

(Mayor testifies prior to Shanda)

MAYOR KORTA PERS TESTIMONY

1. My name is Jon Korta. I am the mayor of Galena, Alaska. I'd like to thank the committee for taking time today so that I may explain the importance of HB47 for communities like Galena that have seen significant population decreases in the last decade.

2. As you may know, the Galena Forward Operating Location was closed by the United States Air Force. As part of the BRAC process, the Galena FOL closure was effective October 1, 2010, but had been in process for four years. The Air Force base was the main source of employment for Galena residents. Not surprisingly, the base closure resulted in a reduction of the population. In 2000, Galena had 675 residents. In 2010, 470 residents, representing a 30% decline. Galena was again struck by hardship in spring of 2013 when ice dammed the Yukon River and inundated the City, leading to a disaster declaration.

3. The 2008 "Floor" established by the current law exists to prevent a municipality from gaming the PERS system by contracting out work previously performed by municipal employees in order to avoid making ongoing contributions to PERS. The current minimum PERS contribution is based on the level of salaries that existed in 2008. This purpose does not account for Galena's situation. It was not intended, nor does it contemplate, municipalities with sharply declining populations. HB 47 does not change the PERS policy, but rather recognizes nuance.

4. The amendment affects only communities that suffered a minimum 25% decline in population between 2000 and 2010, like Galena. To put that in perspective, the 25% threshold would represent the loss of 75,000 people from Anchorage or 8,000 people from Juneau. What would happen to Fairbanks if the Borough's population declined by 30,000, *while at the same time seeing the closure of Eielson and Fort Wainwright*? The demand for municipal administrative and public services would decline sharply; so would the municipality's ability to provide these services having lost the region's economic driver.

5. HB 47, which moves the floor year from 2008 to 2012 for the communities that experienced these huge losses, *does not* provide a "loophole" allowing Galena or any other community with a similar population loss between 2000 and 2010 to "game" the system now or in the future. The 2008 floor for these communities is replaced with a 2012 floor. Galena's budgeted payroll for FY 2015 is above the 2012 amount for 17 employees.

6. Galena's circumstances are not a result of any choice the city made. The base closure and concomitant loss of close to 1/3 of the city's population was entirely involuntary. The relationship between a declining population and declining payroll is clear: **fewer residents = fewer public employee = lower public payroll**. Based on the 2008 floor, Galena is required to

pay an amount owed by a city substantially larger than Galena. Galena's required PERS contribution approaches half of the City's entire payroll.

7. Galena's FY 2008 salary total was \$1,513,365.19 for 36 employees. Therefore, Galena's annual minimum PERS contribution is \$332,940. In FY 2012 Galena's payroll was \$765,776 for 17 employees. That's the year this amendment would move the floor to for cities that saw a 25% decrease in population between 2000 and 2010. Under the 2008 floor, Galena's annual minimum PERS contribution is nearly half of the City's entire payroll costs.

8. For Galena, the difference in PERS contributions between the 2008 "floor" and FY 2012 actual payroll is \$164,000. This difference will continue going forward creating an ever increasing obligation. By statute, any amount unpaid accrues interest at 12%. This ever-increasing obligation adds to an already stressed situation. The City's financial situation was so severe in FY 2011 that it required a low interest loan through the Alaska Municipal Bond Bank to deal with a severe cash flow crisis that was preventing them from being able to secure fuel for heat and electricity. Simply put, if Galena can't pay its bills, the lights go out in Galena.

9. The 2008 Floor is, overall, a sound piece of legislation, furthering sound policy, but it does not account for all situations. It does not account for cities that have suffered massive population contractions. This amendment furthers the underlying policy goals of the regulatory structure: It helps ensure that municipalities are able to continue contributing to PERS, while recognizing that a city cannot, and should not, have to make the contribution of a city that has a significantly larger population. Recognizing that Galena is not the same city it was before the base closed and 30% of its population moved away is simply good policy, policy that helps ensure that Galena continues to contribute to PERS and that the lights stay on.

10. Recognizing the reality of sharply declining populations is a worthy amendment and is just plain fair.

11. Thank you for your time this morning. I would be happy to answer any questions you may have.