

ALASKA STATE LEGISLATURE
HOUSE STATE AFFAIRS STANDING COMMITTEE

March 19, 2002

8:05 a.m.

MEMBERS PRESENT

Representative John Coghill, Chair
Representative Jeannette James
Representative Hugh Fate
Representative Gary Stevens
Representative Peggy Wilson
Representative Harry Crawford
Representative Joe Hayes

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

HOUSE BILL NO. 304

"An Act relating to disposition of income of the permanent fund; and providing for an effective date."

- MOVED HB 304 OUT OF COMMITTEE

HOUSE BILL NO. 480

"An Act providing that the death of a state employee killed because of their job status off the job site shall be considered an occupational death for purposes of survivor's pension benefits."

- MOVED CSHB 480(STA) OUT OF COMMITTEE

HOUSE BILL NO. 380

"An Act relating to reimbursement for certain Medicare premium charges for persons receiving benefits from the teachers' retirement system, the judicial retirement system, the elected public officers retirement system, and the public employees' retirement system."

- HEARD AND HELD

HOUSE BILL NO. 400

"An Act relating to contributions from permanent fund dividends for municipal school districts and regional educational attendance areas; and providing for an effective date."

- HEARD AND HELD

HOUSE BILL NO. 426

"An Act requiring state agencies to provide for electronic submission of forms and relating to annual reports of state agencies."

- SCHEDULED BUT NOT HEARD

SENATE BILL NO. 297

"An Act moving employees of the Alaska mental health trust land unit of the Department of Natural Resources from the partially exempt service to the exempt service."

- SCHEDULED BUT NOT HEARD

HOUSE JOINT RESOLUTION NO. 5

Proposing an amendment to the Constitution of the State of Alaska relating to the duration of a regular session.

- SCHEDULED BUT NOT HEARD

PREVIOUS ACTION

BILL: HB 304

SHORT TITLE: PERM. FUND INCOME/ DIVIDENDS/ FUNDS

SPONSOR(S): REPRESENTATIVE(S) WHITAKER

Jrn-Date	Jrn-Page		Action
01/14/02	1954	(H)	PREFILE RELEASED 1/4/02
01/14/02	1954	(H)	READ THE FIRST TIME - REFERRALS
01/14/02	1954	(H)	STA, FIN
01/16/02	1992	(H)	COSPONSOR(S): FATE
02/16/02		(H)	STA AT 10:00 AM BUTROVICH 205
02/16/02		(H)	-- Meeting Postponed to 2/23/02 --
02/23/02		(H)	STA AT 10:00 AM HOUSE FINANCE 519
02/23/02		(H)	Heard & Held
02/23/02		(H)	MINUTE(STA)
03/19/02		(H)	STA AT 8:00 AM CAPITOL 102

BILL: HB 480

SHORT TITLE:DEATH/SURVIVOR BENEFITS IN PERS & TRS

SPONSOR(S): REPRESENTATIVE(S)DYSON

Jrn-Date	Jrn-Page		Action
02/19/02	2317	(H)	READ THE FIRST TIME - REFERRALS
02/19/02	2317	(H)	STA
03/12/02		(H)	STA AT 8:00 AM CAPITOL 102
03/12/02		(H)	-- Meeting Postponed --
03/14/02		(H)	STA AT 8:00 AM CAPITOL 102
03/14/02		(H)	Heard & Held
03/14/02		(H)	MINUTE(STA)
03/19/02		(H)	STA AT 8:00 AM CAPITOL 102

BILL: HB 380

SHORT TITLE:REIMBURSE CERTAIN RETIREE MEDICARE CHARGE

SPONSOR(S): REPRESENTATIVE(S)JAMES

Jrn-Date	Jrn-Page		Action
02/04/02	2143	(H)	READ THE FIRST TIME - REFERRALS
02/04/02	2143	(H)	STA, FIN
02/19/02	2329	(H)	COSPONSOR(S): HUDSON
02/28/02		(H)	STA AT 8:00 AM CAPITOL 102
02/28/02		(H)	Scheduled But Not Heard
03/14/02		(H)	STA AT 8:00 AM CAPITOL 102
03/14/02		(H)	Scheduled But Not Heard
03/19/02		(H)	STA AT 8:00 AM CAPITOL 102

BILL: HB 400

SHORT TITLE:PERMANENT FUND CONTRIBUTION FOR EDUCATION

SPONSOR(S): REPRESENTATIVE(S)OGAN

Jrn-Date	Jrn-Page		Action
02/11/02	2205	(H)	READ THE FIRST TIME - REFERRALS
02/11/02	2205	(H)	STA, HES, FIN
02/11/02	2205	(H)	REFERRED TO STATE AFFAIRS
02/13/02	2258	(H)	COSPONSOR(S): DYSON
02/19/02	2329	(H)	COSPONSOR(S): MEYER, SCALZI, FATE
03/19/02		(H)	STA AT 8:00 AM CAPITOL 102

WITNESS REGISTER

REPRESENTATIVE JIM WHITAKER

Alaska State Legislature
Capitol Building, Room 411
Juneau, Alaska 99801

POSITION STATEMENT: Testified as sponsor of HB 304.

GAYLE HARBO, Retired Teacher
PO Box 10201
Fairbanks, Alaska 99712

POSITION STATEMENT: Testified on HB 380.

SARA HORNBERGER, Chair
Anchorage Chapter
Retired Public Employees of Alaska;
Life Member, National Education Association - Alaska;
National Education Association - Retired
PMB 438/3705 Arctic Boulevard
Anchorage, Alaska 99503-5774

POSITION STATEMENT: Testified in support of HB 380.

CHARLES COSPER, Life Member and Past President
Retired Public Employees of Alaska
(No address provided)

POSITION STATEMENT: Testified in support of HB 380.

JAY DULANY
19241 Middleton Loop
Eagle River, Alaska 99567

POSITION STATEMENT: Testified in support of HB 380.

MERRITT OLSON, Member
National Education Association - Retired
1032 W 11th Avenue
Anchorage, Alaska 99501

POSITION STATEMENT: Urged the committee to give HB 380 serious consideration.

GUY BELL, Director
Health Benefits Section
Division of Retirement & Benefits
Department of Administration
PO Box 110203
Juneau, Alaska 99811-0203

POSITION STATEMENT: Discussed the fiscal note for HB 380.

JERRY PATTERSON, President
National Education Association - Retired

POSITION STATEMENT: Testified on HB 380.

BILL CHURCH, Staff
to Representative Scott Ogan
Alaska State Legislature
Capitol Building, Room 108
Juneau, Alaska 99801

POSITION STATEMENT: Testified on behalf of the sponsor of HB 400.

EDDY JEANS, Manager
School Finance and Facilities Section
Education Support Services
Department of Education and Early Development
801 W 10th Street, Suite 200
Juneau, Alaska 99801-1894

POSITION STATEMENT: Testified in opposition to HB 400.

ACTION NARRATIVE

TAPE 02-28, SIDE A
Number 0001

CHAIR JOHN COGHILL called the House State Affairs Standing Committee meeting to order at 8:05 a.m. Representatives Coghill, Fate, Stevens, Wilson, Crawford, and Hayes were present at the call to order. Representative James arrived as the meeting was in progress.

HB 304-PERMANENT FUND INCOME

CHAIR COGHILL announced that the first order of business was HOUSE BILL NO. 304, "An Act relating to disposition of income of the permanent fund; and providing for an effective date."

Number 0125

REPRESENTATIVE JIM WHITAKER, Alaska State Legislature, told the committee that the proposed bill would require that \$200 million of the earnings from the earnings reserve account (ERA) be transferred to the general fund.

CHAIR COGHILL mentioned a new section giving a calculation. He asked Representative Whitaker to explain the calculation that "may be different than the \$200 million."

REPRESENTATIVE WHITAKER answered that the lesser amount will be transferred if the earnings, less inflation-proofing and less dividend distribution, are less than \$200 million.

CHAIR COGHILL indicated that there were two specific years mentioned in the bill: "one deals under the calculation, and one is a straightforward \$200 million, if I understand correctly."

REPRESENTATIVE WHITAKER said, "That's correct." He continued:

After the initial year, assuming that the law remains in effect, an inflation index will begin from that year. And that year is 2003. Also, a population index calculation will ... ensue from that year. So this is an amount that is inflation indexed and population indexed.

CHAIR COGHILL surmised that [the purpose of the proposed legislation] was to make a formula with parameters.

REPRESENTATIVE WHITAKER said, "Correct."

Number 0326

REPRESENTATIVE STEVENS quoted Representative Whitaker as having said more than once, "If we do nothing, the permanent fund dividend will be gone ... within a decade." He asked him to "carry us through that argument, so that people will understand that issue."

REPRESENTATIVE WHITAKER responded, as follows:

An imbalanced budget of, roughly, \$1 billion per year, will utilize the earnings of the constitutional budget reserve (CBR) in less than three years. Thereafter, the general fund will have no balancing mechanism, other than the earnings reserve account. Given that the earnings reserve account is utilized to, essentially, hold harmless the permanent fund corpus, the draw down of general fund balancing and holding harmless for the permanent fund corpus will simply overwhelm the ability of the earnings reserve account. And therefore, it, too, will deplete.

The best estimate that we can put forward, at this point, is that, before the end of this decade, both

the constitutional budget reserve and the earnings reserve account will be gone. At that point, the dividend program will end, and the earnings from the corpus of the permanent fund will go directly to balance the general fund. That's the scenario. Some would say it's a "worst-case" and, therefore, should not be taken altogether seriously. I do not think that it's a "worst-case." The best information that I can gather, is that it is a "most probable case." That being the case, it is incumbent upon us to take action such as House Bill 304 to preclude that occurrence.

REPRESENTATIVE STEVENS highlighted the importance of making the public aware that if [the legislature] does nothing, there could be a very serious reduction in permanent fund dividends.

Number 545

REPRESENTATIVE FATE referred to Representative Whitaker's aforementioned testimony regarding the end of decade scenario, and asked whether the earnings of the corpus of the permanent fund might be in jeopardy, if, for example, the bottom falls out of the stock market, as it recently did.

REPRESENTATIVE WHITAKER pointed out that [the U.S.] is in the third year of that particular scenario. However, it is improbable that the trend will continue. In fact, the stock market is beginning to rebound and have stability, if not upward mobility, he said.

Number 681

REPRESENTATIVE JAMES asked if Representative Whitaker was talking solely about the income from the earnings reserve and not about the income of the corpus.

REPRESENTATIVE WHITAKER said she was correct.

REPRESENTATIVE JAMES asked what Representative Whitaker thought the long-term calculation for the dividend ought to be.

REPRESENTATIVE WHITAKER, after further clarification of Representative James's question, said that his preference was to reformulate the dividend and have it reduced significantly. The "1999 vote" made the opportunity to do that "highly improbable." "This bill is intended to have the highest probability of passing the legislature in light of what happened in 1999," he

said. He pointed out that [HB 304] does not touch the manner in which the permanent fund is formulated.

REPRESENTATIVE JAMES said she agreed with that answer, "except for the last part." She noted that her evaluation of the 1999 vote is different than that of many others; people have told her that they have changed their minds about their vote in 1999. She asked Representative Whitaker whether people have related similar thoughts to him.

REPRESENTATIVE WHITAKER answered "Yes," and added that others have asked him to not touch [the permanent fund]. He explained that he has come to the conclusion that [HB 304] is in the state's best interest.

Number 0840

REPRESENTATIVE JAMES asked about "the amount that this calculates to here," and if it would be the lesser of \$200 million.

REPRESENTATIVE WHITAKER said, "Just one caveat to that: inflation and population indexing."

REPRESENTATIVE JAMES asked, "Do you believe that we can tax ourselves enough and cut the budget enough to survive on \$200 million out of the earnings reserve?"

REPRESENTATIVE WHITAKER responded that he likes to give simple, straightforward answers, but Representative James's question requires more explanation. He explained:

No, I do not believe that we can continue to either hold flat budgets, or cut the budget. I think it's going to be very, very difficult for the state to maintain an infrastructure that allows for economic growth into the future, if we do that. Therefore, while there must be some cost-control mechanism on government, as there should be on any economic endeavor - and if we look at government in the context of an economic endeavor, there is no conclusive argument that I have heard that leads me to the conclusion that there should not be a cost-control mechanism associated with government.

Setting the cost-control portion of an overall plan ... aside then, and moving to, "Can we tax ourselves

to a balanced budget?" No, we cannot. The State of Alaska is not designed, from its inception, to have been taxed at a high enough level that government would be paid for through taxation. And it would be foolish of us to think that our population of 600,000 can pay enough taxes to pay for the required services associated with government.

Number 1052

So, no, I don't think we can tax ourselves to a balanced budget. You could requisite that some utilization of permanent fund earnings be used, in order to achieve that balance, yes. Do I think this is a first step? Unfortunately, I do. And I do, in particular, if we do not, as a state, accept our responsibility for the fourth component of a successfully balanced fiscal regime. That fourth component is economic growth. If we do not build our economy so as to sustain a reasonable tax base, we cannot exceed to the levels that I know we can attain. Instead, we will continue in a somewhat downward spiral, we will continue to flounder, and we will have great difficulty.

Do I think that this, then, is the ultimate answer to the fiscal problems of the state - or a part of - as it currently sits? No, I do not. I think that future legislatures will have to revisit this issue. But, I think, given political reality, that this is a requisite first step. I think we've put ourselves at significant risk of taking any step, if we change the formulation of the permanent fund dividend.

Number 1149

REPRESENTATIVE JAMES noted her agreement with Representative Whitaker's answer. She said that her evaluation of "why we are where we are today" is explained by the same problem that Representative Whitaker is relating to: the inability, or unwillingness of the legislature to do anything about this, before now, because the permanent fund dividend earnings seemed to be "out of the question." She suggested that something be put into statute that would change the formulation of the dividend, perhaps in a graduated manner, "so that we're not ripping it out from everybody's hands just that one time." She

commented that those people opposed to touching the dividend also don't want earnings of the permanent fund touched.

Number 1250

REPRESENTATIVE JAMES said she understands that this is a politically difficult issue, but she won't [give up thinking that] intelligence will win out. She indicated that she understands that part of the dilemma of not creating economic development is a result "of this particular activity, over the years." However, more money cannot be put into economic development if there is not money. Furthermore, the budget must be cut because "we have none." "But we have none, because we won't go here. Isn't that true," she asked.

REPRESENTATIVE WHITAKER replied, "That is the conundrum we are faced with, Representative James, yes."

REPRESENTATIVE WILSON said that this subject is frustrating for the reasons just pointed out by Representative James. [The committee members] have a responsibility to the state and to their constituents to do the right thing, after studying the issue, she said. However, sometimes that means making decisions that constituents don't understand. She described this as a "difficult situation."

Number 1395

REPRESENTATIVE FATE indicated that there has been information stating that the permanent fund earnings reserve account can sustain up to \$250 million, some say \$300 million, a year without depleting the fund or stopping growth of that account. He asked Representative Whitaker whether \$200 [million] would be a proper amount "under the formulation," or could that be amended up to \$250 [million] in future years.

REPRESENTATIVE WHITAKER replied that he would like to see the amount amended upwardly, this year, in order to fund university growth and pay for K-12 education; real needs necessary in order for the [state's] economy to grow. He said, "I can't tell you if it's either probable, or improbable, what the outcome might be. That fight is yet to be had." He acknowledged that Representative Fate was correct in his assertion that there is probably room for growth, in regard to the use of the earnings reserve account.

Number 1518

REPRESENTATIVE CRAWFORD noted that he agreed that [the legislature] must do something. He said he believed that the earnings in the permanent fund is the people's money, and, as former governor Jay Hammond has indicated, [the legislature] should put the money into the hands of the people and let the government try to obtain what it can from the people, thereby preventing runaway growth of government.

REPRESENTATIVE CRAWFORD continued by stating that he likes Representative Hudson's idea to "tax the dividend" because it's the most honest and straightforward way to access the earnings of the permanent fund. Furthermore, according to Representative Hudson's figures, that would save [the state] approximately \$30 million in federal taxes. "It's not a hidden tax. I believe this would be hidden from view; people wouldn't ... ever feel like it was their money, if it were taken on the topside here," he said.

REPRESENTATIVE CRAWFORD noted that he is a member of the fiscal policy caucus, which has been charged with filling the gap and doing so fairly. He explained that he doesn't intend to hold up HB 304 because he wants "all these things" to get onto "the floor," for debate. However, "I don't agree with your approach here," he said.

Number 1651

REPRESENTATIVE JAMES said she considers herself to be one of the biggest proponents of economic development, and she emphasized that she looks for opportunity for it everywhere. However, she stated that she sees no hope for any new growth in economic development in Alaska until [the legislature] has balanced its "fiscal issue." Furthermore, the general public doesn't want to pay taxes. Representative James said, "No one's going to come in here and invest and create a business if they're the ones that are going to get stuck with paying the bill." She stressed the importance of moving this issue forward quickly, to fill the budget gap. She characterized this year's efforts [of the legislature] as only just the beginning.

REPRESENTATIVE JAMES said she came to the legislature nearly ten years ago worrying about why "we" don't fix the things that "we" build. Although there has been some headway made regarding the issue, there is much left to do. She expressed concern that there has been a pause in progress and [the situation] continues

to disintegrate. She listed school buildings, roads, access, and infrastructure as items needing [the state's] attention.

Number 1788

REPRESENTATIVE JAMES said she could not tally, in her mind, the amount of money [the legislature] would need to encourage new economic development in the state nor could she sum the new money [necessary to] invest into businesses. She related her understanding that Representative Whitaker's [proposal] is to take a small bite out of something that has been, previous to now, untouchable." Representative James stated her uncertainty that this [bill] would "even go by the ... the third floor because of the promise to let [the] people vote on anything that touches any of this money, which, I was opposed to it last time. It didn't work. And I don't think it'll ever work again." She opined that if [the legislature] fails in this issue, it will be because it has not sufficiently explained to the public that [the legislature] is working [to address] the severity of the issue.

REPRESENTATIVE JAMES said her choice would be to redesign the structure of the dividend. However, she said she believes the dividend is necessary, if for no other reason than to protect the fund itself. During the years when there was a permanent fund, but no dividend, people wanted to spend it on a variety causes, she pointed out.

Number 1865

REPRESENTATIVE JAMES remarked that although she cannot support this provision, she is willing to move [HB 304] forward to have more discussion [in the House Finance Standing Committee]. She summarized the [reason] this issue exists, as follows: "Just because no one has been willing to spend any money of the earnings of the permanent fund."

REPRESENTATIVE JAMES continued:

By trying to design this to not go here, we have completely shut down economic activity in our state over the last few years. I don't necessarily believe that's our fault ..., because we are here to recognize people, and what they tell us to do is what we do. Just like with kids do. And that's what we've done. But I think we haven't worked hard enough on the explanation of the reality of the issue. And there

will be a price to pay, sometime, for that. And every single one of us will pay it.

Number 1934

REPRESENTATIVE FATE announced that he, also, was willing to move on this legislation. He clarified his belief that there is no one who has studied this [issue] who doesn't want good economic development in the state. He noted that he was formerly a businessman and a miner. He posited that it must be recognized that economic development in [Alaska] takes time, [and it takes time] before "we reap the proceeds." That time is not available, which is one of the reasons that [the legislature] has studied using the earnings reserve account (ERA). He noted that studies had been made, within the House State Affairs Standing Committee, in regard to a broad-based tax of one type or another. He also mentioned there has been consideration of a ceiling on spending. He concluded by expressing his thankfulness that this bill has been brought forward. He related his hope that the legislature can muster enough force so that it does go to the third floor because this kind of thinking and action is necessary.

REPRESENTATIVE FATE expressed his eagerness to move the bill from committee.

REPRESENTATIVE WILSON asked if a vehicle was needed to put HB 20 in place, to access the ERA, or would that bill be a vehicle in itself.

REPRESENTATIVE WHITAKER answered that HB 20 is separate from [HB 304]. At this point, whether or not the two are linked is a discussion that will take place, but there is no link at this time, he said. He pointed out that the funds from which both [the proposed bills] would draw are finite; therefore, [the legislature] needs to proceed with caution. He indicated that [HB 340 is designed to] close the gap, whereas HB 20 would not; therefore, any general fund offset to the imbalance associated with [HB 304] is diminished by however much is spent under HB 20. That's the crux of that debate, he stated.

REPRESENTATIVE WILSON asked if HB 20 would also use the ERA.

REPRESENTATIVE WHITAKER explained that [HB 20] isn't specifically [linked] to the ERA but rather to the earnings of the permanent fund. However, the earnings of the permanent fund

go in the ERA, so, in effect, it would be coming from the same fund source.

Number 2139

REPRESENTATIVE JAMES mentioned, per her staff's research, that the estimated amount of the permanent fund inflation-proofing for this year will be \$602 million. She stated that "even taking a holiday on inflation-proofing the fund might be a real good idea." She pointed out that the 18- to 44-year-olds have left [the state], because opportunities were not here. However, those are the people needed to build the economy in the future. Subsequently, if economic activity is stimulated, it will be necessary to bring people back in. Therefore, she said she believes there should be a simple, fair, and equitable income tax in order to ensure that there is the money from new growth to fund our police, fire, roads, schools, et cetera. Furthermore, the number of people in the state over 65 is growing, and there is a severe need for assisted living and other forms of care for the elderly and disabled people.

REPRESENTATIVE JAMES concluded: "If we don't do something quick ... we're going to be in worse trouble ... and it's going to be harder for us to pull out of the hole." She stated her belief that the permanent fund was originally established for the purpose of helping [the state] when it is in stress, which is the current situation. Therefore, she suggested determining how to [get] the maximum benefit [from the fund].

Number 2259

REPRESENTATIVE HAYES moved to report HB 304 out of committee with individual recommendations and the accompanying zero fiscal note. There being no objection, HB 304 moved out of House State Affairs Standing Committee.

HB 480-STATE EMPLOYEE DEATH/SURVIVOR BENEFITS

Number 2286

CHAIR COGHILL announced that the next order of business was HOUSE BILL NO. 480, "An Act providing that the death of a state employee killed because of their job status off the job site shall be considered an occupational death for purposes of survivor's pension benefits."

CHAIR COGHILL reminded the committee that, after the March 14, 2001, hearing the sponsor considered [the committee's suggestion to include TRS in a benefit package]. He noted that Representative Dyson brought a committee substitute (CS), Version F.

REPRESENTATIVE DYSON stated his belief that the inclusion of TRS in Version F improves the bill.

CHAIR COGHILL recommended to the committee that it adopt Version F.

Number 2373

REPRESENTATIVE STEVENS moved to adopt the proposed CS, Version 22-LS1547\F, Craver, 3/18/02, as a work draft. There being no objection, Version F was adopted.

REPRESENTATIVE DYSON recounted that the original bill had been drafted to close a loophole. He indicated that, presently, employees covered under a suite of benefits would not be covered if they were killed or injured while on the job, but off the job site.

CHAIR COGHILL stated his understanding that the CS before the committee includes TRS (Teachers' Retirement System) and PERS (Public Employees' Retirement System), but does not provide for the judicial branch. He mentioned Title 14 and Title 39 of the statutes.

Number 2467

REPRESENTATIVE HAYES moved to report CSHB 480, Version 22-LS1547\F, Craver, 3/18/02, out of committee with individual recommendations and the accompanying zero fiscal note. There being no objection, CSHB 480(STA) moved out of House State Affairs Standing Committee.

HB 380-REIMBURSE CERTAIN RETIREE MEDICARE CHARGE

CHAIR COGHILL announced that the next order of business was HOUSE BILL NO. 380, "An Act relating to reimbursement for certain Medicare premium charges for persons receiving benefits from the teachers' retirement system, the judicial retirement system, the elected public officers retirement system, and the public employees' retirement system."

GAYLE HARBO, Retired Teacher, testified via teleconference. She began by saying that HB 380 is an important issue for Alaska's seniors. She provided the following testimony:

Many of us, when we reached age 62, applied for social security and found that because of two federal provisions - the Government Pension Offset or the Windfall Elimination Provision - we either did not qualify to receive social security on our own or through our spouse, or we were eligible for an amount much smaller than we had anticipated. At age 65 all seniors must apply for social security because of Medicare. The payment of Medicare Part B is mandatory, and since the most recent 11 percent increase in 2001, it costs a bit over \$600 a year. There are at least three scenarios which apply for TRS and PERS retirees applying for Medicare:

- You can apply for social security and be eligible and then Medicare Part B is deducted from your monthly check; or
- You can apply [for social security] and you're denied and you have a spouse on social security and the [Medicare] Part B is deducted from your spouses social security check; or
- You can apply and be denied. You have no spouse, so you have to send in your payment for Medicare Part B.

This third scenario concerns me most because as we know ... many seniors are on fixed incomes and as they age have many additional costs simply caring for their home, if they have one, and for themselves. This additional burden of having to pay more than \$600 a year in mandatory medical insurance costs, and, more importantly, having to remember to write a monthly check or annual check, just doesn't seem right. I'm not sure what happens if a senior forgets to write a check. Our seniors who devoted their lives to living and working and caring for children in Alaska deserve more.

Also, in terms of cost of this provision, when our retirees reach 65, and Medicare becomes the primary

health coverage, there's a tremendous savings to the state in monthly health care premium per retiree, yet the burden of an additional \$50 per month for the retirees is worrisome because of the fixed income of most seniors, and because there's no guarantee the monthly cost of Medicare Part B will not increase.

In the late '60s public school teachers, the school districts, and the state each contributed 7 percent of salary, a total of 21 percent, to fund the retirement system for TRS. Later this was changed and the employee contribution for TRS is now 8.65 percent, but the total for the other two entities is paid for by the employer, and it's only a little over 11 percent. In 1999 the actuary for [the Division of] Retirement and Benefits (R&B) estimated the cost to fund Medicare Part B would require only .68 percent, that's less than 1 percent, [increase] in the employer contribution. This would still make the employer share less than the 14 percent of 30 years ago, and remember the cost for funding the Medicare Part B reimbursement would be amortized over a period of 20 to 25 years. ... in a most recent actuarial report of June 30, 2001, it shows that there may be in this next year, for 2004, a one-time bump in the employer contribution because R&B submitted a new data system. However, the projected future employer contributions still show a level of less than the 30-year goal of 14 percent.

I hope you will give careful consideration to this very important legislation for Alaska's seniors - they deserve it for their years of service to the state and the school districts. Thank you once again for your time.

Number 2752

SARA HORNBERGER, Chair, Anchorage Chapter, Retired Public Employees of Alaska; Life Member, National Education Association - Alaska; National Education Association - Retired, testified via teleconference. She informed the committee that she has been involved in public education since 1963. She also informed the committee that she is a retiree under TRS and PERS. Ms. Hornberger recalled that during her time at Naknek school, a representative from TRS visited the school almost annually. During the early '70s the TRS representative related the message

that once retired, in addition to retirement pensions, medical insurance for retirees would be completely paid as part of the retirement under the state's retirement funds. In 1974, Ms. Hornberger resigned her position with Bristol Bay school and thought she probably wouldn't teach again and thus decided to withdraw her retirement funds. A TRS representative discouraged her from such because he said once she reached retirement age and hadn't withdrawn from the retirement system, Ms. Hornberger would secure her medical insurance after retirement. However, Ms. Hornberger related her belief that the monthly contributions she made and the school district made in the retirement fund was to cover all retirement costs, including any premiums such as Medicare.

MS. HORNBERGER pointed out that school teachers and administrators aren't the only state employees who were informed their medical insurance would cost nothing after retirement. The same was related to troopers, Alaska Department of Fish & Game biologists, and (indisc.) enforcement officers. Furthermore, this was printed in benefit booklets printed and distributed by the state. Numerous examples of those printed promises have been collected.

MS. HORNBERGER continued. She explained that when she turned 65 she discovered that she would be paying for medical coverage under Medicare. She also learned that the State of Alaska medical insurance program was no longer her primary coverage, as she had been told. Upon retirement in 1997, the premium was \$45.50 and has risen to \$54.00. Moreover, Medicare premiums are predicted to steadily increase over the next few years. Although these premiums may not seem like much, but for those on a small fixed pension it's a fortune. Ms. Hornberger related her impression that the Department of Administration views the Medicare premium as an item on the table for negotiation. However, a benefit that was promised as part of an employment package doesn't have to be negotiated. "We do not feel that we are negotiating with the Division of Retirement & Benefits for payment of those premiums, we are asking the state to live up to its promise to us and pay this premium out of the money we and our employers deposited with the state in trust for such payments. Alaska should honor its promise to Tier I state retirees and pay the monthly Medicare [premium]."

TAPE 02-28, SIDE B

Number 2945

CHARLES COSPER, Life Member and Past President, Retired Public Employees of Alaska (RPEA), testified via teleconference. This issue is so important to many retirees. He said that during his time as the past president of the RPEA, he was able to speak to many of its over 20,000 members. Most of those retirees say the same thing, that is that they were promised to have state health care for life at no cost. It's time for the state to honor the agreement that it made, he charged. Therefore, he urged the committee to pass HB 380.

Number 2825

JAY DULANY testified via teleconference. He requested that if HB 380 is passed, then the reimbursement/payment of the Medicare premiums be before taxes in order that the amount won't be taxed by the Internal Revenue Service (IRS) on the individual retirees. Mr. Dulany noted his support of HB 380.

Number 2775

MERRITT OLSON, Member, National Education Association - Retired, testified via teleconference. He noted that he has served as a member and chair on the Teachers' Retirement Board. He also noted that he is a member of the Trustee of the Alaska State Pension Investment Board, which establishes policies for all of the pensions funds. Mr. Olson informed the committee that it should have his written testimony, from which he read the following:

I have, too, ... long been concerned about what I consider inequities that exist relative to the health insurance benefits for retired teachers and public employees in the state system. Member and employer contributions pay for pension benefits and health insurance at retirement through their membership contributions. Although retirees pay the required deductibles for health insurance, they are not assessed premium charges until age 65. Then Medicare automatically becomes their primary health coverage, and members must begin to pay the Medicare premium for insurance. It doesn't really measure up to that which state employees (indisc.) under the state system. Second additional charges to persons as they age tends to run counter to normal practices in this country. Older retirees, especially those who are in their mid-to late-80s or 90s, are particularly hard hit. Their pensions tend to be lower in amount as they retired

earlier and, consequently, with lower salaries while, at the same time, the Medicare premium charges continue to increase. Currently, the monthly premium is \$54 and it is ever increasing. Without the other income beyond their rather meager pensions, the elderly can be hard pressed to pay those charges. That area is my particular concern. I think House Bill 380 addresses this problem. I urge that you give serious consideration to this legislation. I do thank the committee for providing the opportunity to express my thoughts on the issue. I want to commend Representatives James and Hayes for their sponsorship of this legislation.

Number 2549

REPRESENTATIVE JAMES, Alaska State Legislature, testified as the sponsor of HB 380. She began by pointing out that this legislation covers those in PERS, TRS, JRS (Judicial Retirement System), and EPORS (Elected Public Officials Retirement System). Representative James explained that she filed HB 380 per request, although she supports the idea. She mentioned that when one reaches age 65 one has to take Medicare. This is a requirement that she detests. By requiring Medicare to be the primary payer at age 65, it jeopardizes many seniors with regard to the type of treatment they can obtain. Furthermore, there is now discussion with regard to including prescription benefits in Medicare. Although she said she was in favor of providing prescription coverage to those dependent upon social security and Medicare for their insurance, she disagreed with the mandatory requirement for Medicare at age 65. Representative James remarked that there needs to be many changes with Medicare at the federal level. Therefore, at the state level the best avenue seems to be to take care of this Medicare payment for these retirees. Representative James turned to the fiscal note, which is large, and commented that she is interested in the cost of HB 380 for fiscal year 2003.

Number 2264

GUY BELL, Director, Health Benefits Section, Division of Retirement & Benefits, Department of Administration, turned to the analysis of the fiscal note. He pointed out that the annual cost of HB 380 for PERS would be \$10,759,700 and there would be a smaller amount for TRS. Furthermore, the University of Alaska for PERS is an annual cost of \$1,294,000 and \$536,100 for TRS. Additionally, there would be costs to political subdivisions

that amount to \$10,047,200 for PERS and to school districts the cost would be \$7,548,800 for TRS. Those figures come from the rate impact of the 1.68 percent increase in the PERS contribution rate. He explained that the reason the cost is so high is because, historically, the retiree medical plan has been supplemented by Medicare, once a person becomes Medicare eligible. By adding this additional liability to the system, the system needs to collect the money to pay for the benefit, which occurs by increasing employer rates. Employee rates are fixed while employer rates float based on total liability amortized over about 25 years. Therefore, it's an additional, unanticipated cost to the system. Mr. Bell pointed out that [page 1] lines 9-12 of HB 380 is language that has been in existence for quite sometime. That language specifies that the benefits are supplemental to the Medicare plan, which is historically how this plan has been administered.

CHAIR COGHILL stated that the sum of those figures is well over \$20 million. He surmised asked whether it would be a baseline in growing or is the actuarial over a span of time.

MR. BELL specified that it's amortized over about 25 years. He said that it's the annual cost, which would mean that it's effectively a flat cost over the next 20 years. However, he noted that it would depend upon the rate of inflation of Medicare versus other plans.

CHAIR COGHILL surmised then that these costs would be directly connected to the retirement funds.

MR. BELL answered that the fund owes more money in the way of benefit payments than it expected. In order to collect that money there is an impact on employer rates, and therefore employer rates will increase. For example, the City of Anchorage will have to contribute more in order to pay for these retirement benefits. The amounts [on the fiscal note] are the annual amounts that will be spread among the state and the state's political subdivisions, which are the municipalities and the school districts.

CHAIR COGHILL related his understanding that [the state would] come up with an additional \$10,759,000 out of PERS through a rate increase.

MR. BELL agreed.

CHAIR COGHILL commented that such would be a significant draw.

Number 1937

REPRESENTATIVE JAMES said that she couldn't "buy into" that total cost. She also said that she is looking for options to cover this issue. If the state had the money, Representative James said she would be willing to pay the total cost of approximately \$22 million. "I think it's the right thing to do, but I'm not willing to pass a fiscal note such as this when we're ... having the problems that we're having with the current budget issue," she remarked.

CHAIR COGHILL related his understanding that the contribution rate that would be increased would be to the employee and the employer.

MR. BELL specified that only the employer contribution rate would change under HB 380. The employee contribution rate is fixed. For example, for most state employees the contribution rate is fixed at 6.75 percent. However, over the years the employer rate has floated. He pointed out that over the years when the employer rate has decreased, it has largely been because of investment earnings.

Number 1807

REPRESENTATIVE STEVENS inquired as to why the employee's contribution hasn't been reduced when the fund has done well. Although he understood that the employee's contribution is fixed because it's in statute, it doesn't seem quite fair.

MR. BELL reiterated that the employee rate has been fixed in statute. At least once, there was a change in the law related to the employee rate. Therefore, theoretically the legislature could change the rate for employees by changing the law. One of the policy issues is in regard to whether the rate, if it goes down for employees in the good times, should go up in the not so good times. It has been the employer rate that has floated, which means that the employer has taken the risk for the bad times, and thus the employer gets to benefit from the good times. That has been the situation over the past 20 years.

REPRESENTATIVE STEVENS pointed out that over the years the employees haven't benefited from the tremendous increases in the fund, only the employer.

CHAIR COGHILL requested that Mr. Bell speak to the charge from some witnesses that they, as employees, were promised health care coverage beyond age 65.

Number 1613

MR. BELL said that is a difficult question. He noted that currently there is a lawsuit relating to the constitutional guarantee of the retirement benefit and whether the medical benefit can be changed. The law provides that medical coverage is provided at retirement. However, the law also provides that it becomes [secondary] to Medicare when a person reaches the age of 65. "I don't know about other promises that've been made," he said.

REPRESENTATIVE FATE pointed out that within that discussion of the promise to state employees is the matter of the co-pay. He related the question as to whether the promise of coverage was for the entire health care or for a percentage of the total, with the co-pay being Medicare Part B.

Number 1522

REPRESENTATIVE STEVENS turned to the notion of reimbursement to the retiree before taxes, and pointed out that page 3, line 12, seems to read that the reimbursement would occur without taxes being taken out.

MR. BELL said that he would have to review the tax code in order to provide an answer. In response to Chair Coghill's request to provide this information by next week, Mr. Bell said he would do his best to review it and provide an answer.

REPRESENTATIVE JAMES remarked that she would like to do more research on the lawsuit because she was sure that legislation is cheaper than litigation.

Number 1235

JERRY PATTERSON, President, National Education Association - Retired, turned to the \$274 million fiscal note, which covers [many of the retirees and all of the active members] currently working. Therefore, it would cover a 20-year old clerk in PERS who wouldn't reach age 65 for 45 years and wouldn't receive their last reimbursement check for 65 years. When the annual cost of \$30.4 million is divided into the \$274 million liability, it appears that [the Division of Retirement &

Benefits] is trying to collect a 60-year payoff in nine years. Mr. Patterson said that this year's actual cost would be \$6.6 million. The accrual of new members reaching age 65 along with the inflation rate amounts to an additional \$600,000 a year for the first eight to ten years. However, the division still saves \$23.8 million. Each year that savings is less \$600,000 due to the additional payments to those just turning 65. He estimated that in nine or ten years the system will have [saved] \$200 million and collected over another \$100 million, and over \$300 million will have been set aside due to the collection of \$25 million [a year] at the assumed 8.25 percent [interest]. Therefore, total principal and earnings will exceed \$600 million [over the life of the fiscal note], which equates to about \$5.3 billion in savings for the system. The ratio of savings to premiums paid is 8.5 to 1. Therefore, the question is whether the members should be paying \$600 million to save billions over the life [of the payout].

CHAIR COGHILL interjected that HB 380 would be held over, and indicated that the committee would like to review the figures that Mr. Patterson is using.

HB 400-PERMANENT FUND CONTRIBUTION FOR EDUCATION

CHAIR COGHILL announced that the next order of business was HOUSE BILL NO. 400, "An Act relating to contributions from permanent fund dividends for municipal school districts and regional educational attendance areas; and providing for an effective date."

Number 0595

BILL CHURCH, Staff to Representative Scott Ogan, Alaska State Legislature, testified on behalf of the Representative Ogan, the sponsor of HB 400. Mr. Church explained that HB 400 would allow [recipients] of the permanent fund dividend to contribute [a portion of] their dividend to their local school district or regional educational attendance area (REAA). Last year, the Anchorage Daily News published a letter to the editor from a Bethel high school junior who expressed the need for more money for school funding. This letter pointed out that students and teachers had worked together to accomplish different projects within the school district. Mr. Church specified that educating the children of Alaska is the responsibility of all adults in the state. However, some Alaskans pay nothing locally to support the education of their youth. This legislation would

allow contributions by a simple check-off box on the permanent dividend fund application.

MR. CHURCH informed the committee that a legislative attorney has indicated that contributions made exclusively for a public purpose are deductible as a charitable contribution on the federal income tax. Therefore, HB 400 provides a personal and tax deductible method by which to provide additional financial support to their local school districts. However, HB 400 doesn't intend for any of these additional monies to count against the local school district or REAA when the Department of Education and Early Development (EED) calculates entitlements under the foundation formula. Mr. Church specified that [the sponsor] envisioned these contributions being used for improvements, supplies, or programs for which sufficient funding hasn't been available. These additional funds shouldn't be used to pay the salaries and benefits of teachers or any other school employee.

Number 0389

REPRESENTATIVE JAMES asked whether individuals can already contribute to [their local school district] without having it deducted from the permanent fund dividend check.

MR. CHURCH replied that certainly one can give money to their local school district. However, he said he wasn't sure whether that would be tax deductible. He indicated that having the contribution come from the dividend check may not be as painful a contribution.

REPRESENTATIVE JAMES pointed out that there is a long list of [groups] that would like to obtain money from the dividend. She expressed concern with any "playing around" with the earnings of the permanent dividend fund. Before "playing around" with the earnings of the permanent dividend fund, there should be a determination as to what the long-term dividend program will look like in order to guarantee individuals a dividend.

MR. CHURCH said that HB 400 doesn't really have any impact on the permanent fund dividend fund itself.

REPRESENTATIVE JAMES said, "It just seems overwhelming to me as to what might happen if we pass this."

Number 0085

REPRESENTATIVE STEVENS pointed out that communities have caps with regard to what the community can contribute to education. He assumed that this cap is in existence in order to provide fair and equal education throughout the state. However, where would HB 400 fit in relation to the cap. If the contributions under HB 400 fall outside of the cap, wouldn't that fly in the face of equal education throughout the state. If the contributions under HB 400 fall within the cap, then every dollar the local community contributes would result in one dollar less from the state.

MR. CHURCH answered that these contributions are intended to be outside the foundation formula.

TAPE 02-29, SIDE A

MR. CHURCH continued. He pointed out that [Bethel] is a community that raises money through gaming, while locally contributing nothing to education. All the money going towards educating students [in Bethel] is from the state. This is not an isolated situation. He deferred to an EED representative with regard to the number of districts that aren't receiving local funding.

Number 0184

REPRESENTATIVE FATE turned to the fiscal note, which specifies a cost of \$17 million. He asked if that cost would be offset by the savings to the state in those areas where all the funding in education is provided by the state.

MR. CHURCH reiterated that these monies would be outside the foundation formula and thus wouldn't be considered. Therefore, there wouldn't be any "offsetting savings."

EDDY JEANS, Manager, School Finance and Facilities Section, Education Support Services, Department of Education and Early Development, testified in opposition to HB 400. He explained that these funds would be outside the foundation formula and would be operational, discretionary, funds for the school districts. Furthermore, HB 400 would run the risk of jeopardizing the state's equalization test in the foundation program, which allows the state to consider \$50 million in federal aide in the distribution formula. Mr. Jeans noted that no one knows how many people will take advantage of this program and how much money will go into what community. He echoed Representative James's earlier statement that individuals can

already make personal contributions to their local schools. He characterized such personal contributions as minimal. Mr. Jeans emphasized that EED doesn't oppose increased funding for schools; "it's the mechanism in which the schools get these additional funds." "We believe that the appropriate way would be to put more money into the foundation program statewide," he said.

Number 0513

REPRESENTATIVE JAMES asked if there are school districts in Alaska that don't receive PL874 funds [Title VIII - impact aid funds].

MR. JEANS answered that there are four or five such districts. He explained that PL874 funds are in lieu of property taxes [for] federal lands that are tax exempt. The federal government makes the property tax payment to the education agencies on behalf of the people who reside on those federal properties. In further response to Representative James, Mr. Jeans specified that those school districts that don't receive federal impact aide, PL874 funds, are small first class cities that are making a local contribution. Every school district has some contribution that is other than state aide.

Number 0635

REPRESENTATIVE WILSON asked whether money raised for sports has to be counted [in the cap].

MR. JEANS specified that typically those funds are outside the cap, although for some school districts such funds are counted as local revenue and thus show up in the operating fund from where it's transferred to student activities. In further response to Representative Wilson, Mr. Jeans explained that funds raised for specific programs [that are outside] the operating program will be [funneled] to that specific program. However, a contribution as suggested in HB 400 doesn't target a specific program and thus the funds are discretionary. Therefore, the district has no choice but to place those funds in the operating fund until the district determines how to spend those funds.

Number 0748

REPRESENTATIVE STEVENS requested that Mr. Jeans comment on how HB 400 could theoretically impact the cap.

MR. JEANS said that he didn't view [the funds raised by] HB 400 as a local contribution that would be counted against the cap. This legislation would merely provide additional revenue, contributed as other local revenue, to the school operating fund and thus would be measured in the equity test. Currently, school districts generate some local revenues that aren't tax revenues; those go into the operating fund and are counted in the federal disparity test. Therefore, the 2 percent cushion allows for those variances across the state. However, with a program as proposed in HB 400 there is no knowledge as to how much money will go into any community. That influx of revenue could cause the state to fail the disparity test; and therefore the \$50 million [in federal funds] couldn't be counted in the state's funding formula.

MR. JEANS, in response to Chair Coghill, informed the committee that the equity test is run "after the fact." "If we fail the disparity [test], then this legislature cannot consider those federal dollars in the upcoming year, which will leave a \$50 million gap that would have to be filled some place else," he specified.

CHAIR COGHILL asked, "Is it an all or nothing [situation]?" Or, could one say that if HB 400 brings in \$50 million, that it [replaces] the \$50 million [lost in federal dollars].

MR. JEANS reiterated that if HB 400 brings in \$50 million and causes the state to fail the disparity test, then the federal dollars can't be counted. He highlighted that this would lead to [questions] regarding equity between school districts, which would result in [litigation]. He explained that EED uses the federal disparity test as a measure of equity between school districts across the state, which helps keep [the state] out of court.

CHAIR COGHILL said, "Without regard to local input?"

MR. JEANS clarified that it does consider local input, which is where the local cap comes into play. Therefore, it's important that the legislature provide revenue to school districts via the foundation program because that money has been measured and counted in a particular way so that [the state] will always meet the federal equity test.

Number 1000

REPRESENTATIVE JAMES recalled that last year this topic came up in regard to Tok, which was feeling the pressure to create a local government that it didn't want. The argument for making Tok create a local government was that Tok wasn't paying anything for its schools. [Residents of Tok] approached Representative James and told her they were willing to have part of their permanent fund go into the [foundation] formula as the community's local participation. However, there was a problem with regard to not being able to get that money [into the foundation formula]. She inquired as to the problem.

MR. JEANS recalled the situation, and characterized the problem as a tracking issue with regard to what money goes to what school district. Furthermore, the foundation program would have to be amended so that there would be an offset in state revenue equal to the amount of contributions through the aforementioned mechanism. Mr. Jeans said, "If that was the way that this bill was written, I don't think I would be here opposing the bill because then that money is going into the pot of equalized revenues in which the state measures." However, additional revenue outside the formula causes equity problems.

CHAIR COGHILL suggested that the [equity] issue be discussed with the sponsor.

REPRESENTATIVE JAMES remarked that she found it problematic to provide carte blanche authority across the state and then have to specify which school districts [the money is going]. Although she recognized the [proposal in HB 400] to be complicated, she noted her interest in the proposal in order to determine if there is a way to do it.

MR. JEANS said that although there are ways to do it, he cautioned the committee with regard to impact aid and whether it should be considered a local contribution. Mr. Jeans said that the simplest way to obtain the local contribution is through the incorporation of the areas in order that they may make a local contribution based on property values. Mr. Jeans explained that if the money was to go into the foundation program and offset state aide and thus was part of the overall state equalization program, then he would have a different response to HB 400.

CHAIR COGHILL announced that HB 400 would be held. He also announced that he would approach the sponsor and discuss whether there is interest in moving in any other direction than what is currently in the legislation.

ADJOURNMENT

There being no further business before the committee, the House State Affairs Standing Committee meeting was adjourned at 9:58 a.m.