

HOUSE FINANCE COMMITTEE
April 23, 2001
1:50 PM

TAPE HFC 01 - 92, Side A
TAPE HFC 01 - 92, Side B

CALL TO ORDER

Co-Chair Williams called the House Finance Committee meeting to order at 1:50 PM.

MEMBERS PRESENT

Representative Bill Williams, Co-Chair
Representative Con Bunde, Vice-Chair
Representative Eric Croft
Representative John Davies
Representative Richard Foster
Representative John Harris
Representative Bill Hudson
Representative Ken Lancaster
Representative Carl Moses
Representative Jim Whitaker

MEMBERS ABSENT

Representative Eldon Mulder, Co-Chair

ALSO PRESENT

Janice Adair, Director, Division of Environmental Health, Department of Environmental Conservation; Devon Mitchell, Executive Director, Alaska Municipal Bond Bank Authority, Department of Revenue; Representative Pete Kott, Sponsor; Alison Elgee, Deputy Commissioner, Department of Administration; Kathy Lea, Division of Retirement and Benefits, Department of Administration; Del Smith, Deputy Commissioner, Department of Public Safety; Bruce Johnson, Deputy Commissioner, Education, Department of Education and Early Development; Kevin Brooks, Director, Division of Administrative Services, Department of Fish and Game; Tim Rogers, Legislative Program Coordinator, Municipality of Anchorage; Veron Marshall, NEA-Alaska, Juneau.

PRESENT VIA TELECONFERENCE

SUMMARY

HB 51 "An Act giving notice of and approving the entry into, and the issuance of certificates of participation for, a lease-purchase agreement for a seafood and food safety laboratory facility; and providing for an effective date."

HB 51 was heard and HELD in Committee for further consideration.

HB 242 "An Act relating to reemployment of and medical benefits for retired members of the teachers' retirement system and public employees' retirement system; relating to the inclusion of cost-of-living differentials on compensation and benefits under the public employees' retirement system; and providing for an effective date."

CSHB 242 (FIN) was REPORTED out of Committee with a "do pass" recommendation and with previously published fiscal impact note (#1) by the Department of Administration.

#hb51

HOUSE BILL NO. 51

"An Act giving notice of and approving the entry into, and the issuance of certificates of participation for, a lease-purchase agreement for a seafood and food safety laboratory facility; and providing for an effective date."

JANICE ADAIR, DIRECTOR, DIVISION OF ENVIRONMENTAL HEALTH, DEPARTMENT OF ENVIRONMENTAL CONSERVATION testified in support of HB 51. She noted that the legislation would authorize certificates of participation to replace the Palmer seafood and food safety laboratory with a new facility in Anchorage. She responded to questions raised during the previous committee hearing (see memorandum dated 4/3/01, copy on file). She explained that she was unable to obtain a letter from the current building owner indicating that they were not interested in a 15 percent lease reduction, which would allow the laboratory to remain in the current location. However, the landowner did communicate this information verbally to Ms. Adair. The landowner indicated that a 15 percent reduction would be below the cost she would be willing to rent the building. She provided members with a copy of an email from the Federal Drug Administration (FDA) explaining that they no longer certify private laboratories to test for paralytic shellfish poisoning. She answered the questioned of why the department could not use the building that currently houses the Alaska Seafood International Seafood (ASI) processing center in Anchorage. She contacted Bob Poe, Executive Director, Alaska Industrial Development and Export Authority (AIDEA), who confirmed that the facility is not available. The ASI facility is expected to be in full production by the summer. She was asked why a RFP was not issued to see if the private sector could build a facility cheaper. General Services advised her that they could not go out for a RFP unless there is an intent to issue a contract. The estimated

development cost for a RFP would be just over \$1 million dollars. Since there was no funding available for the RFP development and no way to solicit bids a private consultant was hired to provide professional judgment on the cost differences between building and leasing. The consultant concluded that leasing would be far more expensive than building a state owned laboratory. The per square cost of the entire 20 year bond repayment term would be \$4.87 dollars a square foot. The building would be paid for after the 20-year term. The state chemistry laboratory located in Juneau and managed by the Department of Environmental Conservation costs \$4.26 dollars a square foot and is expected to increase. Laboratories are sized according to the type of analysis that takes place and the type of equipment needed. Air handling systems must be located internally. Laboratories require counter tops, space hoods, fuel hoods, walk-in coolers and freezers and other big pieces of equipment that take up room. She compared the 20,500 square foot proposed laboratory to the existing laboratory. She noted that of 20,500 square feet only 11,890 would be available for use by employees. There would be over 9,000 square feet for ventilation, mechanicals, walls and hallways. She addressed the question of what part of the proposed laboratory could be deleted if the bond package was reduced. She noted that reduced administrative space was identified for a savings reduction of \$200 thousand dollars [840 square feet]. A conference room and one office would be eliminated, and the waiting area would be reduced. The non-bondable costs would be covered by general funds because it is not qualified for federal funds and Alaska Housing Finance Corporation (AHFC) funds were already obligated. If the legislation is not passed, the laboratory can only stay in their current location as on emergency extension basis. There is an obligation not to go into emergency procurement. They would be asked by General Services to go out with a RFP this summer for a lease facility to have a facility on-line before their current lease expires. The estimated cost to develop a RFP exceeds a million dollars. The increased rental costs would have to come out of their operating budget. The department does not have funds for either item and would be "in a world of hurt if the bill doesn't pass."

Representative Harris referred to a memorandum by Representative Ogan, dated 3/23/01 (copy on file.) He noted that the memorandum stated that the department was willing to work toward achieving three goals: move the seafood testing portion of the laboratory closer to tidewater, leave functions other than seafood in the valley [Matanuska] and find a way to obtain a more affordable reasonable sized facility with a acceptable square foot cost in Anchorage. Ms. Adair noted that she met with staff from Representative Ogan's office and responded to questions in a memorandum dated 4/11/01 (copy on file.) She noted that the laboratory does about 85 percent seafood work. She reviewed other

activities of the laboratory. The same staff and laboratories are used to do other activities such as dairy product testing. She explained that it would not be cost affective to split functions and only move seafood activities. The state would have to build two laboratories in order to leave the other activities in the valley. There would not be enough work to operate a valley laboratory full time and hire a full time microbiologist. Functions that have a historical connection to the valley will remain there, such as the pesticide program. The dairy sanitarian (the person that inspects the dairy farms and processors) and the state veterinarian will remain.

Representative Harris noted that he is concerned with the removal of the facility from the valley without consultation with the district's members.

In response to a question by Representative Hudson, Ms. Adair noted that seafood samples come from all over the state. There are federal requirements for smoked fish. A certain amount of each lot of smoked fish must be tested. Shellfish and other seafood are also tested. A greater focus is being given to after testing the processed product. Smoked fish samples from Southeast [and other areas of the state] are shipped to Palmer for testing. Shellfish cannot be sold until they have been tested. The shellfish and growing waters are tested. The growing waters must be tested within 30 hours from the time the sample was taken.

Representative Lancaster stressed that the issue is whether the laboratory is moved. He stated that it would make sense to move the laboratory to Anchorage and emphasized the time sensitivity of the lease. He acknowledged that there are still questions that need to be answered.

Representative Hudson asked if Ms. Adair had made arrangements to meet with Representative Ogan to look at the possibility of retaining some aspects in Palmer.

Ms. Adair reiterated that it does not make sense to split the laboratory. Splitting the function would not reduce the seafood aspect of the laboratory. Splitting the aspects would create an additional need in Palmer for the non-seafood aspect. She stressed that the impact to Palmer would be minimal. She noted that informal conversations have indicated that the Palmer employees plan to commute into Anchorage.

In response to a question by Co-Chair Williams, Ms. Adair acknowledged the necessarily of reducing the project's cost. Some equipment purchases could be deferred until the laboratory is ready to open and purchased in the capital budget. She estimated that this could reduce the price by \$1 million dollars to \$11.2 - \$11.6 million dollars.

Representative Carl Moses stressed the importance of serving the needs of the industry and pointed out that the time delay in shipping can be critical.

Representative Harris questioned how long it would take to build the facility.

DEVON MITCHELL, EXECUTIVE DIRECTOR, ALASKA MUNICIPAL BOND BANK AUTHORITY, DEPARTMENT OF REVENUE explained that there are restrictions on the time of the bond issuance. There has to be a reasonable expectation that proceeds would be expended within 3 years. The Department of Transportation and Public Facilities has done an initial analysis on the project that showed a final 5 percent of the piece occurring in year four. This would have to be shifted into year three. He acknowledged that reasonable expectations do not always play out in reality.

Co-Chair Williams questioned options for reducing financing costs. Mr. Devon observed that net funding could be used to decrease the bond size. Assumptions on cash flow and investment earnings are made during the construction period to reduce the bond sizing.

HB 51 was heard and HELD in Committee for further consideration.

#hb242

HOUSE BILL NO. 242

"An Act relating to reemployment of and medical benefits for retired members of the teachers' retirement system and public employees' retirement system; relating to the inclusion of cost-of-living differentials on compensation and benefits under the public employees' retirement system; and providing for an effective date."

REPRESENTATIVE PETE KOTT, SPONSOR testified in support of HB 242. He noted that the workforce is reduced as the baby boomer generation retires. By the year 2008 - 2009 a brain drain is expected. The legislation would provide a tool to bring retired employees back into the workforce and encourage employees to remain.

Section 1 adds an incentive for a retired teacher to return to full time teaching for a Teacher Retirement System (TRS) employer. With this change, a retired teacher who took normal retirement may elect a new option when reemployed. The new option allows the teacher to elect continuation of retirement benefit payments during reemployment; would stop additional retirement benefit accrual; must be selected

within 30 days of reemployment; and is not available to RIP participants. If the retired teacher does not make the election, the current method would apply. Sections 4 and 5 provide the same provisions of Public Employees' Retirement System (PERS) employees.

Section 3 adds an incentive for teachers to stay in TRS. Currently Tier II retirees are not eligible for the medical coverage until age 60, at which time the retirement system pays 1/2 the medical premium and the retiree is responsible for the other half, regardless of how many years the teacher taught in TRS.

With this change a teacher who stays an additional five years beyond the normal retirement service requirement of twenty years will be eligible for full system paid medical coverage. In addition, all retired teachers will be provided full system paid medical coverage at age 60.

Section 6 adds an incentive for public employees to stay in PERS through 30 years of service. Currently a Tier II retiree is not eligible for system provided medical coverage until age 60, at which time the retirement system pays 1/2 the medical premium and the retiree is responsible for the other 1/2, regardless of how many years the person is in PERS.

With this change a public employee who stays in PERS employment a total of 30 years will be eligible for full system paid medical coverage. In addition, all retired public employees will be provided full system paid medical coverage at age 60.

Section 7 addresses the geographic differential. This section attempts to clarify language that has created problems for the Division of Retirement and Benefits.

Representative Kott maintained that the cost to the state of Alaska is minimal: \$96 thousand dollars the first year and \$66 thousand dollars for subsequent years. He reiterated that the legislation will help attract and retain state workers and teachers.

In response to a question by Vice-Chair Bunde, Representative Kott noted that the legislation does not include RIP employees. Representative John Davies pointed out that the RIP employees would not want to take advantage

of the bill because they would have to repay retirement credit.

ALISON ELGEE, DEPUTY COMMISSIONER, DEPARTMENT OF ADMINISTRATION spoke in support of the legislation. The Teachers Retirement System Board and the Public Employees System Board have reviewed the legislation. Both Boards support elements contained in the legislation.

Vice-Chair Bunde observed that teachers and other administrators requested early retirement bills because they could not afford [the salaries] of "old-timers". He questioned if there is an inconsistency in the principle of the legislation.

Ms. Elgee acknowledged the questioned and noted that "times change". She stressed that the problem is to be able to staff jobs in the public environment. Persons who have taken an early-retirement are not eligible.

Representative Whitaker asked the rate of reemployment. Ms. Elgee noted that there is no quota of returned retirees. The retirees would return without accruing additional retirement services, which would provide some reduced employer and out-of-pocket employee costs. The employer would have to indicate the need. She emphasized the benefit on projects with a limited duration.

Representative Whitaker summarized that there is no proscribed reentry level. Representative Davies questioned if bargaining units would be involved. Ms. Elgee clarified that retirement is not subject to collective bargaining. Hiring terms would be subject to collective bargaining.

Representative Hudson noted that persons over 65 years of age can receive social security and continue to work. He stressed that it is a powerful incentive to continued working. He asked how many retirees would be affected.

Ms. Elgee responded that there is no way to anticipate how many retirees would elect to return to work.

TAPE HFC 01 - 92, Side B

Ms. Elgee observed that teachers often reach retirement in their mid 40's. The department anticipates 2,660 retired teachers between the age of 50 and 54 in the year 2005. There would be another 5,600 teachers between 55 and 60 years of age. This pool of teachers could be utilized for the workforce.

Vice-Chair Bunde referred to the fiscal note.

Ms. Elgee noted that there would be no impact to the retirement section. No additional retirement credit would be accrued. The fiscal note would request one additional person for counseling and some data processing. Enhanced medical benefits would result in a slight increase of .17 percent in both the TRS and PERS systems. The change to the geographical differential has no impact.

Representative Whitaker asked if thought had been given on the affect on the entry-level workforce. He noted that new graduates could lose in the choice between experience-retired teachers.

Representative John Davies echoed concerns of Representative Whitaker and noted that he would propose a 3-year sunset to allow assessment of unintended consequences (copy on file).

Representative Hudson asked why the additional cost to the employer was necessary when PERS and TRS funds generate through investment in excess of a hundred percent of the actual cost. He noted that these funds are two of the healthiest funds in the nation. He observed that the medical benefits were reduced in Tier II due to costs.

Ms. Elgee acknowledged that the funds are healthy. She clarified that the actuary looks at changes in isolation. There would not necessarily be an increase as a result of the change due to a variety of offsetting factors such as the investment rate of return, which would negate any increased cost as a result of the legislature. She added that none of the effects would be immediate. Changes in the rates would not be reflected until 2005. The department is not requesting funding for the change, but is estimating the impact.

DEL SMITH, DEPUTY COMMISSIONER, DEPARTMENT OF PUBLIC SAFETY spoke in support. He noted that it is difficult to get young people to go to remote areas of the state and spoke in support of the change to the geographical differential. He noted there are talented individuals that could add to law enforcement that are precluded from doing so because they can go on to other careers and still draw their retirement.

BRUCE JOHNSON, DEPUTY COMMISSIONER, EDUCATION, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT spoke in support of the legislation. The legislation adds to the capacity of the school districts in terms of encouraging individuals to stay within the system. Reemployment of retired teachers is a good tool. He pointed out that there is no guarantee that they would be rehired in the same or another school district. He stressed that Alaska is only producing 20 - 30 percent of the teachers needed to fill its teaching positions. He maintained that the questioned is whether it would be better to employ someone from out of state or a

retired teacher. Districts currently compete against each other. He stressed that the systems are better off with some new and some old blood. He pointed out that recruiters outnumbered applicants at the recent Anchorage job fair (150 applicants).

Vice-Chair Bunde observed that teaching is a stressful job. He asked if there had been discussion with retired teachers. Mr. Johnson noted that there have not been any formal discussions. He recounted personal discussions with retirees noted that teachers may want to rehire after being refreshed by time off. He added that the RIP bill's intent was to make ends meet within their budget.

Vice-Chair Bunde acknowledged that teaching is a stressful job. He asked how much discussion has occurred with retired teachers to assess their desire to return to work. Mr. Johnson responded that there has not been a coordinated effort to interact with retired teachers. He emphasized that the early retirement (RIP) effort was a resource issue of trying to make budgets balance.

Representative Croft questioned what salary retired teachers would be returned at their same salary. Mr. Johnson stated that it would be up to the individual school district. He observed that it could be a negotiated item. Teachers could be paid on the salary schedule but without the benefit package.

Representative Hudson observed that the teachers that took early retired would be excluded. He noted that the RIP was an attempt to retire higher paid, longer tenured teachers. He questioned if it would be the best policy to exclude these qualified employees.

Mr. Johnson observed that it would create a larger pool if teachers that took early retirement were included. He acknowledged the challenge of accommodating the rules under which teachers who took early retirement operated. He added that the rip program resulted in a brain drain.

Vice-Chair Bunde pointed out that the agencies requested the rip bill. He questioned what would prevent retired teachers from coming back to work at the same wage with the addition of their retirement. Mr. Johnson responded that these teachers are currently taking teaching jobs in other states. Some of these people might stay in the state and serve Alaskan children. Rehiring retired teachers would become part of collective bargaining to prevent misuses. He did not know if the best public policy would be to rehire on the current salary schedule and negotiate the 30 percent benefit package in some other way in order to allow school districts to achieve a savings.

KEVIN BROOKS, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF FISH AND GAME testified in support of the legislation. He observed that the agency has lost 25 biologists in their commercial fish division in the last 6 months to jobs with the federal government. The legislation would allow the department to keep some of these employees. He noted that that department anticipates federal funding for marine mammal research. The best candidates for these projects would be retired marine mammal biologists. He stressed that rehired retired employees would not maintain their longevity, which would allow a savings to the department.

Vice-Chair Bunde questioned if discussions have occurred with retired employees. He noted that he has received emails requesting early retirement. Mr. Brooks stressed that there are recruitment and retention issues along with fairness and equity issue. He maintained that there isn't any one tool to address every need.

Representative Lancaster questioned if the legislation would allow double dipping. Mr. Brooks reiterated that the state of Alaska is losing personnel to other states and the federal government. He stressed that nothing will change. He acknowledged that retired employees would still receive retirement while drawing a paycheck, but emphasized that an asset would be preserved while getting the job done for the state.

Representative John Davies pointed out that employees would not earn additional retirement.

TIM ROGERS, LEGISLATIVE PROGRAM COORDINATOR, MUNICIPALITY OF ANCHORAGE testified in support. He observed that the municipality is experiencing a brain drain as employees leave the municipality. He maintained that the legislation would help resolve their problems. He noted that 25 percent of the police officers in Anchorage are eligible for retirement. He noted that the issue is how to encourage these employees to retire and come back or not retire at all. The Anchorage police department employees went into PERS in 1994 so the legislation would not solve that problem for a number of years.

VERON MARSHALL, EXECUTIVE DIRECTOR, NEA-ALASKA, JUNEAU, spoke in support of the legislation. He stressed that the 25 and out provision would help retain teachers in the classroom. He maintained that the qualifying factor of major medical after 25 years would encourage a number of teachers to stay in the state. The legislation would provide another tool to enhance the pool of qualified teachers to reenter. He noted that most collected bargaining agreements allow teachers to be hired from out of district. He stressed that a retired teacher would be viewed as a break of service and

come under the experienced credit variable and would be subject to scrutiny.

Vice-Chair Bunde noted that there is a limitation of how much service can be brought back. Salaries would be reduced.

Representative John Davies MOVED to ADOPT Amendment 1. He reiterated that the amendment would provide a 3-year sunset. He expressed support for the legislation but felt that it would be good legislative policy to review the change.

Representative Kott did not object to the sunset provision. He acknowledged that the sunset would require the legislature to review the issue, but felt that any problems would be discovered in the next few years.

Ms. Elgee testified that the amendment would not have an adverse affect but questioned if 3 years would be sufficient time to review the program.

Representative John Davies stated that he would not object to a longer period.

Co-Chair Williams questioned if a five-year period would be too long.

Representative Kott observed that the sunset would fall before the increase in retiring teachers that is expected in the year 2005. He suggested the time be expanded.

Vice-Chair Bunde reiterated that actuarial impact would not be felt until 2005.

Representative John Davies stated that he would entertain a motion to change the date to 2006.

Vice-Chair Bunde Moved to Amend Amendment 1 by changing the sunset date to the year 2005. There being NO OBJECTION, it was so ordered.

There being NO OBJECTION, Amendment 1 was adopted.

Representative Foster MOVED to report CSHB 242 (FIN) out of Committee with the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

CSHB 242 (FIN) was REPORTED out of Committee with a "do pass" recommendation and with previously published fiscal impact note (#1) by the Department of Administration.

#

ADJOURNMENT

The meeting was adjourned at 3:28 p.m.

