 - a) Sponsor:
 - b) Public witnesses:
- 5) BILL ACTION:
 - a) Hold in committee?
 - b) Assign to sub committee for further review?
 - c) Move from Committee?
 - d) close public hearings?
- 6) COMMITTEE ACTION:
 - a) amendments?
 - b) CS adoption?

Bill No. Senate Concurrent Resolution No. 21

Title "Relating to a report on maximizing local hire.

Date April 26, 1985

Contact: Robert W. Landau
465-2700
Eileen Plate
465-2700

Senate Concurrent Resolution No. 21 requests the Attorney General and the Commissioner of Labor to report on a course of action the state may take to maximize local hire in Alaska. The scope of the proposed inquiry would broadly cover the entire labor force employed in both the public and private sectors.

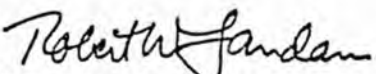
Currently, the state's local hire requirements apply only on public construction projects. However, as state revenues decline, it is essential that all industries and geographic areas of the state be examined in order to maximize the economic benefits of local hire and reduce the adverse impact of unemployment and underemployment.

Preliminary statistics prepared by the Department of Labor suggest that many industries in Alaska currently employ significant numbers of nonresidents. The Department believes it is important to conduct further research to identify those industries and areas with the highest percentages of nonresidents and to ascertain the precise impact of wages paid to both residents and nonresidents on the Alaska economy and the cost of government.

Once an adequate statistical foundation has been established, the state will be in a much better position to make policy and to evaluate the economic and legal implications of any local hire policy.

The Department of Labor supports Senate Concurrent Resolution No. 21. A fiscal note is attached.

APPROVED:


for Jim Robison, Commissioner
Department of Labor

POSITION PAPER/Department of Labor

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST

Bill/Resolution No.: SCR 21
 Title: "Relating to a report on
 maximizing local hire"
 Sponsor: Josephson and Zharoff
 Requestor: Senate Labor & Commerce
 Date of Request: 4/22/85

FISCAL DETAIL

Agency Affected: Labor
 Program Category Affected: Public
 Protection
 BRU, Program or Subprogram(s) Affected:
Commissioner's Office

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL		89.0				
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING	0	89.0	0	0	0	0

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

REVENUE						
----------------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND		89.0				
FEDERAL FUNDS						
OTHER						
TOTAL	0	89.0	0	0	0	0

POSITIONS:

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

ANALYSIS: Attach a separate page if necessary

(This analysis reflects costs if HB 295 does not pass)

Prepared By: Jim Robison

Division: Commissioner

Phone: 465-2700

Date: 4/22/85

Approved by Commissioner: Jim Robison

Agency: Labor

Date: 4/22/85

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

FISCAL NOTE (two versions)
and analysis

FISCAL NOTE ANALYSIS

THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE

BILL/RESOLUTION NO.: SCR 21

TITLE: "Relating to a report on maximizing local hire"

AGENCY AFFECTED: Department of Labor

This resolution requests a report to the legislature on a course of action to maximize local hire.

Assumptions:

1. Further research is necessary to: a) establish an accurate benchmark of nonresident to resident employees and wages by industry and area; b) survey employees for reasons associated with high nonresident hire; and c) analyze the benchmark data and employer responses for policy implications.
2. Work would begin July 1, 1985, and be conducted with a written report to be submitted to the Alaska Legislature on January 14, 1986.
3. If House Bill 295 is funded at \$100,000 then the costs associated with this resolution would be reduced by \$20,000.
4. The Alaska Department of Labor will assign a Labor Economist III for three months, a Labor Economist II for six months, and a Statistical Technician I for six months to research and provide this information.

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST

Bill/Resolution No.: SCR 21
 Title: "Relating to a report on
 maximizing local hire"
 Sponsor: Josephson and Zharoff
 Requestor: Senate Labor & Commerce
 Date of Request: 4/22/85

FISCAL DETAIL

Agency Affected: Labor
 Program Category Affected: Public
 Protection
 BRU, Program or Subprogram(s) Affected: Commissioner's Office

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL		69.0				
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING	0	69.0	0	0	0	0

CAPITAL						
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REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND		69.0				
FEDERAL FUNDS						
OTHER						
TOTAL	0	69.0	0	0	0	0

POSITIONS:

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

ANALYSIS: Attach a separate page if necessary

(This analysis reflects costs if HB 295 passes)

Prepared By: Jim Robison Phone: 465-2700
 Division: Commissioner Date: 4/22/85
 Approved by Commissioner: Jim Robison Date: 4/22/85
 Agency: Labor

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

FISCAL NOTE ANALYSIS

THE LEGISLATURE OF THE STATE OF ALASKA
FOURTEENTH LEGISLATURE

BILL/RESOLUTION NO.: SCR 21

TITLE: "Relating to a report on maximizing local hire"

AGENCY AFFECTED: Department of Labor

This resolution requests a report to the legislature on a course of action to maximize local hire.

Assumptions:

1. Further research is necessary to: a) establish an accurate benchmark of nonresident to resident employees and wages by industry and area; b) survey employees for reasons associated with high nonresident hire; and c) analyze the benchmark data and employer responses for policy implications.
2. Work would begin July 1, 1985, and be conducted with a written report to be submitted to the Alaska Legislature on January 14, 1986.
3. The Alaska Department of Labor will assign a Labor Economist III for three months, a Labor Economist II for six months, and a Statistical Technician I for six months to research and provide this information.



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James O. Smith
Signature of Camera Operator

11/24/89
Date

SCR

35

CHAIRMAN'S INFORMATION: SSSCR 35

1) BILL TITLE: "Relating to general liability and property insurance."

a) Introduced: V. Fischer

b) Co-sponsors:

2) INTENT: This resolution requests the Governor to investigate proposals for national insurance regulation, the establishment of multistate insurance pools for high risk markets, and the development of multistate insurance compacts.

Also requests the Division of Insurance to report to the Legislature by 1/15/87 on the availability and affordability of insurance in Alaska, market assistance plans for high risk markets, and resource and statutory changes necessary to increase affordability and availability of insurance.

N.B. See position paper from the Div of Insurance
FISCAL NOTE: 15.0 (needs a finance referral)

3) ADDITIONAL REFERRALS: Rules; needs a finance referral

4) PUBLIC HEARINGS:

a) Sponsor:

b) Public Witnesses:

5) BILL ACTION:

a) Hold in committee?

b) Assign to sub committee for further review?

c) Move from committee?

d) Close public hearings?

6) COMMITTEE ACTION?

a) amendments?

b) CS adoption?

Senator Vic Fischer

Alaska State Legislature • P.O. Box V • Juneau, Alaska 99811 • (907) 465-4954



TO: Interested Parties
FR: Senator Vic Fischer
RE: Sponsor Substitute to SSSCR 35; relating to general liability and property insurance.
DT: March 25, 1986

The sponsor substitute for SCR 35 introduced today adds provisions directed at broad insurance issues of state and national concern.

The resolution is a necessary complement to both the insurance bills being considered in the Senate and House.

SCR 35 combined with the Labor and Commerce bills provides a package of proposals covering some reforms of the legal system, rights of the consumer, roles and duties of Alaska's Division of Insurance, and operation of the insurance industry in Alaska.

The resolution directs the Governor to work with other states, the Council of State Governments and other national organizations, the federal administration, and Congress to investigate:

- * proposals for national regulation of the insurance industry
- * establishment of multi-state insurance pools for high-risk markets
- * development with other states of a multistate reinsurance compact

The resolution also directs the Division of Insurance to provide the next state legislature with a report on the status of liability and property insurance in Alaska as well as identify the Division's needs to help increase the availability of affordable insurance.

SSSCR 35: "Relating to general liability and property insurance."

This resolution requests the Governor to work with others to investigate national regulation of insurance, multistate pools for high risk markets and multistate reinsurance compacts.

Although we feel that federal regulation of insurance will be to the detriment of Alaskans due to our small population and unique problems, we have no objection to working with any group to investigate any proposal which may positively affect market availability.

The resolution requires reports to the Legislature in three specific areas. The first uses the terms availability and affordability. Unless a clear definition of affordability is provided, the report would be meaningless. What is affordable to one person may be unaffordable to another. Reports on adequacy or excessiveness of rate relative to potential exposure is possible.

The resolution requires a report to the Legislature by the Division of Insurance on resource or statutory changes needed in order to increase availability and affordability of insurance. Although such a report could be written, subject to previous comments on affordability, it circumvents the procedures set up by the Executive Branch and poses a potential constitutional question over separation of powers by requiring an Executive Branch agency to make reports concerning policy issues directly to the Legislature rather than through the Governor. That problem would be avoided by reporting through the Governor.

Any meaningful study or coordination with national groups involves travel out of state and thus has a fiscal impact. We have prepared the minimum amount for any meaningful or serious activity. Anything less would be ineffective.

Loren A. Lounsbury

Loren A. Lounsbury, Commissioner
Department of Commerce & Economic
Development

Date: 4/9/86

John L. George

John L. George, Director of Insurance

Date: 3/3/86

0267K4386b

**STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE**

Revision Date: _____

REQUEST

FISCAL DETAIL

Bill/Resolution No.: SSSCR 35
 Title: Relating to general liability and property insurance.

Agency Affected: Commerce & Economic Development
 BRU: Insurance

Sponsor: V. Fischer
 Requester: _____
 Date of Request: _____

Components: Public Protection

EXPENDITURES / REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES		-0-				
TRAVEL		12.0				
CONTRACTUAL		3.0				
SUPPLIES		-0-				
EQUIPMENT		-0-				
LAND & STRUCTURES		-0-				
GRANTS, CLAIMS		-0-				
MISCELLANEOUS		-0-				
TOTAL OPERATING	-0-	15.0	-0-	-0-	-0-	-0-

CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
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REVENUE	-0-	-0-	-0-	-0-	-0-	-0-
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FUNDING: (Thousands of dollars)

GENERAL FUND		15.0				
FEDERAL FUNDS		-0-				
OTHER		-0-				
TOTAL	-0-	15.0	-0-	-0-	-0-	-0-

POSITIONS:

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

ANALYSIS: Attach a separate page if necessary.

Travel to meet with Conference of Insurance Legislators, Council of State Legislators, Federal Administration and other national groups. Contractual services are required to prepare and print report to the Legislature.

Prepared by: John L. George, Director
 Division: Division of Insurance

Phone: 465-2515
 Date: April 2, 1986

Approved by Commissioner: [Signature]
 Agency: Commerce and Economic Development

Date: April 2, 1986

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget

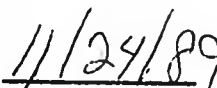


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Signature of Camera Operator


Date

SJR

2

STATE OF ALASKA
TOTAL STAFF MONTHS

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		1	2	3	4	5
	CONFERENCE					
	COMMITTEE					
1	FY 85	2173848	2290869			
2	84	2254537	1943006	2186921		
3	83	2128602	2320238	N/A		
4	82	2077426	2089191	1827103		
5	81		1819064	1721476		
6	80			1595438		
7						
8						
9						
10						
11						
12						
13						
14						
15						
16						
17	FY 85	1811511	1909066			
18	84	187878	161917	182235		
19	83	177384	185020	N/A		
20	82	173119	174100	152092		
21	81		151590	142456		
22	80			132453		
23						
24						
25						
26						
27						
28						
29						
30						
31	FY 85	167640	172190			
32	84	164148	164343	162564		
33	83	157456	162273	151646		
34	82	151955	153462	120363		
35	81		133285	120730		
36	80			115467		
37						
38						
39						
40						

FY 85 / 80

PERMANENT FULL TIME

CONFERENCE COMMITTEE AUTHORIZED FTE

Position Paper
SJR 2

This resolution would put before the voters of the state an amendment to the Constitution of the State of Alaska dealing with limits on appropriations and the number of employees of the State. The resolution will amend and clarify the appropriation limit currently found in Article IX, Section 16, of the Constitution. It would also impose an employment limit of 4% of the state's population. This position paper deals only with the latter provision.

Proposed Article IX, Section 16, subsection (g) provides the definition of population: "In this section 'population' means total resident population of the state computed under the method of computation used in the most recent federal decennial census." This provision presents technical problems. The "method of computation" used in the decennial census is always a physical count. If the resolution intends to provide for annual population figures, an annual count is required. The "continuously compounded annual rate of change" referred to in proposed subparagraph (b)(2) is not established by the United States Census Bureau and is therefore not an appropriate estimate.

The United States Census Bureau does provide population estimates. These estimates are subsequently revised for two years. The estimates are generally based on stable states with large populations. They vary considerably from the estimates prepared by the Alaska Department of Labor. For example, the estimates for July 1, 1982, differ by 4,000 residents; the estimates for July 1, 1983, differ by 29,000 residents; preliminary unpublished estimates for July 1, 1984, differ by 38,000 residents. With a 4% limit on the number of employees, this represents a difference of 1,520 employees. We believe expert advice from the Research and Analysis Section of the Department of Labor should be secured in drafting appropriate language for annual population estimates.

There will also be a problem with timeliness. The first estimate of population as of July 1 from the United States Census Bureau is not available until several months later. In other words, a fiscal year would be well underway before population at the start of the year, and therefore the maximum employee limit, is known.

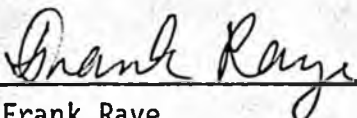
Finally, there will be a problem of allocation of positions. For example, if the University of Alaska system were to grow in national and international prominence and attract a rapidly growing student body with an increase in facility and staff, soon the 4% cap on employees would be exceeded. Although the appropriation of student tuition to the University would not be subject to the spending limit (see proposed subsection (e)), the positions created because of the appropriation would be subject to the employee limit. The positions would have to come from the Legislative, Judicial, and Executive Branches with a corresponding decrease in their abilities to meet their Constitutional responsibilities.

Position Paper
SJK 2

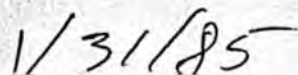
The approach which better serves the state's interest is to manage state government human resources rather than focusing on controlling the number of employees. Managing state government human resources involves using all the management tools of planning, organizing, staffing, directing, as well as controlling. Management is necessary because the relationships among state population, state government programs, and state government employees is dynamic. Consequently, establishing a fixed relationship between population and state employees will not always ensure that state programs will be administered in a manner commensurate with the State's needs.

To suggest that a known ideal relationship exists between population and the number of state employees is incorrect. No one knows if the ideal balance is 4% or 3½% or 4½% or any other number. However, even more troublesome is the suggestion that the relationship is linear, that is, that state government employment should rise following increases in population and should fall immediately following decreases in population. Although those programs involving the direct delivery of formula-funded services would show a direct relationship to population, other programs, such as development, may not. In addition, some employment stabilization programs may need to increase activity immediately following the out migration resulting from the winding down of a large construction or resource exploitation project. Furthermore, the opening of state-managed facilities such as pioneer homes or prisons may require increases in employees not in line with changes in population.

Although we state these examples of complexities in the relationship between population and state employees, the Department of Administration does share the concerns of continual growth in state government employment. Indeed, efforts in this department to develop an effective Productivity Improvement Center demonstrate a commitment to better utilize current staffing levels. Other efforts by the Sheffield Administration reflect the same commitment.



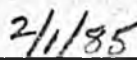
Frank Raye
Director
Division of Personnel



Date



Commissioner Lisa Rudd
Department of Administration



Date

Introduced: 1/14/85
Referred: Labor and Commerce, State Affairs,
Judiciary and Finance

1 IN THE SENATE

BY FERGUSON AND DEVRIES

2 SENATE JOINT RESOLUTION NO. 25

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - FIRST SESSION

5 Proposing an amendment to the Constitu-
6 tion of the State of Alaska relating to
7 limiting the number of state employees
8 and increases in appropriations.

9 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 * Section 1. Article IX, sec. 16, Constitution of the State of Alaska,
11 is amended to read:

12 SECTION 16. APPROPRIATION AND EMPLOYMENT LIMITS [LIMIT]. (a)

13 Except for appropriations for Alaska permanent fund dividends, appro-
14 priations of revenue bond proceeds, appropriations required to pay the
15 principal and interest on general obligation bonds, and appropriations
16 of money received from a non-State source in trust for a specific
17 purpose, including revenues of a public enterprise or public corpo-
18 ration of the State that issues revenue bonds, appropriations from
19 the treasury made for a fiscal year for operation of state government
20 may not exceed the lesser of two-thirds of the estimated revenue for
21 the fiscal year or the appropriations made in fiscal year 1985 for
22 operation of state government adjusted by the cumulative change pre-
23 scribed in this section [SHALL NOT EXCEED \$2,500,000,000 BY MORE THAN
24 THE CUMULATIVE CHANGE, DERIVED FROM FEDERAL INDICES AS PRESCRIBED BY
25 LAW, IN POPULATION AND INFLATION SINCE JULY 1, 1981. WITHIN THIS
26 LIMIT, AT LEAST ONE-THIRD SHALL BE RESERVED FOR CAPITAL PROJECTS AND
27 LOAN APPROPRIATIONS]. The legislature may exceed this limit in bills
28 for appropriations to the Alaska permanent fund [AND IN BILLS FOR
29 APPROPRIATIONS FOR CAPITAL PROJECTS, WHETHER OF BOND PROCEEDS OR

1 OTHERWISE], if each bill is approved by the governor, or passed by
2 affirmative vote of three-fourths of the membership of the legislature
3 over a veto or item veto, or becomes law without signature, and is
4 also approved by the voters as prescribed by law. [EACH BILL FOR
5 APPROPRIATIONS FOR CAPITAL PROJECTS IN EXCESS OF THE LIMIT SHALL BE
6 CONFINED TO CAPITAL PROJECTS OF THE SAME TYPE, AND THE VOTERS SHALL,
7 AS PROVIDED BY LAW, BE INFORMED OF THE COST OF OPERATIONS AND MAINTEN-
8 NANCE OF THE CAPITAL PROJECTS.] No other appropriation for operation
9 of state government in excess of this limit may be made except to meet
10 a state of disaster declared by the governor as prescribed by law.
11 The governor shall cause any unexpended and unappropriated balance to
12 be invested so as to yield competitive market rates to the treasury.

13 (b) The appropriation limit established by this section shall be
14 cumulatively adjusted annually through the end of the preceding fiscal
15 year by the sum of the following percentages:

16 (1) the annual rate of change in the consumer price index
17 for all urban consumers for the Anchorage Metropolitan Area as pub-
18 lished by the Bureau of Labor Statistics of the United States Depart-
19 ment of Labor for the fiscal year one year before the current fiscal
20 year, but if significant change is made in the method of computing the
21 consumer price index or if the index is discontinued another index may
22 be presented by law;

23 (2) the continuously compounded annual rate of change in
24 the estimated population of the State, as established by the United
25 States Census Bureau for the period between the previous two decennial
26 censuses.

27 (c) The base date for determining changes in population and
28 inflation under (a) of this section is July 1, 1981.

29 (d) The appropriation limit shall be determined as of July 1 of

1 the year before the fiscal year in which the limit applies.

2 (e) As used in this section, "appropriations for operation of
3 state government" does not include appropriations for capital proj-
4 ects, for state loans, appropriations for municipal revenue sharing,
5 municipal assistance, or of taxes shared with municipalities, or
6 appropriations for primary and secondary education.

7 (f) The total number of employees of the state, of agencies of
8 the state and of the University of Alaska may not exceed four percent
9 of the population of the state as determined under this section. For
10 purposes of determining the number of employees each full-time em-
11 ployee shall be included and the hours worked by each employee other
12 than full-time shall be converted to full-time equivalent employment
13 and each full-time equivalent employee shall be included.

14 (g) In this section "population" means total resident population
15 of the state computed under the method of computation used in the most
16 recent federal decennial census.

17 * Sec. 2. The amendment proposed by this resolution shall be placed
18 before the voters of the state at the next general election in conformity
19 with art. XIII, sec. 1, Constitution of the State of Alaska, and the elec-
20 tion laws of the state.



Official Business

Alaska State Legislature

Senate

Pouch V
State Capitol
Juneau, Alaska 99811

To: Senator Bill Ray
Chairman of Judiciary Committee

From: Senator Frank R. Ferguson

Date: January 19, 1984

Subject: Proposed Letter of Intent

LETTER OF INTENT SSSB 326

It is the intent of the Legislature that for the purposes of calculating the spending limit in Sponsor Substitute for Senate Bill 326 the following equation be used:

$$\text{Base} \times 1 + (\text{rate of growth in population} + \text{inflation adjustment}) = \text{Limit}$$

The base is \$2,500,000,000 for fiscal year 1982. For each succeeding fiscal year the base shall be adjusted by the rate of change in population and the Anchorage Consumer Price Index-Urban (CPI-U)

The rate of change in population shall be calculated as the continuously compounded annual rate of change between 1970 and 1980 (April 1) estimates of population established by the U.S. Census Bureau in their decennial censuses. For example, the rate of change for the 1980's is computed as follows:

$$\text{Population}_{1980} = \text{Population}_{1970} \cdot e^{rt} \text{ or}$$
$$\text{Rate of Change} = r = \frac{\ln(\text{population } 1980 / \text{population } 1970)}{t} \text{ or}$$
$$\text{Rate of Change} = .0284 = \frac{\ln(401851/302583)}{10}$$

The rate of change in the Anchorage (CPI-U) computed as the July to July change in the index as published by the U.S. Department of Labor, Bureau of Labor Statistics.

SJR 2

Major Provisions:

- + Limits Operating Budget to FY 85 Level plus inflation & population growth; OR if revenues decline no more than two-thirds of available funds can be used for the operating budget.

- + Limits Number of State Employees to 4% of state population

- + Pulls out "pass thru funds" from operating budget:
 - # Municipal Assistance
 - # Revenue Sharing
 - # Other Shared Taxes
 - # Education Foundation Formula
 - # Loans
 - # Capital Projects

SJR2 Sectional Analysis:

Proposes an amendment to the Constitution of the State of Alaska with regard to appropriation and employment limits;

Section 1) Establishes an appropriations limit for the State operating budget as follows:

May not exceed the lesser of:

- a) 2/3rds of the revenue estimate for the fiscal year, or
- b) FY85 operating budget appropriations "adjusted".

Annual adjustments to be made as follows:

Add the annual rate of change in the CPI for the Anchorage Metropolitan Area as published by the Bureau of Labor Statistics/US Department of Labor, for the preceeding fiscal year.

If, however, significant change is made in the computation method, or if the index is discontinued, another index may be presented by law.

plus the continuously compounded annual rate of change in the US Census Bureau's state population estimates for the period between the 2 previous decennial censuses.

July 1st 1981 BASE date for population
& INFLATION
Approp limit July 1 year before
FY

ANCHORAGE CONSUMER PRICE INDEX-URBAN PERCENTAGE ANNUAL CHANGE DURING THE TWO PREVIOUS FISCAL YEARS; TWO, USE THE UNITED STATES CENSUS BUREAU PERCENTAGE CONTINUOUSLY COMPOUND ANNUAL RATE OF CHANGE USING THE PREVIOUS TWO DECENNIAL CENSUS; AND THREE, ESTABLISH THE APPROPRIATION LIMIT BASE AS \$2.5 BILLION DOLLARS FOR FISCAL YEAR 1982 WHICH ALLOWS THE CUMULATIVE CHANGES IN THE FEDERAL INDICES OF POPULATION AND INFLATION TO BE USED STARTING WITH FISCAL YEAR 1983.

THE ANCHORAGE CONSUMER PRICE INDEX-URBAN IS USED BECAUSE IT WOULD BE CONSISTENT WITH OTHER FEDERAL PROGRAMS WHICH USE THE INDEX. ALSO, MANY STATE LABOR CONTRACTS USE THE CONSUMER PRICE INDEX-URBAN; THE EDUCATION FOUNDATION FORMULA FOR FISCAL YEAR 1985 USES THE CONSUMER PRICE INDEX-URBAN AS MANDATED BY THE LEGISLATURE LAST

Approps for "OPERATION of STATE
GOVERNMENT" NOT to include
Approps for CAPITAL, STATE LOANS
MUN REV SHARING, MUN ASSISTANCE
TAXES shared with MUNICIPALITIES

SESSION IN HOUSE BILL 251; AND THE HOUSING FACTOR HAS BEEN ADJUSTED IN THE FEDERAL CALCULATION OF THE CONSUMER PRICE INDEX-URBAN, AND NOW IS MORE SUPERIOR, ESPECIALLY IN ALASKA WHERE THE STATE HEAVILY SUBSIDIZES THE HOUSING INDUSTRY.

IN ADDITION, ALTHOUGH THE CONSUMER PRICE INDEX-URBAN CALCULATES THE "BASKET OF GOODS" OF GROCERY ITEMS, IT IS THE MOST CONSERVATIVE INDEX AVAILABLE AND ONE THAT IS MOST READILY IDENTIFIED BY THE PUBLIC.

THE UNITED STATES CENSUS BUREAU POPULATION FIGURES FROM THE PREVIOUS TWO DECENNIAL CENSUSES ARE USED BECAUSE IT TAKES THE GUESSWORK OUT OF THE CALCULATIONS OF THE SPENDING LIMIT. THE UNITED STATES CENSUS FIGURES WOULD PROVIDE A CONSISTENT INDEX WHICH HAS NEVER BEEN SUCCESSFULLY

CHALLENGED IN COURT. THE CONTINUOUSLY COMPOUND
RATE OF CHANGE IS USED BECAUSE THE STATE'S
POPULATION IS GROWING EVERY DAY.

THE BASE OF \$2.5 BILLION DOLLARS FOR FISCAL
YEAR 1982 IS USED TO FIND THE RATE OF CHANGE IN
THE INFLATION FACTOR TWO YEARS ARE NEEDED. THE
CONSTITUTIONAL AMENDMENT STATED THE STARTING DATE
FOR THE LIMIT IS JULY 1, 1981. THUS, FROM JULY 1,
1981 TO JULY 1, 1982 GIVES US OUR BASE, AND JULY
1, 1982 TO JULY 1, 1983 GIVES US THE NUMBER TO
COMPARE AGAINST THE FIRST YEAR WHICH THEN GIVES
THE ANNUAL RATE OF CHANGE TO BE USED THE SECOND
YEAR.

THE INDICES PROPOSED IN SPONSOR SUBSTITUTE
SENATE BILL 326 WOULD PROVIDE FOR A TRUE "SPENDING
LIMIT" WHICH THE VOTERS INTENDED TO HAVE. BY

Introduced: 1/14/85
Referred: Labor and Commerce, State Affairs,
Judiciary and Finance

1 IN THE SENATE

BY FERGUSON AND DEVRIES

2

SENATE JOINT RESOLUTION NO. 2

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FOURTEENTH LEGISLATURE - FIRST SESSION

5

Proposing an amendment to the Constitu-

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