

ALASKA LEGISLATURE COMMITTEE FILES 1999-2000 8672

9947 HOUSE LABOR & COMMERCE

Indeed, a CFAB free of the regulations imposed on banks might be able to make some loans at a lower cost to borrowers for a while. But that could only last as long as their current expenses and loan losses remained minimal. Since CFAB's Chief Executive Officer testified that CFAB does not currently have qualified staff members to make such loans, CFAB would either have to hire additional staff or take greater risk to make such loans. In the circumstances, the prospect of CFAB as a lower cost small business lender seems unlikely.

Besides there are already cooperative ventures providing small business loans free of the regulations that raise the cost of small business lending by banks. Those cooperative ventures are called credit unions and their eligible field of membership is now the entire population of Alaska and beyond for all intents and purposes.

CFAB is accomplishing its mission as described by the sponsor of HB 339. Expanding its authority as proposed can only decrease the prospects of its continued success in doing so.

Alaska Bankers Association

A handwritten signature in black ink, appearing to read 'D. Lawer', with a long horizontal flourish extending to the right.

David A. Lawer
President

Subject: Please support HB 339

Date: Wed, 08 Mar 2000 12:52:40 -0900

From: "Susan W. Springer" <hbay@alaska.net>

Organization: Herring Bay Mercantile

To: Representative_Eldon_Mulder@legis.state.ak.us,
Representative_Bill_Hudson@legis.state.ak.us,
Representative_Alan_Austeman@legis.state.ak.us,
Representative_Norman_Rokeberg@legis.state.ak.us,
Representative_Lisa_Murkowski@legis.state.ak.us,
Representative_Andrew_Halcro@legis.state.ak.us,
Representative_John_Harris@legis.state.ak.us,
Representative_Jerry_Sanders@legis.state.ak.us,
Representative_Tom_Brice@legis.state.ak.us,
Representative_Sharon_Cissna@legis.state.ak.us

RECEIVED

MAR 08 2000

I'm writing to urge your support for HB339, extending the lending authority of CFAB to include resource development and tourism.

I've owned small businesses in Seldovia, Alaska since 1989: a greeting card company, a bed and breakfast, and for the past six years, a retail gift shop. In 1994, my husband and I purchased a city waterfront lot, built a 1200 sf building, and opened Herring Bay Mercantile the following spring. Because of our income/expense ratio at the time, we did not seek conventional bank financing, relying instead on family financing. We were very fortunate to have family money available to us. The business made a profit its first season and has been profitable each year since. Our business contributes sales tax and property tax revenues to the community, provides a valuable service for residents, a draw for tourists, employs residents for everything from computer consulting to snowplowing, and donates to absolutely every community and school entity that makes a request.

Now that we are successful, the Homer branches of NBA and First National Bank of Anchorage have made field trips to Seldovia, urging us to borrow money. We are a very low credit risk, and they'd love to have our business. Interestingly, we were just as low a credit risk six years ago when our personal balance sheet was not as appealing. We had then the same qualities we have now: vision, talent, and tremendous drive. These are the qualities that made our business a success.

I wonder how many more potential entrepreneurs like us are out there in rural Alaska? How many more communities stand to benefit from new business as Seldovia has benefitted from ours? How many of these folks don't qualify for conventional bank loans, yet still possess the skills necessary to succeed?

My husband went on to purchase a commercial fishing boat through CFAB and found them to be thorough yet helpful and easy to deal with. Furthermore, in 1996-97 I served on a Governor's Small Business Assistance Program Task Force and recall being left with several impressions:

1. That CFAB was well respected for its support of small (fisheries) business development through the Fisheries Business Assistance Program (operated by the Alaska Business Development Center).
2. That not many of the state-funded small business assistance programs worked as effectively as the above.
3. Access to start-up and operating capital is one of the primary

challenges facing small Alaskan entrepreneurs trying to establish themselves in business.

Today, I serve on the boards of the Alaska Tourism Marketing Council and the Alaska Travel Industry Association. I also am in my second term on the Seldovia City Council. If there is one common theme among these three bodies, it is the need to support small businesses and enhance economic development in Alaska. You have before you, with HB 339, the opportunity to give small Alaskan entrepreneurs a tremendous shot in the arm, without having to find any scarce state dollars in order to do so. Please throw your support behind HB339 for the benefit of all small businesses in Alaska, and for the state's future economic health.

If I may provide you with further information, I'd be happy to do so. I may be reached at 234-7410, 234-7468, or hbay@alaska.net. I'll be out of town from 3/12 through 3/26, but will do my best to respond to you during my absence.

Very truly yours,
Susan W. Springer

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Susan W. Springer
Owner, Herring Bay Mercantile
Seldovia, Alaska
<http://www.AlaskaHerringBay.com>

THE
FOLLOWING
DOCUMENT(S)
ARE
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Expanding a state bank's boundaries

Our legislators are trying to make a bad idea bigger.

I will never, ever, ever, ever stop being surprised by the many ways Alaska's governors and legislators devise to spend money.

While they tell us they don't have enough money to balance the budget or even plow the roads, they are finding more pools of cash at every hand for their own pork barrel projects.

The good case in point is House Bill 339. It would greatly expand the lending authority of the Alaska Commercial Fishing and Agricultural Bank to cover tourism and "exploitation of natural resources," with a huge pool of cash on the side for any other use that enters the lender's mind.

CFAB was created in 1978. Its early years, fueled by high oil revenues, gave us one of the more dramatic deluges of state spending in that extravagant era. CFAB was created with \$32 million state funds which bought non-voting "special preferred stock" to provide seed money from which it was supposed to make loans and establish a growing eternal pool of money for future loans from the repayments and interest.

The \$32 million was to be paid back in stock repurchases over 20

FDN/M

Fred
Pratt

2-25-00

years, but it flowed like water into two unprofitable industries. While the fishermen and farmers had their good years, they never had enough of them in a row to keep CFAB afloat.

A legislative audit in the 1980s criticized wild spending by the bank on its own offices and staff, and concluded the special preferred stock was no asset and there was little chance it would ever be repaid. The Legislature had spent itself into its own jam and the state economy was in recession, so it cracked down in 1991 with a requirement that CFAB make monthly payments to repurchase the stock.

Since the stock repurchase was accelerated before the original 20-year deadline, CFAB was granted an \$11 million discount by the time it had bought back all the stock in 1998. Problem loans dropped from \$14.5 million in 1991 to \$3.6 million in 1995. The downside was that the total loan activity dropped as well, with recession in both industries and the cost of the stock buyback.

All this makes CFAB a rather curious creature. It is a creation

of the state and its structure and activities are authorized by state law. While it no longer has a direct state investment, its board is not appointed by the governor and its member shareholders are the borrowers themselves who buy membership shares with parts of the loans they receive. It's founded in state law for a "public purpose." Its major asset behind the loans are limited entry permits issued by the state and it functions with important exemptions from state banking and corporation law.

While CFAB is technically a "private" bank created by special legislation of the state, don't be fooled into thinking that no state money is at risk. The state is legally responsible for its existence and sets its lending policy by law.

HB 339 would greatly expand CFAB's loan activity into tourism, mining and petroleum development, but not timber. Its primary sponsor is Rep. Eldon Mulder, R-Anchorage, and it has two co-sponsors, Rep. Bill Hudson, R-Juneau, and Rep. Alan Austerman, R-Kodiak.

But their bill goes far beyond what they admit. HB 339 states that the new loans may be made to Alaska individuals, married couples, corporations or partnerships who will use the majority of the loan proceeds for tourism or "the development or exploitation of natural resources within the state."

That phrase "majority of the

loan proceeds" means only one dollar more than half of the loan must go for that purpose. A mining company could use the rest of the CFAB loan to develop a mine in Arizona, an oil company could drill for oil in Indonesia, or anybody could use almost half their loan to play the stock market.

Oddly, this generosity is not extended to the fishermen and farmers whose loan repayments will provide this money. Even the name of CFAB is unchanged in HB 339, while the bill changes the law to allow other industries to look its habits.

HB 339 would also authorize CFAB to buy tourism or resource development loans from other banks, even if the borrower is not a member of CFAB.

The bills define "natural resources" in a way that excludes timber. It also seems to exclude coal-based methane, a big potential resource in the Railbelt.

Another potential problem is that CFAB gets a lot of its working capital from the Federal Farm Credit System. The feds might look with some suspicion on providing funds for a loan to a food-and-breakfast owner who can use half the money for day trading.

But on the other hand, that might be the best investment CFAB borrowers have ever made.

Fred Pratt, a freelance journalist living in Fairbanks, is a reporter and long-time observer of Alaska politics. His columns appear Fridays on the Opinion page.

FISCAL NOTE

**STATE OF ALASKA
2000 LEGISLATIVE SESSION**

BILL NO. HB339

Revision Date/Time (Note if correction)	Dept. Affected	Community & Econ. Dev.
Title	BRU	Banking, Securities, and Corporations
	Component	Banking, Securities, and Corporations
Sponsor	Rep(s) Mulder, Hudson, Austerman	
Requester	H L&C	Component Serial No. 1233

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY00) cost: _____

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

The division does not anticipate any fiscal impact with this proposed legislation.

The bill would have little to no effect on the department's requirement to examine CFAB. It could take some additional time to analyze the new policies associated with the new types of lending and to analyze the new loans put on the books, but the additional time is not expected to be significant.

Franklin T. Elder

Prepared by	Franklin T. Elder, Director	Phone 465-2521
Division	Banking, Securities and Corporations	Date/Time 2/24/00 9:25 AM
Approved by Commissioner	Deborah B. Sedwick <i>Deborah B. Sedwick</i>	Date 2/24/00
Agency	Community and Economic Development	

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Dear Representative Mulder,

Authorizing the Alaska Commercial Fishing and Agriculture Bank to make loans for natural resource exploitation is a welcomed and potentially important piece of legislation. Capital is a precious commodity in the mineral business and any additional source; especially one with Alaskan expertise will be welcomed by the mining industry. This proposal deserves to become law.

Sincerely,

E. Neil MacKinnon
Hyak Mining Co.

My name is John Engle and I have been a CFAB member since 1990. I think that they have always been very responsible in their lending operations and deserve support if they want to diversify. This would also benefit others needing financing in whatever areas they choose to get into. I strongly urge you to continue with HB 339 and thank you for your support. Please feel free to ask me for any help I can offer.

John R. Engle

87 Shoup St.
Ketchikan, AK 99901

F/V Traveler II

Response sent 2-15-02
JRE

Subject: House Bill 339

Date: Wed, 23 Feb 2000 12:28:08 EST

From: KirkAWA@aol.com

To: Representative_Eldon_Mulder@legis.state.ak.us

**CC: Representative_Norman_Rokeberg@legis.state.ak.us,
Representative_Lisa_Murkowski@legis.state.ak.us,
Representative_John_Harris@legis.state.ak.us,
Representative_Andrew_Halcro@legis.state.ak.us,
Representative_Tom_Brice@legis.state.ak.us, Representative_Bill_Hudson@legis.state.ak.us,
Representative_Alán_Austerman@legis.state.ak.us**

February 23, 2000

Dear Representative Mulder,

This is just a short note to say that we support House Bill 339. This bill would provide needed financial assistance to small tourism businesses. As you know, tourism is a growing and thriving force in our economy, and small businesses often need financial support to grow, expand, and compete with the "Walmarts" of the tourism industry, the cruise lines and their related companies. A diverse tourism industry is a strong and vital tourism industry, and this bill would be very helpful in this regard. Thank you for the opportunity to comment.

Respectfully,

Kirk Hoessle, President
Alaska Wildland Adventures

RECEIVED
FEB 24 2000

Subject: HB339

Date: Wed, 23 Feb 2000 10:45:26 -0900

From: Frank Rose <aklm@ptialaska.net>

Organization: Alaska Lodging Mgt., Inc.

To: Representative_Eldon_Mulder@legis.state.ak.us,
Representative_Bill_Hudson@legis.state.ak.us,
Representative_Alán_Austerman@legis.state.ak.us

CC: Representative_Norman_Rokeberg@legis.state.ak.us,
Representative_Lisa_Murkowski@legis.state.ak.us,
Representative_John_Harris@legis.state.ak.us,
Representative_Andrew_Halcro@legis.state.ak.us,
Representative_Tom_Brice@legis.state.ak.us

I want to speak in favor of HB339. I believe that the extension of this loan program to allow CFAB lending authority to visitor industry businesses is an opportunity that must be endorsed. As I understand it, the program has not been very active relative to its intended purpose of providing loans to fishing related business. The visitor industry remains a viable and growing sector of our economy and one where small business make up the majority of this industry. To provide opportunity for these businesses to grow is an excellent investment in our state.

Frank Rose
Alaska Lodging Mgt., Inc.
PO Box 72478
Fairbanks, AK 99707

RECEIVED
FEB 24 2000

Subject: hb339

Date: Wed, 23 Feb 2000 13:41:58 -0500

From: "Rosemary V. Libert" <info@lynch-kennedy.com>

To: <Representative_Eldon_Mulder@legis.state.ak.us>,
<Representative_Norman_Rokeberg@legis.state.ak.us>,
<Representative_Lisa_Murkowski@legis.state.ak.us>,
<Representative_John_Harris@legis.state.ak.us>,
<Representative_Andrew_Halcro@legis.state.ak.us>,
<Representative_Tom_Brice@legis.state.ak.us>

Dear Honorable House Members,

Please support HB 339 in expanding the Fish and Agricultural banks charter to include Alaska based tourism projects. As a small business owner, I know how difficult to find financing for projects. Just the creation of this financing avenue would make current financial institutions in the rural areas more responsive to our needs.

Karl E. Klupar
Rosemary V. Libert
Skagway, Alaska

owners

Historic Skagway Inn, LLC
Lynch & Kennedy Dry Goods, Inc

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FEB 24 2000

Subject: HB 339

Date: Thu, 24 Feb 2000 14:00:39 -0900 (AKST)

From: Albert Clough <aclough@ptialaska.net>

To: Representative_Eldon_Mulder@legis.state.ak.us

Representative Mulder-

This email is in support of HB 339. Expansion of loan access can provide positive benefits to the development of various natural resource projects (to include small and medium sized mining ventures) throughout Alaska. Thank you for your efforts to expand the list of projects which would qualify for funding through the Alaska Commercial Fishing and Agriculture Bank.

Albert H. Clough, P. Geol.
Chair, Juneau Branch, Alaska Miners Association

Dear Rep. Mulder

2/16/00

In this short note I would like to show my support for Ed Crane & the CFAB Board in their effort to expand CFAB's lending opportunities.

I believe it would be good for CFAB and good for the people of Alaska.

CFAB member, Daniel Farren

Thank You



REPRESENTATIVE ELDON MULDER

DISTRICT 23 - MULDOON & FORT RICHARDSON

ALASKA STATE LEGISLATURE

HOUSE OF REPRESENTATIVES


"PROUD TO BE A MULDOONER"



MEMORANDUM

DATE: February 8, 2000

TO: Representative Norman Rokeberg

FROM: Representative Eldon Mulder 

RE: Labor & Commerce Committee Hearing for HB339

Please schedule HB339 for hearing before the Labor and Commerce Committee

Attached please find:

- Copy of HB339, Seeking to expand lending authority of CFAB
- Sponsor Statement
- CFAB background documentation
- Sectional analysis

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FEB 10 2000



REPRESENTATIVE ELDON MULDER

DISTRICT 23 - MULDOON & FORT RICHARDSON
ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
"PROUD TO BE A MULDOONER"



SPONSOR STATEMENT

House Bill 339

"An Act relating to the Alaska Commercial Fishing and Agriculture Bank."

HOUSE BILL 339 expands the lending authority of the Commercial Fishing and Agriculture Bank (CFAB) and enables it to make loans to Alaskan small business enterprises involved in natural resource development and tourism. Presently, CFAB may make loans to Alaska residents engaged only in commercial agriculture or fishing. The bank seeks expanded authority to provide financing opportunities to small Alaskan business entrepreneurs who generally have trouble obtaining commercial loans because of their relative small size and lack of financial experience.

The Alaska State Legislature created CFAB in AS 44.81 in 1980. This statute governs CFAB's operation and provides for its accountability to the Legislature and Administration. Because CFAB is incorporated under this unique and specific statute, it requires legislative approval for any changes in operational authority.

Twenty years ago, limited access to commercial financing by resident Alaska commercial seafood harvesters, processors and farmers stimulated the need for of CFAB as a private cooperative. The State of Alaska responded by providing CFAB's initial capital through the purchase of \$32.0 million of Special Preferred Stock in 1980. CFAB began making monthly payments in 1991 to the State of Alaska, repurchasing increments of the stock. In September of 1998, the stock repurchase agreement was completed as specified in statute and today CFAB is owned solely by its past and present borrowing members.

In 1986, The Alaska Supreme Court identified CFAB as a private entity. AS44.81 states it is not subject to the Alaska Cooperative Corporation Code or the Alaska Banking Code. It pays federal and state corporate income tax, state auditing fees and is subject to legislative audits. In short, CFAB is now a private lender operating within the free enterprise system with limited ties to the State of Alaska.

CFAB's auditors, from both the public and private sector, give the bank favorable reviews but consistently note the concentration in agricultural and fishing industry loans results in an unusual level of risk exposure and vulnerability to the ups and downs of these industries.

House Bill 339 recognizes these underlying concerns and resolves the issue by allowing CFAB to go beyond the present restrictions found in AS 44.81.215 and expand its customer base to other Alaskan industries needing loan assistance.

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

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FAX (907) 465-2029
Mail Stop 3101

State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

February 8, 2000

SUBJECT: Sectional Summary of HB 339; An Act authorizing the Alaska Commercial Fishing and Agriculture Bank to make loans relating to tourism and development or exploitation of natural resources. (HB 339)

TO: Representative Eldon Mulder
Attn: Dale Anderson

FROM: George Utermohle *GU*
Legislative Counsel

You have requested a sectional summary of HB 339; An Act authorizing the Alaska Commercial Fishing and Agriculture Bank to make loans relating to tourism and development or exploitation of natural resources.

A sectional summary of a bill is not an authoritative interpretation of the bill. The bill itself is the best statement of its contents.

Section 1 of the bill amends AS 44.81.010(a) to make a technical conforming amendment made necessary by the renumbering of the paragraphs of AS 44.81.215 by sec. 2 of the bill.

Section 2 of the bill amends AS 44.81.215 by adding new paragraphs which authorize the Alaska Commercial Fishing and Agriculture Bank to make loans relating to tourism and to development or exploitation of natural resources within the state.

Section 3 of the bill amends AS 44.81.350 by adding definitions for key terms that are added to AS 44.81 by this bill: natural resources, coal, gas, geothermal system, oil, other minerals, tourism, and water.

GU:jdr:glc
00-068.jdr

CFAB BACKGROUND NOTES

Excerpts from January 12, 1996 reports by Division of Legislative Audit for the review by the members of the Legislative Budget and Audit Committee in accordance with the provisions of Title 24 of the Alaska Statutes. Audit in its entirety can be found on the web by going to the Legislative Homepage, clicking AUDIT, and then going to the 1996 Audit List.

ALASKA COMMERCIAL FISHING AND AGRICULTURE BANK

January 12, 1996
Audit Control Number
08-4525-96

page 3... CFAB makes loans for most fishing or farming related purposes. The most common purposes are the purchase, modification, or refinancing of a vessel; purchase of a limited entry fishing permit; gear, engine, or equipment replacement or upgrade; general operating capital; and fish processing. There are no "standard" repayment terms or programs.

In order to be eligible to be a CFAB borrower, an applicant must be engaged in the commercial fishing or farming industries. An individual applicant must be an Alaska resident, and a partnership must have majority ownership by Alaska residents. When the applicant is a corporation, the majority ownership and control must rest with Alaska residents.

Eligibility, however, is only the first step of the lending process. To obtain a CFAB loan, an applicant must be found by CFAB to be capable and creditworthy within the context of the specific loan request. The standards used by CFAB are essentially the same as those of any responsible lender. However, CFAB's specialized purposes, and their experience, has allowed them to consider a broader range of applicant qualifications than most other lenders.

Page 5... In the late 1970's, the commercial fishing industry expressed dissatisfaction with the available credit sources to finance operations and the development of the industry. In response, the legislature commissioned a study in the fall of 1977 to evaluate the adequacy of the available financing sources for the commercial fishing industry in Alaska.

The study concluded that there was a need for improved access by the Alaska commercial fishing industry to sources of credit. Several alternatives to improve such access were discussed in the report. One of the options recommended was for the State to form a private, cooperative development bank for the Alaska commercial fishing industry that could leverage its capital with funds from the Federal Farm Credit System.

As a result of the study, in 1978 the legislature passed a bill that created the Alaska Commercial Fishing and Agriculture Bank (CFAB or Bank). It was to provide financing for the commercial fishing and agriculture industries within the State by leveraging its capital with funds from the Federal Farm Credit System as recommended.

The concept of CFAB was patterned after the Federal Farm Credit System (System) which provides a source of credit to farmers, ranchers, and producers or harvesters of aquatic products. The Federal Farm Credit Act of 1933 provided for the organization of thirteen Banks for Cooperatives (BCs). BCs were initially capitalized by the federal government and remained largely owned by the government until the Farm Credit Act of 1953 was passed. This act provided for a means of control of the entire System by its users and paved the way for the ultimate retirement of all the federal government capital investment in the System. The Federal Farm Credit Act of 1971 recodified all the prior laws governing the System, modernized its functions, broadened its lending powers (e.g., loans to producers and harvesters of aquatic products), and brought decision making closer to its borrowers.

BCs are cooperatives themselves. They are financial institutions whose business is to provide credit and related services to their agricultural and aquatic cooperative members. BCs obtain a major portion of their loan funds through the sale of securities backed by the notes of borrowers. These securities are sold through a fiscal agent with the aid of a nationwide group of securities dealers. Through the issuance of these securities, BCs provide their cooperative members with direct access to the nation's money markets which helps to ensure an adequate supply of dependable credit.

Page 13... Not only is CFAB the State's only mechanism to access capital from the Federal Farm Credit System, it is also one of only two sources of capital for Alaska residents to finance the purchase of a limited entry permit. Financing from CFRLF is the only alternative.

In 1972, Article VIII, Section 15 of the Alaska Constitution was amended to allow a limited entry program to be created by the State for fisheries resource conservation and development purposes. Then, in 1973 the legislature enacted the Commercial Fisheries Limited Entry Act (AS 16.43).

This Act contained limitations and restrictions on permits that were designed to keep control of the permit in the hands of the holder and to not allow direct or indirect control by third parties, i.e., canneries, financial institutions, or speculative investors. Specifically, AS 16.43.150(g) stated:

An entry permit may not be:

- (1) pledged, mortgaged, or encumbered in any way;*
- (2) transferred with any retained right of repossession or foreclosure; or*
- (3) attached, distrained, or sold on execution of judgment or under any other process or order of any court.*

In 1978, this statutory section was amended to allow the fishers to take advantage of the value of their permits to fund their operations or if they no longer wanted to participate in the fishery. With the passage of Chapter 83, SLA 1978, CFRLF was authorized to make and foreclose on limited entry permit purchase loans to Alaska residents. The aim of the State was to place more limited entry permits in the hands of Alaskans. CFRLF loans would still be consistent with the original intent of the Limited Entry Act, as the State would be the holder of the foreclosed permit in the case of default on the loan by the fisher. This would ensure the permit would be sold to a qualified person under the Limited Entry Act requirements, allowing the State to maintain control over its fisheries resource management. In addition, if the sale of the foreclosed permit were financed by CFRLF, the purchaser must meet the residency requirements of the loan program.

The next year, the legislature passed an amendment to CFAB's statutes that gave the Bank the same authority to make limited entry permit loans as was given to CFRLF. The sectional analysis of the bill stated in part:

. . . This language parallels the existing law that allows the state division of loans to make limited entry permit loans. . . . The purpose of this section is to expand the bank's power to provide for limited entry permit loans to Alaskans. Since the Bank provides for loans only to resident Alaskans, this additional capital source will be an advantage to Alaskans who want to get into the fishery in the future. At least one-third of Alaska's salmon fishermen is still nonresidents This expansion of loan authority to the Commercial Fishing and Agriculture Bank will provide another source of capital to Alaskans who want to move into the salmon fisheries in the state.

Again, the limited entry permit loans made by CFAB were considered consistent with the intent of the Limited Entry Act. As CFAB was a creature of Alaska law, the procedures for foreclosure could be set by statute, thus protecting the State's right to control the transfer of any foreclosed limited entry permit. Also, any purchaser of a foreclosed limited entry permit that obtained financing for the purchase from CFAB would have to meet its statutory residency requirement.

In 1995 there were 13,364 limited entry fishing permits held by fishers. Of those, 1,363 had liens against them by CFRLF and 383 by CFAB.

Page 22... In enacting the limited entry system, the legislature recognized that, for the purpose of conservation, the State needed to retain control of its fishery resources. In view of this, the legislative intent of the limited entry permit program was that an entry permit would not be the property of its holder but rather a use privilege, which can be modified or revoked by the legislature without compensation.

The legislature further recognized that the absence of a property right in a limited entry permit would not allow the holder the ability to obtain financing for its purchase or to use it as collateral to obtain financing for his/her commercial fishing operations. In order to provide a source of capital to the fishers, the legislature amended the Alaska Commercial Fisheries Entry Commission in 1978 (Ch. 83, SLA 1978) to allow the Commercial Fishing Revolving Loan Fund to take limited entry permits as security for its loans to fishers. Then in 1981 (Ch. 51, SLA 1981), similar legislation was passed which provided for CFAB to take limited entry permits as security for loans.

.....end of Legislative Audit background

Excerpts from 1999 audit by the Division of Bank, Securities and Corporations, DCED

Cover letter...

The overall condition of your bank is satisfactory with significant improvement since the last examination. Asset quality has improved notably in relationship with the overall condition of the fishing industry. Overall capital remains strong and is available to mitigate the credit risk of lending exclusively into the Alaskan commercial fishing industry. Management's efforts to seek expanded areas in which to lend would help to mitigate the concentration of risk and make the bank's successful operation less reliant upon these volatile industries.

Page 1... ASSET QUALITY

Asset quality has improved... As bank management performs a satisfactory job of administering the loan portfolio, the irregular numbers appear to be a function of the unpredictable nature of the fishing industry. Efforts by management to gain entry to other areas of allowable lending would greatly aid in mitigating the effect the fishing industry has on the bank.

Page 3... MANAGEMENT

Management's present challenge is to generate new loan business to grow the bank... to increase the size of its loan portfolio, management is taking steps to amend the current statutes under which the bank operates. The amendment would allow CFAB to loan into other resource based industries, including tourism. Should this be accomplished, it would not only increase its reach to new potential borrowers, but it would also diversify the risk of concentration of credit to the fishing and agricultural industries.

Page 5... CAPITAL ADEQUACY

The bank continues to maintain the strong capital position necessary to mitigate its exposure to the inherent risks of lending entirely to the Alaskan commercial fishing and agriculture industry.

Page 7... EARNINGS

... a variety of factors make earnings performance and trend analysis problematic. The primary factor causing earnings fluctuations noted above is the lack of portfolio diversification. In a commercial financial institution, the loan portfolio would typically be diversified in a variety of industries, as well as geographic areas. CFAB was chartered to promote agriculture and fishing industries in Alaska. Initially the opportunity for diversification was limited to fishing and agriculture with the agricultural diversification becoming nil.

.....end of audit



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 (907) 276-2007 Fax (907) 279-7913

January 2000

21.4% Returned

NO ONLY 2.97
 NO w/COMMENT 11.8 14.7

AMBIGUOUS w/COMMENT 3.7

YES ONLY 42.6

YES w/COMMENTS 39.0

81.6
 100%

A SPECIAL MESSAGE – AND OPPORTUNITY – FOR ACTIVE CFAB MEMBERS

Your CFAB Board of Directors consists of seven persons – five elected by the CFAB membership and two appointed by the Governor of Alaska – who are charged with the overall governance and direction of the institution and who are granted broad authorities, by both the “CFAB law” and CFAB’s Bylaws, to aid in meeting those responsibilities.

The direction and oversight of CFAB’s basic and day-to-day operations, making loans, is rather straightforward. It consists of assuring that sound and rational credit policies are in place, that the staff possesses a high level of competence and expertise, that lending decisions are equitable, and that there is adequate accounting capacity, etc.

However, there are sometimes more challenging issues, such as establishing overall financial strategies, administering various aspects of CFAB’s equities programs, and determining fundamental directions. These are often made difficult because CFAB represents several different (but not necessarily competing) interests. For example, there are many members who once borrowed from CFAB but do not do so today; they continue to own Class B Preferred Stock and retained patronage. They expect the values of those equities to be protected and to one day be paid to them. There are also those members who are today’s borrowers; while they hold CFAB equities also they tend to be more focused on the effectiveness of CFAB’s operations today in order to enjoy the lowest possible costs of borrowing. And there are tomorrow’s members, the resident Alaska fishermen and farmers who will borrow in the 21st century. We cannot identify them – they cannot identify themselves – but we know we must strive to assure that CFAB exists, that it is strong, and that it is stable, when it is needed.

The Board of Directors is today exploring the potential for diversification of CFAB activities, a direction which we believe is both critical and in the basic interests of all of CFAB's constituencies. This is not a new issue; it has been discussed from time to time for over ten years. It is, however, a matter on which we want to seek the views of those constituencies we can today identify. We hope you will take a few moments to read through the following pages and to respond to the questions which are raised.

CFAB made its first loans in 1980, and has now served Alaska commercial seafood harvesters and processors – as well as farmers – through 20 seasons.

CFAB's earliest years were somewhat tumultuous. A combination of factors such as inappropriate exuberance and ill-considered policies, along with the uncontrollable effects of developments such as a botulism scare and precipitous declines in key fisheries, nearly brought the institution to its knees in 1984 and 1985.

The late 1980's and early 1990's were committed to retrenchment, recovery, and restructuring. Problem loans were liquidated, and debt was dramatically reduced.

Beginning in 1991, CFAB made monthly payments to the State of Alaska to repurchase increments of the state's initial \$32.0 million investment in CFAB. That process was completed in September 1998, and CFAB today is owned solely by its past and present borrowing members. Those members' equity totals slightly over \$19.0 million.

During that same 1991–99 period, CFAB has continued to operate on a sound basis. Its total year-end loan volume has hovered in the \$30.0/\$35.0 million range. It has made term loans, mostly to harvesters, totaling about \$53.0 million in those nine years. (This excludes seasonal loan advances to processors, estimated to total another \$12.0/\$16.0 million.) Net loan losses have been negligible. Net margins, or "profits," have totaled about \$5.8 million after income taxes; \$5.0 million of that has been applied directly to the accounts of borrowing members, while the remainder has been retained for general purposes. During the years 1991 through 1999, CFAB has paid \$1.3 million of Federal income tax and \$140,000 of State income taxes.

CORRECTION

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Quite likely, each past and present borrower/stockholder holds his or her own view as to CFAB's effectiveness. There is no doubt in our collective mind within CFAB itself that the institution's very existence has resulted in meaningful benefits to every resident Alaska farmer or seafood harvester who has borrowed from any source during the past 20 years; CFAB sets a standard for costs and services which other lenders must equal or exceed in order to attract discerning borrowers.

The aspect of CFAB's long-term performance of which we are perhaps the most proud – but which seems almost impossible to “sell” to prospective borrowers – can be illustrated by recounting a discussion which occurred recently at Fish Expo. A Washington State fisherman approached CFAB staff to ask if there were any way he could be eligible to apply to refinance the commercial bank loan on his vessel. Although the answer was “no,” and remained so, he went on to say, “I've got two buddies with CFAB loans who each got into financial trouble at times in the past. I watched how CFAB worked with them and made it possible for them to recover. I don't believe any other lender would have done what CFAB did, and I guess I never know when I might have trouble, so I'd really feel comfortable with a CFAB loan!”

It is clear that the concept and the actuality of a focused and specialized institution provides benefits and advantages to its constituents. There is a darker side to that thought, however. The concentration of risk renders CFAB vulnerable in a manner which could result in failure at a time when it is most needed by resident Alaskans. Its level of risk concentration cannot be found in more conventional lenders. Any deposit-based and/or regulated institution would be sanctioned by its authorities, perhaps harshly, before any risk concentration reached a small fraction of that borne by CFAB. No proprietary or profit-oriented commercial lender would expose itself to such dangers!

Those dangers, of course, manifest themselves in loan portfolio performance. CFAB makes a careful analysis of the discrete risk inherent to any individual loan which it makes. In doing so, it recognizes that the uncertainties of commercial fishing will result in stress and/or temporary non-performance by some unforeseeable number of those individual borrowers. That does indeed happen; at any point in time over the past years, 15% to 25% of CFAB's borrowers have been in a delinquent or “non-performing” status. Usually these

problems have been spread over a range of fisheries. CFAB has learned to deal with them, and relies on the vigor of the remainder of its portfolio to permit the time and positioning necessary to revitalize those distressed situations. This is attested to by its recent history of minimal actual losses.

CFAB is not, however, positioned to withstand any protracted and generalized or systemic fisheries downturn. This can be clearly seen by examination of CFAB's circumstances nine months ago as a result of two successive Bristol Bay run failures, exacerbated by a near-disastrous 1998 Cook Inlet fishery. While CFAB was certainly not on the verge of collapse in the Spring of 1999, it is clear that the ability to cope with such circumstances is limited to a few years' duration. While there is no "quick fix" available, it is apparent that CFAB is in need of significant opportunities for diversification in its asset base.

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"In accordance with its statutory mandate and authority, CFAB's financing activity is limited to Alaska commercial fishing and agriculture industries. This concentration of loans in resource-based industries results in an unusual level of risk exposure ..."

Similarly, the State of Alaska's bank examiners noted in their May 31, 1998, examination report:

"... The bank's narrow mission to provide financing for Alaska's fishing and agriculture industry has left it vulnerable to the ups and downs of the industry ... This lack of diversification subjects the bank to greater risk of loss during poor fishing harvests ..."

The examiners have made generally similar, but less explicit, comments in other examination reports.

As suggested earlier, the lending business does not allow a "quick fix" approach to this matter. Furthermore, CFAB is neither financially positioned nor competent to pursue a course of diversification generally, even were it authorized to do so.

However, observations over time have led CFAB's Board of Directors and management to the conclusion that within Alaska's business infrastructure and economy there

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is a stratum of small and/or entrepreneurial operators in Alaska resource-related industries other than commercial fishing and agriculture (and other than those forest products activities that CFAB's statute defines as "agriculture") which does not have reliable access to adequate commercial credit. For the purposes of legislation, CFAB views "resource-related" industries to include timber, minerals, oil and gas, water, etc., and tourism.

Complimenting those thoughts is the reality that it is extremely difficult for CFAB to fully utilize the capacities of its existing resources – in particular, the credit expertise personified by its staff – within the constraints of lending only to commercial fishing and agriculture. Generally, there are intense but relatively brief periods of new loan activity during the Winter and Spring, and a time of collection efforts in the late Fall. The remainder of the year is committed to routine servicing and maintenance. This under-utilization of resources results in an incalculable but meaningful "extra" burden which is reflected in borrowers' interest costs.

Neither CFAB's Board of Directors nor its member-owners have the authority to make fundamental changes to CFAB's lending activities. CFAB's mandate is derived from Alaska Statute 44.81. CFAB's Directors and Management have had discussions with legislators, and anticipates further such discussions, concerning the potential for legislation in the 2000 session which would permit CFAB to diversify into the areas mentioned.

We are aware that some of CFAB's existing members, or other commercial seafood harvesters, may perceive that financing tourism-based enterprises implies – at least to some degree – support of interests in conflict with their own. However, it is from CFAB's own membership that the greatest number of actual loan requests for such purposes are received, i.e., from commercial harvesters seeking financing to diversify themselves into charterboat operations, bed and breakfasts, outfitting or guiding, etc.

CFAB's Directors (six of whom are commercial harvesters) have discussed and considered the matter and believe that both the appearance and the fact of conflict can be minimized. It is not particularly difficult to establish policies and practices to assure that "sensitive" loans are never more than a small fraction of CFAB's total loan portfolio (the final page of this paper is an excerpt from the proposed statutory amendment, showing the

definitions which would be incorporated into the authority to finance other "resource-based industry" participants.)

Finally, it is important to remember that the underlying motivation for seeking the opportunity to diversify is not simply "to find something else to do." It is an effort to strengthen CFAB, to help protect the \$19.0 million of equity which belongs to today's members, and to help assure that CFAB can continue to be a reliable and effective source of financing for future generations.

Despite the broad authority and responsibility which is vested in the Board of Directors by law, we would like to have indication of the views of as many active CFAB members as possible. To that end, you will find enclosed a sheet bearing the statement, "*I am willing to rely on the judgment of the Board of Directors in seeking diversification opportunities for CFAB.*", with spaces for you to mark "Yes" or "No." There is room for you to make comments if you wish (which we encourage). You need not sign the paper, but are certainly free to do so if you would like to be identified with specific views. Please take a few moments to reflect on this very important matter, to indicate your views by mark and/or by comments, and to return the form to CFAB in the enclosed postage-free envelope as soon as possible.

Some of you may recall that, nine years ago, members were asked to express their views on essentially the same matter. 128 responses were received, many of them bearing thoughtful and helpful comments. 100 of those responses bore a "Yes" indication while the remaining 28 were marked "No." Although the 1990 Directors were encouraged by those responses, subsequent analyses of CFAB circumstances and the expressed views of some legislators led to the conclusion that the issue should be dropped at least until all of the State's investment in CFAB had been retired. We believe it is important that the matter now be re-visited.

Thank you,

Your Board of Directors

ORIGINS/BACKGROUND

Alaska Commercial Fishing and Agriculture Bank (CFAB) was created through actions of the State Legislature in 1978, 1979, and 1980. It is incorporated under, and is the sole subject of, a specific statute (today AS 44.81). Although that statute has been amended several times since 1980, its most fundamental provisions remain intact.

Documented history, and the recollections of involved legislators and others, consistently attest that CFAB was created to address limitations to the access to credit facilities by resident Alaska commercial seafood harvesters and processors, and farmers. The effort was, effectively, to establish an "Alaskanized" replication of agricultural production financing entities which had operated for many years as parts of the Federal Farm Credit System, and to make CFAB a private cooperative which could funnel previously unavailable capital to Alaska enterprises.

In addition to being incorporated under AS 44.81, rather than under one of the state's several other business organization statutes, CFAB embodies a number of anomalies which combine to make it a unique entity. For example, despite the name bestowed upon it by the legislature, CFAB is not subject to the Alaska Banking Code, is not authorized to offer or perform any banking functions other than to make loans, and does not meet any known statutory or regulatory definition of a "bank" (which places it at a significant disadvantage with respect to Federal income taxes). Also, although CFAB is mandated by AS 44.81 to be structured and to operate as a cooperative, it is not subject to the Alaska Cooperative Corporation Code. And, as a final example, although the State of Alaska has been CFAB's largest single stockholder for most of its 19-year history, it is a private entity (there have been two formal opinions addressing this point - one by the State Ombudsman in 1985, and one by the Alaska Supreme Court in 1986).

March 1, 1999

As alluded to above, the State of Alaska provided CFAB's initial capital through the purchase of \$32.0 million of Special Preferred Stock in 1980. The statute requires CFAB to repurchase such stock from the State within 20 years (i.e., no later than July 2000).

DEVELOPMENT/OPERATIONS

CFAB began operations in March 1980. Since then, and continuing through the present, CFAB has supplemented its capital through borrowings from elements of the Farm Credit System for its loanable funds.

CFAB's earliest years were characterized by inappropriate exuberance, ill-considered policies, overly liberal credit practices, and precipitous declines in key fisheries. By the end of 1983, loans totaled over \$100.0 million and there was over \$79.0 million of debt. By the end of 1984, an inordinate portion of the loan portfolio had become "questionable" (or worse), CFAB had already recognized over \$12.0 million in loan losses, and it appeared to be on the brink of failure.

The late 1980's and early 1990's were committed to retrenchment, recovery, and restructuring. Problem loans were liquidated, and debt was dramatically reduced.

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During that same 1991-1998 period, CFAB has continued to operate on a sound basis (i.e., sound within the context of its mandated but dangerous focus). Its total year-end loan volume has hovered in the \$30.0/\$35.0 million range. It has made

March 1, 1999

term loans, mostly to harvesters, totaling slightly over \$47.0 million in those eight years. (This excludes seasonal loan advances to processors, estimated to total another \$12.0/\$16.0 million.) Net loan losses have been negligible. Net margins, or "profits," have totaled about \$5.1 million after income taxes; \$4.7 million of that has been applied directly to the accounts of borrowing members, while the remainder has been retained for general purposes. During the years 1991 through 1998, CFAB has paid \$1.4 million of Federal income tax and \$179,000 of State income taxes.

AS 44.81 provides for CFAB's accountability to the State Legislature and the Administration. The Governor appoints two of CFAB's seven directors. CFAB is required to submit its Annual Report, including its audited financial statements, to the Governor and the Legislature. The State's bank examiners perform an annual qualitative examination and evaluation of CFAB; their report is also submitted to the Governor and the Legislature. Finally, the Legislative Auditor may be directed to perform a complete or limited audit of CFAB, an authority which has been exercised a number of times.

PROBLEMS/DANGERS

Although CFAB's specialization provides some obvious operational advantages to the institution and its constituents, the concentration of risk renders it vulnerable in a manner which could result in failure at a time when it is most needed by resident Alaskans. Its level of risk concentration cannot be found in more conventional lenders. Any deposit-based and/or regulated institution would be sanctioned by its authorities, perhaps harshly, before any risk concentration reached a small fraction of that borne by CFAB. No proprietary or profit-oriented commercial lender would expose itself to such dangers!

March 1, 1999

Those dangers, of course, manifest themselves in loan portfolio performance. CFAB makes a careful analysis of the discrete risk inherent to any individual loan which it makes. In doing so, it recognizes that the uncertainties of commercial fishing will result in stress and/or temporary non-performance by some unforeseeable number of those individual borrowers. That does indeed happen; at any point in time over the past years, 15% to 25% of CFAB's borrowers have been in a delinquent or "non-performing" status. Usually these problems have been spread over a range of fisheries. CFAB has learned to deal with them, and relies on the vigor of the remainder of its portfolio to permit the time and positioning necessary to revitalize those distressed situations. This is attested to by its recent history of minimal actual losses.

CFAB is not, however, positioned to withstand any protracted and generalized or systemic fisheries downturn. This can be clearly seen by examination of CFAB's circumstances today as a result of two successive Bristol Bay run failures, exacerbated by a near-disastrous 1998 Cook Inlet fishery. While CFAB is certainly not on the verge of collapse today, it is clear that the ability to cope with such circumstances is limited to a few years' duration. While there is no "quick fix" available, it is apparent that CFAB is in need of significant opportunities for diversification in its asset base.

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March 1, 1999

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The examiners have made generally similar, but less explicit, comments in previous examination reports.

RESPONSE

As suggested earlier, lending does not allow a "quick fix" approach to this matter. Furthermore, CFAB is neither financially positioned nor competent to pursue a course of diversification generally, even were it authorized to do so.

However, observations over time have led CFAB's Board of Directors and management to the conclusion that within Alaska's business infrastructure and economy there is a stratum of small and/or entrepreneurial operators in Alaska resource-related industries other than commercial fishing and agriculture (and other than those forest products activities that CFAB's statute defines as "agriculture") which does not have reliable access to adequate commercial credit. For the purposes of this exercise, and subject to more comprehensive definition for the purpose of legislation, CFAB views "resource-related" industries to include timber, minerals, oil and gas, water, etc., and tourism.

March 1, 1999

CFAB's observations have been unstructured. They relate to media reports and other public information, informal conversations with businesspeople, as well as to misguided approaches over time by individuals or businesses seeking loans which CFAB is not authorized to make. CFAB's perception is that often these aspiring borrowers are not constrained from access to credit by a lack of creditworthiness but by their relatively small size and/or by their lack of sophistication with respect to the preparation of financial records and business plans, etc. These are phenomena with which CFAB is quite familiar and which it is operationally structured to accommodate.

CFAB's management has discussed those views with a number of traditional lenders' officers. There has been concurrence by some, but at least an equal number has suggested that there is no significant gap in the range of credit facilities available to the industries mentioned.

CFAB's request is for an amendment to AS 44.81 which would authorize it to finance participants in those industries (again, subject to express and limiting definitions). Such an amendment would bear no fiscal note; there are no financial implications for the State of Alaska other than, arguably, an enhancement of business activity as well as revenue from fees and taxes.

SUPPORT

This matter has been discussed with the President of the Resource Development Council, Inc. He has indicated that the RDC will be supportive if this effort results in legislation. There has also been discussion with the Alaska Visitors Association, but that organization is not yet prepared to express a position. It is presumed that, if and when legislation is actually pending, some or all of the twelve

March 1, 1999

ARDORs in Alaska will be supportive; CFAB commits to the effort to organize such support.

OPPOSITION

There are two conceivable sources of potential opposition, albeit limited.

First, it is possible that some commercial lenders may argue that a broadening of CFAB's authority may introduce inappropriate competition to "their" markets. There is available a considerable body of factual rebuttal to that argument.

Second, it is possible that some of CFAB's existing borrowers, or other commercial seafood harvesters, may perceive that financing tourism-based enterprises implies - at least to some degree - support of interests inimical to their own. However, it is from CFAB's own membership that the greatest number of actual loan requests for such purposes are received, i.e., from commercial harvesters seeking financing to diversify themselves into charterboat operations, bed and breakfasts, outfitting or guiding, etc. CFAB's Directors (six of whom are commercial harvesters) have discussed the issue and seem to believe that both the appearance and the fact of conflict can be minimized. Finally, it is important to recognize and emphasize that CFAB's continuing ability to adequately serve the credit needs of its basic constituencies may very well rely on some form of constructive diversification over time.

SOUTHEAST CONFERENCE

Working for strong economies, healthy communities, and a quality environment in Southeast Alaska

February 20, 2000

Representative Eldon Mulder
Room 507
State Capitol Bldg
Juneau, AK 99801-1182

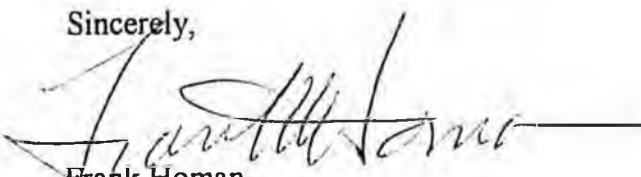
Dear Representative Mulder:

The Southeast Conference appreciates your efforts in providing opportunities for Alaska business expansion and development. The Southeast Conference supports HB 339 "An Act authorizing the Alaska Commercial Fishing and Agriculture Bank to make loans to tourism and development or exploitation of natural resources." The availability of financing is one of the most important considerations in any business development and at this time Alaska needs assistance to diversify its economy. The decline of oil production, timber production and low prices for our salmon production are indicators that Alaska must seek to diversify in order to replace lost jobs and to provide jobs for young Alaskans about to enter the workforce.

The Alaska Commercial Fishing and Agriculture Bank is capable of taking on this expanded ability to help Alaska businesses. It has been in existence for more than twenty year and has been successful in providing financing to two of Alaska's significant economic sectors namely fishing and agriculture. The experience gained in those areas will be a major benefit in designing a program to assist Alaska tourism and natural resource development projects.

Thank you for introducing HB 339. Please do not hesitate to call on me if you have any questions.

Sincerely,


Frank Homan
Executive Director



TOK CHAMBER OF COMMERCE

"Main Street Alaska"

P.O. Box 389
Tok, Alaska 99780
(907) 883-5887
FAX 883-3682

Representative Eldon Mulder
Alaska State Legislature
State Capitol
Juneau, Alaska

February 22, 2000

Rep. Mulder:

As representatives of businesses in our area, the Tok Chamber of Commerce wholeheartedly supports the efforts of House Bill No. 339 to authorize the Alaska Commercial Fishing and Agriculture Bank to make loans relating to tourism and development or exploitation of natural resources.

An additional source of financing for smaller-sized businesses in our area would be welcome indeed.

H. Dale Young, Jr.
President

HDY:ss

Tel: (907) 772-4414
Fax: (907) 772-9385



PETERSBURG ENERGY LLC

P.O. Box 1364
Petersburg, Alaska 99833

February 21, 2000

The Honorable Eldon Mulder
Chairman, House Finance Committee
Alaska State Legislature
State Capitol, Room 507
Juneau, Alaska 99811

Dear Chairman Mulder:

Petersburg Energy LLC (PE) is an independent, Alaskan-based oil exploration and production company owned mostly by Alaskan residents. Petersburg Energy presently holds leases on about 12,000 acres of state land on the North Slope, and is actively developing an exploration program with the intent to pursue production as soon as possible.

Petersburg Energy applauds your efforts and those of Representatives Bill Hudson and Alan Austerman in sponsoring House Bill No. 339. This bill will allow the Alaska Commercial Fishing and Agriculture Bank (CFAB) to make loans to Alaskan businesses involved in natural resource development and tourism. Petersburg Energy fully supports the proposed legislation.

While PE's activities have not developed to the point of trying to pursue financial assistance to support field production, we have held discussions with representatives of conventional banking institutions in Alaska and have been told that it is unlikely that commercial loans will be available for this type of enterprise. Broadening CFAB's authority to consider financial opportunities in support of natural resource development provides an Alaskan-owned company like Petersburg Energy a meaningful alternative not presently available to pursue business development plans.

Sincerely,

John R. Winther
President

cc. Petersburg Energy Board of Directors

Rep. Eldon Mulder
Alaska State Legislature
State Capitol (MS 3100)
Juneau, Ak 99801
FAX # 907-465-3518

Greetings,
We support Bill 339 (HB339)

Sincerely,
Lois Stover, President
Shuyak Inc
Box 727 Kodiak Ak 99615

FAX 907-486-5097

Dated 2-15-00

HB

342

(7)

HOUSE COMMITTEE REPORT

FURTHER REFERRALS:

Finance

Date Referred to Committee: April 13, 2000

Date of Committee Action: April 14, 2000

The LABOR AND COMMERCE Committee considered:

HB 342

HOUSE BILL NO. 342

AIDEA: BONDS & RURAL DEVELOPMENT

"An Act relating to the financing authority, payment in lieu of tax agreements, and tax exemption for assets and projects of the Alaska Industrial Development and Export Authority; relating to renaming and contingently repealing the rural development initiative fund within the Department of Community and Economic Development, and establishing the rural development initiative fund within the Alaska Industrial Development and Export Authority; and providing for an effective date."

recommends it be replaced with the following committee substitute CSNR 342 (LFC) the same title a new title

additional referral to _____ Committee
 attached amendment(s)

ADOPTS: _____ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept)

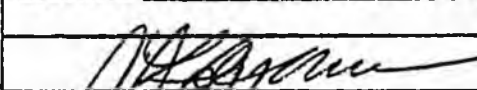

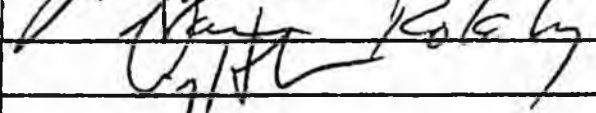

APPROVES PREVIOUS: (Dept/Date)

fiscal note(s) _____

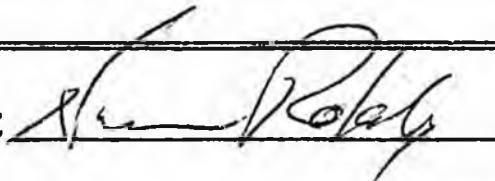
fiscal note(s) _____

zero fiscal note(s) Dec 02/7/00

zero fiscal note(s) _____

SIGNING WITH RECOMMENDATIONS	DP	DNP	NR	AM
	<input checked="" type="checkbox"/>			
	<input checked="" type="checkbox"/>			
	<input checked="" type="checkbox"/>			
	<input checked="" type="checkbox"/>			

CHAIR'S SIGNATURE



4-14-2000

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MEMORANDUM

April 15, 2000

SUBJECT: Rural development initiative fund (CSHB 342(L&C))

TO: Representative Norman Rokeberg, Chair
House Labor and Commerce Committee
Attn: Janet Seitz

FROM: Tamara Brandt Cook
Director

TBC

Here is the final committee substitute you requested. As directed, we did not clean up technical mistakes in this bill introduced by the Governor. I noticed that the change in bill section 6 makes little sense, but is not legally damaging.

However, the amendment added to Sec. 44.88.600 in bill section 9 does pose a potential legal problem. It limits the "assets transferred to the fund by the authority" to \$2,000,000. However, while the authority can transfer assets to the fund from other sources, "loan repayments, interest, or other income" earned as a result of fund activity is also to go into the fund. Does the \$2,000,000 limit apply only to the assets from other sources that the authority may choose to deposit into the fund or does it include also the earned fund money that the authority is required to deposit in the fund?

TBC:glc
00-180.glc

Amendment Number: #1
Bill Number: SB 248
Sponsor: Tomasso Date: 4/12/00
Logged In By: Mindy

AMENDMENT #1

OFFERED IN THE SENATE
TO: SB 248

BY SENATOR TORGERSON

1. Page 4, line 20, following "deposited into the fund by the authority."
2. Insert "The assets transferred to the fund by the authority may not exceed \$2 million."

4/14/00

2m moves

adopted

as amended w new recs
& bn

FISCAL NOTE

Bill Version: HB 342

(H) Publish Date: 2/7/00

**STATE OF ALASKA
2000 LEGISLATIVE SESSION**

Revision Date/1/25/2000 Dept. Affected DCED
 Title AIDEA bonding authority BRU AIDEA
 Component _____
 Sponsor _____
 Requester _____ Component No. _____

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Corporate Funds)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2000) cost: 0.0

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This bill has a positive fiscal effect on the General Fund. Passage of this bill allows AIDEA to continue fulfilling its mission, generating revenues, and in turn, providing an annual dividend to the General Fund. The bill extends AIDEA's bonding authority, clarifies procedures available to municipalities to grant tax exemptions for privately held interest in AIDEA-owned assets, and transfers the rural development initiative fund program to AIDEA. AIDEA funds its operations and projects through corporate receipts and through the sale of bonds and does not use General Fund money.

Prepared by: D. Randy Simmons, Executive Director Phone _____
 Division AIDEA Date/Time 1/27/00 11:53 AM
 Approved by Commissioner Deborah B. Hedrick Date 1/27/00
 Agency _____

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HB 342

TONY KNOWLES
GOVERNOR
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OFFICE OF THE GOVERNOR
JUNEAU

P.O. Box 11000
Juneau, Alaska 99811-0001
Phone (907) 465-7500
Fax (907) 465-7532
www.gov.state.ak.us

February 3, 2000

The Honorable Brian Porter
Speaker of the House
Alaska State Legislature
State Capitol
Juneau, AK 99801-1182

Dear Speaker Porter:

The Alaska Industrial Development and Export Authority (AIDEA) has been a key player in many of Alaska's economic successes through the years. AIDEA programs have financed smaller projects, such as the Unalaska Marine Center dock, and the multi-million dollar Red Dog mine and Federal Express aircraft maintenance facility. This bill I transmit today continues AIDEA's role in boosting economic development and creating jobs in the state by extending its bonding authority for development projects of up to \$10 million and for conduit bond financing that does not involve the assets or credit of AIDEA or the state.

Under the bill, AIDEA's general bonding authority for projects up to \$10 million would be extended for three years, until June 30, 2003. The bill also clarifies that the sunset provision does not apply to conduit revenue financing transactions. Projects larger than \$10 million would still require specific legislative authorization.

In addition, this bill clarifies the procedures available to municipalities to grant tax exemptions for privately held interests in AIDEA-owned assets and projects, and instead enter into agreements and receive payments in lieu of taxes.

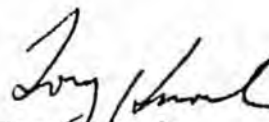
The bill also provides for the transfer of the rural development initiative fund (RDIF) program from the Department of Community and Economic Development (DCED) to AIDEA. This makes formal the program transfers authorized in last year's departmental merger bill. Transferring the RDIF program would enable AIDEA to further its economic development mission in communities of 5,000 or less.

HB342

The Honorable Brian Porter
February 3, 2000
Page 2

The state is fortunate to have a financially healthy agency like the AIDEA to forge public-private partnerships that can strengthen Alaska's economic base. This bill will enhance the tools available to the AIDEA to further this mission.

Sincerely,



Tony Knowles
Governor

SB 248--HB 342
AIDEA Bill
Sectional Analysis

Section 1 – Clarifying changes to Property Tax Exemption Provisions

Section 1 together with Sections 6, 7, and 8 make clarifying changes in tax exemption and payment in lieu of tax provisions relating to AIDEA owned projects.

Background. Under AIDEA's development finance program, AIDEA can own development projects that further the Authority's mission. Examples of these projects include the DeLong Mountain Transportation System serving the Red Dog Mine and the Federal Express Maintenance Facility at Anchorage International Airport.

By statute, AIDEA's interests in development finance projects are exempt from property taxes. Other statutory provisions allow for local jurisdictions to exempt the property interests of private users of AIDEA's facilities from property taxation and authorize local jurisdictions to enter into payment in lieu of tax agreements with these users.

The bill makes technical changes to clarify how the property tax and the payment in lieu of tax agreement mechanisms operate.

Section 1. Permissive Property Tax Exemption for AIDEA Owned Projects. Section 1 amends the provisions to AS 29.45.050 to allow municipalities to grant tax exemptions with respect to interests of private users in AIDEA property. Current law (AS 44.88.140 (b)) authorizes the use of payment in lieu of tax agreements for private interests held in AIDEA owned projects but does not clearly describe the methods that can be used to implement those agreements. Section 1 allows municipalities to grant, by ordinance, partial or total property tax exemptions in private property interests held by users of the Authority's assets. While other statutory provisions allow municipalities to grant various tax exemptions including an exemption for economic development property, none of the exemptions specifically relate to AIDEA owned projects. Adding a specific permissive exemption together with the clarifying changes to the payment in lieu of tax agreement provisions will provide municipalities with appropriate mechanisms and simplify the process by which municipalities can implement these property tax provisions.

Sections 2 through 4 – Transfer of Rural Development Initiative Fund Program (RDIF)

Section 2-4 together with Sections 9-11 and 13-14 transfer the Rural Development Initiative Fund Program (RDIF) to AIDEA.

Background -- The RDIF program encourages economic development in rural Alaska by providing loans to small businesses in communities with populations of less than 5,000. The program was originally administered by the Department of Community and Regional Affairs and with the passage of HB 40 last year, is now within the Department of Community and Economic Development (DCED).

Because the RDIF program advances the Authority's economic development mission, AIDEA has supported the program over the last several years. The Authority has coordinated its Business and Export Assistance Loan Guarantee program with the RDIF program to increase the effectiveness of both programs. In 1993 and again in 1996, the Legislature authorized AIDEA to purchase loan portfolios from the State as an investment for the Authority. These loan purchases helped to re-capitalize the RDIF fund so that the fund had sufficient cash assets to make additional loans.

With the consolidation accomplished under HB 40, it is appropriate to transfer the RDIF program to the Authority. Transferring the program to AIDEA furthers AIDEA's mission in rural Alaska. In addition, the transfer will allow the program to continue to operate from year to year without the need for periodic AIDEA loan purchases or other legislative appropriations to re-capitalize the program. AIDEA will contract with DCED to administer the program utilizing the Department's rural program staff. This will help maximize efficiencies and ensure the continued effectiveness of the program in rural Alaska.

There are two steps to accomplishing the RDIF transfer to AIDEA. First, the bill statutorily creates a new RDIF loan program within AIDEA. This new program mirrors the existing statutory program. Second, upon the purchase by AIDEA of the existing RDIF loan portfolio, the bill repeals DCED's existing program. An appropriation will be required to authorize AIDEA's purchase of the existing portfolio.

Sections 2-4. Sections 2, 3 and 4 rename the existing DCED Rural Development Initiative Fund to the Rural Economic Development Initiative Fund. Under the bill (Sections 10, 13 and 14), the existing DCED program is not repealed until AIDEA completes the purchase of the existing RDIF loan portfolio from the State. Pending this purchase, the existing DCED statutes are modified to rename DCED's fund. This action is necessary so there is no statutory conflict with the AIDEA Rural Development Initiative Fund created under the bill.

Section 5 – Extension of AIDEA's Bonding Authority

Section 5 extends AIDEA's general bonding authority, which would otherwise sunset on July 1, 2000. Bonds for development finance projects in excess of \$10,000,000 will continue to require legislative authorization.

Background. Effective July 1, 2000, AIDEA's ability to issue bonds, other than refunding bonds, will sunset. The sunset would prevent AIDEA from issuing any new bonds (other than refunding bonds) without legislative approval and severely curtail AIDEA's ability to fulfill its statutory mission.

The sunset would prevent AIDEA from issuing bonds to assist key development projects, bonds to fund loan participations and conduit revenue bonds that do not involve the credit of AIDEA or the State. In recent years, AIDEA has issued tax-exempt conduit revenue bonds to help finance the Fort Knox gold mine (\$71 million), the Goat Lake Hydroelectric project (\$23 million), the South Central Alaska chapter of the American Red Cross (\$2.2 million), the Fairbanks Sewer and Water project (\$6 million) and the Association of Village Council Presidents (\$916,000). These bonds helped lower the cost of financing for these projects without any financial risk to AIDEA or the State.

The bill extends the sunset until July 1, 2003. In addition, the bill clarifies that the sunset does not apply to conduit revenue bonds, which do not impact the State's or AIDEA's credit. Bonds in excess of \$10 million for development finance projects will continue to require specific legislative approval.

Sections 6 through 8 -- Clarifying changes to Property Tax Exemption Provisions

Section 6 – This section amends AS 44.88.140(a) to recognize the permissive property tax exemption (adopted under Section 1 of the bill) that local governments may grant for AIDEA own projects.

Section 7 – This section amends AS 44.88.140(b) to clarify the mechanism to be used by local governments and users of AIDEA projects for entering into payment in lieu of tax agreements. The bill makes clear that these agreements are to be made directly between the local governments and the project users.

Section 8 – This section amends AS 44.88.140 to add a clarifying definitional section for "local political subdivision." The provision provides that the political subdivision in which the AIDEA project is located is the "local political subdivision" for purposes of the statute.

Sections 9 through 11 -- Transfer of Rural Development Initiative Fund Program (RDIF)

Section 9 – Creation of AIDEA RDIF Program. Section 9 establishes the RDIF program within AIDEA by enacting AS 44.88.600-620. With minor changes to reflect the program's status within AIDEA, these provisions mirror the provisions of the existing DCED RDIF program (AS 44.33.765-775).

AS 44.88.600 – This section establishes the RDIF within AIDEA outside of the AIDEA revolving fund. The section allows AIDEA to transfer funds between the revolving fund and the RDIF.

AS 44.88.610 – This section establishes the basic parameters of the RDIF program and mirrors the provisions of the current DCED program (See AS 44.33.770). Under the program, loans of up to \$200,000 (\$100,000 for individuals) may be made to businesses located in communities of less than 5000. These loans require that collateral be pledged to secure repayment and that a reasonable amount of money from non-State sources also be pledged to the project. The Authority may, by regulation establish interest rates of not less than 6% and other conditions for RDIF loans.

AS 44.88.620 – This section grants AIDEA the power to dispose of property acquired through foreclosure of defaulted RDIF loans.

Section 10 – Repeal of DCED Program. This section repeals the existing RDIF program within DCED. However, as noted below (see Sections 13 and 14), this section only becomes effective upon AIDEA's purchase from the State of the existing RDIF portfolio.

Section 11 – Transitional Provisions. This section enacts several transitional provisions related to the transfer of the RDIF program to AIDEA.

Sections 11(a) and 11(b) – These sections provide that regulations adopted under DCED's RDIF program will continue to apply to AIDEA's RDIF program until such time as AIDEA adopts new regulations for the program.

Section 11(c) – This section clarifies that the existing legal contracts, liabilities and obligations created under the DCED RDIF program remain in effect notwithstanding the transfer of the program under the bill.

Section 11(d) – This section provides that any amounts retained within DCED's RDIF, following AIDEA's purchase of the assets and the repeal of the DCED program, lapse into the general fund.

Sections 12 through 15 – Effective Date Provisions

Section 12 – Effective Date -- Bonding Sunset Extension. This section provides that the effective date of the bonding sunset extension provision of the bill (Section 5) is June 30, 2000. This effective date is necessary to insure that the current July 1, 2000 sunset date does not become effective.

Section 13 and 14 – Effective Date – RDIF Transfer. These sections provide special effective dates related to the transfer of the RDIF program to AIDEA. Specifically, these sections provide that the repeal of the DCED program (Section 10) and the transition provisions (Section 11) become effective on the day after AIDEA purchases the existing assets in the RDIF fund. A separate appropriation will be required to authorize AIDEA to purchase the existing RDIF assets from the State.

Section 15 – General Effective Date. This section provides that the remainder of the bill becomes effective July 1, 2000 to coincide with the beginning of the next fiscal year.

HB

345



Alaska State Legislature

Representative Norman Rokeberg
District 11 - Republican

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Sponsor Statement for HB 345 State Employee Health Insurance

An Act relating to state employee health insurance.

Updated: April 7, 2000
Contact: Representative Norman Rokeberg at (907) 465-2040

First, the bill will replace funding lost by the Alaska Comprehensive Health Insurance Association (ACHIA) that was eliminated when the State of Alaska went to a self-insured plan. Prior to that, Aetna (the insurance carrier for the State) paid a premium to ACHIA of about \$400,000 per year.

ACHIA is an important part of Alaska's efforts to help those individuals who cannot gain insurance coverage elsewhere or who are denied adequate health insurance or considered uninsurable. At the end of 1998, 342 Alaskans were insured under the ACHIA plan, the health insurance of last resort. I would note that these 342 Alaskans pay their own premiums to ACHIA but the state's private health insurers pay \$1 to \$2 million a year to subsidize the program.

Keeping ACHIA a viable organization so that it can continue to offer coverage is important for all Alaskans. By returning to ACHIA the funds that were deleted when the State went to a self-insured plan, we avoid cost shifting and lower costs to private health insurance companies.

Second, this bill addresses a concern about the state employees health insurance plan. The current Administration has agreed to permit each bargaining unit to opt out of the state employee health plan pool and convert to individual health trusts or join a union-backed and controlled health coalition. The impact of such a move will be that as each individual bargaining unit opts out of the pool and into a trust or coalition, the remaining state employees in the pool would probably see higher premiums and costs for services.

CSHB 345 (L&C) says that the collective bargaining units may negotiate with

the state on the issue of health insurance as long as any such negotiations do not involve that unit's stepping out of the state employees health insurance pool. For example, the union can negotiate as to the amount the state will pay for each employee, what will be covered, what type of menus will be available, etc., they just cannot step out of the large pool. For those unions who are currently in trust arrangements, they may keep those trust arrangements active. There are three unions who are involved in health insurance trusts. The three cover over 1500 members who have, in effect, been taken out of the state employee insurance pool. The largest union with 7180 employees (General Government Union) has refused to join the pool that many state employees utilize and thus that reduces the pool further. The larger the pool, the lower the costs.

Currently the state plan insures about 33,660 retirees (members and dependents) and 34,017 active employees and their families. Premiums range from a low of \$525.00 to a high of \$627 and the employees pays a chunk of that costs. The employee's cost ranges from \$50 to \$174 per month.

Fundamentally, this bill is not intended to replace the existing plan but to enlarge the pool. This would protect both the employee and the employer.

I would urge your support of this legislation.

###

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Alaska State Legislature

Representative Norman Rokeberg
District 11 - Republican

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Sectional Analysis for HB 345 State Employee Health Insurance

An Act relating to state employee health insurance.

Posted: February 10, 2000
Contact: Representative Norman Rokeberg at (907) 465-2040

Section 1: States that if the State has decided to provide health insurance benefits to its employee under a self-insurance plan, that it is a member of the Alaska Comprehensive Health Insurance Association and must remit the associated premiums.

Section 2: Adds the state to the definition of "health care insurer" under the ACHIA provisions.

Section 2: Removes health insurance from bargaining consideration.

###

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CS FOR HOUSE BILL NO. 345(L&C)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FIRST LEGISLATURE - SECOND SESSION

BY THE HOUSE LABOR AND COMMERCE COMMITTEE

Offered:
Referred:

Sponsor(s): REPRESENTATIVE ROKEBERG

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to state employee health insurance."

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

3 * Section 1. AS 21.55.010 is amended to read:

4 Sec. 21.55.010. **Creation; membership.** There is established a nonprofit
5 incorporated legal entity to be known as the Comprehensive Health Insurance
6 Association. Membership consists of all licensed hospital or medical service
7 corporations in the state that offer subscriber contracts for major medical coverage, all
8 health maintenance organizations or other managed care arrangements approved by the
9 director, and all insurers licensed to transact health insurance in the state that offer
10 policies for major medical coverage on an expense incurred basis. If the Department
11 of Administration has elected to provide health insurance benefits to state
12 employees by means of self-insurance under AS 39.30.091, the state is included in
13 the membership of the association. All members shall maintain membership in the
14 association as a condition of doing health insurance business, or being able to offer
15 subscriber contracts or enrollment in a health maintenance organization or managed

1 care arrangement, in the state.

2 * Sec. 2. AS 21.55.500(10) is amended to read:

3 (10) "health care insurer" has the meaning given in AS 21.54.500 and
4 includes the state if the Department of Administration has elected to provide
5 health insurance benefits to state employees by means of self-insurance under
6 AS 39.30.091;

7 * Sec. 3. AS 23.40.075 is amended by adding new subsections to read:

8 (b) Except as provided in this (c) of this section, the state and an organization
9 representing state employees may not enter into a collective bargaining agreement in
10 which members of the bargaining unit are exempted from coverage under the health
11 insurance plan provided by the state under AS 39.30.090(a)(1) or 39.30.091.

12 (c) Subsection (b) of this section does not apply to a bargaining unit that had
13 entered into an agreement that was in effect on July 1, 1999, that exempted members
14 of the bargaining unit from coverage under the health insurance plan provided by the
15 state.

16 * Sec. 4. The uncodified law of the State of Alaska is amended by adding a new section
17 to read:

18 NO EFFECT ON CURRENT AGREEMENTS. Nothing in this Act terminates or
19 modifies the terms of a collective bargaining agreement in effect on the effective date of this
20 Act.

1-LS1364D
Cramer
3/8/00

CS FOR HOUSE BILL NO. 345(L&C)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FIRST LEGISLATURE - SECOND SESSION

BY THE HOUSE LABOR AND COMMERCE COMMITTEE

**Offered:
Referred:**

Sponsor(s): REPRESENTATIVE ROKEBERG

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to state employee health insurance."

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

3 * Section 1. AS 21.55.010 is amended to read:

4 Sec. 21.55.010. Creation; membership. There is established a nonprofit
5 incorporated legal entity to be known as the Comprehensive Health Insurance
6 Association. Membership consists of all licensed hospital or medical service
7 corporations in the state that offer subscriber contracts for major medical coverage, all
8 health maintenance organizations or other managed care arrangements approved by the
9 director, and all insurers licensed to transact health insurance in the state that offer
10 policies for major medical coverage on an expense incurred basis. If the Department
11 of Administration has elected to provide health insurance benefits to state
12 employees by means of self-insurance under AS 39.30.091, the state is included in
13 the membership of the association. All members shall maintain membership in the
14 association as a condition of doing health insurance business, or being able to offer
15 subscriber contracts or enrollment in a health maintenance organization or managed

1 care arrangement, in the state.

2 * Sec. 2. AS 21.55.500(10) is amended to read:

3 (10) "health care insurer" has the meaning given in AS 21.54.500 and
4 includes the state if the Department of Administration has elected to provide
5 health insurance benefits to state employees by means of self-insurance under
6 AS 39.30.091;

7 * Sec. 3. AS 23.40.075 is amended by adding a new subsection to read:

8 (b) The state and a labor organization representing state employees may not
9 negotiate concerning health insurance.

10 * Sec. 4. The uncodified law of the State of Alaska is amended by adding a new section
11 to read:

12 NO EFFECT ON CURRENT AGREEMENTS. Nothing in this Act terminates or
13 modifies the terms of a collective bargaining agreement in effect on the effective date of this
14 Act.

Comments on HB 345
By Cecil Bykerk, Chair of ACHIA

At the origin of ACHIA in 1993, the State of Alaska employees' health insurance program was provided through an insured plan. This meant that the premium base for this plan was included in the assessment base for ACHIA. A few years ago, when the State program was converted to a self-funded plan, that premium was removed from the assessment base. This of course meant that the shortfalls of the ACHIA plan are spread over a smaller base that is primarily individual major medical policies and small group insured cases (and possibly a few large employers plan that are not self-funded). The insurance companies that pay this assessment must provide for these additional expenses through the premiums that they charge. Hence, the smaller base results in relatively increased premiums for the individuals who purchase this insured coverage.

HB 345 would have the affect of adding the State program back into the assessment base thereby reducing the impact on premiums that individuals pay for their coverage. While I do not feel that the ACHIA Board is really in a position to advocate a certain position, it may be appropriate to observe that HB 345 would have the effect of reducing the impact of the assessment on any one individual. We could also observe that under the legislation that adopted the ACHIA coverage as the federal HIPAA compliance approach, the State of Alaska employees are eligible for coverage continuity through ACHIA pursuant to that law.

However, one element of HB 345 that will need to be addressed is the definition of premium. Under an insured plan, the assessable premium is defined as the amount paid for the coverage. Under the State of Alaska plan, this is not as straight forward. Hence, some premium equivalent amount must be defined. In addition, the question of who pays the assessment is not obvious. Under an insured plan, the insurer is responsible. Under HB 345, I presume that the assessment is a general obligation of the State, but it may be necessary to spell that out in the legislation.

Thank you for the opportunity to comment on this legislation. I would be happy to answer any further questions that you might have. Call me at (402) 351-2534 or Fax me at (402) 351-5944 or e-mail me at cecil.bykerk@mutualofomaba.com .

FISCAL NOTE

STATE OF ALASKA
2000 LEGISLATIVE SESSION

BILL NO. HB 345 (L&C)

Revision Date/Time _____	Dept. Affected _____	Administration _____
Title <u>An Act relating to employee health insurance</u>	BRU	<u>Centralized Administrative Services</u>
Sponsor <u>Representative Rokeberg</u>		Component <u>Retirement and Benefits</u>
Requester <u>Labor and Commerce</u>	Component No. _____	<u>64</u>

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURE	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Personal Services	*	*	*	*	*	*
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	*	*	*	*	*	*

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (1029 P/E Retire)						
TOTAL	*	*	*	*	*	*

Estimate of any current year (FY2000) cost: 0.0

POSITIONS

Full-time						
Part-time						
Temporary						

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

The State of Alaska, through the Department of Administration, self-insures its active employee health plan. As a self-insurer, the State is not a member of the Comprehensive Health Insurance Association and does not pay the membership dues required under AS 21.55.010.

This bill would require the State to become a CHIA member and pay association dues. We estimate the fiscal impact to be \$500.0 the first year. Because employer contributions to the state's health plans are capped, this cost will be borne directly by State employees.

This bill will create a discrepancy between the status of state employees as self-insureds and all other public and private self-insureds. State employees would be asked to bear an added cost that other self-insured employees do not bear.

Prepared by: <u>Guy Bell, Director</u>	Phone <u>465-4471</u>
Division <u>Retirement and Benefits</u>	Date/Time <u>3/3/00 4:48 PM</u>
Approved by Commissioner: <u>Robert Poe, Jr.</u> <i>Robert Poe, Jr.</i>	Date <u>3/6/00</u>
Agency <u>Department of Administration</u>	

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FISCAL NOTE

STATE OF ALASKA
2000 LEGISLATIVE SESSION

BILL NO. HB 345

Revision Date/Time (Note if correction) _____ Dept. Affected Community & Economic Development
 Title An Act relating to state employee health insurance BRU Insurance
 Component Insurance
 Sponsor REPRESENTATIVES ROKEBERG
 Requester (H) L&C Component No. 354

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

FUND SOURCE	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

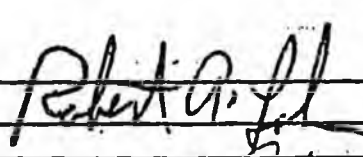
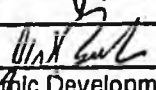
Estimate of any current year (FY2000) cost: 0.0

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

There is no fiscal impact on this component.

Prepared by: Robert A. Lohr  Phone 269-7900
 Division Insurance Date/Time 3-2-00 3:13 PM
 Approved by Commissioner Deborah B. Sedwick  Date 3-9-00
 Agency Community & Economic Development

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ALASKA STATE LEGISLATURE

House of Representatives

COMMITTEE ASSIGNMENTS:

LABOR & COMMERCE COMMITTEE, CHAIRMAN
JUDICIARY COMMITTEE, MEMBER
LEGISLATIVE COUNCIL, MEMBER
SPECIAL COMMITTEE ON UTILITY RESTRUCTURING, MEMBER
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Representative Norman Rokeberg

Sponsor Statement House Bill 345 - State Employee Health Insurance

House Bill 345 will accomplish two things:

First, the bill will replace funding lost by the Alaska Comprehensive Health Insurance Association (ACHIA) that was eliminated when the State of Alaska went to a self-insured plan. Prior to that, Aetna (the insurance carrier for the State) paid a premium to ACHIA of about \$400,000 per year.

ACHIA is an important part of Alaska's efforts to help those individuals who cannot gain insurance coverage elsewhere or who are denied adequate health insurance or considered uninsurable. At the end of 1998, 342 Alaskans were insured under the ACHIA plan, the health insurance of last resort. I would note that these 342 Alaskans pay their own premiums to ACHIA but the state's private health insurers pay \$1 to \$2 million a year to subsidize the program.

Keeping ACHIA a viable organization so that it can continue to offer coverage is important for all Alaskans. By returning to ACHIA the funds that were deleted when the State went to a self-insured plan, we avoid cost shifting and lower costs to private health insurance companies.

Second, this bill takes health insurance off the bargaining table for state employees and mandates that all state employees will participate in the same plan. Currently the state plan insures about 33,660 retirees (members and dependents) and active employees and their families amount to 34,017 insured lives. Premiums range from a

low of \$525.00 to a high of \$627 and the employees pays a chunk of that costs. The employee's cost ranges from \$50 to \$174 per month.

There are three unions who are involved in health insurance trusts. Among the three there are over 1500 members who have, in effect, been taken out of the insurance pool. The largest union with 7180 employees (General Government Union) has refused to join the pool that many state employees utilize and thus that reduces the pool further. The larger the pool, the lower the costs.

Under HB 345, as contracts expire and negotiations begin anew, all state employees will belong to one insurance plan and bargaining for health care benefits will no longer be on the table. This will put the large number of active employees in one pool and thus spread the costs and savings among all covered state employees. Fundamentally, this bill is not intended to replace the existing plan but to enlarge the pool. This would protect both the employee and the employer.

I would urge your support of this legislation.

ED1:02/07/00

ALASKA STATE LEGISLATURE

House of Representatives

COMMITTEE ASSIGNMENTS:

LABOR & COMMERCE COMMITTEE, CHAIRMAN
JUDICIARY COMMITTEE, MEMBER
LEGISLATIVE COUNCIL, MEMBER
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Representative Norman Rokeberg

SECTIONAL ANALYSIS HOUSE BILL 345 - State Employee Health Insurance Prepared by Rep. Norman Rokeberg

Section 1: States that if the State has decided to provide health insurance benefits to its employee under a self-insurance plan, that it is a member of the Alaska Comprehensive Health Insurance Association and must remit the associated premiums.

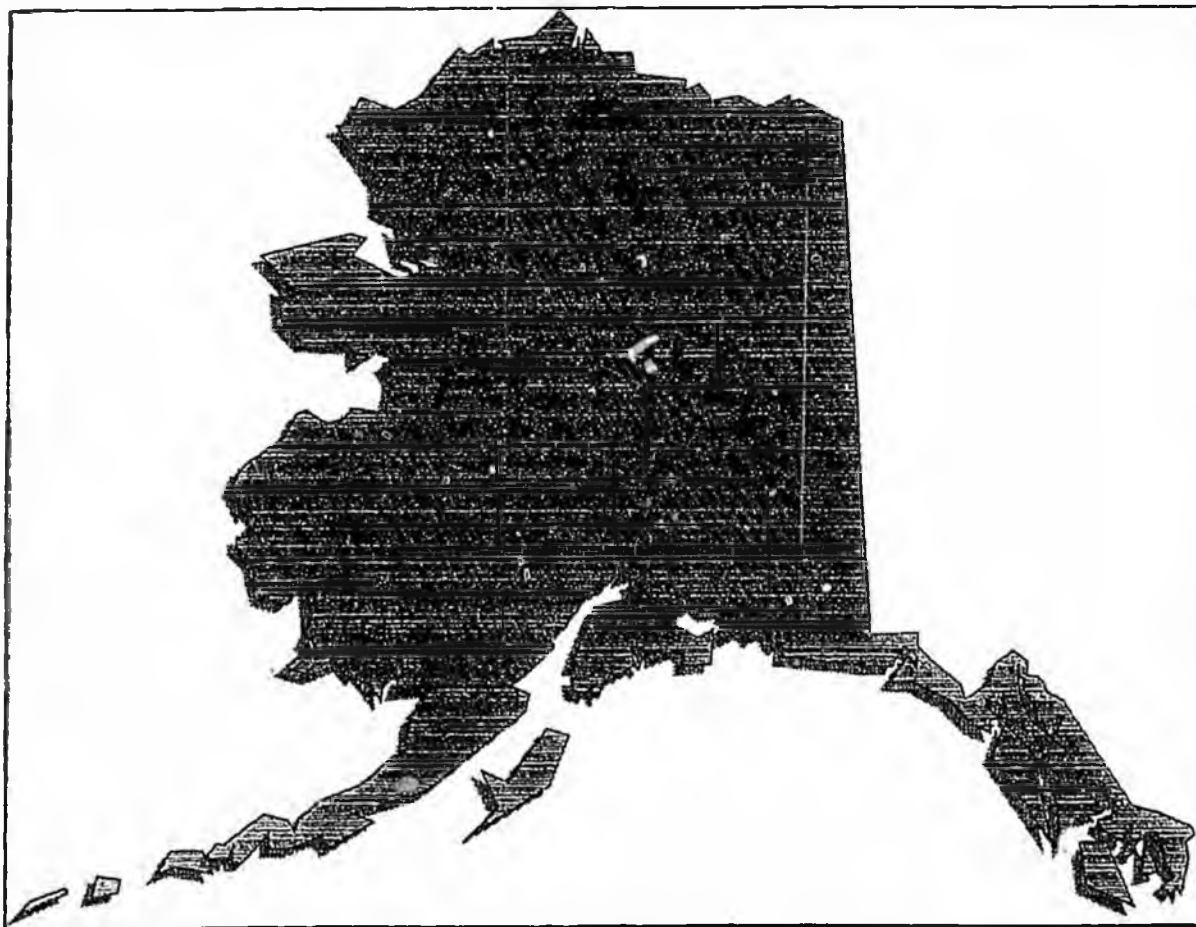
Section 2: Adds the state to the definition of "health care insurer" under the ACHIA provisions.

Section 3: Removes health insurance from bargaining consideration.

ED1:02/07/00

ANNUAL REPORT
OF
ALASKA COMPREHENSIVE
HEALTH INSURANCE ASSOCIATION

JANUARY 1, 1998 - DECEMBER 31, 1998



JAN 26 2000

ACHIA ANNUAL REPORT

Introduction

The Alaska Comprehensive Health Insurance Association (ACHIA) was established by the Alaska Legislature to provide access to health insurance to all residents of the state who are denied adequate health insurance or who are considered uninsurable. During 1997, legislation was passed that will also make ACHIA coverage available to individuals who are considered 'federally eligible individuals' under the Health Insurance Portability and Accountability Act of 1996 (HIPAA). Additional legislation was introduced in late 1998 and was subsequently passed in 1999.

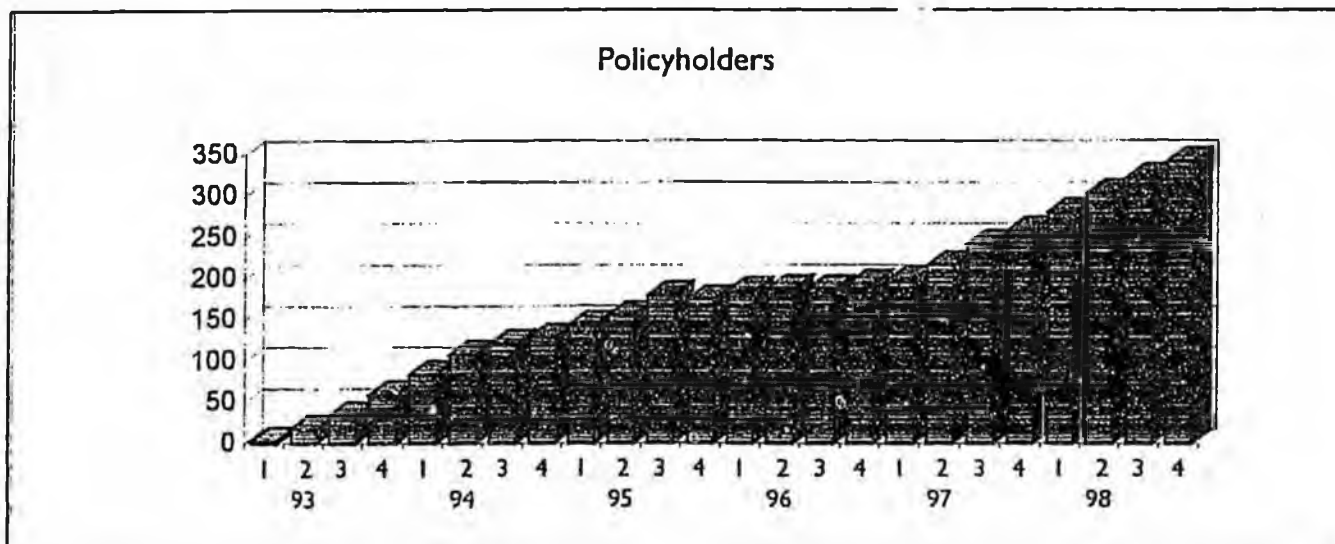
ACHIA is a nonprofit incorporated legal entity established under the provisions of Alaska Statute Title 21, Chapter 55, and is exempt from the payment of fees and taxes levied by the state or any of its political subdivisions except taxes levied on real or personal property. The Plan is governed by a Board of Directors composed of seven individuals. Five Board members represent participating member companies of the association approved by the director of the Division of Insurance and two are consumers selected by the director of the Division of Insurance. The director of insurance or the director's designee serves as a nonvoting ex officio member of the Board.

Since the implementation date of the Plan, January 1, 1993, Aetna Insurance Company has served as the administrator of the Plan. As such Aetna processes applications for coverage under the plan, collects premium, pays claims on behalf of the association and performs other administrative functions as provided in the administrative contract.

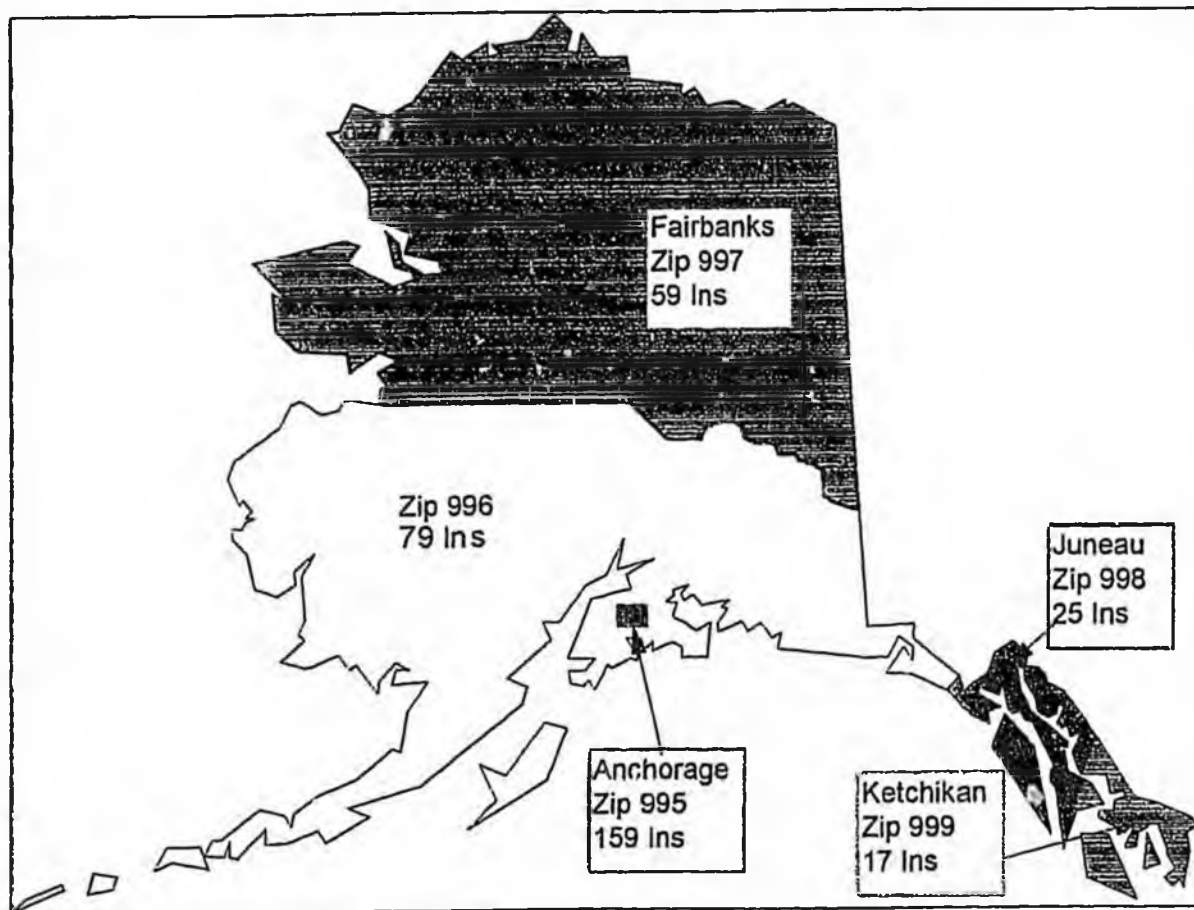
The Plan is funded through premiums collected from Insureds and assessments received from health insurers transacting business in Alaska.

At the beginning of 1998, there were 258 insureds on the plan. As of December 31, 1998, there were 342 insureds. During the year, there were 93 new issues and 9 terminations. Terminations were due to many reasons including the enactment in 1993 of Alaska Small Group Reform and insureds leaving the state.

In 1998, 93 policies were issued. 86 of these policies were still in force and active on December 31, 1998.



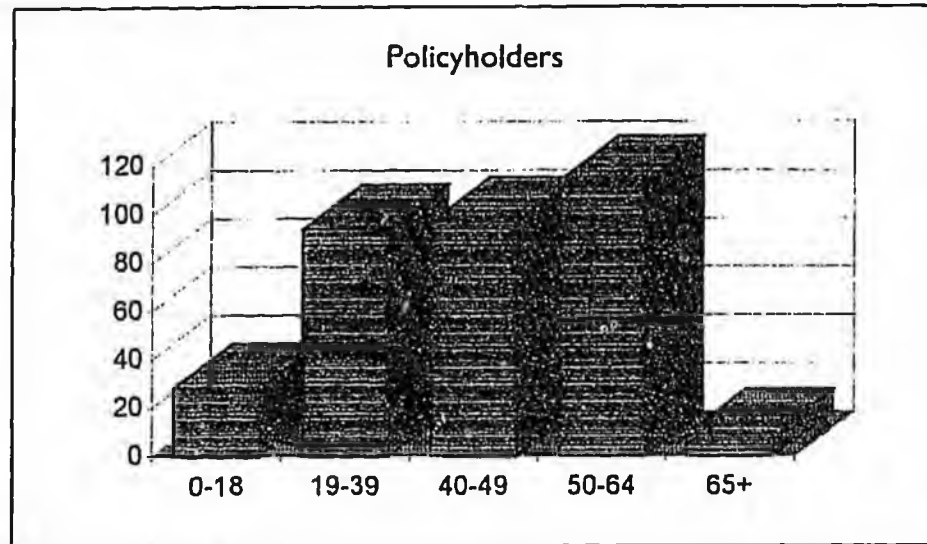
ACTIVE POLICYHOLDERS BY GEOGRAPHIC AREA



Note: Three Billing Addresses are Outside Alaska

**Policyholders by
Issue Age at
Year End 1998**

Ages	19-39	40-49	50-64	65+
0-18	94	97	114	9



Observations & Recommendations

During 1998, the number of policyholders covered by ACHIA continued to increase ending the year with 342 individuals covered. The year ending totals from 1993, 1994, 1995, 1996 and 1997 were 59, 128, 174, 194 and 258, respectively. On the other hand, incurred claim totals for the six years reflect a considerably different pattern; namely, \$244,758 in 1993, \$805,642 in 1994, \$2,157,549 in 1995, \$1,323,651 in 1996, \$1,610,300 in 1997 and \$1,934,665 in 1998. Claims peaked in 1995, and declined in 1996 assuaging concerns which had resulted from the rapidly increasing claim amounts. The increase in the incurred claim amounts for 1997 and 1998 reflected the increase in the number of insureds for 1997 and 1998, and continued the stability first observed in 1996.

Expected reasons for increased claim levels include the expiration of pre-existing condition limits as well as the initial behavioral changes that result when someone who has not had health insurance coverage for some period of time, obtains coverage and sees physicians for long standing conditions. This is exacerbated in the case of non-HIPAA individuals who are eligible for ACHIA coverage since they must prove that they have significant health conditions in order to participate.

As a result of the poor experience in 1995, it was necessary for the Board to accelerate assessments against the member companies. An initial assessment of \$250,000 was made in September 1993 to establish operating capital. This assessment gave credit for the seed money assessment that had been made early in 1993, but which was based solely on a set level of \$5,000 per company for each of the top twenty companies. Because paid claims were so

modest during 1993 and early 1994, and since the Board had little upon which to estimate or project, it was difficult to anticipate the timing and level of the next assessment following September 1993. Additional problems complicated the process of establishing the next assessment. It is important to note that the assessments are paid by the insurance carriers operating in Alaska based on their proportionate share of insured medical premium. First, the companies to be assessed had to be determined. Many companies are licensed in Alaska to write health insurance but do not actually write health insurance and must be excluded from the assessment calculations. Second, the premium upon which each company's assessment is based is determined based on annual statement data which includes amounts that are not assessable and therefore must be excluded from the calculations. Additional difficulty was encountered in establishing the necessary reports and the timing of those reports so that determination of the necessary assessments could be made by the Board.

Following a discussion between the Board and the Administrator that lasted for eight months, the Board ordered that a \$600,000 assessment be made in April 1995. This assessment was followed in October 1995 by an assessment for \$1,200,000. Thus, by year-end 1995, the pool had a positive cash balance of \$86,017. However, claims for the first two months of 1996 eroded the cash balance and on May 9, 1996, a new assessment for \$1,500,000 was mailed to member companies. With the stabilization of the pool and the peaking of claims in 1995, assessment needs can be anticipated far enough in advance to prevent negative cash positions. In line with that, the Board ordered an assessment for \$1,200,000 in late October 1996. It was anticipated that this assessment would be needed to cover shortfalls during 1997. The next assessment was made subsequent to December 31, 1997 for \$1,000,000. It also should be noted that the Board arranged for a \$1,000,000 line of credit with the First National Bank of Anchorage for use in the case of a temporary shortfall in funds. During December 1998, the Board ordered the next assessment in the amount of \$1,500,000. It was anticipated that amount would cover the needs until late in 1999.

High risk pool legislation across the country was never intended to result in an insurance operation that was self sustaining and Alaska is no exception. Legislative history indicates that this fact was discussed during the deliberations of the Alaska legislation. High risk pools were developed to cover individuals who have been deemed to be essentially uninsurable by insurance carriers. If actuarially sound premiums could be developed for these individuals, insurance carriers would sell them appropriately priced coverage and a high risk pool would be unnecessary.

The rapid increase in the claim to premium ratio (loss ratio) of the pool was very distressing to everyone connected with the pool, particularly those not familiar with this type of legislation. Normally, such a result would indicate the need to raise the premiums as that is the most direct way to reduce the loss ratio.

However, in order to prevent the premium charged from getting too high, a maximum premium was established by statute. This maximum premium is developed by obtaining the average standard risk premium rates of the top 5 carriers in the state and multiplying that average by 2.00. The Board initially set the premiums at 1.75 times that average which is less than the maximum allowed. In early 1996, the Board decided to increase the rates in order to reflect inflation in claim levels and standard risk premium rates in the Alaska market. The Board chose to set the premium at 1.75 rather than 2.00 because they felt that the 200% level would drive away the individuals who were healthier and result in a loss ratio that would be unimproved or worsened. This premium increase which averaged around 25% to 30% was effective July 1, 1996. This was the first increase since the initial rates were determined in April 1993. Rates were not increased during 1997 or 1998, and an increase did not take place in 1999.

The Board devoted a great deal of time in late 1995 and early 1996 developing strategy for managing ACHIA's financial condition in order to limit losses and resulting future assessments. However, the Board's flexibility has been, and remains, limited because (1) the policy benefits are restricted by statute, (2) the premiums are limited by statute (and by practical affordability levels), (3) newer techniques being used elsewhere in the insurance industry, like managed care, are limited by statute and the nature of Alaska's health care market, and (4) statute allows only an ACHIA member to administer the pool which may not allow for the most efficient and effective administration of ACHIA.

Some of the strategies that the Board has taken to manage ACHIA's financial condition are as follows: (1) implementation of higher deductible/out-of-pocket maximum plans that are priced at lower rates and encourage individuals to manage their costs better, (2) hiring of a case manager to help control costs while achieving better care for the individuals, (3) raising the premium levels to offset inflation, (4) requiring, in cooperation with the Administrator, better and more timely financial reports with which to monitor the plan, (5) establishment of more efficient and appropriate assessment procedures and (6) development of a PPO plan that will take advantage of hospital discounts.

On March 7, 1996, Cecil Bykerk, Chairperson, testified in Juneau before a joint Senate and House hearing concerning the status of ACHIA. Following that hearing, the Board worked with the Division to draft legislation that addresses the limitations mentioned above. This draft legislation addressed the following issues: (1) technical corrections regarding representation on the Board which will allow proper input from consumer representatives and smaller member companies, (2) flexibility to allow development of cost containment methods including incentives to use PPO networks, (3) technical adjustments to the language to allow reduced complexity more appropriate in the determination of premium rates, (4) creating more competitive bidding on the administration of the plan by allowing entities other than member companies to administer ACHIA and (5) additional technical corrections that have become apparent over the early years of operation of the pool.

While these legislative changes were introduced, they did not progress to enactment during 1996. However, in 1996, ACHIA did contract with the administrator to provide a full-time case manager, Ellen Vickrey. Ellen has been extremely helpful in working with policyowners in an effort to provide them proper care. She contacts each new policyowner and discusses their situation. She has also worked with hospitals in an effort to hold down costs.

In 1997, the Board strongly recommended enactment of the legislation. However, an additional need for legislation was created by the enactment at the Federal level of the Health Insurance Portability and Accountability Act of 1996 (HIPAA). This Act requires that states enforce certain portability and renewability standards. The states had several options in meeting these standards. One option is met through having a pool in place much like ACHIA. However, in order for ACHIA to satisfy the necessary requirements, the statute had to be amended to include automatic eligibility for individuals 'who are considered eligible for coverage under HIPAA.' Any individual who purchases coverage through this eligibility route will not be required to serve a pre-existing condition period. Such individuals are referred to as being Federally "Eligible Individuals" which is defined as individuals "for whom, as of the date on which the individual seeks coverage under this section, the aggregate of the periods of creditable coverage . . . is 18 or more months and . . . whose most recent prior creditable coverage was under a group health plan, governmental plan, or church plan (or health insurance coverage offered in connection with any such plan)" as well as meeting certain other criteria. The Board strongly recommended enactment of these necessary changes.

At first, it appeared that the necessary changes required by HIPAA and the changes previously described might be combined into one piece of legislation. However, because HIPAA required legislation that was beyond the scope of the ACHIA statute, it was determined that the bills should be split into two separate pieces of legislation. Because the Alaska HIPAA legislation had extremely tight time deadlines as mandated under HIPAA, focus was given to passage of this legislation and not to the Board sponsored legislation. The Board sponsored legislation did not get introduced. On April 2, 1997, Cecil Bykerk again testified before a joint Senate and House hearing concerning ACHIA and the potential impact of HIPAA on ACHIA. Ultimately, the bill was enacted and signed by the Governor. The Board again sought a sponsor for the bill in 1998. Late in the session, Senator Kelly agreed to introduce the bill but it died with the session. The bill was reintroduced in 1999 and was passed. Changes as a result of passage of the legislation will not occur until at least 2000.

In summary, the Board feels that ACHIA has served a useful purpose to the citizens of Alaska. With the HIPAA legislation, ACHIA has provided a vehicle which will allow the private insurers continued flexibility to provide private health insurance to the citizens of Alaska as well as allow them to help fund ACHIA. In response to the HIPAA legislation in 1997, the ACHIA Board will revised the Plan of Operation, application, contracts and other support information. However, with additional changes enacted into statute in 1999, provisions have been created that will allow the Board, with approval and input from the Director of Insurance, to better manage ACHIA.

What are the Benefits?

The lifetime maximum benefit is \$1,000,000 for all injuries and sicknesses combined. The Plan provides benefits which include inpatient and outpatient hospital care, office visits, surgery and anesthesia, x-ray and lab, radiation and chemotherapy, ambulance, oxygen, durable medical equipment, prosthetics, home health care, mammography, hospice services, prescription drugs, phenylketonuria treatment, treatment for complications of pregnancy, mental or nervous, alcoholism and drug abuse.

What Is Not Covered?

The following is a brief list of expenses not covered under the Plan and may not reflect the full extent of the policy limitations: services that are not medically necessary, well baby care, eyeglasses, contact lenses, hearing aids, dental care, acupuncture therapy, routine physical or preventive exams, normal pregnancy, TMJ, experimental procedures (including related services, drugs and other supplies), and reconstructive or cosmetic surgery.

Does a Waiting Period Apply?

The Plan will not cover expenses incurred during the first six months after the policy date for a preexisting condition. Payments will be in accordance with the provisions of the policy, however, if the person had coverage under another medical plan which was involuntarily terminated and coverage is applied for under ACHIA within 60 days after such involuntary termination, the preexisting condition waiting period will apply only to the excess, if any, of six months over the time coverage was in force under the prior plan. Additionally, 'federally eligible individuals' under the HIPAA legislation will have all waiting periods and preexisting condition limitations waived provided they apply for ACHIA coverage within 90 days after coverage under an employer-sponsored group.