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March 14, 2012

Honorable Governor Sean Parnell
State Capitol Building
Juneau, Alaska 99801

Dear Governor Parnell,

The Alaska Municipal League has been working with your administration and the Legislature on changes that have affected municipalities through the PERS system. I am writing to you in hopes that you will consider our suggestions which will allow us to retain our ability to manage our municipalities in a more efficient and effective manner.

Back in 2007, SB 125 and SB 141 were written and passed in order to attempt to "stop the bleeding" with regards to the PERS/TRS liability. To simplify, three methods ended up being imposed on municipalities in order to help pay off that liability;

1. PERS municipalities are required to pay 22% of salary which is credited to the present costs and the past service liability.
2. The State recorded all 2008 base salaries, with the provision that any PERS employer who did not meet the 2008 floor would be charged 22% on the shortfall amount between the current base salary and the 2008 floor.
3. When a group or classification is removed from the base salary, that removal would trigger a termination study which would determine the financial impact to the system. This liability would be paid, as well as the past service rate on the salary of the eliminated position, by the employer, until the entire PERS unfunded liability is paid off.

Most municipalities appreciate the fact that their PERS rate is capped at 22%, even though this is a huge cost for them. They also agree that one employer should not be able to "manipulate" the system and avoid paying their fair share of the liability by substantially reducing their payroll through contracting or some other means. Although nobody anticipated the number of employers (51) that would today have salaries that are less than the 2008 floor, that provision is a reasonable part of the deal.

The requirement that greatly concerns us is #3 above, which only happens when an entire group or classification of employees is eliminated. This circumstance rarely occurs in a medium or large municipality. Unfortunately, it happens with some frequency in small municipalities and school districts because of the small staff size. Often, there is a single position that represents a group or classification in a small municipality. Elimination of a receptionist position due to budgetary shortfalls results in the whole termination study requirement, the payment of the resultant liability, and payment of the past service rate on a position which is now eliminated for a period of decades, until the total unfunded liability is paid

off. Elimination of grant funded positions due to termination of the grant results in the same process and even a greater impact since funding for the program came from outside sources, but the payment of these PERS liabilities will come from general fund resources.

I believe this is an unintended consequence of the law. It simply doesn't make sense that a small municipality can be severely impacted by the elimination of a single position, yet a large employer could eliminate many positions with no additional PERS costs, as long as a single member of a group or classification is left. The impact on the PERS would be much greater in this large employer example, yet they are not required to pay for a termination study or pay the past service rate on the eliminated positions unless their total salary fell below the 2008 floor.

For the small municipality, it is conceivable that by eliminating a single position, their total salary would also drop below the 2008 floor. In which case they would have to pay the termination study costs and make contributions based on the 2008 floor rather than the current salary base.

Paying the shortfall from the 2008 floor accomplishes what we think was the intent of SB 125. We don't, however, feel that everyone was aware of the ramifications of also imposing termination studies and applicable charges. With municipalities being charged termination costs and making PERS contributions on eliminated positions for decades in the future, it has taken away the ability of Alaska's municipalities to manage their work force, contain costs, or to make necessary changes to their organizational structure.

Due to the sharp downturn to the U.S. economy, and due to grant funding that has disappeared, most municipalities are faced with cutting either staff or services (or both). It is now possible to cost a municipality more to cut costs through downsizing staff than it is to leave programs they cannot afford, in place. This is a crazy way to manage!

The municipalities of AML are asking that the State of Alaska seriously look at the implications of municipality's responsibility for both the 2008 floor shortfall and termination studies and the costs imposed on local governments. We believe that SB 100, which eliminates the requirement for termination studies, is a reasonable solution and we would be happy to work with anyone from your Administration to help solve this difficult problem.

Sincerely,

Kathie Wasserman
Executive Director

cc: Mike Barnhill
Jim Puckett
Senate Finance
Sen. Paskvan