

ALASKA LEGISLATURE COMMITTEE FILES 1987-1988 8672  
4822 HLAB HB 402 - HB 403

394

HB

402

# HOUSE COMMITTEE REPORT

(7)

Date referred: 1/27/88

FURTHER REFERRALS: Finance

DATE: 4/19/88

The Labor & Commerce Committee has considered HB 402

"An Act relating to the Alaska Industrial Development and Export Authority; and providing for an effective date."

**RECOMMENDS:**

- replace with CS HB 402 (L+C)  the same title
- attached amendment(s)  a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the \_\_\_\_\_ Committee

**ADOPTS:**  \_\_\_\_\_ letter of intent

**ATTACHES NEW FISCAL NOTE(S):**

- fiscal impact  same as previous fiscal note published \_\_\_\_\_
- zero fiscal note  same as previous zero fiscal note published \_\_\_\_\_
- zero with analysis

**SIGNING DO PASS:**

David Dooly

W.A. Barber

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**SIGNING OTHER RECOMMENDATIONS:**

Alvin Korman no rec

Chip Dooly (no rec)

Ellis (no rec)

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

David Dooly  
Chairman's signature

FISCAL NOTE

REQUEST: AK Industrial Development

Revision Date: \_\_\_\_\_ Agency Affected: and Export Authority  
 Title: An Act relating to the Alaska Industrial Development and Export Authority  
 BRU: Same as above  
 Sponsor: Governor Components: N/A  
 Requester: House Labor & Commerce

EXPENDITURES / REVENUES : (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING						

NO INCREASE IN OPERATING FUNDS

CAPITAL		\$25,150.0	\$35.0 M	\$40.0 M	\$40.0 M	\$40.0 M
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REVENUE						
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FUNDING: (Thousands of dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER		\$25,150.0	\$35.0 M	\$40.0 M	\$40.0 M	\$40.0 M
TOTAL		\$25,150.0	\$35.0 M	\$40.0 M	\$40.0 M	\$40.0 M

POSITIONS:

FULL-TIME						
PART-TIME			NONE			
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary.)

SEE ATTACHED PAGE

Prepared by: Bertram L. Wagnon Executive Director Phone: 274-1651  
 Division: AK Industrial Development and Export Authority Date: 4-20-88  
 Approved by Commissioner: J. Anthony... Commissioner Date: 4-20-88  
 Agency: Department of Commerce and Economic Development

- Distribution (by preparer):  
 Legislative Finance  
 Legislative Sponsor  
 Requestor  
 Office of Management and Budget  
 Impacted Agency(ies)

ANALYSIS:

- Section 1: This bill increases the loan limits of the Authority from \$10.0 million to \$25.0 million. The funding source is bond proceeds derived from the sale of the Authority's general obligation bonds.
- Section 2: Changes the method of calculating the interest on loans purchased by the Authority that are guaranteed by an instrumentality of the U.S. government. Current law provides that the interest rate received by the Authority will equal the Moody's Aa composite bond yield.
- Section 3: Changes 44.88.165 to allow the Authority to provide by regulation when a bank will be restricted from submitting credits to the Authority. Currently, it provides that, when over 2% of a bank's loans sold to the Authority are delinquent 90 days or more, they cease being eligible.
- Section 4: This new section authorizes the feasibility study/financial analysis of the Eagle River ski resort proposal. AIDEA corporate receipts are to be used to finance 50% of the cost of the study.

go0548hB ✓  
Chenoweth  
4/19/88

Original sponsor: Rules/Governor

1 IN THE HOUSE

BY THE LABOR AND  
COMMERCE COMMITTEE

2 CS FOR HOUSE BILL NO. 402 (L&C)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to projects of and the handling of  
7 institutional loans by the Alaska Industrial Develop-  
8 ment and Export Authority; increasing the maximum  
9 size of loans entered into from the authority's  
10 enterprise development account; amending the manner  
11 of determining the interest rate on loans guaranteed  
12 by the federal government; permitting the authority  
13 to describe the circumstances under which it will  
14 discontinue purchasing loans from a financial insti-  
15 tution because of delinquencies; directing the au-  
16 thority to complete a feasibility study for a devel-  
17 opment project relating to development of certain  
18 state park land; and providing for an effective  
19 date."

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

21 \* Section 1. AS 44.88.155(d) is amended to read:

22 (d) A loan purchased in whole or in part by the authority with  
23 assets of the enterprise development account or with proceeds of bonds  
24 secured by assets of the enterprise development account, other than a  
25 loan that [WHICH] is financed with the proceeds of bonds of the au-  
26 thority and secured only by a project applicant or a project,

27 (1) may not exceed

28 (A) \$25,000,000 [\$10,000,000]; or

29 (B) \$1,000,000 [\$500,000] if the loan is purchased

1 under AS 44.88.158;

2 (2) may not exceed the cost of the project or 75 percent of  
3 the appraised value of the project, whichever is less, unless the  
4 amount of the loan in excess of this limit is federally insured or  
5 guaranteed or is insured by a qualified mortgage insurance company;

6 (3) may not be for a term longer than three-quarters of the  
7 authority's estimate of the life of the project or 25 years from the  
8 date the loan is made, whichever is earlier;

9 (4) shall contain complete amortization provisions satis-  
10 factory to the authority requiring periodic payments by the borrower;

11 (5) shall be in the form and contain the terms and pro-  
12 visions with respect to insurance, repairs, alterations, payment of  
13 taxes and assessments, default reserves, delinquency charges, default  
14 remedies, acceleration of maturity, secondary liens, and other matters  
15 the authority prescribes;

16 (6) shall be secured as to repayment by a mortgage or other  
17 security instrument in the manner the authority determines is feasible  
18 to assure timely repayment under a loan agreement entered into with  
19 the borrower;

20 (7) may not be made unless

21 (A) at least 10 percent of the principal amount of the  
22 loan is retained by the originator of the loan; or

23 (B) 100 percent of the principal amount of the loan is  
24 guaranteed by the United States or an agency or instrumentality  
25 of the United States;

26 (8) must be

27 (A) at least partially guaranteed by the United States  
28 or an agency or instrumentality of the United States, subject to  
29 the provisions of AS 44.88.158;

1 (B) financed from the proceeds of bonds; or

2 (C) expected by the authority to be financed from the  
3 proceeds of bonds.

4 \* Sec. 2. AS 44.88.159(c) is amended to read:

5 (c) The interest rate to be received by the authority on a  
6 federally guaranteed loan purchased under AS 44.88.158 [BY THE AUTHOR-  
7 ITY WITH MONEY IN THE SMALL ENTERPRISE LOAN ACCOUNT] that is not from  
8 the proceeds of the sale of a series of bonds

9 (1) may be either floating or fixed;

10 (2) is the least of

11 (A) the prevailing prime rate adopted by the United  
12 States Small Business Administration;

13 (B) Moody's Investors Service Aa corporate bond yield  
14 index; or

15 (C) an index as established by regulation of the  
16 authority [IS EQUAL TO THE MOST RECENT INDEX OF Aa CORPORATE BOND  
17 YIELD AVERAGES AS PUBLISHED BY MOODY'S INVESTORS SERVICE].

18 \* Sec. 3. AS 44.88.165 is repealed and reenacted to read:

19 Sec. 44.88.165. DELINQUENT LOANS. The authority shall adopt  
20 regulations to describe the circumstances under which it will discon-  
21 tinue purchasing loans from a financial institution because of exces-  
22 sive delinquencies among the loans previously purchased from the  
23 financial institution. In adopting the regulations, the authority  
24 shall take into consideration its delinquency experience with loans it  
25 has purchased from all financial institutions. The authority may  
26 include in the regulations other remedies it considers appropriate as  
27 alternatives to the discontinuance of purchasing loans from the finan-  
28 cial institution.

29 \* Sec. 4. FEASIBILITY STUDY. (a) The legislature finds that it is in

1 the best interests of the state to promptly determine the feasibility of  
2 the development project proposed for the Eagle River Valley portion of  
3 Chugach State Park. The legislature further finds that it is contrary to  
4 the public interest to incur the delay associated with soliciting competi-  
5 tive sealed bids or competitive sealed proposals.

6 (b) The Alaska Industrial Development and Export Authority shall  
7 contract for the preparation of a feasibility study of the development  
8 project proposed for the Eagle River Valley portion of Chugach State Park.  
9 The feasibility study must

10 (1) satisfy the requirements of AS 44.88.173(a);

11 (2) satisfy contractual requirements imposed on the owner or  
12 developer by the Department of Natural Resources, division of parks; and

13 (3) make recommendations concerning amendments to AS 44.88  
14 necessary for the authority to provide financing for the project.

15 (c) The authority shall finance 50 percent of the cost of the study  
16 required by this section.

17 (d) The provisions of AS 36.30.310 apply to contracts entered into  
18 for the study required by this section.

19 \* Sec. 5. This Act takes effect immediately under AS 01.10.070(c).  
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29

STATE OF ALASKA  
THE LEGISLATURE

POUCH Y - STATE CAPITOL  
JUNEAU, ALASKA 99811  
907-465-3800

LEGISLATIVE AFFAIRS AGENCY  
LEGISLATIVE REFERENCE LIBRARY

May, 1988

Copies of minutes listed below were originally included in this file. The minutes are available on the STAIRS database CMPR. In order to save space copies of minutes have not been left in the files.

Mary Van Nimwegen

House List

Feb. 2, 1988

March 24, 1988

March 31, 1988

April 19, 1989 2:00pm



Official Business

**COMMITTEE:**  
HOUSE LABOR & COMMERCE

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**DATE:** April 19, 1988

# SIGN-IN

## Subject of meeting:

WORK SESSION - Insurance Relat  
502, HB 513, HB 514, HB 515, H

HB 550 "An Act authorizing th  
Regional Affairs to m  
mortgage loans; and p

HB 552 "An Act relating to ci  
aid."

HB 402 "An Act establishing a  
guarantee business lo  
ability to issue bond  
date."

PLEASE PRINT  
**NAME & TITLE**

**REPRESENTING**

**ADDRESS & ZIP**

**PHONE**

DON KUH	DIV. INSURANCE	P.O. Box D JUNO	H W 2577
Bill Snieder	AGC		H W
JP Taugent	Alliance of Amer. Ins.		H W
JOHN Williams	DCED		H W
Rep. FRANK			H W
KENT DAWSON	326 4th ST #203 Juneau, AK 99801	ALASKA TRIAL LAWYERS ASSOC	H W 586 2667
			H W
			H W
			H W
			H W

STEVE COWPER  
GOVERNOR



STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

71B402

January 27, 1988

The Honorable Ben Grussendorf  
Speaker of the House  
Alaska State Legislature  
P.O. Box V  
Juneau, AK 99811

Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to the Alaska Industrial Development and Export Authority's (AIDEA's) handling of financial institution loans.

Current law provides in AS 44.88.155(d)(1)(A) that when the authority purchases a participation under its enterprise development account in a loan made by a financial institution, the loan may not exceed \$10 million. (The enterprise development account is the "general fund" of the authority, and bonds issued in connection with this account are general obligations of the authority.) Section 1 of this bill increases from \$10 million to \$25 million the limit on such loans in which the authority may use assets of that account to purchase a participation. This increase to \$25 million from \$10 million will allow authority involvement in larger transactions that will help diversify the state's economy. Due to the recent downturn in the Alaskan economy, many of the traditional investor relationships with outside organizations no longer exist and the larger loan limit will help by allowing the authority to fill a portion of that void.

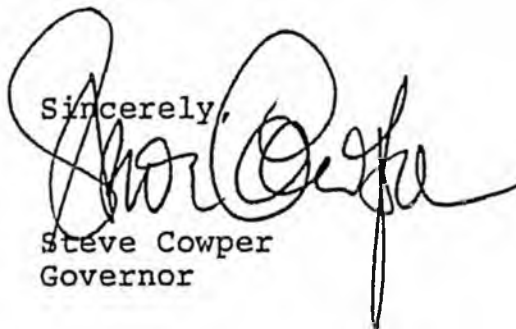
Section 1 also increases from \$500,000 to \$1,000,000 the loan limit on federally guaranteed loans that the authority may purchase. The current limit, enacted with the original AIDEA statutes, is too restrictive, especially in light of current federal loan guaranty levels. These guaranteed loans provide not only a good investment for the authority but also are an important source of capital for Alaskan borrowers.

Section 2 of this bill amends AS 44.88.159(c), which sets the interest rate on those loans guaranteed by an instrumentality of the United States government. Current law sets the rate equivalent to the Moody's Aa corporate bond yield. The new language adopts the prevailing methodology used by

the Small Business Administration in setting its rates. Additionally, to provide a degree of protection to borrowers in high interest rate environments, it uses the lesser of the prime rate, Moody's Aa corporate bond yield, or other index selected by the authority.

Current law provides in AS 44.88.165 that if more than two percent of the total outstanding balance of loans purchased from a financial institution (i.e., the authority's participation in such loans) becomes delinquent for 90 days or more, the authority may no longer purchase from that financial institution participations in loans for which it has not already made a commitment, until the delinquencies are reduced to less than two percent. Section 3 of this bill repeals that requirement and substitutes a requirement that the authority adopt regulations to describe the circumstances under which it will discontinue purchasing loans from a financial institution because of delinquencies among the loan participations previously purchased from that institution.

Sincerely,

A handwritten signature in black ink, appearing to read "Steve Cowper", written in a cursive style.

Steve Cowper  
Governor

STATE OF ALASKA  
1988 LEGISLATIVE SESSION

BILL VERSION: HB 402  
PUBLISH DATE: 1/27/88

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_ Agency Affected: AIDEA  
Title: An Act relating to the AIDEA BRU: Same as above  
Sponsor: Governor Components: N/A  
Requester: Authority Board of Directors

EXPENDITURES / REVENUES : (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING						

*NO INCREASE IN OPERATING FUNDS*

CAPITAL		\$25.0 Mil	\$35.0 Mil	\$40.0 Mil	\$40.0 Mil	\$40.0 Mil
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REVENUE						
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FUNDING: (Thousands of dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER		\$25.0 Mil	\$35.0 Mil	\$40.0 Mil	\$40.0 Mil	\$40.0 Mil
TOTAL		\$25.0 Mil	\$35.0 Mil	\$40.0 Mil	\$40.0 Mil	\$40.0 Mil

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY			<i>NONE</i>			

ANALYSIS: (Attach a separate page if necessary.)

Prepared by: Bertram L. Wagon, Executive Director Phone: 274-1651  
Division: AK Industrial Dev. and Export Authority (AIDEA) Date: January 18, 1988

Approved by Commissioner: [Signature] Date: 1-25-88  
Agency: Department of Commerce & Economic Development

Distribution (by preparer):  
Legislative Finance  
Legislative Sponsor  
Requestor  
Office of Management and Budget  
Impacted Agency(ies)



ALASKA INDUSTRIAL DEVELOPMENT  
AND EXPORT AUTHORITY

6

1577 "C" STREET • SUITE 304 • ANCHORAGE, ALASKA 99501-5177 • (907) 274-1651

M E M O R A N D U M

TO: J. Jack Jessee  
AIDEA Board of Directors

FROM: Bertram L. Wagnon *BLC/W*  
Executive Director

DATE: March 31, 1988

SUBJECT: AIDEA Legislation in House Labor & Commerce

Currently there is legislation related to the Authority waiting to be heard in the House Labor and Commerce (L & C) Committee. They include:

- ° House Bill (HB) 402 entitled "An Act relating to the Alaska Industrial Development and Export Authority; and providing for an effective date." This act does three things and they are prioritized as follows: 1) Provides language to allow the Authority to adopt regulations describing at what delinquency rates a financial institution may not access the Authority's programs. 2) Changes the method of calculating interest on loans purchased by the Authority which are guaranteed by an instrumentality of the United States. 3) Increases the Authority's loan limit from \$10,000,000 to \$25,000,000.
- ° Committee Substitute for Senate Bill (CSSB) 392 entitled "An Act relating to the Alaska Industrial Development and Export Authority; and providing for an effective date." This act addresses the existing statutes which prohibits the participation of financial institutions in the Authority's programs if loans sold to the Authority by a particular financial institution are over 2% delinquent.

These two bills are priority bills because they can be implemented quickly with positive results.

J. Jack Jessee - Memo  
March 31, 1988  
Page Two

Because HB 402 and CSSB 392 are priority, House L&C could:

- 1) Pass HB 402 as is;
- 2) Pass CSSB 392 as is; or
- 3) Amend CSSB 392 to include the language in HB 402 regarding interest rates and loan limits and pass it out of committee.

The easiest way to meet the immediate priorities is for House L&C to pass HB 402. This bill is comprehensive and would allow the Authority to immediately implement procedures to allow greater participation of the financial institutions (and business people) in the Authority's programs. The next best method would be to pass CSSB 392 in order to address the delinquency situation of some of the financial institutions who could otherwise participate in the Authority's programs. ..

Attached you will find the bills and their corresponding bill analyses and fiscal notes.



STATE OF ALASKA  
OFFICE OF THE GOVERNOR

BILL ANALYSIS

DEPARTMENT Commerce & Economic Development	DIVISION AK Industrial Devel & Export Authority	BILL NUMBER	SPONSOR Request of Governor	
SHORT TITLE OF BILL An act relating to the Alaska Industrial Development and Export Authority and providing for an effective date.				
DEPARTMENT POSITION The Authority supports this legislation in that it will provide the ability to assist certain sectors of the economy during these difficult times.				
PREPARED BY Bertram L. Wagon	Executive Director	DATE 1/29/88	COMMISSIONER'S SIGNATURE	DATE

SUMMARY

OTHER AGENCIES AFFECTED BY BILL None	CONSTITUENT GROUP(S) AFFECTED BY BILL Alaskan business and banking community.
ORGANIZATIONAL SUPPORT FOR BILL Lukewarm to mild support from the banki g community.	ORGANIZATIONAL OPPOSITION TO BILL Unknown. Should be very little.

FISCAL IMPACT:  NONE  FISCAL NOTE ATTACHED

BACKGROUND/LEGISLATIVE INTENT

This legislation originated with the Authority's Board of Directors to address certain particular shortcomings in the Authority's existing statutes. During these difficult economic times furthering the Authority's ability to provide an in-state investor for Alaskan projects and increasing the availability of the Small Business program will assist some businesses who otherwise may be unable to obtain capital through any other means.

ANALYSIS OF BILL/PROGRAM EFFECTS

Section one of the bill increases the Authority's loan limit from its current \$10 million maximum to \$25 million for those loans which are not guaranteed by an instrumentality of the U.S. Government. For those loans guaranteed by an agency or instrumentality of the U.S. Government, the loan limit is increased from \$500,000 to \$1 million.

The increase in the bonded program limits to \$25 million will allow the Authority to be a participant in transactions that previously have been too large for Authority participation. The recent downturn in the economy has greatly diminished outside correspondent investor relationships and the larger loan limit will allow the Authority to fill a portion of the void. The increase from \$500,000 to \$1 million for loans guaranteed by the U.S. Government would allow the purchase of these larger guaranteed loans backed primarily by the BIA, National Marine Fisheries Service and the Farmers Home Administration. SEE ADDITIONAL SHEET ATTACHED

AMENDMENTS PROPOSED

None

PLEASE ATTACH A SEPARATE SHEET FOR ADDITIONAL COMMENTS OR ANALYSIS.

BY HALFORD, FAIKS, KELLY,  
STURGULEWSKI, HENSLEY, ABOOD,  
FISCHER, JONES, JOSEPHSON AND  
UEHLING

1 IN THE SENATE

2

SENATE BILL NO. 392

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - SECOND SESSION

5

" BILL

6

For an Act entitled: "An Act relating to delinquent loans of the Alaska

7

Industrial Development and Export Authority; and

8

providing for an effective date."

9

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

10

\* Section 1. AS 44.88.165 is repealed and reenacted to read:

11

Sec. 44.88.165. DELINQUENT LOANS. (a) The authority shall

12

adopt regulations to describe the circumstances under which it will

13

discontinue purchasing loans from a financial institution because of

14

excessive delinquencies among the loans previously purchased from the

15

financial institution. In adopting the regulations, the authority

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shall take into consideration its delinquency experience with loans it

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has purchased from all financial institutions.

18

(b) The authority may include in the regulations other remedies

19

it considers appropriate as alternatives to the discontinuance of

20

purchasing loans from the financial institution.

21

\* Sec. 2. This Act takes effect immediately under AS 01.10.070(c).



STATE OF ALASKA  
OFFICE OF THE GOVERNOR

BILL ANALYSIS

DEPARTMENT Commerce & Economic Development	DIVISION AF. Industrial Devel & Export Authority	BILL NUMBER SB392	SPONSOR Halford, Faiks, Kelly, et al
SHORT TITLE OF BILL An act relating to delinquent loans of the Authority and providing for an effective date.			
DEPARTMENT POSITION The Authority supports this legislation in that it will permit the banking community to participate in the Authority's loan programs during these difficult times.			
PREPARED BY Bertram L. Wagon, Executive Director	DATE 2/5/88	COMMISSIONER'S SIGNATURE	DATE

SUMMARY

OTHER AGENCIES AFFECTED BY BILL NONE	CONSTITUENT GROUP(S) AFFECTED BY BILL Alaskan Banking Community
ORGANIZATIONAL SUPPORT FOR BILL Banking Community	ORGANIZATIONAL OPPOSITION TO BILL None to very little; perhaps from individuals fearing we are too soft on the banks.

FISCAL IMPACT:       NONE       FISCAL NOTE ATTACHED

BACKGROUND/LEGISLATIVE INTENT

The Authority currently has a law on its books which requires the Authority to cease participating with a bank when over 2% of the loans purchased from that institution are 90 days or more delinquent (44.88.165). This law would repeal and reenact a new law to allow more banks to be involved with the Authority.

ANALYSIS OF BILL/PROGRAM EFFECTS

Section one of the bill addresses a problem in that existing statutes prohibits a bank from participating in any of the Authority's programs if over 2% of its loans sold to the Authority are 90 days or more delinquent. The new language provides that the Authority will adopt regulations to describe the circumstances under which it will discontinue purchasing loans which will provide much needed flexibility to allow banks access to the Authority's programs. The bill further provides other remedies as alternatives to discontinuance of purchasing loans that may be set forth in regulations. This bill will allow greater bank involvement in the Authority's programs which should allow the public more access to credit.

AMENDMENTS PROPOSED

PLEASE ATTACH A SEPARATE SHEET FOR ADDITIONAL COMMENTS OR ANALYSIS.

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_ Agency Affected: AIDEA  
 Title: An Act relating to the AIDEA BRU: Same as above  
 Sponsor: Halford, Faiks, Kelly, et al. Components: Same as above  
 Requester: Senate Rules

EXPENDITURES / REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-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						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

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

ANALYSIS: (Attach a separate page if necessary.)

Passage of this legislation will have no fiscal impact upon the Authority's budget.

Prepared by: Bertram L. Wagon, Executive Director Phone: 274-1651  
 Division: AK Industrial Dev. and Export Authority (AIDEA) Date: February 26, 1988

Approved by Commissioner: J. Anthony Smith *Kathy Newell* Date: 2/25/88  
 Agency: Department of Commerce and Economic Development

Distribution (by preparer):

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

CS88 392(R1b)

COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 392 (Rules) by the Rules Committee, entitled:

"An Act relating to the Alaska Industrial Development and Export Authority; and providing for an effective date."

was read the first time and referred to the Labor & Commerce and Judiciary Committees.

SB 420

SENATE BILL NO. 420 by Kerttula, entitled:

"An Act relating to the curriculum required in public schools."

was read the first time and referred to the State Affairs and Health, Education & Social Services Committee.

COMMUNICATIONS

A letter of disclosure was received in accordance with AB 24.60.070, and appears in House Journal Supplement No. 21.

The following reports were received:

Alaska Judicial Council  
News Cameras in the Alaska Courts:  
Assessing the Impact  
January 1988

Department of Education  
Basic Skills Performance of Alaska's Students  
Achievement Test Results for 1984-85;  
1985-86; and 1986-87

University of Alaska  
Cooperative Extension Service  
1987 Demonstration & Research Report

The reports are on file in the Speaker's office.

Anchorage Daily News

3/2/88

### Bill would lift AIDEA delinquency limit

JUNEAU — Restricting the Alaska Industrial Development and Export Authority to purchasing loans only from institutions with less than a 2 percent delinquency rate could freeze the commercial real estate market, say lawmakers who voted Monday to repeal the restriction. The delinquency rule is meant to keep banks and other institutions from dumping bad loans on AIDEA, a state lending agency. Banks typically put together a loan package for commercial developers, then turn to AIDEA for financing. The authority sells bonds to raise money, then purchases up to 90 percent of a \$1 million loan package, or up to 80 percent of a package between \$1 million and \$10 million, the agency's top limit. But lately, the authority has been finding it difficult to underwrite any development. Of the 16 banks that do business with AIDEA, only three meet the 2 percent requirement, said authority Director Bert Wagon. He blames higher delinquency rates on the economy, not faulty bank management. The bill that passed the Senate would take the delinquency limit out of law and allow AIDEA to set it by regulation.

Anchorage Daily News Wed 3/2/88

State of Alaska - Office of the Governor  
BILL ANALYSIS - Alaska Industrial Development and Export Authority  
Continuation of Analysis of Bill/Program Effects

When the limit was originally set at \$500,000 it coincided with the SBA limit. Subsequently it has been learned that several other instrumentalities of the U.S. Government guaranty larger loans and this would accommodate these. The purchase of the guaranteed portion of these loans provides a secure investment of the Authority's funds and at the same time assists the Alaskan economy.

Section two of the bill changes the method of calculating the interest on loans purchased by the Authority that are guaranteed by an instrumentality of the U.S. Government. Current law provides that the interest rate received by the Authority will equal the Moody's Aa composite bond yield.

The SBA sets limits on the interest rates it allows banks to charge at 2 1/4% over New York prime for a loan under seven years, and 2 3/4% over New York prime for a loan over seven years. Recently these rates have gotten out of sync with the Moody's rate and makes it impossible for the Authority to participate in this program (i.e. the Moody's rate exceeds the SBA limits). It should be noted that at times during the period of high rates in 1980, '81, and '82, the Moody's rate was as much as 7 1/2% below the SBA limits.

This legislation corrects this problem by setting the rate at the lesser of (1) the prevailing prime rate adopted by SBA, or (2) Moody's Aa index or such other index as set by regulation of the Authority. Additionally the Authority is given the ability to utilize either of these indexes as fixed rates or floating rates providing greater latitude to borrowers and banks. This language will provide the flexibility to once again make the program attractive.

Section three of the bill addresses a problem in that existing statutes prohibits a bank from participating in any of the Authority's programs if over 2% of its loans sold to the Authority are 90 days or more delinquent. The new language provides that the Authority will adopt regulations to describe the circumstances under which it will discontinue purchasing loans which will provide much needed flexibility to allow banks access to the Authority's programs.

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_  
Title: An act relating to the Alaska  
Indust. Devel. and Export Authority  
Sponsor: Governor  
Requestor: Authority Board of Directors

AK Industrial Development  
Agency Affected: and Export Authority  
BRU: Same as above  
Components: N/A

EXPENDITURES/REVENUES: (Thousands of Dollars) (All dollars in millions)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING						

NO INCREASE IN OPERATING FUNDS

CAPITAL		\$25.0 Mil	\$35.0 Mil	\$40.0 Mil	\$40.0 Mil	\$40.0 Mil
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REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER		\$25.0 Mil	\$35.0 Mil	\$40.0 Mil	\$40.0 Mil	\$40.0 Mil
TOTAL		\$25.0 Mil	\$35.0 Mil	\$40.0 Mil	\$40.0 Mil	\$40.0 Mil

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY		NONE				

ANALYSIS : (Attach a separate page if necessary)

SEE ATTACHED SEPARATE PAGE

Prepared by: Bertram L. Wagon, Executive Director Phone: 274-1651  
Division: AK Industrial Development & Export Authority Date: January 18, 1988

Approved by Commissioner: \_\_\_\_\_ Date: \_\_\_\_\_  
Agency: \_\_\_\_\_

Distribution (by preparer):  
Legislative Finance  
Legislative Sponsor  
Requestor  
Office of Management and Budget  
Impacted Agency(ies)

**ANALYSIS:**

Section 1 This bill increases the loan limits of the Authority from \$10.0 million to \$25.0 million. The funding source is bond proceeds derived from the sale of the Authority's general obligation bonds.

Section 2 Changes 44.88.165 to allow the Authority to provide by regulation when a bank will be restricted from submitting credits to the Authority. Currently it provides that when over 2% of a bank's loans sold to the Authority are delinquent 90 days or more, they cease being eligible.

# **CORRECTION**

**THIS DOCUMENT  
HAS BEEN REPHOTOGRAPHED  
TO ASSURE LEGIBILITY**



Official Business

**COMMITTEE:**  
HOUSE LABOR & COMMERCE

**DATE:** April 19, 1988

# SIGN-IN

## Subject of meeting:

WORK SESSION - Insurance Related Bills including HB 502, HB 513, HB 514, HB 515, HB 313, HB 227.

HB 550 "An Act authorizing the Dept. of Community and Regional Affairs to modify the terms of its mortgage loans; and providing for an effective date."

HB 552 "An Act relating to civil liability for emergency aid."

HB 402 "An Act establishing a program in the AIDEA to guarantee business loans, and limiting the Authority's ability to issue bonds; and providing for an effective date."

PLEASE PRINT  
NAME & TITLE

REPRESENTING

ADDRESS & ZIP

PHONE

DO YOU WANT  
TO TESTIFY?

SUBJECT:  
BILL #

NAME & TITLE	REPRESENTING	ADDRESS & ZIP	PHONE	DO YOU WANT TO TESTIFY?	SUBJECT: BILL #
DON KUH	DIV. INSURANCE	P.O. Box D JUNO	H W 2577	AS NEEDED	INSURANCE RELATED BILLS
Bill Snieder	AGC		H W	<del>AS NEEDED</del>	HB 227
JP Taugent	Alliance of Amer. Ins.		H W		HB 573 HB 574
JOHN WILLIAMS	DCED		H W		
Rep. FRANK			H W		
GENT DAWSON	326 4th ST #203 Juneau, AK 99801	ALASKA TRIAL LAWYERS ASSOC	H W 586 2667	AS NEEDED	HB 552
			H W		
			H W		
			H W		
			H W		

WORK SESSION TESTIMONY

STEVE COWPER  
GOVERNOR



STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

71R402

January 27, 1988

The Honorable Ben Grussendorf  
Speaker of the House  
Alaska State Legislature  
P.O. Box V  
Juneau, AK 99811

Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to the Alaska Industrial Development and Export Authority's (AIDEA's) handling of financial institution loans.

Current law provides in AS 44.88.155(d)(1)(A) that when the authority purchases a participation under its enterprise development account in a loan made by a financial institution, the loan may not exceed \$10 million. (The enterprise development account is the "general fund" of the authority, and bonds issued in connection with this account are general obligations of the authority.) Section 1 of this bill increases from \$10 million to \$25 million the limit on such loans in which the authority may use assets of that account to purchase a participation. This increase to \$25 million from \$10 million will allow authority involvement in larger transactions that will help diversify the state's economy. Due to the recent downturn in the Alaskan economy, many of the traditional investor relationships with outside organizations no longer exist and the larger loan limit will help by allowing the authority to fill a portion of that void.

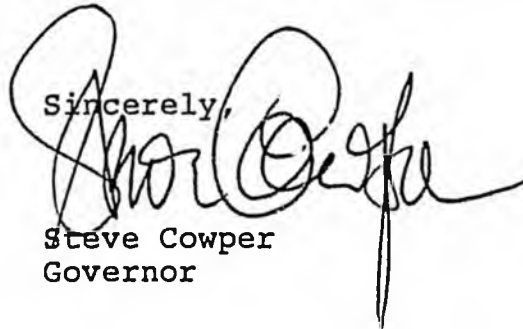
Section 1 also increases from \$500,000 to \$1,000,000 the loan limit on federally guaranteed loans that the authority may purchase. The current limit, enacted with the original AIDEA statutes, is too restrictive, especially in light of current federal loan guaranty levels. These guaranteed loans provide not only a good investment for the authority but also are an important source of capital for Alaskan borrowers.

Section 2 of this bill amends AS 44.88.159(c), which sets the interest rate on those loans guaranteed by an instrumentality of the United States government. Current law sets the rate equivalent to the Moody's Aa corporate bond yield. The new language adopts the prevailing methodology used by

the Small Business Administration in setting its rates. Additionally, to provide a degree of protection to borrowers in high interest rate environments, it uses the lesser of the prime rate, Moody's Aa corporate bond yield, or other index selected by the authority.

Current law provides in AS 44.88.165 that if more than two percent of the total outstanding balance of loans purchased from a financial institution (i.e., the authority's participation in such loans) becomes delinquent for 90 days or more, the authority may no longer purchase from that financial institution participations in loans for which it has not already made a commitment, until the delinquencies are reduced to less than two percent. Section 3 of this bill repeals that requirement and substitutes a requirement that the authority adopt regulations to describe the circumstances under which it will discontinue purchasing loans from a financial institution because of delinquencies among the loan participations previously purchased from that institution.

Sincerely,

A handwritten signature in black ink, appearing to read "Steve Cowper", written over the typed name below.

Steve Cowper  
Governor

**STATE OF ALASKA  
1988 LEGISLATIVE SESSION**

BILL VERSION: HB 402  
PUBLISH DATE: 1/27/88

**FISCAL NOTE**

**REQUEST:**

Revision Date: \_\_\_\_\_ Agency Affected: AIDEA  
Title: An Act relating to the AIDEA BRU: Same as above  
Sponsor: Governor Components: N/A  
Requester: Authority Board of Directors

**EXPENDITURES / REVENUES : (Thousands of Dollars)**

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING						

*NO INCREASE IN OPERATING FUNDS*

CAPITAL		\$25.0 Mil	\$35.0 Mil	\$40.0 Mil	\$40.0 Mil	\$40.0 Mil
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REVENUE						
---------	--	--	--	--	--	--

**FUNDING: (Thousands of dollars)**

GENERAL FUND						
FEDERAL FUNDS						
OTHER		\$25.0 Mil	\$35.0 Mil	\$40.0 Mil	\$40.0 Mil	\$40.0 Mil
TOTAL		\$25.0 Mil	\$35.0 Mil	\$40.0 Mil	\$40.0 Mil	\$40.0 Mil

**POSITIONS:**

FULL-TIME						
PART-TIME						
TEMPORARY			<i>NONE</i>			

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

Prepared by: Bertram L. Wagnon, Executive Director Phone: 274-1651  
Division: AK Industrial Dev. and Export Authority (AIDEA) Date: January 18, 1988

Approved by Commissioner: *[Signature]* Date: 1-25-88  
Agency: Department of Commerce & Economic Development

- Distribution (by preparer):  
 Legislative Finance  
 Legislative Sponsor  
 Requestor  
 Office of Management and Budget  
 Impact'd Agency(ies)



ALASKA INDUSTRIAL DEVELOPMENT  
AND EXPORT AUTHORITY

6

1577 "C" STREET • SUITE 304 • ANCHORAGE, ALASKA 99501-5177 • (907) 274-1651

M E M O R A N D U M

TO: J. Jack Jessee  
AIDEA Board of Directors

FROM: Bertram L. Wagnon *B.L.W./BLW*  
Executive Director

DATE: March 31, 1988

SUBJECT: AIDEA Legislation in House Labor & Commerce

Currently there is legislation related to the Authority waiting to be heard in the House Labor and Commerce (L & C) Committee. They include:

- ° House Bill (HB) 402 entitled "An Act relating to the Alaska Industrial Development and Export Authority; and providing for an effective date." This act does three things and they are prioritized as follows: 1) Provides language to allow the Authority to adopt regulations describing at what delinquency rates a financial institution may not access the Authority's programs. 2) Changes the method of calculating interest on loans purchased by the Authority which are guaranteed by an instrumentality of the United States. 3) Increases the Authority's loan limit from \$10,000,000 to \$25,000,000.
- ° Committee Substitute for Senate Bill (CSSB) 392 entitled "An Act relating to the Alaska Industrial Development and Export Authority; and providing for an effective date." This act addresses the existing statutes which prohibits the participation of financial institutions in the Authority's programs if loans sold to the Authority by a particular financial institution are over 2% delinquent.

These two bills are priority bills because they can be implemented quickly with positive results.

J. Jack Jessee - Memo  
March 31, 1988  
Page Two

Because HB 402 and CSSB 392 are priority, House L&C could:

- 1) Pass HB 402 as is;
- 2) Pass CSSB 392 as is; or
- 3) Amend CSSB 392 to include the language in HB 402 regarding interest rates and loan limits and pass it out of committee.

The easiest way to meet the immediate priorities is for House L&C to pass HB 402. This bill is comprehensive and would allow the Authority to immediately implement procedures to allow greater participation of the financial institutions (and business people) in the Authority's programs. The next best method would be to pass CSSB 392 in order to address the delinquency situation of some of the financial institutions who could otherwise participate in the Authority's programs. ..

Attached you will find the bills and their corresponding bill analyses and fiscal notes.



STATE OF ALASKA  
OFFICE OF THE GOVERNOR

BILL ANALYSIS

DEPARTMENT Commerce & Economic Development	DIVISION AK Industrial Devel & Export Authority	BILL NUMBER	SPONSOR Request of Governor	
SHORT TITLE OF BILL An act relating to the Alaska Industrial Development and Export Authority and providing for an effective date.				
DEPARTMENT POSITION The Authority supports this legislation in that it will provide the ability to assist certain sectors of the economy during these difficult times.				
PREPARED BY Bertram L. Wagon	Executive Director	DATE 1/29/88	COMMISSIONER'S SIGNATURE	DATE

SUMMARY

OTHER AGENCIES AFFECTED BY BILL  None	CONSTITUENT GROUP(S) AFFECTED BY BILL  Alaskan business and banking community.
ORGANIZATIONAL SUPPORT FOR BILL  Lukewarm to mild support from the banking community.	ORGANIZATIONAL OPPOSITION TO BILL  Unknown. Should be very little.

FISCAL IMPACT:  NONE  FISCAL NOTE ATTACHED

BACKGROUND/LEGISLATIVE INTENT

This legislation originated with the Authority's Board of Directors to address certain particular shortcomings in the Authority's existing statutes. During these difficult economic times furthering the Authority's ability to provide an in-state investor for Alaskan projects and increasing the availability of the Small Business program will assist some businesses who otherwise may be unable to obtain capital through any other means.

ANALYSIS OF BILL/PROGRAM EFFECTS

Section one of the bill increases the Authority's loan limit from its current \$10 million maximum to \$25 million for those loans which are not guaranteed by an instrumentality of the U.S. Government. For those loans guaranteed by an agency or instrumentality of the U.S. Government, the loan limit is increased from \$500,000 to \$1 million.

The increase in the bonded program limits to \$25 million will allow the Authority to be a participant in transactions that previously have been too large for Authority participation. The recent downturn in the economy has greatly diminished outside correspondent investor relationships and the larger loan limit will allow the Authority to fill a portion of the void. The increase from \$500,000 to \$1 million for loans guaranteed by the U.S. Government would allow the purchase of these larger guaranteed loans backed primarily by the BIA, National Marine Fisheries Service and the Farmers Home Administration.

SEE ADDITIONAL SHEET ATTACHED

AMENDMENTS PROPOSED

None

PLEASE ATTACH A SEPARATE SHEET FOR ADDITIONAL COMMENTS OR ANALYSIS.

BY HALFORD, FAIKS, KELLY,  
STURGULEWSKI, HENSLEY, ABOOD,  
FISCHER, JONES, JOSEPHSON AND  
UEHLING

1 IN THE SENATE

2 SENATE BILL NO. 392

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to delinquent loans of the Alaska  
7 Industrial Development and Export Authority; and  
8 providing for an effective date."

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

10 \* Section 1. AS 44.88.165 is repealed and reenacted to read:

11 Sec. 44.88.165. DELINQUENT LOANS. (a) The authority shall  
12 adopt regulations to describe the circumstances under which it will  
13 discontinue purchasing loans from a financial institution because of  
14 excessive delinquencies among the loans previously purchased from the  
15 financial institution. In adopting the regulations, the authority  
16 shall take into consideration its delinquency experience with loans it  
17 has purchased from all financial institutions.

18 (b) The authority may include in the regulations other remedies  
19 it considers appropriate as alternatives to the discontinuance of  
20 purchasing loans from the financial institution.

21 \* Sec. 2. This Act takes effect immediately under AS 01.10.070(c).



STATE OF ALASKA  
OFFICE OF THE GOVERNOR

**BILL ANALYSIS**

DEPARTMENT Commerce & Economic Development	DIVISION AK Industrial Devel & Export Authority	BILL NUMBER SB392	SPONSOR Halford, Faiks, Kelly, et al
SHORT TITLE OF BILL An act relating to delinquent loans of the Authority and providing for an effective date.			
DEPARTMENT POSITION The Authority supports this legislation in that it will permit the banking community to participate in the Authority's loan programs during these difficult times.			
PREPARED BY Bertram L. Wagnon, Executive Director	DATE 2/5/88	COMMISSIONER'S SIGNATURE	DATE

**SUMMARY**

OTHER AGENCIES AFFECTED BY BILL  NONE	CONSTITUENT GROUPS AFFECTED BY BILL  Alaskan Banking Community
ORGANIZATIONAL SUPPORT FOR BILL  Banking Community	ORGANIZATIONAL OPPOSITION TO BILL  None to very little; perhaps from individuals fearing we are to soft on the banks.

FISCAL IMPACT:  NONE  FISCAL NOTE ATTACHED

BACKGROUND/LEGISLATIVE INTENT

The Authority currently has a law on its books which requires the Authority to cease participating with a bank when over 2% of the loans purchased from that institution are 90 days or more delinquent (44.88.165). This law would repeal and reenact a new law to allow more banks to be involved with the Authority.

ANALYSIS OF BILL/PROGRAM EFFECTS

Section one of the bill addresses a problem in that existing statutes prohibits a bank from participating in any of the Authority's programs if over 2% of its loans sold to the Authority are 90 days or more delinquent. The new language provides that the Authority will adopt regulations to describe the circumstances under which it will discontinue purchasing loans which will provide much needed flexibility to allow banks access to the Authority's programs. The bill further provides other remedies as alternatives to discontinuance of purchasing loans that may be set forth in regulations. This bill will allow greater bank involvement in the Authority's programs which should allow the public more access to credit.

AMENDMENTS PROPOSED

PLEASE ATTACH A SEPARATE SHEET FOR ADDITIONAL COMMENTS OR ANALYSIS.

STATE OF ALASKA  
1988 LEGISLATIVE SESSION

BILL VERSION: CSSB 392 (Rules)  
PUBLISH DATE: 2-29-1988

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_ Agency Affected: AIDEA  
Title: An Act relating to the AIDEA BRU: Same as above  
Sponsor: Halford, Faiks, Kelly, et al. Components: Same as above  
Requestor: Senate Rules

EXPENDITURES / REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-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						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

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

ANALYSIS: (Attach a separate page if necessary.)

Passage of this legislation will have no fiscal impact upon the Authority's budget.

Prepared by: Bertram L. Wagnon, Executive Director Phone: 274-1651  
Division: AK Industrial Dev. and Export Authority (AIDEA) Date: February 26, 1988

Approved by Commissioner: J. Anthony Smith *Kathy Newell* Date: 2/25/88  
Agency: Department of Commerce and Economic Development

Distribution (by preparer):

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

CSB 392(R1a)

COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 392 (Rules) by the Rules Committee, entitled:

"An Act relating to the Alaska Industrial Development and Export Authority; and providing for an effective date."

was read the first time and referred to the Labor & Commerce and Judiciary Committees.

SB 420

SENATE BILL NO. 420 by Kerttula, entitled:

"An Act relating to the curriculum required in public schools."

was read the first time and referred to the State Affairs and Health, Education & Social Services Committees.

COMMUNICATIONS

A letter of disclosure was received in accordance with AS 24.60.070, and appears in House Journal Supplement No. 21.

The following reports were received:

Alaska Judicial Council  
News Cameras in the Alaska Courts:  
Assessing the Impact  
January 1988

Department of Education  
Basic Skills Performance of Alaska's Students  
Achievement Test Results for 1984-85;  
1985-86; and 1986-87

University of Alaska  
Cooperative Extension Service  
1987 Demonstration & Research Report

The reports are on file in the Speaker's office.

Anchorage Daily News

3/2/88

### Bill would lift AIDEA delinquency limit

JUNEAU — Restricting the Alaska Industrial Development and Export Authority to purchasing loans only from institutions with less than a 2 percent delinquency rate could freeze the commercial real estate market, say lawmakers who voted Monday to repeal the restriction. The delinquency rule is meant to keep banks and other institutions from dumping bad loans on AIDEA, a state lending agency. Banks typically put together a loan package for commercial developers, then turn to AIDEA for financing. The authority sells bonds to raise money, then purchases up to 90 percent of a \$1 million loan package, or up to 80 percent of a package between \$1 million and \$10 million, the agency's top limit. But lately, the authority has been finding it difficult to underwrite any development. Of the 16 banks that do business with AIDEA, only three meet the 2 percent requirement, said authority Director Bert Wagnon. He blames higher delinquency rates on the economy, not faulty bank management. The bill that passed the Senate would take the delinquency limit out of law and allow AIDEA to set it by regulation.

Anchorage Daily News  
Wed 3/2/88

State of Alaska - Office of the Governor  
BILL ANALYSIS - Alaska Industrial Development and Export Authority  
Continuation of Analysis of Bill/Program Effects

When the limit was originally set at \$500,000 it coincided with the SBA limit. Subsequently it has been learned that several other instrumentalities of the U.S. Government guaranty larger loans and this would accommodate these. The purchase of the guaranteed portion of these loans provides a secure investment of the Authority's funds and at the same time assists the Alaskan economy.

Section two of the bill changes the method of calculating the interest on loans purchased by the Authority that are guaranteed by an instrumentality of the U.S. Government. Current law provides that the interest rate received by the Authority will equal the Moody's Aa composite bond yield.

The SBA sets limits on the interest rates it allows banks to charge at 2 1/4% over New York prime for a loan under seven years, and 2 3/4% over New York prime for a loan over seven years. Recently these rates have gotten out of sync with the Moody's rate and makes it impossible for the Authority to participate in this program (i.e. the Moody's rate exceeds the SBA limits). It should be noted that at times during the period of high rates in 1980, '81, and '82, the Moody's rate was as much as 7 1/2% below the SBA limits.

This legislation corrects this problem by setting the rate at the lesser of (1) the prevailing prime rate adopted by SBA, or (2) Moody's Aa index or such other index as set by regulation of the Authority. Additionally the Authority is given the ability to utilize either of these indexes as fixed rates or floating rates providing greater latitude to borrowers and banks. This language will provide the flexibility to once again make the program attractive.

Section three of the bill addresses a problem in that existing statutes prohibits a bank from participating in any of the Authority's programs if over 2% of its loans sold to the Authority are 90 days or more delinquent. The new language provides that the Authority will adopt regulations to describe the circumstances under which it will discontinue purchasing loans which will provide much needed flexibility to allow banks access to the Authority's programs.

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_  
 Title: An act relating to the Alaska  
Indust. Devel. and Export Authority  
 Sponsor: Governor  
 Requestor: Authority Board of Directors  
 Agency Affected: AK Industrial Development  
and Export Authority  
 BRU: Same as above  
 Components: N/A

EXPENDITURES/REVENUES: (Thousands of Dollars) (All dollars in millions)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING						

NO INCREASE IN OPERATING FUNDS

CAPITAL		\$25.0 Mil	\$35.0 Mil	\$40.0 Mil	\$40.0 Mil	\$40.0 Mil
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REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER		\$25.0 Mil	\$35.0 Mil	\$40.0 Mil	\$40.0 Mil	\$40.0 Mil
TOTAL		\$25.0 Mil	\$35.0 Mil	\$40.0 Mil	\$40.0 Mil	\$40.0 Mil

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY		NONE				

ANALYSIS : (Attach a separate page if necessary)

SEE ATTACHED SEPARATE PAGE

Prepared by: Bertram L. Wagon, Executive Director Phone: 274-1651  
 Division: AK Industrial Development & Export Authority Date: January 18, 1988

Approved by Commissioner: \_\_\_\_\_ Date: \_\_\_\_\_  
 Agency: \_\_\_\_\_

Distribution (by preparer):  
 Legislative Finance  
 Legislative Sponsor  
 Requestor  
 Office of Management and Budget  
 Impacted Agency(ies)

**ANALYSIS:**

Section 1 This bill increases the loan limits of the Authority from \$10.0 million to \$25.0 million. The funding source is bond proceeds derived from the sale of the Authority's general obligation bonds.

Section 2 Changes 44.88.165 to allow the Authority to provide by regulation when a bank will be restricted from submitting credits to the Authority. Currently it provides that when over 2% of a bank's loans sold to the Authority are delinquent 90 days or more, they cease being eligible.

HB

403

# HOUSE COMMITTEE REPORT

(7)

Date referred: 1/27/88

FURTHER REFERRALS:

HESS  
Finance

DATE: 2/23/88

The Labor & Commerce Committee has considered HB 403

"An Act relating to insurance coverage for treatment of alcoholism or drug abuse."

**RECOMMENDS:**

- replace with CS HB403 (L+C) [ ] the same title
- [ ] attached amendment(s) [ ] a new title
- [X] do pass
- [ ] do not pass
- [ ] no recommendation
- [ ] individual recommendations
- [ ] additional referral to the \_\_\_\_\_ Committee

**ADOPTS:** [ ] \_\_\_\_\_ letter of intent

**ATTACHES NEW FISCAL NOTE(S):**

- [ ] fiscal impact [ ] same as previous fiscal note published \_\_\_\_\_
- zero fiscal note [ ] same as previous zero fiscal note published \_\_\_\_\_
- [ ] zero with analysis

**SIGNING DO PASS:**

[Signature]  
[Signature]  
[Signature]  
[Signature]  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

**SIGNING OTHER RECOMMENDATIONS:**

[Signature] NO YES  
[Signature] NO YES  
[Signature] Do not pass  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

[Signature]  
 Chairman's signature

STATE OF ALASKA  
1988 LEGISLATIVE SESSION

BILL VERSION: CSHB 403 (L&C)  
PUBLISH DATE: 01/27/88

FISCAL NOTE

REQUEST:

Revision Date: 02/22/88 (Ford)  
Title: Insurance coverage for treatment  
of alcoholism or drug abuse  
Sponsor: Boyer  
Requester: \_\_\_\_\_

Agency Affected: Commerce & Economic Dev.  
BRU: Insurance  
Components: Public Protection

EXPENDITURES / REVENUES : (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL	0.0	0.0	0.0	0.0	0.0	0.0
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REVENUE	0.0	0.0	0.0	0.0	0.0	0.0
---------	-----	-----	-----	-----	-----	-----

FUNDING: (Thousands of dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:

FULLTIME	0.0	0.0	0.0	0.0	0.0	0.0
PAR'TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary.)

Prepared by: John L. George, Director *John L. George* Phone: 465-2515  
Division: Division of Insurance Date: February 24, 1988

Approved by Commissioner: J. Anthony Smith *J. Anthony Smith* Date: February 25, 1988  
Agency: Commerce and Economic Development

Distribution (by preparer):

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

**FISCAL NOTE**

**REQUEST:**

Revision Date: \_\_\_\_\_  
Title: "An Act relating to insurance coverage for treatment of alcoholism and drug abuse."  
Sponsor: Boyer  
Requestor: \_\_\_\_\_

Agency Affected: Health & Social Services  
BRU: Alcohol & Drug Abuse Services  
Components: \_\_\_\_\_

**EXPENDITURES/REVENUES: (Thousands of Dollars)**

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-0-	-0-	-0-	-0-	-0-	-0-

**FUNDING: (Thousands of Dollars)**

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

**POSITIONS:**

FULL-TIME						
PART-TIME						
TEMPORARY						

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

The enactment of HB 403 would have no direct fiscal impact on the Department of Health and Social Services.

Prepared by: Matthew Felix *Matthew Felix* Phone: 596-6201  
Division: Alcoholism and Drug Abuse Date: \_\_\_\_\_

Approved by Commissioner: Myra M. Nunson *Myra M. Nunson* Date: 2-24-88  
Agency: \_\_\_\_\_

**Distribution (by preparer):**

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

# STATE OF ALASKA

## DEPARTMENT OF ADMINISTRATION DIVISION OF RETIREMENT & BENEFITS

PLEASE REPLY TO:

- P.O. BOX CR  
JUNEAU, ALASKA 99811-0203  
PHONE: (907)465-4460
- 2600 DENALI ST. SUITE 401  
ANCHORAGE, ALASKA 99503-2740  
PHONE: (907) 277-7504

Public Employees' Retirement System  
Teachers' Retirement System  
Judicial Retirement System  
Elected Public Officers Retirement System  
National Guard Retirement System  
Territorial Retirement System  
Retirees' Voluntary Dental-Vision-Audio Plan  
Supplemental Benefits System  
Group Health/Life Insurance Benefits  
Deferred Compensation Plan  
Public Employers Social Security Contributions

STEVE COWPER, GOVERNOR

February 12, 1988

The Honorable Dave Donley  
Chairman  
House Labor and Commerce Committee  
P.O. Box V  
Juneau, AK 99811

RECEIVED  
FEB 18 1987

Dear Representative Donley:

Re: House Bill 403

This letter is in response to a question raised by Representative Boucher during my testimony on HB 403 on February 9, 1988. Representative Boucher wanted the cost of the alcoholism/drug abuse coverage component in the current State of Alaska group plan for state employees. He also requested what it would cost to implement the minimum level of coverage outlined in HB 403 in the State group plan if it had no coverage for alcoholism.

The State's carrier, Aetna, has stated that our current level of coverage for alcoholism/drug abuse is costed at \$3.50 per month per employee. This equates to an estimated annual cost to the State of \$504,000 or approximately 1.2% of the current premium. If our current plan had no coverage for alcoholism and implemented the coverage level outlined in HB 403, the monthly employee premium would increase by \$1.75 or approximately .6% of the current premium. This level of coverage equates to an estimated annual cost to the State of \$252,000.

Representative Boucher also inquired about the claims volume of alcoholism claims under the State's policy. We have requested the State's benefit consultant, Mercer-Meidinger, Inc. to provide the dollar amount of alcoholism claims over the past two years. The retrieval of these figures requires special programming on their part since such statistics are not normally retained for each component of the health plan. These figures should be available in approximately three weeks.

Please contact me should you require any further information regarding this bill.

Sincerely,

*Robert F. Stalnaker*  
Robert F. Stalnaker  
Acting Director

RFS/MBC/cam/III  
cc: The Honorable H.A. Boucher  
Representative  
Alaska State Legislature

To: Rep. H. A. "Red" Boucher  
Rep. Walt Furnace

From: Linda Stewart *LS*  
Roger Jenkins *RJ*

Subj: HB 403 - " An Act Relating to Insurance Coverage for  
Treatment of Alcoholism and Drug Abuse

Date: February 19, 1988

### DISCUSSION

First, it must be clearly understood that alcohol and drug abuse in Alaska is a serious problem that exists in differing degrees within the rural and urban areas of the state.

Second, we acknowledge that it costs the State of Alaska approximately \$170 million a year in alcohol and drug related expenses, i.e., public assistance, foster care, institutional care for children, accidents, injuries, property damage, prosecution, enforcement, courts, corrections, etc.

Third, we acknowledge there are a wide range social, economic and various other detrimental, short and long-term side affects caused by alcohol and drug abuse.

However, these are not the issues of HB 403. The problem of abuse is the CORE, but is mandated insurance coverage the answer?

Staff research shows that Alaska employers appear to be more aware and concerned with abuse problems and are providing this type of coverage over either dental or vision care.

Staff research shows that mandating these benefits will accelerate a trend by employers towards self-insurance as a means of avoiding the impact of the mandates, since at this time, there is a legal question as to whether self-insured plans must comply with most existing legislation. Additionally, individuals and employers faced with the increased costs of health coverages because of mandated benefits may severely curtail or terminate their existing group insurance programs.

There are presently 45 programs (SOADA) approved and partially funded by the State of Alaska to treat addiction. These programs serve approximately 20,000 clients per year.

Composite results show that mandating coverage will have the following affects:

35% of the sources indicated there was no measurable premium increase in the plans they covered attributable to the inception of mandated benefits.

11% of the sources indicated that they had experienced premium increases in the 1-5% range in the plans they covered attributable to the inception of mandated benefits.

50% of the sources indicated that they had experienced premium increases in the 5-10% range in the plans they covered attributable to the inception of mandated benefits.

3% of the sources indicated that they had experienced premium increases in the 10-15% range in the plans they covered attributable to the inception of mandated benefits.

Presently, coverage is primarily for in-hospital patient care or through a licensed physician's program. These programs are generally a 28 day hospital\physician program.

The social impact on a patient having to be away from the job, family or friends for an extended time is often more embarassing than the problem itself. In addition, the social stigma of admitting to having alcohol or drug problems is often more hard to handle than the abuse itself.

Staff believes that if insurance coverage applied to a broader range of abuse programs, then those persons abusing alcohol or drugs would be more inclined to seek rehabilitation. An example of this is the Salvation Army program. Presently, insurance carriers will not pay for this program even though it is state approved and certificated.

#### CONCLUSION

Staff does not believe that it is in the public interest to mandate insurance coverage for alcohol and drug abuse. Why should the many absorb the additional cost for the few.

RECOMMENDATION

Based on the facts presented herein, Staff believes that HB 403 should be amended as follows:

A. Insurance companies should be required to offer alcohol and drug abuse coverage as an optional premium benefit.

B. Insurance companies should be required to allow patient coverage to include out-patient care at any facility that is state approved and certificated.

A M E N D M E N T

Offered in the HOUSE

By Boyer

TO: HB 403

Page 1, line 22:

After "a" insert "group"

After "for" insert "major"

Page 3, after line 12:

Insert a new paragraph to read:

"(5) "major medical" means a disability insurance contract, or subscriber contract that provides benefits for hospital and medical care with potential lifetime maximum benefits per insured of at least \$10,000; or"

Page 3, line 13:

Delete "(5)"

Insert "(6)"

Page 4, line 12:

After "applies to"

Insert "group"

Page 4, line 14:

After "renewed"

Insert "on or"

# ALASKA NETWORK ON DOMESTIC VIOLENCE AND SEXUAL ASSAULT

130 Seward, No. 301 • Juneau, Alaska 99801 • (907) 586-3650

Abused Women's Aid In Crisis (AWAIC);  
Advocates for Victims of Violence (AVV);  
Aiding Women in Abuse and Rape Emergencies (AWARE);  
Alaska Women's Resource Center (AWRC); Arctic Women in Crisis (AWIC);  
Bering Sea Women's Group (BSWG); Emmonak Women's Shelter;  
Kodiak Women's Resource & Crisis Center (KWRC);  
Maniilaq Regional Women's Crisis Program; MEN, Inc.;  
Safe & Fear-Free Environment (SAFE); Sitkans Against Family Violence (SAFV);  
Southwestern Alaska Council for the  
Prevention of Child Sexual Assault (SWACPCSA);  
South Peninsula Women's Services (SPWS);  
Standing Together Against Rape (STAR); Tundra Women's Coalition (TWC);  
Valley Women's Resource Center (VWRC);  
Women in Crisis Counseling & Assistance (WICCA);  
Women in Safe Homes (WISH); Women's Resource & Crisis Center (WRCC)

## POSITION PAPER SUPPORT

### MANDATORY INSURANCE COVERAGE FOR THE TREATMENT OF ALCOHOL AND DRUG ABUSE

The Alaska Network on Domestic Violence and Sexual Assault supports the concept of mandatory insurance coverage for the treatment of alcohol and drug abuse. While none of the literature on substance abuse and family violence supports the existence of a direct causal relationship between alcohol or drug use and woman battering and child abuse, studies indicate that chemical dependence is an important factor in the frequency and severity of violence.

"Men's substance abuse PRIOR to marriage has been found in one study to be a strong predictor of certain characteristics of family violence IF it occurs in the marriage. These characteristics are:

- higher frequency of violence;
- more probability that alcohol or drug use is involved in the most serious incidents;
- and long duration of violence in the relationship.

There is also research support for the observation that batterers who abuse alcohol inflict more serious injuries on their victims than batterers who do not."

"In yet another study, 85% of batterers with chemical dependence problems admitted that they were also assaultive when sober. ...it seems clear that we cannot predict an individuals' violent behavior by his alcohol consumption, either as a pattern or in particular incidents. However, these findings also suggest that battering is even more dangerous if the batterer drinks at all, whether or not he is intoxicated at the time of an incident."

In one study of battered women and alcohol abuse, the majority of the women developed their problems with alcohol after being in an abusive relationship for some time.

Finally, there is evidence that alcohol or drug use by a batterer increases the potential that the violence will end in death.

In light of this research, the Network feels strongly that the availability of substance abuse treatment should be increased and is an important aspect of assisting families where there is violence.

(Research excerpted from an address presented by Melissa Eddy at the Sixth Annual Texas Council on Family Violence Conference, October 28, 1987, Austin Texas.)

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_  
Title: Insurance coverage for treatment of alcoholism or drug abuse  
Sponsor: Binkley, et al.  
Requestor: Senate HESS Committee

Agency Affected: Commerce & Economic Dev.  
BRU: Insurance  
Components: Operations

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING: (Thousands of Dollars)

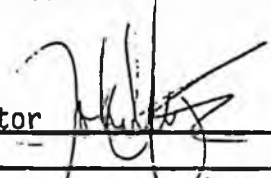
GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

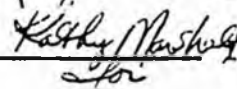
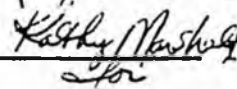
POSITIONS:

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

ANALYSIS : (Attach a separate page if necessary)

There is no fiscal impact to the Division of Insurance.

Prepared by: John L. George, Director  Phone: 465-2515  
Division: Insurance Date: 1/29/88

Approved by Commissioner: J. Anthony Smith  Kathy Marshall  Date: 1/29/88  
Agency: Commerce & Economic Development

Distribution (by preparer):  
Legislative Finance  
Legislative Sponsor  
Requestor  
Office of Management and Budget  
Impacted Agency(ies)

FISCAL NOTE

REQUEST: \_\_\_\_\_

Revision Date: \_\_\_\_\_ Agency Affected: Department of Administration  
Title: An act relating to insurance BRU: Retirement and Benefits  
coverage for alcoholism.  
Sponsor: Binkley Components: Retirement and Benefits  
Requestor: \_\_\_\_\_

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

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

POSITIONS:	0	0	0	0	0	0
FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

Since the State already provides this form of coverage, there is no anticipated increase in the division's budget requirements or the State's health insurance premiums resulting from this bill.

Prepared By: Robert F. Stalnaker Phone: 465-4470  
Division: Retirement and Benefits Date: February 1, 1988  
Approved by Commissioner: John M. Andrews Date: 2/4/88  
Agency: Department of Administration

Distribution (by preparer):  
Legislative Finance  
Legislative Sponsor  
Requestor  
Office of Management and Budget  
Impacted Agency(ies)

POSITION PAPER

FOR

HOUSE BILL NO. 403

"An Act relating to insurance coverage for treatment of alcoholism and drug abuse."

Passage of HB 403 would require providers of health insurance to include treatment for drug and alcohol abuse with benefits of at least \$7,000 over two consecutive years and lifetime benefits of at least \$14,000. Benefits would be adjusted annually to correspond to the consumer price index. Insurers could not require higher deductibles for the cost of this treatment than for other types of coverage, not require prenotification of treatment, a second opinion concerning treatment, a specific form of treatment or limit coverage to either an inpatient or outpatient basis. Insurers could not exclude coverage for medical or psychiatric evaluation, activity or family therapy, counseling, or prescription drugs or supplies received at an approved treatment facility. Insurers may not deny coverage for the sole reason that treatment was not completed. A definition is provided for alcoholism and drug abuse. Approved treatment facility is defined as treatment in a facility approved under AS 47.37.140 (Uniform Alcoholism Intoxication and Treatment Act.) Treatment would include both inpatient and outpatient services. The effective date on HB 403 is January 1, 1989.

From a public health and public safety perspective alcoholism and drug abuse seriously impact the lives of many Alaskans. These substances contribute to the alarmingly high state rates of accidental personal injury and death. Alaska ranks consistently among the leading states in the per capita consumption of alcoholic beverages. This high level of consumption places Alaskans at risk for related illnesses such as cancer, infectious diseases, and diseases of the liver and pancreas. Living in an alcoholic or drug abusive home can also contribute to a variety of stress related disorders among family members.

Like many preventive approaches to public health problems, the cost versus benefits achieved with the passage of HB 403 will be difficult to measure. However, evidence exists that alcoholism treatment costs can be offset by a reduction in overall health care costs within two to three years following the initiation of treatment.

Holder and Blöse studied the impact of alcoholism treatment on health care utilization and costs for health insurance enrollees under the Federal Employees Health Benefit Program (1). Their results indicated that monthly health care costs for families with an alcoholic member were almost twice as high as health care costs for families with no apparent alcoholic member. The results of the study showed that following the initiation of alcohol treatment, the health care costs of alcoholics declined significantly. Total health care costs averaged \$294 per month during the six months following the initiation of treatment, but only \$194 per month by the third post-treatment year.

Another study, by Holder and Hallan (2) of public employees in California, yielded similar findings, and a five-year follow-up of 90 families of alcoholics showed a reduction in monthly medical expenditures of \$72. per person, bringing them to the same level as a comparison group of non alcoholic families.

It has been suggested that following the passage of HB 403, employers' health insurance premiums could increase. We are unable to determine the validity of this claim. However, even though claims may increase initially, and we recognize that this may cause some hardship on some employers, evidence suggests that alcohol and drug abuse coverage decreases the use of benefits for related medical conditions thereby offsetting premium increases in the long run.

Many of the alcohol and drug abuse treatment policies currently in effect in Alaska only cover treatment which is provided in a hospital or by a physician. HB 403 provides for treatment in all programs approved by the SOADA under AS 47.37.140. This provision would make current drug abuse and alcohol coverages more cost-effective by allowing treatment in settings which are less expensive than those provided by physicians or hospitals. This would result in greater access to service and make all coverage more cost-effective.

Presently, 34 states have similar legislation. Under the duties of this department's Office of Alcoholism and Drug Abuse (SOADA), AS 47.37.040(16) mandates that the SOADA shall "encourage all health and disability insurance programs to include alcoholism as a covered illness." At a November 1987 meeting the Review Board on Alcoholism and the Advisory Board on Drug Abuse passed the following resolution: "Resolved that: The State of Alaska should require that medical insurance policies should be required to reimburse for alcoholism and drug abuse treatment services including those that are state approved."

The Department of Health and Social Services is supportive of the approach and intent contained in HB 403.

1. Harold Holder, Ph.D. and James Blöse, MPP. Alcoholism Treatment and Total Health Care Utilization and Costs. JAMA. September 19, 1988. Vol. 256. No. 11
2. Harold Holder, Ph.D. and Jerome Hallen, Dr.P.H., Medical Care and Alcoholism Treatment Costs and Utilization: A Five Year Analysis of the California Pilot Project to Provide Health Insurance Coverage for Alcoholism, National Institute on Alcohol Abuse and Alcoholism, (Contract ADM 291-79-0008), December 1981

Myra M. Munson 2/8/88  
Myra M. Munson Date

Matthew C. Felix 2/5/88  
Matthew C. Felix Date

**STATE OF ALASKA 1987 LEGISLATIVE SESSION  
FISCAL NOTE**

Bill Version: House Bill No. 403  
Publish Date: \_\_\_\_\_

**REQUEST:** \_\_\_\_\_

Revision Date: \_\_\_\_\_  
Title: "An Act relating to insurance cover-  
age for treatment of alcoholism and drug abuse."  
Sponsor: Boyer  
Requestor: \_\_\_\_\_

Agency Affected: Health & Social Services  
BRU: Alcohol & Drug Abuse Services  
Components: \_\_\_\_\_

**EXPENDITURES/REVENUES: (Thousands of Dollars)**

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>

CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
---------	-----	-----	-----	-----	-----	-----

REVENUE	-0-	-0-	-0-	-0-	-0-	-0-
---------	-----	-----	-----	-----	-----	-----

**FUNDING: (Thousands of Dollars)**

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
<b>TOTAL</b>						

**POSITIONS:**

FULL-TIME						
PART-TIME						
TEMPORARY						

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

The enactment of HB 403 would have no direct fiscal impact on the Department of Health and Social Services.

Prepared by: Matthew Felix by George Mundell  
Division: Alcoholism and Drug Abuse

Phone: 586-6201  
Date: 2/1/88

Approved by Commissioner: Mika M. Munson  
Agency: \_\_\_\_\_

Date: 2/8/88

**Distribution (by preparer):**

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

ISSUES  
MANDATED GROUP HEALTH INSURANCE  
FOR  
ALCOHOLISM AND DRUG ADDICTION

THE NEED

Alcoholism and drug addiction are primary diseases that kill thousands of Alaskans each year. Addiction is, however, eminently treatable and there are 45 programs approved and partially funded by the state to treat addiction. As many as 35% of the employed patients seeking treatment in Alaska find that they have no insurance coverage or sadly inadequate coverage to pay for the costs of necessary treatment. They are left with borrowing money or returning to their addiction until they become unemployable and seek public support.

The intent of AS SB 363 is simply to recognize chemical addiction as a disease that deserves the same consideration in group health insurance policies as cancer, heart disease and other common illnesses. The bill sets minimum levels of reimbursement for treatment and mandates the same safeguards for treating alcoholics and drug addicts as the insurer provides for victims of other diseases. The long term impact on the insurance industry should be a cost savings since a) studies by insurers (i.e., Philadelphia Blue Cross, California blue Cross) have shown that untreated alcoholics and their families use as much as 10 times the amount of health care services as the norm and b) other studies (i.e., National Council on Alcoholism, U.S. Health and Human Services) reflect that 33% of general hospital beds are filled with patients being treated for illnesses directly related to addiction.

## Expected Pro and Con Arguments

### Con

State should not mandate insurance coverage.

Mandate will not affect policies written out of state.

Mandate actually shows favoritism for alcoholism and drug addiction.

Mandate costs too much.

Mandate will increase costs of State employee coverage.

Mandate will increase out of state hiring.

### Pro

State already mandates coverage for newborns as well as mandatory payment to a wide range of providers. Neither insurers or employers, due to collective denial, will add addiction coverage without mandate.

26 states already have mandates (including Washington and Oregon). In the experience of 7 other states, large numbers and self-insurers use law as guidelines in establishing a standard for their employers and subscribers.

Proposal would simply begin to give parity to addiction treatment in health care plans, other common illnesses carry much higher reimbursement levels than those in the bill.

Historically, only 1/2 of 1 percent of subscribers having coverage actually use coverage, average premium increase in 7 states is 4%, often much less (e.g., blue Cross of Washington requested 2.5% increase after enactment of Washington regulations). We already pay 170-200 million dollars a year in costs due to untreated alcoholism.

If bill is adjusted, the coverage for inpatient treatment could drop to 7,000 from an unlimited amount right now. There should be a cost savings if this occurs.

Blatantly emotional, obstructive argument. The issue is not large enough to cause a ripple in this area.

Some Actual Cases (Fictionalized Names)

Donna K., 16 years old, brought to treatment after suicide attempt and long drug and alcohol addiction. Parents insurance contract would not reimburse for inpatient treatment despite clear need for same. Patient maintained on an outpatient basis while parents seek money for inpatient stay.

Charles T., 35 years old, arrives for treatment admitting addiction has caused him to miss 40 days of work and estrange family. Insurance plan allowed only \$2,000 of coverage with 40% copayment. Discouraged, he has continued drinking and has lost his job.

# Effect of Mandated Drug, Alcohol, and Mental Health Benefits on Group Health Insurance Premiums

BARBARA BROWNE  
RAYMOND F. BROWNE, CLU, ChFC  
SUSAN T. McLAUGHLIN, MAT, MSUP, EdD  
CYNTHIA D. WAGNER, CLU

There exists within the health care sector a considerable controversy over the issue of how to meet the costs of providing care for mental illness, alcoholism, and drug dependency. A major issue in this debate is the trend towards legislative mandates to include certain minimum benefits for mental illness, alcoholism, and drug dependency in insurance plans offered by insurers and health maintenance organizations. At this writing, over twenty states mandate some form of these benefits and such legislation is under consideration in a number of other states.

There is significant reluctance on the part of many insurers and health maintenance organizations to embrace any form of mandatory benefits. The insurers and health maintenance organizations have expressed the belief that provision of such benefits should be the choice of the individual or group purchaser.

The care providers for such illnesses, and other advocates of such care, contend that the social stigma and general denial systems of these illnesses prevent a groundswell of demand for such benefits by the public. They further contend that employers who are aware of this public perception do not feel meaningful pressures to voluntarily provide or expand benefits of this nature.

Against this background, a chorus of claims and counterclaims has

arisen from both camps. Central among these claims are four issues which this report attempts to explore. They are:

(1) A number of insurers and health maintenance organizations claim that mandating benefits for mental illness, alcoholism, and drug dependency will dramatically increase premium costs for health care protection and be disruptive to the health care delivery system.

(2) Some insurers and health maintenance organizations indicate that mandating these benefits will accelerate a trend by employers towards self-insurance as a means of avoiding the impact of the mandates, since at this time there is a legal question as to whether self-insured plans must comply with most existing legislation.

(3) Many insurers and health maintenance organizations also contend that individuals and employers faced with the increased costs of health coverages because of mandated benefits will severely curtail or terminate their existing group insurance programs.

(4) A number of providers of care for mental illness, alcoholism, and drug dependency claim that mandating such benefits will lead to significantly increased utilization of such benefits. While conceding that this increased usage may result in modest increases in costs for such protection, they contend that there will be an offset in savings through less general medical and hospital services utilization.

It is the purpose of this paper to explore these four issues by reviewing the actual health insurance experience in six states which have had mandated benefits in some form for a period of time. The six states reviewed in our report are Arkansas, Connecticut, Maryland, Massachusetts, Oregon, and Wisconsin. These states were selected for their many diverse characteristics to provide balance to the report. They differ in region, population, economy, and other important social measurements. Their mandated benefits were inception at different points in time and differ widely in structure.

## Methodology

The relatively short period of time since Wisconsin enacted the first mandated health insurance legislation in 1972 has made it difficult to obtain hard data on claim experience on mental health, alcohol, and drug claims in post-mandated benefit periods as contrasted to pre-mandated benefit periods. In the absence of such data, we conducted our study by contacting sources located in the six study states who had been actively involved in the pricing, administrative, and marketing of large numbers of health insurance plans during both pre-mandated and post-mandated periods. No individual coverage experience was studied.

A total of thirty-one sources were

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odologies vary among companies.

GAAP accounting also usually accompanies return on equity calculations. Thus, stock insurers that have used GAAP primarily for external reporting purposes are having to extend and modify their systems for internal reporting and many mutual companies are being introduced to GAAP for the first time. By necessity, the financial officer has been heavily involved in the implementation of these extensions of GAAP.

### Conclusion

These are but a few examples of how demands on the life insurance financial officer have greatly expanded in recent years as concerns regarding profitability and solvency have increased. These demands will continue to expand, at least over the short term, as the industry continues to adjust to the new environment.

(I/R Code No. 4400.00/4000.00)J

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## ... in some states legislation requires inclusion of the mandated benefits in all group insurance provided in the state.

contacted. All of the sources responded. These sources administered 84,500 plans in the study states covering a total of 8,822,100 participants. The sources have access to very significant data from both a quantitative and qualitative standpoint. The major carrier responded in each state. The largest national private carrier responded in each state. A national actuarial consulting firm responded for all states. A large national employer with locations in five of the six states responded for those five states. The balance of the responses were from major group insurers and independent agents located in the states studied. The respondents' answers were recorded exactly as given; however, it is obvious the respondents tended to round their numerical responses.

We have utilized data on mandated legislation that is aged for several years. This was done to present a mandated benefit structure for each state that would track as closely as possible with the period studied. The period studied was from the effective date of the mandates to a point thirty-six months after the mandates became effective. There may well be differences in the mandated benefits illustrated in the study and some legislation now in place.

Certain clarifications as to terminology are important. In questioning the experience of the respondents as to cost history, the respondents were asked not only if premiums increased but if premiums would have decreased in the absence of the mandated mental health, alcohol, and drug dependency benefits. This is important because respondents indicated some leveling of costs in recent years due to cost containment programs. We are also aware that it might not be desirable politically or from a marketing standpoint for an insurer to acknowledge cost increases for mandated benefits. It would not be difficult for the insurer to make internal rate adjustments to reach desirable pricing levels.

In regard to "mandated benefits," the term has a different meaning in different states. For example, in some states legislation requires inclusion of the mandated benefits in all group insurance provided in the state. In other states, the insurer or health maintenance organization must provide the benefit as an option for an employer to elect. In yet a third arrangement, an employer has the option, by written refusal, to waive the mandated benefits.

It should be noted as a point of interest, there are many other mandated benefits that do not deal with mental illness, alcohol, or drug abuse issues which are in place in the states we studied.

It should be noted that in accessing the move from insured to self-insured health plans by employers, we measured the movements that were solely attributable to mandated benefits or where mandated benefits were the major causative factor in the respondents' view. This is important because there are two points to consider in evaluating the movement of plans from insured to self-insured status. The first point relates to the size of the group involved. The respondents indicated that a group of less than 100 participants was not generally appropriate for self-insurance. This fact has particular significance in that the number of employers with less than 100 employees generally significantly outnumbered those employers with more than 100 employees. The second point is that mandated benefits are only one of the reasons, according to respondents, that such plans change status.

### Table One Mandated Benefits in Place During Period Studied Arkansas

Drug—No benefits in legislation during period studied.

Alcohol—No benefits in legislation during period studied.

Mental Health—There are no mini-

mum benefits specified for inpatient treatment. Reimbursement for services in a licensed outpatient psychiatric center on a par with those for health care services in a hospital. Minimum for both inpatient and outpatient of \$4,000 per year. Employer must sign waiver to delete these benefits from coverage.

### Connecticut

Drug—There were no drug benefits during the period surveyed.

Alcohol—For Group and Individual plans the benefits provide for 45 days inpatient coverage in a hospital or residential facility.

Mental Health—Inpatient benefits provide for at least 60 days full hospitalization or 120 sessions of partial hospitalization in a hospital (whether or not operated by the State) in any calendar year.

Outpatient benefits provide a deductible on a par with that for other illnesses. 50% copayment with mandated maximum benefit of up to \$1,000 in any calendar year. Availability of additional benefits, up to a maximum of \$1,000 at option of group policyholder with deductible or copayment provisions on a par with those for other illnesses.

### Maryland

Drug—Inpatient benefits cover 21 days; there is a \$1,000 outpatient benefit with 80% copayment.

Alcohol—For Group plans only, the benefits provide 7 days detoxification; 30 days residential; 30 outpatient visits for at least \$1,000 with a lifetime limit of 120 inpatient days and outpatient visits combined.

Mental Health—Inpatient benefits provide at least 30 days full hospitalization in any calendar year or benefit period. Mandates optional availability for partial hospitalization. Where a patient lives at home part of the time and spends some time in a treatment program.

Outpatient benefits provide copayment of up to 50% of the benefits provided for other types of illness.

# Effect of Mandated Drug, Alcohol, and Mental Health Benefits on Group Health Insurance Premiums

## Massachusetts

**Drug**—There were no drug benefits during the period surveyed.

**Alcohol**—For Group and Individual plans and Health Maintenance Organizations the benefits provide for 30 days inpatient and \$500 outpatient coverage.

**Mental Health**—Inpatient benefits provide at least 60 days full hospitalization in a licensed/accredited public/private mental hospital in any calendar year. Benefits and limitations on a par with those for other illnesses.

Outpatient benefits provide up to \$500 per year for services furnished by a comprehensive health service organization, a licensed/accredited hospital, an approved mental health center, and other mental clinics or day care centers with furnished mental health services or services provided by a licensed psychotherapist, psychologist, or clinical social worker.

## Oregon

**Drug**—There were no drug benefits during the period surveyed.

**Alcohol**—For Group plans only, the benefits provide for \$6,000 per 24-month treatment period with mix of inpatient, residential, and outpatient and with usual copayments and deductibles.

**Mental Health**—General: Maximum overall benefit of up to \$9,000 in any 24-consecutive month period (unless payments are for both chemical dependency, including alcoholism, in which case an overall benefit cap of \$6,000 may be applied.) Deductibles and copayments on a par with those for other illnesses.

Except as noted above, inpatient benefits provide for not less than \$7,500 in any 24 consecutive month period for full hospital or other health

(1) Some 22 sources provided both statistical and background information. A number of organizations had sources reporting in more than one state. One source omitted a question due to premium tracking difficulty. Further details regarding this study are available to interested readers from the authors.

Table Two

## Study Results—By Individual States

States and Plans Surveyed	Increase in Premium	Insured-Self-Insured	Plans Terminating	Offsetting Cost Reductions
Arkansas	None - 0	None	None	None - 33%
Groups—6,420	1-5% - 0			Significant - 0
Participants	5-10% - 100%			Too early
619,700	10-15% - 0			to determine - 67%
Connecticut	None - 75%	None	None	None - 40%
Groups—16,400	1-5% - 25%			Significant - 20%
Participants	5-10% - 0			Too early
1,565,000	10-15% - 0			to determine - 40%
Maryland	None - 42%	None	None	None - 29%
Groups—13,750	1-5% - 0			Significant - 0
Participants	5-10% - 58%			Too early
1,295,600	10-15% - 0			to determine - 71%
Massachusetts	None - 40%	None	None	None - 75%
Groups—	1-5% - 40%			Significant - 0
Participants	5-10% - 0			Too early
	10-15% - 20%			to determine - 25%
Wisconsin	None - 33%	None	None	None - 33%
Groups—1,060	1-5% - 0			Significant - 33%
Participants	5-10% - 67%			Too early
822,400	10-15% - 0			to determine - 34%
Wisconsin	None - 25%		None	None - 50%
Groups—5,830	1-5% - 0	None-88%		Significant - 28%
Participants	5-10% - 75%	Modest-12%		Too early
755,000	10-15% - 0			to determine - 22%

facility within the dollar limit for inpatient.

Except as noted above, outpatient benefits provide not less than \$2,000 in any 24 consecutive month period.

## Wisconsin

**Drug**—For Group plans only, the benefits provide 30 days inpatient coverage and the first \$500 of outpatient treatment.

**Alcohol**—For Group plans only, the benefits provide 30 days of inpatient coverage; and the first \$500 of outpatient coverage.

**Mental Health**—Inpatient benefits provide at least 30 days full hospitalization in any calendar year in approved public or private hospitals. Benefits on a par with those for other

illnesses. Partial hospitalization included under outpatient coverage.

Outpatient coverage provides not less than \$500 in any calendar year, including partial hospitalization. (State may adjust the dollar limit every two years.) Benefits on a par with those for other illnesses.

## Summary

### Composite Results for All Sources

(1) 35% of the sources indicated there was no measurable premium increase in the plans they covered attributable to the inception of mandated benefits.

11% of the sources indicated that

## Without exception the respondents indicated there had been no plan terminations due to mandated mental health, alcohol, and drug benefits.

they had experienced premium increases in the 1-5% range in the plans they covered attributable to the inception of mandated benefits.

50% of the sources indicated that they had experienced premium increases in the 5-10% range in the plans they covered attributable to the inception of mandated benefits.

3% of the sources indicated that they had experienced premium increases in the 10-15% range in the plans they covered attributable to the inception of mandated benefits.

(2) 98% of the sources indicated there had been no change from insured to self-insured status due solely to the mandated benefits in the plans which they administered.

2% of the sources indicated changes from insured to self-insured status due solely to the mandated benefits in the plans which they administered.

(3) None of the sources in our study states indicated that there had been any plans terminated due to the implementation of mandated benefits.

(4) 14% of the sources indicated they had experienced measurable cost reductions in other areas since the implementation of mandated benefits in plans which previously did not offer coverage in the mandated benefit areas or offered limited coverage in those areas.

43% of the sources indicated there had been no offsetting cost reductions in other coverage areas since the inception of mandated benefits.

43% of the sources indicated that it was too early to determine if there had been savings in other coverage areas since the inception of mandated benefits.

### Observations

The composite figures indicate a consistency of response throughout the six states studied despite their aforementioned differences.

### Premium Increases

We found no dramatic premium increases in the states studied due to mandated mental health, alcohol, and

drug benefits. Some respondents indicated that a reason for this was that although individual claims for the mandated benefits may be significant, the number of claims for these benefits as a percentage of the total claim exposure was not significant in their experience. Another reason given for the moderate premium increases is that many plans already had benefits in place for mental health, alcohol, and drug abuse which approached, equaled, or exceeded the mandated benefits. The major carrier reported premium decreases in two states after mandated benefits were enacted. We believe it fair to assume that in many cases the premium increases indicated were the result of prospective rate increases by the insurers as opposed to rate adjustments based on actual experience. The respondents, in large numbers, indicated they simply had no hard claims figures on the mandated benefits being studied. It is interesting to note that a major carrier estimated claims made for substance abuse (not including mental health) were less than one-half of one percent of total claims. Another area not dealt with in our study but of considerable interest is the effect of costs occasioned by the involvement of family members in the treatment of substance abuse patients. It has been indicated that health care providers seeking reimbursement for family services are assigning nervous or mental health diagnosis such as "adolescent adjustment disorder" or "stress" to the family members (Science Management Technology Study 1981.)

### Trend to Self-insurance

The two percent of the respondents reporting plans changed solely due to mandated benefits indicated only five plans were actually changed. The respondents reported a modest trend to self-insurance in plans of over one hundred lives; however, reported that mandated benefits were a minor consideration in that trend. Cash flow, plan design flexibility, and elimina-

tion of premium taxes in states where they exist, were cited as the main reasons for the movement to self-insurance. Future legislative efforts at the federal level could impact on this area if "qualified plans" were dealt with in regard to mandated benefits as contrasted to the current state approach which deals primarily with insurers and health maintenance organizations.

### Plan Terminations

Without exception the respondents indicated there had been no plan terminations due to mandated mental health, alcohol, and drug benefits.

### Offset Savings

No conclusion as to whether meaningful offset savings had been experienced could be reasonably determined from the sources' responses. The respondents differed more on this question than any other. It was interesting to note that those sources reporting offset savings were associated with the administration of plans with large numbers of participants. These respondents note that outpatient costs had increased with utilization after mandates, however, inpatient costs had decreased and the total of outpatient and inpatient costs had decreased. A reason cited for this result was that many participants no longer had to enter a hospital in order to receive benefits for mental health, alcohol, or drug abuse. Another factor to be reckoned with over time is the shift in costs resulting from previous misdiagnosis of drug, alcohol, and mental health claims. It is not uncommon for the family physician to label these claims differently in order to allow the patient to avoid stigma and discrimination, and to obtain reimbursement where none is provided under drug, alcohol, or mental health.

(I/R Code No. 3250.00)J

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# Effect of Mandated Drug, Alcohol, and Mental Health Benefits on Group Health Insurance Premiums

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## References:

"Private Health Insurance Coverage for Alcoholism and Drug Dependency Treatment Services: State Legislation That Mandates Benefits Or the Offering of Benefits for Purchase." National Association of State Alcohol and Drug Abuse Directors. Special Report, July 1983.

"Private Health Insurance Benefits for Alcoholism, Drug Abuse, and Mental Illness." Intergovernmental Health Policy Project. The George Washington University, July, 1979.

"Analysis of State Programs Which Mandate Mental Health Benefits Under Private Health

Insurance." Final Report to the National Institute of Mental Health. Susan Sargent. GLS Associates. Philadelphia, June 1979.

"Oregon's Experience with Remodeling Insurance Benefits for Mental Health and Chemical Dependency." Report to the 63rd Oregon Legislative Assembly on Implementation of Chapter 601, Oregon Laws 1983.

"Mandated Mental Health Benefits Under Private Insurance: A Review of State Laws." Center for Health Policy Studies, 5865 Robert Oliver Place, Columbia, MD 21045.

"Formal Policy Statement on Youth Alcohol and Drug Problems Adopted By The American Bar Association On July 10, 1985."

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## U.S. POSTAL SERVICE STATEMENT OF OWNERSHIP, MANAGEMENT AND CIRCULATION

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2. Mail Subscription	39,751	41,220
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I certify that statements made by me above are correct and complete.  
F. Robert Titus, Mgr. Support Svcs.

Passed: Alaska State Democratic Party

February 6, 1988

WHEREAS alcoholism and its effects on families, the workplace and communities has recently been the focus of the numerous news reports in Anchorage Daily News and Newsweek magazine, among others; and

WHEREAS the Governor's Interim Commission on Children and Youth (GICCY) has issued their final report which recognizes that young children and adults are at risk of family violence and abuse; and

WHEREAS children of alcoholics and drug abusers are at risk and are also prime candidates for substance abuse themselves; and

WHEREAS the GICCY report recognizes that there are ways to deal with substance abuse through education and treatment of the abuser as well as the members of dysfunctional families; and

WHEREAS the state of Alaska spends millions of dollars a year on the impacts of substance abuse through such programs as, Public Assistance, Medical Assistance, Foster Care, and the State Office of Alcohol and Drug Abuse, as well as increased costs for the Department of Public Safety and the Court system; and

WHEREAS thirty-four states already provide for either mandated insurance coverage or required offering of insurance coverage for alcoholism and drug abuse treatment; and

WHEREAS the costs and effects of alcohol and drug abuse on the residents of this state are very high, and it is important to all Alaskans that there is an easy method for people currently covered by health insurance to seek treatment;

WHEREAS without insurance, treatment is often put off or never obtained;  
Therefore

BE IT RESOLVED that the Alaska State Democratic Party supports the enactment of legislation requiring health insurance companies to provide coverage for the treatment of alcoholism and drug abuse.

*mental illness,*

1-15-83

SCADA Information

1. Akeela House, Inc., Anchorage 561-5266  
In: \$300 a month 9 months - year  
Out: same 6 month minimum
2. Charter North Hospital, Anchorage 561-7576, 252-7575  
In: \$12,880 28 days  
Out: 2,800 85 hours
3. Salvation Army - Ollikene Center 243-1131  
In: depend. on income 28 days  
Out: same 9 months
4. Yukon Kuskokwim Health Care 548-8321  
In: n/a  
Out: no change 6 months - year
5. FNA - 452-1548  
In: Detox. \$113 daily 28 days  
Prog. \$1,941 28 days  
Out: \$30 a visit cannot determine
6. City of Juneau - 586-5230  
In: depend. on income 28 days  
Out: sliding scale varies
7. Juneau Recovery Center - 536-9508  
Info. above
8. Gateway Center - 225-4154  
In: Detox. \$240 3 days  
Prog. \$1,960 28 days  
Out: sliding scale 1 year average
9. Kodiak Council - 436-3535  
In: sliding scale 20 days  
Out: sliding scale depends on client
10. Manilla - 442-1331  
In: depend. on income 30-90 days  
Out: same hard to determine
11. Northern Lights Recovery Center - 443-3344  
In: depend. on income 6 weeks  
Out: same 1 month

12. Sitka Council on Alcoholism - 747-3636  
In: n/a  
Out: depend. on income depends on client
13. Southeast Alaska Reg. Corp. - 866-8360  
In: Vet or ANHS 4 weeks  
Out: n/a
14. Family Recovery Center - 262-4101  
In: \$10,000 4 weeks  
Out: \$175 daily up to 4 weeks  
(aftercare is included in prog. fee)
15. Ak. Addiction Rehab. - 376-4534  
In: depend. on income 6 months - 2 years  
Out: n/a
16. Mat-Su Council - 376-4001  
In: n/a  
Out: \$1,000 14 weeks  
(w/aftercare \$2,200)  
(total for all avail care \$3,400)  
will accept less depend. on income

Selected Alaska Substance Abuse Facts

- Of the 260 drug arrests in 1985 cocaine was involved in 176. 57% of those arrested were retailers followed by distributors, users, and wholesalers.
- Alcoholics have a 30 times greater risk for suicide; 80% of successful suicides are alcohol-related. Alaska had 95 suicides in 1985.
- In 1985 the equivalent of 4.35 gallons of absolute alcohol was sold per person over age 21 in Alaska. The U.S. average rate is 2.52 gallons per person.
- 58 traffic fatality accidents in 1985 resulted in 69 alcohol-related fatalities. Each fatality is calculated to cost \$306,000. which results in a total cost of \$21,114,000.
- In 1982 there were 1,474 liquor licenses in Alaska. In 1986 there were 1,706 liquor licenses or one license for every 178 Alaskans age 21 or over.
- During the period of July 1985 through June 1986, 61% of the persons receiving alcoholism and drug abuse treatment services were referred by the Criminal Justice System.
- During 1985 youth aged 0-20 accounted for 14% of alcohol-related driving fatalities. This same age group only have 7.1% of the drivers licenses.
- 55% of all crime in Alaska is estimated to be alcohol-related. 16% of 1985 felony court filings were for drug-related charges.
- The estimated value of drugs seized in 1985 by drug enforcement officers was \$9,012,409.
- In up to 90% of child abuse cases alcohol is a significant factor. There were over 9,500 reports of child abuse in Alaska in FY86.
- Alcohol impaired persons accounted for 49.5% of 79 pedestrian fatalities between 1980-1984. Additionally, 30% of the drivers were using alcohol at the time of these crashes.

SELECTED COMPUTATIONS ON  
ALCOHOL/DRUG RELATED COSTS

Tables

1,2,3	PUBLIC ASSISTANCE PAYMENTS:	5,828,210
4	MEDICAL ASSISTANCE PAYMENTS:	5,650,892
6	SOCIAL SERVICES: Foster Care, Institutional care for children, Daycare, Protective Services, Homemakers *(Some drug costs included)	8,713,444
8	MOTOR VEHICLE: Accidents, Fatalities, Injuries, Property Damage	31,903,460
13,14	CRIMINAL JUSTICE SYSTEM: Prosecution, Enforcement, Courts, Corrections	78,644,355
	SOADA:	15,109,700
15,16,17,18,19	COSTS OF LOST PRODUCTION:	19,870,000
20	ESTIMATED INSTITUTIONAL EXCESS COSTS, HEALTH AND MEDICAL CARE:	19,569,000
21	COUNCIL ON DOMESTIC VIOLENCE:	3,510,360
	<u>TOTAL COSTS</u>	<u>138,804,421</u>
.....		
12	Net Revenue to State from Licensure Fees and Taxation	
	<u>TOTAL REVENUE</u>	14,368,433
.....		
10,11,12	Estimated Loss of Income to Alaska Families	54,900,000
	Cost	185,294,061
	Revenue	(14,368,433)
	<u>NET COST</u>	<u>170,925,628</u>

The State Spends \$12.69 on Services for Each \$1 of Revenue Collected for Alcohol Products.

\*\*\*Supporting calculations on following pages.

TABLE 4

MEDICAID PAYMENTS RELATED  
TO ALCOHOL, FY 84

Medicaid Cost for AD's Per Year	Estimated Percent Alcohol- Related AD Cases	Medicaid Alcohol- Related Costs for AD's Per Year	Medicaid Cost for AFDC & Under 21 Per Year	Estimated Percent Alcohol- Related AFDC & Under 21	Medicaid Alcohol- Related Costs for AFDC & Under 21 Cases Year	Total Medicaid Costs for Alcohol- Related AFDC, 21 AD Cases Per Year
16,117,431	20%	53,233,486	16,182,708	15%	2,427,406	\$5,650,892

Source: Division of Medical Assistance, Dept. of Health and Social Services

TABLE 5

MEDICAL AND PUBLIC ASSISTANCE AGGREGATED DIRECT COSTS ATTRIBUTABLE  
TO ALCOHOLISM AND ALCOHOL ABUSE, FY 84

Category	Cost of All Alcohol-Related Cases Per Year
AFDC	\$2,331,914
AD	1,249,814
Adult Programs	1,644,912
Medicaid	5,550,392
Total Alcohol- Related Assistance Costs	10,377,532

Total of Tables 1, 2, 3, 4,

TABLE 8  
 ECONOMIC COSTS OF EXCESS MOTOR VEHICLE ACCIDENTS  
 ATTRIBUTABLE TO ALCOHOLISM AND ALCOHOL ABUSE  
 ALASKA, FY 84

Accident Type	1 Number	2 Unit Cost (dollars)	3 Total Cost (dollars)	4 EAA	5 Excess Cost (dollars)
Fatalities	137	\$306,000	\$44,662,000	51.1%	\$22,322,282
Injuries	6,340	5,000	34,200,000	15.5%	5,301,000
Property Damage	14,499	Actual Reported Damages	40,210,258	9.4%	3,779,764
Total Excess Cost Attri- butable to Alcohol Abuse					\$31,903,046

Source:

- Column 1. Provided by Alaska Department of Public Safety and the Department of Highways.
- Column 2. Unit Costs for Alaska provided by Mr. Mike Lewis, Alaska Highway Safety Planning Agency
- Column 3. Product of Columns 1 and 2. Total Cost for Property damage accidents provided by actual reported damages.
- Column 4. Excess proportion due to alcohol abuse.
- Column 5. Product of Columns 3 and 4.

TABLE 11

LOST PRODUCTION COSTS AMONG FAMILIES WITH ALCOHOL ABUSING MALE HEADS  
BY AGE GROUPS AND TOTAL POPULATION

Age Income Group	1 Decrease in Median Income Due to Alcohol Abuse of Male Head of Household	2 Estimated Number of Families With Alcohol-Abusing Male Head	3 Estimate of Total Lost Income (millions)
20-29	\$2,446	4,040	9.8
30-39	5,580	3,291	18.4
40-49	8,903	2,138	19.1
50-59	6,362	1,202	7.6
Total		10,571	\$54.9

Column 1. From Table 1, Column 3.

Column 2. From Table 2, Column 4.

Column 3. Product of Column 1 multiplied by column 2.

TABLE 13

EXPENDITURES OF THE CRIMINAL  
JUSTICE SYSTEM BY COMPONENT  
ALASKA, FY 84

COMPONENT	AMOUNT
Enforcement	
State Troopers	\$ 33,786,800
Municipal Police	54,354,701
Prosecution	9,288,700
Judicial	35,932,700
Corrections	<u>56,617,100</u>
TOTAL	189,980,001

Sources: Budget expenditures obtained from Division of Budget and Management reports. Municipal expenditures obtained from Department of Public Safety.

Table 14

ESTIMATED EXPENDITURES OF CRIMINAL JUSTICE SYSTEM ATTRIBUTABLE TO  
ALCOHOLISM AND ALCOHOL ABUSE AS A PROPORTION OF EACH AND ALL SYSTEM  
COMPONENTS, FY 84

Component	Total Component Expenditure	Alcohol Related Expenditures	Percent of Expenditure for each*	Percent of Total Expenditures
Enforcement	88,141,500	40,016,241	45.4%	23.5%
Courts	35,932,700	5,569,568	15.5%	3.2%
Corrections	56,617,100	33,058,546	28.5%	13.4%

\*Percent expenditures determined from survey of various agencies.

TABLE 16

## PERSON YEARS LOST DUE TO EXCESS DEATHS DUE TO ALCOHOLISM AND ALCOHOL ABUSE

Age Group of Death	AGE GROUP WHEN YEARS LOST				
	20-24	25-34	35-44	45-54	55-64
20-24	49.84	196.96	191.36	179.04	153.28
25-34		102.34	200.56	187.38	160.18
35-44			222.12	421.56	360.00
45-54				112.42	189.35
55-64					93.12

Source: Economic Cost of Alcohol Abuse and Alcoholism, 1971, Hms 42-73-114  
NIAAA

TABLE 17

MEDIAN TOTAL INCOME BY  
AGE FOR 1980

AGE GROUP	MEDIAN TOTAL INCOME
20-24	10,601
25-34	14,662
35-44	18,252
45-54	17,029
55-64	13,743

Source: Department of Labor, 1980 Census report.

TABLE 20

ESTIMATED INSTITUTIONAL COSTS OF HEALTH AND MEDICAL CARE  
ATTRIBUTABLE TO ALCOHOLISM AND ALCOHOL ABUSE\*

	<u>Low Estimate</u>	<u>High Estimate</u>	<u>Average Estimate</u>
.....			
Hospitals - Acute Care			
Non-Native-Private	2,364,553	3,715,307	3,041
Public Health	1,411,715	2,270,223	1,840
Military	437,939	700,131	.569
API	<u>828,599</u>	<u>382,599</u>	<u>.333</u>
SUB-TOTAL	5,096,806	7,568,765	5.333
.....			
Physician's Services			
Non-Native and Military	5,341,125	15,435,000	10.383
Public Health Service	116,600	856,069	.437
SUB-TOTAL	5,457,725	16,291,069	10.875
.....			
Drug and Drug Sundries	546,840	614,960	.531
.....			
Nursing Services	1,782,198	1,782,198	1.782
.....			
<u>TOTAL</u>	<u>12,883,573</u>	<u>26,256,194</u>	<u>19.569</u>

\*Update of previous estimate completed by Dennis Kelso, Ph.D., in the Economic Impact of Alcoholism and Alcohol Abuse in Alaska, 1978, Volume 1, pp. 63-99.

TABLE 21

ESTIMATED COST OF DOMESTIC VIOLENCE SERVICES  
ATTRIBUTABLE TO ALCOHOLISM AND ALCOHOL ABUSE

FY86 Budget Council Domestic Violence	% of Caseload Alcohol Related	Costs Due to Alcohol Abuse
\$ 4,375,500	72%	\$ 3,150,350

# Eastside Alcohol Center

A nonprofit Corporation

EASTSIDE A. C. INC.  
PART 120 ; SUITE 204  
606 120TH AVE. NORTHEAST  
BELLEVUE, WASHINGTON 98005.

(206) 454-1501

## INSURANCE COMPANIES THAT COVER ACTION TO DATE

### AETNA LIFE & CASUALTY

Most group policies offer 80% coverage. Individual policies vary greatly.  
(Boeing, Toshiba America, Inc., First Farwest)

### AMERICAN STATES LIFE INSURANCE COMPANY

80% usual and customary charges.

### AUTOMOTIVE MACHINISTS HEALTH & WELFARE FUND

80% or 90%

### THE BANKERS LIFE

50% (Seattle Times, Hyster Co.)

### BLUE CROSS OF OREGON

Coverage \$3,000.00 per every 24 months. Paid at 80%

### BLUE CROSS OF WASHINGTON AND ALASKA

Policies 80% usual and customary charges. (Evergreen General Hospital)

### CARPENTERS HEALTH & SECURITY TRUST FUND

Treatment only, including all of ACTION, 80% (Baugh Construction)

### CONNECTICUT GENERAL LIFE INSURANCE

Most policies pay at 80%. (United Airlines)

### ELDEC CORPORATION

50%

### EQUITABLE LIFE ASSURANCE SOCIETY

Must be physician referred

### FIRST FARWEST INSURANCE COMPANY

100%

### GROUP HEALTH COOPERATIVE

Client MUST be referred by group health (ADAP) program prior to treatment  
outside services referral authorization will state what kind of services  
they will pay for and dollar limit. Policies usually have either a \$500.00,  
\$1,000.00, \$1,500.00, or \$3,000.00 (Also covers "SPRING" Program.)

### GREAT-WEST LIFE ASSURANCE COMPANY

Must be physician referred. 80%

### HEWLETT-PACKARD CO. EMPLOYEE BENEFITS

Self-insured, group policy, covers outpatient treatment.

### HOSPITAL EMPLOYEE BENEFIT PLAN & TRUST

50% to 80% (Ballard Community Hospital)

PAGE 2: INSURANCE COMPANIES THAT COVER ACTION TO DATE

JOHN HANCOCK MUTUAL LIFE INSURANCE COMPANY  
80% (Digital Electronics)

HEALTH MAINTENANCE PROGRAM OF SNOHOMISH COUNTY  
Must be referred by Snohomish County Physician Plan M.D. - 100%

ILWU-PMA BENEFITS PLANS (Two types)  
Republic Insurance is the carrier. Check your own benefit book for details.

INSURANCE COMPANY OF NORTH AMERICA  
(INA)

EARLE M. JORGENSEN COMPANY  
Shop Employees Health & Welfare Plan. 80% to 90%

KING COUNTY MEDICAL BLUE SHIELD  
Boeing employees ONLY-80% (Rainier National Bank)

KEMPER INSURANCE COMPANY  
50%

LOCKHEED MEDICAL BENEFIT PLAN  
Services must be provided by M.D. covered under mental health treatment-outpatient.

LINCOLN NATIONAL LIFE INSURANCE COMPANY  
80% - policies vary

MASSACHUSETTS MUTUAL  
Pays 80%

MASTERS, MATES AND PILOTS HEALTH & BENEFIT PLAN  
80% up to \$500.00 per year.

METROPOLITAN LIFE INSURANCE COMPANY  
Frederick & Nelson - \$1,000.00 basic lifetime (Doctor referral also).

NATIONAL ELECTRICAL CONTRACTORS ASSOCIATION  
Administered by First Farwest Insurance Company.

NATIONAL MUSICAL ASSOCIATION  
Western Washington Laborers' Employees Health & Welfare Trust - 80% coverage  
Western Washington Laborers' Employees Health & Welfare Trust - 80% coverage

NEW ENGLAND LIFE  
Pays 80%

NEW YORK LIFE INSURANCE COMPANY  
Services rendered by licensed physician - pay at 50%.

NORTHWEST ADMINISTRATORS, Inc.  
Administered for: Washington Teamsters Welfare Trust (i.e., Landendort Baking  
Company, A.B.C. Seafood Company - 80% coverage.

NORTHWEST METAL CRAFTS TRUST FUND

Covers Lockheed Shipbuilding Union Local 79 - 80% (Blue Cross - administrator).

PACIFIC MUTUAL INSURANCE

Must be physician referred - coverage at 80%.

PACIFIC NORTHWEST BELL

Travelers

PAN AMERICAN WORLD AIRWAYS

Blue Cross - Coverage at 50%

PAY-N-SAVE CORPORATION

Administered by Bankers Life Insurance Company. Needs a physician referral.

PRUDENTIAL INSURANCE COMPANY OF AMERICA

Group claims 80% usual and customary charges (PACCAE). Individual policies vary greatly.

PUGET SOUND & INLAND EMPIRE WELFARE TRUST

80%

REPUBLIC NATIONAL LIFE INSURANCE

Handles many national and international unions - administrator.

RETAIL CLERKS WELFARE TRUST

Safeway, etc. - 80%

SEARS ROEBUCK AND COMPANY

80%

SEATTLE AREA PLUMBING AND PIPEFITTING LOCALS #32

Administered by Lincoln National Life - coverage is at 100%

SEATTLE TIMES EMPLOYEE BENEFIT PLAN

Administered by Bankers Life Company - coverage at 50%

SUNDSTRAND DATA CONTROL

Group Benefit Program - \$500.00 per year outpatient alcoholism benefits

TRAVELER INSURANCE

General Telephone new contract effective January 1, 1981. \$1,000.00 per year

UNITED LIFE INSURANCE GROUP

Needs doctor referral

UNITED ADMINISTRATORS

handle many local unions, welfare trust and general businesses coverage ranges from 80% to 90%.

UNITED BENEFIT LIFE INSURANCE

Affiliate of United of Omaha, handle many local unions, welfare trust and general business policies. \$1,000.00 per year alcoholism treatment, for Western Washington Laborer's.

UNITED HEALTHCARE CORPORATION

Five day outpatient coverage per year.

UNITED OF OMAHA

Outpatient coverage, varies on group policies - Washington Employer's Trust.

UNITED PACIFIC LIFE INSURANCE COMPANY

Van DeCamps Bakery, for example - outpatient coverage is \$250.00 per year.

WASHINGTON STATE AUTO DEALERS INSURANCE

Administered by Prudential Life Insurance - 90% to 100%.

WASHINGTON TEAMSTERS WELFARE TRUST

Local Union #117.



EQUITABLE VARIABLE LIFE INSURANCE COMPANY  
3301 C. St., Suite 500  
Anchorage, Alaska 99503  
(907) 561-5355  
(907) 333-7667

KEITH MORTENSEN  
Professional Life Underwriter  
Equity Qualified Agent

March 27, 1985

Reese, Rice & Volland, P.C.  
ATTN: Karen Hammerlund  
211 H Street  
Anchorage, AK 99501

Dear Karen:

The following is a break down of eighteen group health insurance companies and the ways each treats alcoholism.

Please use the following to help understand my abbreviations and columns.

Column 1 - Shows the yearly and lifetime maximum benefits.

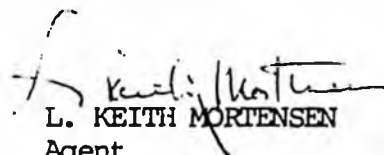
Column 2 - Shows if the company will cover treatment on an inpatient or outpatient basis. All of the companies require inpatient treatment to be performed in a state approved facility.

Column 3 - Reflects the coinsurance level paid by the company.

Column 4 - Shows if the company will cover counseling treatment on inpatient or outpatient basis.

Please note that "V" stands for visits and "D" stands for days.

Sincerely,

  
L. KEITH MORTENSEN  
Agent



COMPANY	1	2	3	4
TRAVELERS	\$1,000.00 Yr \$3,000.00 Life	In	80%	In-Out Out-No
WESTERN/ST PAUL	In-73 days yr Out-130 hrs	In/Out	80%	In-Yes Out-Yes
W.P.E.T.	Yr-\$10,000 Life-\$10,000	In	80%	In-Yes Out-No
AEINA patient benefit	May be written with coverage to cover in or out treatment and with or without yearly or lifetime at 80%.			
V.E.T.	Life-\$10,000 Yr-\$10,000	In	80%	In-Yes Out-No
M.O.N.Y.	Life-\$20,000 Yr-\$20,000	In/Out	Out-80% In-50%-\$30	In-Yes Out-Yes
NEW YORK LIFE	No Limit	In-30 Days Out-15 Visits	In-80% Out \$20V	In-Yes Out-Yes
PRUDENTIAL	Life-\$20,000 Yr-\$20,000	In/Out	In-80% Out-50%	In-Yes Out-Yes
NORTHWESTERN NAT.	<del>-----No coverage provided-----</del>			
NEW ENGLAND LIFE	No Limit	In/Out		In-Yes Out-Yes
MUTUAL OF OMAHA	No Limit	In/Out	80%	In-Yes Out-Yes
Reflects the best coverage available for this company.				
MUTUAL BENEFIT LIFE	No Limit	In	In-80%	In-Yes
LINCOLN NATIONAL	Life-\$50,000	In/Out	80%	In-Yes Out-Yes
ALLIED GRP TRUST	Life-\$15,000	In-30D \$10,000 Out-\$60V, 50 Yr	In-80% Out-50%	In-Yes Out-Yes
UNION MUTUAL	Yr-1,000 Life-None	In-30D, yr Out-\$1,000 yr	In-80% Out-50%	In-Yes Out-Yes
AMERICAN CHOICE	Life-\$10,000 Yr-\$10,000	In	80%	In-Yes Out-Yes
UNITED OMAHA	Life-\$50,000 Yr-\$1,000	In	In-80% Out-50%	In-Yes Out-Yes
GREATWEST LIFE	In-Life-\$25,000 In-Yr-\$10,000 Out-Life-None Out-Yr-\$500.00	In/Out	In-80% Out-50%	In-Yes Out-Yes (\$20V)

RPO393

RECEIVED  
OFFICE OF ALCOHOLISM  
AND DRUG ABUSE

JAN 09 1984

EXECUTIVE SUMMARY

MEDICAL CARE AND ALCOHOLISM TREATMENT COSTS AND UTILIZATION:

A FIVE-YEAR ANALYSIS OF THE CALIFORNIA PILOT PROJECT

TO PROVIDE HEALTH INSURANCE COVERAGE FOR ALCOHOLISM

December 1981

By

Harold D. Holder, Ph.D.

and

Jerome B. Hallan, Dr.P.H.

H-2, Inc.

211 N. Columbia St., Suite B  
Chapel Hill, N.C. 27514

*Report prepared for the National Institute on Alcohol Abuse and  
Alcoholism under Contract No. ADM 281-79-0008.*

A variety of conclusions may be drawn as a result of this study. It appears that inpatient care has not gained in popularity as a modality of service; indeed, it now appears as if inpatient care is leveling with respect to the number of inpatient admissions per client. It further appears that upon admission to an inpatient facility clients are now staying for much shorter periods of time than the three years previously. This perhaps may be attributable to the use of hospitals for detoxification only. Surprisingly the outpatient care in terms of visit per person had dropped during the fourth year of the study. It is not clear at this time whether such a drop pretends a true trend, or whether it is merely an artifact in the data. Finally, the study findings continue to demonstrate that a uniform comprehensive set of insurance benefits for the treatment of alcoholism is feasible and generally inexpensive. Utilization continues at a relatively low rate and projection of insurance premiums necessary to finance this program indicate that only a modest increase above normal insurance cost would be necessary. This observation does not take into account the potential off-setting costs likely to be achieved and the reduction of costs associated with other forms of health care.

Conclusions which may be drawn about the potential impact of the treatment of alcoholism as a specific diagnosis include: (See Figure I-7.)

- o Utilization and costs of all forms of inpatient care for both nonalcoholic family members as well as alcoholic family members can be expected to drop.
- o Outpatient care will also decrease in frequency and will represent a higher percentage of the family health care costs.
- o Total medical care costs per family member (both inpatient and outpatient care) will decrease substantially over time as the effect on the family of treatment of its alcoholic member occurs.

The conclusions are supported when compared with the nonalcoholic matched control group of families. At the end of the study, the inpatient costs per person per month of both the control families and the alcoholic families were similar and the outpatient costs of the control families were actually higher. Therefore, one can conclude that the changes in health care costs and utilization among the study population are most likely a result of alcoholism treatment and not a result of natural changes (e.g., aging or family composition) as demonstrated in the control population over time. It would appear that the treatment of alcoholism has a significant effect in reducing not only the utilization and costs of all health care for alcoholic family members but for nonalcoholic family members as well.

FIGURE I-1

Alcoholism Treatment Utilization, 1974-78  
California Pilot Project and Follow-up

