

Fiscal Note

State of Alaska
2015 Legislative Session

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

Identifier: HB047CS(CRA)-DOA-DRB-04-03-15
Title: PERS CONTRIBUTIONS BY MUNICIPALITIES
Sponsor: FOSTER
Requester: House Labor & Commerce

Department: Department of Administration
Appropriation: Centralized Administrative Services
Allocation: Retirement and Benefits
OMB Component Number: 64

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below.

(Thousands of Dollars)

	FY2016 Appropriation Requested	Included in Governor's FY2016 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	FY 2016	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Personal Services	***		***	***	***	***	***
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	***	0.0	***	***	***	***	***

Fund Source (Operating Only)

None							
Total	***	0.0	***	***	***	***	***

Positions

Full-time							
Part-time							
Temporary							

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

Estimated SUPPLEMENTAL (FY2015) cost: 0.0 (separate supplemental appropriation required)
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2016) 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If yes, by what date are the regulations to be adopted, amended or repealed?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:

Not applicable, initial version.

Prepared By: Kevin Worley, Chief Financial Officer
Division: Division of Retirement and Benefits
Approved By: Sheldon Fisher, Commissioner
Agency: Department of Administration

Phone: (907)465-4460
Date: 04/03/2015 01:00 PM
Date: 04/03/15

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2015 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 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 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 (in \$thousands):

FY16	FY17	FY18	FY19	FY20	FY21
\$131	\$122	\$113	\$104	\$95	\$85

See attached letter from Buck Consultants/Xerox, March 31, 2015. All else being equal, such amounts would count as an actuarial loss for the year, added to the unfunded liability and amortized over a 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 \$999 (thousand). 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 and additional state contributions under AS 39.35.280.

David H. Slishinsky,
ASA

*Principal, Consulting Actuary
Retirement
Wealth Practice*

Buck Consultants, LLC
1200 17th Street
Suite 1200
Denver, CO 80202

david.slishinsky@xerox.com
tel 720.359.7773
fax 720.359.7701

March 31, 2015

VIA EMAIL

Mr. Kevin Worley
Chief Financial Officer
Department of Administration
State of Alaska
333 Willoughby Avenue
6th Floor State Office Building
Juneau, AK 99811-0208

RE: Fiscal Note for PERS Amending Termination Cost under HB 47(CRA)

Dear Kevin:

As requested, we are providing the following information for the fiscal note on HB 47(CRA), which assumes the State will assume the following costs with regard to the State of Alaska Public Employees' Retirement System Pension and Healthcare Plans (PERS):

- 1) Delinquent employer payments: Applicable to employers which are municipalities whose population decreased by at least 25% between January 1, 2000 and January 1, 2010, as reported by the United States Census Bureau. The State is assumed to cover all costs not paid by the employer.
 - Under current law, employers must pay 22% of the maximum of:
 1. Total current base salaries of all active members, and
 2. Total base salaries of all active members as of June 30, 2008.
 - Under HB 47(CRA), employers must pay 22% of the maximum of:
 1. Total current base salaries of all active members, and
 2. The minimum of all active members' total base salaries as of June 30, 2008 and all active members' total base salaries as of June 30, 2012.

Summary for Analysis

A summary of applicable employers, as described above, was provided by you on February 17, 2015 as well as payroll as of June 30, 2008, 2012, and 2014 for these employers. The three employers included are the City of Galena, City of Pelican, and City of St. George. Of these three employers, it appears that only the City of Galena and City of Pelican are affected on an ongoing basis.

The table below shows the estimated cost of the bill for Fiscal Years 2016 through 2021. Retroactive cost includes all years from FY09 through FY15.

HB 47 (CRA) Cost	FY16	FY17	FY18	FY19	FY20	FY21
Ongoing	\$131	\$122	\$113	\$104	\$95	\$85
Retroactive	\$999					
Total	\$1,130	\$122	\$113	\$104	\$95	\$85

(Dollars in thousands)

Additional Notes

- The assumptions, plan provisions and methods used are described in the draft actuarial valuation report as of June 30, 2014, including assumed 3.62% annual payroll growth.
- We have assumed that the bill will become effective July 1, 2015.

Future actuarial valuation measurements and projections may differ from the current measurements presented in this letter to such factors as: plan experience different from that anticipated by the economic and demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements, and changes in plan provisions or applicable law.

Please let us know if you need any further information.

Sincerely,



David H. Sliskinsky, FCA, ASA
Principal and Consulting Actuary

cc: Mr. John Boucher, State of Alaska
Ms. Kathy Lea, State of Alaska
Mr. Todd D. Kanaster, FCA, ASA, Buck Consultants

Appendix A

The listing of employers with FY2012 gross salaries less than FY2008 gross salaries follows.

Employer Number	Employer Name	FY08 gross salaries	FY12 gross salaries
192	CITY OF GALENA	\$1,513,365	\$765,776
200	CITY OF PELICAN	161,584	109,791
256	CITY OF SAINT GEORGE	132,465	126,996*

* The most recent reported pay for the City of St. George was for FY2009. Pay is projected at 3.62% to FY2012.