

Fiscal Note

State of Alaska
2016 Legislative Session

Bill Version: HB 47
Fiscal Note Number: _____
() Publish Date: _____

Identifier: HB047CS(CRA)-DOA-PERS-04-04-16
Title: PERS CONTRIBUTIONS BY MUNICIPALITIES
Sponsor: FOSTER
Requester: House Labor & Commerce

Department: State Retirement Payments
Appropriation: PERS State Assistance
Allocation: All Other PERS
OMB Component Number: 2866

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

| | FY2017 | Included in | Out-Year Cost Estimates | | | | |
|-------------------------------|-------------------------|---------------------------|-------------------------|--------------|--------------|--------------|-------------|
| | Appropriation Requested | Governor's FY2017 Request | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 |
| OPERATING EXPENDITURES | FY 2017 | FY 2017 | | | | | |
| Personal Services | | | | | | | |
| Travel | | | | | | | |
| Services | | | | | | | |
| Commodities | | | | | | | |
| Capital Outlay | | | | | | | |
| Grants & Benefits | | | | | | | |
| Miscellaneous | 139.0 | | 131.0 | 122.0 | 113.0 | 104.0 | 96.0 |
| Total Operating | 139.0 | 0.0 | 131.0 | 122.0 | 113.0 | 104.0 | 96.0 |

Fund Source (Operating Only)

| | | | | | | | |
|---------------|--------------|------------|--------------|--------------|--------------|--------------|-------------|
| 1004 Gen Fund | 139.0 | | 131.0 | 122.0 | 113.0 | 104.0 | 96.0 |
| Total | 139.0 | 0.0 | 131.0 | 122.0 | 113.0 | 104.0 | 96.0 |

Positions

| | | | | | | | |
|-----------|--|--|--|--|--|--|--|
| Full-time | | | | | | | |
| Part-time | | | | | | | |
| Temporary | | | | | | | |

| | | | | | | | |
|---------------------------|--|--|--|--|--|--|--|
| Change in Revenues | | | | | | | |
|---------------------------|--|--|--|--|--|--|--|

Estimated SUPPLEMENTAL (FY2016) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2017) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

| |
|---|
| Updated with current actuarial information. |
|---|

| | |
|---|----------------------------------|
| Prepared By: <u>John Boucher, Deputy Commissioner</u> | Phone: <u>(907)465-5671</u> |
| Division: <u>Commissioner's Office</u> | Date: <u>04/05/2016 11:00 AM</u> |
| Approved By: <u>Sheldon Fisher, Commissioner</u> | Date: <u>04/05/16</u> |
| Agency: <u>Department of Administration</u> | |

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2016 LEGISLATIVE SESSION

BILL NO. HB 47

Analysis

This bill modifies the 2008 salary floor set out in AS 39.35.255 on which the Public Employee s' Retirement System (PERS) employer contributions are based for PERS municipalities that have sustained a 25% decrease in population between 2000 and 2010. The bill also lowers the interest charged for the above PERS municipalities on delinquent contributions from one and one-half times the most recent actuarially determined rate of earnings for the plan (12%) to the most recent actuarially determined rate of earnings (8%). The basic impact of the bill is that if a municipality qualifies, its contributions would be based on current payroll and the interest rate charged on delinquent contributions would be 8%, as opposed to the penalty rate of 12%.

Buck Consultants, the PERS actuarial consultant, has calculated the financial effects if this bill should pass. The basic result will be a shortfall in actuarially projected PERS employer contributions in the following amounts (\$ are in thousands):

| FY17 | FY18 | FY19 | FY20 | FY21 | FY22 |
|-------|-------|-------|-------|-------|------|
| \$139 | \$131 | \$122 | \$113 | \$104 | \$96 |

See attached letter from Buck Consultants/Xerox, April 4, 2016. All else being equal, such amounts would count as an actuarial loss for the year, added to the unfunded liability and amortized over the descending 25 year period. The additional amortization amounts would be added to the amount of state contribution that is computed under AS 39.35.280. Over a 25 year period, the additional amounts paid under state assistance would accrue to an amount that is larger than shown in the actuarial letter.

Note that in any one year, the actuarial gains and losses with respect to each actuarial assumption for the year are computed and summed. This is the reason we are submitting an indeterminate fiscal note. Depending on the total actuarial results for the year, there may or may not be a net actuarial loss that results in increased unfunded liability, and thus increased state contribution payments under AS 39.35.280.

Since the bill is retroactive to 2009, it would require forgiveness of all salary floor contributions and interest paid at the punitive rate by the participating employers affected by the bill. Buck estimates that amount to be \$1,329 (\$ are in thousands). See attached letter. Most of this sum has already been recognized as an actuarial loss in prior years as a consequence of not receiving this expected employer contribution. Accordingly, it is already reflected in current calculations of the unfunded liability, will be amortized over the remaining amortization period, and included in the additional state contributions under AS 39.35.280 during that remaining period.