

ALASKA LEGISLATURE COMMITTEE FILES, 1989-1990 8672
6443 SENATE LABOR & COMMERCE

847

MEMORANDUM

TO: ALASKA SENATE

FROM: DAVID HUTCHENS, ARECA *Dave*

SUBJECT: SENATE CS FOR CS FOR HB 300 (L&C)

DATE: MAY 6, 1990

Our Association urges your support for HB 300 and offers the following explanation for its provisions.

Section 1 and 2 were added in House Judiciary to assist the City of Yakutat. The intent is that by buying the stock and keeping the corporate structure intact rather than buying the assets of Yakutat Power, the city would be able to continue to defer federal income taxes thereby saving on the purchase price.

Section 3 simplifies the record keeping requirements for the continuing property records required of all regulated utilities. Without this amendment, we are literally required to inventory every cross arm and bolt in the system by the legal description of the land on which it sits. Because the lines extend across great distances rather than being concentrated in a few locations, compliance is virtually impossible. This section substitutes a workable system and has the support of the APUC.

Section 4 is by far the most important part of the bill in our view. It has the effect of preventing raids on the larger customers of the electric utilities unless there is a finding by the Alaska Public Utilities Commission that such dual service is in the public interest. Without this amendment to existing law, an independent power producer can come into a small community and begin service for up to nine of the larger commercial and industrial customers. The utility loses the revenue from those customers, but it still must recover its costs incurred to be able to serve them. This means

the authority to examine these situations on a case-by-case basis and determine if they are in the public interest. That is what this section accomplishes if the consumer is already served by the certificated utility.

PROPOSED AMENDMENT We are aware that an amendment has been prepared which would have the effect of providing that Section 4 not apply to Prudhoe Bay. We have no position on this amendment.

Section 5 would "grandfather" those existing situations in which someone other than the certificated utility sells electricity to a customer.

A M E N D M E N T

OFFERED IN THE SENATE

TO: SCS CSHB 300(C&RA)

Page 2, lines 21 - 26:

Delete all material.

Insert "(B) one or more customers that purchase electrical service
for use within an area that is certificated to, ^{and presently or formerly served by} an electric utility ~~that~~
~~provides electrical service to residential consumers~~ if the total annual
compensation that the electrical utility receives for sales of electricity
exceeds \$50,000; and"

A M E N D M E N T

OFFERED IN THE SENATE

TO: SCS CSHB 300(C&RA)

Page 2, lines 21 - 26:

Delete all material.

Insert "(B) one or more customers that purchase electrical service for use within an area that is certificated to an electric utility that provides electrical service to residential consumers if the total annual compensation that the electrical utility receives for sales of electricity exceeds \$50,000; and"

6-1283M-
Cramer
5/4/90

Changes on Page 3

Original sponsor(s): Labor & Commerce Committee

1 IN THE HOUSE

BY THE LABOR & COMMERCE COMMITTEE

2 SENATE CS FOR CS FOR HOUSE BILL NO. 300 (L&C)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to acquisition and ownership of
7 capital stock of a public utility by a political
8 subdivision; relating to certain property records
9 maintained by public utilities; and including the
10 customers of a public utility that has an annual
11 compensation in excess of \$50,000 in the definition
12 of 'public' for public utility regulation; and pro-
13 viding for an effective date."

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

15 * Section 1. AS 37.10.085(a) is amended to read:

16 (a) Except as provided in (c) of this section, neither [NEITHER]
17 the state nor a political subdivision of the state may

18 (1) make a subscription to the capital stock of a corpora-
19 tion;

20 (2) lend its credit for the use of a corporation; or

21 (3) borrow money for the use of a corporation.

22 * Sec. 2. AS 37.10.085 is amended by adding a new subsection to read:

23 (c) To the extent that the political subdivision is authorized
24 to acquire, own, or operate a public utility, it may exercise that
25 power by acquiring and owning, in a manner consistent with law, all of
26 the capital stock of a corporation that owns or operates a public
27 utility. The political subdivision's authority with respect to lend-
28 ing its credit and borrowing money for the use of the corporation is
29 the same as if the political subdivision had acquired the assets of

1 the corporation.

2 * Sec. 3. AS 42.05.461 is amended to read:

3 Sec. 42.05.461. CONTINUING PROPERTY RECORDS. The commission may
4 require a public utility to establish, provide, and maintain as a part
5 of its system of accounts, continuing property records segregated by
6 the year of placement in service, including a list or inventory of all
7 the units of tangible property used or useful in the public service,
8 identifying the property by location and project [SHOWING THE CURRENT
9 LOCATION OF THE PROPERTY UNITS BY DEFINITE REFERENCE TO THE SPECIFIC
10 LAND PARCELS UPON WHICH THE UNITS ARE LOCATED OR STORED]. The commis-
11 sion may require a public utility to keep accounts and records in
12 [SUCH] a manner that shows [AS TO SHOW, CURRENTLY,] the original cost
13 of the property when first devoted to the public service, and the
14 current related reserve for depreciation. A public utility with
15 annual revenues exceeding \$100,000 shall keep continuing property
16 records.

17 * Sec. 4. AS 42.05.720(3) is amended to read:

18 (3) "public" or "general public" means

19 (A) a [ANY] group of 10 or more customers that pur-
20 chase the service or commodity furnished by a public utility; [AS
21 DEFINED IN (4) OF THIS SECTION; AND]

22 (B) one or more customers that purchase or use a
23 utility service or product in the service area of a public util-
24 ity, but that purchase the product or service from an entity
25 other than the public utility certificated for the service area,
26 if the total annual compensation received by the entity from the
27 sale of utility products and services exceeds \$50,000; and

28 (C) a [ANY] utility purchasing the product or service
29 or paying for the transmission of electric energy, natural or

1 manufactured gas, or petroleum products that [WHICH] are re-sold
2 to a person or group included in (A) or (B) of this paragraph or
3 that [WHICH] are used to produce the service or commodity sold to
4 the public by the utility;

5 * Sec. 5. The amendment made to AS 42.05.720(3) by sec. 4 of this Act
6 does not apply to an entity that was selling a product or service to cus-
7 tomers before the effective date of this Act.

8 * Sec. 6. This Act takes effect immediately under AS 01.10.070(c).
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ALASKA RURAL ELECTRIC COOPERATIVE ASSOCIATION, INC.

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

-MEMORANDUM-

TO: Senate Labor and Commerce Committee

FROM: David Hutchens, Executive Director

SUBJECT: Senate CS for CS for HB 300 (C&RA)

DATE: April 27, 1990

Our Association urges your support for HB 300 and offers the following explanation for its provisions.

Section 1 and 2 were added in House Judiciary by Representative Peter Goll to assist the City of Yakutat. The intent is that by buying the stock and keeping the corporate structure intact rather than buying the assets of Yakutat Power, the city would be able to continue to defer federal income taxes thereby saving on the purchase price.

Section 3 simplifies the record keeping requirements for the continuing property records required of all regulated utilities. Without this amendment, we are literally required to inventory every cross arm and bolt in the system by the legal description of the land on which it sits. Because the lines extend across great distances rather than being concentrated in a few locations, compliance is virtually impossible. This section substitutes a workable system and has the support of the APUC.

Section 4 is by far the most important part of the bill in our view. It has the effect of preventing raids on the larger customers of the utilities without a finding by the Alaska Public Utilities Commission that such dual service is in the public interest. Without this amendment to existing law, an independent power producer can come into a small community and begin service for up to nine of the larger commercial and industrial customers. The utility loses the revenue from those customers, but it still must recover its costs incurred to be able to serve them. This means substantial rate increases for everybody else. The APUC should have the authority to examine these situations on a case-by-case basis and determine if they are in the public interest. That is what this section accomplishes.

LAW OFFICES

HEDLAND, FLEISCHER, FRIEDMAN, BRENNAN & COOKE

A PROFESSIONAL CORPORATION

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BETHEL, ALASKA 99559

(907) 543-2744

March 8, 1990

BETHEL:

CHRISTOPHER H. COOKE

RECEIVED

MAR 12 1990

Mayor Larry Powell
CITY OF YAKUTAT
PO Box 6
Yakutat, AK 99689

CITY OF YAKUTAT
CITY CLERK

Re: Yakutat Power

Dear Larry:

Pursuant to our conversation of March 2, 1990, I am enclosing herewith a proposed amendment to AS 37.10.085 which, if enacted, would clear up any question about the ability of the City to continue operation of the utility company in the corporate form rather than dissolving the corporation.

According to John Parisena, dissolution of the corporation would result in a tax obligation of approximately \$137,000. Shelby Stastny has looked into the matter and concluded that the City could maintain the tax exempt status of the corporation under the Internal Revenue Code so long as the income accrues to the state or a political subdivision. Since all of the project revenues would be pledged to payment of the bonds or, to the extent of any excess, can be paid to the City, dissolution is not required to avoid taxation. Additionally, since the City, not the corporation, will be the issuer of the bonds, their tax exempt status is not in jeopardy according to the information from bond counsel for the bond bank.

I am also enclosing a memorandum which sets out the justification for the amendment, as well as an opinion that, whether the statute is amended or not, it is not violated by City ownership of the stock. However, bond

Mayor Larry Powell
CITY OF YAKUTAT
Page Two
March 8, 1990

counsel may be nervous absent a concrete opinion from
the court, and amendment of the statute would clear up
any doubt.

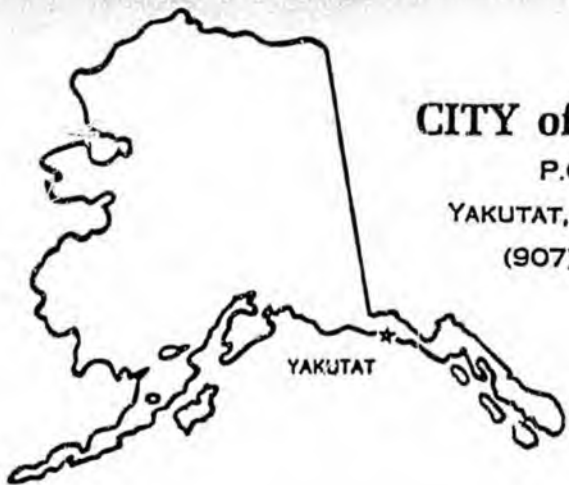
Please let me know if you have further questions.

Sincerely,



John S. Hedland

JSH:jp



CITY of YAKUTAT

P.O. Box 6

YAKUTAT, ALASKA 99689

(907) 784-3323

March 13, 1990

The Honorable Richard Eliason
Rm. 417, Capitol
P.O. Box V
Juneau, AK. 99811

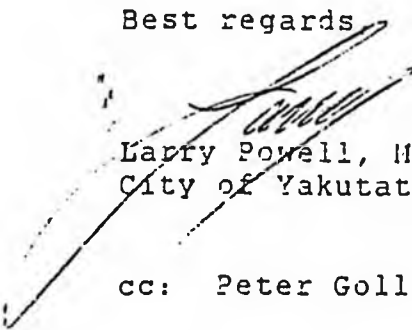
Dear Dick:

Please review the enclosed letter citing the necessity for introducing legislation to remedy a situation that is presently working adversely against the City of Yakutat in our efforts to purchase the Yakutat Power Co. It may also create problems for other public entities in similar situations.

Our request is that a very basic bill (suggested language is included in the attachment) be introduced at the earliest possible time for the Legislature's consideration.

Call at your earliest convenience should additional information or justification be required.

Best regards



Larry Powell, Mayor
City of Yakutat

cc: Peter Goll, Representative

enclosure



CITY of YAKUTAT

P.O. Box 6

YAKUTAT, ALASKA 99889

(907) 784-3323

April 10, 1990

Honorable Richard Eliason
Alaska State Legislature
P.O. Box V (MS 3100)
Juneau, Alaska 99811

Dear Senator *Dick* Eliason:

First let me thank you for moving ahead with Legislation (SB#532) which will be extremely helpful to the community of Yakutat and probably others as well.

The local power utility (Yakutat Power Co.) in Yakutat is being sold. Most Yakutat residents feel that local ownership is highly desirable in keeping power rates at the lowest possible rate (presently avg. 21 cents/kw.) for the long term. It appears that the municipality is the only party capable of such a proposition.

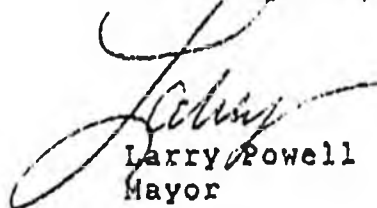
However, again in the interest of keeping the rates at the lowest possible level, it is highly desirable to maintain the corporation and avoid the arena of taxation associated with the dissolution of a "company". Since this is technically contrary to state law and we hesitate to create any apprehension on the part of the Alaska Bond Bank Authority or the City's bond counsel, it seems logical that amendment of the statute would clear up any doubt.

We feel that stable power rates are a key to a healthy local economy and you can help supporting this Legislative amendment.

Please review the attached letter which goes into detail on the justification for our request.

The City of Yakutat presently has an application before the Bond Bank Authority and the A.P.U.C. in this matter.

Best Regards,



Larry Powell
Mayor

MEMORANDUM

TO: Larry Powell
FROM: John S. Hedland
DATE: March 8, 1990

1. Proposed statutory change.

AS 37.10.085 is amended by the addition of subsection

(c) as follows:

(c) To the extent that the political subdivision is authorized to acquire, own, or operate a public utility, it may exercise that power by acquiring and owning, in a manner consistent with law, all of the capital stock of a corporation that owns or operates a public utility, and the political subdivision's authority with respect to lending its credit and borrowing money for the use of said corporation shall be the same as if the political subdivision had acquired the assets of said corporation.

2. Justification.

AS 37.10.085 as currently written stated as follows:

Sec. 37.10.085. Financial aid to corporations by state or political subdivision. (a) Neither the state nor a political subdivision of the state may

(1) make a subscription to the capital stock of a corporation;

(2) lend its credit for the use of a corporation; or

(3) borrow money for the use of a corporation.

(b) This section does not apply to debt issued by a municipality or a municipal joint insurance arrangement under AS 21.76.120.

The purpose of the amendment is to make it clear that a municipality may exercise its power to own and operate a public utility by acquiring the stock in a corporation that owns and

operates a public utility, and is not restricted to acquiring the assets of the company, and that it may finance acquisition or operation of the company in the same manner as if it owned the assets directly. If a municipality is required to acquire the assets, rather than the stock, of a public utility company, the assets must be sold by the corporation or the corporation must be dissolved. In either case, assuming that the fair market value of the assets (presumptively the purchase price) exceeds the corporation's depreciated basis in the assets, a substantial tax liability will arise that must ultimately be borne by the municipality, either through payment of the tax or an increase in the purchase price. There is no justification for imposing this unnecessary expense upon the municipality, since municipal ownership of the stock, rather than the assets, of a public utility company does not contravene any policy under Alaska law relating to either municipalities or utilities.

I do not believe that enactment of the proposed amendment would change the substantive law of Alaska. AS 37.10.085 as presently written does not, in my view, prohibit a municipality from acquiring all of the capital stock of a public utility company. However, under the strictures applicable to the sale of municipal bonds, bond counsel for either the municipality or the Alaska Municipal Bond Bank may raise questions about the authority of the municipality to acquire the stock in a public utility company, with the consequence that the bonds may not be marketable. The proposed amendment is designed to eliminate that problem.

It is clear that the evil at which AS 37.10.085 is directed--diverting public funds to private purposes--is not present when a municipality acquires, through a stock acquisition, a public utility that it may lawfully acquire through an asset acquisition. In Wright v. City of Palmer, 468 P.2d 326 (Alaska 1970), the court upheld the issuance of municipal bonds to be used to finance industrial sites to be leased to private companies. The court characterized the statute as one

which prohibits either the state or a political subdivision to lend its credit for the use of a private corporation, or to borrow money for the use of a private corporation. . . . We think that the question of whether the public credit is being pledged for a private purpose is also comprehended under the broader question of whether a public purpose is served by the bond issue and plan for its expenditure. . . . (Emphasis added). 468 P.2d at 328-29.

In State, ex rel. Johnson v. Consumers Public Power District, 10 N.W.2d 784 (Neb. 1943), the court was confronted with a Nebraska constitutional provision which provided that "no city, county, town, precinct, municipality, or other subdivision of the state, shall ever become a subscriber to the capital stock, or owner of such stock, or any portion or interest therein of, any railroad, or private corporation, or association." The case involved the legality of the public power district's acquisition of all of the common stock of an electric power company, for purposes of dissolving it and acquiring its assets. The court stated as follows:

Even if respondent is a political subdivision of the state . . . [the constitutional provision] has no application under the circumstances. This provision of our Constitution must be construed

with reference to the evils it was intended to correct or prevent. It was intended to prohibit any subdivision of the state from entering into private business by being associated as a stockholder, or being a partner, or a part owner, in a private business venture or enterprise. . . . [The constitutional provision] was never intended to prohibit a purchase by a subdivision of the state of all the capital stock of a corporation solely for the purpose of lawfully acquiring the physical property of such corporation for a public use, constitutionally defined and lawfully authorized by the legislature. 10 N.W.2d at 794.

It is clear that the Yakutat Power acquisition does not place the City in the position of investing in a private business venture or enterprise, and the same reasoning should apply here.

Acquisition of stock that has already been issued, from an existing shareholder, does not constitute making a "subscription" to the stock of the corporation. As the court noted in Sprague v. Straub, 451 P.2d 49, 52 (Ore. 1969):

The distinction between a subscription to stock and a purchase of stock is well established. The term subscription is ordinarily used to refer to an agreement to purchase stock in a prospective corporation to be organized in the future; it is to be contrasted with the purchase of the stock of an existing corporation.

The court cited Astoria & S.C.R. Co. v. Hill, 25 Pac. 379 (Ore. 1890); Commercial State Bank v. Eilers, 264 Pac. 452 (Ore. 1928). The Alaska statute must therefore be distinguished from statutes or constitutional provisions in other states which prohibit the state or municipality from 'becoming a stockholder in any . . . corporation'. (See, §9 Article XI, Oregon Constitution); being "directly or indirectly the owner of, any stock or bonds of any . . . corporation (New Jersey Constitution, Art. VIII, §III, ¶2), see,

Whelan v. N. J. Power & Light Co., 212 A.2d 136, 139-40 (N.J. 1965); "subscribe to, or be interested in the stock of any . . . corporation" (Oregon Constitution, Article XI, §6); "become a stockholder in any . . . corporation (original Ohio Constitution, see, Sprague v. Straub, supra, 451 P.2d at 54. Indeed, AS 37.13.120(g) (18) expressly authorizes the investment of permanent fund money in "preferred and common stock of corporations incorporated in the United States".

Since a corporation wholly owned by the municipality is not a "private corporation" within the court's interpretation of AS 37.10.085, municipal financing activities do not violate the prescription against lending credit or borrowing money in aid of a corporation. Even if such a corporation were treated as a private one, the issuance of revenue bonds to be repaid solely via a pledge of revenue earned through corporate operations would not amount to a pledge of public credit. Wright v. City of Palmer, supra, 468 P.2d at 329, n. 4; Miles v. City of Eugene, 451 P.2d 59, 62 (Oregon 1969); ("Likewise, the proposal in this case would not come within the constitutional prohibition against raising money or lending credit. Money coming from revenue bonds and not from tax money does not fall within the prohibition.")

ALASKA PUBLIC UTILITIES COMMISSIONCOMMENTS ON SB 532

April 9, 1990

The Alaska Public Utilities Commission supports enactment of SB 532. As drafted, this bill will allow municipalities to acquire the capital stock of a utility and should result in essentially the same ownership structure as the more routinely used method of utility asset purchase. The APUC does not perceive any difference in its consideration of a transaction pursuant to SB 532 and that of the typical asset acquisitions which are presented for Commission review.

RECEIVED

APR 09 1990

OFFICE OF THE
COMMISSIONER

STEVE GOWEN GOVERNOR

ALASKA PUBLIC UTILITIES COMMISSION
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT

1401 J. STREET
SUITE 100
ANCHORAGE, ALASKA 99501
(907) 263-0222

March 16, 1990

File: HB 300

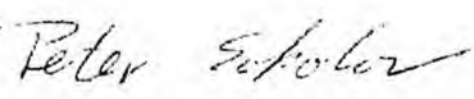
David Hutchens, Executive Director
Alaska Rural Electric
Cooperative Association, Inc.
237 E. Fireweed Lane, Suite 301
Anchorage, Alaska 99503

Dear Mr. Hutchens:

With reference to your inquiry regarding House Bill No. 300, the the February 28, 1990, committee substitute version of that bill includes the suggestions and wording proposed by the Commission on February 26, 1990. As to the Commission's endorsement of the bill, the Commission supports Section 1 of the revised bill regarding the changes to continuing property record requirements.

As to Section 2, the Commission certainly appreciates the proponents' rationale for regulating entities with fewer than 10 customers but earning gross revenues of more than \$50,000 annually. Regulation would control the activities of potential competitors that may divert lucrative customers from established utilities. However, the Commission believes that the policy of whether such regulation should be effected and whether it should apply to all utilities is best left to the discretion of the Legislature. Therefore, the Commission has no position on Section 2 of CS HB300.

Sincerely,



Peter Sokolov
Chairman

ARCTIC UTILITIES, INC.
4706 HARDING DRIVE
ANCHORAGE, ALASKA 99517
(907) 248-3030

May 7, 1990

Senator Richard I. Eliason
Chairman
Senate Labor and Commerce Committee
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Senator Eliason:

I am writing again regarding HB 300. I understand that an amendment has been offered on the floor which would limit the effects of HB 300 to electric utilities serving "RESIDENTIAL" customers.

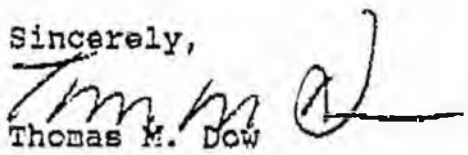
This amendment would serve to exclude one utility in the state from the legislation, Arctic Utilities, Inc., since our certificated area at Prudhoe Bay has only commercial customers at this time.

As I testified earlier, to single out Arctic Utilities is basically unfair. The same potential threat of an unregulated business coming in to a certificated, regulated utilities area and picking off large commercial customers. In fact, it is obvious from the testimony before your committee last Friday, that such a plan has been devised by the local gas utility at Prudhoe Bay and an entity that recently purchased a surplus camp.

This approach of "high grading" a few large commercial customers by offering cut rates, which cannot be met by the regulated utility could devastate the only business in the state which would be left unprotected by the proposed amendment. I believe, as you indicated at the Friday hearing, that such an exception to the laws governing utilities in Alaska would be more properly handled by the APUC, which is set up to weigh the economic, safety, customer service, and public necessity of various approaches to providing reliable electric service in specific areas of Alaska.

Thank you very much for considering Arctic Utilities' position.

Sincerely,


Thomas M. Dow

STATE OF ALASKA
THE LEGISLATURE

POUCH Y STATE CAPITOL
JUNEAU, ALASKA 99811
907 465 3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

March 20, 1990

SUBJECT: Political subdivision ownership of
capital stock in a public utility
(Work Order No. 6-2371)

TO: Senator Dick Eliason, Chair
Labor & Commerce Committee

FROM: Teresa B. Cramer *TBC*
Legislative Counsel

You have asked for a brief explanation of the effect of W.O.
6-2371.

Section 2 of the bill allows a city or other political sub-
division to buy the stock of a public utility in order to
acquire ownership of the utility if the political subdivi-
sion is authorized by other law to own or operate a utility.
This is an alternative to buying the utility by buying the
physical plant and other assets of the utility. The bill
does not address what the city does with the corporate
structure of the public utility after acquiring the stock.

If I may be of further assistance, please advise.

TBC:gc
G14/002



NORGASCO, INC.

8740 Hartzell Rd. Anchorage, Alaska 99507 (907)344-6742

April 25, 1990

Senator Richard I. Eliason
Alaska State Legislature
PO Box V (MS 3100)
Juneau, Alaska 99811

Dear Senator Eliason,

I am writing to express my concern about CS HB 300. This bill, if it becomes law, may have substantial and detrimental ramifications for Norgasco.

For this reason, I request that you hold public hearings on the bill and advise me of the schedule so I may make plans to attend.

Sincerely,

NORGASCO, INC.

Raymond R. Latchem
President



NORGASCO, INC.

8740 Hartzell Rd. Anchorage, Alaska 99507 (907)344-6742

April 30, 1990

Senator Richard I. Eliason
HAND DELIVERED

Dear Senator Eliason,

I have been in contact with the proponents of the C&RA substitute for HB 300 and we have reached a compromise.

Our basic problem with the CS is that it effects existing and planned operations in the Prudhoe Bay area. This was not the intent of the proponents.

I urge you not to let the bill out of committee without the following language incorporated;

(B) one or more customers that purchase electrical service for use within an area south of the 68th parallel which is certificated to an electric utility, provided that the total annual compensation received for such sales exceed \$50,000; and

I intend to testify on the bill by teleconference from Anchorage today at 3:30 pm and if needed, we can have others testify as well. Please let me know as soon as possible if you feel we should have others testify.

Sincerely,

Raymond R. Latchem
President

Senate CS for CS for HB 300 (CRA)

Amend Section 4, lines 21 through 26, by deleting all of the language and replacing it with the following:

(B) one or more customers that purchase electrical service for use within an area south of the 68th parallel which is certificated to an electric utility, provided that the total annual compensation received for such sales exceed \$50,000; and

STATE OF ALASKA
THE LEGISLATURE

POUCHY STATE CAPITOL
BUREAU ALASKA 99511
907 465 3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

April 30, 1990

SUBJECT: Proposed amendment to SCS CSHB 300 (C&RA)
(Definition of customer for public utility
regulation)

TO: Senator Dick Eliason
Chair, Senate Labor & Commerce Committee

FROM: Teresa B. Cramer *TBC*
Legislative Counsel

You have asked whether an amendment proposed for the above-referenced committee substitute raises constitutional issues. The amendment treats public utilities differently depending on whether the utility is located north or south of the 68th parallel. In my opinion, the amendment is probably vulnerable to challenge under the equal protection clause.

In Barber v. Anchorage, 776 P.2d 1035, (Alaska 1989), the state supreme court set out the standard of review under the state equal protection clause. Under the minimum level of constitutional review, appropriate for this kind of business regulation, there must be a substantial relationship between legitimate legislative goals and the means chosen to achieve those goals. Id. at 1039. The state's interest in using the division of utilities according to whether they are located north or south of the 68th parallel must outweigh a utility's interest in being exempt from APUC regulation.

It seems possible that the evidence would show that this means of dividing utilities fails to include many utilities south of the 68th parallel that face comparable difficulties in providing service to those faced by utilities north of that parallel. If this is the case, the division of utilities into classes could be held to fail to meet the substantial relationship test because it was underinclusive and therefore to violate the equal protection clause.

If I may be of further assistance, please advise.

TC:lmb
L10/095

HOUSE BILL 300

"Acquisition of capital stock of a public utility"

Sections 1 and 2 of HB 300 will allow a city to acquire ownership of a public utility by purchasing corporate stock. This method of purchasing a utility is an alternative to buying the physical plant and other assets of the utility.

Currently the City of Yakutat is in the process of obtaining the Yakutat Power Co., an investor-owned utility. If Yakutat is required to purchase the assets, rather than the stock, the assets must be sold by the corporation or the corporation must be dissolved. In either case, a substantial tax liability will arise that must ultimately be borne by the Yakutat rate payers. Sections 1 and 2 of HB 300 will correct this situation.

The Alaska Public Utilities Commission supports this legislation and does not perceive the Commission's interaction with a utility acquired by a city purchasing stock any different than if the utility were acquired by asset acquisition.

HB 300 will allow municipalities some flexibility when purchasing a utility and I strongly support this legislation.

ADDITIONAL INFORMATION

1. If the Yakutat Power corporation had to be dissolved, the City of Yakutat would assume a tax obligation of approximately \$137,000.
2. The City could maintain the tax exempt status of the corporation under the Internal Revenue Code so long as the income accrues to the City.
3. The problem of purchasing the assets occurs IF the fair market value exceeds what the corporate value of the assets is after depreciation.
4. APUC is not aware of any other municipality interested in acquiring a utility, but it is certainly possible that SB 532 will apply to others in the future.
5. Yakutat's attorney feels that current statutes PROBABLY doesn't prohibit a municipality from acquiring all of the capital stock of a public utility company. BUT, the City is concerned that the Alaska Municipal Bond Bank may decide otherwise. SB 532 clarifies the situation.

ARCTIC UTILITIES, INC.
4706 HARDING DRIVE
ANCHORAGE, ALASKA 99517
(907) 248 3030

May 1, 1990

Senator Richard L. Eliason
Chairman
Senate Labor and Commerce Committee
Alaska State Legislature
P.O. Box V
Juneau, Alaska 99811

Dear Senator Eliason,

This is in reference to SENATE CS for CS for HOUSE BILL NO. 300. Arctic Utilities, Inc. (which is owned by NANA Development Corp.) has provided utility electricity to oilfield contractors at Deadhorse/Prudhoe Bay since 1975, when NANA acquired the business.

Arctic Utilities holds a Certificate of Public Convenience and Necessity from the Alaska Public Utilities Commission, comes under APUC regulation for both rates and service policies, and files annual reports with the APUC.

It is our understanding that a late amendment to HB300, specifically to SECTION 4, would allow unregulated individual businesses to sell utility electricity within our certificated area. This amendment would only affect the area of our certification. The result would be that Arctic Utilities would be regulated as far as rates and safety/service policies, while other contractors could sell surplus electricity to customers within our certificated service area without regulation.

We feel that this is basically unfair to a utility which has complied with all existing regulations in good faith, invested millions of dollars in plant and equipment, and does comply with safety and service standards designed to insure reliable service to the public.

Senator Eliason
May 1, 1990
Page 2

If the legislature should wish to deregulate certain classes of utilities, then it would be appropriate to consider this subject separately. Any such consideration might include differentiation between rate regulation and safety/service regulation.

As to the specific situation at Deadhorse/Prudhoe Bay, many oil field contractors presently choose to generate their own electricity. They do this for different reasons, including utilization of waste heat. Any contractor can presently sell surplus electricity to Arctic Utilities as a co generator. Our APUC tariff provides for this and is similar to other electric utilities co-generation purchase policies.

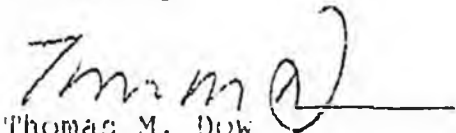
Should a contractor wish to sell power to a neighbor they could petition the APUC for permission to do so. None of this requires an amendment to legislation designed to deal with the unrelated concerns of COOP utilities in Alaskan villages.

Not passing this amendment would not disrupt any existing operations. In fact, it appears that this amendment is an attempt by the operator of a gas utility at Deadhorse to solicit potential customers by encouraging them to purchase excessive generating capacity so that they can compete without regulation with a regulated utility.

This single, narrow purpose is totally unrelated to the underlying purpose of HB 300. Unless you want to treat all entities in this market equally by deregulating utilities at Prudhoe Bay, I urge you to pass the original Bill without the special treatment of "Commercial Electric Utilities north of the 68th parallel. Such an amendment would unfairly target a single business.

Thank you for considering these comments.

Sincerely,



Thomas M. Dow
Vice President
ARCTIC UTILITIES, INC.

Brief on CSHB 300 Labor and Commerce

Section 1 & 2 of the bill will enable the City of Yakutat to purchase the privately owned electric utility by buying all of the corporations stock instead of the assets, thus allowing them to take the benefits of some existing tax benefits.

Senator Eliason wants this section.

Section 3 deals with continuing property for utilities and is a house keeping measure.

Section 4 (B) deals with re-defining the "public" or "general public". This is important because it determines who has to go through an APUC certification process and who does not. Currently the public is defined as "10 or more". With the addition of this language, a single user that purchases \$50,000 worth of electricity would be classified as "public" and whoever is selling the power would have to go to the APUC for a certificate. This process usually costs at least \$100,000 with no guarantee of a favorable ruling. This only applies to consumers that are located in a certificated service area for an electric utility.

This, in effect, will prohibit a large consumer from contracting with an Independent Power Producer for more competitive rates if the consumer is located in an established utility district.

This could discourage new development in these districts.

There is language in (B) that addresses the area of Prudhoe Bay that is in NANA's service area but is not served by NANA.

The C&RA language applied to all utilities and would have upset the GCI/Alascom deal. Instead of excluding telecommunication utilities, current language restricts this added protection from

competition to only electric utilities, not gas, sewer, water, etc. If we are going to pass restraint of trade type legislation, why not have it apply to all utilities that are regulated monopolies? Electric are concerned with "Cherry Pickers"(Independent Power Producers) and Gas utilities have concerns about the By-Pass issue, where a large customer builds their own pipeline to by-pass the local gas utility, this has the same impact.

Section 5 is a grandfather clause for all existing deals, and was probably put in for the folks in Prudhoe. The problem here is that this will give existing operators an unfair advantage over new operators in the future who will have higher utility cost.

RECOMMENDATIONS:

Section 4(B) is protectionist and restraint of trade legislation pure and simple and should be removed from the bill.

Failing to remove it, it should be amended to include gas utilities. Without equality with respect to energy type utilities, you will give the electric an unfair statutory advantage over the gas utilities. This will breed inefficiencies in the Prudhoe Bay area.

Comment: This bill creates additional work load for the APUC and will cost the State money even though the bill has a zero fiscal note, this is wrong and the bill should have a Finance referral.

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Chairman
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Senator Eliason
May 1, 1990
Page 2

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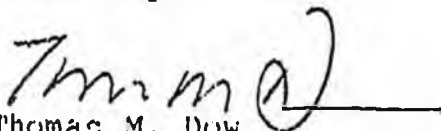
Should a contractor wish to sell power to a neighbor they could petition the APUC for permission to do so. None of this requires an amendment to legislation designed to deal with the unrelated concerns of COOP utilities in Alaskan villages.

Not passing this amendment would not disrupt any existing operations. In fact, it appears that this amendment is an attempt by the operator of a gas utility at Deadhorse to solicit potential customers by encouraging them to purchase excessive generating capacity so that they can compete without regulation with a regulated utility.

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Thank you for considering these comments.

Sincerely,


Thomas M. Dow
Vice President
ARCTIC UTILITIES, INC.

JOHN HERRING

I'm with a central Alaska company, a mechanical engineer and a special engineer, speaking against HB 300, specifically opposing the verbiage in Sec. B on line 21-28, and specifically the reason is, it clearly imparts greater restraints to facilities without eliminating any responsibility of competition from the same [indescr] you described by the opponent. Hundreds of groups of 10 exist where \$50,000 worth of business exist, and may be so in the future.

For a beginning, to challenge the public utilities in these areas is very expensive, there are several things these utilities are unable to keep track of, of course, and that is advancing technology. As new technology is developed and greater a field as they are developed, and of course if you propose Sec. B, you'll eliminate any possibility of anybody improving on the field, bringing a better field and creating less field too, less carbon monoxide, carbon dioxide and NOx's, plus waste heat.

The utilities, traditionally, are wasting their waste heat. They eliminate their waste heat to the atmosphere and to water surrounding the facilities. Where a local group of ten or so could in fact, retain this waste heat. If the bill stands, it eliminates any possibility of groups getting together and operating an efficient utility where up to 80% of all the useful energy is recovered.

At present, the existing utilities operate, wasting 60-80% of the existing, recoverable heat. They're only using between 20 and 35% of the energy available. We're proposing that you do not include this verbiage in 21-28, because you would eliminate to this group of people from joining together and establishing a more efficient facility, in fact, eliminate large quantities of dioxide, carbon monoxide, NOx, and waste heat from contaminating the environment.

The economics of electricity production favor wasting this energy in large plants. That's why large plants will always be in a position to not be able to utilize any waste, if you will, and remember we're talking 40% of the energy being burned, being wasted by these utilities. If you establish local utilities, even though they may be inside a management district, utility district, they may in fact, may recover the waste heat, and therefore they would have a competitive advantage over the local utilities.

The point is that the utilities and environment are at opposite ends of this spectrum. The utility is going to always tend to produce more carbon dioxide per unit of fuel burned, it will always produce greater amount of NOx wherever you wasted heat, per small thermally [indescr]. That summarizes my statement, I'm opposed to it.

BARRY YATES

I work for Milparks Drilling Fluids, we sell drilling chemicals to the oil industry, and one of our facilities is based

at Prudhoe Bay. Currently, we are opposed to this bill as it stands. We currently purchase electric from one of our neighbors on the North Slope, we have a fairly small facility there. We purchase our electricity from Western Atlas, who has excess generating capacity and can supply us at a very reasonable rate. [lost transmission] it the grid - that area, but they do not service our facilities up there, but if we are there to supply us with electricity, it will cost us something in the neighborhood of \$200,000 then to bring electricity to our facilities, which is really a tremendous economic burden.

The alternative would be to put our own generating equipment in place, that would cost probably in the neighborhood of \$75,000 - \$100,000, from what estimates I've received so far, the attendant problems would be obviously environmental problems. We'd have to have fuel storage on location, as well as the increased maintenance and the cost of burning the fuel, and personnel to keep track of all this, and for a small companies like ours, it would be a tremendous economic burden that we have to make the change from what we have now. It's a very good system right now, and we see no reason to change it, except to benefit NANA, and we just can't compete if we have to do something like that.

SCOTT TURNER

I'm the manager for Wetherford Alaska, we're a service company that provides services up on the North Slope. We're pretty much in the same boat as Yates, in the fact that we have a small

business up there. We currently receive our electricity from a neighbor that supplies it to us, very convenient, and very cost effective. If we were forced to put in our own generator system, we face the same things mentioned earlier: the fact that for storage capacity, we would have a lot of waste; the fact that we only use electricity when we're there, other than to keep our heaters running, so that would be a problem. A good system would create quite a burden for our company, we would be forced to go to other means. That's all I have to say.

RAY LATCHEM

I'm with Norgasco, we operate the natural gas utility in Prudhoe Bay, and I have been in contact with Mr. Hutchens on the bill, and as the members of the committee are aware, I did send you a letter with some language that we could probably live with. I think that there is another change to that now that would exclude the area south of the 68th parallel, and instead would add something to the effect to that of providing electrical service to residential customers. We could probably work with Dave Hutchens there, he can speak the language a little bit better.

I think our concerns are pretty well stated that the basic problem in Prudhoe - that is unique to Prudhoe as far as I know - we have an electric utility that is certificated for a particular service area, which is much larger than the area it actually serves, and the area that it actually serves, only serves roughly half the customers; the other half tend to generate their power on

site. We don't particularly care for coastal generator sites in Prudhoe. We have some environmental concerns up there now, these stem from waste oil, diesel fuels and things that are associated with power generators on site. These are big concerns for companies that don't operate a manned facility, a company where they house their people somewhere else at night, it's the fire hazards that go along with the power generation.

We speaking in empathy of the current language in Section B, and would like you to exclude [lost transmission] for stated reasons, and I think it can be done and still address the other companies' concerns, and I also think it should probably be restricted to just electric utilities. For various reasons there, when you have something as broad as this is, it's hard to tell just who it will effect and what areas, but you heard from Wetherford Oil Tools, and Milpark - there are several other companies up there that are in the same boat. If this does pass as currently stated, you'll make certain operations illegal. There are some other operations that are planned, that have been on the drawing board for some time, also, this would prohibit that. That's basically all I have.

BART HELMRICK

I'm President of Colville Inc, a service company in Prudhoe Bay. We heard some of the concerns from other companies, who are currently buying their power from their neighbors. I'm in the position of having to generate my own power and it's uneconomical

and it's an environmental and operational burden, and I have plans to purchase power from some other companies, which are considering starting operations that are nearby. This is necessitated by the fact that NANA, which operates the electrical grid up here, doesn't run a grid into our area, even though we're relatively close to their generating plant, and my concern with HB 300 is that it would prohibit the type of operation which we're considering.

I believe that the amendment proposed by Ray Latchem, Norgasco, is a reasonable protection for people in Prudhoe Bay, which find ourselves in the situation like Colville, or Milpark, or Weatherford. I know the comment was made that the utilities wanted to stop cherry-picking their large industrial accounts, I think the committee should consider that what is a cherry for an outside contractor, should be a cherry for the utility, and what this bill is attempting to do is turn the large industrial customer into milk cows and then treating them as their clients to be given a good competitive service.

I know that the exemption for ten customers, or fewer than 10 customers has been law in Alaska for a long time and a great deal of infrastructure has grown up around that. I would urge the committee to move very cautiously and carefully before introducing or passing out any legislation which would change that. There is a great deal of infrastructure that will be impacted in a wide variety of industry, something not to be taken lightly at all, and I would urge that the whole section here [lcst transmission]. I have not further comments.

CORRECTION

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

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BERNIE CARL

I'm President of K&K Recycling, a Director of [indescr], to go into operation here on the North Slope on June 1. We just installed 3.5 MW of power, and a 600 man hotel to service the oil industry, which will put some \$15,000 a day into the Alaska economy of new money and 32 new jobs on a year-round basis, 365 days a year. I too object strongly to Section 4, and I believe that all of Section 4 should be taken away from this bill. Primarily, I think it does two things, not only have you heard testimony of what it does for the small business in Prudhoe Bay, but I think that you have the more serious problem, in that it breeds inefficiency into the power houses that are running it today.

It takes young and new, aggressive ideas to be implemented to keep the old ideas on the straight and narrow. Presently, our generation, to soon, will be taking in and utilizing the waste heat from the generators, we've already placed orders for new, fuel efficient natural gas generators to come from Caterpillar in October, 1991, to supplement what we already have. Now this is the private sector putting their money up, we presently have \$2.5 million invested in this project. I think that you would be doing a tremendous disservice and a tremendous restraint of trade and tremendous disservice to the Prudhoe Bay area if you let this pass the way it is. That's all I have to say.

PHONE NUMBER for person in Prudhoe Bay: 659-3198 (not sure who)

H B


355

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 Mercurieff, Commissioner
Date: 24/90

LW/dgl6187D
12490a

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
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REVENUE	159.2	167.1	175.4	184.2	193.4	203.0
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FUNDING: (Thousands of Dollars)

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

POSITIONS:

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

ANALYSIS : (Attach a separate page if necessary) 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: 1/1/90
 Agency: Commerce and Economic Development

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

Alaska State Legislature

House of Representatives



Labor and Commerce Committee

May 1, 1990

M E M O R A N D U M

To: Senator Dick Eliason, Chair
Senate Labor and Commerce Committee

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

Re: HB 355 - Uniform premium tax

HB 355 was sponsored by the House Labor and Commerce Committee to create a more uniform tax structure and to aid the Division of Insurance in the collection and regulation of the premium tax in the state.

HB 355 makes wet marine, transportation, independently procured and title insurance consistent with the same 2.7 percent level of tax that other insurers pay. Because of their unique status, hospital and medical service corporations (all are non-profit) are exempt from the 2.7 percent tax and will continue to pay their current premium tax rate and MICA is exempted from the tax altogether for reasons explained in the enclosed information.

HB 355 was amended on the floor of the House to exempt title insurance from the uniform tax, making it the sole exception for likely situated insurers. The House Labor and Commerce Committee opposed that amendment in the House and remains in opposition to this exception. A memorandum and backup information from the Division of Insurance regarding title insurance is included in the referral file for your information.

House Floor Statement by
Representative Dave Donley, Chair
Thursday, April 5, 1990

HB 355 - Uniform Premium Tax

- * Sponsored by Labor and Commerce
- * Establish a uniform premium tax of 2.7 percent for insuring property or risks located in Alaska.
- * Premium tax one of the largest sources of revenues to the state - between \$20 and \$28 million a year.
- * Complexity of current statutes and differences between rates paid by various insurers makes collection and regulation needlessly difficult for Division of Insurance.
- * HB 355 will make it easier to collect and regulate premium tax
- * Property/casualty and life/disability insurers already pay 2.7 percent.
- * Makes wet marine, transportation, independently procured and title insurance consistent with the rate other insurers pay.
- * Makes MICA exempt from premium tax - will reduce malpractice insurance rates for MICA-insured physicians and strengthen MICA's tax status question with the IRS.
- * Hospital/medical service corporations (all are non-profit) are exempt from the uniform tax under HB 355 (L&C) and will continue to pay their current premium tax rate
- * HB 355 will generate approximately \$160,000 per year in additional revenues which is to be separately accounted for and may be appropriated by the legislature to the Alaska medical malpractice matching fund to offset the cost of malpractice insurance for physicians who deliver babies or provide prenatal care.

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 & Traininr
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 Fun
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 Func
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 & Inspect:
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 Fension
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 Cues

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.

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.

dd/gbi89
b/hb355-1

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?

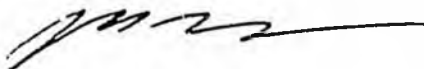
Why should policyholders of insurers who provide medical insurance through the workers' compensation, general and auto liability insurance system have to pay this expense whereas the proposed exempted do not?

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

STATE OF ALASKA

STEVE COWPER, GOVERNOR

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

7th FLOOR FRONTIER BLDG.
3801 C STREET, SUITE 740
ANCHORAGE, ALASKA 99503-5934
PHONE: (907) 582-3828

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)

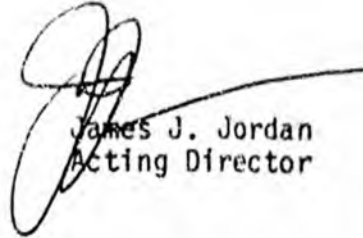
You requested that I provide you with the fiscal impact of the Work Draft for CS HB 355. The analysis is as follows:

	<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 Transportation 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



AMERICAN INSURANCE ASSOCIATION
WESTERN REGIONAL OFFICE

The Renaissance Tower
801 K Street, Suite 912
Sacramento, California 95814
(916) 442 7017
(916) 442 8178 FAX

May 2, 1990

The Honorable Senator Richard L. Eliason
Chairman, Senate Labor and Commerce Committee
Alaska State Legislature
P.O. Box V (MS 3100)
Juneau, Alaska 99811

Dear Senator Eliason:

It is our understanding that your committee is considering the Committee Substitute for HB 355 which would make Ocean Marine Insurance subject to a gross premium tax of 2.7 percent. Currently, this line of insurance is taxed at a rate of .75 percent on the gross underwriting profit.

With its national headquarters in Washington, D.C., the American Insurance Association (AIA) represents 226 property and casualty insurers nationwide. Our member companies write property and casualty coverage in every jurisdiction in the nation. While the amount of Ocean Marine Insurance our companies write in Alaska represents a small percentage of that particular market, we are concerned about the impact of this legislation on Alaska-based insurers and their clients. We ask the Committee consider these concerns as it addresses this legislation.

The current method of taxation of Ocean Marine by Alaska is very common nationwide. Of 23 coastal states which may, like Alaska, be considered maritime states, 12 tax Ocean Marine Insurance on the basis of some version of underwriting profits. One, New York, essentially does not tax Ocean Marine Insurance at all. While the rate of taxation may vary from state to state, the underlying premise remains the same - if the line of insurance is not profitable, no tax is assessed.

It is our understanding that the current methodology results from an informal arrangement among many of the maritime states in the early 1920's to address the historical problem of a premium tax system that would tax Ocean Marine Insurance on the basis of the location of the risk and on gross premiums.

It was found that if Ocean Marine was taxed based on the location of risk, many states would be able to tax Ocean Marine Premiums based on cargo passing through those states to its ultimate destination. The net effect was that several states could each levy a separate tax on Ocean Marine

ROBERT J. VA'RO
CHAIRMAN

DEAN R. O'HARE
CHAIRMAN ELECT

ROBERT J. HAUGH
VICE CHAIRMAN

WILLIAM E. BUCKLEY
VICE CHAIRMAN

ROBERT E. VAGLEY
PRESIDENT

Senator Richard L. Eliason
Page Two
May 2, 1990

premiums. The relatively low tax rate was instituted for the purposes of discouraging exporters and importers alike from avoiding the tax altogether by placing their business with companies operating outside the U.S. To such operators, it is just as easy to take out insurance at the point of shipment as at the point of destination or vice-versa. Thus the shipper will buy insurance at the place offering the lowest rates.

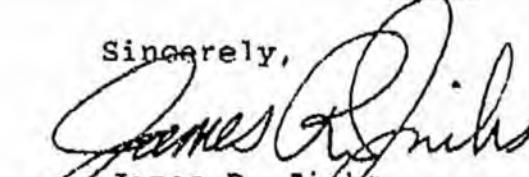
It is our impression that Ocean Marine coverage for most of the marine traffic to and from Alaska is written outside of the state. Adoption of the proposed amendments could open the door to multi-state taxation and the administrative burden of tracing a given risk for allocation purposes. This is an extremely bad precedent and could result in retaliatory legislation by other maritime states and nations.

When this bill was first proposed in the 1989 session, AIA expressed opposition to the measure to the extent that it represents a tax increase. In 1989, the Insurance Division estimated the measure would result in an increase of \$250,000 in tax revenues. This represents a tax increase and an increase in the cost of doing business. AIA and its member companies are opposed to measures which result in increased taxes or increased premiums, especially when the potential retaliatory consequences of such an increase have yet to be fully assessed.

Based on these considerations, we recommend retention of the current method of taxation of Ocean Marine Insurance. We also recommend the Committee thoroughly consider the potential adverse impact of the proposed amendments on Alaska based businesses before making a final recommendation to the Senate.

On behalf of the American Insurance Association, I wish to express appreciation for the opportunity to present our views on the proposed amendments to this committee.

Sincerely,



James R. Jinks
Assistant Counsel

MEMORANDUM

State of Alaska

TO: Dave Walsh
Director
Division of Insurance

DATE: April 5, 1990

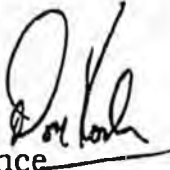
FILE NO.: TAB 8

THRU:

TELEPHONE NO.: (907) 465-2577

SUBJECT: Title Insurance

FROM: Don Koch
Chief of Market Surveillance
Division of Insurance
Department of Commerce and
and Economic Development



TITLE INSURANCE LAW.

Title insurance is regulated by the Division of Insurance under AS 21.66.010 et seq. Two major changes have been made to that law since its adoption in 1966. In 1974, changes were made that substantially tracked a model law adopted by the American Land Title Association (ALTA). ALTA is a national trade association for title insurers involved in research and lobbying. In 1982, changes were made which permit the creation of a title insurance rating organization. Unfortunately, at about the same time there were court and FTC decisions made that effectively made the substance of the 1982 adoption unworkable.

Foremost among the regulatory concerns of the Division of Insurance is the continued solvency of all insurers, including title insurers. If an insurer undertakes to provide a coverage or coverages that has a substantial potential for jeopardizing the solvency of that insurer and thus the ability of that insurer to meet its contractual obligations, then the Division of Insurance must intervene.

TITLE INSURANCE - WHAT IT IS

Title insurance is not a contract that is renewed annually. It is a one time transaction relating to the condition of title on a particular property as of a particular point in time, with coverage that may extend for days or for years. The title insurance policy is a report in which the title insurer guarantees the veracity of the report and provides indemnification to the degree that the report is incorrect and loss or damage results from that error. Title insurance is different from all other kinds of insurance in this regard. In casualty insurance parlance it is akin to writing a professional liability policy on your own work product. The premium paid is primarily a service fee that

MEMORANDUM

Dave Walsh

4/6/90

covers the expense of searching, analyzing, sorting, cross checking, and indexing of recorded information so that the history or "chain of title" on real property can be compiled. In addition to the guarantee feature of the title insurance coverage, the title insurer can assume certain known risks. The title insurer may take a calculated risk for business reasons in the belief that the danger of loss is remote or that if an adverse claim is asserted, the insured title can be successfully defended.

The title insurer will also assume risk upon the basis of an indemnity furnished to the insurer by the seller, mortgagor, developer or contractor. The indemnity is usually in the form of a personal indemnity agreement, accepted on the integrity and financial responsibility of the indemnitor or fortified by a deposit of cash or securities. Though not the usual practice, the indemnity could take the form of a bond executed by a surety company.

In underwriting a title policy, the title insurer eliminates the loss potential by identifying defects in the title and excluding the defects from coverage by specifically listing the defects as exceptions to otherwise clear title in an exception schedule in the title policy. This effort can be contrasted with the property or casualty insurer, where the underwriter attempts to measure the risk and magnitude of loss rather than exclude the loss from coverage. In each case, the title insurer or the property- casualty insurer, assuming it may legally offer a coverage, has the right to offer or not to offer a particular coverage, or policy form. Each is expected to exercise underwriting judgement when considering an application or order for coverage.

ROLE OF TITLE INSURANCE IN ALASKAN ECONOMY

Title insurance including its "chain-of-title" report and subsequent guarantee, is an indispensable ingredient in the sale or transfer of real property. This is particularly true when the purchaser of real property must finance the purchase. When a lending institution agrees to finance construction on real property or the sale of real property, it is justifiably concerned with the condition of the title on that property and the priority of its interest in the real property representing its security. Title insurance provides the necessary guarantee.

Few Alaska lending institutions are capable of funding long term mortgages with their own capital. They leverage their capital and sell their real property mortgages to others, referred to as the secondary market, and reuse the replenished capital to finance more real property. The lending institution must be concerned with the requirements and expectations of the firms or organizations that purchase those loans. Without the guarantee provided via title insurance, access to the secondary market and leveraging of lender capital would be difficult, if not impossible.

MEMORANDUM

Dave Walsh

4/6/90

PURCHASE OF TITLE INSURANCE

Title insurance is seldom purchased as a separate product or service as is often the case with such products as automobile insurance or homeowners insurance. A consumer of automobile insurance or homeowners insurance can annually reevaluate his insurance requirements, compare price and service of several competing alternative sources for this coverage, and make a choice of insurer and/or insurance agent.

Title insurance on the other hand, is generally purchased as an incidental part of another transaction for more significant to the purchaser. For example, a family purchases a new home, a transaction which requires a cash investment of several thousand dollars and a total investment, including borrowed funds, of two to five times the family annual income. This is the largest single investment of most families and may occur only a few times during the family's existence.

Consider that our hypothetical family has been consumed with decisions about the house, the location, proximity to school and services, the financing, the cost of moving, the color scheme, etc. A significant concern is to obtain the loan. As the loan transaction is completed, the family pays numerous incidentals including loan fees, appraisal costs, escrow expenses and other similar matters. Title insurance, which most home buyers do not fully understand, is "loaded in" as one of the several necessary incidentals. The buyer is generally happy to be "led" to a title company of the broker's or lender's choice. The buyer after all is in "good hands" and that is one less decision to worry about. Effectively, the person who ultimately receives the benefit of title insurance coverage and who often bears the cost of the insurance is denied the choice of insurer. Real estate brokers, attorneys and lenders generally control that choice.

DIVISION OF INSURANCE ACTIVITY

As noted, placement of title insurance is generally controlled by other than the ultimate payor for or beneficiary of coverage. This reality has fostered conditions in the title insurance industry that have repeatedly forced the Division of Insurance to address one issue after another. Each address of an issue has generally been greeted with favorable reception from the industry which then individually or collectively seeks to circumvent the corrective action.

The Division of Insurance, because of staff limitations, has tended to be reactive to issues as they occur and has rarely been able to be proactive. Nevertheless, there have been attempts to anticipate challenges and to provide a situation where reaction would not be necessary. A major attempt was made in 1978 with proposed regulations which were opposed in court

MEMORANDUM

Dave Walsh

4/6/90

by the industry and were eventually scrapped. There have been more Division of Insurance hearings on title insurance during my 20 year tenure than any other single subject. Hearings on title insurance subjects were held on: 2/18/77; 3/15/77; 6/5-7/78; 11/13-15/79; 4/29/81; 9/10/81; and 5/22/84. Another is scheduled for 4/24/90.

During November 1989, I personally conducted 5 examinations of the Title Insurance agencies with operations in the Anchorage recording district. In each case I found that the escrow, closing and settlement operations of those firms was being subsidized by their title insurance premiums. This is barred by statute, yet it has occurred and continues now. The escrow operations meet only 33% to 70% of the expense generated by that operation. The 4/24/90 hearing directly confronts that finding. Other issues pending with the title insurance industry include:

- √ Rebating. We have an indication that at least one agency provides a monthly breakfast for a committee of "advisors" made of real estate brokers. The committee is **paid** to attend.
- √ Unordered Reports. We have evidence that at least one agency is preparing **unordered** title reports on pending real estate transactions and is **making a charge of \$250 if the order is not accepted.**
- √ Rate Structure. The current **rate structure makes little sense.** It bears little or no relationship to exposure or risk encountered. Further there is **no statistical support system** for the structure used.
- √ Influence. Title agencies allow themselves to be leveraged by mortgage lenders, real estate brokers and attorneys. In many cases they **perform services based on their title plant at no charge.** Previous orders by the director require charges commensurate with the cost of providing the service.
- √ Receivables. During the examinations we saw evidence of large numbers of transactions that were over 30, 60 or 90 days old and were not collected or in collection.

Some of these issues will be addressed in a regulatory scheme that is in progress. Others need something more immediate. I would recommend an additional series of examinations this summer to further identify challenges and establish a level playing field.

900405 00 DW1

HB

404

SENATE COMMITTEE REPORT

DATE: 3/13/90

FURTHER: Finance

DATE TURNED INTO OFFICE: 3/10/90

Labor & Commerce

Committee considered

HB 404

"An Act relating to the unemployment insurance benefit schedule; and providing for an effective date."

and recommended:

- replace with _____ CS _____
 - or adopt _____ CS _____
 - attached amendment(s)
 - _____ letter of intent adopted
- same title
 - new title
 - technical title change (HB only)

do pass

do not pass

no recommendation

individual recommendations

further referral to _____

ATTACHES NEW FISCAL NOTE(S):

Dept/Date:

fiscal note(s) _____

zero fiscal note(s) _____

appropriation-no fiscal note

APPROVES PREVIOUS:

Dept/Date:

fiscal note(s) _____

zero fiscal note(s) _____

Governor's bill w/fiscal note

SIGNING DO PASS:

[Handwritten signatures]

OTHER RECOMMENDATIONS:

Jan Feb Do Not Pass

[Handwritten signature] do pass

Chair: Signature and Recommendation

HB 404 - Unemployment Insurance Benefits

House Bill 404 establishes an increase in the weekly unemployment benefits paid to workers during periods of temporary unemployment. The bill sets out a new benefits schedule intended to meet the national standards for adequate benefit payments.

Section 1 repeals the current benefit schedule which provides a minimum benefit of \$38 to a maximum of \$188. The proposed new schedule raises the minimum weekly benefit to \$44 to a maximum of \$212 a week.

Section 2 provides for the effective date of October 1, 1990, which coincides with a benefit quarter that is a sufficient time after enactment to facilitate implementation of a new schedule.

ADDITIONAL INFORMATION

1. In 1988, 51,000 Alaska workers received unemployment insurance benefits. Only 61% of these claimants received a benefit that provided a 50% wage replacement. In 1989, only 59.5% of all claimants received a 50% wage replacement. The national standard considers an unemployment insurance benefit system to be inadequate if it does not provide a 50% wage replacement to at least two-thirds of the applicants.



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

January 3, 1990

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

Dear Mr. Speaker:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill to establish an increase in the weekly unemployment benefits paid to workers during periods of temporary unemployment. The bill sets out a new benefits schedule intended to meet the national standards for adequate benefit payments.

In 1988, 51,000 Alaska workers received unemployment insurance benefits. Only 61 percent of these claimants received a benefit that provided a 50 percent wage replacement. In 1989, only 59.5 percent of all claimants received a 50 percent wage replacement. The national standard considers an unemployment insurance benefit system to be inadequate if it does not provide a 50 percent wage replacement to at least two-thirds of the applicants.

Section 1 repeals the current benefit schedule which provides a minimum benefit of \$38, with \$2 increments for each \$250 of base period wages, to a maximum of \$188. The proposed new schedule raises the minimum weekly benefit to \$44, again increased in \$2 increments, to a maximum of \$212 a week.

Section 2 provides for the effective date of October 1, 1990, which coincides with a benefit quarter that is a sufficient time after enactment to facilitate implementation of the new schedule.

Sincerely,

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

Steve Cowper
Governor

Unemployment Insurance at a Glance

To be eligible

- * A person must have been paid at least \$1000**
- * These wages must have been paid in at least 2 calendar quarters.**
- * At least \$100 must be paid outside the quarter of highest wages.**
- * Must be physically able to work**
- * Available for work**
- * Registered for employment**

Benefits

- * Currently, weekly UI benefits range from \$38.00 with a high of \$188.00 depending on the amount of wages**
- * Eligible for 16-26 weeks depending on length of employment**

Maximum Weekly UI Benefits, Selected States

State	Minimum WBA	Maximum WBA
-------	----------------	----------------

PACIFIC NORTHWEST:

California	\$40	\$190*
Alaska	38	188
Idaho	44	188
Washington	57	209
Oregon	53	229

HIGHEST STATES:

Pennsylvania	35	266
District of Columbia	13	283

LOWEST STATES:

Indiana	40	96
Nebraska	20	134

***Increases to \$210 in 1991, \$230 in 1992**

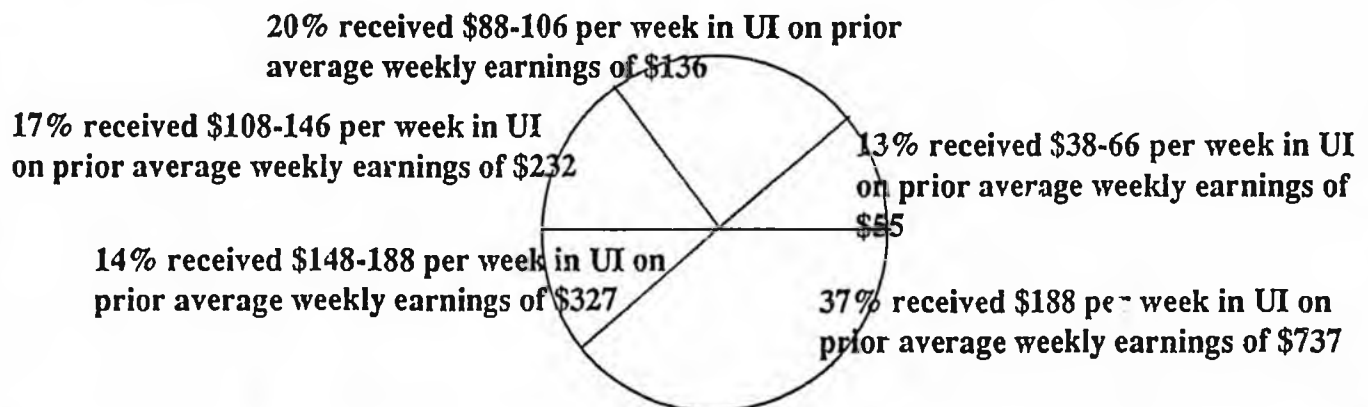
Where the money goes

UI payments reach almost every community in Alaska from Barrow to Ketchikan. The table below gives a regional perspective.

UI Benefits Paid within Alaska by Area, 1988

Anchorage / Mat-Su.....	\$37,065,299
Gulf Coast.....	10,509,401
Interior.....	15,183,125
Northern.....	2,439,763
Southeast.....	9,109,344
Southwest.....	2,540,267
Total Benefits Paid	
In Alaska in 1988...\$76,847,199	

This chart categorizes the the amount of benefits based on earnings.



Number of UI claimants; and UI Benefits Paid within Alaska by Area, and outside Alaska, Calendar Year 1989

	<u>Claimants</u>	<u>Payments</u>
Aleutian Islands Census Area	76	\$95,745
Anchorage Borough	11,247	20,788,574
Bethel Census Area	517	840,819
Bristol Bay Borough	46	78,916
Dillingham Census Area	221	362,742
Fairbanks North Star Borough	5,264	9,620,322
Haines Borough	193	327,995
Juneau Borough	1,594	2,858,590
Kenai Peninsula Borough	3,837	6,563,086
Ketchikan Gateway Borough	1,223	1,876,373
Kobuk Census Area	406	763,660
Kodiak Island Borough	894	1,393,057
Matanuska-Susitna Borough	3,570	7,056,198
Nome Census Area	574	1,080,072
North Slope Borough	233	491,801
Prince of Wales-Outer Ketchikan C.A.	746	1,368,925
Sitka Borough	541	863,098
Skagway-Yakutat-Angoon Census Area	547	900,285
Southeast Fairbanks Census Area	427	843,503
Valdez-Cordova Census Area	769	1,227,213
Wade Hampton Census Area	264	453,622
Wrangell-Petersburg Census Area	767	1,401,281
Yukon-Koyukuk Census Area	774	1,446,542
Total In-State	34,730	62,702,419
Out-of-State	10,128	19,120,952
Total	44,858	\$81,823,371

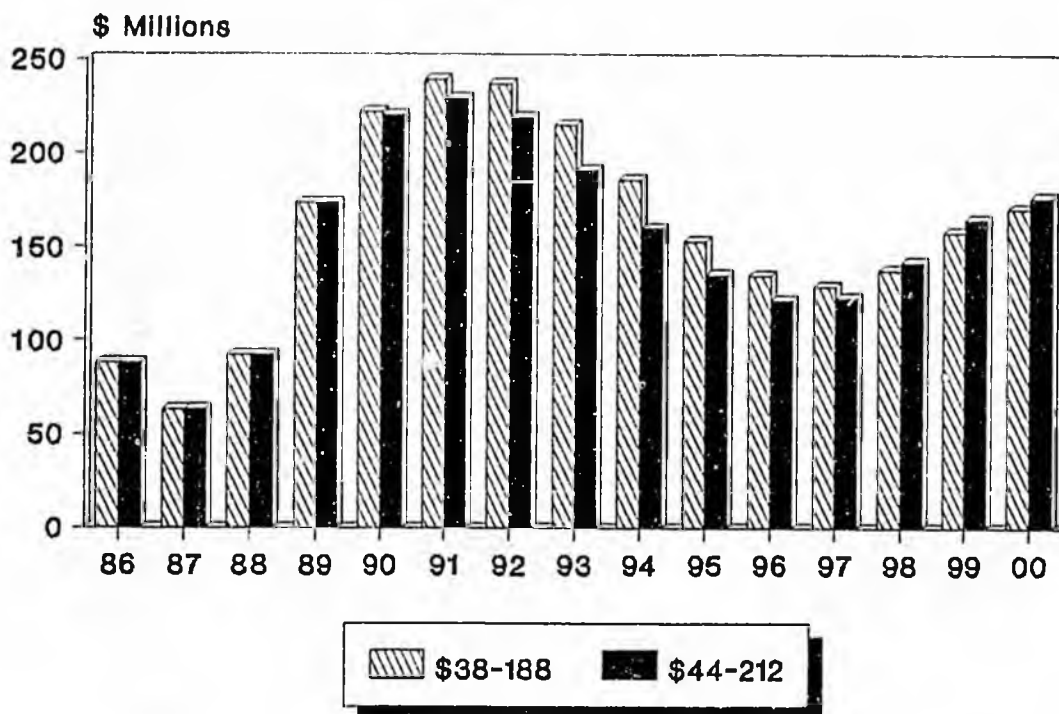
Amount of UI Benefit Payments by Census Area, 1985-1988

Census Areas and Subareas	1985 Total	1986 Total	1987 Total	1988 Total	Four Year Total
ALEUTIAN ISLANDS CA	\$188,240	312,908	305,427	286,631	1,093,215
ANCHORAGE BOROUGH	38,085,716	49,326,123	39,676,035	28,816,040	155,903,914
BETHEL CA	1,772,090	1,758,390	1,397,121	1,003,968	5,931,569
BRISTOL BAY BOROUGH	1,113,991	139,983	156,308	153,593	586,875
DILLINGHAM CA	552,983	662,038	646,392	447,749	2,309,042
FAIRBANKS NORTH STAR BOR.	17,119,979	22,634,341	17,263,988	12,428,406	69,446,714
HAINES BOROUGH	552,607	600,271	439,658	312,946	1,905,482
JUNEAU BOROUGH	4,551,809	5,902,455	4,049,082	2,754,550	17,257,896
KENAI PENNINSULA BOROUGH	8,995,851	14,083,740	10,923,305	8,007,491	42,010,387
KETCHIKAN GATEWAY BOROUGH	2,870,598	3,224,334	2,231,368	1,662,535	9,988,833
KOBUK CA	1,122,230	1,408,402	1,103,933	882,908	4,517,471
KODIAK ISLAND BOROUGH	2,065,156	1,717,931	1,157,092	998,352	5,938,531
MATANUSKA-SUSITNA BOROUGH	11,482,190	14,332,553	11,291,922	8,249,259	45,335,924
NOME CA	1,445,223	1,884,877	1,458,209	1,086,636	5,874,995
NORTH SLOPE BOROUGH	1,145,355	870,852	537,536	470,171	3,023,914
PRINCE OF WALES-OUTER KETCH.	1,524,987	1,735,893	1,545,602	1,252,326	6,058,808
SITKA BOROUGH	1,806,353	2,050,324	1,526,976	935,318	6,118,971
SKAGWAY-YAKUTAT-ANGOON CA	1,142,012	1,181,664	1,049,472	1,000,969	4,374,117
SOUTHEAST FAIRBANKS CA	1,301,719	1,700,595	1,309,799	1,066,402	5,378,515
VALDEZ-CORDOVA CA	1,776,382	2,042,788	1,688,151	1,503,558	7,010,879
WADE HAMPTON CA	741,681	781,280	659,487	648,326	2,830,774
WRANGELL-PETERSBURG CA	1,797,515	1,899,664	1,789,619	1,190,700	6,677,498
YUKON-KOYUKUK CA	2,272,033	2,349,612	2,143,570	1,688,317	8,453,532
AREA UNKNOWN	6,059,855	4,924,796	2,076,159	1,780,202	14,841,012
IN-STATE TOTALS	110,289,444	137,542,796	106,426,209	78,627,401	432,885,850
INTERSTATE TOTALS	29,505,972	34,504,509	32,761,726	22,841,870	119,614,077
TOTALS ALL AREAS	\$139,795,416	172,047,305	139,187,935	101,469,271	552,499,927

Effects of Proposed Benefit Increase on the UI Trust Fund

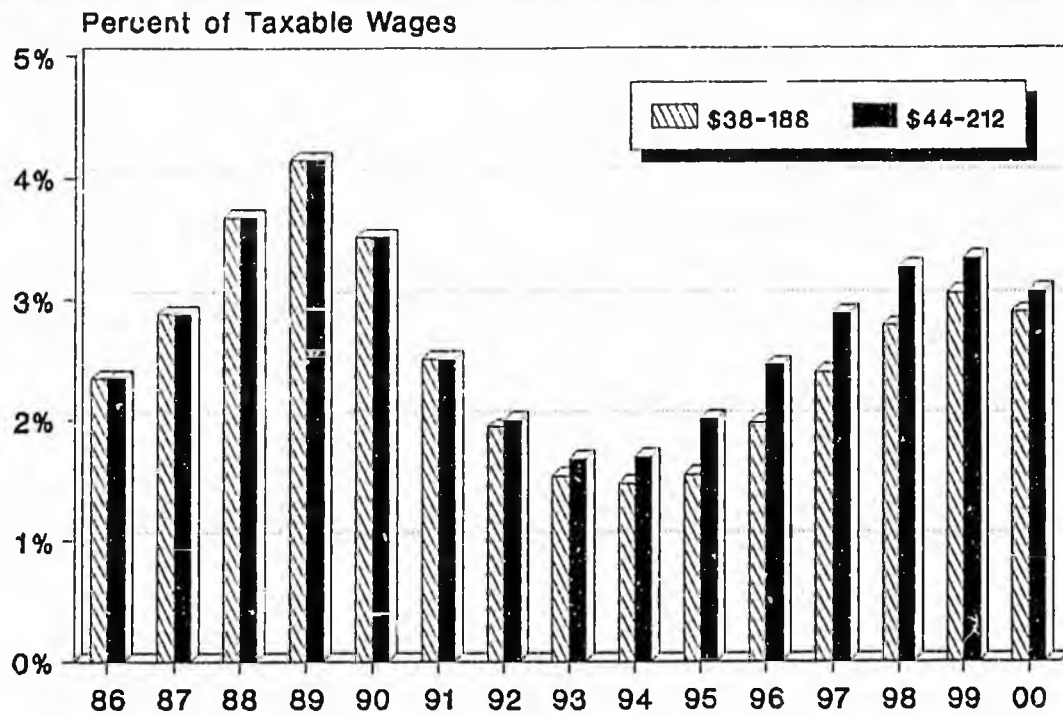
The following graph is a projection of the UI trust fund with and without the change in the schedule. Notice that the fund balance is lower with the change in the near-term, but by the end of the decade the fund balance is actually higher than it would be without the changes.

Year-end Balances Current and Proposed Benefit Schedules



The increase in the benefit schedule proposed in House Bill 404 will have only a small immediate impact on the trust fund, reducing the balance by about \$10-13 million over the next five years. It will have no impact over the long run, however, as Alaska's benefit financing system is self-adjusting and will always seek a fund balance at about 3% of Alaska payroll. At the end of 1989, Alaska's UI trust fund stood at a healthy \$173 million. Oil spill employment had a significant effect in replenishing the trust fund so quickly after the 1986 recession. However, the fund balance will continue its normal seasonal decline until its yearly increase in the Spring.

Average Employer Tax Rates Current and Proposed Benefit Schedules



Changes in Average Employer Tax Rates Due to Proposed Increase in Benefit Schedule

Year	Current Schedule \$38-188	Proposed Schedule \$44-212	Increase in Tax Rates
1991	2.50%	2.50%	0.00%
1992	1.94%	2.00%	0.06%
1993	1.53%	1.67%	0.14%
1994	1.47%	1.69%	0.22%
1995	1.54%	2.01%	0.47%
1996	1.97%	2.45%	0.48%
1997	2.39%	2.88%	0.49%
1998	2.78%	3.26%	0.48%
1999	3.05%	3.33%	0.28%
2000	2.89%	3.06%	0.17%
Avg. 1991-2000	2.21%	2.49%	0.28%

DEPARTMENT OF LABOR

House Bill 404

"An Act relating to the Unemployment Insurance Benefit Schedule."

House Bill 404 proposes an increase in the weekly unemployment benefits paid to workers during periods of temporary unemployment. The bill sets out a new benefits schedule intended to meet the national standards for adequate benefit payments.

Section 1 repeals the current benefit schedule which provides a minimum benefit of \$38, with \$2 increments for each \$250 of base period wages, to a maximum of \$188. The proposed new schedule raises the minimum weekly benefit to \$44, again increased in \$2 increments, to a maximum of \$212 a week.

Section 2 provides for the effective date of October 1, 1990, which coincides with a benefit quarter that is a sufficient time after enactment to facilitate implementation of the new schedule.

In reality, the new benefit schedule means that about two-thirds of claimants will receive a \$6 per week increase.

Unemployment benefits were last increased in 1984 and since that time the schedule of benefits has eroded so that it no longer meets the nationally-recognized standard of a 50 percent wage replacement for at least two-thirds of claimants. In 1988, 51,000 Alaska workers received unemployment insurance benefits and only 61 percent of these claimants received a benefit that provided a 50 percent wage replacement.

The average weekly benefit paid during fiscal year 1989 was \$156 per week for claimants who did not have part-time employment. The average weekly wage during this period was \$546. Therefore, the average benefit replaced only 28.5 percent of the average wage in Alaska. Alaska's average weekly benefit amount as a percentage of earnings is inadequate. Alaska ranks 46th in the nation in this regard. House Bill 404 proposes to address the standard of 50 percent wage replacement for two-thirds of claimants and to improve somewhat income replacement.

As reflected below, the increase in the benefit schedule will have the effect of slowing the decline trend in average employer contribution rates. However, the changes will have no impact until 1992, when the

average employer contribution rate should be less than 2.0 percent, the lowest rate since 1949. Consequently, the continued decline and long-term trend in rates is not significantly impacted with the proposed benefit increase.

<u>Year</u>	<u>Average Rate Current Benefit Schedule \$38 - \$188</u>	<u>Average Rate Proposed Benefit Schedule \$44 - \$212</u>	<u>Difference In Contribution Rates</u>
1989	4.14%	N/A	N/A
1990	3.51%	N/A	N/A
1991	2.50%	2.50%	0.00%
1992	1.94%	2.00	0.06%
1993	1.53%	1.67%	0.14%
1994	1.47%	1.69%	0.22%
1995	1.54%	2.01%	0.47%
1996	1.97%	2.45%	0.48%
1997	2.39%	2.83%	0.49%
1998	2.78%	3.26%	0.48%
1999	3.05%	3.33%	0.28%
2000	2.89%	3.06%	0.17%
 Average 1991-2000	 2.21%	 2.49%	 0.28%

DEPARTMENT OF LABOR, RESEARCH AND ANALYSIS
Michael Hurst, UI Actuary
April 5, 1990

ASSUMPTIONS USED IN THE UNEMPLOYMENT INSURANCE TRUST FUND MODEL

The UI Trust Fund Model is an interactive spreadsheet model that produces forecasts of the appropriate variables in the UI system, depending upon the projections of a few key input variables. The model incorporates all of the pertinent aspects of UI statutes.

While there are several smaller variables that are input to the model, such as interest rates on the trust fund reserves, there are basically two critical sets of input variables: UI covered employment and payroll, and UI benefit dollars paid.

Two scenarios are generated for the trust fund model, a "normal case" scenario, and a "worst case" scenario. It should be noted that even in the normal case scenario there are a number of choices between variables and parameters at various stages in the modelling process. In every case where a superior choice is not obvious, the options chosen are the most cautious ones, tending to forecast higher benefit payments, lower trust fund balances, and higher employer contribution rates. This provides a conservative cushion as a hedge against forecast errors.

The assumptions for the normal case scenario are discussed first in this paper; the normal case forecast is attached as Table 1. The worst case scenario assumptions will be discussed later; the worst case forecast is attached as Table 2. Both scenarios are also run against the current (\$38-188) benefit schedule and the proposed (\$44-212) schedule, in order to determine the effect of the proposed change; these forecasts are attached as Tables 1A and 2A for the normal and worst case scenarios respectively. The effect on employer contribution rates in tables 1A and 2A are also summarized in Table 3.

UI COVERED EMPLOYMENT AND WAGES

Employment and payroll figures are key inputs to regression equations, for both UI workload and the UI trust fund. The equations require forecasts, and the forecasts of employment used in the model come from the latest LMI projections for nonagricultural wage and salary employment as published in Alaska Economic Trends for the short term, and the Alaska 2000 report for long-term forecasts to the year 2000. The yearly employment figures are seasonally disaggregated, then converted to UI covered employment.

There are a number of assumptions used to make this forecast, which are attached to this paper. The forecasts drawn from the Year 2000 report are based on the "Case A" scenario. This case is based upon a view of slow, steady growth in the Alaska economy. Similar assumptions are used for the forecasts in the May 1989 issue of Alaska Economic Trends. The assumptions

about the future economy used in the trust fund model are identical to the assumptions in these publications. We make an additional assumption that the relationship between covered employment and nonagricultural wage and salary employment will remain the same. The result is an increase in UI covered employment of about 1.5% per year.

The forecast for total payroll is the result of average employment times average wages. Average wages are calculated by the distribution of employment by industry and the Anchorage consumer price index (CPI). The distribution comes from the forecasts mentioned above. The CPI forecast is a flat estimate of 3% increase per year. This computes to about a 2% average wage inflation per year.

Finally, taxable payroll is calculated using the ratio of taxable wages to total wages. This ratio is estimated using the distribution of employment by industry used above, which projects an increasing percentage of taxable payroll to total payroll, as government employment is held steady or decreases while private sector employment grows.

The normal case scenario computed by the trust fund model projects an average growth in total and taxable payroll of about 3.5% to 4% per year, the double impact of both increasing employment and increasing wages.

UI Benefit Dollars Paid

UI benefit dollars paid out are a fairly simple equation, based on the number of weeks of UI paid times the average weekly benefit amount paid per week. These variables are modelled separately.

The number of weeks paid is calculated directly from the number of weeks claimed, the assumption being that the relationship between these two variables will remain roughly the same. Weeks claimed is forecast from the same employment forecasts mentioned above. In the normal case there is a strong positive correlation between claims and employment. That means that claims being filed today are directly related to employment one or two quarters ago. When one goes up, the other goes up as well. This is the normal relationship that forms the basis of the normal case scenario of the trust fund model. Some industries, such as construction, have more impact and are given more weight. The normal case model projects increasing claims of about 5% per year.

The average weekly benefit amount is affected by two forces -- the benefit schedule as set in the statutes, and the average weekly wage. This is the only variable that is significantly affected by the change in the benefit schedule proposed in HB 404. The distribution of claimants within the schedule has an impact as well, but this distribution is already considered in the computation of the average wage.

To compute the average weekly benefit amount, the average wage is modelled in a regression equation with the maximum weekly benefit amount that is set in the different schedules. The current schedule projects a slightly increasing average weekly benefit amount, due to increasing wages. If the proposed

schedule had been in effect in 1989, it would have resulted in an increase of \$6 for about 2/3 of UI claimants, and about \$12 for an average of all claimants. In the trust fund model, we apply an average weekly benefit amount of about \$168, which is a greater impact than would have occurred in 1989, for the sake of prudence.

WORST CASE SCENARIO

There are no indicators that predict a recession in the next few years in Alaska; in fact, almost all of the major forecasts project slow to moderate growth in the Alaska economy. Regardless, we should be aware of the possibility of a recession when considering any changes to the UI system. For this reason, the "worst case" scenario has been added to the model.

The worst case scenario considers a relationship between claims and employment that is just the opposite of the normal case. At the beginning of a recession employment declines because of layoffs, and the number of claims filed increases. Later, as claimants exhaust their eligibility, and employment increases, the number of claims declines. This relationship is difficult to model statistically, so a mockup recession using this relationship is overlaid on top of the normal case scenario. The worst case scenario is estimated by modelling the effects of the 1985-88 recession and applying them forward beginning in mid 1991.

This is a "doom and gloom" forecast. Even if a recession were to occur in the next decade, it is unlikely that it would have as severe an impact on the UI system as the 1985-88 recession as modelled in this scenario. The recession of 1985-88 was the worst recession since statehood, not only in terms of job losses and unemployment but, more importantly for our purposes, also in terms of benefit payments, the decline in the UI trust fund, and the increase in employer contribution rates.

In addition, part of the reason for the severity of the 1985-88 recession, and also of the post-pipeline recession, was the fact that both followed economic boom periods. Both were aggravated by sharp drops in construction activity, the first following the end of pipeline activity, the second as the state budget suffered serious cuts in capital spending. There are no construction projects of the magnitude of the pipeline predicted for the near future, and there will likely be little excessive capital spending to cut. Therefore, if a recession were to occur in the future, we are unlikely to see such dramatic increases in UI claims, declines in the trust fund, or increases in employer contribution rates.

Nevertheless, for the sake of prudence, the worst case scenario is based upon a recession similar to the 1985-88 recession. It is an overly conservative model, which gives us confidence when we look at any proposals that have an effect on the system.

Specific numbers are provided in the summary below. In general terms the worst case scenario projects a steep decline in employment, average wages, and payroll between 1991 and 1994, then growth in these variables after that. It also projects rapidly increasing claims in 1991 and 1992, and rapidly

declining claims in 1993 and 1994. Employer contribution rates increase until they peak in 1995. Both of these projections are similar to what happened in 1985-86, and 1987-89. Actually, the model projects even greater swings in benefit payments than occurred in the last recession, yet the effect is not as severe on either the trust fund balance or on employer tax rates, primarily because of a healthier balance in the UI trust fund.

THE EFFECT OF THE PROPOSED CHANGE IN THE BENEFIT SCHEDULE

The most difficult part of making trust fund projections is forecasting the number of weeks of UI that will be paid in the future. We start with assumptions about the future of the Alaska economy that may or may not be correct. However, given any set of such assumptions, and given the resulting forecast of weeks paid, it is a straightforward process from that point to project total benefit payments, revenue, trust fund balances, and employer contribution rates.

Once we settle on a prediction of weeks paid, these are multiplied by the average weekly benefit amount to produce benefit payment amounts. As mentioned earlier, average weekly benefit amounts are primarily determined by the benefit schedule. This means that the effect of the proposed change in the benefit schedule will not be impacted much by changes in other assumptions in the model. In other words, the effect of the change in the benefit schedule will be roughly the same regardless of what assumptions we make about the future of the Alaska economy.

We can see this in Table 3. In the normal case scenario, the effect of the proposed change on employer contribution rates is about 0.28% over ten years. Even in the worst case scenario, which predicts a massive increase in benefit payments in 1991 and 1992, the change in the benefit schedule has an effect on employer contribution rates of about 0.36%, which is the worst impact that we can forecast. In other words, the economic assumptions only affect the impact on contribution rates that result from the change in the benefit schedule by at most 0.08% over ten years.

SUMMARY OF FORECAST ASSUMPTIONS

NORMAL CASE:

- * The forecasts of employment used in the model come from the latest LMI projections for nonagricultural wage and salary employment as published in Alaska Economic Trends for the short term, and the Alaska 2000 report for long-term forecasts to the year 2000. Summarized assumptions for these forecasts are attached.
- * The "Case A" scenario is chosen. This case is based upon a view of slow, steady growth in the Alaska economy.
- * The result is an increase in covered employment of about 1.5% per year. The CPI forecast is a flat estimate of 3% increase per year. Average wage inflation per year will be about 2%. Average growth in total and taxable payroll will be about 3.5% to 4% per year.
- * The number of UI weeks claimed will increase by about 5% per year. Benefit payments will increase by between 4% and 11% per year. The trust fund will peak at about \$239 million in 1991. Average employer contribution rates will bottom out at about 1.5% in 1994.

WORST CASE:

- * The worst case scenario is estimated by modelling the effects of the 1985-88 recession and applying them forward to the normal case model beginning in mid 1991.
- * In the worst case scenario, average employment declines from 199,000 in 1991 to 180,000 in 1993, and total payroll declines from \$5.8 billion in 1991 to \$5.1 billion in 1993. By contrast, average employment actually declined from 208,000 in 1985 to 187,000 in 1987, while total payroll declined from \$6.0 billion in 1985 to \$5.2 billion in 1987.
- * In the worst case scenario, UI payments would increase by \$21 million (21%) between 1990 and 1991, and by \$53 million (45%) between 1991 and 1992. By contrast, payments actually increased by \$20 million (17%) between 1984 and 1985, and by \$40 million (28%) between 1985 and 1986.
- * In the worst case scenario, the trust fund will decline to about \$95 million in 1993, and employer contribution rates will peak at 3.6% in 1995. By contrast, during the past recession the trust fund declined to \$46 million in 1988 and employer contribution rates peaked at 4.14% in 1989.

THE PROPOSED CHANGE IN THE BENEFIT SCHEDULE:

- * The forecast of the average weekly benefit amount used in the trust fund model is about \$168 with the proposed schedule, higher than it would have actually been had it been in effect in 1989. This would cause employer contribution rates to be about 0.3% higher than they would with the current schedule, regardless of the economic assumptions chosen.

UI TRUST FUND MODEL, FORECASTS THROUGH 1995

TABLE 1: Forecast With No Change in Statutes

	REVISED:	04-Apr-90	1988	1989	1990	1991	1992	1993	1994	1995
WAGES & EMPLOYMENT:										
1	Total Covered Wages (\$1,000)		5,317,057	5,843,503	5,711,985	5,842,079	6,039,310	6,275,579	6,528,156	6,796,516
2	Wages Taxable Employers (\$1,000)		3,822,712	4,150,698	4,188,935	4,286,089	4,434,625	4,618,988	4,816,475	5,027,723
3	Taxable Wages (\$1,000)		2,552,080	2,900,889	2,864,233	2,944,703	3,059,826	3,200,809	3,350,941	3,510,660
4	Avg. Mo. Cov. Employment		191,068	200,406	196,456	198,696	201,299	204,545	207,846	211,198
5	Avg. Annual Wage (\$)		27,828	29,158	29,075	29,402	30,002	30,681	31,409	32,181
6	Taxable Wage Base (Est.) (\$)		21,100	20,900	21,300	21,800	22,000	22,300	22,700	23,300
UI TAX COMPUTATION:										
7	Benefit Costs (SFY) (\$)		91,920,775	68,240,012	61,927,260	63,288,113	65,225,230	71,100,445	80,017,939	98,362,069
8	Benefit Costs Prior 3 SFY's (\$)		332,297,229	335,485,847	287,270,693	222,088,047	193,455,385	190,440,604	199,613,788	216,343,614
9	Wages 1st 3 Last 4 SFY's (\$1,000)		13,184,650	12,591,164	11,913,291	11,675,987	11,892,467	12,376,736	12,672,425	13,120,897
10	Average Benefit Cost Ratio		3.74%	3.96%	3.55%	2.69%	2.37%	2.23%	2.28%	2.37%
11	Trust Fund Solvency Adjustment		0.6%	0.9%	0.6%	0.3%	-0.0%	-0.3%	-0.4%	-0.4%
12	Average Employer Tax Rate		3.67%	4.14%	3.51%	2.50%	1.94%	1.53%	1.47%	1.54%
13	Average Employee Tax Rate		0.7%	0.7%	0.6%	0.5%	0.4%	0.4%	0.4%	0.4%
REVENUES COLLECTED:										
14	Contributions From Employers (\$)		91,212,906	120,096,805	100,534,578	73,617,575	59,360,624	48,972,378	49,258,833	54,064,164
15	Contributions From Employees (\$)		17,397,557	22,235,775	14,321,165	11,778,812	9,179,478	9,602,427	10,052,823	10,531,980
16	Other Revenues (\$)		22,358,193	18,037,113	18,137,029	19,119,433	19,806,911	21,730,365	23,316,337	24,802,731
17	Interest Received on TF (\$)		5,553,585	9,225,750	12,878,580	14,700,586	15,448,489	14,435,747	12,663,566	10,596,502
18	Total Revenues		136,522,241	169,595,443	145,871,352	119,216,406	103,795,502	94,740,917	95,291,559	99,995,377
19	Change from Prior Year		11%	24%	-14%	-18%	-13%	-9%	1%	5%
20	Due to Statutory Changes (\$)		0	0	0	0	0	0	0	0
BENEFITS PAID:										
21	Total Benefits Paid		107,699,704	87,954,796	97,324,312	102,245,212	105,888,291	116,865,966	125,030,822	132,843,615
22	Change from Prior Year		-27%	-18%	11%	5%	4%	10%	7%	6%
23	Due to Statutory Changes (\$)		0	0	0	0	0	0	0	0
TRUST FUND RESERVE:										
24	Initial Trust Fund Balance		62,979,925	91,802,462	173,443,109	221,990,149	238,961,343	236,868,554	214,743,505	185,004,242
25	End of Year Balance		91,802,462	173,443,109	221,990,149	238,961,343	236,868,554	214,743,505	185,004,242	152,156,004

UI TRUST FUND MODEL, FORECASTS THROUGH 1995

TABLE 1A: Increase Benefit Schedule to \$44-212

	REVISED: 04-Apr-90	1988	1989	1990	1991	1992	1993	1994	1995
WAGES & EMPLOYMENT:									
1	Total Covered Wages (\$1,000)	5,317,057	5,843,503	5,711,985	5,842,079	6,039,310	6,275,579	6,528,156	6,796,516
2	Wages Taxable Employers (\$1,000)	3,823,712	4,150,698	4,168,935	4,286,089	4,434,625	4,618,988	4,816,475	5,027,723
3	Taxable Wages (\$1,000)	2,552,080	2,900,889	2,864,233	2,944,703	3,059,828	3,200,809	3,350,941	3,510,660
4	Avg. Mo. Cov. Employment	191,068	200,406	196,456	198,696	201,299	204,545	207,846	211,198
5	Avg. Annual Wage (\$)	27,828	29,158	29,075	29,402	30,002	30,681	31,409	32,181
6	Taxable Wage Base (Est.) (\$)	21,100	20,900	21,300	21,800	22,000	22,300	22,700	23,300
UI TAX COMPUTATION:									
7	Benefit Costs (SFY) (\$)	91,920,775	68,240,012	61,927,260	69,079,105	73,942,136	81,089,676	91,078,461	99,980,949
8	Benefit Costs Prior 3 SFY's (\$)	332,297,229	335,485,847	287,270,693	222,088,047	199,246,377	204,948,502	224,110,918	246,110,273
9	Wages 1st 3 Last 4 SFY's (\$1,000)	13,184,650	12,591,164	11,913,291	11,675,987	11,892,467	12,376,736	12,672,425	13,120,897
10	Average Benefit Cost Ratio	3.74%	3.96%	3.55%	2.69%	2.44%	2.40%	2.55%	2.70%
11	Trust Fund Solvency Adjustment	0.6%	0.9%	0.6%	0.3%	-0.0%	-0.3%	-0.4%	-0.2%
12	Average Employer Tax Rate	3.67%	4.14%	3.51%	2.50%	2.00%	1.67%	1.69%	2.01%
13	Average Employee Tax Rate	0.7%	0.7%	0.6%	0.5%	0.4%	0.4%	0.5%	0.5%
REVENUES COLLECTED:									
14	Contributions From Employers (\$)	91,212,906	120,096,805	100,534,578	73,617,575	61,196,520	53,453,510	56,630,903	70,564,266
15	Contributions From Employees (\$)	17,397,557	22,235,775	14,321,165	11,778,812	9,179,478	9,602,427	13,403,764	14,042,640
16	Other Revenues (\$)	22,358,193	18,037,113	18,421,906	20,869,289	21,808,267	23,942,579	25,679,325	27,303,390
17	Interest Received on TF (\$)	5,553,585	9,225,750	12,852,188	14,470,527	14,461,921	12,997,595	11,030,869	9,269,579
18	Total Revenues	136,522,241	169,595,443	146,129,837	120,736,203	106,646,186	99,996,111	106,744,861	121,179,875
19	Change from Prior Year	11%	24%	-14%	-17%	-12%	-6%	7%	14%
20	Due to Statutory Changes (\$)	0	0	0	0	0	0	0	0
BENEFITS PAID:									
21	Total Benefits Paid	107,699,704	87,954,796	99,319,829	111,930,943	116,615,402	128,760,163	137,696,383	146,230,614
22	Change from Prior Year	-27%	-18%	13%	13%	4%	10%	7%	6%
23	Due to Statutory Changes (\$)	0	0	1,995,517	9,685,731	10,727,111	11,894,197	12,665,561	13,386,999
TRUST FUND RESERVE:									
24	Initial Trust Fund Balance	62,979,925	91,802,462	173,443,109	220,253,118	229,058,377	219,089,161	190,325,109	159,373,587
25	End of Year Balance	91,802,462	173,443,109	220,253,118	229,058,377	219,089,161	190,325,109	159,373,587	134,322,848

UI TRUST FUND MODEL, FORECASTS THROUGH 1995

TABLE 2: Worst Case Scenario, Current Schedule

REVISED:	04-Apr-90	1988	1989	1990	1991	1992	1993	1994	1995
WAGES & EMPLOYMENT:									
1	Total Covered Wages (\$1,000)	5,317,057	5,843,503	5,710,940	5,834,340	5,563,378	5,151,401	5,243,950	5,435,927
2	Wages Taxable Employers (\$1,000)	3,823,712	4,150,698	4,188,935	4,257,719	3,904,481	3,573,661	3,667,703	3,817,659
3	Taxable Wages (\$1,000)	2,552,080	2,900,889	2,864,233	2,764,064	2,510,209	2,292,957	2,332,612	2,407,819
4	Avg. Mo. Cov. Employment	191,068	200,406	196,462	193,487	190,340	179,966	183,779	188,823
5	Avg. Annual Wage (\$)	27,828	29,158	29,069	29,247	29,229	28,624	28,534	28,788
6	Taxable Wage Base (Est.) (\$)	21,100	20,900	21,300	21,300	22,000	22,300	22,700	23,300
UI TAX COMPUTATION:									
7	Benefit Costs (SFY) (\$)	91,920,775	68,240,012	61,927,260	62,040,083	104,347,360	120,558,349	86,249,660	69,255,143
8	Benefit Costs Prior 3 SFY's (\$)	332,297,229	335,485,847	287,270,693	222,088,047	192,207,360	228,314,708	286,945,797	311,155,368
9	Wages: 1st 3 Last 4 SFY's (\$1,000)	13,184,650	12,591,164	11,913,291	11,675,987	11,892,467	12,386,254	12,440,428	12,060,182
10	Average Benefit Cost Ratio	3.74%	3.96%	3.55%	2.69%	2.45%	2.83%	3.58%	4.03%
11	Trust Fund Solvency Adjustment	0.6%	0.9%	0.6%	0.3%	-0.0%	-0.3%	-0.0%	0.3%
12	Average Employer Tax Rate	3.67%	4.14%	3.51%	2.50%	2.01%	2.02%	2.94%	3.61%
13	Average Employee Tax Rate	0.7%	0.7%	0.6%	0.5%	0.4%	0.5%	0.6%	0.7%
REVENUES COLLECTED:									
14	Contributions From Employers (\$)	91,212,906	120,096,805	100,534,578	69,101,600	50,455,201	46,317,731	68,578,793	86,922,266
15	Contributions From Employees (\$)	17,397,557	22,235,775	14,321,165	11,056,256	7,530,627	9,171,828	11,663,060	14,446,914
16	Other Revenues (\$)	22,358,193	18,037,113	18,137,029	21,384,463	31,492,050	27,806,162	20,130,214	19,542,544
17	Interest Received on TF (\$)	5,553,585	9,225,750	12,878,580	14,431,344	11,297,006	7,523,401	6,468,288	7,460,509
18	Total Revenues	136,522,241	169,595,443	145,871,352	115,973,663	100,774,884	90,819,122	106,840,355	128,372,233
19	Change from Prior Year	11%	24%	-14%	-20%	-13%	-10%	18%	20%
20	Due to Statutory Changes (\$)	0	0	0	0	0	0	0	0
BENEFITS PAID:									
21	Total Benefits Paid	107,699,704	87,954,796	97,324,312	118,111,365	171,241,322	142,837,019	104,298,268	105,864,275
22	Change from Prior Year	-27%	-18%	11%	21%	45%	-17%	-27%	2%
23	Due to Statutory Changes (\$)	0	0	0	0	0	0	0	0
TRUST FUND RESERVE:									
24	Initial Trust Fund Balance	62,979,925	91,802,462	173,443,109	221,990,149	219,852,447	149,386,010	97,368,113	99,910,200
25	End of Year Balance	91,802,462	173,443,109	221,990,149	219,852,447	149,386,010	97,368,113	99,910,200	122,418,158

UI TRUST FUND MODEL, FORECASTS THROUGH 1995

TABLE 2A: Worst Case Scenario, Proposed \$44-212 Schedule

	REVISED:	04-Apr-90	1988	1989	1990	1991	1992	1993	1994	1995
WAGES & EMPLOYMENT:										
1	Total Covered Wages (\$1,000)		5,317,057	5,843,503	5,710,940	5,834,340	5,563,378	5,151,401	5,243,950	5,435,927
2	Wages Taxable Employers (\$1,000)		3,823,712	4,150,698	4,188,935	4,257,719	3,904,481	3,573,861	3,667,703	3,817,659
3	Taxable Wages (\$1,000)		2,552,080	2,900,889	2,864,233	2,764,064	2,510,209	2,292,957	2,332,612	2,407,819
4	Avg. Mo. Cov. Employment		191,068	200,406	196,462	199,487	190,340	179,966	183,779	188,823
5	Avg. Annual Wage (\$)		27,828	29,158	29,069	29,247	29,229	28,624	28,534	28,788
6	Taxable Wage Base (Est.) (\$)		21,100	20,900	21,300	21,800	22,000	22,300	22,700	23,300
UI TAX COMPUTATION:										
7	Benefit Costs (SFY) (\$)		91,920,775	68,240,012	61,927,260	67,711,685	116,893,451	135,260,895	97,350,610	78,317,736
8	Benefit Costs Prior 3 SFY's (\$)		332,297,229	335,485,847	287,270,693	222,088,047	197,878,957	246,532,396	319,866,031	349,504,956
9	Wages 1st 3 Last 4 SFY's (\$1,000)		13,184,650	12,591,164	11,913,291	11,675,987	11,892,467	12,386,254	12,440,428	12,060,182
10	Average Benefit Cost Ratio		3.74%	3.96%	3.55%	2.69%	2.52%	3.05%	4.00%	4.53%
11	Trust Fund Solvency Adjustment		0.6%	0.9%	0.6%	0.3%	-0.0%	-0.1%	0.2%	0.5%
12	Average Employer Tax Rate		3.67%	4.14%	3.51%	2.50%	2.07%	2.40%	3.48%	4.21%
13	Average Employee Tax Rate		0.7%	0.7%	0.6%	0.5%	0.5%	0.5%	0.7%	0.8%
REVENUES COLLECTED:										
14	Contributions From Employers (\$)		91,212,906	120,096,805	100,534,578	69,101,600	51,961,326	55,030,968	81,174,898	101,369,180
15	Contributions From Employees (\$)		17,397,557	22,235,775	14,321,165	11,056,256	10,040,836	9,171,828	13,995,672	16,854,733
16	Other Revenues (\$)		22,358,193	18,037,113	18,421,906	23,357,321	34,676,238	30,637,205	22,170,681	21,512,732
17	Interest Received on TF (\$)		5,553,585	9,225,750	12,852,180	14,182,147	10,072,625	5,854,214	4,904,157	6,301,558
18	Total Revenues		136,522,241	169,595,443	146,129,837	117,697,324	106,751,025	100,694,215	122,245,408	146,038,203
19	Change from Prior Year		11%	24%	-14%	-19%	-9%	-6%	21%	19%
20	Due to Statutory Changes (\$)		0	0	0	0	0	0	0	0
BENEFITS PAID:										
21	Total Benefits Paid		107,699,704	87,954,796	99,919,829	129,359,193	188,598,775	157,376,223	114,865,348	116,532,012
22	Change from Prior Year		-27%	-18%	13%	30%	46%	-17%	-27%	1%
23	Due to Statutory Changes (\$)		0	0	1,995,517	11,247,828	17,357,453	14,539,204	10,567,080	10,667,737
TRUST FUND RESERVE:										
24	Initial Trust Fund Balance		62,979,925	91,802,462	173,443,109	220,253,118	208,591,249	126,743,498	70,061,490	77,441,550
25	End of Year Balance		91,802,462	173,443,109	220,253,118	208,591,249	126,743,498	70,061,490	77,441,550	106,947,741