



THE STATE  
*of* **ALASKA**  
GOVERNOR MIKE DUNLEAVY

**Office of the Governor**

OFFICE OF MANAGEMENT AND BUDGET  
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February 27, 2025

The Honorable Lyman Hoffman  
Co-Chair, Senate Finance Committee  
Alaska State Capitol, Room 518  
Juneau, AK 99801

The Honorable Bert Stedman  
Co-Chair, Senate Finance Committee  
Alaska State Capitol, Room 516  
Juneau, AK 99801

The Honorable Donny Olson  
Co-Chair, Senate Finance Committee  
Alaska State Capitol, Room 508  
Juneau, AK 99801

Dear Co-Chairs Hoffman, Stedman, and Olson,

Thank you for inviting the Office of Management and Budget (OMB) to present an overview of Letters of Agreements (LOA) and provide responses to questions from the hearing on January 27, 2025, on the Governor's FY2026 Budget, to the Senate Finance Committee on February 12, 2025. This letter completes the responses to questions and requests for follow-up information from this hearing.

**1. When did the Letters of Agreement (LOA) start in State of Alaska?**

The oldest LOA there is documentation for is 1986 with the Alaska Public Employees Association (APEA) that addresses reduced work weeks as an alternative to layoff.

**2. The current policy, according to Legislative Legal, the legislature has the authority to approve or not approve, and in the past, there has been language in the budget bills to approve those. Is it possible to say that the Letters of Agreements will only be approved once the legislature approves a supplemental budget? Or is there a timing issue that is involved here?**

Letters of Agreements (LOAs) are amendments to the bargaining unit agreement and are a tool used to address critical recruitment or retention issues, or issues such as shift assignments. The Office of Management and Budget currently provides a copy of the

signed LOA and an estimated fiscal impact. The estimated fiscal impact may be met by using existing budget authority. If an appropriation is necessary to cover the cost of an LOA, an appropriation will be requested through the legislative process. This may include requests for supplementals during the current fiscal year or requests for the next fiscal year.

- 3. How is the defined benefit plan set up to handle employees who jump in salary ranges towards the end of their career? Are there numbers and observations on ways to control this? Provide additional information to help understand this system and how it works.**

The Alaska Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) Plans use an average monthly salary for calculation of benefits to reduce the effects of attempted retirement spiking. For PERS Tier III benefits, the average is determined by the five highest consecutive salary years, for TRS Tier II it is the average three highest salaries years earned. While this does not eliminate pension spiking, it makes it more difficult. The requirement for PERS for the average of the five highest salary years was implemented as a cost containment measure in 1996 with the creation of Tier III.

- 4. Is it correct that before a geographic pay differential can be applied to your higher salary, you must have a geographic pay differential or 50 percent of your working years with the system?**

This is correct. For PERS State of Alaska employees, they must serve a minimum of 50 percent of their service in an area with a geographic differential before the differential can be used in the calculation of their benefits. If they do not meet this minimum, contributions taken and interest earned on the differential contributions are refunded at retirement. This provision and the change to the average five highest consecutive salaries were instituted as cost containment measures for Tier III during its creation.

Please contact my office if you have further questions.

Sincerely,

*Lacey Sanders*

Lacey Sanders  
Director

cc: Alexei Painter, Director, Legislative Finance Division  
Jordan Shilling, Director, Governor's Legislative Office