

March 23, 2009

Representative Kurt Olson, Chair  
House Labor and Commerce Committee Members

Re: Testimony of Melody Douglas, CFO Kenai Peninsula Borough School District

My name is Melody Douglas and I am the Chief Financial Officer for the Kenai Peninsula Borough School District (KPBSD), the 4<sup>th</sup> largest district in Alaska. I have been actively involved in communicating the District's concerns relative to the PERS and TRS retirement plans since the spring of 2003.

Thank you for this opportunity to comment. Please consider this letter part of the official record concerning maintaining the defined benefit (DB) and blended defined contribution (DC) retirement plans currently in place. My comments will focus on the District's General Fund (GF) using audited FY08 information.

Thank you for the \$19.3 million (\$17.2 TRS and \$2.1 PERS) in on-behalf retirement funding provided to KPBSD in FY08 and similar funding planned for FY09. Continued Legislative support for this supplemental funding is critical for KPBSD to maintain the current education program. KPBSD is proud of making AYP as a district in FY07 and FY08 and is pleased to note that the Kenai Peninsula Borough funds Kenai schools to the maximum allowed per State Statute.

KPBSD FY08 employer percentage rates approximate:

	ARMB Employer <u>Rate</u>	KPBSD Actual <u>Rate</u>	On-behalf <u>Rate</u>
TRS	54.03	12.56	41.47
PERS	36.48	22.00	14.48

KPBSD had 596 full-time equivalency (FTE) certified teaching staff in FY08. Had the Legislature not provided on-behalf payments, the most likely method of addressing a \$17.2 million shortfall in TRS funding would have been to reduce staff, since approximately 80% of our budget consists of salary and benefits. A \$17.2 million reduction would mean a loss of approximately 274 FTE teaching positions or 46% of the GF teaching staff! This means that without the on-behalf funding, class sizes

would have practically doubled and AYP would probably have vaporized for the District. This picture, for KPBSD, is the same on a go-forward basis for as long as an unfunded liability exists in the retirement systems. My guess is all school districts in Alaska are in the same boat.

I concur and support the testimony provided by Mr. Larry Semmens to this committee on March 18, 2009. I will not reiterate his points, but instead talk about the DC plan relative to hiring staff at KPBSD.

Frankly, I believe it is premature to evaluate the effect of implementation, of the DC plan on July 1, 2006, on hiring as we in year three of the DC plan. However, in discussing this matter with the District's HR department, the DC plan has not been an issue in hiring.

KPBSD is actively involved in recruiting by annually traveling Outside to several job fairs. The District hired 76 teachers in FY08, 107 teachers for FY09, and is expected to hire approximately 75 teachers for FY10. To date, none of the teachers hired has expressed concern over the DC plan. It will be a surprise if this matter is an issue during the upcoming hiring season, particularly in light of teachers being laid off by many Outside school districts. In addition, none of the interviews conducted with exiting teachers included concerns about the DC plan.

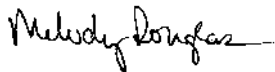
In conclusion, much work has been done to implement a blended DC plan, managed by knowledgeable investment professionals. This arrangement benefits employees more than a straight DC plan would.

Essentially, by the next time the numbers are released, all the various changes to the retirement plans, sky-rocketing health care costs, and unrealized investment earnings over the years have created what will likely be a \$10 billion debt, that now must be paid. Employers, including school districts, can not function viably under retirement rates like 54% for TRS and 36% for PERS indicated for KPBSD in FY08, until the unfunded liability is finally paid some 25 years or more down the road.

The public sector can no longer fund a DB plan. The course of action implemented July 1, 2006 is the best solution to the problem. Please stay the course set at that time.

Thank you for the opportunity to comment on a matter of such importance to Alaska's economic future and to the students who are committed to paying the debt already incurred.

Respectfully,

A handwritten signature in black ink, appearing to read "Melody Douglas", with a horizontal line extending to the right.

Melody Douglas