

ALASKA LEGISLATURE COMMITTEE FILES, 1989-1990 8672

5917 HOUSE LABOR & COMMERCE

321

*Dave or Ginger,
sent previously
sent
Mary*

December 29, 1989

Representative Dave Donley, Chairman
House Labor and Commerce Committee
House of Representatives
P.O. Box V
Juneau, AK 99811

Dear Representative Donley:

The House Labor and Commerce Committee had hearings on November 30, 1989 at which time I was asked to have an "informal" chat with the committee. Since I wasn't prepared to testify, I gave you some estimated premium figures and promised to follow up with exact rate information.

MICA's 1990 Premium Schedule is enclosed for your information. The committee had asked me questions at the hearings specifically relating to the cost of insurance to physicians delivering babies. I mentioned that the majority of our physician policyholders have limits \$500,000 per claim, \$1,000,000 aggregate. Physicians delivering babies are Class 3 on the schedule. Assuming a physician had policy limits of \$500,000/1,000,000 and had been insured with MICA for five or more years his premium for 1990 would be \$30,162. (This is about \$20,000 less than I quoted to you.)

Another question is the difference in premium between a Family Practitioner doing obstetrics and those who were not. Assuming the same scenario as above and that the Family Practitioner not doing obstetrics was doing minor surgery the difference would be \$14,046. In other words, the Family Practitioner who delivers babies pay \$14,046 to do so (or about 1/2 of the total premium is for obstetrical coverage).

I hope that this letter and the attached premium schedule better answers your questions. If you have any further questions, please feel free to call me.

Sincerely,

Mary A. Pierce
Executive Director

MAP/blb

Enclosure

<u>RATE CHANGES</u>	<u>M.D.</u>	<u>HOSPITAL</u>
1981	+ 2.5 %	- 6.0 %
1982	+ 5.0 %	+ 5.0 %
1983	- 6.5 %	+ 20.0 %
1984	+ 7.5 %	+ 7.5 %
1985	+15.0 % *	+ 15.0 %
1986	+90.0 % **	+107.0 %
1987	+25.0 %	+ 42.0 %
1988	+23.0 %	0 %
1989	0 % †	0 % †

* Some specialties had class change providing larger increases:
Examples:

Family Practice doing O.B. +186% (Changed to Class 2B)
Emergency Medicine +166% (Changed to Class 2A)

**Increases for 1M/2M limits were greater (approximately 125%)

† Potential increase for MICA's 1989 Tax liability is 12.6% for physicians and 10.5% for hospitals.

*Dave or Ginger,
Percentage
increases in
rates. also
previously
provided.
Mary*

MICA Medical Indemnity Corporation of Alaska

ALEUT PLAZA
 4000 OLD SEWARD HWY., SUITE 208
 ANCHORAGE, ALASKA 99508
 (907) 568-8414

February 23, 1990

Representative David Donley, Chairman
 House Labor and Commerce Committee
 State of Alaska
 P.O. Box V
 Juneau, Alaska 99811

Dear Chairman Donley:

I was requested in a legislative hearing on Tuesday, February 20, to supply the committee with numbers of deliveries made per physician from information gathered on a questionnaire distributed by ASMA to private practice physicians in the state.

The information follows:

Family or General Practitioners doing Obstetrics

	Fewer than					
	10	10-20	21-40	41-100	101-200	over 200
Anchorage *		1	3	6		
Fairbanks		4	1			
Kenai Peninsula		2	4	3	1	
South "	1	3	6	3	1	
North				1**		

* - Anchorage includes Mat-Su Valley

** - covered by Federal Government

General Surgeons (C-Section only)

	Fewer than					
	10	10-20	21-40	41-100	101-200	over 200
Southeast			1	1		

Obstetricians

	Fewer than 10	10-20	21-40	41-100	101-200	over 200
Anchorage			1***	2	11	3
Kenai Peninsula				1		
Fairbanks					4	

*** This physician noted that he only docs 40 deliveries because CNA (his carrier) increases the rates with an increase in deliveries.

The following are the statistics I testified to during the hearings.

Total: 321 Uninsured: 48 or 15%
187 of total doctors reside in Anchorage

	<u>Delivering or Had Been Delivering Babies</u>	<u>Not Doing Deliveries</u>
Total	131	190
Uninsured	27 or 20.6%	21 or 11%
Uninsured Located	14 - Anchorage 7 - Kenai Peninsula 2 - Fairbanks 2 - North 2 - Southeast	14 - Anchorage 4 - Kenai Peninsula 3 - Southeast
Stopped Coverage before 1987	6	9
% of Gross Income willing to Pay		
Minimum	5%	1%
Maximum	25%	10%
Average	10%	5-10%

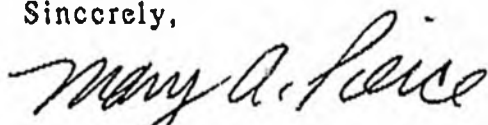
No Longer Delivering Babies 42 * or 32%

* - 33 doctors in the insured group were no longer delivering babies all due to cost.

- 9 doctors in the uninsured group were no longer delivering babies partially due to cost.

I hope this information proves useful. I've attached a copy of the questionnaire form that was distributed to the 616 private practice physician.

Sincerely,



Mary A. Pierce
Executive Director, MICA

Amendment to
CS HB 350

P. 3 Lines 15-17
Remove Subsection (2)

p 3 Line 18
~~is~~ renumber subsection (2)
as subsection (3)

p 3 Line 21 After: - subsection (2)
add a new subsection:

(3) A percent equal to the
result of subtracting the number
of births from 120,
if the physician
practices in a rural community
and acts as the attending physician
in at least 20 but less than
70 births.

p. 4 Line 2 after subsection (3) add
a new subsection:

(4) 50 percent, if the physician practices
in a rural community and acts as the
attending physician in 70 or more births.

Formula 120 - (# of births)

<u>Number of Births in Rural Area</u>	<u>Percent Size of Payment to Physician</u>
20	100%
30	90%
40	80%
50	70%
60	60%
70 or more	50%

MICA Medical Indemnity Corporation of Alaska

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4000 OLD SEWARD HWY., SUITE 203
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(907) 563-3414

February 13, 1990

Representative Dave Donley, Chairman
Labor and Commerce Committee
House of Representatives
State of Alaska
PO Box V
Juneau, Alaska 99811

Dear Chairman Donley:

I testified in front of the House Labor and Commerce Committee and was requested to submit my comments in writing. Please share this written testimony with the other committee members.

Chairman Donley and Committee members, I am Mary Pierce, Executive Director of MICA.

CSHB334 - Requiring insurance of outstanding judgement.

We wanted to make a few brief informational comments on this bill. We, like all insurance companies, have underwriting requirements to write physicians. We do gather previous claims experience and our Underwriting Manager and the Underwriting Committee may not cover an applicant based upon that experience. In other words, we do not offer insurance coverage to all applicants. If this bill is passed we wanted the committee to know that physicians with an outstanding judgement may not be able to procure coverage and therefore not able to practice.

CSHB336 - Medical Malpractice Advisory Panels.

We feel strongly that if current Medical Malpractice Advisory panels are to work they need to be comprised of experts, more importantly specialists who can understand the technical medical procedures and make assessments that offer the judge and both parties accurate medical conclusions.

We fight now to obtain the appropriate physicians specialist on a panel. It does no good whatsoever to have a family practitioner on a panel where we have technical complications involving an orthopedic procedure. We feel that adding lay people to this panel would not make it any better. In fact, the time the panel would need to review a case would increase as the physicians would have to educate the lay people.

We ask you to not further dilute the credibility of the panel but in fact maintain it as an "expert" advisory panel membered with medical experts. We suggest that lay people have a place in the system and that is on the jury. If you must put a lay person on the panel to make sure the doctors play straight then please make them non-voting members on these highly technical issues.

Medical Indemnity Corporation of Alaska

CSHB337 - Mandatory insurance requirements for hospitals.

Our comments here are similar to HB334. We do have underwriting requirements for hospitals. We are concerned since we are the only company offering coverage in the state to the rural hospitals that we may not chose to underwrite a hospital. We want the committee to understand that we are unwilling to compromise our standards because the strength and stability of those standards allow us to continue in business. We are not interested in becoming a substandard market or acquiring risks that may lead to our insolvency. It is our commitment to be here to write malpractice for the majority.

HB349 - Money from Medical Malpractice Revolving Loan Fund.

This fund was established to fund the operations of MICA. We have borrowed from it twice and have an outstanding balance of \$2,402,286 on the first note and \$800,000 on the second note. This fund has been important to us both in our original capitalization and also as surplus. This surplus is critical when being reviewed by reinsurers because it helps add stability to our small company. Needless to say, we are concerned about any depletion to the fund.

HB350 - Matching Fund.

We are certainly supportive of the concept of a matching fund. We do have some questions regarding this in legislation.

First of all, I believe I understand the intent of the formula but for the life of me, I can't get it to work. Perhaps someone can explain it to me.

We are also curious as to a definition of the term "rural" as it applies to the bill.

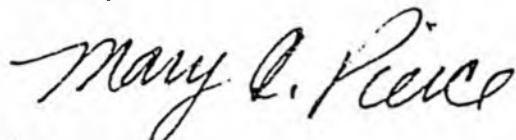
Finally, we have some concerns if we are to administer this fund.

- 1) The first is a potential restraint of trade problem that might occur by a physician with another carrier being denied access to the fund. It is at the very least a potential conflict of interest.
- 2) Secondly, if we do administer it we are concerned with the increase in administrative costs to us. Our question is therefore one of developing a budget and receiving compensation to administer the fund.

Again, we don't disagree in concept to the idea of a matching fund but do have questions regarding the mechanics.

Thank you for your time. I will be happy to answer any questions.

Sincerely,



Mary A. Pierce
Executive Director

STATE OF ALASKA
THE LEGISLATURE

POUCH Y STATE CAPITOL
JUNEAU ALASKA 99811
907-465 3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

February 20, 1990

SUBJECT: Alaska medical malpractice matching fund -
HB 350

TO: Representative Dave Donley

FROM: Michael F. Ford *m.f.*
Legislative Counsel

You have asked if creating the Alaska medical malpractice matching fund raises any constitutional problems. Under Article VII, section 4, of the Alaska Constitution, the legislature has a broad mandate to protect the public health. I do not see that providing subsidized malpractice insurance in order to ensure that medical services are available, violates the state constitution.

Please contact me if you have further questions.

MFF:pl
WKP2/065

MICA Medical Indemnity
Corporation of Alaska

ALEUT PLAZA
4000 OLD SEWARD HWY., SUITE 203
ANCHORAGE, ALASKA 99503
(907)563-3414

December 29, 1989

Representative Dave Donley, Chairman
House Labor and Commerce Committee
House of Representatives
P.O. Box V
Juneau, AK 99811

Dear Representative Donley:

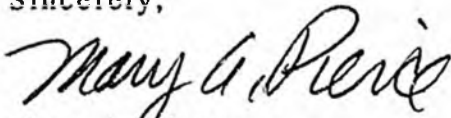
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I hope that this letter and the attached premium schedule better answers your questions. If you have any further questions, please feel free to call me.

Sincerely,



Mary A. Pierce
Executive Director

MAP/blb

Enclosure

BOARD OF GOVERNORS:

William G. Brock, Chairman
David J. Frazier, 1st Vice-Chairman
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C. Keith Campbell
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Clarice Dukeminier, M.D.
Vern Carlson

ADMINISTRATIVE SERVICES:

Mary Pierce, Executive Director
Janet Sloan Johnston, Claim Manager
Penny Chmielewski, Risk Management Coordinator
Art Stanford, Underwriting Manager

MICA Medical Indemnity
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1990

**Physician's and Surgeon's
Professional Liability Coverages and Premium Schedules**

PROFESSIONAL LIABILITY COVERAGES

Explanation of Policy:

The Claims-Made Policy extends professional liability protection to the physician, clinic or employee for claims reported in a single year, regardless of when service is rendered as long as the incident occurred while continuously insured under Claims-Made with MICA. Thus, claims reported this year are covered by this year's policy; claims reported next year by next year's policy and so on.

MICA's premium rates are derived from the historical pattern of reported claims resulting from the performance of professional services which form a "stair step" with an increasing number of claims being reported each year until the fifth year. In the first year, only about 19 % of the total claims resulting from professional services are reported; the second 39 %; the third 78 %; the fourth 93 %; the fifth and subsequent years, about 100 %.

Cost:

In keeping with the "stair step" development of claims, the rates charged for the Claims-Made policy mature at the fifth year. Subsequent renewal policies are charged at the mature rates. The specific cost of coverage is shown within our table entitled CLAIMS-MADE PREMIUM SCHEDULE.

All policies issued by MICA are renewed on January 1 of each year. Your first years and renewal rates are pro-rated from the first date of coverage (inception date) of the original policy. For example, if your continuous coverage became effective on July 1, 1986, your annual renewal premium on January 1, 1990 would be pro-rated from January 1 through June 30 on the fourth year rates and from July 1 through December 31 on the fifth year rates.

Limits of Liability:

MICA's professional and optional comprehensive general liability coverages are available with policy limits of:

- \$200,000 per occurrence/\$600,000 aggregate per calendar year.
- \$500,000 per occurrence/\$1,000,000 aggregate per calendar year.
- \$1,000,000 per occurrence/\$2,000,000 aggregate per calendar year.
- \$1,000,000 per occurrence/\$3,000,000 aggregate per calendar year.

Reporting Endorsement (Tail Coverage) *

Should you stop practicing or change to another insurance company, MICA guarantees availability of a limited or Unlimited Reporting Endorsement known as "tail" coverage to cover subsequently reported claims. Tail coverage must be purchased by the insured within 30 days of termination of coverage, (by cancellation or non-renewal) or by termination of employment or association with the physicians insured under a master group policy.

"Tail" coverage must also be recognized when a physician reduces rating classification to offset reduced premium charges while subsequently reported claims from the higher specialty continues to occur. This is currently being accomplished by charging "tail" premium on a pro-rata basis as between the two speciality classes when the policy is ultimately terminated.

Cost:

The cost of "tail" coverage will depend upon the length of time you have been insured with MICA, limits of liability purchased, physician's rating class and will be subject to the company's rules, rates, and rating plans in effect at the time the Unlimited Reporting Endorsement is requested.

* The policy limits purchased for the Unlimited Reporting endorsement will be applicable just as if the policy had not been cancelled or terminated and all subsequently reported claims had been reported during the last policy year.

The tail premium is quoted as a one time cost but may be paid in installments. Refer to paragraph INSTALLMENTS.

Retirement Benefit:

An Unlimited Reporting Endorsement (tail coverage) will be issued at no extra cost to any physician who has attained the age and years in the MICA program (as per the schedule below) and having completed five consecutive years as a MICA insured just prior to retirement:**

Age	Years as MICA Insured
60	5
59	6
58	7
57	8
56	9
55	10

** Retirement is defined as totally ceasing the private practice of medicine. A limited or parttime practice is not considered retirement.

Death or Total and Permanent Disability:

A Reporting Endorsement (tail coverage) will be issued at no extra cost because of death or permanent total disability, i.e., unable to continue the practice of medicine in any limited or modified capacity.

New Doctor Rule:

For physicians entering private practice for the first time following completion of medical school, residency training, military or public health service, premiums will be discounted 25 % for the first year of coverage.

Claims Free Premium Discount:

A 20 % premium discount will be provided to our insured physician* for a five year claims free history. This policyholder benefit will be provided upon renewal following the completion of the fifth year in which a claims free record has been demonstrated.

Claims Experience Premium Surcharges:

Claims experience premium surcharges may be imposed upon insureds with two or more claims in

the last three years in which some elements of negligence or other contributing adverse factors are involved.

Employee Coverages:

Unlike many policies, most employees are provided coverage under the MICA policy.

Employee premium charges are limited to: (1) Advanced Nurse Practitioners or Physician's Assistants added to a physician's or clinic's policy subject to 50 % of Class 1 premium (shares policy limits with employer, sponsor or supervising physician); (2) Physician's Assistants or Nurse Practitioners on policies providing separate limits of liability from sponsoring/supervising physician, subject to higher premium based upon specialty and practice situation; (3) employed Nurse Midwives or directly supervised Certified Registered Nurse Anesthetists (CRNAs) are subject to 100 % Class 3 annual premium; (4) unsupervised CRNAs or Nurse Midwives are subject to 100 % of Class 4 and Class 4A premium respectively.

No additional premium charges are incurred for other employees.

Locum Tenens:

MICA provides up to 60 days of coverage annually for a temporary substitute physician - locum tenens - for surgical and non-surgical specialties. Completion of application and prior approval of MICA is required.

This coverage is limited to 6 separate periods per year (except for illness or family emergencies of the insured physician) and any additional periods will involve the customary premium charges for short-term practice situations (see next paragraph)

A negative factor in considering the acceptability of a locum tenens physician is the lack of current or recent professional liability insurance coverage on the applicant. This lack precludes verification of prior claims experience and other elements of insurability.

Short Term Practice Situations:

Pro-rated amount of annual premium computed on short rate tables subject to \$250 minimum premium.

Part Time Practitioners:

Class 0, 1, 1-A, 2, 2-A and Family practitioners in any class: 35 % of the scheduled annual premiums for 10 hours or less per week practice; 65 % of the scheduled annual premium for 20 hours or less per week practice.

Comprehensive General Liability Coverages:

This optional coverage is available at \$50 per physician covered, subject to the same limits of liability carried for professional liability. This coverage extends to bodily injury and property damage liability protection for those injuries accidentally sustained on the office premises by patients or the general public.

This coverage is limited to premises actually occupied by our insured in rendering professional services. For example, if an insured occupied one suite of a building, coverage would be limited to only that suite. An entire building cannot be covered under the Comprehensive General Liability Endorsement unless the insured or the insured's employees occupy the entire building in the rendering of medical services.

Corporate/Partnership/Group Professional Liability:

This optional coverage is available at no additional charge to solo practitioners and group practices, providing each member or employed physician carries coverage through the Company. The only requirement for group limits is that the limits of liability on the group may never be higher than the lowest limit carried by any member of the group. The separate limits of liability for the corporation/partnership/group does not apply to policyholders who are solo practitioners nor does it apply concurrently or on an excess basis to the physician (s) scheduled on the policy or associated with the same medical organization who also allegedly provide negligent patient care for the same occurrence.

This form provides individual limits of liability to each physician named on the policy schedule except these limits shall not be concurrent nor excess to the corporate limits of liability stated in the previous paragraph.

Optional Shared Limits Professional Liability Group Coverage:

This optional coverage is available through the Company for your group at reduced premium levels. (see discount schedule that follows). One master policy is issued with each associated or employed physician covered by endorsement.

Coverages are limited to the course and scope of employment or association with your group. **The combined clinic/group insureds are subject to the single limits of liability per occurrence and annual aggregate limits as procured.**

Completion of the Physician's and Surgeon's Professional Liability Group Application is required, along with completion of individual application for each physician to be insured.

Discounts Per Limits of Liability		
# Doctors on Policy	\$500,000	\$1,000,000
1	0	0
2	9%	7%
3	11%	9%
4	12%	10%
5	13%	11%
6	14%	12%
7	15%	13%
8	16%	14%
9+	17%	15%

Installments - Deferred Payments:

Initial policy issuance subject to deposit of \$1,000 or two month's annual premium. Deferred payments are available in quarterly or semi-annual installments payable: 35%, 25%, 25% and 15% quarterly or 60% and 40% semi-annually. Premium invoices should be paid upon receipt and the policy is subject to immediate cancellation if payment is not received by the first day of the quarter in which the premium is earned. Carrying charges are computed at 10% annual simple interest on the unpaid balance.

The full premium for an Unlimited Reporting Endorsement must be received by the company within twelve months following its inception date. The Unlimited Reporting Endorsement will be cancelled at the end of this twelve month period if the full premium has not been received at that time, and only premium earned for this twelve month Reporting Endorsement period will be charged in accordance with rates actuarially determined and filed with the Division of Insurance.

PHYSICIAN'S RATE CLASSIFICATIONS

Class 0

Psychiatry - Excluding ECT
Pathology

Class 1

Neurology

Physicians - no surgery

Applies to general practitioners and physician specialists who do not perform obstetrical procedures or major/minor surgery (other than incision of boils and superficial abscesses, suturing of skin and superficial fascia or neonate circumcision) who do not ordinarily assist in major surgical procedures.

Class 1-A

General Practitioners assisting at surgery (own patients only)

Ophthalmology (excluding Radial Keratotomy)

Class 2

Physicians - minor surgery or assisting in major surgery*

Applies to general practitioners and physician specialists who perform minor surgery or assist in major surgery.

Neonatology

Cardiology

Class 2-A

Emergency Medicine

Therapeutic Radiology

Class 2-C

Urology

Class 3

Physicians - major surgery *

Physicians who include obstetrical procedures as any part of their practice.

Proctology

Otorhinolaryngology

Abdominal Surgery

General Surgery

Pediatric Surgery

Thoracic Surgery

Traumatic Surgery

Plastic and Reconstructive Surgery (excluding cosmetic surgery)

Urology

Gynecology (No Obstetrics)

Class 4

Anesthesiology

Class 4-A

Physicians - major surgery *

Obstetrics - Gynecology

Cardiovascular Surgery

Hand Surgery

Plastic and Reconstructive Surgery (including cosmetic surgery)

Vascular Surgery

Orthopedic Surgery (excluding total joint procedures

spinal surgery and insertion of prosthetic devices)

Class 5

Physicians - major surgery*

Neurosurgery

Orthopedic Surgery (including total joint procedures, spinal surgery and insertion of prosthetic devices)

***Major Surgery** - involves operations in or upon any body cavity including but not limited to the cranium, thorax, abdomen or pelvis, or any other operation that presents a distinct hazard to life because of the condition of a patient or the length or circumstances of an operation. It also includes removal of tumors (except skin tumors), open bone fractures, amputations, abortions, removal of any gland or organ, plastic surgery and any operations using general anesthesia.

NOTE: IF A PORTION OF THE PHYSICIANS PRACTICE IS IN A SPECIALITY WITH A HIGHER CLASS THAN HIS NORMAL SPECIALTY, HE OR SHE MAY BE PLACED IN THE HIGHER SPECIALTY FOR RATING PURPOSES.

CLAIMS - MADE PREMIUM SCHEDULE

Effective January 1, 1990

LIMITS OF LIABILITY: EACH CLAIM AND ANNUAL AGGREGATE

	1st - 5th Years	\$200,000/\$600,000	\$500,000/\$1,000,000	\$1,000,000/\$2,000,000 \$1,000,000/\$3,000,000 *
CLASS 0				
1st year rates	Jan. 1, 1990	2,924	3,182	3,601
• 2nd year renewal rates	Jan. 1, 1989	3,467	4,026	4,857
• 3rd year renewal rates	Jan. 1, 1988	4,559	5,607	7,119
• 4th year renewal rates	Jan. 1, 1987	5,026	6,271	8,058
• 5th year renewal rates	Jan. 1, 1986	5,177	6,485	8,361
CLASS 1				
1st year rates	Jan. 1, 1990	3,798	4,305	5,067
• 2nd year renewal rates	Jan. 1, 1989	4,828	5,809	7,230
• 3rd year renewal rates	Jan. 1, 1988	6,724	8,497	11,031
• 4th year renewal rates	Jan. 1, 1987	7,517	9,612	12,599
• 5th year renewal rates	Jan. 1, 1986	7,772	9,970	13,103
CLASS 1-A				
1st year rates	Jan. 1, 1990	4,548	5,270	6,326
• 2nd year renewal rates	Jan. 1, 1989	5,997	7,341	9,268
• 3rd year renewal rates	Jan. 1, 1988	8,584	10,980	14,391
• 4th year renewal rates	Jan. 1, 1987	9,657	12,482	16,499
• 5th year renewal rates	Jan. 1, 1986	10,001	12,964	17,176
CLASS 2				
1st year rates	Jan. 1, 1990	5,338	6,286	7,651
• 2nd year renewal rates	Jan. 1, 1989	7,228	8,953	11,414
• 3rd year renewal rates	Jan. 1, 1988	10,542	13,593	17,928
• 4th year renewal rates	Jan. 1, 1987	11,909	15,503	20,605
• 5th year renewal rates	Jan. 1, 1986	12,348	16,116	21,464
CLASS 2-A				
1st year rates	Jan. 1, 1990	7,098	8,550	10,605
• 2nd year renewal rates	Jan. 1, 1989	9,971	12,547	16,196
• 3rd year renewal rates	Jan. 1, 1988	14,905	19,417	25,811
• 4th year renewal rates	Jan. 1, 1987	16,928	22,235	29,755
• 5th year renewal rates	Jan. 1, 1986	17,577	23,139	31,020

* PREMIUM COST IS 4% ABOVE \$1,000,000/\$2,000,000. LIMITS.

Claims-made premium prepared by Milliman & Robertson, Inc., consulting Actuaries for the Medical Indemnity Corporation of Alaska, are based on a five year pricing step for reported claims adjusted annually for claims experience.

• Retroactive dates and renewal premium apply to 2nd through 5th year annual renewal. First year physicians are subject to first year rates.

• All policies are renewed each year on January 1. All 1st and renewal premiums are pro-rated subject to the first day of coverage under the original policy.

CLAIMS - MADE PREMIUM SCHEDULE

Effective January 1, 1990

LIMITS OF LIABILITY: EACH CLAIM AND ANNUAL AGGREGATE

	1st - 5th Years	\$200,000/\$600,000	\$500,000/\$1,000,000	\$1,000,000/\$2,000,000 \$1,000,000/\$3,000,000 *
CLASS 2-C				
1st year rates	Jan. 1, 1990	8,294	10,089	12,613
• 2nd year renewal rates	Jan. 1, 1989	11,836	14,991	19,448
• 3rd year renewal rates	Jan. 1, 1988	17,872	23,377	31,171
• 4th year renewal rates	Jan. 1, 1987	20,342	26,813	35,976
• 5th year renewal rates	Jan. 1, 1986	21,133	27,915	37,518
CLASS 3				
1st year rates	Jan. 1, 1990	8,857	10,813	13,558
• 2nd year renewal rates	Jan. 1, 1989	12,713	16,140	20,978
• 3rd year renewal rates	Jan. 1, 1988	19,268	25,241	33,693
• 4th year renewal rates	Jan. 1, 1987	21,948	28,967	38,904
• 5th year renewal rates	Jan. 1, 1986	22,807	30,162	40,576
CLASS 4				
1st year rates	Jan. 1, 1990	11,218	13,850	17,520
• 2nd year renewal rates	Jan. 1, 1989	16,392	20,960	27,392
• 3rd year renewal rates	Jan. 1, 1988	25,120	33,052	44,266
• 4th year renewal rates	Jan. 1, 1987	28,680	37,997	51,176
• 5th year renewal rates	Jan. 1, 1986	29,821	39,582	53,393
CLASS 4-A				
1st year rates	Jan. 1, 1990	14,140	17,608	22,422
• 2nd year renewal rates	Jan. 1, 1989	20,944	26,926	35,330
• 3rd year renewal rates	Jan. 1, 1988	32,362	42,720	57,351
• 4th year renewal rates	Jan. 1, 1987	37,012	49,172	66,365
• 5th year renewal rates	Jan. 1, 1986	38,502	51,241	69,255
CLASS 5				
1st year rates	Jan. 1, 1990	19,199	24,116	30,914
• 2nd year renewal rates	Jan. 1, 1989	28,829	37,257	49,079
• 3rd year renewal rates	Jan. 1, 1988	44,906	59,463	80,014
• 4th year renewal rates	Jan. 1, 1987	51,443	68,528	92,670
• 5th year renewal rates	Jan. 1, 1986	53,536	71,433	96,729

* PREMIUM COST IS 4% ABOVE \$1,000,000/\$2,000,000. LIMITS.

Claims-made premium prepared by Milliman & Robertson, Inc., consulting Actuaries for the Medical Indemnity Corporation of Alaska, are based on a five year pricing step for reported claims adjusted annually for claims experience.

• Retroactive dates and renewal premium apply to 2nd through 5th year annual renewal. First year physicians are subject to first year rates.

• All policies are renewed each year on January 1. All 1st and renewal premiums are pro-rated subject to the first day of coverage under the original policy.

H B

3 5 3

STATE OF ALASKA
THE LEGISLATURE

POUCH Y STATE CAPITOL
JUNEAU ALASKA 99811
907-465 3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

March 22, 1990

SUBJECT: Interpretation of "Public Member"
(CSHB 353(State Affairs))

TO: Representative Mark Boyer

FROM: Terri Lauterbach *TL*
Legislative Counsel

You have asked for an opinion as to whether an accountant who is not licensed under AS 08.04 would be eligible to be a "public member" of the Board of Public Accountancy established under AS 08.04.010.

In my opinion, an accountant would not be eligible to be a public member of the Board of Public Accountancy because an accountant is engaged in "the occupation that the board regulates." AS 08.01.025

The restrictions on public members of boards and commissions are contained in AS 08.01.025, which reads:

Sec. 08.01.025. PUBLIC MEMBERS. A public member of a board may not:

- (1) be engaged in the occupation that the board regulates;
- (2) be associated by legal contract with a member of the occupation that the board regulates except as a consumer of the services provided by a practitioner of the occupation; or
- (3) have a direct financial interest in the occupation that the board regulates.

In my opinion, the Board of Public Accountancy regulates the occupation of accountancy, not merely the occupation of public accountancy. If a person practices a particular type of accountancy, the board requires that the person be licensed. If a person does not have a license, the statutes administered by the board, and the regulations the board may adopt, prohibit the person from practicing the types of accountancy that require licensure. Whether licensed or

Alaska State Legislature

REPRESENTATIVE
MARK BOYER



FAIRBANKS

1098 LAKEVIEW TERRACE
FAIRBANKS, ALASKA 99701
(907) 456-6473

JUNEAU

P.O. BOX V
STATE CAPITOL
JUNEAU, ALASKA 99811
(907) 465-3466

VICE-CHAIRMAN, HOUSE
HEALTH, EDUCATION AND
SOCIAL SERVICES COMMITTEE

MEMBER, HOUSE LABOR AND
COMMERCE COMMITTEE

CHAIR, CHILDREN'S CAUCUS

House of Representatives

M E M O R A N D U M

April 3, 1990

TO: Representative Dave Donley, Chairman
House Labor and Commerce Committee

FROM: Representative Mark Boyer *MB*

RE: CSHB 353 (STA), "An act relating to public
accountancy; and providing for an effective
date."

CSHB 353 (STA) has recently been referred to the House Labor and Commerce Committee for review. I urge you to schedule it for a hearing.

I would like to point out that CSHB 353 (STA) contains provisions that would update the experience and educational criteria for certification of public accountants as well as the following:

- Sets new requirements related to retesting;
- Allows the board to establish a quality review program;
- Allows the board to impose sanctions for failure to pass a quality review;
- Amends membership appointments and qualifications of the board to include one non-certified accountant; and
- Requires board to adopt a form of acceptable language for compilation reports for use by unlicensed persons or firms

It is the policy of the state and the intent of this legislation to promote the reliability of information that is used for assessing the financial status or performance private, commercial or governmental organizations. It is my belief that CSHB 353 (STA) satisfies the best interest of the public and also the interest of those regulated by the board. I hope you agree, and schedule CSHB 353 (STA) for a hearing.

Thank you for your consideration.

CORRECTION

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

STATE OF ALASKA THE LEGISLATURE

POUCH Y STATE CAPITOL
JUNEAU ALASKA 99811
907-465-2800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

March 22, 1990

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TO: Representative Mark Boyer

FROM: Terri Lauterbach *TL*
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Representative Mark Boyer
Page 2
March 22, 1990

not, an accountant's practice of accountancy is regulated by the board.

See, for instance, secs. 11 - 13 of CSHB 353(State Affairs). They prohibit certain actions by unlicensed persons. So does AS 08.04.560, which is not in the bill. Under the authority of AS 08.04.630, the Board of Public Accountancy may apply to a court for an injunction against a person who violates any of these sections. That clearly involves regulation of accountants other than accountants actually licensed by the board.

The purpose behind having public members supports my interpretation of AS 08.01.025, as well as the literal language. The purpose is to ensure that persons who are not necessarily qualified technically in a particular field have a hand in regulating persons who are providing services to the public in that field. Public members provide a consumer perspective on the various boards and commissions. If AS 08.01.025 were interpreted to allow members of an occupation who were not licensed to be on the board regulating that occupation, there would not necessarily be a consumer, nontechnical perspective represented on the board; in the worst of possible situations, it could mean that a board was made up entirely of accountants (licensed and unlicensed) who merely had "turf battles" and no concern for the interests of consumers of accountancy services.

AS 08.01.025 could have been written to say that public members may not be licensed by the board they serve on; but AS 08.01.025 does not say that. While there may be plausible counterarguments, I think the better view is that "occupation" is a broader term than "licensees" and its use in AS 08.01.025 was intentional. In the context of AS 08.04 and CSHB 353(State Affairs), the broader term "occupation" includes all accountants, regardless of whether they are licensees.

In summary, accountants are members of the occupation regulated by the Board of Public Accountancy, regardless of whether they obtain licenses issued by the board, because the practice of their occupation is restricted by laws enforced by the board and because the purpose and language of AS 08.01.025 support that interpretation. As such, they would not be eligible to be public members of the board.

Please let me know if I can be of further assistance.

TML:lmb
L10/022

Alaska State Legislature

REPRESENTATIVE
MARK BOYER

VICE-CHAIRMAN, HOUSE
HEALTH, EDUCATION AND
SOCIAL SERVICES COMMITTEE
MEMBER, HOUSE LABOR AND
COMMERCE COMMITTEE
CHAIR, CHILDREN'S CAUCUS



House of Representatives

M E M O R A N D U M

April 3, 1990

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House Labor and Commerce Committee

FROM: Representative Mark Boyer *MB*

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Thank you for your consideration.

FAIRBANKS

1098 LAKEVIEW TERRACE
FAIRBANKS, ALASKA 99701
(907) 456-6473

JUNEAU

P.O. BOX V
STATE CAPITOL
JUNEAU, ALASKA 99811
(907) 465-3466

Louanne A. Lum
11720 Rainbow Avenue
Anchorage, Alaska 99516

March 27, 1990

The Honorable Dave Donley
Alaska House of Representatives
Rm 13, Capitol
P.O. Box V
Juneau, AK 99811

Dear Mr. Donley:

I am writing to let you know that I oppose the Committee Substitute for House Bill 353.

The Public Accountancy Act is in need of modification but I do not feel that the committee's substitute of HB 353 is the best way to make the changes.

Sincerely,

Louanne A. Lum

Kevin E. Branson
8148 E. Third, Unit A
Anchorage, Alaska 99504

March 27, 1990

The Honorable Dave Donley
Alaska House of Representatives
Rm 13, Capitol
P.O. Box V
Juneau, AK 99811

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Sincerely,

Kevin E. Branson - CPH

Henry P. Head
Box 190527
Anchorage, Alaska 99519-0527

March 27, 1990

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Alaska House of Representatives
Rm 13, Capitol
P.O. Box V
Juneau, AK 99811

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Sincerely,

Gerald A. Richards

342 Droz; Fairbank

March 28, 1990

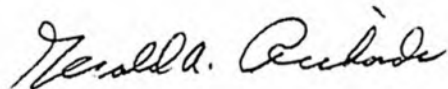
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Sincerely,



Gerald A. Richards, CPA

(907) 452-6637

Jeffrey L. Johnson

3283 Riverview Drive; Fairbank

March 28, 1990

The Honorable Dave Donley
Alaska House of Representatives
P.O. Box V
Juneau, AK 99811

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Sincerely,



Jeffrey L. Johnson, CPA

(907) 474-9250

Colleen M. Driscoll

P.O. Box 61533; Fairbar

March 28, 1990

The Honorable Dave Donley
Alaska House of Representatives
P.O. Box V
Juneau, AK 99811

Dear Mr. Donley:

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Sincerely,



Colleen M. Driscoll

(907) 474-0698

Alice Murphy

P.O. Box 71302; Fairbanh

March 28, 1990

The Honorable Dave Donley
Alaska House of Representatives
P.O. Box V
Juneau, AK 99811

Dear Mr. Donley:

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Sincerely,

Alice Murphy
Alice Murphy, CPA

(907) 451-6364

Ted Leonard

1100 West Barnette, Suite 102; Fairban

March 28, 1990

The Honorable Dave Donley
Alaska House of Representatives
P.O. Box V
Juneau, AK 99811

Dear Mr. Donley:

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Sincerely,



Ted Leonard, CPA

(907) 452-5484

Beverly Weis

2763 Cormorant; Fairbanks, AK 99709

March 28, 1990

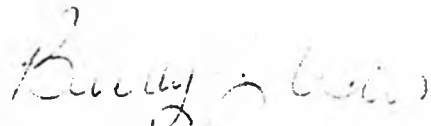
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Alaska House of Representatives
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Juneau, AK 99811

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Sincerely,



Beverly Weis, CPA

(907) 479-7478

Arlene L. Collins

1364 Still Valley Road; North Pole, AK 99705

March 28, 1990

The Honorable Dave Donley
Alaska House of Representatives
P.O. Box V
Juneau, AK 99811

Dear Mr. Donley:

I am writing to let you know that I oppose the Committee Substitute for House Bill 353.

The Public Accountancy Act is in need of modification but I do not feel that the committee's substitute of HB 353 is the best way to make the changes.

Sincerely,



Arlene L. Collins, CPA

(907) 488-2605

Randy J. Thompson
P. O. Box 241691
Anchorage, Alaska 99524-1691

March 27, 1990

The Honorable Dave Donley
Alaska House of Representatives
Rm 13, Capitol
P.O. Box V
Juneau, AK 99811

Dear Mr. Donley:

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Sincerely,

Randy J. Thompson

Marie S. Chandler
2396 Campbell Place
Anchorage, Alaska 99507

March 27, 1990

The Honorable Dave Donley
Alaska House of Representatives
Rm 13, Capitol
P.O. Box V
Juneau, AK 99811

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Sincerely,

Traci L. Jenkins
2145 Minerva Way
Anchorage, Alaska 99515

March 27, 1990

The Honorable Dave Donley
Alaska House of Representatives
Rm 13, Capitol
P.O. Box V
Juneau, AK 99811

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The Public Accountancy Act is in need of modification but I do not feel that the committee's substitute of HB 353 is the best way to make the changes.

Sincerely,

Lisa M. Tokar-McGill
P. O. Box 230212
Anchorage, Alaska 99523

March 27, 1990

The Honorable Dave Donley
Alaska House of Representatives
Rm 13, Capitol
P.O. Box V
Juneau, AK 99811

Dear Mr. Donley:

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Sincerely,

Lisa M. Tokar-McGill

Debra K. Mason
8780 Beachwood Circle
Anchorage, Alaska 99502

March 27, 1990

The Honorable Dave Donley
Alaska House of Representatives
Rm 13, Capitol
P.O. Box V
Juneau, AK 99811

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I am writing to let you know that I oppose the Committee Substitute for House Bill 353.

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Sincerely,

Michaela J. Hage
P. O. Box 212274
Anchorage, Alaska 99521-2274

March 27, 1990

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Alaska House of Representatives
Rm 13, Capitol
P.O. Box V
Juneau, AK 99811

Dear Mr. Donley:

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Sincerely,

Cynthia J. Dawson
2846 Seafarer Drive
Anchorage, Alaska 99516

March 27, 1990

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Alaska House of Representatives
Rm 13, Capitol
P.O. Box V
Juneau, AK 99811

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Sincerely,

Cynthia J. Dawson

Barbara L. Beedle
10881 Kamishak Bay
Anchorage, Alaska 99515

March 27, 1990

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Alaska House of Representatives
Rm 13, Capitol
P.O. Box V
Juneau, AK 99811

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Sincerely,

Sonya R. Berg
3007 W. 31st Avenue, #1
Anchorage, Alaska 99517

March 27, 1990

The Honorable Dave Donley
Alaska House of Representatives
Rm 13, Capitol
P.O. Box V
Juneau, AK 99811

Dear Mr. Donley:

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Sincerely,



Colleen M. Delger
P. O. Box 92906
Anchorage, Alaska 99509-2906

March 27, 1990

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Alaska House of Representatives
Rm 13, Capitol
P.O. Box V
Juneau, AK 99811

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Sincerely,

Colleen Delger

Curtis L. Webb
2111 Lore Road #1
Anchorage, Alaska 99507

March 27, 1990

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Alaska House of Representatives
Rm 13, Capitol
P.O. Box V
Juneau, AK 99811

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Sincerely,

Curtis L. Webb, RPA

HOUSE COMMITTEE REPORT

(7)

Date Referred: May 6, 1989

FURTHER REFERRALS: LABOR & COMMERCE

Date of Committee Action: _____

The STATE AFFAIRS Committee considered:

HB 353

HOUSE BILL NO. 353

[PRACTICE OF PUBLIC ACCOUNTANCY]

"An Act relating to public accountancy; and providing for an effective date."

RECOMMENDATIONS:

- be replaced with CSHB 353(SA) the same title
 a new title
- have attached amendment(s)
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the _____ Committee

ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(s):
(Dept)

APPROVES PREVIOUS:

(Date/Dept)

- fiscal impact CED
- zero fiscal note _____
- zero with analysis _____

- fiscal note(s) _____
- zero fiscal note(s) _____
- zero fn/analysis _____

SIGNING DO PASS:

[Signature]

SIGNING:

(Check approp. column)

	Do Not Pass	No Rec	Amend
<u>[Signature]</u>		<input checked="" type="checkbox"/>	
<u>[Signature]</u>		<input checked="" type="checkbox"/>	
<u>[Signature]</u>		<input checked="" type="checkbox"/>	

[Signature]
Chairman's Signature

Item 2

STATE OF ALASKA
1990 LEGISLATIVE SESSION

BILL VERSION: HB 353
PUBLISH DATE: _____

FISCAL NOTE

REQUEST:

Revision Date: _____ Agency Affected: Commerce & Economic Dev.
Title: An Act relating to public BRU: Occupational Licensing
accountancy; and providing for an effective date
Sponsor: Representatives Boyer and Boucher Components: _____
Requestor: House State Affairs

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	9.0	9.0	9.0	9.0	9.0	9.0
CONTRACTUAL	4.0	4.0	4.0	4.0	4.0	4.0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	13.0	13.0	13.0	13.0	13.0	13.0
CAPITAL	0	0	0	0	0	0
REVENUE	62.0	62.0		62.0		62.0

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER (GF/PR)	13.0	13.0	13.0	13.0	13.0	13.0
TOTAL	13.0	13.0	13.0	13.0	13.0	13.0

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)

The bill makes a number of amendments to the public accountancy licensing statutes. The fiscal impact of this bill stems from: (1) requiring a minimum of four board meetings each year; and (2) the need to adopt regulations concerning education and experience requirements, and to establish criteria for the quality review program. (CONTINUED)

Prepared by: Jennifer Strickler, Administrative Officer Phone: 465-2144
Division: Occupational Licensing Date: 2/12/90

Approved by Commissioner: Larry Merculieff Date: 2/12/90
Agency: Department of Commerce & Economic Development

Distribution (by preparer):

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

**CONTINUATION OF FISCAL NOTE
FOR HB 353**

The operating budget request of the department already provides for two meetings of the Board of Public Accountancy. Travel funds provided in this fiscal note will fund two additional meetings to fulfill the minimum requirement of four meetings as required in Section 3.

The funding in contractual services will cover costs to provide public notices of meetings and regulations, teleconferences for public hearings, printing needs, and other communications costs.

Revenues: Currently, expenditures of the board exceed revenues generated from licensing fees. In the past, at least three board meetings were held each year although revenues did not cover its expenses. Therefore, the mandate of four meetings each year will require an increase in licensing fees to support the board's activities.

This fiscal note reflects a license fee increase of \$120 (\$60 per year) paid by 500 active licensees and \$10 (\$5 per year) paid by 200 inactive licensees. Although the fee increase will be recommended to the board in FY 90, it is conceivable that the increase will not take effect until FY 91 and each renewal thereafter. The increase will be sufficient to cover the \$13.0 identified in this fiscal note and to cover the current deficit by bringing fees closer to covering board costs.

S E C T I O N A L A N A L Y S I S

CS HB353 (STA)

Sec. 1. Adds a policy statement to AS 08.04, relating to public accountancy.

Sec. 2. Amends membership appointments and qualifications of the board. Instead of 5 certified public accountants or public accountants and two non public members, the board will consist of 5 certified public accountants or public accountants, one accountant who is not certified, and one public member.

Sec. 3. Requires that the board of public accountancy to hold at least four meeting per year.

Sec. 4. Effective April 26, 1991, (according to sec. 16), establishes educational and experience requirements for licensure. Requires a four year degree and 2 or 3 years of experience, depending on concentration of studies.

Sec. 5. Effective April 25, 2004, (according to sec. 17), establishes new educational and experience requirements for licensure. Phases in additional post-baccalaureate study so the total educational program includes at least 150 hours.

Sec. 6. Allows an applicant to take an examination before completing educational requirements.

Sec. 7. Effective April 26, 1994, (according to sec. 18), establishes a minimum requirement related to retesting.

Sec. 8. Sets new requirements related to retesting and allows board waiver in particular cases. Also, effective April 26, 1994, (according to sec. 18), establishes a minimum passing requirement for testing.

Sec. 9. Allows the board to establish a quality review program.

Sec. 10. Allows the board to impose sanctions for failure to satisfactorily pass a quality review.

Sec. 11. With exceptions, prohibits an unlicensed person from

issuing a report on financial statements of another person, firm, organization, or governmental unit. Requires board to adopt a form of acceptable language for compilation reports for use by unlicensed persons or firms under this section.

Sec. 12. Sets new requirements related to partnership posing as accountants or auditors.

Sec. 13. Sets new requirements related to use of title with corporate name.

Sec. 14. Sets parameters for confidentiality of communications with a public accountant.

Sec. 15. Adds new definitions related to other sections of the bill.

Secs. 16 - 18. Special effective dates.



UNIVERSITY OF ALASKA FAIRBANKS

School of Management
Fairbanks, Alaska 99775-1070

RECEIVED

FEB 20 1990

Item 4

February 15, 1990

The Honorable Red Boucher
The Honorable Mark Boyer
Alaska House of Representatives
Juneau, Alaska

Dear Messrs. Boucher and Boyer:

I regret to report that we have been unable to reach a consensus within Alaska's accounting community on House Bill 353. The State Board has engaged in discussion with both the Alaska Society of Independent Accountants and the Alaska Society of Certified Public Accountants since the teleconference committee hearing on Tuesday, but to no avail. Neither side will budge from their positions on the composition of the Board. I don't see how any compromise on this issue could satisfy both groups. As a matter of fact, the positions seem to be hardening as now both sides have engaged lobbyists to "protect their interest."

I believe the State Board of Accountancy speaks for the public interest in this matter. We view this Board composition question as a relatively minor issue especially when examined in the context of the entire bill. Allow me to elaborate on the Board's view of the important provisions of this bill.

1. The bill brings our statute up to date. Our Accountancy Act was written 1960. At that time public accountants issued only audit reports or unaudited reports. Now public accountants issue review and compilation reports as well as audit reports. This bill would specifically reserve review reports (which offer some limited assurance) to licensed accountants while allowing non-licensed accountants to issue compilation reports (which offer no level of assurance.) This would bring Alaska into conformity with most other states, while protecting the livelihood of non-licensed accountants. More importantly, the bill would explicitly reserve to licensed individuals the right to offer assurance on the fair presentation of financial statements. Such individuals have exhibited through the licensing process the professional expertise to offer assurance.

The bill would also bring our statute up to date in other sections such as the purpose language which was adopted from the American Institute of Certified Public Accountants (AICPA)/National Association of State Boards of Accountancy (NASBA) model act.

2. Quality Review has been the principal NASBA concern over the last several years. Now the AICPA has a requirement for mandatory quality review, but all licensed CPAs are not members of the AICPA. The provisions of this legislation tie closely to the AICPA program to insure that AICPA members are not burdened with a duplication of programs, and insures that all licensees are subject to a quality review program. The legislation mandates a level playing field for all CPAs and protects the public interest by insuring that all CPA firms engage in quality review programs.

3. Alaska is one of a very few states that does not require a baccalaureate degree for licensure. I think it's well past the time that a baccalaureate degree be required. Following the AICPA/NASBA lead, this bill also provides for a post-baccalaureate requirement (150 university credits) in 2004. I feel that these increased educational requirements will be beneficial to our state in several respects.

A. As the technical requirements of generally accepted accounting principles and generally accepted auditing standards have proliferated in recent years it has become obvious that a baccalaureate degree is necessary for entrance into the profession. An increase in the educational requirements assures the level of professionalism the public has a right to expect from licensed individuals.

B. The 150 hour requirement would increase the educational effectiveness of the accounting programs within our universities. For example, each unit within the University of Alaska system would be obliged to review its accounting curriculum to organize a 150 hour program. A change in statute would give each unit the political authority necessary to engage in such an exercise. I think the result would be a significant improvement in accounting education in our state.

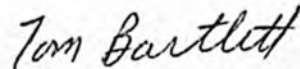
C. Hopefully, each unit of our university system would draw upon the expertise and experience of the accounting community as their accounting curricula are revamped. Such a process would strengthen the link between academe and the accounting profession in our state.

The question we now face is whether to give up on all these positive aspects of the bill because of the disagreement over the composition of Board membership. I understand the legislature's reluctance to become involved in controversy. You will not receive much public appreciation from passing this legislation and you may well incur the wrath of individuals who could cause you considerable political damage. I would still urge you to pass a bill in this session of the Legislature. Perhaps the Board Composition section could be taken from this bill and inserted in a new bill. That would allow the State Board's bill to be considered on its merits, while allowing the Board Composition question to be considered separately. Another alternative might be to have your State Affairs Committee vote the Board Composition question up or down after listening to the arguments from both sides. However the bill might proceed from this point forward, I want to thank both of you and your staffs, specifically Christine Underwood and Dennis Burns, for the time, energy, and interest you devoted to the bill.

At the February 1, 1990 meeting of the State Board of Accountancy, the Board did unanimously vote to endorse the Committee Substitute to HB 353. This week two members of the Board were replaced by new Governor appointees. No vote has been taken by the revised Board membership on any position we might take on the current impasse. The thoughts in this letter represent my position on these matters though I do believe they represent the feelings of a majority of the current Board. They should be viewed from that perspective and not as the official position of the State Board of Accountancy.

If I can be of any additional assistance, please do not hesitate to call on me.

Sincerely,



Tom Bartlett, CPA
Associate Professor of Accounting
Chair, Alaska State Board of Accountancy

cc: Members, Alaska State Board of Accountancy
Brian Tinker, Alaska Society of CPAs
Dave Stephenson, Alaska Society of Independent Accountants

Alaska State Legislature

REPRESENTATIVE
MARK BOYER

VICE-CHAIRMAN, HOUSE
HEALTH, EDUCATION AND
SOCIAL SERVICES COMMITTEE

MEMBER, HOUSE LABOR AND
COMMERCE COMMITTEE

CHAIR, CHILDREN'S CAUCUS



House of Representatives

FAIRBANKS

1098 LAKEVIEW TERRACE
FAIRBANKS, ALASKA 99701
(907) 456-6473

JUNEAU

P.O. BOX V
STATE CAPITOL
JUNEAU, ALASKA 99811
(907) 465-3466

February 22, 1990

Mr. Tom Bartlett, CPA
Chair, Alaska State Board of Accountancy
UAF, School of Management
Fairbanks, Alaska 99775-1070

Dear Tom:

Thank you for your letter dated February 15, 1990. I am sorry to hear that no consensus has been reached relating to composition of the Board members. At the time of the hearing, I understood that the State Board was in support of our proposed committee substitute; this is even stated in your letter. It is unfortunate that only the negative aspects perceived of the bill were brought up in the committee hearing.

I understand the implications of not reaching a compromise that is acceptable to the both the Alaska Society of Independent Accountants and the Alaska Society of Certified Public Accountants. Perhaps the best solution is to let the State Affairs Committee vote on the legislation after it hears both sides' arguments relating to the bill.

I will contact you when CSHB 353 (STA) is scheduled for its next hearing. Your opinions are appreciated.

Sincerely,

A handwritten signature in cursive script that reads "Mark Boyer".

Mark Boyer
Representative

FAIRBANKS 20B



Representative H.A. "Red" Boucher

Chairman House Committee on State Affairs • Special Committee on Telecommunications
Member Labor & Commerce Committee • Chairman Commission on the Future of the Permanent Fund

February 24, 1990

Mr. Brian Tinker, President
Alaska Society of CPA's
1300 E. 68th, Suite 210
Anchorage, Alaska 99518

Dear Mr. Tinker:

I recently received a letter (attached) from Tom Bartlett which indicated that a consensus has not been reached within Alaska's accounting community regarding HB 353. That disagreement appears related to the Board composition issue.

Mr Bartlett indicated in his letter that, while the disagreements over the Board structure appeared to be at an impasse, he believed that to be a minor issue relative to the importance of the overall proposed law.

It would be very helpful to know how your members feel about HB 353. For example, have you polled all of your members regarding their support of HB 353 excluding the issue of the Board seat? If a poll was taken, would you be willing to provide the results of that poll to the State Affairs Committee for their consideration?

Thank you for your help in this matter, and I will look forward to hearing from you soon.

Sincerely,

H. A. "Red" Boucher
Representative

cc: Kevin Walsh, Legislative Committee, CPA Society
Members, State Board of Accountancy
Dave Stephenson, Ak. Society of Independent Accountants
Representative Mark Boyer

ASCPA

Alaska Society of Certified Public Accountants

March 20, 1990

The Honorable H.A. "Red" Boucher
Chairman House Committee on State Affairs
Room 102 Capitol
Box V
Juneau, Alaska 99811

Dear Mr. Boucher:

Thank you for your letter requesting information about our member's feelings about NB 353.

I am sorry that we caught you off guard during the February testimony on this bill. Our office was not notified about the hearing until 3pm on Monday prior to the Tuesday morning hearing.

The Alaska Society of CPAs (ASCPA) had worked very hard with the Alaska State Board of Accountancy (ASBA) during the summer and fall of 1989 to draft a committee substitute bill that we both could support. As part of this process, the ASCPA formally surveyed its membership in August 1989 to determine what the legislative issues were and what they would support and what they would not. This draft was completed December 18, 1989 and reflects the results of that survey. It was my understanding that it had been submitted to your committee. I now believe that you may not have seen it and therefore I have faxed your office a copy. Apparently, at the ASBA in Juneau on February 2-3, 1990, the Alaska State Board was informed by members of the Alaska Society of Independent Accountants (ASIA) that they would fight to defeat this legislation unless two changes were made. The ASBA negotiated those changes at that meeting without our consent and submitted the committee substitute dated 2/3/90. The ASBA informed us they had done this because the bill would otherwise not pass and they felt these were minor changes. Our survey clearly indicated that our members would not be in support of the two changes. We informally resurveyed our members by phone and found that upon reflection and after our having gone through the joint drafting process with the ASBA, our members were even more adamantly against these two changes than the original survey had indicated.

Immediately after the hearing, at the request of the ASBA, we agreed to a teleconference meeting with the ASBA, ASIA, and ourselves to try and come to an agreement. Just prior to the meeting an ASIA representative informed the ASBA that they would not participate in the teleconference as they felt it would be a

waste of their time since they were not willing to compromise on these two issues.

The two issues are:

1. The designation of a seat on the ASBA solely for an "unlicensed accountant".
2. The requirement that the ASBA have a regulations project and provide regulatory language for use by "unlicensed and unregulated accountants" for use in issuing compiled financial statements.

The ASCPA opposes the designation of a seat on the ASBA solely for an unregulated class of accountants. We believe that they should be able to fulfill any of the public designated seats. We understand that an AG ruling exists indicating that current statutory language precludes their appointment to such a seat. Accordingly, we agreed to the correction of this by adding Section 08.04.021 on page two of the 12/18/89 draft indicating that ANY person not licensed under this chapter shall be eligible for appointment as a public member.

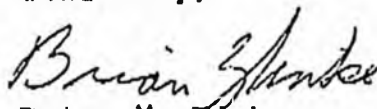
The statutory requirement that a regulations project provide regulatory language for what they have termed, but not defined, as "unlicensed accountants" would create a second class of accountants. These accountants would be totally unregulated but would be able to cite statutes and regulatory authority for their financial statement cover letters. This issue has arisen in many states over the years across the nation. For the most part it has been defeated. We have informally surveyed those states where such a statute has been passed and they tell us that they wish there was some way they could change it back because it has really caused them problems.

Other than these two changes, made without our consent, the ASCPA still supports the 12/18/89 joint draft with the ASBA.

I have tried to briefly summarize the critical issues and events. I have available for detailed background and support for the issues and events.

If I can be of any further assistance, please give me a call. I will participate in the teleconference hearing 3/22/90.

Sincerely,


Brian M. Tinker
President

CC: Representative Mark Boyer

Enclosures: 12/18/89 CS HB 353 draft.



March 20, 1990

The Honorable Mark Boyer
Box V
Juneau, Ak. 99811

Dear Mr. Boyer:

On behalf of the Alaska Society of CPAs I would like to apologize for any inconvenience brought about by our unexpected testimony on the hearing on CS HB 353. I have also written Representative Boucher regarding this matter and have enclosed a copy of that letter for your reference. It explains in more detail the chain of unfortunate events which led to the testimony the day of the hearing.

Please be assured that the Alaska Society of CPAs is desirous of having good laws and regulations concerning the licensure and practice of CPAs. We worked long and hard with the Alaska State Board of Accountancy to arrive at the joint 12/18/89 committee substitute draft. We will still support that draft under your sponsorship as we originally agreed. We do not feel that the 12/18/89 version in any way restricts the practice or endangers the livelihood beyond the current statutes of any nonregulated or unlicensed accountant. It does in fact, as outlined in the letter to Representative Boucher, attempt to clarify that the Governor can appoint any person not licensed to the public seats on the Alaska State Board of Accountancy. This would include unlicensed accountants.

We remain open to discussion and working towards positive legislation concerning licensees. If I can be of any assistance, please call or write.

Sincerely,

Brian M. Tinker
President

CC: Representative Boucher

Enclosures: Letter to Representative Boucher
12/18/89 joint draft with ASBA

REPRESENTATIVE
C.E. "SWACK" SWACKHAMMER

Alaska State Legislature



House of Representatives

SOLDOTNA
312 TYEE STREET
SOLDOTNA, ALASKA 99699
(907) 282-7841

JUNEAU
BOX V
JUNEAU, ALASKA 99811
(907) 485-2889

March 1, 1990

James A. Arness, CPA
P.O. Box 1061
Kenai, AK 99611

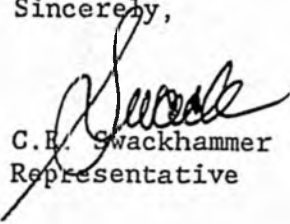
Dear Mr. Arness:

Thank you very much for your letter stating your opposition to House Bill 353, practice of public accountancy.

I understand the bill is experiencing some difficulty in the House State Affairs Committee concerning composition of the board. I will follow the bill's progress. I will also share a copy of your letter with the State Affairs Committee for their review as they work on this bill.

Thank you, again, for relaying your concerns regarding this legislation.

Sincerely,


C.E. Swackhammer
Representative

cc: State Affairs Committee w/encl.
CES/lsg

Item 4

Alaska State Legislature

WHILE IN SESSION
PO BOX V
JUNEAU, ALASKA 99811
(907) 485-3779



HOME ADDRESS:
PO BOX 188
KENAI, ALASKA 99611
(907) 262-9366

HOUSE MAJORITY LEADER

DISTRICT 5

Representative Mike Navarre

MEMORANDUM

TO: Representative "Red" Boucher, Chairman
State Affairs Committee

From: Representative Mike Navarre

Date: March 13, 1990

Subject: House Bill 353, An act relating to the practice of public accountancy

I have enclosed a letter from a long-time CPA and friend from the city of Kenai. I found his comments relative to House Bill 353 interesting and thought you and your committee might find them useful.

If you or your committee wish any additional information regarding the comments of these letter please feel free to contact me.

JAMES A. ARNESS
CERTIFIED PUBLIC ACCOUNTANT
P. O. BOX 1061
KENAI, ALASKA 99611
907 283-4700

RECEIVED

FEB 25 1990
February 22, 1990

Mike Navarre
Alaska State Legislature
PO Box V
Juneau, Ak 99811

Dear Mike:

The purpose of this letter is to express my concern with house bill number 353. As I understand HB353, all self employed certified public accountants operating within the State of Alaska as a proprietorship, partnership or corporation would be required to periodically undergo a peer review by an authorized certified public accounting firm.

I would like to list the results of such legislation that I feel to be contrary not only to members of the profession but also to the general public.

First, I have not been able to find evidence that there have been a significant number of complaints by the general public, business community or third party users of information prepared by my profession to indicate a need for this legislation. These types of problems are most prevalent during difficult economic times. As Alaska has experienced severe economic hardship in the last several years, it would seem that this has been a period in which such problems, if they exist, would have been large in number and easy to identify.

Second, this legislation would require all firms to contract with these firms qualified to provide peer reviews and pay for the service. As this is a new program, it is difficult to determine the cost per unit. I would expect fees for small firms, such as mine, to incur cost somewhere in the neighborhood of \$5,000. per review. Such a cost is inflationary and difficult for

the smaller firms to absorb. In addition, it appears that if this bill became law the individual practice units would still be responsible for any problem which may arise, not the State Board of Public Accountancy.

Third, the results of such a review is that the practicing firm will be allowed to continue to practice or would be precluded from the preparation of audited or reviewed financial statements. Such a legislated authority provides the reviewer with the arbitrary authority to deprive the CPA from his or her ability to produce an income. Such an arbitrary authority could lead to the willful elimination of practice units. The effect of such a restraint of trade would be to restrict the number of practice units allowed to provide this type of work. This would make the process of selection of an accounting firm less competitive and probably increase the fees by the remaining practicing units.

Fourth, the concept of peer review has been in affect for some time. As I understand, most large firms are already involved in having their firms reviewed in some form by an outside firm. Therefore, this legislation is directed at the smaller practicing units. I would estimate that the effect of this legislation would apply to no more than fifty practice units currently operating within the state.

The concept of peer review was first presented by the American Institute of Certified Public Accountants several years ago. The program was not successful as only the larger firms who are involved in the type of work which provided a need for this service and can properly amortize such a cost participated. The AICPA is now making peer reviews mandatory for membership in their organization. Throughout the nation, they are attempting to require such reviews by legislation such as HB353.

As I understand other states, such as Colorado, have rejected the idea of legislating the peer review concept and have left the decision to the individual practice units.

From my perspective, I am already controlled by a variety of factors. First, I had to pass the CPA exam and meet the required education and experience requirements in order to become a CPA.

Second, if my work is considered substandard, my clients would not return and third party users (such as banks and investors) of the financial statements I prepare would require that my clients use the services of another firm. Third, the type of work we all are involved in is limited by our size and the needs of prospective clients. Fourth, I, as well as all other CPA's, already participate in continuing education programs required to renew our certificates.

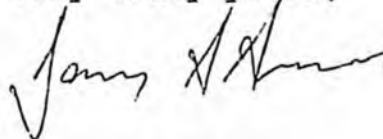
To legislate the ability of one firm (in this case a competing firm) to jeopardize or destroy the livelihood of another firm sets a dangerous concept. As stated earlier, this bill has the ability to restrict the right of individuals to do business today and in the future. This bill is inflationary and burdensome, particularly to smaller firms such as mine.

I have been a practicing CPA in Alaska since 1970. I have had my own practice in Kenai since 1973. As I believe is the case with all CPA's, I am constantly concerned with the level of my work and the financial well being of my clients. We constantly try to improve our firms as we are well aware that if we don't problems from clients, third party users of our work and other outside interest (such as the Department of Revenue or Internal Revenue Service) would destroy our practices. In my opinion, this legislation will not improve our concern to provide as good a service as we are capable of doing.

In closing, it would seem that if the legislature of the State of Alaska wishes to require a need for peer review in the accounting profession that such a requirement should be expanded to apply to all business organizations providing goods or services within the State.

In my opinion HB353 should not become law. I appreciate the opportunity to present my view and ask that this legislation not become law.

Very truly yours,



James A. Arness

HB

355

HOUSE COMMITTEE REPORT

(7)

Date Referred: May 6, 1989

FURTHER REFERRALS: FINANCE

Date of Committee Action: 5/15/90

The LABOR & COMMERCE Committee considered:

HB 355

HOUSE BILL NO. 355

[IMPOSING A UNIFORM PREMIUM TAX]

"An Act relating to imposition of a uniform insurance premium tax; and providing for an effective date."

RECOMMENDATIONS:

- [] be replaced with CS HB 355 (L+C) [] the same title
- [] have attached amendment(s) [] a new title
- [] do pass
- [] do not pass
- [] no recommendation
- [] individual recommendations
- [] additional referral to the _____ Committee

ADOPTS: _____ letter of intent

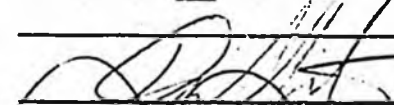

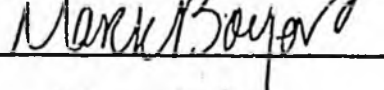
ATTACHES NEW FISCAL NOTE(S):
(Dept)

APPROVES PREVIOUS:
(Date/Dept)

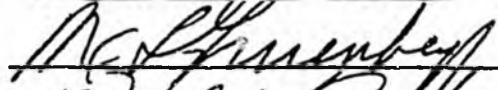
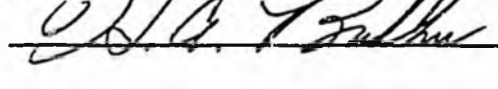
- [] fiscal impact _____
- [] zero fiscal note _____
- [] zero with analysis _____

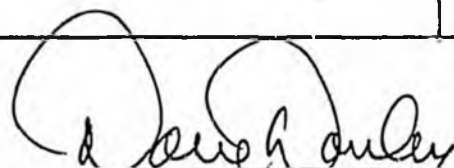
- [] fiscal note(s) _____
- [] zero fiscal note(s) _____
- [] zero fn/analysis _____

SIGNING DO PASS:

 (Finkelstein)



SIGNING:
(Check approp. column)

	Do Not Pass	No Rec	Amend
		—	
		—	



 Chairman's Signature

FISCAL NOTE

REQUEST:

Revision Date: _____ Agency Affected: Commerce & Economic Dev.
 Title: An Act relating to imposition of a uniform insurance premium tax; and providing for an effective date BRU: Insurance
 Sponsor: House Labor & Commerce Components: Operations
 Requestor: House Labor & Commerce

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING						
CAPITAL						
REVENUE	1,728.4	1,728.4	1,728.4	1,728.4		

FUNDING: (Thousands of Dollars)

GENERAL FUND	1,728.4	1,728.4	1,728.4	1,728.4		
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

SEE ATTACHED PAGE

Prepared by: Joan Brown, Administrative Officer Phone: 465-2597
 Division: Insurance Date: _____

Approved by Commissioner: Larry Marcullieff *SM* Date: 465-2500
 Agency: Department of Commerce & Economic Development

Distribution (by preparer):

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

ANALYSIS

It appears that this legislation would generate the following additional revenue:

Section 1	- Hospital and Medical Service Corporations	\$1,351,911.00
Section 2	- Wet Marine and Transportation Insurance	134,724.00
Section 4	- Independently Procured Insurance	[3,000.00]
Section 6	- Title Insurance Companies	148,224.00
Section 7	- MICA	<u>96,557.00</u>
	NEW REVENUE	<u>\$1,728,416.00</u>

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120789c

FISCAL NOTE

REQUEST: _____

Revision Date: _____ Agency Affected: Commerce & Econ. Dev.
 Title: An Act relating to insurance premium taxes; BRU: Insurance
and providing for an effective date
 Sponsor: Labor & Commerce Committee Components: Operations
 Requestor: House Labor & Commerce

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
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	159.2	167.1	175.4	184.2	193.4	203.0

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						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary) No fiscal impact in FY90.

Prepared by: Don Koch, Chief of Market Surveillance Phone: 465-2577
 Division: Insurance Date: 1-19-90
 Approved by Commissioner: Larry Merculieff Date: 1/11/90
 Agency: Commerce and Economic Development

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

HOUSE LABOR AND COMMERCE COMMITTEE

ALASKA STATE LEGISLATURE

P.O. BOX Y, JUNEAU 99811

(907) 465-3892



November 23, 1989

M E M O R A N D U M

To: Members, House Labor and Commerce Committee

From: Representative Dave Donley, Chair
House Labor and Commerce Committee

Re: HB 355 - Uniform Premium Tax

HB 355 establishes a uniform premium tax of 2.7 percent for insuring property or risks located in Alaska.

The premium tax is one of the largest sources of revenues to the state, generating between twenty and twenty-eight million dollars a year. The complexity of the current statute and the differences between the rates paid by various insurers makes collection and regulation of the premium tax needlessly difficult for the Division of Insurance. HB 355 will make it easier for the Division to collect the premium tax and to regulate the industry.

Property/casualty and life/disability insurers already pay a 2.7 percent premium tax. A uniform premium tax will generate an estimated \$1,728,416.00 additional general fund dollars per year by making the tax rate for hospital and medical service corporations, wet marine and transportation insurance, independently procured insurance and title insurance companies consistent with the rate other insurers pay.

There is a proposed committee substitute in your file that incorporates amendments requested by the Division of Insurance (see attached analysis and fiscal note). Jim Jordan, Acting Director of the Division of Insurance will be present to testify and answer questions at our November 28 hearing.

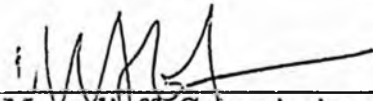
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b/hb355-1

CSHB 355 (L&C): "An Act relating to imposition of a uniform insurance premium tax; and providing for an effective date.

While this department is neutral on the subject of tax level, we do support this proposed legislation due to its effect on the Division of Insurance. The Act substantially makes the rate of insurance premium tax uniform at 2.7% and provides for a common method of computation. This simplifies the application and calculation of the tax as well as the collection of the tax.

The Division of Insurance now has a number of sources with which to confirm taxes based on gross premium income. It does not have a practical means to determine or confirm taxes based on gross underwriting profit, the method currently used on some wet marine and transportation insurance placements. Except for hospital and medical service corporations, tax would be uniformly applied to gross premium income.

Presently, there are eight different tax rates in the insurance code involving at least three different methods of calculation with resultant variety of the forms utilized to aid in the proper calculation of the appropriate tax. This legislation would allow the Division of Insurance to operate more efficiently in its tax collection role by consolidating the rate and method of taxation.



Larry Merculieff, Commissioner

Date: 24/1/90

LW/dgl6187D
12490a

HB 355

STATE OF ALASKA

STEVE COWPER, GOVERNOR

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

7th FLOOR FRONTIER BLDG.
3601 C STREET, SUITE 740
ANCHORAGE, ALASKA 99503-5934
PHONE: (907) 562-3626

DIVISION OF INSURANCE

January 2, 1990

Honorable Dave Donley
House Labor and Commerce Committee
Alaska State Legislature
P. O. Box Y
Juneau, AK 99811

Dear Representative Donley:

RE: Work Draft for CS HB 355 (Uniform Premium Tax)

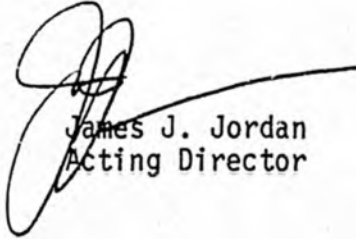
You requested that I provide you with the fiscal impact of the Work Draft for CS HB 355. The analysis is as follows:

	<u>HB 355</u>	<u>Work Draft CS HB 355</u>
Section 1 Hospital and Medical Service Corporations	\$1,351,911	\$ -0-
Section 2 Wet Marine and Trans- portation Insurance	134,724	134,724
Section 4 Independently Procured Insurance	[3,000]	[3,000]
Section 6 Title Insurance Companies (Section 7 in Work Draft CS HB 355)	148,224	148,224
Section 7 MICA (Section 8 in Work Draft CS HB 355)	96,557	[120,697]
	<hr/>	<hr/>
NEW REVENUE	\$1,728,416	\$159,251

(NOTE: This includes the change relating to Hospital or Medical Service Corporation directed in your memorandum to Mike Ford dated December 11, 1989.

Let me know if you have any questions.

Sincerely,



James J. Jordan
Acting Director

CC: Linda Wild,
Special Assistant
Dept. of Commerce &
Economic Development

JJ/sh
2716

HB 355



Alaska National INSURANCE COMPANY

A policy of service and protection

January 19, 1990

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

Dear Mr. Donley:

We have received an Insurance Issues report on a House Labor and Commerce Committee work session held on November 28, 1989, to consider H.B. 355. This is the bill that would impose a uniform insurance premium tax of 2.7 percent.

Quoting from that report:

"Before the work session, Acting Insurance Director Jim Jordan advised Rep. Dave Donley, the committee chairman, that the Division had a neutral position on the bill and offered several technical amendments. A draft substitute was prepared for the work session, incorporating Jordan's suggested changes, but he said he still remained neutral on the legislation because he was concerned about the situation involving Blue Cross of Washington and Alaska. Jordan said that the premium tax is an expense that is passed through directly to the consumer. He suggested that with the high cost of health insurance, the committee might consider exempting medical services corporations. Jordan estimated the increased premium tax in this area would add \$1.5 million to health insurance costs in Alaska. The committee agreed to exempt the medical services corporations and MICA."

We believe that exempting medical services corporations and MICA from the bill raises some equal protection constitutional issues. We agree with Director Jordan "that the premium tax is an expense that is passed through directly to the consumer." We then ask:

Why should a consumer who receives health care insurance from a medical service corporation not have to pay this expense whereas his neighbor who buys his medical insurance from another insurer does?

RECEIVED
JAN 22 1990

The Honorable Dave Donley
January 19, 1990
Page 2

Why should a physician (or, ultimately, the patients of that physician) who buys medical malpractice insurance from MICA not have to pay this expense whereas a competing physician (or, his patient) who buys insurance from another insurer does?

Why should policyholders of insurers who provide medical insurance through the workers' compensation, general and auto liability insurance system have to pay this expense whereas the proposed exempted do not?

If the Legislature wants to help out the consumer with premium tax expense, it seems to us that the proper way to do that is to reduce the rate (California's is 2.35%) but charge everyone equally.

There is one other item. We do not have a current draft of H.B. 355. The one we have from last year would continue taxing wet marine insurers on their gross underwriting profit, normally a small percentage of direct premium income. We believe that the tax on marine insurers should be applied to direct premium income to meet the test we advocate above. (We are putting our money where our mouth is on this issue since we are beginning to underwrite marine insurance this year).

Your comments would be appreciated.

Sincerely,



James E. Pfeifer
President

JEP:lw

cc: Senator Tim Kelly
Acting Director Jim Jordan

HOUSE LABOR AND COMMERCE COMMITTEE

ALASKA STATE LEGISLATURE

P.O. BOX Y, JUNEAU 99811

(907) 465-3892



November 15, 1989

M E M O R A N D U M

To: Mike Ford, Attorney
Legislative Legal Services

From: Representative Dave Donley, Chair
House Labor and Commerce Committee

Re: Draft CS for HB 355

Please prepare a draft House Labor and Commerce proposed committee substitute for HB 355 incorporating the suggested changes outlined in the attached letter from former Division of Insurance Director Paul Roller.

The omission of changes for tax rates for unauthorized insurance in AS 21.33.055(a) was inadvertent. Insert new language into the draft CS similar to sections 4 and 5 as suggested in Roller's comments under Section 2, Page 2. In addition, the attached amendment (6-1382Aa, Ford, 6/30/89) should be included in the draft CS.

We need this draft CS as soon as possible in order to prepare for public hearings on November 28. Contact Jim Jordan at the Division of Insurance or Ginger Baim at 561-7629 if you have any questions or need additional information.

Enclosure

dd/gb

STATE OF ALASKA

STEVE COWPER, GOVERNOR

**DEPARTMENT OF COMMERCE &
ECONOMIC DEVELOPMENT**

DIVISION OF INSURANCE

P. O. BOX D
JUNEAU, ALASKA 99811-0800
PHONE: (907) 465-2515

502-5626

July 7, 1989

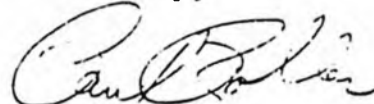
Honorable Dave Donley
House of Representatives
3111 "C" Street, Suite 450
Anchorage, AK 99503

Dear Dave,

Staff has reviewed HB 355 relating to a uniform premium tax, and I've enclosed a draft copy of our bill analysis. The analysis has not been released to anyone else yet but is due in our Commissioner's Office as soon as possible but not later than July 25.

I would like to talk with you about the bill once you've had a chance to study our analysis. I will be out of the state from July 17-24. Jim Jordan will, of course, be available in my absence.

Sincerely,



Paul Roller
Director

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070789a
Enclosure

HB 355

An Act relating to imposition of a uniform insurance premium tax; and providing for an effective date.

Section 1

This section repeals and reenacts AS 21.09.210(b) which establishes the rate of taxation. The section changes the tax rate for hospital and medical service corporations from 6% of gross premiums less claims paid to 2.7% of direct premium income. This will increase taxes paid by hospital and medical service corporations from \$399,878 to \$1,751,789, an increase of \$1,351,911 based on calendar 1988 data.

Two technical amendments are suggested:

1. On page 1, line 10, after the word "insurer," insert "and each formerly authorized insurer with respect to premiums received while an authorized insurer."

This language is in the existing statute and simply clarifies that, if an insurer withdraws from the state for whatever reason before year-end, it is still liable for premium taxes on insurance written while authorized.

2. On page 1, line 13, after the word "risks," insert "resident" and, after the word "located," insert "or to be performed."

This is in keeping with language in other draft bills and in regulations.

One further substantive amendment is recommended:

On page 1, line 22, after the word "tax," add a new sentence: "The director may promulgate regulations to require tax payments to be made on other than an annual basis."

This would give the director the flexibility to require monthly or quarterly tax payments as has been discussed with the Department of Revenue in order to increase the state's interest earnings. Several states already require quarterly payments and Hawaii requires monthly payments.

Section 2

This section repeals and reenacts AS 21.09.210(d). The effect is to increase the tax rate on wet marine and transportation insurance from .75% to 2.7%. Based on 1988 data, tax collections would increase from \$51,817 to \$186,541, an increase of \$134,724. This figure is very rough because the division combines all wet marine and transportation taxes even though some companies pay based on gross underwriting profit and some pay based on gross premiums.

Section 3

This section adds a new subsection (j) to AS 21.09.210 which requires that the commissioner of administration separately account for the premium taxes collected by the division. The Legislature may then appropriate the annual estimated balance to the Medical Malpractice Matching Fund (MMMMF). This matching fund is established in HB 350. In addition, HB 349 makes an initial appropriation of \$500,000 to the matching fund from the unexpended and unobligated funds repaid to the medical malpractice liability revolving loan fund. As of June 22, 1989, the medical malpractice liability revolving loan fund balance is \$1,972,870.

This section will have the effect of reducing general fund revenue by the amount required for the operation of the MMMMF on an annual basis. Only health care providers insured by the Medical Indemnity Corporation of Alaska (MICA) are eligible to receive matching funds and eligibility criteria are established based on the relationship between the health care provider's annual income and insurance premium. So while not all MICA-insured providers will be eligible depending upon their income and premium amounts, in 1988 MICA generated \$8,046,470 in premiums. The division does not have the data available to further define the possible effect on the general fund.

→ A technical amendment is needed on page 2, line 9. The word "loan" should be deleted. The fund as established in HB 350 is called the Medical Malpractice Matching Fund.

Section 4

AS 21.33.061(c) is repealed and reenacted. The effect is to reduce the current 3% tax rate on independently procured insurance to 2.7% for lines other than marine insurance. The tax rate on marine insurance will increase from .75% to 2.7%. The monetary effect is minimal on the change from 3% to 2.7%. Based on 1988 data, which also includes unauthorized insurance premium tax, there is a reduction of \$3,000.

yes. It should be noted that the tax rates for unauthorized insurance in AS 21.33.055(a) are not amended by this legislation. If this was inadvertent, a new section with language similar to sections 4 and 5 could be inserted.

Section 5

Minor amendments to AS 21.33.061(e) to reflect the new section references for the tax rates and tax due date.

This section needs to be amended to incorporate the possibility of quarterly or monthly tax payments. On page 2, line 19, after the word, "paid," insert "when due" and delete "by April 1 of each year."

Section 6

AS 21.66.110 is amended to increase the tax rate from 1% to 2.7% on gross premiums received by title insurance companies. Using 1988 data, this would increase tax revenue by \$148,224 from \$87,190 to \$235,414.

Section 7

AS 21.88.060 is amended to increase the tax rate from 1.5% to 2.7% on direct premium income received by MICA. Using 1988 data, this would increase tax revenue by \$96,557, from \$120,697 to \$217,254.

Section 8

This section deletes AS 21.09.210(h) which exempted title insurance companies from AS 21.09.210. Pursuant to Section 6 of the bill, title insurance companies will pay the same tax rate as the other admitted insurance companies.

W→ One suggested amendment would be to phase in the tax increase for title insurance companies due to the continuation of the depressed real estate market.

Section 9

This section simply states that the provisions of the Act apply to policies issued or renewed after the effective date of the section.

Sections 10 and 11

These sections specify the effective dates.

In summary, it appears that this legislation would generate the following additional revenue:

Section 1	- Hospital and Medical Service Corporations	\$1,351,911.00
Section 2	- Wet Marine and Transportation Insurance	134,724.00
Section 4	- Independently Procured Insurance	[3,000.00]
Section 6	- Title Insurance Companies	148,224.00
Section 7	- MICA	[120,000.00] -96,557.00
NEW REVENUE		<u>\$1,728,416.00</u>

Depending on the estimate for resources needed for the medical malpractice matching fund, it is possible this legislation could generate enough revenue to cover the costs of the matching fund.

6-1382Aa
Ford
6/30/89

A M E N D M E N T

OFFERED IN THE HOUSE

BY DONLEY

TO: HB 355

Page 2, line 29, through page 3, line 2:

Delete all material and insert

"Sec. 21.88.060. PREMIUM TAX EXEMPTION. Premium income received by the corporation for insurance issued under this chapter is exempt from taxation."

Insurance Premium Tax Rates by State

State	P&C Tax	Wet Marine Tax	Fire Marshall	Other Fire	Total Tax
AL	4.00 GP	4.00 GP	None	None	4.00 GP
AK	2.70 GP	0.75 Pr	None	None	2.70 GP
AZ	1.70 GP	1.70 GP	0.20 †	None	1.90 GP
AR	2.50 GP	0.75 Pr	None	None	2.50 GP
CA	2.35 GP	5.00 Pr(3)	None	None	2.35 GP
CO	2.25 GP	2.25 GP	None	None	2.25 GP
CT	2.00 GP	5.00 Pr(3)	None	None	2.00 GP
DE	1.75 GP	5.00 Pr(3)	None	None	1.75 GP
DC	2.00 GP	2.00 GP	None	None	2.00 GP
FL	2.00 GP	0.75 Pr	0.63 †	None	2.63 GP
GA	2.25 GP	2.25 GP	None	2.50 †	4.75 GP
HI	4.28 GP	0.88 Pr	None	None	4.28 GP
ID	3.00 GP	3.00 GP	None	None	3.00 GP
IL	2.00 GP	2.00 GP	1.00 †	2.00 †	5.00 GP
IN	2.00 GP	2.00 GP	0.50 incl	None	2.00 GP
IA	2.00 GP	6.50 Pr(3)	None	None	2.00 GP
KS	2.00 GP	2.00 GP	1.25 †	2.00 †	5.25 GP
KY	2.00 GP	2.00 GP	0.75 †	None	2.75 GP
LA	1.85 GP	1.85 GP	1.25 †	2.25 †	5.35 GP
ME	2.00 GP	2.00 GP	0.75 †	None	2.75 GP
MD	2.00 GP	2.00 GP	None	None	2.00 GP
MA	2.28 GP	5.70 Pr(3)	None	None	2.28 GP
MI	2.35 GP	2.35 GP	None	None	2.35 GP
MN	2.00 GP	5.00 Pr(3)	2.00 †	2.00 †	6.00 GP
MS	3.00 GP	3.00 GP	0.50 †	None	3.50 GP
MO	2.00 GP	2.00 GP	None	None	2.00 GP
MT	2.75 GP	2.75 GP	0.75 †	1.25 †	4.75 GP
NE	1.00 GP	1.00 GP	0.75 †	None	1.75 GP
NV	3.00 GP	3.00 GP	None	None	3.00 GP
NH	2.00 GP	5.00 Pr	None	None	2.00 GP
NJ	2.00 GP	5.00 Pr(3)	None	None	2.00 GP
NM	3.00 GP	3.00 GP	None	None	3.00 GP
NY	2.60 GP	2.60 GP	1.25 †	None	3.85 GP
NC	2.50 GP	2.50 GP	1.00 †	0.50 †	4.00 GP
ND	2.50 GP	2.50 GP	None	None	2.50 GP
OH	2.50 GP	2.50 GP	0.75 †	None	3.25 GP
OK	4.00 GP	4.00 GP	0.31 †	None	4.31 GP
OR	2.25 GP	5.00 Pr(3)	1.00 †	None	3.25 GP
PA	2.00 GP	5.00 Pr	None	None	2.00 GP
RI	2.00 GP	5.00 Pr(3)	None	None	2.00 GP
SC	2.00 GP	2.00 GP	None	1.10 †	3.10 GP
SD	2.50 GP	2.50 GP	0.50 †	None	3.00 GP
TN	2.50 GP	2.50 GP	0.75 †	None	3.25 GP
TX	3.50 GP	3.50 GP	1.25 †	None	4.75 GP
UT	2.25 GP	5.00 Pr	None	None	2.25 GP
VT	2.00 GP	2.00 GP	None	None	2.00 GP
VA	2.75 GP	2.75 GP	None	None	2.75 GP
WA	2.00 GP	0.95 Pr	None	None	2.00 GP
WV	4.00 GP	4.00 GP	0.50 †	None	4.50 GP
WI	2.38 GP	0.50 GP	None	2.00 †	4.38 GP
WY	2.50 GP	0.75 Pr	None	None	2.50 GP

Tax Rates by State

State	P&C Tax	Wet Marine Tax	Fire Marshall	Notes
AL	4.00	4.00 GP	None	
AK	2.70	0.75 Pr	None	
AZ	1.70	1.70 GP	0.20 †	
AR	2.50	0.75 Pr	None	
CA	2.35	5.00 Pr(3)	None	
CO	2.25	2.25 GP	None	
CT	2.00	5.00 Pr(3)		???????
DE	1.75	5.00 Pr(3)	None	
DC	2.00	2.00 GP	None	
FL	2.00	0.75 Pr	0.63 †	
GA	2.25	2.25 GP	None	† max of 2.50 by county
HI	4.28	0.88 Pr	None	
ID	3.00	3.00 GP	None	
IL	2.00	2.00 GP	1.00 †	† 2.00 for Fire Dept
IN	2.00	2.00 GP	0.50 incl	
IA	2.00	6.50 Pr(3)	None	
KS	2.00	2.00 GP	1.25 †	† 2.00 Firefighters Relief
KY	2.00	2.00 GP	0.75 †	
LA	1.85	1.85 GP	1.25 †	† 2.25 Fire Dept & Training
ME	2.00	2.00 GP	0.75 †	
MD	2.00	2.00 GP	None	
MA	2.28	5.70 Pr(3)	None	
MI	2.35	2.35 GP	None	
MN	2.00	5.00 Pr(3)	2.00 †	† 2.00 Firemens Relief Fund
MS	3.00	3.00 GP	0.50 †	
MO	2.00	2.00 GP	None	
MT	2.75	2.75 GP	0.75 †	† 1.25 Firemens Pension
NE	1.00	1.00 GP	0.75 †	
NV	3.00	3.00 GP	None	
NH	2.00	5.00 Pr	None	
NJ	2.00	5.00 Pr(3)	None	
NM	3.00	3.00 GP	None	
NY	2.60	2.60 GP	1.25 †	
NC	2.50	2.50 GP	1.00 †	† 0.50 Firemens Relief Fund
ND	2.50	2.50 GP	None	
OH	2.50	2.50 GP	0.75 †	
OK	4.00	4.00 GP	0.31 †	
OR	2.25	5.00 Pr(3)	1.00 †	
PA	2.00	5.00 Pr	None	
RI	2.00	5.00 Pr(3)	None	
SC	2.00	2.00 GP	None	† 1.10 Fire Dept & Inspectic
SD	2.50	2.50 GP	0.50 †	
TN	2.50	2.50 GP	0.75 †	
TX	3.50	3.50 GP	1.25 †	
UT	2.25	5.00 Pr	None	
VT	2.00	2.00 GP	None	
VA	2.75	2.75 GP	None	
WA	2.00	0.95 Pr	None	
WV	4.00	4.00 GP	0.50 †	
WI	2.38	0.50 GP	None	† 2.00 Fire Dept Dues
WY	2.50	0.75 Pr	None	

Preferential Tax Rates for Wet Marine

HBZ 30

State	P&C Tax	Wet Marine Tax
AK	2.70 GP	0.75 Pr
AR	2.50 GP	0.75 Pr
FL	2.00 GP	0.75 Pr
WY	2.50 GP	0.75 Pr
HI	4.28 GP	0.88 Pr
WA	2.00 GP	0.95 Pr
NH	2.00 GP	5.00 Pr
PA	2.00 GP	5.00 Pr
UT	2.25 GP	5.00 Pr
CA	2.35 GP	5.00 Pr(3)
CT	2.00 GP	5.00 Pr(3)
DE	1.75 GP	5.00 Pr(3)
MN	2.00 GP	5.00 Pr(3)
NJ	2.00 GP	5.00 Pr(3)
OR	2.25 GP	5.00 Pr(3)
RI	2.00 GP	5.00 Pr(3)
MA	2.28 GP	5.70 Pr(3)
IA	2.00 GP	6.50 Pr(3)
WI	2.38 GP	0.50 GP

Notes:

- GP = Gross Premium
- Pr = Profit
- Pr(3) = Average 3 Year Profit

19 States have a preferential tax treatment for Wet Marine insurance

Added Premium Tax for Fire Marshall & Fire Related

State	P&C Tax	Fire Marshall Tax	Additional Fire Related Tax
AK	2.70	None	
AZ	1.70	0.20 †	
FL	2.00	0.63 †	
GA	2.25	None	† max of 2.50 by county
IL	2.00	1.00 †	† 2.00 for Fire Department
IN	2.00	0.50 incl	
KS	2.00	1.25 †	† 2.00 Firefighters Relief
KY	2.00	0.75 †	
LA	1.85	1.25 †	† 2.25 Fire Dept & Training
ME	2.00	0.75 †	
MN	2.00	2.00 †	† 2.00 Firemens Relief Fund
MS	3.00	0.50 †	
MT	2.75	0.75 †	† 1.25 Firemens Pension
NE	1.00	0.75 †	
NY	2.60	1.25 †	
NC	2.50	1.00 †	† 0.50 Firemens Relief Fund
OH	2.50	0.75 †	
OK	4.00	0.31 †	
OR	2.25	1.00 †	
SC	2.00	None	† 1.10 Fire Dept & Inspection
SD	2.50	0.50 †	
TN	2.50	0.75 †	
TX	3.50	1.25 †	
WV	4.00	0.50 †	
WI	2.38	None	† 2.00 Fire Dept Dues

Notes:

All tax rates above apply to gross premium

20 states have an added insurance premium tax for the Fire Marshall's office.

1 state has an amount in the insurance premium tax allocated for the Fire Marshall's office.

9 states have an added insurance premium tax for a fire related purpose.