



THE STATE
of **ALASKA**
GOVERNOR MIKE DUNLEAVY

Office of the Governor
OFFICE OF MANAGEMENT AND BUDGET
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January 30, 2023

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

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

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

Dear Co-Chairs Stedman, Hoffman, and Olson,

Thank you for inviting the Office of Management and Budget to present an overview of the Governor's FY2024 operating budget to the Senate Finance Committee on January 24th. Responses to questions and requests for follow-up information from the committee hearing are included below.

Senators Stedman and Bishop asked about pension and healthcare funding.

The Defined Benefit Pension funding ratio is 78.2% for the Teacher Retirement System (TRS) and 68.1% for the Public Employee Retirement System (PERS), and the Defined Benefit Health Care ratio is 140.7% for TRS and 134.9% for PERS. The Alaska Retirement Management Board decision to forego the health care normal cost contribution results in FY24 savings of \$79.3 million. The attached FY2019 to 2022 PERS TRS funded ratios document provides additional information (attachment 1). Please also see the FY 2024 PERS TRS Savings document for additional information (attachment 2).

Senator Wilson asked about efforts made toward addressing recruitment and retention.

There are five key initiatives the Department of Administration is actively working to address this matter:

1. Increase the use of internships to build pathways towards permanent employment.
2. Updating and expanding job class minimum qualifications. The department believes doing so may increase applicant pools.

3. Increasing recruitment and retention initiatives. This process will involve creating Letter of Agreement (LOA) templates that can be more readily administered.
4. Returning recruitment services back to departments for a better focused approach.
5. Contracting out certain work for vital state programs.

Senators Kiehl and Wilson asked about the changes in cost resulting from the loss of enhanced FMAP.

The change in cost resulting from the FMAP decreasing to 2.5% on July 1st will result in an estimated loss of \$10.3 million for the first quarter of FY24. On October 1st, the rate will further decrease to 1.5% resulting in a \$13 million loss for the second quarter. In the 3rd and 4th quarters, the enhanced FMAP will entirely go away resulting in a loss of \$34.4 million for the remainder of FY24.

Senator Kiehl asked about potential federal penalties for not meeting eligibility redetermination deadlines.

Federal partners have indicated states could be subject to sanctions for not meeting eligibility redetermination deadlines but there has been no communication around what that will mean. The Department of Health will start its bi-annual review by the Feds this May and more information is anticipated at that time.

Senator Wilson inquired about a summary of cost savings resulting from SB55, and what the current actuarial rates are.

Current PERS actuarial rates are 25.10% of payroll, or \$611.8 million for all employers. Prior to passage of SB55 during the 2021 session the state would have directly paid all cost greater than 22% of payroll for all employers. Under the policy implemented in SB55 the state now is able to charge the 3.10% difference between the 25.10% actuarial rate and the 22% cap to state programs, sharing that cost with federal funding partners. In FY24 this represents a savings of approximately \$19 million UGF. Below is a table illustrating the savings from this policy change.

(\$ thousand)	Pre-SB55 Policy Change	With SB55	Change
UGF	37,624.50	18,520.41	(19,104.09)
Other Funds	-	19,104.09	19,104.09
Total	37,624.50	37,624.50	-

Senator Olson asked what the success rate is for litigation relating to statehood defense, and what the running total is for such costs.

Currently, Department of Law has many cases still pending in district courts or on appeal, please see attached list of current litigations funded with the multi-year appropriations for Statehood Defense. Out of all these cases four were lost in the district court and are currently on appeal (attachments 3 & 4).

There was a question regarding what the \$2.5 million for the Alaska State Defense Force would be used for.

Expanded operations of the Alaska State Defense Force necessitates additional funding to enable recruitment efforts, training, travel, supplies, and other operating costs associated with a division. Also added is a Director position as well as three administrative support staff.

On January 23, 2023 the committee asked the Department of Revenue to provide the minimum balance or minimum range for the Constitutional Budget Reserve Fund (CBRF). The department deferred that question to the Office of Management and Budget.

There is no statutory or constitutional direction, or objective criteria, for a minimum balance of the CBRF. However, there are two key balance points agreed upon by OMB and DOR. Drawing below \$500 million would likely result in adverse operational impacts from difficulties in managing daily cashflow, however \$2 billion is the generally agreed upon prudent minimum balance.

The vacancy rates by department presented on slide 7 of the presentation contained errors. A corrected table is attached (attachment 5).

Sincerely,



Neil Steininger
Director

cc: Laura Stidolph, Legislative Director, Office of Governor Mike Dunleavy
Alexei Painter, Director, Legislative Finance Division