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Sent: Thursday, April 1, 2021 3:21 PM

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Cc: Rep. Andy Josephson <Rep.Andy.Josephson@akleg.gov>

Subject: HB 55 Hearing Follow-Up

House State Affairs Committee Members,

Thank you taking the time to work on HB 55 in your committee on Saturday. We very much appreciate your time working on this important issue.

I wanted to follow-up with all of you to answer a couple of excellent questions that were raised during the hearing. I will paraphrase the question and give a short summary of the answer. If you would like more information, please see the longer explanations below.

What all goes into filling a vacancy in our public safety agencies and where did the \$120,000 average training cost number come from?

- A recruitment process, a multi-step testing process, a training academy, “on-the job training” / mentoring, and outfitting an employee with gear and equipment all must be completed prior to an applicant being able to respond to emergencies independently
- This process can take up 7 months or more and costs are incurred throughout process
- DPS, DOC, and Fire and Police Department Chiefs have all cited training costs between \$150,000-\$240,000 per employee in testimony to the Legislature and other documents
- We used \$120,000 as a training cost in the examples I presented as we strongly believe it represents an accurate yet conservative cost estimate of an average training cost for the various different public safety agencies in the state

What is the current cost of Tier IV and how does HB 55 differ?

- Tier IV - 9.8%
 - 5% (401A)
 - 3% (HRA average)
 - 1.8% (Occupational Death & Disability and Retirement Major Medical Insurance)
- 22% employer contribution (mandated in statute)
 - 22% - 9.8% = 12.2%
 - Remaining 12.2% goes to unfunded liability of legacy DB Tiers
- HB 55 - 12% contribution to plan
- 22% employer contribution (mandated in statute)
 - 22% - 10% = 10%
 - Remaining 10.0% goes to unfunded liability of legacy DB Tiers

- Unfunded liability contribution is decreased by 2.2% in HB 55 for this public safety group (approx. 50-60% of the 3,400 current public safety employees)
- Therefore, the State's additional contribution to the unfunded liability increases by 2.2% and this is where the cost of the bill lies
- It should be noted that as presented during Saturday's hearing, it is our belief that if we even retain 1% of our public safety workforce (and we believe that HB 55 will have a much bigger retention impact than that), the cost savings of this retention outweigh the cost of HB 55.

MORE INFORMATION:

Training Cost Detailed Explanation

Regarding the \$120,000 training cost used in my presentation, here is an explanation of what goes in to filling a vacancy in our public safety agencies. I will note that agencies across the state will have their own variation of this process, but I will address what most public safety agencies generally have as a process. First agencies must perform some degree of recruitment. In recent years, we have seen departments ramp up their recruiting efforts in an attempt to get more applicants. Next, applicants go through a hiring process which involves some sort of testing process (this is generally comprised of several steps; a written test, a physical ability test, and generally more than one interview. Successful applicants will be given a conditional job offer based on a successful physical exam, and an in-depth psychological evaluation. After the hiring process, candidates then must complete some sort of training academy that can be up to 5-6 months in length. Fire Departments in the state will generally run their own training academies, while police officers go through the state police academy in Sitka. During all of this time, candidates are not out serving the public, they are learning, and all of this has a cost. The proctors for the testing process, the instructors for the academies, and the recruits themselves are all being paid during this time. After recruits complete a training academy, they are not immediately ready to operate independently. They will have another 1-1.5 months where they are just an observer. They will ride with another police officer, as an extra firefighter on a fire apparatus, or with another paramedic on an ambulance as an additional person who is being observed for some period of time. The proctor must feel that they can trust the recruit to handle emergency responses and operate on emergency scenes independently. This is required not just for the safety of the recruit, but also for the communities that we serve. A paramedic, for example, does not get to operate independently and treat patients right away. They ride with a second paramedic proctor so that they can be observed. When you are making life and death decisions, it must be determined that they have the proper judgement, knowledge, skills, and be able to put all of that together in stressful emergency situations. This example of a paramedic can be translated similarly to police officers and firefighters as well. It is important to keep in mind that during all of this time, we are now at about 7 or more months of salary for the newly hired employee, as well as all of the costs of the hiring process before someone even walks in the door. An additional cost to be considered is the equipment and gear that must be purchased for the new employee as well.

In the *DPS Recruitment and Retention Plan Overview: 2018-2023* (attached) it is cited in the first paragraph of page 4, "Losing a single trained and certified Alaska State Trooper results in the loss of an estimated \$190,000 the department invests upfront to recruit, train, and certify a trooper." During public testimony for HB 79 in the previous legislature, Airport Police & Fire cited a cost over \$200,000 for training a new police officer/firefighter. Chiefs from the Anchorage Fire Department cited a training cost between \$150,000-\$200,000. Also in previous testimony, the Department of Corrections has cited

\$200,000 as their approximate cost. I will look for where that testimony is on the record and get back to you with the citations.

We used the \$120,000 training cost number in our presentation because we strongly believe that it is a conservative number to work off of when estimating an average cost for recruitment, training, and preparing a new employee to be able to operate independently on an emergency scene.

Tier 4 vs. HB 55 Cost Explanation

Secondly, I just wanted to touch on the cost breakdown of Tier 4 vs. HB 55. The “normal cost” for a Tier 4 employer contribution is as follows: 5%(401A) + 3%(HRA average) +1.8%(Occupational Death & Disability and Retirement Major Medical Insurance) = 9.8%. By statute, employers are mandated to contribute 22% for each employee. This means that 9.8% goes to the Tier 4 plan as described above, and the remaining 12.2% goes to the unfunded liability of the previous DB Tiers.

The cost of HB 55 is the difference between the Tier 4 cost and the 12% contribution called for in HB 55. This is an increase of approximately 2.2% above the current cost of Tier 4, and therefore 2.2% less that will be paid for these employees toward the unfunded liability of the previous DB Tiers. This translates to an additional contribution by the State of 2.2% toward the unfunded liability in order to make the actuarially calculated state contribution to pay off the unfunded liability of the previous DB Tiers by 2039. This is also illustrated in a slide on Rep. Josephson and Ms. Sorum-Burke’s presentation during the first HB 55 hearing (screenshot attached).

It should be noted, as discussed by Mr. Wescott during Saturday’s hearing, that 12% is a very reasonable number for an employer contribution and is right in line with what other states offer for public safety employees, as well as what is offered in the private sector. Most of Alaska’s public safety workers do not receive social security or SBS, they simply receive the 5% contribution into their 401A account. Also worth noting is this is less than a 6% social security contribution that would be required in the private sector.

Thank you again for your time and we are very much looking forward to the next opportunity for a hearing in your committee. Please do not hesitate to reach out with any questions.

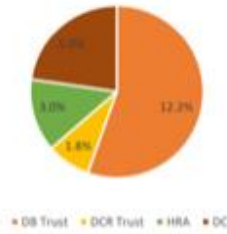
Thank you,
Paul

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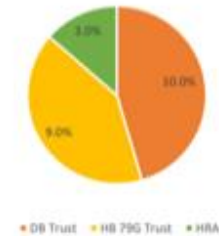
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State's Actuarial Analysis of HB 55 Cost (Feb. 2020)

Current - FY22



HB 79G - FY22



"The primary reason for the increase in Additional State Contributions during the 5-year period shown above is illustrated in the pie charts below. These show the distribution of the 22% of pay employer contribution for FY22 for HB 79G members among the various trusts (similar distributions would apply to other years). Because the percentage being deposited to the DB trust decreases (from 12.2% to 10.0%), the Additional State Contribution increases."