ALASKA LEGISLATURE COMMITTEE FILES 1991-1992 8672

7064 HOUSE LABOR & COMMERCE

The NERC study claims that based on traditional planning criteria, additional interties are needed between Kenai and Anchorage, Healy and Fairbanks, and even Anchorage and Healy. These traditional planning criteria appear to require that generation sources be connected to loads by multiple transmission paths.

Does this planning rule also mean that Copper Valley Electric needs two more expensive interties from the Solomon Gulch hydro project to Valdez and Glennallen? A response to the question--beyond applying a transmission planning rule-of-thumb--must involve a balancing of the cost of duplicate transmission paths against the improved reliability and other benefits the lines would bring. This is exactly the type of analysis that was done in the AEA-Recon study and the Utility-DFI study. Power outage reductions were estimated and then quantified in terms of their dollar value to consumers.

Besides mentioning a tradeoff between economics and reliability, the NERC study entirely failed to address in quantitative terms the magnitude and value of the reliability improvement that the new interties will bring. The authors did not state whether they thought that the Utility-DFI 26 minute outage reduction estimate was high or low. They did not state whether they thought that $54 million was too high or too low a valuation of that 26 minute reduction.

It is very likely that the cost/benefit tradeoff weighs in favor of building duplicate transmission paths in the Lower-48. The power flows on the Lower-48 transmission paths are hundreds and sometimes thousands of megawatts (MW). Figures in the Utility-DFI study indicate that power flows on the existing Kenai-Anchorage path will only average about 26 MW after Bradley Lake comes on line, if Railbelt generation units are optimally coordinated. If the Railbelt utilities do not implement generation coordination strategies, the flow could be substantially less. The reason power flow will be so low is because most of Bradley Lake's 42 MW of average power output will supply the Kenai Peninsula's average load of 54 MW. Without Bradley Lake, much of Kenai's load has been served from Anchorage via the existing Kenai-Anchorage line. Power flow on the Healy-Fairbanks path will average about 70 MW. The power flow on the lines from the Solomon Gulch hydro project average less than 5 MW.

Duplicate transmission paths are much more difficult to cost-justify with power flows of 26 - 70 MW compared to the hundreds of megawatts flowing on Lower-48 transmission lines. The consequences of power flow interruption are not nearly as severe with small power flows. Because of these differences between the Lower-48 and Alaska, I question the application of transmission planning rules-of-thumb in the Alaskan environment.

Will Reliability Get Worse in the Railbelt Without New Transmission Lines?

The AEA-Recon study and the Utility-DFI study indicate that reliability on the Kenai peninsula will be improved when Bradley Lake comes on line in the next year. Much of the

Kenai electrical load will be served from Bradley Lake instead of the less reliable Kenai-Anchorage transmission line. After Bradley's completion, Anchorage will spend part of the year importing power from the Kenai peninsula. A failure of the existing transmission line while Anchorage is importing energy may cause a limited outage in Anchorage. The AEA-Recon study and the Utility-DFI study estimated the effect to be an increase of about 12 minutes per customer per year of power outages. In my review of the Utility-DFI study, I argued that even this low estimate was overstated because the analysis did not acknowledge the small power flows imported by Anchorage. Relative to the 5 hours of outages per customer per year in the Anchorage area, these reliability impacts are not tremendous.

In conclusion, I believe that the current AEA-Feasibility study tends to exaggerate the issue of the proposed interties' impact on Railbelt power reliability. The above discussion provides a more rational perspective on the reliability issue.

Sincerely yours,

Alan Mitchell

Alan Mitchell
Utility Analyst

Analysis North

Alaska's Utility Consumer Advocate

911 West 8th Avenue, Suite 204 Anchorage, Alaska 99501 907-272-3425

February 25, 1991

Representative Kay Brown
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Representative Brown:

In response to your request for a summary of the potential impacts of implementing aggressive electrical conservation programs in the Railbelt, I have prepared the attached table. The figures in the table are derived from the "Analysis of Electrical End Use Efficiency Programs for the Alaskan Railbelt". I wrote that report while employed by the Institute of Social and Economic Research (ISER), University of Alaska, Anchorage. The report was part of the Alaska Energy Authority Railbelt Intertie Reconnaissance Study completed in 1989.

The report addresses the potential impact of offering financial rebates for the implementation of a number of different electrical conservation measures in Railbelt residential and commercial buildings. Such rebates would be targeted at cost-effective energy conservation measures that consumers might normally bypass because of poor information, lack of capital, or other market failures. An example includes the use of energy-efficient fluorescent lamps and ballasts[1] in commercial lighting fixtures. Conservation rebates similar to these have been implemented by numerous electric utilities in the lower 48, including New England Electric System, Boston Edison, and Pacific Gas and Electric.

The first column of the table, *Peak Demand Reduction, MW* (megawatts), indicates the amount that the Railbelt peak electrical demand will be reduced by implementation of the programs. The next column, *Equivalent Generation Capacity, MW*, equals 1.3 times the Peak Demand Reduction. In order to reliably supply 1 MW of peak demand, about 1.3 megawatts of generation (power plant) capacity is required because generation capacity is not 100% reliable. This column therefore represents how much generation capacity is potentially avoided by the implementation of the conservation programs. The third column, *Energy Savings, MWh* (megawatt-hours), gives the annual energy savings from the conservation programs. Reducing electrical demand by 1 MW continuously for the entire year results in an energy savings of 8,766 megawatt-hours, because there are 8,766 hours in a year. However, the electrical demand

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[1]A fluorescent lamp ballast is the device that starts and provides proper operating conditions for fluorescent lamps.

reductions caused by conservation programs typically vary across the hours of the year. A conservation measure that reduces demand by 1 MW during the peak demand period of the year typically saves only 4,500 megawatt-hours over the course of the year.

The last column, *Program Budgetary Cost*, indicates the annual expenditures required to fund the conservation programs. This includes the cost of the rebates and the general cost of administering the conservation programs. The costs are expressed in nominal or actual dollars so include the effects of general price inflation. That is one reason why the dollar figures rise in later program years. The present value of program costs is about $66 million; i.e., an appropriation equal to $66 million would fund the programs over their 20 year life if that appropriation could be invested at an interest rate 4.5% more than inflation. The programs could be reduced in scope for funding levels less than $66 million.

The table shows that the conservation programs are expected to reduce the need for generation capacity in the year 2010 by 73 megawatts and reduce annual energy generation by 260,000 megawatt-hours. This energy savings amounts to approximately 7% of the expected Railbelt electrical load in the year 2010. Savings in all other years are less. For comparison purposes, the Bradley Lake hydroelectric project will be able to provide 120 MW of peak generation capacity and produce 370,000 megawatt-hours of electricity. The proposed Healy Clean Coal plant will provide 50 megawatts of generation capacity and also about 370,000 megawatt-hours of electricity.

My work at ISER involved estimating the costs of the conservation programs and the MW and MWh savings from the programs. Decision Focus Inc. determined how much generation costs would be reduced by those MW and MWh savings. They then compared the generation cost savings to the costs of the conservation programs. As well as the program budgetary costs described above, DFI's benefit/cost analysis included the costs paid by consumers (the rebates are *not* assumed to pay 100% of the conservation costs). Their analysis concluded that 8 of the 9 conservation programs analyzed were cost-effective, and those programs are expected to deliver $1.31 of benefits for each $1 of cost. The best 3 programs in that package of 8 programs produced $1.65 of benefit per $1 of cost. The next five programs had a benefit-to-cost ratio of 1.12.

Please call if you have any questions concerning this information.

Sincerely yours,

Alan Mitchell

Alan Mitchell

Impact of Electrical End Use Efficiency Programs for the Alaskan Railbelt

Year	Peak Demand Reduction, MW	Equivalent Generation Capacity, MW	Energy Savings MWh	Program Budgetary Cost Nominal $
1991	4.5	5.9	20,240	$4,464,000
1992	9.6	12.5	42,610	$4,791,000
1993	15.1	19.7	66,720	$5,712,000
1994	20.8	27.0	91,640	$5,957,000
1995	26.2	34.0	115,600	$6,046,000
1996	29.1	37.8	129,150	$6,679,000
1997	32.2	41.8	143,630	$7,408,000
1998	35.7	46.4	159,740	$8,841,000
1999	38.8	50.4	174,440	$9,055,000
2000	41.1	53.5	186,330	$9,196,000
2001	42.4	55.1	193,230	$7,735,000
2002	44.2	57.4	202,100	$9,737,000
2003	46.0	59.7	210,450	$9,958,000
2004	47.9	62.3	219,780	$11,395,000
2005	49.7	64.6	228,410	$11,114,000
2006	51.4	66.8	236,630	$10,965,000
2007	53.3	69.3	245,370	$11,917,000
2008	55.0	71.4	253,400	$12,038,000
2009	55.7	72.4	257,330	$12,769,000
2010	56.2	73.0	260,000	$14,943,000
2011	51.6	67.1	240,030	$0
2012	47.2	61.4	220,860	$0
2013	43.2	56.2	203,250	$0
2014	38.5	50.0	182,290	$0
2015	33.5	43.6	160,290	$0
2016	30.3	39.4	145,350	$0
2017	27.4	35.7	132,030	$0
2018	24.7	32.1	119,380	$0
2019	22.0	28.6	106,940	$0
2020	19.7	25.5	95,140	$0
2021	17.7	23.0	85,610	$0
2022	15.5	20.1	75,070	$0
2023	13.4	17.4	64,950	$0

Impact of Electrical End Use Efficiency Programs for the Alaskan Railbelt

Year	Peak Demand Reduction, MW	Equivalent Generation Capacity, MW	Energy Savings MWh	Program Budgetary Cost Nominal $
2024	11.0	14.3	53,970	$0
2025	8.6	11.2	42,460	$0
2026	6.4	8.3	32,110	$0
2027	4.6	6.0	22,960	$0
2028	2.6	3.4	13,320	$0
2029	1.5	1.9	7,900	$0
2030	0.3	1.0	4,400	$0
2031	0.6	0.8	3,200	$0
2032	0.4	0.5	2,200	$0
2033	0.2	0.3	1,100	$0
2034	0.2	0.3	900	$0
2035	0.1	0.1	700	$0
2036	0.1	0.1	500	$0
2037	0.1	0.1	400	$0
2038	0.0	0.0	300	$0
2039	0.0	0.0	100	$0
2040	0.0	0.0	0	$0

EXIST_KA.WK1
Planned Reconstruction Expenditures for Existing 115 kV KA Line

Discount Rate = 4.0%

Present Value = $30.22 million

1991	2.735
1992	1.795
1993	1.300
1994	2.750
1995	2.750
1996	2.750
1997	2.700
1998	2.700
1999	2.650
2000	2.600
2001	2.575
2002	2.575
2003	2.550
2004	2.550
2005	2.550
2006	2.550
2007	2.500

Spreadsheet.
By
A. Mitchell

CHUGACH ELECTRIC ASSOCIATION, INC.
Anchorage, Alaska

September 5, 1989

TO: Gerald Mackey, Planning Engineer

FROM: Lee D. Thibert, Director, Operations

SUBJECT: Maintenance - 115KV Kenai-Anchorage Line

Reference letter dated August 23, 1989, requesting information for inclusion in the Phase I report.

Scheduled Maintenance of Existing 115 KV Kenai-Anchorage Line

A. What is the estimated duration of the annual maintenance period?

Inspection and maintenance of the 115KV line in the past, has been minimal and included monthly helicopter surveillance, right-of-way trimming and minor maintenance to correct problems discovered during inspection. The maintenance duration has been approximately two weeks in the summer, and two weeks in the winter. Avalanche and severe weather storms have necessitated emergency repairs in addition to annual maintenance. These types of storms normally occur from October through March.

Is it expected to change in the future?

With the increasing importance and emphasis of this line as a major transmission link, Chugach has the performed the following tasks to examine the overall condition of this line.

In 1988, Chugach completed a structure-by-structure ground inspection of the line. This inspection noted several discrepancies with broken insulators, cross braces and damaged or lose hardware. The overall condition of poles and cross arms varied from 50% to 70% as good, with the average condition at 60%. The percentages are based on 100% corresponding to a 30 year life. This would mean that the line is physically capable of operating for another 15 to 20 years under normal conditions. Certain sections of line by Girdwood, Kern Point and Frenchie Creek have significant problems with wood decay and extreme weathering. These sections of line should be replaced in the near term, i.e., three to five years.)

In 1988, Chugach contracted with Alaska Mountain Safety to evaluate avalanche problems along the 115KV transmission corridor. Overall, the line from Anchorage to Quartz Creek passes through 18 areas where avalanches affect the line. In all, 90 structures and 177 spans are exposed to risk. Of these structures, 19 are exposed to high hazard, 49 to moderate hazard and 22 to low hazard. Of the spans, 39 are rated as high hazard, and 78 as low hazard. Approximately 28% of these expected avalanche encounters are likely to occur fairly frequently, while 72% will occur more infrequently.

Chugach has incorporated budgeted funds and work plan projects to address the maintenance and avalanche problems over the next few years. Below is a listing of these projects.

1. 115KV Line Repair - Initiated due to inspection reports.

   1989 Budgeted Funds: $260,200
   This project includes replacement of broken insulators, cross braces and worn hardware, along with the tightening of down guys and replacement of anchors on approximately 70 structures.

2. 115KV Line Repair - Continued 1990 effort.

   Proposed 1990 Budgeted Funds: $289,322
   Continued minor maintenance on approximately 70 structures.

3. 115KV Transmission Line Clearing 1989: $130,000

4. 115KV Transmission Line Clearing Proposed 1990: $112,460

   These maintenance projects cover only minor maintenance, i.e., insulator and hardware replacement, cross braces, guy and anchor maintenance etcetera. A majority of this type of maintenance can be performed with the line energized. Major maintenance required, i.e., cross arm changeout or pole changeout, would require an outage on the effected section of line.

5. Avalanche Mitigation 1989 - Bird Flats: $450,000

6. Avalanche Mitigation 1989 - Peterson Creek: $430,000

7. Avalanche Mitigation 1990 - Summit Lake: $1,350,000

   Although avalanche mitigation projects will not eliminate the possibility of avalanche damage, they do significantly reduce the chances of such and provide a means for timely restoration.

   Avalanches have caused several outages on the 115KV line. Repair costs in 1988 exceeded $400,000. The physical time to do repairs in inclement weather can take several days or weeks, depending on the location and amount of damage. Other factors such as avalanche danger to crews can postpone repairs until slopes are stabilized.

   Extended outages will be required to perform major maintenance on this line over the next 15 years. For every structure replacement required, you can estimate a two day outage. If conductor replacement is necessary on portions of the line, a minimum of a one week outage is required. With 870 structures, and over 80 miles of line, just a 1% replacement would require a 25 day outage.

B. Would maintenance take place during the off-peak season (summer) or is winter maintenance required?

   Scheduled maintenance is performed during the off-peak (summer) season and during the winter. Forest Service restrictions, as well as access problems due to tidal water and marsh land, prevent summer construction.

   Maintenance periods will increase over the next few years to accelerate planned maintenance. The scheduled duration of maintenance in 1989, is 12 weeks, followed by 16 weeks in 1990. It should be noted that this type of minor maintenance does not extend the total life of this line, but reduces the chances of premature failures.

C. Would the line be energized or de-energized during maintenance?

   Minor maintenance as outlined can be performed while the line is energized. It should be noted that insulator changeouts cannot be performed hot during inclement weather or wet conditions.

Major maintenance such as pole or cross arm replacements, would require a line outage. Live line maintenance on high voltage transmission lines is not common in Alaska. Journeymen Lineman must be trained in this area and special tools would have to be purchased to perform these tasks. A majority of the structure locations have difficult access where specialty equipment could not be utilized. It is estimated that labor costs would triple if the work could be done energized.

D. How would a second Kenai-Anchorage line change the answers to questions A, B and C?

If a second Kenai-Anchorage line were built, we would not be looking at long term solutions for avalanche mitigation. As long as service was available to our retail and wholesale customers, we could schedule repairs at our convenience, eliminating expensive emergency restoration costs.

Line outages could be scheduled summer or winter to perform required maintenance without loss of wholesale sales and increases in generation expenses.

Maintenance repairs could be expensed over a longer period of time if this line was not the only tie to the Kenai Peninsula. At present, increased generation expenses caused by system separation exceed accelerated maintenance expenses.

E. For any changes identified in answer 2D, please provide estimated cost changes.

Please refer to the attached spreadsheet.

LDT/clg
Phase I

Attachment

cc: w/attachment
G. Bjornstad
T. Lovus

SCHEDULED MAINTENANCE & CONSTRUCTION - 115KV ANCHORAGE TO QUARTZ CREEK - W/O 2ND LINE

PROJECT DESCRIPTION	AMOUNT	YEAR	MINOR MAINTENANCE	PROJECTS & MAJOR MAINTENANCE	*Wrk Day OUTAGE **SUMMER	*Wrk Day OUTAGE **WINTER	*Wrk Day OUTAGE TOTAL
TOTAL	$1,090,260	1989	12.36%	83.03%	16	15	[illegible]
BIRD FLATS AVALANCHE MITIGATION	$450,000			$450,000	10		
POWER LINE PASS AVALANCHE MITIGATION	$75,000			$25,000	6		
PETERSON CREEK AVALANCHE MITIGATION	$430,260			$430,260		15	
INSPECTION MAINTENANCE	$135,000		$135,000				
TOTAL	$295,000	1990	74.58%	25.42%	4	2	6
INSPECTION MAINTENANCE	$75,000			$75,000	4	2	
INSPECTION MAINTENANCE	$220,000		$220,000				
TOTAL	$2,735,000	1991	8.7[illegible]%	91.22%	[illegible]	2	[illegible]
SUMMIT LAKE AVALANCHE MITIGATION	$1,215,000			$1,215,000	42		
RECONDUCT [illegible] - 5 MILES	$1,200,000			$1,2[illegible]	35		
INSPECTION MAINTENANCE	[illegible]			$80,000	4	2	
INSPECTION MAINTENANCE	$240,000		$240,000				
TOTAL	$1,795,000	1992	12.26%	87.74%	4	[illegible]	[illegible]
GIRDWOOD REBUILD	$1,500,000			$1,500,000		5[illegible]	
INSPECTION MAINTENANCE	$75,000			$75,000	4	2	
INSPECTION MAINTENANCE	$220,000		$220,000				
TOTAL	$1,[illegible],000	[illegible]	13.85%	86.15%	39	3	42
[illegible] CREEK REBUILD	$1,000,000			$1,000,000	34		
INSPECTION MAINTENANCE	$120,000			$120,000	5	[illegible]	
INSPECTION MAINTENANCE	$180,000		$180,[illegible]				
REPLACE 5 MILES	$2,750,000	1994	9.0%	91.0%	70	25	95
REPLACE 5 MILES	$2,750,000	1995	9.0%	91.0%	80	15	95
REPLACE 5 MILES	$2,750,000	1996	9.0%	90.0%	[illegible]	5	95
REPLACE 5 MILES	$2,700,000	1997	7.0%	93.0%	95		95
REPLACE 5 MILES	$2,700,000	1998	7.0%	93.0%	95		95
REPLACE 5 MILES	$2,650,000	1999	6.0%	94.0%	95		95
REPLACE 5 MILES	$2,600,000	2000	4.0%	96.0%	95		95
REPLACE 5 MILES	$2,575,000	2001	3.0%	97.0%	90	5	95
REPLACE 5 MILES	$2,575,000	2002	3.0%	97.0%	85	10	95
REPLACE 5 MILES	$2,550,000	2003	2.0%	98.0%	85	10	95
REPLACE 5 MILES	$2,550,000	2004	2.0%	98.0%	80	15	95
REPLACE 5 MILES	$2,550,000	2005	2.0%	98.0%	80	15	95
REPLACE 5 MILES	$2,550,000	2006	2.0%	98.0%	75	20	95
REPLACE 5 MILES	$2,500,000	2007	0.0%	100.0%	70	25	95

*Wrk Day = Work Day
OUTAGE CALCULATION: 2 days per structure replacement
7 days per line mile reconductor

** Summer/Winter - Dependent on geographic locations

SCHEDULED MAINTENANCE & CONSTRUCTION - 115KV ANCHORAGE TO QUARTZ CREEK - W/O 2ND LINE

PROJECT DESCRIPTION	AMOUNT	YEAR	MINOR MAINTENANCE	PROJECTS & MAJOR MAINTENANCE	*Wrk Day OUTAGE **SUMMER	*Wrk Day OUTAGE **WINTER	*Wrk Day OUTAGE TOTAL
TOTAL	$1,090,260	1989	12.38%	83.03%	16	15	3[illegible]
BIRD FLATS AVALANCHE MITIGATION	$450,000			$450,000	10		
POWER LINE PASS AVALANCHE MITIGATION	$75,000			$25,000	6		
PETERSON CREEK AVALANCHE MITIGATION	$430,260			$430,260		15	
INSPECTION MAINTENANCE	$135,000		$135,000				
TOTAL	$295,000	1990	74.58%	25.42%	4	2	6
INSPECTION MAINTENANCE	$75,000			$75,000	4	2	
INSPECTION MAINTENANCE	$220,000		$220,000				
TOTAL	$2,735,000	1991	8.78%	91.22%	4[illegible]	2	5[illegible]
SUMMIT LAKE AVALANCHE MITIGATION	$1,215,000			$1,215,000	42		
RECONDUCT [illegible] - 5 MILES	$1,200,000			$1,2[illegible]	35		
INSPECTION MAINTENANCE	[illegible]			$80,000	4	2	
INSPECTION MAINTENANCE	$240,000		$240,000				
TOTAL	$1,795,000	1992	12.26%	87.74%	4	[illegible]	[illegible]
GIRDWOOD REBUILD	$1,500,000			$1,500,000		57	
INSPECTION MAINTENANCE	$75,000			$75,[illegible]	4	2	
INSPECTION MAINTENANCE	$220,000		$220,000				
TOTAL	$1,300,000	1993	13.85%	86.15%	39	3	42
FRENCHIE CREEK REBUILD	$1,000,000			$1,000,000	34		
INSPECTION MAINTENANCE	$120,000			$120,000	5	3	
INSPECTION MAINTENANCE	$180,000		$180,[illegible]				
REPLACE 5 MILES	$2,750,000	1994	9.0%	91.0%	70	25	[illegible]
REPLACE 5 MILES	$2,750,000	1995	9.0%	91.0%	[illegible]	[illegible]	[illegible]
REPLACE 5 MILES	$2,750,000	1996	9.0%	90.0%	[illegible]	5	[illegible]
REPLACE 5 MILES	$2,700,000	1997	7.0%	93.0%	95		[illegible]
REPLACE 5 MILES	$2,700,000	1998	7.0%	93.0%	95		[illegible]
REPLACE 5 MILES	$2,650,000	1999	6.0%	94.0%	95		[illegible]
REPLACE 5 MILES	$2,600,000	2000	4.0%	96.0%	95		[illegible]
REPLACE 5 MILES	$2,575,000	2001	3.0%	97.0%	90	[illegible]	[illegible]
REPLACE 5 MILES	$2,575,000	2002	3.0%	97.0%	85	10	[illegible]
REPLACE 5 MILES	$2,550,000	2003	2.0%	98.0%	85	[illegible]	[illegible]
REPLACE 5 MILES	$2,550,000	2004	2.0%	98.0%	80	[illegible]	95
REPLACE 5 MILES	$2,550,000	2005	2.0%	98.0%	80	15	[illegible]
REPLACE 5 MILES	$2,550,000	2006	2.0%	98.0%	75	20	[illegible]
REPLACE 5 MILES	$2,500,000	2007	0.0%	100.0%	70	25	[illegible]

*Wrk Day = Work Day

OUTAGE CALCULATION: 2 days per structure replacement

7 days per line mile reconductor

** Summer/Winter - Dependent on geographic locations

ALASKA STATE-OWNED BUILDINGS

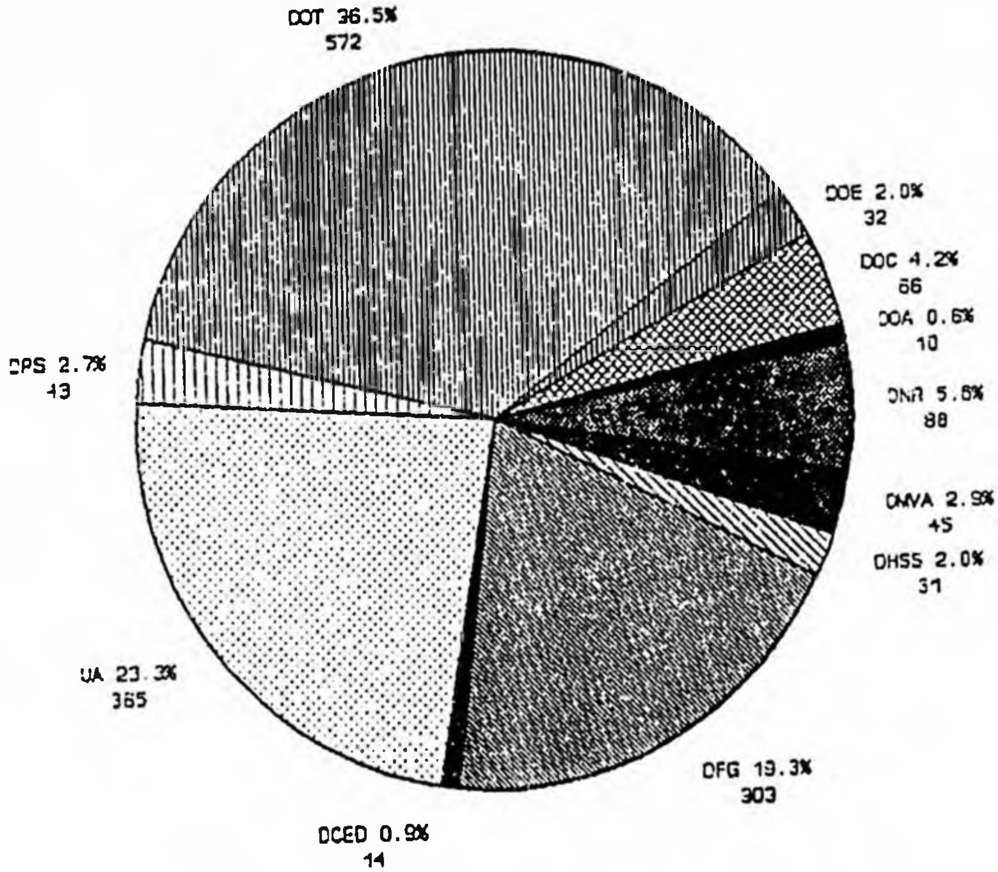
Summary by Agency

AGENCY	SQ FT	REPLACEMENT VALUE $(000)	VALUE/ SQ FT $	AVG AGE	BLDG COUNT
DCED	17,840	$3,606,921	$202.18	20.74	14
DFG	518,785	97,820,611	$188.56	15.08	303
DHSS	520,368	185,734,806	$356.93	18.43	31
DMVA	281,631	50,726,961	$180.12	23.83	45
DNR	308,858	35,379,399	$114.55	28.45	88
DOA	469,057	106,557,589	$227.17	20.98	10
DOC	1,027,020	329,811,734	$321.13	12.34	66
DOE	322,276	51,074,833	$158.48	36.27	32
DOT	3,133,784	468,221,391	$149.41	22.77	572
DPS	186,064	27,985,749	$150.41	14.82	43
UA	4,640,635	769,221,862	$165.76	17.86	365
	11,426,318	$2,126,141,856	$186.07	19.65	1,569

NOTES: See Appendix A for full agency names.
International airport facilities not included.

STATE-OWNED BUILDINGS

Statewide Total - 1,569 Buildings



The State of Alaska owns over 1,569 buildings. Of these, 60% are maintained by only two agencies -- the Department of Transportation and Public Facilities and the University of Alaska.

LOCATION OF STATE BUILDINGS

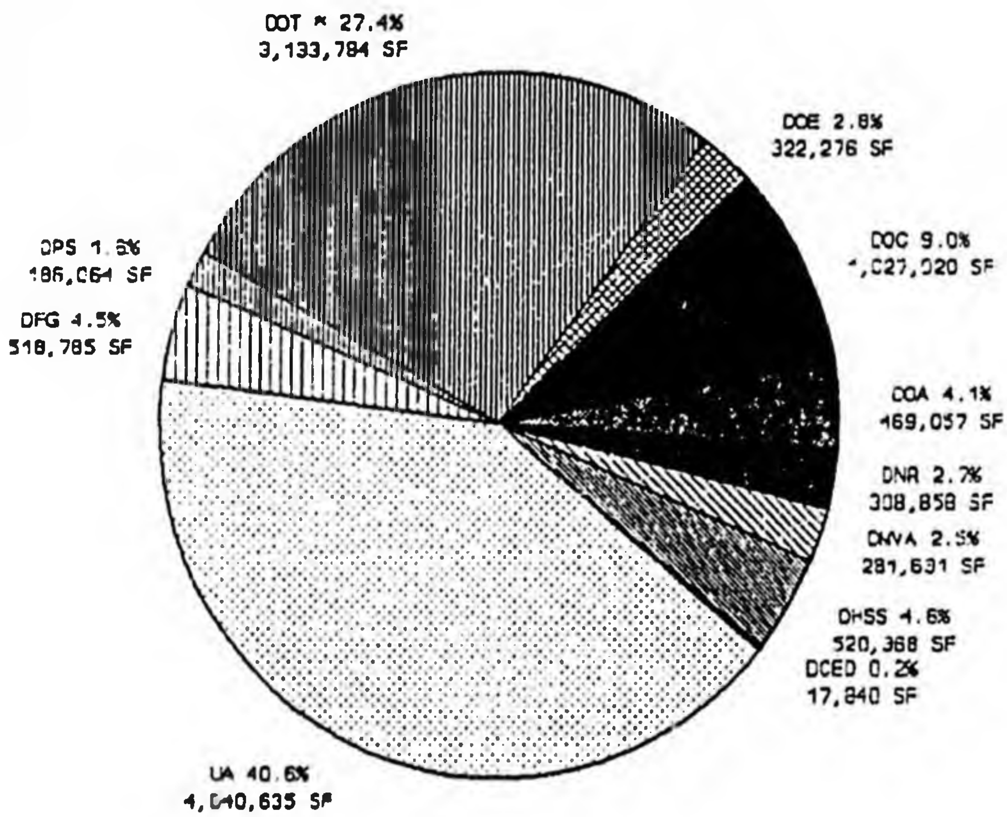
Distribution by Election District

ELECTION DISTRICT	MAJOR CITIES/TOWNS	AREA (SF)	BLDG COUNT	REPLACEMENT VALUE
1	KETCHIKAN/WRANGELL	318,657	82	$76,305,622
2	HAINES/YAKUTAT	153,644	78	24,205,902
3	SITKA	384,397	36	64,907,129
4	JUNEAU	1,371,159	78	220,822,763
5	KENAI/SOLDOTNA	381,407	83	67,992,285
6	CORDOVA/SEWARD/VALDEZ	725,672	124	178,022,213
7	ANCHORAGE	2,498,331	117	524,642,274
12	ANCHORAGE	33,110	6	2,238,592
13	ELMENDORF	24,148	7	4,462,992
15	CHUGIAK/EAGLE RIVER	228,157	40	48,228,048
16	PALMER/WASILLA	670,190	127	89,040,992
17	TOK/GLENNALLEN/DELTA JUNCTIO	197,445	95	26,283,859
19	LIVENGOOD	18,478	12	2,491,380
20	FAIRBANKS	745,125	62	155,202,990
21	FAIRBANKS	2,559,632	161	454,068,170
22	KOTZEBUE	156,356	72	33,031,447
23	NOME	236,688	77	38,834,141
24	GALENA/MCGRATH	219,581	121	31,450,073
25	BETHEL	137,723	56	33,544,038
26	COLD BAY/DILLINGHAM	225,848	94	27,036,254
27	KODIAK	140,570	41	23,330,692
	TOTALS	11,426,318	1,569	$2,126,141,856

The State owns buildings in 256 different communities and localities throughout Alaska, with over one-third located in rural areas.

SQUARE FOOTAGE OWNED BY AGENCY

Statewide Total 11,426,318 gross square feet

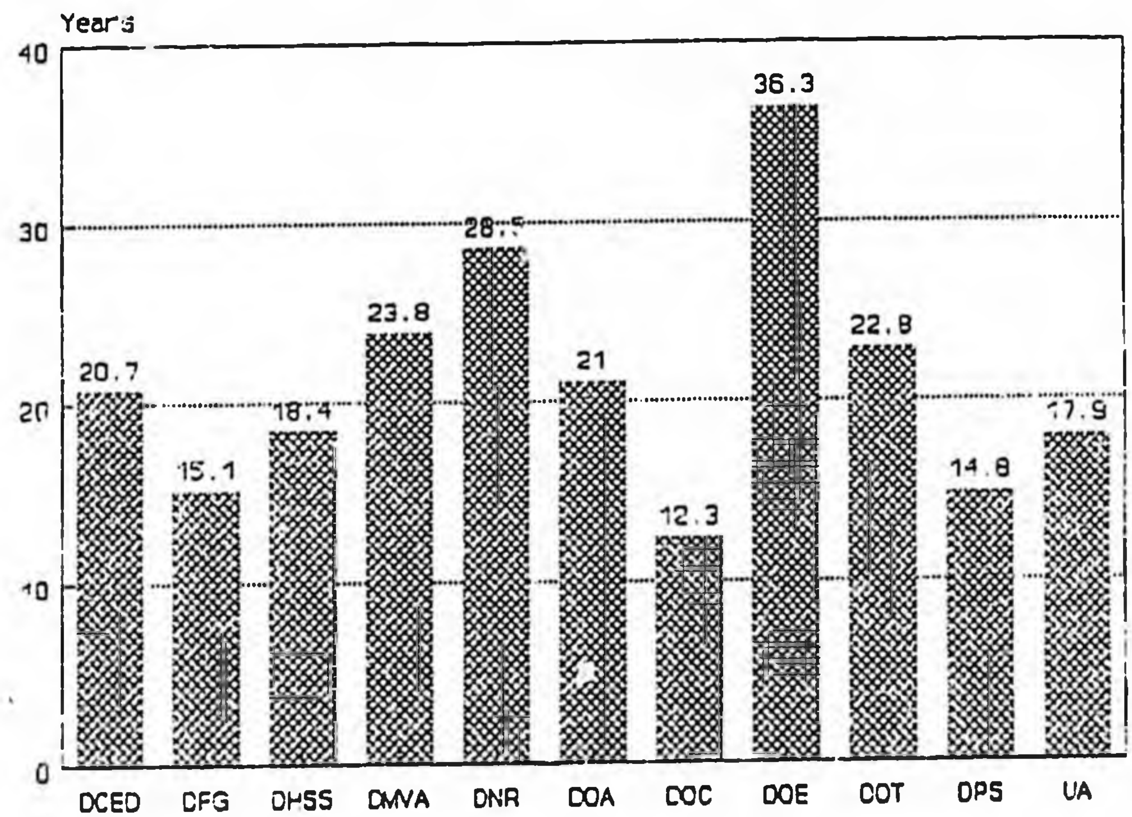


* Excludes international airports

The state owns over 11.4 million square feet of building space and, of this amount, the University of Alaska operates and maintains almost 41% of the total.

FACILITY AGE
AVERAGE AGE BY AGENCY

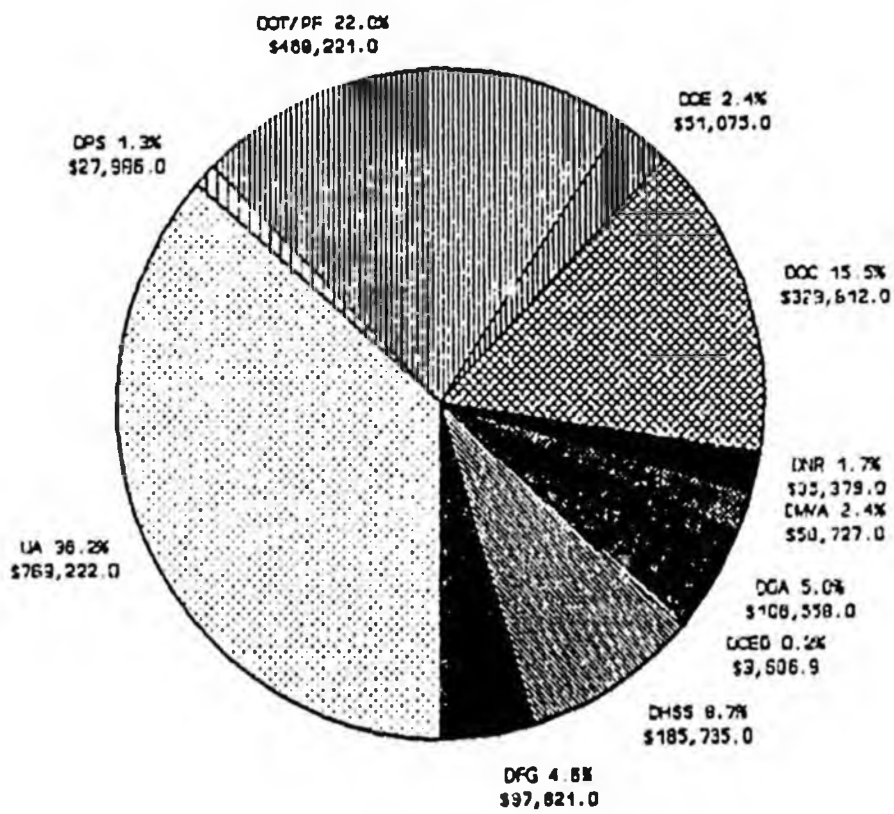
Average age statewide - 19.7 Years



Over 41% of the state's 11.4 million square feet of building space is 20 years old, the age by which major building components require replacement if safe and beneficial use of the buildings is to continue.

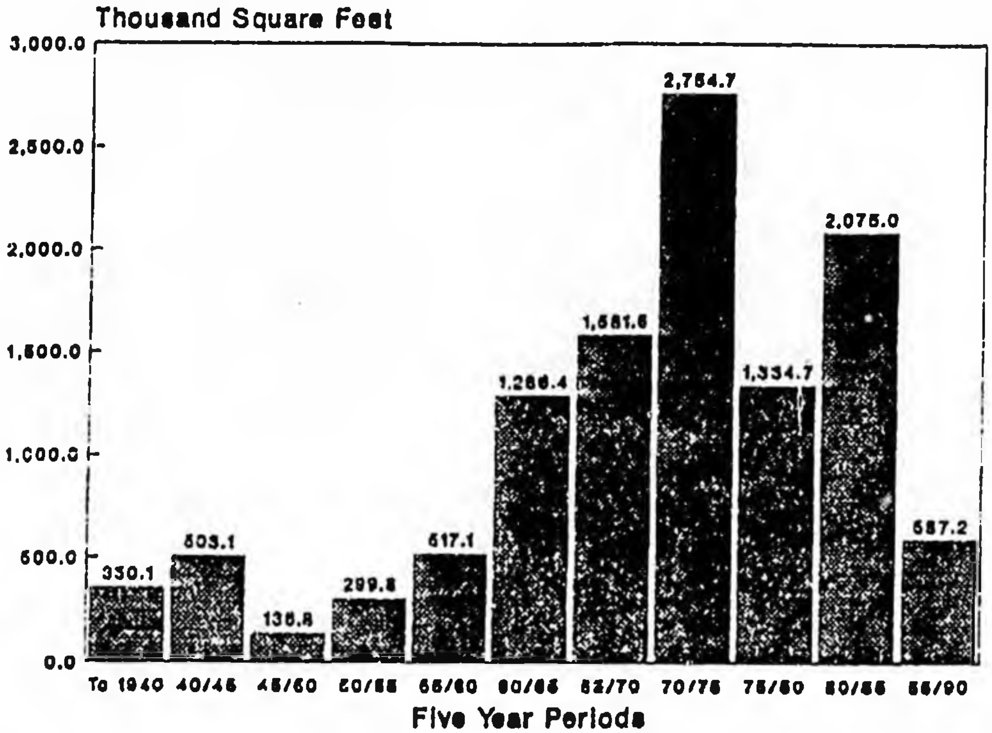
REPLACEMENT VALUE OF STATE BUILDINGS

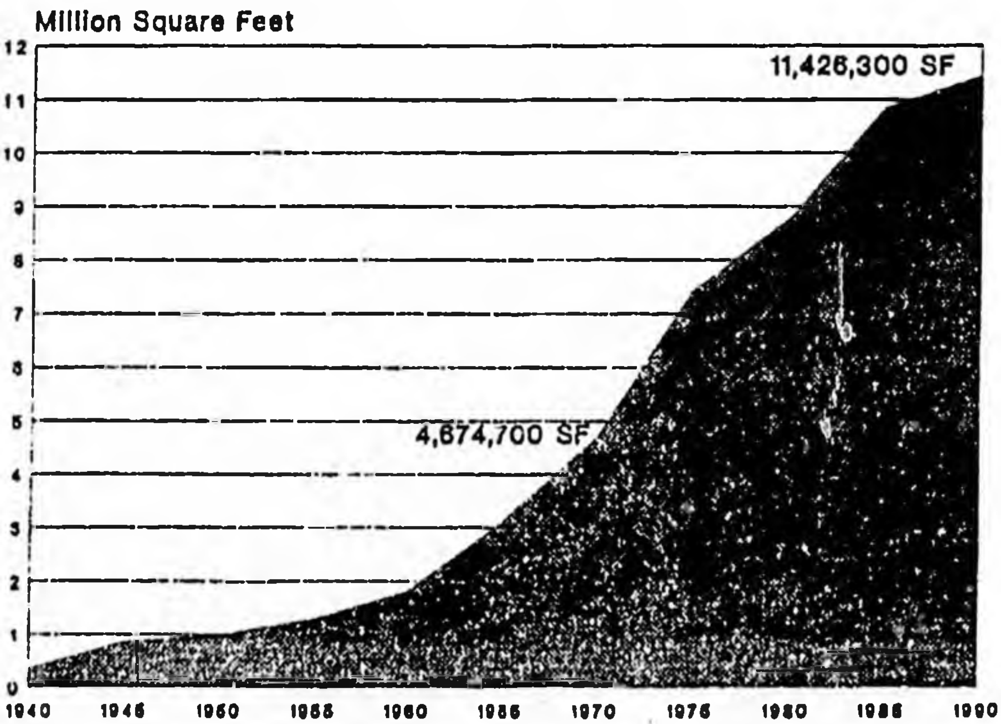
Statewide Total - $2,126,142,000



The replacement value of state-owned buildings is over $2.1 billion. university of Alaska facilities represent 36% of this total value.

HISTORY OF CONSTRUCTION





Cummulative Space Constructed

FISCAL NOTE

STATE OF ALASKA
1991 LEGISLATIVE SESSION

BILL NO. SB 231

Revision Date:
Title: Presidents and other chief executive officers of banks
Sponsor: Rep. Moyer
Requestor:

Department Affected: Commerce & Economic Dev.
BRU: Banking, Securities & Corporations
Component: Banking

COMPONENT SERIAL NO. 1 2 3 3

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

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

POSITIONS:

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

Estimate of current year impact:

ANALYSIS: (Attach a separate page if necessary.)

Willis

Prepared By: Willis F. Kirkpatrick, Director
Phone: 465-2521
Division: Banking, Securities & Corporations
Date: 3/27/91
Approved by Commissioner: Glenn A. Olds K. Callaway Asst. Comm. 4-1-91
Agency: Department of Commerce & Economic Development
Date: 3/27/91

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

Rev 10/90
KP/dg19255D-1/032791a

REPRESENTATIVE TOM MOYER

DISTRICT 19 • 119 N. CUSHMAN ST., SUITE 203 • FAIRBANKS, AK 99701 • (907) 456-8161

International Trade & Tourism, Chair • State Affairs, Vice Chair • Resources, Member

MEMORANDUM

To: Representative David Finkelstein
Labor and Commerce Chair

March 25, 1991

From: Representative Tom Moyer TGM

Re: HB231, relating to bank presidents

With this memo, I would like to request the Labor and Commerce Committee to hold a hearing on HB231 at your earliest convenience.

The bill is designed to clarify confusion in current statutes about whether a bank president or other chief executive officers must be elected in a shareholder election. As indicated in the attached letter from Willis Kirkpatrick, director of the Division of Banking, Securities and Corporations, the intent of the legislature is that such officers should be elected by their boards and not in shareholder elections. This bill would eliminate the confusion.

I have discussed the legislation with Mr. Kirkpatrick and he is supportive of it.

I am happy to testify at your convenience or supply additional information if necessary.

ALASKA STATE LEGISLATURE • P.O. BOX V • JUNEAU, AK 99811 • (907) 465-4930

[illegible] • [illegible] • Steele West • [illegible] • [illegible] • Fox • Two Rivers • [illegible] • [illegible] • Chatanika • [illegible] • Circle

STATE OF ALASKA

WALTER J. HICKEL, GOVERNOR

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

DIVISION OF BANKING, SECURITIES & CORPORATIONS

P.O. BOX D
JUNEAU, ALASKA 99801-0800
Banking & Securities (907) 465-2521
Corporation Section (907) 465-2530
ANCHORAGE
Corporation Information (907) 563-2161

February 21, 1991

Mr. Gary Roth
President and CEO
Denali State Bank
P.O. Box 74568
Fairbanks, AK 99707-4568

Dear Mr. Roth:

You have asked if a bank president must be elected director by the shareholders. Alaska Statute 06.05.435 requires directors to be elected by the shareholders and Alaska Statute 06.05.437 requires a bank president to be elected by the board of directors and must also be a director. Although there is confusion in statutory language, it is clear the Legislature did not intend that the president stand for shareholder election.

Research of legislative history and laws has revealed the following:

> AS 06.05.300. General Corporate Powers. Upon filing the Articles of Incorporation, a bank becomes a legal corporation and may (1) - (4) . . . (5) elect directors who may appoint officers when necessary or convenient.

> AS 06.05.435. Directors. (a) . . . (b) In the first instance, the director shall be elected at a meeting held before the bank is authorized to do business by the department and thereafter at the annual meeting of the stockholders held each year.

> AS 06.05.437(a) . . . The president of a bank or other chief officer responsible for the management of the bank must be a member of the board of directors. This provision was a result of an amendment in Am. Sec. 29, Ch. 169, SLA 1978. It was the only change made by that amendment. In review of legislative history, we note a letter dated January 28, 1977 to Senator John L. Raider, President of the Senate, in which Governor Hammond wrote: "Section 29 amends AS 06.05.437(a) in order to preclude the possibility that an employee might be given the title of president but have no voice in the overall management of the bank."

It is clearly evident that there was no intent to require the president of a bank to solicit shareholders' votes. Such a practice would jeopardize the ability of the president to be objective in business decisions. This matter could be handled in the Articles of Incorporation. AS 06.05.345(a)(5) requires the Articles of Incorporation to specify the number of directors. At that section of the articles, it could be stated that there shall be X number of directors elected by shareholders and that on appointment of officers, the president/CEO becomes an additional director by virtue of AS 06.05.437(a).

I have been advised that while intent of the Legislature is apparent, construction of law is confusing. The division will take no action if the president does not stand for shareholder election. We urge, however, that you propose an amendment to the banking code to address this confusion. We will also draft corrective legislation for consideration for the second session of the current Legislature.

I hope this will answer the question of a bank president having to be elected by the shareholders.

Sincerely,

Willis F. Kirkpatrick
Director

WFK/TLL/mst2294m
022091a
cc: Anchorage Field Office

Department of Commerce & Economic Development / POSITION PAPER

SB 231: "An Act relating to the presidents and other chief executive officers of banks."

The department strongly supports passage of SB 231. This legislation will clear up confusion created by an amendment in AM, Sec. 29, Ch. 169, SLA 1978, which intended to give the president a voice in overall management via board membership. This 1978 amendment has inadvertently created a question as to whether or not a president of a bank has to be elected by shareholders as a board member because of his appointment as president (head of management) of the bank.

Mr. Kirkpatrick, Director of the Division of Banking, Securities and Corporations, has taken a position that it would be unwise for the management head of a bank to solicit votes to maintain his position. It could appear that there would be some pressure of influence by those who seated him. Mr. Kirkpatrick's policy letter dated February 21, 1991 concerning this subject is attached.

Asst. Comm.

Glenn A. Olds, Commissioner

Date: 4-1-91

GAO/WFK/KP/dgl9255D-3
032791a

STATE OF ALASKA

WALTER J. HICKEL, GOVERNOR

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

DIVISION OF BANKING, SECURITIES & CORPORATIONS

P.O. BOX D
JUNEAU, ALASKA 99801-0800
Banking & Securities (907) 465-2521
Corporation Section (907) 465-2530
ANCHORAGE
Corporation Information (907) 563-2161

DATE: April 23, 1991

TO: Honorable Tom Moyer
House of Representatives

FROM: Willis F. Kirkpatrick, Director
Division of Banking, Securities and Corporations
Department of Commerce and Economic Development

Willis

SUBJECT: Representative Kevin Parnell's Concerns of HB 231

The purpose of HB 231 as you stated is to correct the dichotomy inadvertently created by an amendment to the banking code in 1978 (Sec. 29, Ch. 169, SLA 1978). This amendment provided that " . . . the president of a bank or other chief officer responsible for the management of the bank must be a member of the board of directors." When Governor Hammond transmitted the proposed amendments in 1978 to Senator Rader, President of the Senate, he wrote "Sec. 29 amends AS 06.05.437(a) in order to preclude the possibility that an employee might be given the title of president but have no voice in the overall management of the bank." (Emphasis added.) It is apparent that the intent is to give the employee who is hired as a chief officer (CEO) a vote (voice) on the board.

In the administration of the Alaska Ban[illegible] we recognize that in corporate powers and structure shareholde[illegible] the board of directors who in turn appoint (elect) the officers of the bank. It is not the focal point that management (CEO) has a voice on the board and is successful in a shareholders' election but rather than whether he is successful in safe and sound bank management. If the CEO is elected by the shareholders and is not a good manager, can he be removed by the board action "at any time" as is provided by AS 06.05.437(a).

It is clear that HB 231 offers a simple solution to a confusing situation created by an ambiguous amendment to the Alaska Banking Code in 1978. While exempting the CEO from shareholder election provisions, the law retains the requirements of oath of office and qualifying shares as for other directors.

We applaud your effort in trying to correct this inadvertent dichotomy.

WFK/sh9273M
042391b

DIVISION OF LEGAL SERVICES

LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

P.O. Box Y, Juneau, Alaska 99811
(907) 465-3867 or 465-2450
FAX (907) 465-2029

Deliveries to: 240 Main Street
Court Plaza, Room 500
Mail Stop 3101

M E M O R A N D U M   April 22, 1991

SUBJECT: Effect of HB 231 on AS 06.05.435 (Work Order No. 7-LS1037)

TO: Representative David Finkelstein
Chair, House Labor & Commerce Committee
Attn: Cliff

FROM: Theresa L. Bannister TB
Legislative Counsel

You have asked whether the new language ("amendment") contained in lines 9-10 of HB 231, "An Act relating to the presidents and other chief executive officers of banks" eliminates certain provisions of AS 06.05.435 for the chief executive officer ("CEO") of a bank and the other directors of the bank. In determining which provisions to address in this memo, I have talked with your staff and I have examined Representative Parnell's notations on HB 231.

The amendment reads: "<u>but is not subject to the election requirements under AS 06.05.435</u>". The full sentence containing the amendment reads as follows:

> "<u>Upon election to the position by the board of directors, the</u> [THE] president of a bank or other chief officer responsible for the management of the bank <u>becomes</u> [MUST BE] a member of the board of directors<u>, but is not subject to the election requirements under AS 06.05.435 for directors</u>."

First of all, the amendment clearly applies just to the CEO and does not apply to the other directors. The amendment only states that the CEO is not subject to the election requirements for directors. Second, the new language applies only to election requirements, not to other requirements.

In AS 06.05.435(a)[1/], the amendment has the effect of saying the CEO is not to be elected by the stockholders. The rest of the directors are still to be elected by the stockholders and hold office for one year and until their successors are elected and have qualified. The amendment does not change the rest of the subsection. The requirement remains that a majority of the board of directors must be bona fide residents of the state.

In AS 06.05.435(b)[2/], the amendment has the effect of removing the CEO from the election requirements of the section. The amendment does not change any of these election requirements in the subsection for the other directors.

In AS 06.05.435(c)[3/], the amendment does not change any of the provisions, since the subsection does not address the election of directors. Each director, including the CEO, must satisfy the capital stock ownership requirements of the subsection.

If I can be of further assistance, please advise.

TLB:pl
91-284.plm

[1/]AS 06.05.435(a) reads as follows:

> (a) The affairs of every bank incorporated under this chapter shall be managed by not less than five directors, nor more than 25, who shall be elected by the stockholders and hold office for one year and until their successors are elected and have qualified. A majority of the board of directors shall be bona fide residents of the state and a majority constitutes a quorum for the transaction of business.

[2/]AS 06.05.435(b) reads as follows:

> (b) In the first instance the directors shall be elected at a meeting held before the bank is authorized to do business by the department and thereafter at the annual meeting of the stockholders held each year. If no election is held at that time, it may be held at an adjourned meeting or at a subsequent meeting called for that purpose, notice of which shall be given as provided in the bylaws.

[3/]AS 06.05.435(c) reads as follows:

> (c) Each director of a bank shall own in the director's own right free of any encumbrance capital stock of the bank in an amount equal to at least $1,000 in par value.

DENALI STATE BANK

119 N. Cushman Street • (907) 456-1400 • FAX (907) 456-2140 • P.O. Box 74568 • Fairbanks, Alaska 99707-4568

April 8, 1991

Representative Tom Moyer
Alaska State House of Representatives
P.O. Box V
State Capital
Juneau, Alaska 99811

RE: HB231

Dear Representative Moyer:

Thank you for your introduction and support of House Bill 231. The purpose of this bill is to clarify the election of a State Bank President to the position on the Board of Directors.

A.S. 06.05.437(a) states "the President of a bank or other Chief Officer responsible for the management of the bank must be a member of the Board of Directors." With this statute in mind, I, as President and Chief Executive Officer, stood for re-election by the shareholders at our first three annual meetings. This posed no problem as the proposed slate of Directors for the Bank was unanimously elected the first three years. However, at the fourth annual shareholders meeting, a nominee for Director was nominated from the floor. Thus a run off election was required. At this point in time we became uncertain as to whether the President or Chief Officer of the Bank had to stand for election to the Board of Directors because of the statutory requirement.

To solve the immediate question before the body, I stood for re-election and was elected. However, in so doing, I had to solicit the support of several shareholders at the meeting to assure this re-election. At our next Directors meeting, it was the unanimous consensus of our Board of Directors that the President should not have to solicit such political favors from the shareholders as it could compromise the management of the Bank. A request was made to the Division of Banking, Securities and Corporations to clarify this issue. Willis Kirkpatrick responded to the undersigned on February 21, 1991 indicating that research into the matter by his department indicated that "it was clearly evident that there was no intent to require the President of a Bank to solicit shareholder votes." He also stated, "although there is confusion in statutory language, it is clear the legislature did not intend that the President stand for shareholder election." He also refers to other legislative research which indicates that a vacant board seat should be withheld at the shareholder election which will later be filled by the Board of Directors annually as they elect officers of the Bank, including the President or Chief Executive Officer. He states "this would then preclude the possibility that an employee might be given the title of President but have no voice in the overall management of the Bank."

State statutes require that all officers of a bank be re-elected annually by the Board of Directors. This then would accomplish the placing of the President on the Board of Directors of the Bank in compliance with statute. HB231 properly addresses this scenario and we appreciate your involvement. Thank you.

Sincerely,

Gary Roth

Gary Roth
President and Chief Executive Officer

GR/aj

FISCAL NOTE

STATE OF ALASKA
1991 LEGISLATIVE SESSION

BILL NO. HB 238

Revision Date:
Title: An Act relating to the Medical Indemnity Corporation of Alaska
Sponsor: House L & C
Requestor

Department Affected: Commerce & Economic Dev.
BRU: Insurance
Component: Operations

COMPONENT SERIAL NO. 0 2 5 4

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

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

POSITIONS:

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

Estimate of current year impact:

ANALYSIS: (Attach a separate page if necessary.)

Prepared By: David Walsh, Director (signature) Phone: 465-2515
Division: Insurance Date: 4-1-91

Approved by Commissioner: Glenn A. Olds (signature) Asst. Comm.
Agency: Department of Commerce & Economic Development Date: 4-2-91

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

Rev 10/90
DW/dg19198D-2/032891b

MICA

SECTION BY SECTION ANALYSIS

"An Act relating to dissolution of the Medical Indemnity Corporation of Alaska (MICA); reenactment of indemnity clause and premium tax offset clause."

Due to the sale of MICA on January 1,1991, the need for an isurance mechanism under state statute for medical providers isnonexistent. The marekt has purchased the MICA business and will be providing coverage to the former insureds of MICA.

Therefore, the following sections have been repealed while the indemnity clause and premium tax offset which were in the original statute have been maintained.

Section 1.

Subject: Indemnification of persons affiliated with MICA.

Change: This section is to remain in statute after the dissolution of MICA.

Reason: To protect persons acting for the corporation while the corporation was in operation.

Section 2.

Subject: Premium tax offset by entity purchasing the MICA business.

Change: This section is to remain in statute after the dissolution of MICA to continue the premium tax offset provisions for claims paid in excess of the reserves transfered.

Section 3.

Subject: Statutes for creation and operation of MICA.

Change: Repeal all remaining sections of AS 21.88 and related sections.

Reason: Dissolution is requested due to sale of MICA business and improvement in the availability of liability insurance for medical service providers.

Department of Commerce & Economic Development / POSITION PAPER

HB 238: "An Act relating to the Medical Indemnity Corporation of Alaska; and providing for an effective date."

The department is in favor of this legislation. Due to the sale of the Medical Indemnity Corporation of Alaska (MICA) on January 1, 1991, the need for an insurance mechanism under state statute for medical providers is nonexistent. The market that has purchased MICA business will be providing coverage to the former insureds of MICA.

Asst-Comm.

Glenn A. Olds, Commissioner

Date: 4-2-91

GAO/DW/dgl9198D-3
032891b

MICA Medical Indemnity Corporation of Alaska

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

DATE: October 22, 1990

TO: All MICA Policyholders

FROM: Ron Keller, M.D.
Chairman of the Board of Governors RK
Medical Indemnity Corporation of Alaska

RE: Announcement of quarterly meeting & notice of potential purchase offer for MICA

On November 2nd, MICA's Board of Governors will hold our regular quarterly meeting in Anchorage at the Clarion Hotel beginning at 9 a.m.

I am sending you this quick memo to let you know some good news: It's likely that we will be receiving a formal offer to purchase MICA, and we'll deal with that issue at the meeting. Policyholders are, naturally, invited to attend. But we also invite you--if you've got questions about these developments--to give MICA Executive Director Mary Pierce a call at 563-3414. She'll be glad to answer any questions and fill you in on the recent events since we last contacted you.

Let me give you a quick run down. As you'll recall, MICA's tax exempt status was challenged by the IRS; and as a result MICA cannot continue to operate the way it has been operating since it was established in 1976. The three choices for MICA are to:

- Merge into the state bureaucracy.
- Spin off to become a totally private mutual insurance company.
- Have its assets & liabilities purchased by a private carrier.

Of these options, the MICA Board has unanimously chosen to pursue a purchase.

We have every indication that a physician owned mutual, very closely aligned philosophically with MICA will be making us an offer. This firm has indicated they are willing to meet the tough conditions that the MICA Board has placed on any sale. Those conditions are:

- A 5-year guarantee that all current policyholders who are otherwise acceptable underwriting risks will receive continued coverage.
- No cancellation of existing policyholders without an Alaska-based appeal process.
- No geographical discrimination in underwriting terms & benefits.
- Continuation of current rating classifications, with a special category for family practice docs doing obstetrics.
- Purchaser will keep an Alaska office with both claims adjusting and risk management staff, plus provide an 800 toll-free phone number.
- Certain policyholder benefits will continue, such as the current DDR (free tail); availability of tail policies for purchase; policyholder inception date with MICA used to determine benefits based on length of coverage; and insureds will still have to give written consent to settle any claim.

As you can see, the MICA Board's top priority is safeguarding your interests. We'll be contacting you again once a formal offer is made, and after our meeting on Nov. 2nd. Meanwhile, please feel free to call Mary at 563-3414 to get questions answered or to find out more about where MICA is going.

Thanks.

MICA Medical Indemnity Corporation of Alaska
ALEUT PLAZA
4000 OLD SEWARD HWY., SUITE 203
ANCHORAGE, ALASKA 99503
(907) 563-3414

TO: William Brock
Roger Holmes, Esq.
Susan Mason, Esq.

FROM: Mary Pierce MP

DATE: May 8, 1990

RE: Tax Issue History

The final tax issue history is enclosed for your files. I don't plan on distributing this other than to the three of you at this time. Thanks for you help on this, it may prove to be a good reference in the future.

MP/tmb

TAX ISSUE HISTORY

1988

Sometime in early 1988 as MICA was working with Ernst & Whinney on our reserve issue Tom Koecher advised Mary Pierce, Executive Director, that their office felt there may be a question regarding MICA's tax status due to the change in the 1986 tax law. He said they were looking into it and would get back to us.

March 12 - Executive Committee Meeting. Tom Koecher, Orie Orien of Anchorage and Dave Wilson (Seattle) all of Ernst & Whinney were at the meeting to discuss reserve increases. They told the Executive Committee about the tax status question and that their tax advisor would be attending the next Executive Committee meeting.

March 18 - Executive Committee Meeting. Koecher, Orien and Shelby Stastny explained question of tax status to committee. They explained two prong test to be tax exempt.

1) Income must accrue to the State

and

2) Must have a public purpose or "essential governmental function."

The Executive Committee asked them to investigate the question and report back. Brock, Pierce and Koecher would meet with Director Roller on March 25th to advise him of tax exempt status question.

April 26 - Stastny reported to Executive Committee that initial informal discussion with IRS suggested we would not receive a favorable ruling. Suggested we file tax returns and pursue formal tax ruling request. Cost to do research and ruling request est. $10 - 15,000.

May 6 - Engagement letter from Stastny outlining course of action on request for tax ruling and cost.

May 13 - Board votes to submit formal ruling request to IRS. Estimated cost from E & W is $20,000.

June 17	-	Paul Roller, Director Division of Insurance and Deputy Director, Jim Jordan present at Board meeting. A draft tax ruling request given to Executive Committee. Stastny asked Arliss Sturgulewski to do some legislative research to help answer legislative intent questions. Letter to be finalized soon.
June 30	-	Memo from Maureen Weeks to Sturgulewski stating she had researched the records of the 1976 session and there was not any specific testimony to create for-the-good-of-the-public issue.
July 15	-	Stastny reports to the Executive Committee that ruling request not sent yet. He is waiting for final information from legislative research. MICA has provided all pertinent back-up from 1975 Governor's Medical Malpractice Insurance Commission and all other historical data.
July 24	-	At Quarterly meeting of the Board, Director Paul Roller tells Board he has spoken to several legislators. They are anxious to help us clear up any misunderstandings about legislative intent and would like our proposed changes by September.
August 4	-	Stastny sends some ideas for proposed legislative changes that may help us win our case to Roger Holmes, Brock and Pierce.
August 5	-	Stastny's research has uncovered three companies very similar to MICA who requested rulings. Sent to Holmes and Pierce. All three received unfavorable rulings.
August 11-30	-	Holmes proposes legislative changes. He believes that these changes will make it clear that our earnings belong to the state.
August 23	-	David Bickerstaff gives us estimate that rates will need to increase 15-17% for 1989 to cover taxes.
August 24	-	MICA sends revenue ruling request to IRS.

- Special Executive Committee meeting on tax status with entire Board of Governors. Koecher and Stastny present.
They explain problem and that Holmes' proposed legislation could resolve it by making it clear MICA's earnings belong to the state.
The Board votes to forward Holmes' legislation to Governor and legislature.

September 7 - Roller (Director) agrees to hand carry the letter to the Governor. The letter explains our dilemma to the Governor and asks if he might sponsor legislative changes.

- Roller also suggest we purchase an insurance company with net losses to offset our taxes.

September 16 - Brock receives letter from Stastny advising him that MICA can't use net losses of an acquired corporation (insurance company) to offset income.

- Executive Committee Meeting. E & W tells committee ruling request filed on 8-24-88 and we will have a response within 90 days. Unfortunately a rate filing must be made by November 1 and a 15% increase is needed to just cover 1989 taxes. Executive Committee votes to file 1-1-89 rate based on pure premium and to then retroactively charge an amount needed for taxes later in year if we don't receive legislative fix.

September 16 thru 30 - Holmes and Pierce meet with Senator Kelly and Representative Cotten to personally advise them of our problem and show them proposed legislation.

November 4 - Board has Quarterly meeting. Jim Jordan reports to Board that although the Governor has not released his legislative priorities the informal message is that he will sponsor our legislation.

A plan of action to get information to legislators while we are waiting for official response from the Governor is proposed. The Legislative Committee will register as lobbyists for this purpose.

November 11 - A letter is sent to the policyholders explaining 1989 rating structure.

November 22 - Tom Kelley the agent at the IRS has several questions regarding MICA that he asks of Stastny. We respond with a letter to Kelley.

November 25 - A draft letter is composed to have board members send to legislators. This is sent to the Board members along with:

a) a fact sheet
b) a copy of the letter sent to policyholders on the rates
c) a spread sheet of our financials for the last 5 years.

Pierce sends letter to Senator Kelly and Representative Cotten.

December 1 - The Legislative Committee meets to devise plan to distribute information to legislators since tol[illegible] Governor would not sponsor legislation because a) he could not investigate all possibilities in a timely manner and b) he did not feel that the state should be in the insurance business.

December 8 - A special Board meeting is called.

Chairman Brock had met with Director Roller and Stan Garlington. Roller said it was reasonable to assume that legislation will pass and the Governor will not oppose or veto bill. Board votes to approve 10.5% increase for hospitals and 12.6% increase for physicians to be taken for taxes if it is determined we were liable.

Chairman Brock reported we have been asked to meet with the IRS in Washington, D.C. Also Stastny reported the tax accountants in Washington advised us we may be relieved retroactively of taxes. We had previously been told this wasn't possible. The IRS's single question was "do our profits inure to the state." The Board discussed if that could mean fewer legislative changes.

Finally, it was discussed if MICA should even propose legislation considering there was a) a question of our tax liability b) reluctance of Governor to sponsor legislation and c) whether MICA wanted to legislatively bind itself closer to the state. Board agreed to meet after Brock meets with IRS.

Director Roller also approved of us hiring a lobbyist to forward legislation.

- Executive Committee approves Brock to go to Washington, D.C.

December 14 - Brock, Stastny, Phil Royalty and Ken Tracy from E & W in Washington, D.C. met with Tom Kelley and Kelley's boss, Maura Sullivan and another person Alvin Brown from the insurance section. Brock hopes to at least find out what kind of legislative changes would be needed to maintain tax exemption. IRS not sympathetic and will not give information on legislation. E & W expects we will have ruling by January 1989. We will provide additional information requested by IRS. E & W feels a favorable opinion from Alaska Attorney General regarding state "ownership" could be helpful.

December 10 thru 16 - The legislative drafter is contacted by Holmes thru Senator Kelly's office to anticipate information from Brock's meeting in D.C. Drafter later informed to hold off on that legislation by Holmes as result of December 14th meeting with I.R.S.

December 20 - Brock spoke to Jim Jordan about obtaining the AG's opinion. Jim will discuss with Paul Roller and get back to us.

December 30 - Director Roller prepares request for AG's opinion on disposition of MICA's assets if MICA were to be dissolved.

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January 11	-	Letter from Stastny to IRS explaining how unique we are, unlike previous adverse ruling cases.
February 8	-	Jeffrey Bush, Deputy Commissioner of Commerce, forwards Director Roller's request for opinion to AG's office.
February 10	-	Board meeting in which Chairman Brock informs board we still have no ruling. Brock tells board that Pierce will be preparing a summary of issues and will forward.
February 22	-	Memo from Pierce to Board outlining all of our choices if tax ruling is favorable or unfavorable.
February 28	-	Stastny calls IRS to get word on ruling. He is informed by Kelley that although Kelley is favorable his boss isn't. This could mean arbitration within IRS. Holmes advises MICA to get tax attorney.
March 7	-	Bruce Gagnon and Sue Mason of Atkinson, Conway & Gagnon meet with Brock, Holmes, Crabtree, Koecher, Stastny and Pierce. Advise us to take an aggressive approach with IRS.
March 8	-	Engagement letter from Atkinson, Conway and Gagnon. Advise MICA that we should propose a resolution to have the legislature clear up question about MICA being an integral part of the state.
March 8-22	-	We talk to Roller and then Deputy Commissioner Jeff Bush and advise them we want to do resolution.
	-	We contact Cotten in House and Sturgulewski in Senate to see if they might sponsor resolution.
March 17	-	Executive Committee meets and is informed about need for tax attorney. They approve contract with Atkinson, Conway and Gagnon. They will ask Board to approve.

March 20 - Brock, Pierce and Mason meet in Juneau with Jeffrey W. Bush, Deputy Commissioner of the Department of Commerce and Economic Development, and later with Cotten's aide, regarding proposed legislative resolution.

March 22 - MICA sends "Background Summary" on tax issue to Cotten.

House Joint Resolution 40, co-sponsored by Gruenberg and Cotten, is introduced.

\- Brock sends a letter to Ron Clarke in Governor's office regarding discussion with Jeff Bush on resolution enclosing copy of proposed legislative resolution.

March 26 - Gagnon, Phil Royalty & Ken Tracy (E & W, Washington, D.C.) have conference call with Tom Kelly at IRS and learn that a proposed adverse ruling is now being reviewed by Maura Sullivan. Kelly says that the ruling would be based on the Maryland Savings Share case.

March 28 - Mason writes to AG's office and outlines factors supporting conclusion that MICA's assets would revert to the state upon dissolution.

April 3 - Senate Joint Resolution 41, sponsored by Sturgulewski is introduced.

April 13 - A. G. couldn't reach an opinion that was helpful to MICA so request for an opinion was abandoned.

April 18 - Executive Committee has joint meeting with Underwriting. They are informed that resolution has been forwarded and we expect it to pass. In the meantime Gagnon and Mason advise us not to implement mid-year premium increase because we would be admitting liability.

April 25 - Mason has telephone discussion with Deputy Commissioner Bush regarding distribution of Joint Legislative Resolution.

April 26 - Mason has telephone discussion with Shari Kochman, Assistant to Bob Evans in the Governor's Office, regarding Joint Legislative Resolution.

April 28 - Quarterly Board meeting and board advised we still have not heard from the IRS.

Board told that tax attorneys will be working with the Governor to draft an appropriate letter to our Congressional delegation. We are hopeful that the congressional delegation can assist us to consult with someone of a higher stature in the IRS. We aren't getting anywhere at level we are at.

Roller and Jordan attend the meeting but only for their report.

Board increases budget to cover legal and audit counsel expenses on our tax issue.

Board votes not to take rate increases for taxes.

The Board has a lengthy discussion that the tax issue has been more complicated than anticipated. Since this tax liability is shown on our financial statements it will continue to accumulate. The Board feels that we need a long term solution.

Chairman Brock points out that if we receive an adverse ruling we can litigate. However, that litigation would take time and be costly and our tax liability would continue to accumulate.

\- Legislative Committee meets and is informed that the resolution should pass.

May 5 - Senate Joint Resolution 41 passes the House.

May 8 - Brock sends Ron Clarke a draft of a proposed letter from the Governor to the Congressional delegation enclosing copies of Senate Joint Resolution 41 and "Background Summary".

May 12 - Senate Joint Resolution 41 transmitted to Governor from Legislature.

May 25	-	Pierce talks to Clarke to confirm letters will be sent soon.
June 2	-	Governor Cowper sends letters to Young, Murkowski and Stevens, enclosing Senate JR 41 and requesting they assist MICA on tax issue.
	-	Cowper sends copy of letters to his special assistant, John Katz in Washington, D.C. office to ask him to assist.
June 12	-	Phil Royalty (E & W) discussed MICA with Tom Kelley of IRS and learned that a decision had been made to issue an adverse ruling; Maura Sullivan is no longer involved and Bill Coppersmith is Kelley's new supervisor, and MICA will have an opportunity to meet with him before the ruling is issued. Kelley says that the basis for the decision is that MICA is insuring <u>private</u> interests. Royalty requests copies of Joint Legislative Resolution and of Governor's letters to the Congressional delegation.
June 13	-	Bob Evans of the Governor's Office tells Mason he has discussed the situation with John Katz and that MICA should contact Katz.
June 16-21	-	The Governor signs Legislative Resolve #38. Copy of it and letters Governor sent to congressional delegation sent from Mason to Royalty. Ask Royalty to give to IRS.
June 19	-	Mason and Gagnon discuss situation by telephone with John Katz, who offers the assistance of Eric Ostrovsky in his office.
June 21	-	Special Board meeting. Holmes, Mason and Stastny in attendance to discuss tax issue with the Board. Stastny and Mason advise Board to withdraw revenue ruling request until we can meet with the IRS and advise them of the Legislative Resolve. Board gives them authority to pull request if they deem necessary.

June 22 - Mason talks by telephone to Ostrovsky regarding possible meeting with IRS to include representatives from Katz's office and from Stevens' office and regarding possible federal legislation.

June 27 - Chuck Konigsberg from Senator Stevens' office calls to offer us help to meet with IRS attorneys and with Office of Tax Policy in the Treasury Department.

July 18 - Mason receives letter from Pierce advising that Konigsberg is setting up a meeting with the Department of the Treasury for the week of August 7.

July 19 - Royalty sends copy of Legislative Resolve #38 to IRS. He tells them we will be meeting with the Department of the Treasury in August. He asks that if they determine before then that we should have an adverse ruling to advise us so we can pull the request.

July 21 - MICA meets with Roller to advise him of our progress.

July 26 - Konigsberg sends letter to following for 8-8-89 meeting with Department of the Treasury: Brock, Mason, Pierce, Royalty and partner Dave Bierenson from E & W, and Eric Ostrovsky from the Alaska State Office in Washington, D.C.

August 8 - Meeting with Department of Treasury in Washington, D.C. Attendees: Brock, Pierce, Mason, Konigsberg, Royalty, with Kay Gouwans rather than Eric Ostrovsky from Governor's office. This group meets at Senator Stevens' office prior to the meeting at the Treasury Department, to be briefed on what kind of questions we might be asked.

Treasury meeting chaired by Dana Trier, Deputy Assistant for Tax Policy, Treasury Department. His assistants Evelyn Brody and Cathlyn Farrow are also present and Bill Coppersmith, Tom Kelley's supervisor from the IRS, is also there.

Mr. Trier seems favorably disposed toward MICA. They are fearful if they allowed MICA to remain tax exempt that they will create a "slippery slope" which would allow others to structure themselves like us. We try to convince them that we are unique. We end with the agreement that we will submit supplemental information regarding MICA's history and current business to the IRS.

August 9 - The same core group meets again in Senator Stevens' office, this time with Ostrovsky from the Governor's Office rather than Gouwans. Our purpose is to prepare for a meeting with the Senate Finance Committee aides to evaluate if seeking federal legislative relief is an option.

We meet with Rick Grafmeyer, a minority aide for Finance, and aides; Scott McCloud, a specialist in insurance tax issues, and Mel Thomas a specialist in tax issues from the Joint Committee on Taxation.

We are not encouraged by them to seek federal legislation after we advise them of our plight. There is a thought that a provision dealing with MICA's tax exemption could be attached to a Rural Health Care bill and Konigsberg said he will talk to Senator Stevens about that possibility.

August 17 - Pierce sends memo to Board of Governors summarizing meetings in Washington, D.C.

August 18 - A Supplemental Submission to the IRS is sent to Phil Royalty.

- A thank-you letter is sent to Dana Trier from Konigsberg.

August 22 - Senator Stevens sends a thank-you letter to Trier with MICA's Supplemental Submission attached and a copy of a letter from Royalty explaining why the Maryland Saving Share Ins. Corp. v. U.S. case is different from MICA.

August 28 - Konigsberg is in Anchorage and Gagnon, Mason, Kathy Crabtree and Pierce meet with him. We discuss unlikely possibility that we would win a court case against the IRS. Konigsberg says he will work on federal legislation but feels that our chances this year are extremely slim. Consensus is that if litigation is necessary, it would be better to obtain adverse ruling than to withdraw the request.

September 15 - Mason in attendance at Executive Committee meeting. Executive Committee worried about mounting tax assessment. They vote to get revenue ruling whether favorable or not.

- There is discussion of litigating in U.S. District Court (must pay tax first) or in U.S. Tax Court (must wait for IRS to assess deficiency).

September 20 - Konigsberg informs Mason that he is exploring possibility of federal legislation and is drafting a proposal. He also reports that he has spoken by telephone to Dana Trier. Trier says that the IRS is considering entering into a closing agreement with MICA, which is basically a settlement agreement that can eliminate past and future tax liability for a specified number of years (authorized by Internal Revenue Code 7121).

September 21 - Mason has conference call with Royalty, Tom Meyerer (E & W) and Konigsberg to discuss ramifications of closing agreement.

September 26 - Konigsberg asks Pierce for information so he can draft federal legislation. Pierce faxes him: - date Governor signed bill, 5-28,76; date legislation effective, 5-29,76, although couldn't write insurance until 6-28-76.

Copy of original statute and current statute sent with major difference between old and new being:

a) Exclusive and mandatory dropped
b) Occurrence changed to claims-made
c) Joint Underwriting Authority (JUA) concept dropped.

October 6 - Konigsberg faxes Mason first draft of proposed federal legislation, and Mason and Gagnon fax Konigsberg revisions after discussing with Royalty.

- Conference call: Mason, Crabtree, Konigsberg, Royalty, Meyerer, Coppersmith, Jim Malloy, and Pete Scott, Acting Chief Counsel of the IRS. Discussed possible closing agreement and agreed to meeting in Washington on October 16.

October 10 - Mason sends notice of meeting with Department of Treasury and IRS on 10-16-89. We have been advised by Konigsberg that IRS may want to propose a closing agreement. We are informed that this is to be treated as very confidential.

- Mason sends Pierce a draft with a review by she and Gagnon of potential federal legislation proposed by Konigsberg.

October 16 - Meeting with IRS and Department of Treasury in Washington, D.C. Core group of Mason, Pierce, Konigsberg, Royalty and Tom Meyerer of E & Y (new player) and Eric Ostrovsky from Governor's Office meet in Senator Stevens' office to discuss closing agreement concept. Pierce informs group that MICA's Executive Committee has been polled and are very interested in this concept.

Meeting at the IRS chaired by Pete Scott, Acting Chief Counsel of the IRS, Jim Malloy, Assistant Counsel for Financial Institutions (Section 115 co's under his jurisdiction) and Bill Coppersmith all from IRS. Dana Trier and Evelyn Brody are there again representing Office of Tax Policy in the Treasury Department.

Scott says we have very sympathetic case. They believe a closing agreement would be in everybody's best interest. We discuss what to do to remain tax exempt and MICA's unique structure again. They ask MICA to submit closing agreement. Scott suggests the following parameters for an agreement: past tax liability eliminated; MICA agrees to try to change structure within specified period; MICA becomes taxable at end of specified period if no change in structure; MICA must take interim steps toward phasing out or bifurcating; if MICA becomes part of state, problem disappears. In response to a direct question, Scott says that, if a ruling is issued, it will be adverse.

October 23-24 - Mason sends draft closing agreement and copy of federal regulations covering closing agreements to Pierce. Closing agreement proposes elimination of any past tax liability and future tax liability through 1994 with partial or full taxability beginning in 1995, unless MICA has been made an integral part of the state.

October 24 - Pierce sends memo to Board of Governors outlining closing agreement concept and the advantages to MICA. Two major advantages are relief from past tax liability and being tax-exempt for some future period.

October 25 - Brock and Pierce meet with Jim Jordan, Acting Director of Division of Insurance and discuss details of closing agreement. Jordan to discuss with his boss Mercurlieff who will discuss with Governor's office. Jordan approves concept and draft closing agreement, doesn't anticipate problems from anyone else in Administration.

October 26 - Executive Committee and Finance Committee have joint meeting. Mason and Holmes in attendance. Mason explains this is a binding agreement and other details of closing agreement.

October 27 - Quarterly Board meeting with Gagnon, Mason and Orien in attendance.

The Board discusses the closing agreement and authorizes the draft. Gagnon and Mason feel that state should also approve based on the state's involvement in MICA by statute.

The Board gives the Executive Committee the power to finalize this agreement with Brock.

- Gagnon and Mason meet with Jordan. He agrees to be a signor on closing agreement with Brock.

October 30 - Closing Agreement hand-delivered to Pete Scott by Royalty.

November 2 - Mason sends letter to Pierce with a copy of cover letter to closing agreement that Royalty gave to Scott. She also states she had a discussion with Konigsberg and informs Pierce that the President has nominated a new Chief Counsel to replace Acting Pete Scott. The Senate may confirm that replacement before Thanksgiving. Pierce very concerned because new Chief Counsel may not agree to closing agreement between IRS and MICA and we would have to start the process again.

- Letter from Senator Stevens to Pete Scott, attaching closing agreement and requesting his attention.

November 10 - Pierce calls Royalty requesting his assistance with IRS in approving closing agreement.

November 30 - Executive Committee meeting in which Pierce informs them that we have no word on agreement.

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November 30 thru February 5 - Various phone calls among Pierce, Royalty, Konigsberg and Mason requesting information on status of closing agreement.

January 2 - Pierce meets with Jordan and discusses closing agreement and MICA's financial stability. Jordan says state should concern itself with MICA staying strong financially because he feels a restructuring and independence are imminent. Jordan says will stay as Acting Director until new Administration (end of year).

February 5 - Letter to Scott from Royalty referencing Scott's recent conversation with Meyerer and requesting resolution of closing agreement.

February 16 - Letter to Konigsberg from Pierce explaining crucial deadlines with Convention Statement, NAIC, A.M. Best, etc. that are adversely affecting MICA's financial reputation and stability because of the unresolved tax issue.

February 20 - Royalty calls Pierce and Mason to inform them that Scott has met with Royalty and Meyerer and proposed a new agreement. He wants to only allow tax exemption through 1990 for MICA to work with legislature to restructure. MICA can only remain tax-exempt if becomes part of state and he wants immediate bifurcation of business.

February 23 - Letter from Mason to Royalty with new draft closing agreement, proposing elimination of tax liability for past years and through 1992, with full tax liability beginning in 1993 unless MICA becomes integral part of the state.

- Letter from Pierce to Scott summarizing our understanding of his verbal concerns and explaining things we can't control, i.e., length of time necessary to obtain legislative action and upcoming change of administration.

- Brock, and Pierce and Holmes participating telephonically, meet with new Director, Dave Walsh to explain tax issue. Walsh agrees to sign if agreement remains the same in concept.

February 28 - Letter to Scott from Brock (with the legal advice of Mason) explaining serious practical problems in carrying out bifurcation.

March 2 - Royalty and Meyerer meet with Scott and Coppersmith regarding changes IRS wants in closing agreement: exempt through 1991, partially taxable (bifurcation) in 1992, fully taxable beginning 1993 unless become "integral part of state."

March 5	-	Conference call with Brock, Frazier, Keller, Smith (Executive Committee) and Mason to discuss revised closing agreement incorporating Scott's changes. Revised closing agreement approved.
March 6	-	Final draft of closing agreement after agreeing to time deadlines for interim actions to be taken by MICA.
	-	After rethinking closing agreement Director Walsh feels he should not sign due to potential liability to the state and other agencies similar to MICA.
	-	At Walsh's request, Assistant Attorney General Alexis Gabay telephones Mason. Mason faxes background information to Gabay. Mason discusses situation with Gabay and (now) Assistant Attorney General Jeffrey Bush by telephone.
March 7	-	Letter from Mason to Alexis Gabay, Assistant Attorney General, enclosing proposed letter from the Director to Brock concurring with MICA's decision to enter into a closing agreement.
March 8	-	Meyerer and Royalty contact the IRS and Director Walsh is removed as signor on closing agreement.
		Director confers with Ron Clarke in Governor's office about MICA's closing agreement and his discomfort with the agreement.
	-	Holmes sends letter to Walsh explaining history of the tax issue and the involvement of the state in negotiations. Holmes informs Walsh that he has advised the Board to sign the closing agreement.
March 9	-	Closing agreement is to arrive today from the IRS for Brock's signature.
		Walsh confers with Ron Clarke and Clarke is of the opinion MICA shouldn't sign the agreement.
		Mason and Holmes have telephone meeting with Clarke. Clarke then discusses situation with Attorney General, Doug Baily. Clarke agrees MICA

can sign but state will remain neutral. He requests that MICA report to Director Walsh once the agreement is signed.

- Mason faxes to Pierce a summary of conversation with Clarke.

- Director Walsh sends letter to Brock, who faxes to Pierce, Mason and Holmes, stating state cannot concur with MICA's signing the agreement.

- Pierce sends letter to Walsh (via fax) stating it was her understanding state taking neutral position and attaching Mason's summary letter regarding conversation with Clarke.

March 12 - Walsh calls Pierce regarding her letter. They agree on their understanding of state's position which is that the state is not taking a position.

Pierce sends memo to Brock with copy to Holmes and Mason summarizing above conversation.

- Brock signs Closing Agreement and returns to IRS.

March 15 - Scott signs Closing Agreement.

March 19 - Final Closing Agreement received by MICA signed by Scott and Brock.

MICA Medical Indemnity Corporation of Alaska

Medical Indemnity Corporation of Alaska
Fact Sheet

Mission Statement: To provide responsive, innovative, professional liability protection to Alaskan medical providers that is equitable in application, competitive in price and sound in financial policy now and in the future.

* In the mid-1970s, medical malpractice insurance became increasingly unavailable. All major providers of medical malpractice insurance withdrew from the Alaska market. Municipally owned and private health care providers were unable to obtain insurance.

* As a result of this crisis, it was anticipated that physicians would leave the state in large numbers and would not be replaced. The shortage of physicians was expected to result in soaring health care costs in both the public and private sectors.

* On July 30, 1975, Governor Jay Hammond appointed a Medical Malpractice Insurance Commission to study the problem. Among the recommendations made was establishment of a Health Care Providers Indemnity Corporation. In response, the Legislature created MICA, which began operation June 28, 1976.

* MICA was established under statute (AS 21.88) as a public corporation independent of and separate from the state. Revenue earned by the corporation is devoted exclusively to the necessary expenses of performing MICA's statutory functions and to making required loan payments to the state.

* Ten of the 17 hospitals in Alaska are in communities with no road access and with populations of 3,000 people or less. Thirteen of these 17 hospitals are community owned.

* Today, MICA insures approximately 50 percent of the state's 614 private-practice physicians in addition to these facilities:

Valley Hospital (Palmer)	South Peninsula Hospital (Homer)
Seward General Hospital	Valdez Community Hospital
Wrangell General Hospital	Bartlett Memorial Hospital (Juneau)
Sitka Community Hospital	St. Ann's Nursing Home (Juneau)

* MICA also insures 15 related health care facilities, many of which are rural. These include clinics, intermediate-care facilities and home health services.

* Except for hospitals affiliated with out-of-state chains, no Alaska hospitals have been able to obtain primary medical malpractice insurance coverage from sources other than MICA. Hospitals affiliated with out-of-state chains or the federal government which are not insured by MICA are:

Providence Hospital	Anchorage	Sisters of Providence
Humana Hospital	Anchorage	Humana
Charter North Hospital	Anchorage	Charter Hospitals
North Star Hospital	Anchorage	Samissa Health Care Corp.
Fairbanks Memorial Hospital	Fairbanks	Lutheran Hosp. & Homes Society
Ketchikan General Hospital	Ketchikan	Sisters of Saint Joseph
Norton Sound Hospital	Nome	Federal government

Bristol Bay Hospital	Dillingham	Federal government
Maniilaq Hospital	Kotzebue	Federal government

* Cordova Community Hospital and Petersburg General Hospital are uninsured. Central Peninsula Hospital (Soldotna) and Kodiak Island Hospital are self-insured.

* Without coverage provided by MICA, hospitals insured by MICA would be ineligible to obtain excess insurance coverage they now enjoy.

* In 1990, MICA reduced its rates by about 8 percent for physicians and 5 percent for hospitals. Claim frequency and severity continued to decline in 1989. The number of claims and suits filed - 24 - was the smallest since 1982.

THE FEDERAL TAX ISSUE

* In 1977, MICA obtained a ruling from the Alaska Department of Revenue that MICA was exempt from both state income tax and state business license tax. MICA also obtained a written opinion from its independent auditors that, as an instrumentality of the state, MICA was exempt from federal income taxes.

* In 1986, Congress passed the Tax Reform Act. As a result of those changes and discovery of rulings issued by the IRS with respect to other similar, but not identical, state-established insurance corporations, MICA, through its auditors in 1988, requested a ruling from the IRS as to its tax status.

* Late last year MICA learned that the IRS, in its opinion, had concluded that MICA's income does not accrue to the state but rather to the corporation and that therefore MICA has been a taxable entity since passage of the 1986 Tax Reform Act. MICA's accountants calculated that MICA's potential tax liability for 1987, 1988, and 1989 would be about $3.6 million.

* Payment of these taxes would have reduced MICA's financial strength by reducing the corporation's surplus. Rate increases of 10 to 12 percent would have been required this year to accrue funds necessary to pay 1990 taxes.

* In 1989, the Alaska Legislature passed Legislative Resolve 38 declaring that MICA was not intended to operate as a taxable entity. However, while that may have been legislative intent, the only alternative to paying taxes was litigation, requiring payment of taxes up front and filing a lawsuit to seek a refund. Taxes would also have to be paid during the interim.

* With the assistance of Senator Stevens' office and Governor Cowper's office in Washington, D.C., a settlement agreement was reached with the IRS on March 15, 1990.

* Under this agreement:

    * No taxes will be assessed for 1987, 1988 or 1989, and
    * There will be no tax liability for 1990 and 1991,

    If these conditions are met:

    * Prior to the end of 1990 legislative session, MICA must provide a written report to the Legislature, summarizing the agreement with the IRS and notifying lawmakers of the need for legislative action in 1991 to change MICA's structure.

    * Following the 1990 elections, MICA must provide a similar written report to the newly elected governor and legislators.

* Prior to and during the 1991 legislative session, MICA must develop a legislative proposal and actively participate in hearings and meetings to encourage passage of the proposal.

* Written notice must be sent prior to May 1, 1990, and annually through 1992, to all insurance companies offering medical malpractice insurance coverage in the state and at least five other companies that write medical malpractice insurance. This notice must inform these companies of the existence of statutes allowing for the purchase of MICA's business. MICA is to make a good-faith effort to negotiate an agreement upon receipt of a good-faith offer.

* Beginning in 1992, unless MICA is reorganized to become an "integral part of the state," its income will be partially taxable, and it will be fully taxable in 1993.

MICA'S CURRENT ACTION

MICA signed the agreement with the IRS and intends to fully comply with its requirements. In so doing, several benefits were realized:

* The $3.6 million in potential tax liability for 1987, 1988 and 1989 was eliminated; thus maintaining MICA's financial strength and excellent insurance ratings and the ability of insureds to attract excess coverage if desired.

* MICA will remain tax exempt for at least 1990 and 1991 thus eliminating rate increases which would have approached 10 to 12 percent.

* MICA avoided costly litigation efforts that would have been time consuming and that would have imposed additional costs to policyholders.

* Time is allowed for considered action by the Legislature <u>before</u> MICA is subject to federal taxation.

Also, the following has been accomplished:

* Written reports detailing the agreement with the IRS were delivered to all legislators and Governor Cowper.

* The companies that write medical malpractice insurance have been informed in writing of the statutory requirements that must be met to purchase MICA's business.

* MICA's Board of Governors met on April 27th to review options for MICA's future and resolved to request the legislature to restructure MICA as an independent Alaskan insurance company with a charter consistent with its mission statement.

* MICA will continue to meet with legislative and administrative officials to draft legislation to be submitted to the 1991 Legislature in January.

Internal Revenue Service

Department of the Treasury

Washington, DC 20224

Person to Contact:
Thomas J. Kelly

Telephone Number:
(202) 566-3506

Refer Reply to:
CC:FI&P:2 - TR-31-3927-88

Date:
MAR 19 1990

William G. Brock
Chairman of the Board
Medical Indemnity Corporation
of Alaska
400 Old Seward Highway
Anchorage, Alaska 99503

RECEIVED

MAR 21 1990

MICA

Dear Mr. Brock:

The Deputy Chief Counsel of the Internal Revenue Service approved your closing agreement on March 15, 1990.

I have enclosed the signed duplicate of the agreement for your records.

Thank you for your cooperation.

Sincerely yours,
Assistant Chief Counsel
Financial Institutions and Products

By: William E. Coppersmith
William E. Coppersmith
Chief, Branch 2

Enclosure:
Duplicate of closing agreement

DUPLICATE
Taxpayer's Copy

Department of the Treasury - Internal Revenue Service

CLOSING AGREEMENT ON FINAL DETERMINATION

COVERING SPECIFIC MATTERS

Under section 7121 of the Internal Revenue Code, the Medical Indemnity Corporation of Alaska (MICA), 4000 Old Seward Highway, Anchorage, Alaska 99503, Employer Identification Number: 92-6017594 and the Commissioner of Internal Revenue make the following closing agreement:

WHEREAS,

(1) An issue has arisen whether MICA's income is not included in gross income under section 115 of the Internal Revenue Code; and

(2) MICA and the Commissioner of Internal Revenue (IRS) desire to settle this issue with respect to all past and present tax years and with respect to future tax years through and including tax year ending December 31, 1992; and

(3) MICA and the IRS desire to identify specific actions that MICA will undertake between the date of execution of this Closing Agreement and December 31, 1992;

IT IS DETERMINED AND AGREED for Federal income tax purposes that:

(1) With respect to all past and present tax years and with respect to future tax years through and including tax year ending December 31, 1991, MICA's income shall not be included in gross income under section 115 of the Internal Revenue Code.

(2) With respect to the tax year ending December 31, 1992, MICA's income shall not be included in gross income under section 115 of the Code only to the extent that MICA establishes that such income is attributable to physicians or other health care providers who, despite a reasonable effort, could not obtain medical malpractice coverage from another insurance company.

(3) During the period from the date of execution of this Closing Agreement until December 31, 1992, MICA agrees as follows:

(a) before May 1, 1990, and annually thereafter until December 31, 1992, MICA will send written notice to all insurance companies that now offer medical malpractice coverage in the State of Alaska and also to at least five other companies that write medical malpractice coverage informing them of the existence of the statutory mechanism for the purchase of MICA's business under Alaska Statute 21.88.095 ("Transfer of Corporate Assets and Liabilities"); and

(b) upon receipt of any good faith offer or expression of interest, MICA will make a good faith effort to negotiate an agreement for the transfer of corporate assets and liabilities on the terms authorized by said statute and to obtain the approval of the Director of the Alaska Division of Insurance for such transfer; and

(c) before the end of the current legislative session, which is required by law to end by May 10, 1990, MICA will transmit to the Alaska Legislature a written report that (1) summarizes the provisions of this Closing Agreement, (2) describes the principal statutory changes that may be necessary with respect to MICA's structure and tax status, and (3) alerts the legislature to the need to take legislative action with respect to MICA during the next two-year legislative term, which will begin in January 1991, if the Legislature wishes to preserve MICA's tax-exempt status; and

(d) after the statewide elections in the fall of 1990, MICA will transmit to the newly-elected Governor and to all members of the Alaska Legislature for the 1991-1992 term a written report that (1) summarizes the provisions of this Closing Agreement, (2) describes the principal statutory changes that may be necessary with respect to MICA's structure and tax status, and (3) alerts the legislature to the need to take legislative action with respect to MICA during the 1991-1992 term of the Legislature, if the Legislature wishes to preserve MICA's tax-exempt status; and

(e) before the beginning of the next legislative session, which will begin in January 1991, MICA will consult with the newly-elected Governor and will contact key individual legislators for the 1991-1992 legislative term, for the purpose of developing a legislative proposal regarding MICA's future structure and tax status; and

(f) during the 1991-1992 term of the Alaska Legislature, MICA will initiate and maintain regular and ongoing contacts with the Governor's office, with the Director of the Division of Insurance, and with key individual legislators for the purpose of informing them of the need for legislative action with respect to MICA; and

(g) throughout the 1991-1992 term of the Alaska Legislature, as necessary or advisable, MICA will prepare or assist in the preparation of appropriate proposed legislation and will seek to have that proposed legislation introduced as early as possible after the Legislature goes into session in January 1991; and

(h) if appropriate legislation pertaining to MICA is introduced during the 1991-1992 term of the Alaska Legislature, MICA will participate in the legislative hearing process and will otherwise take appropriate action to encourage the passage of the legislation.

(4) Beginning with the tax year ending December 31, 1993, none of MICA's income shall be excluded from gross income under section 115 of the Internal Revenue Code.

(5) However, if MICA's organic statute (Alaska Statute 21.88) is repealed, reenacted or otherwise revised so as to establish MICA as an integral part of the State, MICA's income shall not be subject to federal tax as of the effective date of the statutory change.

(6) If MICA is established as an integral part of the state or MICA's structure is otherwise changed so that MICA no longer claims that its income is excluded from gross income under section 115 of the Code, MICA's obligation under paragraph (3) above shall cease.

Closing Agreement
Medical Indemnity Corporation of Alaska

This agreement is final and conclusive except:

(1) the matter it relates to may be reopened in the event of fraud, malfeasance, or misrepresentation of material fact;

(2) it is subject to the Internal Revenue Code sections that expressly provide that effect be given to their provisions, notwithstanding any other law or rule of law except for Code section 7122; and

(3) if it relates to a tax period ending after the date of this agreement, it is subject to any law, enacted after the agreement date, that applies to that tax period.

By signing, the above parties certify that they have read and agreed to the terms of this document.

Medical Indemnity Corporation of Alaska

By: Brock
William G. Brock
Chairman of the Board

Date signed: Mar. 12, 1990

Commissioner of Internal Revenue

By: [signature]
Peter K. Scott
Deputy Chief Counsel

Date signed: March 15, 1990

An Act making supplementals appropriations for energy "deferred maintenance" projects.

The State of Alaska owns and operates both large and small electrical intertie facilities and waste heat systems throughout the state. As these are state-owned facilities, the responsibility for the operation and maintenance of these facilities lies with the Alaska Energy Authority.

Large amounts of money has been invested in the contruction of these energy facilities and there is a critical need to protect the state's investment.

A safe, reliable and efficient electrical generation system is one of the major elements of a community's infrastructure. Electricity is necessary for the operation of water and sewer, educational, airport, community and wasteheat facilities.

An reliable power system is also a necessary part of a community's ability for continuing or new economic development and enterprises operating within a community. Most people take it for granted, but without reliable and reasonable-cost power, numerous economic development opportunities which enhance the quality of life will be lost.

One of those opportunities is "waste heat". A waste heat system has proven to be an extemely important energy conservation measure. Schools, washeterias, clinics, and other community buildings have all realized appreciable savings in their operating budgets, due to reduced demand for heating fuel.

By keeping state owned and operated facilities, such as interties and waste heat systems, in good repair, this not only continues to benefit the affected community, but it also insures that the state's investment in these important energy facilities is not lost and will remain up to or past the average life expectancy of these facilities.

The State of Alaska is investing in public works facilities which are necessary and accomodate basic life, health, safety needs for Alaska residents.

Should electrical power fail, then other systems dependent on power will fail. The replacement of those dependent systems in an emergency repair situation is far more expensive than providing maintenance, repair, rehabilitation and efficiency improvements on a regular basis.

Justification relating to AEA's proposed "deferred maintenance" projects to be included in Governor's supplemental capital projects bill:

The Alaska Energy Authority owns and operates both large and small electrical intertie facilities throughout the State, and among these are the recently constructed Oscarville-Napaskiak intertie and the Bethel-Napakiak intertie and Kobuk-Shungnak interties, constructed ten years ago under the auspices of Dept. of Commerce and Economic Development (Div. of Energy and Power Development) as demonstration projects. At the present time, the Oscarville-Napaskiak line and the Kobuk-Shungnak line are not energized due to badly needed repair and rehabiliation work. The Bethel-Napakiak line, although energerized, is in need of rehabilitation and right-of-way work. As these are state-owned facilities, the responsibility for the operation and maintenance of these facilities lies with the Alaska Energy Authority. Presently, the Alaska Energy Authority owns and operates waste heat systems in a number of communities throughout rural Alaska. Waste heat systems have proven to be an extremely important energy conservation measure within the communities where operating. Schools, washeterias, medical facilities and numerous types of community buildings, all have shown appreciable savings in their operating budgets, due to reduced demand for heating fuel for these facilities, which is replaced by the waste energy off the diesel generators operating in a community. If the energy efficiency and savings are to continue, these waste heat systems must be kept in good repair and regular maintenance. By keeping AEA owned and operated facilities, such as interties and waste heat systems, in good repair, it not only continues to benefit the rural communities where located, but it also insures that the state's investment in these energy facilities is not lost and will remain up to or past the average life expectancy of these types of facilities.

In addition, the State of Alaska has invested large amounts of money in constructing energy facilities, not owned by AEA, but constructed for communities throughout the state. Again, there is the critical need to protect the state's investment which has gone into these systems. It cannot be stressed enough, with regard to electrical systems, especially in rural Alaska, where weather and other operating conditions put these systems to a tough test, that regular maintenance and repair work will prevent unscheduled and emergency repair work, which ends up costing far more than regular M & O practices do.

A safe, reliable and efficient electrical generation system is one of the major elements of a community's infrastructure. Electricity is necessary for the operation of water and sewer facilities, educational facilities, airport facilities, other institutional community facilities, and for the operation of wasteheat facilities, which saves the community money on their annual cost of fuel. An efficient and reliable power system is also a necessary element with regards to continuing or new economic development and commercial enterprises operating within a community. Without the ability to provide reliable and reasonable cost power, economic growth and diversification within a community will not take place and numerous economic development opportunities, which also enhance the quality of life for residents in the community, will undoubtedly be lost to other areas.

Within the Governor's supplemental budget, funding is requested for very important village safewater projects for rural Alaska. Funding proposals will also be forthcoming from the Governor and the Legislature on other infrastructure improvements within our communities. Here again, the State is investing large amounts of money for public works facilities which are necessary and accomodate the basic life, health and safety needs of our residents, especially in the rural areas of the state, where we are just in the early stages of providing for these needs. An important question to pose, however, is what is the condition of the electrification system in the community where additional monies are being spent on public facilities? Is the system able to deliver reliable and efficient power, as well as accomodating the new load of upgraded or new facilities being installed in the community? The question of electrical system reliability is a very important issue, especially with regards to rural water and sewer systems. Should the power fail, as is not unusual during the winter season in many communities in rural Alaska, will the water & sewer system freeze as a result of prime power failure, without adequate back-up. Replacement of water and sewer systems in an emergency repair situation is far more expensive, than providing for electrical system maintenance, repair and rehabilitation and efficiency improvements on a regular basis.

The AEA's proposed deferred maintenance projects are all appropriate projects in reviewing the criteria established for this supplemental funding measure. In addition, while some projects will require extensive work, the state funding invested now, will insure that the state's previous capital investment is not lost. It is also reasonable to view these projects as good candidates to be paid for through the surplus we now have in our state general fund. The surplus is a result of higher oil prices, and projects which will promote energy efficiency and any way reduce rural Alaska's use of fuel (through electrical generation and distribution system efficiency projects), while also reducing the annual amount of the very important PCE program assistance which our rural residents and utilities depend on, should be positively considered.

FY91 SUPPLEMENTAL CAPITAL BUDGET REQUEST

TETLIN ELECTRICAL SYSTEM SAFETY REPAIRS

SUMMARY:

Community:	Tetlin
Election District:	17
Population Served	112

Project Cost	$370,000.
Funds Available	0.
Funds Required	$370,000.

PROJECT DESCRIPTION:

Reconstruction of the community's electrical system.

PROJECT JUSTIFICATION:

The present system is not only inefficient but also has several code violations creating a public safety hazard. The problems are severe enough to require a complete rebuild of the majority of the existing system.

BUDGET:

Construction	$270,000.
Design	30,000.
Supervision, Inspection, & Administration	40,000.
Project Contingency	30,000.
Project Total	$370,000.

TETLBGP1
Feb 1991

FY91 SUPPLEMENTAL CAPITAL BUDGET REQUEST

WASTE HEAT PROJECT REPAIRS

SUMMARY:

Community: State wide
Election District: State wide
Population Served

Project Cost	$220,000.
Funds Available	0.
Funds Required	$220,000.

PROJECT DESCRIPTION:

The goal of this project is the repair and rehabilitation of existing rural waste heat recovery systems. Potential repair sites include Ambler, Angoon, Elim, Goodnews Bay, Grayling, Kaltag, Kiana, Savoonga, St. Mary's, Shungnak, and up to three additional sites..

PROJECT JUSTIFICATION:

These systems shall remain nonfunctional or are in danger of becoming nonfunctional if these repairs are not completed.

BUDGET:

Construction	$155,000.
Design	20,000.
Supervision, Inspection, & Administration	30,000.
Project Contingency	15,000.
Project Total	$220,000.

WHRCPJB
Feb 1991

FY91 SUPPLEMENTAL CAPITAL BUDGET REQUEST

OSCARVILLE - NAPASKIAK INTERTIE
REPAIR AND UPGRADE

SUMMARY:

Community: Napaskiak
Election District: 25
Population Served: 331

Project Cost	$162,000.	
Funds Available	0.	(Source:)
Funds Required	$162,000.	

PROJECT DESCRIPTION:

The intertie between Oscarville and Napaskiak will be repaired and upgraded to three phase.

PROJECT JUSTIFICATION:

The existing underwater line is faulted and Napaskiak has no access to (cheaper) power from Bethel Utilities. Repairing this line and upgrading it to three phase will allow for an efficient transfer of low-cost energy from Bethel and a more balanced load for the school and city.

BUDGET:

Construction	$115,000.
Design and Planning	10,000.
Supervision, Inspection, & Administration	20,000.
Project Contingency	17,000.
Project Total	$162,000.

SUPBUD06

Feb 1991

Title

Description

Metlakatla Penstock and Facilities Repairs: Various valves and couplings have begun to leak and are in need of repair prior to additional damage occuring. This work should be accomplished as soon as practical.

$25,000

Craig/Klawock Intertie Danger Tree Removal: Recent logging adjacent to the line has decreased the ability of the buffer area to sustain wind storms and consequently has increased the probability of substancial damage to the line along with the decreased reliability of providing power to the community of Klawock.

$40,000

E. Marchegiani
Feb 91

FY91 SUPPLEMENTAL CAPITAL BUDGET REQUEST

KOBUK - SHUNGNAK INTERTIE CLEANUP & REPAIR

SUMMARY:

Community: Kobuk
Election District: 22
Population Served: 87

Project Cost	$250,000.
Funds Available	0. (Source:)
Funds Required	$250,000.

PROJECT DESCRIPTION:

The remnants of the transmission line between Shungnak and Kobuk will be dismantled, retired, and disposed of.

PROJECT JUSTIFICATION:

The existing tie-line has expired in a windstorm in December, isolating Kobuk from the AVEC generation plant in Shungnak. Approximately half of the structures are either leaning severely or on the ground. The entire line must be removed and taken to a suitable disposal site.

BUDGET:

Retirement	$200,000.
Planning	6,000.
Supervision, Inspection, & Administration	9,000.
Project Contingency	35,000.
Project Total	$250,000.

SUPBUD03

Feb 1991

FY91 SUPPLEMENTAL CAPITAL BUDGET REQUEST

BETHEL-NAPAKIAK INTERTIE RENEWAL & REPAIRS

SUMMARY:

Community: Napakiak
Election District: 25
Population Served: 315

Project Cost	$55,000.
Funds Available	0.
Funds Required	$55,000.

PROJECT DESCRIPTION:

Renewal of existing right-of-way agreements, surveying, and repair of an existing slough crossing.

PROJECT JUSTIFICATION:

The existing right-of-way agreement has expired and needs to be renewed, which will require surveying support.

BUDGET:

Construction	$5,000.
Design, R.O.W., and Survey	41,000.
Supervision, Inspection, & Administration	6,000.
Project Contingency	3,000.
Project Total	$55,000.

NAPKBGP1
Feb 1991

FY91 SUPPLEMENTAL CAPITAL BUDGET REQUEST
OTE - CIRCUIT RIDER MAINTENANCE

SUMMARY:

Community: State Wide
Election District: State Wide
Population Served:

Project Cost	$450,000.
Funds Available	0.
Funds Required	$450,000.

PROJECT DESCRIPTION:

The existing Circuit Rider Maintenance program supports rural utilities in furnishing inspection and preventative maintenance services through contractors and/or Energy Authority staff. During the course of performing this work, a number of communities were discovered to have deferred major maintenance tasks. The goal of this project is to fund generation maintenance items that have been deferred by the local communities. Work would be accomplished through a combination of grants to regional entities, contracts, and Energy Authority staff. A portion of the funds may be used to upgrade Energy Authority supporting facilities, such as the existing storage yard and warehouse. The project would allow support of approximately 10 rural communities throughout the State.

PROJECT JUSTIFICATION:

The existing program allows for expenditure of up to $50 in parts. Deferred maintenance items can cost in excess of this amount which prohibits the accomplishment of the work under the existing program. The poor condition of generation equipment can and does lead to catastrophic failures, inablity for the utility to obtain insurance, and poor operational efficiencies.

BUDGET:

Construction	$345,000.
Design	50,000.
Supervision, Inspection, & Administration	30,000.
Project Contingency	25,000.
Project Total	$450,000.

1502SUPP
Feb 1991