March 2, 2016

Senate Finance Committee Members
Alaska State Senate
State Capitol
Juneau, Alaska 99801

RE: Operating Budget Testimony

Dear Senators Kelly and MacKinnon and other Committee Members,

With this letter, I wish to offer testimony about some issues included in the 2017 Operating Budget which will have a severe impact on Alaska's municipalities. Rather than anecdotal information, I will provide in this letter, some actual numbers that show real impacts. Thank you for all of your hard work with regards to this budget and I know the hours of testimony is difficult and can make your jobs even harder.

As I testified on Tuesday, March 1st, during the House Finance committee hearing, a decrease in Revenue Sharing will be difficult to larger communities and catastrophic to smaller ones. However, those impacts cannot be viewed in a vacuum, as many other impacts have recently affected municipalities in a large way.

Two years ago, upon the passage of HB 385, the final version that was passed by the Legislature was changed in the last few hours of the session and subsequently left municipalities with a $2.5 billion in additional costs towards the PERS unfunded liability. The state's "on behalf" payments have dropped significantly; municipalities till continue to pay 22%, but now we will pay that amount for an additional 9 years. We hear rumors of the agreed 22% of salary rate being in jeopardy. That was an agreed upon rate between the municipalities and the state due to the state's inability to determine the actual pension liability for each employer. Municipalities had originally advocated for 18%, but the Legislature chose 22%.

If the Legislature should choose to raise the 22% rate, municipalities will pay an additional $5.5 million per year with every 1% rate increase………………for approximately 34 more years. For municipal owned entities such as hospitals will contribute over $525,000 more per year. Boroughs and cities that are required to support local school districts will see their contribution rate increase with a raise in the PERS rate. The total impact on school district PERS contributions will be approximately $3.3 million per year. Municipalities will end up funding more than $2.6 million of that increase. An increase in the cap will also affect pension liability allocations, resulting in a larger portion of total liability being recorded on non-State employers' books.

We have also heard discussion of changing the language in AS 39.35.280 from “shall” to “may.” This language change will, again, financially devastate many municipalities. Gone will be the ability to budget, as we will never be able to determine the rate from year to year. Those rates are subject to population changes, retirements and the market.

Municipalities have already seen many changes due to the State budget situation. We have often heard Legislators mention the need to shrink the footprint of government. However, we have seen not so much a shrinkage as a cost shifting. Those shifts have come through in areas such as airport maintenance, jails, policing and others. A lack of capital projects will start to see large impacts as local infrastructure begins to crumble. Education cuts will put more emphasis on municipalities to fund to the cap, in order to have a well-educated population.

The bottom line is that municipalities cannot see decreases in Revenue Sharing coupled with increases in most other areas. We, then, have no choice but to either severely curtail services or increase taxes. When the people mention more cuts in government, I am sure they do not mean unplowed municipal roads which allow people to get to work; no response when 911 is called; no response when a resident’s house is on fire; water systems that cannot be kept up to state or federal standards; trash collecting on streets for long periods of time.

Please take a holistic view of what municipalities provide to YOUR constituents. They provide the services that you, the State, will not or cannot provide.

Thank you,

Kathie Wasserman
Executive Director