

**ALASKA STATE LEGISLATURE
HOUSE STATE AFFAIRS STANDING COMMITTEE**

January 29, 2004

8:01 a.m.

MEMBERS PRESENT

Representative Bruce Weyhrauch, Chair
Representative Jim Holm, Vice Chair
Representative John Coghill
Representative Bob Lynn
Representative Paul Seaton
Representative Ethan Berkowitz
Representative Max Gruenberg

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

HOUSE BILL NO. 366

"An Act relating to rat racing charitable gaming; and providing for an effective date."

- HEARD AND HELD

HOUSE BILL NO. 329

"An Act relating to retirement incentive programs for the public employees' retirement system, the judicial retirement system, and the teachers' retirement system; relating to separation incentives for certain state employees; and providing for an effective date."

- HEARD AND HELD

PREVIOUS ACTION

BILL: HB 366

SHORT TITLE: RAT RACING CHARITABLE GAMING

SPONSOR(S): REPRESENTATIVE(S) STOLTZE

01/12/04	(H)	PREFILE RELEASED 1/9/04
01/12/04	(H)	READ THE FIRST TIME - REFERRALS
01/12/04	(H)	STA, FIN
01/29/04	(H)	STA AT 8:00 AM CAPITOL 102

BILL: HB 329

SHORT TITLE: RETIREMENT INCENTIVE PROGRAM

SPONSOR(S): REPRESENTATIVE(S) MCGUIRE

05/21/03	(H)	READ THE FIRST TIME - REFERRALS
05/21/03	(H)	STA, L&C, FIN
01/13/04	(H)	STA AT 8:00 AM CAPITOL 102
01/13/04	(H)	<Bill Hearing Postponed>
01/29/04	(H)	STA AT 8:00 AM CAPITOL 102

WITNESS REGISTER

KELLY HUBER, Staff
to Representative Bill Stoltze
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Testified on behalf of Representative Stoltze, sponsor of HB 366.

DAVE LAMBERT, Emerald Isle
Fairbanks, Alaska

POSITION STATEMENT: Provided some history regarding rat racing during the hearing on HB 366.

KENNETH AXEMAKER, House Committee Chair
Palmer Elks Lodge
Wasilla, Alaska

POSITION STATEMENT: Described the rat races, listed the [nonprofit] activities that benefit from the races, and asked for the committee's support of HB 366.

LARRY MEYERS, Deputy Director
Central Office
Tax Division
Department of Revenue
Anchorage, Alaska

POSITION STATEMENT: Testified that HB 366 [would] rectify a problem that exists in regard to permitting, and said the bill makes it clear what the department can do.

HEATH HILYARD, Staff
to Representative Lesil McGuire
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Answered questions regarding HB 329, on behalf of Representative McGuire, sponsor.

LUKE HOPKINS

Fairbanks, Alaska

POSITION STATEMENT: Testified on behalf of himself in support of HB 329.

BARBARA HUFF TUCKNESS, Lobbyist

for Teamsters Local 959

Anchorage, Alaska

POSITION STATEMENT: Testified on behalf of the Teamsters Local 959 in support of HB 329.

RON RUCKER, President

Classified Employees Association

Matanuska-Susitna (Mat-Su) School District

Wasilla, Alaska

POSITION STATEMENT: Testified in support of HB 329.

ROBERT DOYLE, Chief School Administrator

Matanuska-Susitna (Mat-Su) Borough School District

Palmer, Alaska

POSITION STATEMENT: Answered questions and testified on behalf of an excess of 1,500 employees and 14,000 students in support of HB 329, Version H.

MIKE CHMIELEWSKI, President

Matanuska-Susitna (Mat-Su) Borough School Board

Palmer, Alaska

POSITION STATEMENT: Underlined the school board's support for HB 329 and for the remarks made by Mr. Doyle; answered questions.

FATE PUTMAN, Lobbyist

for the Alaska State Employees Association/American Federation of State, County, and Municipal Employees (ASEA/AFSCME) Local 52
Juneau, Alaska

POSITION STATEMENT: Testified on behalf of ASEA/AFSCME during the hearing on HB 329; suggested changes to Version H.

JEFF BARNHART

Kodiak, Alaska

POSITION STATEMENT: Described HB 329 as a positive bill that allows for the downsizing of state government, while having a positive economic impact on local communities.

JACK KREINHEDER, Chief Analyst

Office of the Director

Office of Management & Budget

Office of the Governor
Juneau, Alaska

POSITION STATEMENT: Answered questions regarding the fiscal note he prepared for HB 329.

MELANIE MILLHORN, Director
Health Benefits Section
Division of Retirement & Benefits
Department of Administration
Juneau, Alaska

POSITION STATEMENT: Testified that the division has a neutral position with regard to HB 329.

ACTION NARRATIVE

TAPE 04-09, SIDE A

Number 0001

CHAIR BRUCE WEYHRAUCH called the House State Affairs Standing Committee meeting to order at 8:01 a.m. Representatives Holm, Seaton, Coghill, and Weyhrauch were present at the call to order. Representatives Lynn, Berkowitz, and Gruenberg arrived as the meeting was in progress.

HB 366-RAT RACING CHARITABLE GAMING

Number 0050

CHAIR WEYHRAUCH announced that the first order of business was HOUSE BILL NO. 366, "An Act relating to rat racing charitable gaming; and providing for an effective date."

REPRESENTATIVE SEATON moved to adopt HB 366, Version 23-LS1373\D, as a work draft. There being no objections, it was so ordered.

Number 0120

KELLY HUBER, Staff to Representative Bill Stoltze, Alaska State Legislature, testified on behalf of Representative Stoltze, sponsor of HR 366. She stated that the proposed legislation would allow the Palmer Elks club to continue rat races at the Alaska State Fair [held in Palmer]. She described the rat races as a game of chance that has been in existence for over 50 years.

MS. HUBER explained that over the years, as the gaming statutes have been amended, language which allowed "these games" to be permitted by the Department of Revenue has been inadvertently omitted. She added that as far as "we" know, the omissions were not intentional. She said a couple of years ago the attorney general's office issued an opinion stating that [the omission be corrected] or the [rat race] games could not continue. The proposed legislation would fix the omission and allow the rat races to continue, she reiterated.

MS. HUBER noted that the proceeds from the rat races go to local charities. She offered to answer questions from the committee.

Number 0225

CHAIR WEYHRAUCH asked if the opinion expressed by the attorney general was a formal one or an informal one.

MS. HUBER noted that it had been issued as a memorandum, and she surmised that it was an informal opinion. She added, "However, we have had discussions with the Department of Law, and they believe strongly that we need to clarify and fix it in statute." In response to a request made by Chair Weyhrauch, she agreed to make available to the committee copies of the attorney general's opinion.

Number 0296

CHAIR WEYHRAUCH asked, "If this rat race occurred before statehood, would it have to be in statute?"

MS. HUBER noted that [the rat race] did occur before statehood. She explained that the attorney general's office "does not believe that that will fix the problem."

Number 0409

REPRESENTATIVE LYNN asked if there have been any threats from PETA [People for the Ethical Treatment of Animals] to boycott tourism in Alaska, for example, if the use of the rats or gerbils for rat racing continues.

MS. HUBER replied that there has been no contact [by PETA]. Furthermore, she stated that there are many gerbils used at the state fair, and the gerbils are rotated on a regular basis; therefore, it is a very humane treatment of animals.

Number 0485

REPRESENTATIVE BERKOWITZ noted that only rats are listed in the title of the bill, while gerbils are mentioned in the body of the bill. He offered his understanding that they are "not the same critters."

MS. HUBER answered that Representative Berkowitz is correct. She explained that "the rat race" has been the title of the race run by the Palmer Elks club for years. She added that the distinction [regarding use of rats or gerbils] is "made in the definition."

Number 0554

REPRESENTATIVE HOLM asked if Ms. Huber would have any objection to the Tanana Valley State Fair [being included in the legislation].

MS. HUBER responded that Representative Stoltze would consider that as a friendly amendment. She noted that "they" contacted Representative Stoltze's office after "this piece of legislation was introduced."

Number 0609

CHAIR WEYHRAUCH asked about games of chance and video.

MS. HUBER replied that the sponsor does not intend to expand gaming through [HB 366]; his goal was only to deal with games of chance "of this nature" that have been going on for decades.

Number 0641

REPRESENTATIVE SEATON turned to Section 4 of the bill. He asked for confirmation that the idea behind this is that it wouldn't open cockfights in Alaska, for example.

MS. HUBER answered that's correct.

Number 0681

REPRESENTATIVE COGHILL asked Ms. Huber if she has researched other places where "groups like this" have been specifically named in statute.

MS. HUBER answered that she has not; however, she noted that [Legislative Legal and Research Services] believes that the current drafting is the best. She noted that there are a lot of specifics regarding "the exact game" in statute. She indicated that the name of the group is "actually the name of the event."

REPRESENTATIVE COGHILL asked if the same group [from the Alaska State Fair] comes up to the Tanana Valley Fair, or whether a new group needs to be named.

CHAIR WEYHRAUCH asked Representative Holm if rat racing is being done at the Tanana [Valley] Fair.

Number 0758

REPRESENTATIVE HOLM offered his understanding that the Tanana Valley Fair has held rat races in the past; however, he said he doesn't know who was conducting them.

Number 0838

CHAIR WEYHRAUCH noted that there are pig races at the fair that is held in Haines.

Number 0864

REPRESENTATIVE BERKOWITZ reported that the entire section of AS 15.56.90 is "littered with specific references to various organizations across the state." He offered some examples. He concluded, "This is your directory for fun in Alaska."

Number 0935

MS. HUBER noted that, should the Palmer Elks club choose not to continue the rat races, the game would cease. She reiterated that the bill was not intended for expansion, but to allow something that has been happening for decades to continue. She offered her belief that if the pig races in Haines have been around as long as the rat races, the sponsor would not have any objection [to adding them to the bill].

Number 0970

REPRESENTATIVE SEATON stated his concern regarding the removal of the language specifying a specific race, because, as it currently stands, the rat race is conducted a certain way, and that may change if that language is removed. He referred to

Representative Lynn's previous mention of PETA [regarding the question of whether animals are ill used or not]. He clarified that he is arguing to continue to keep the bill "very defined."

REPRESENTATIVE LYNN clarified that [when he had previously mentioned PETA] he was "just being facetious, obviously."

CHAIR WEYHRAUCH told Representative Lynn, "It's [an] unfortunate state of affairs, though, that what we think of as facetious sometimes people think is deadly serious. And who knows where things can go, particularly with groups like [PETA]."

Number 1096

REPRESENTATIVE BERKOWITZ stated that HB 366 seems like a pretty straightforward bit of legislation. He noted that the general section regarding issuance of permits and licenses allows the department to issue permits to qualified people. He noted that that is found in AS 15.50.100.

MS. HUBER, in response to a question by Chair Weyhrauch, noted that the rat races take place at the Alaska State Fair all day long at a booth. The fair runs from the end of August through the beginning of September. She reiterated that the funds go to help local charities.

Number 1217

DAVE LAMBERT, Emerald Isle, told the committee that he operated the rat race at the Tanana Valley Fair in the past for several different "nonprofits." He stated he thinks it's important for the committee to understand "how we got to this point" and why the legislation is needed. He continued as follows:

Even though the rat race took place before 1959, the legislators back then - when they passed statutes that allowed numbers wheels - they wanted to protect this type of activity. So, the law that outlaws numbers wheels says, "except where you use a rat, hamster, or other animal." So, it's clearly defined in the statute and allows it.

Two years ago, during the regulation process, we had a little over-[zealous] bunny hugger that worked for the department of gaming that wanted to do whatever they could to stop the rat race. During the process, ... he tried to introduce regulations that would make it

so restrictive that it couldn't be done. ... They had a statewide committee from all over and nobody supported any of his decisions. When the regulations finally came out, the rat race was banned. This individual went to the attorney general's office saying, "Hey, this is our interpretation, can you give us an opinion." It's not a decision - it's an opinion. He was trying to do whatever he could.

It's traditionally been ... called the rat race. Rats aren't very exciting. They stand there, and then they run straight for a hole. Gerbils are a lot of fun. They ... run around, play around, and they want to find out what's in the hole. They'll go in the hole, they'll come back - go to another hole; that's what they like to do.

Number 1380

MR. LAMBERT stated that originally, during the Tanana Valley [State] Fair, there had been concern that there might be some outcry from animal rights people. He indicated that many animal rights groups were contacted, but no objection was found. During the fair, he reported, there was a complaint by an individual, and someone from the Fairbanks Northstar Borough animal control sent a veterinarian over. The vet's determination was that all the gerbils were well cared for and were "doing what gerbils do and having fun."

MR. LAMBERT said, "It was one of the major attractions at the fair." He noted that last year, when people arrived at the fair, the number one question was, "Where is the rat race?" He emphasized that he would like to have [the rat race] at the fair [again], and he noted that in addition to conducting the race at the fair, it also used to take place at special events. He said the Fairbanks Chamber of Commerce recently contacted him to ask if the rat race could be done at one of its special events. He said, "Well, in the past we could have. Now we can't."

MR. LAMBERT stated his support of HB 366. He suggested that Fairbanks be included, and he also suggested that the race be named for his company that runs it: Emerald Isle. Conversely, Mr. Lambert noted that if legislation is passed on "the sales tax for the pull tabs," it will put most of the pull-tab places out of business anyway; therefore, "that probably would not be a good thing to tie a name to it like that." He offered to answer questions.

Number 1499

KENNETH AXEMAKER, House Committee Chair, Palmer Elks Lodge, told the committee that his lodge operates [the rat races]. He stated that he seeks the committee's support for HB 366. Addressing previously stated questions, he said [the lodge] has been scrutinized by individuals and groups who have found that the [gerbils used by the Elks lodge] are treated just as well as the ones in Fairbanks. He noted that the gerbils are returned to their lives as pets at the end of the fair, in the same condition that they were in when they were purchased.

MR. AXEMAKER said the wagering that takes place at the fair is in the amount of 25 cents and is done by adults only. He said it is not a big money game, but more like a carnival game; however, the funds that come from it are "substantial." He told the committee that the lodge has been involved in this activity since the mid-50s. The volunteers who staff the booth get nothing from it but goodwill, he said. The money raised goes entirely to local charities and activities. Mr. Axemaker estimated that over the years that money has "been in the hundreds of thousands of dollars."

MR. AXEMAKER listed the activities [that benefit from the races], including the following: veterans' programs, seniors programs, handicap programs, food banks, [American] Red Cross, Boys and Girls clubs, drug awareness programs, and school and youth activities, as well as individuals in need. The loss of [rat racing] would be devastating to those charitable programs. He stated that at a time when public funds for charities and activities are being reduced, [the Elks] are being asked to do more and more.

Number 1656

MR. AXEMAKER, in response to a question by Representative Coghill, clarified that the holes in the wheel are colored, rather than numbered. He said he thinks [the Elks] would like to continue as they have in the past, although he doesn't necessarily object to changes [in the bill], as long as they would be helpful and allow [the Elks] to continue [the rat races].

Number 1726

LARRY MEYERS, Deputy Director, Central Office, Tax Division, Department of Revenue, said he thinks the sponsor has clarified "most of the facts." He stated that he thinks the bill is pretty straightforward and [would] rectify a problem that exists in regard to permitting. He said the bill makes it clear what the department can do.

Number 1773

CHAIR WEYHRAUCH stated his intent for the committee to develop a conceptual amendment in the form of a committee substitute next week and take action on it as soon as possible.

Number 1792

REPRESENTATIVE SEATON restated his concern regarding expansion.

Number 1848

CHAIR WEYHRAUCH announced that HB 366 was heard and held.

The committee took an at-ease from 8:26 a.m. to 8:27 a.m.

HB 329-RETIREMENT INCENTIVE PROGRAM

[Contains brief discussion of HB 211.]

Number 1853

CHAIR WEYHRAUCH announced that the last order of business was HOUSE BILL NO. 329, "An Act relating to retirement incentive programs for the public employees' retirement system, the judicial retirement system, and the teachers' retirement system; relating to separation incentives for certain state employees; and providing for an effective date."

Number 1900

REPRESENTATIVE GRUENBERG moved to adopt the committee substitute (CS) for HB 329, Version 23-LS1109\H, Craver, 1/28/04, as a work draft. There being no objection, Version H was before the committee.

Number 1930

HEATH HILYARD, Staff to Representative Lesil McGuire, Alaska State Legislature, testified on behalf of Representative

McGuire, sponsor. He discussed changes made in Version H. First, he noted an important change is the elimination of the separation incentive program. Next, Mr. Hilyard noted the dates that are added within lines 4-9, on page 4, which read as follows:

(1) to meet the age or service required for eligibility for normal retirement under AS 14.25.110 before July 1, 1990, or AS 39.35.370 before July 1, 1986, as appropriate;

(2) to meet the age required for early retirement under AS 14.25.110 before July 1, 1990, or AS 39.35.370 before July 1, 1986, as appropriate;

(3) to reduce the actuarial adjustment required for early retirement under AS 14.25.110 before July 1, 1990, or AS 39.35.370 before July 1, 1986, as appropriate;

MR. HILYARD said, "The inclusion of the tier dates - July 1, 1990, for the [Teachers'] Retirement System [TRS] and July 1, 1986, for the Public [Employees'] Retirement System [PERS] - have the effect of limiting the applicability of this bill entirely to Tier 1 employees only."

Number 1997

MR. HILYARD said [the sponsor], as a result of discussions with several school districts within the state, has reduced some of the restrictions on reemployment. He noted that that language is found on page 11, [lines 3-7], which read as follows:

(3) the individual may accept employment with a school district as a substitute teacher; and

(4) an individual who participated in the teachers' retirement system may accept employment with a school district if the employment is on an hourly basis and does not entitle the individual to receive retirement, health, or leave benefits.

MR. HILYARD explained the concern of the school districts is that while they seek potential cost savings in allowing their senior teachers to retire from the system early, they may lose the experience held by those teachers which would make it difficult to meet the demands of "no child left behind." Mr. Hilyard offered to answer questions.

Number 2132

REPRESENTATIVE SEATON said:

When I was first contacted about the bill during the interim, the rationale for this bill was given through a teacher retirement system. And ... actually, the example that was given was [in regard to] a superintendent and ... letting the superintendent retire, and then designating that ... you had to hire from within the system.

REPRESENTATIVE SEATON questioned if by trying to hire less expensive staff to fill posts [vacated by higher paid people] in an effort to balance the budget, "we" would actually "build in a system that is going to eliminate the broadest pool of people to do those very highly skilled and necessary jobs." In response to a question by Mr. Hilyard, he clarified that when he used the word system, he meant the Teachers' Retirement System (TRS). He added, "Excuse me, no, what I mean is the hiring of a new superintendent." He remarked that it would have to be someone less expensive than the person "going out," otherwise "this doesn't work for anybody." He asked if that is correct.

MR. HILYARD answered that would be correct.

REPRESENTATIVE SEATON clarified that he is trying to understand how "we" get the most qualified people in the jobs if a restriction exists [to hire less expensive employees to fill higher paid positions].

Number 2264

MR. HILYARD responded that he was not aware that there was "that specific limitation in place," nor was he aware that "such a limitation would be included in this bill." He said he has not been counseled by school administrators, for example, that that is a concern. He indicated that the language of the bill regarding authorization states that the employer may extend the program, but need not extend it to everybody. Therefore, he explained, if the concern previously stated by Representative Seaton is shared by a school district, it may opt not to "do the program." Mr. Hilyard stated that once a school district, municipality, or state agency puts forward a plan for retirement incentive, the commissioner of [the Department of] Administration has to "sign off on it."

REPRESENTATIVE BERKOWITZ stated he is concerned that the language gives the employer too much discretion to determine which employees might receive the benefit. He asked Mr. Hilyard if he has done an equal protection analysis. He opined, "Equally situated people in this state, who are eligible, deserve access to the same legal rights and protections."

MR. HILYARD replied that an equal protection analysis has not been done. He said that, during the process of drafting the bill and its CS [Version H] now before the committee, "there was no concern, particularly on the part of [Legislative Legal and Research Services] about the accessibility." He revealed that [the sponsor] has been in close contact with the Alaska State Employees Association (ASEA) while working on this bill, and "that concern has been expressed." He said the sponsor would not oppose correcting the language, and he suggested that it would be up to the committee to make that decision.

Number 2456

LUKE HOPKINS told the committee that he is a member of PERS who has been employed by the University of Alaska for 30 years, and he stated that he is testifying on behalf of himself. He said that, in his years with the University, he has seen other retirement incentive programs (RIPs) have positive outcomes for employees and employers. In his area of work, he noted, it appears that the changes that the RIP allowed to occur in the labor pool acted not only as a savings in labor, but in allowing entry-level positions to be advertised and filled. He added, "We were able to have a few more employees in that area."

MR. HOPKINS asked the committee to support the bill. He posited, "It could be a budget tool used both in state departments and local entities." He stated his understanding that past [RIP] actions have reduced operational budget costs.

Number 2590

BARBARA HUFF TUCKNESS, Lobbyist for Teamsters Local 959, stated that that group supports HB 329. She said that, while the majority of Teamsters Local 959 "rank and file members" around the state are actually private sector employees, Teamsters Local 959 does represent public sector employees within the City of Anchorage. She surmised that at least two of the committee members is familiar with the \$31-plus million budget shortfall that Anchorage is dealing with. She stated that the Teamsters Local 959 believes that [HB 329] is a tool and an opportunity

for individuals to retire early from municipal jobs and allow employers to bring in new employees at a lower pay than someone who has been working for the city for 25 years. She added, "Not many within the municipality have participated under the old bill, because it was found ... not to be cost effective in many of the areas."

MS. HUFF TUCKNESS, in response to a request by Chair Weyhrauch, clarified that there was a RIP in place about 4 or 5 years ago, and that was what she previously referenced.

REPRESENTATIVE SEATON asked why the old program was not cost effective.

MS. HUFF TUCKNESS responded, "There were certain requirements that had to be met, as far as the actuary costs to the plan itself, and then looking at the positions." She said she thinks in some areas it was found to cost the employee too much. For example, she said that for employees in the City of Anchorage to participate costs between \$40-50,000. She said, "When you take that three-year period of time and you do a cost calculation, for some folks it actually may be worth paying that kind of money. For others - they didn't feel that it was cost-effective for them to do it."

REPRESENTATIVE GRUENBERG noted that the impact is threefold and affects the employee, the employer, and the fund. He stated his concern is in regard to the latter.

Number 2783

RON RUCKER, President, Classified Employees Association, Matanuska-Susitna (Mat-Su) School District, testified in support of HB 329. He stated that his true purpose for participating is to support the upcoming testimony from Bob Doyle, who is the district's chief school administrator.

Number 2833

REPRESENTATIVE SEATON asked Mr. Rucker to explain how HB 329 saves money "over the elimination of those positions."

MR. RUCKER replied that that's a good question that he does not know if he can answer. He offered the perspective of the employees as follows:

If the district, because of the high cost of long-term employees, has to terminate those employees, then, for instance, custodians who two years ago were cleaning 25,000 square feet of building each night are now cleaning 35,000. Through a termination process, the few ones who remain will be probably cleaning 45 or 50,000 square feet.

MR. RUCKER said that if the higher-cost employees are allowed to retire, then the district may be able to [hire] some lower-cost employees and keep that workload down. He described [the current situation] as a spiraling trend down, where each employee is being required to do more and more. Classroom sizes are increasing and the amount of work that each employee has to do to keep the system running is increasing. He indicated that getting higher-cost employees off the payroll in a positive manner, both for the employee and the employer, would allow the employer to hire some positions back and decrease overall costs, while still maintaining a reasonable number of employees.

Number 2920

ROBERT DOYLE, Chief School Administrator, Matanuska-Susitna (Mat-Su) Borough School District, testified on behalf of an excess of 1,500 employees and 14,000 students in support of HB 329, Version H. He revealed that he has been in the school district for the last 22 years, and he stated that he is aware of the cost savings from the last two state RIPS. He indicated [his district] has not [offered] local RIPS like the Anchorage School District has, but said there will be discussion about "those kinds of things." He offered an example.

TAPE 04-09, SIDE B

Number 2977

MR. DOYLE said, "We have seen long-term savings." For example, by retiring a teacher who is being paid \$60,000 or more, and hiring a teacher at \$35,000 to \$40,000, the number of layoffs will be reduced. He indicated that it would be possible to try to mitigate the class size, and he said there are benefits for the children, as well as the employees.

MR. DOYLE said "we" believe in giving school boards the option to participate [in the RIP]. In the past, he indicated, a cost savings [analysis] has always been [required] that shows a savings calculated over three to five years.

Number 2900

CHAIR WEYHRAUCH asked Mr. Doyle to provide a quantitative analysis of how HB 329 would be applied and what its economic impact would be to his district, as well as "how it would be used to benefit students, teachers, the district, and the state."

MR. DOYLE noted that [the school district] has submitted in writing what it thinks is important to consider: 40 percent of its employees are eligible for such a retirement program and its current salary and benefits cost are at 90 percent of its budget. He noted that because [choosing to RIP] is an option for employees, the district will be making its calculations of what money will be saved, based on [an estimation of how many employees will choose the RIP], and then calculate that in terms of "what it could possibly offset in budget cuts."

Number 2844

REPRESENTATIVE SEATON revealed that he has been involved in teacher hiring policies in the past. He noted that the teacher selection process has always been focused on the best qualified, which is often those teachers with the most experience. He questioned, "Are we putting into place a system that lets people know that, if you've got much experience as a teacher, don't apply to the district, because the purpose of this is to move out highly experienced teachers and bring in those ... with lesser experience?"

Number 2785

MR. DOYLE said page 11 of HB 329 addresses "the issues under 'no child left behind,'" and [the district] believes that it can keep its highly qualified teachers.

Number 2727

REPRESENTATIVE HOLM noted that his wife has been teaching in the school district for 27 years. He asked if it was Mr. Doyle's opinion that the people that retire would stay in the area and work as part-time teachers, for example, and not leave the state. He posited, "If you encourage ... the younger generation ..., you change the capacity of school districts because of the discipline changes that have occurred over the last 30 or 40 years." He indicated that the change affects the ability to really teach. He asked Mr. Doyle to explain, as an

administrator, what he is trying to accomplish. He stated his concern is that "we're making a tradeoff in education quality for economics."

Number 2593

MR. DOYLE said his wife is teaching a combination second and third grade [class] of 28 students, including disabled students and emotionally and behaviorally disturbed students, "which cause big impacts." He stated the board's goal would be to lower class size, continue its strong staff development and curriculum alignment programs, and continue the things that it knows will improve student learning. Regarding teachers coming back to teach after retiring, he noted, for example, that those teachers' health insurance is provided by the retirement system; therefore, the district does not have to contribute to the retirement system, which reduces 12 percent of the cost. He emphasized that the district's number one goal is to focus its efforts to improve student learning, despite economic times making that tougher.

Number 2501

REPRESENTATIVE SEATON said he believes HB 211 was passed last year to allow the teachers that had been retired through a RIP to come back and teach at an hourly [rate]. He asked Mr. Doyle if he has experienced any influx of teachers coming back on the hourly basis in his district.

MR. DOYLE estimated that there have been five to ten. He offered his understanding that the expiration date on HB 211 may be 2005. He said [HB 329] "extends that window a little bit farther." He noted that his district has not participated in any big district-sponsored retirement [programs], as Anchorage has done; therefore, it has not had as many retirees as some other districts. He stated that his district is particularly concerned about its hard-to-fill special education positions, which is where some of the retirees have come back to work.

Number 2421

MIKE CHMIELEWSKI, President, Matanuska-Susitna (Mat-Su) Borough School Board, offered two points: First, he underlined the school board's support for HB 329 and for "everything that Mr. Doyle has testified to." He said the board is interested to have [the RIP] option available; [that option] becomes an important tool in facing upcoming budget decisions. Second, he

revealed that he had retired under the RIP in 1999. He stated that he is aware of the process a number of people made at the time to make the decision [whether to retire under the RIP, or not]. He offered his understanding that not everyone eligible to retire did, but many did, which benefited the district at that time. In the last four years, he noted, he has seen a number of people who retired return to employment, particularly to areas such as special education - a hard to fill area. He stated that he is aware of individuals who are currently contemplating retirement.

MR. CHMIELEWSKI stated that when there are over 40 percent of certified teachers at the top of the scale, what's revealed is that there is a "bulge." He added, "And anything we can do to help flatten that out so that we have a more normal population of certified staffing is going to be helpful." Mr. Chmielewski said his experience suggests that having a balanced spectrum of people is particularly important.

Number 2291

REPRESENTATIVE SEATON asked Mr. Chmielewski how important "this targeted offer" is versus a blanket extension to everyone.

MR. CHMIELEWSKI answered that the board is particularly aware that individuals will make this choice, and it would like to make the choice available to as many people as possible. He said, "I don't think we're contemplating a highly restrictive targeting of this incentive."

REPRESENTATIVE SEATON referred to the language in the bill on page 2, line 10, which read as follows:

(3) in specific geographic locations; or

REPRESENTATIVE SEATON asked Mr. Chmielewski if he is "just as happy with this as if it is a blanket offering to everyone."

MR. CHMIELEWSKI answered yes.

Number 2197

REPRESENTATIVE HOLM asked Mr. Chmielewski if he thinks there will be administrative pressure to force people to retire at 20 years.

MR. CHMIELEWSKI answered no. He said he saw no signs of [that kind of pressure] in 1999 and he sees no benefit to be gained [by it].

Number 2168

REPRESENTATIVE SEATON asked Mr. Chmielewski to explain the purpose of the incentive. He clarified as follows:

If you have a large number of people who are eligible to retire right now - and if they retire they can come back and participate on hourly basis ... - would you explain to me the benefit of this RIP and how, monetarily, it helps both the district and the individual, if they're already eligible for retiring now.

MR. CHMIELEWSKI answered that the benefit to the individual is the ability to retire and, if they choose, [come back and work]. He gave an example. He said it allows a person the flexibility to work within the parameters of his/her life. In many cases, he noted, people have found that they have enjoyed continuing work and they are adding to their retirement money.

Number 2059

REPRESENTATIVE SEATON clarified that he wants to know, if the teachers are already qualified to retire, what benefit would a RIP be to them and to the district?

MR. CHMIELEWSKI noted that at the present time there are approximately 30 people planning to retire [in the Mat-Su district], and he said he knows of others who have expressed interest in retiring if there were more incentive to do so. He deferred the question to Mr. Doyle.

MR. DOYLE said it would not make a difference to those ready to retire under the 20-year or 30-year retirement. He added, "They could, under this bill, get an additional three years; if they paid their share and the district pays a share, you could actually improve that a little bit for an individual." He stated that he thinks the issue for the school district is "the volume." He said, "We have 27 now; I have 400 that are eligible." He noted that the savings can be significant, even if 100 of those take advantage to the RIP. He added that the numbers are very similar to [the borough's] classified ranks, as

well. He concluded that a person should consider retirement when financially and socially ready to do so.

Number 1897

FATE PUTMAN, Lobbyist for the Alaska State Employees Association/American Federation of State, County, and Municipal Employees (ASEA/AFSCME) Local 52, told the committee that it has been a pleasure for [ASEA/AFSCME] to work with the sponsor of HB 329 to come up with [Version H]. He stated that [ASEA/AFSCME] represents the general government unit of state employees, which is "the rank and file of state employees" and makes up the bulk of the state employee union.

MR. PUTMAN explained that [ASEA/AFSCME] is attempting to get a management tool to the administration so it can, if it chooses, downsize government [by offering] retirement at 27 years to senior employees on a 30-year [retirement]. He also noted that [ASEA/AFSCME] also represents employees in the 20-year retirement system, and those employees could be offered retirement at 17 years.

MR. PUTMAN suggested the committee consider a change to the language as follows:

Page 2, line 5
Between "employer" and "extend"
Delete "need not"
Insert "should"

MR. PUTMAN noted that [ASEA/AFSCME] is also concerned about the language on page 2, line 10 [text previously provided]. He stated that [ASEA/AFSCME] has found that it is difficult to find employees to go out to rural Alaska [to work]. He explained that [ASEA/AFSCME] is concerned that the RIP will be offered only to people who live in urban Alaska, and that, because of the difficulty in finding employees to work in rural Alaska, the administration won't offer the RIP to social workers who live in Bethel, for example. Ideally, he said, [ASEA/AFSCME] would like to see the RIP made available to anyone who is a Tier I employee. Notwithstanding that, it understands that the administration needs the flexibility [in the areas of] bargaining units, job [classifications], and administrative components [listed in Section 2, paragraphs (1) and (2)]; however, it would like to see [Section 2, paragraph (3)] removed from the legislation.

Number 1746

MR. PUTMAN noted that the contribution rate for a 30-year employee is three times his/her contribution to PERS, while a state employee in a 30-year system contributes 6.75 percent of his/her salary towards PERS annually, making that contribution rate 20.25 percent. He added that "the 20-year employees" contribute 7.5 percent. Regarding a previous question by Representative Gruenberg about the PERS system, Mr. Putman stated the following:

The contribution rate about eight years ago from the state to the PERS system used to be about 12 percent. The stock market was doing well, so they reduced the employer contribution rate down to as low as 3.5 percent. And because of the crash in the stock market and the increase in health insurance premium costs, the PERS account is short money this year.

... It is not the employee who caused the problem; the employee's rate has always stayed the same, and we've actually continued to pay the same amount of money. But if you will recall, about six years ago, the PERS board voted to return money to the state - ... I think it was in the tune of about \$12 million ... - for use of other purposes, because they didn't need the money. So, that situation has reversed dramatically, and we find ourselves in a situation where PERS does need money in order to be actuarially sound.

Number 1637

REPRESENTATIVE GRUENBERG questioned whether there should be an amendment to the PERS statute that would prohibit the pension fund - really a trust fund - from "just turning money over to the state." Perhaps a loan [could be considered], he opined, but there should be "a fiduciary duty there." He stated that he wants to ensure that the same thing cannot happen again.

MR. PUTMAN offered his understanding that about 15 years ago the PERS board did not exist and the administration controlled the contribution. A senator put in a bill to change it to a citizens' PERS board, elected by the members who benefit from it.

REPRESENTATIVE GRUENBERG remarked that he was in the legislature when this took place and he doesn't think anyone envisioned what

would happen at the time. He stated, "Sometimes it's not popular to protect a trust." He added that he is "looking also at the permanent fund here." He asked Mr. Putman and the "folks on line, too" to "look at this." He said, "It's a question of timing, to a large extent, whether we can afford the draws on these funds now if it's going to bust the bank [in] the next few years."

Number 1487

REPRESENTATIVE SEATON referred to Mr. Putman's previous recommendation to eliminate the language on page 2, line 10, because of a concern that [the RIP] will not be offered in areas where it is difficult to fill employment. He said, "If this language is taken out, you see a potential for getting people out of the very jobs we are having a hard time filling." He offered an example. He asked, "Doesn't' this run contrary to serving the best interest of the state to eliminate that geographic distinction?"

MR. PUTMAN replied that he understands Representative Seaton's logic and agrees with him that there are times when it is hard to find [employees for rural jobs]. However, as a public employee union, [ASEA/AFSCME] wants all employees to be treated equally across the board, regardless of where they happen to be working. He said it would fall to the administration to determine if it's feasible to offer a RIP to "that job class." He asked, for example, "Is it fair to treat a social worker in Anchorage [differently from] a social worker in Bethel, because that social worker has chosen to take the Bethel job?" He said that from the perspective of [ASEA/AFSCME], it isn't [fair].

Number 1300

REPRESENTATIVE SEATON stated it seems that what is wanted is [to offer] retirement at 17 years instead of 20 and at 27 years instead of 30. He asked if it would accomplish the same goal if [the legislature] just changed the retirement [in statute] to 17 and 27 years, respectively.

Number 1264

MR. PUTMAN offered his understanding that "you can't change the retirement age." He said he believes the administration can't change a contract that was made with an employee at the time that employee was originally hired.

REPRESENTATIVE SEATON noted that there are currently bills under consideration to [change the retirement] for fire fighters, for example; therefore, he asked again whether Mr. Putnam's organization thinks that adjusting the retirement time would accomplish the same task as offering the RIP.

MR. PUTMAN answered, "I believe, under that scenario, it would"

Number 1160

CHAIR WEYHRAUCH said that leaving the specific geographic location language in the bill wouldn't prevent the administration from making a determination on a case-by-case basis regarding where it will apply [the RIP].

MR. PUTMAN responded that is correct.

CHAIR WEYHRAUCH asked what the benefit of deleting the language would be, in terms of adding more options.

MR. PUTMAN noted that during the last RIP, [the early retirement] was not offered in areas of rural Alaska. He said members [of ASEA/AFSCME] brought concerns regarding this issue to him. He reiterated that [ASEA/AFSCME] wants to see [the RIP] offered universally.

Number 1100

REPRESENTATIVE GRUENBERG emphasized that he wants to "think about that amendment." He commented that he holds some of the same concerns. He said, "We have a duty to the people of the state who are served by the public employees, also."

MR. PUTMAN responded that [ASEA/AFSCME] understands that and also understands that the House State Affairs Standing Committee is the committee that decides policy regarding how to administer "such things as this RIP." He said it is up to the committee to decide if an amendment [regarding the deletion of line 10, on page 2] is something it wants to [adopt]. He added, "And I believe that the sponsor is neutral on it."

Number 1000

JEFF BARNHART, testifying on behalf of himself, told the committee that he works for the Alaska Department of Fish & Game (ADF&G) in Kodiak, Alaska. He opined that HB 329 is a positive

bill, because it allows for the downsizing of state government, without putting people in the unemployment line. At the same time, he said, the proposed legislation would provide a considerable cost savings to the state. Senior employees at or near retirement would be given an incentive to retire. "Less senior" employees who would have normally been laid off through downsizing would be given an opportunity to retain their jobs, he noted.

MR. BARNHART stated his point of view is that the bill would have a positive economic impact on local communities and the state as a whole, because "now we have those retiree dollars - as well as the dollars from the state employees who were able to retain their jobs - circulating through our local and state economy."

MR. BARNHART turned to the "subjective language" on page 2, lines 4-12. He stated that he certainly would be in favor of offering [the RIP] to all employees who would qualify. He told the committee that the last time a RIP was offered in Kodiak, there were three people in the ADF&G in Kodiak that qualified. He posited that the more people who take advantage of [a RIP], the bigger the positive impact made to reduce the budget.

Number 0763

CHAIR WEYHRAUCH remarked that there is concern among a number of fishing organizations that ADF&G can no longer compete with the National Marine Fisheries Service and the federal government for salaries and benefits. The question has been posed, he said, regarding what can be done to keep highly qualified and skilled employees with ADF&G to continue to manage the state's fisheries, because "they seem to be bleeding over now to the federal government, and we're losing that expertise." He asked Mr. Barnhart how [HB 329] would address that issue.

Number 0692

MR. BARNHART confirmed that, over the years, the federal government has paid more than the state; therefore, a number of employees have shifted from state to federal service. He reiterated that those who are not senior employees would be the first to go [due to layoffs], while the more senior people with the expertise would remain. If those senior people choose to retire in the next year or two, that expertise will be lost anyhow, and the junior folks will be lost due to layoffs. He said that would mean, "then we've really lost."

Number 0522

JACK KREINHEDER, Chief Analyst, Office of the Director, Office of Management & Budget, Office of the Governor, told the committee that the fiscal note is an indeterminate one for a number of reasons that are stated in the analysis. He said that program is flexible and confirmed that it would be up to the administration and individual commissioners whether they participate; therefore, it is not possible to forecast how many people would retire under the program and what the savings would be.

Number 0463

CHAIR WEYHRAUCH asked if this bill is an important tool for managers of state employees to have in order to make budgets and address issues regarding employees.

MR. KREINHEDER stated his preference would be to defer that question to the Department of Administration and to answer questions solely regarding the fiscal note.

Number 0379

REPRESENTATIVE SEATON indicated that many of the positions that "we've been talking about" are ones that will be cut. He mentioned an analysis given on savings [included in the committee packet], which he said is based solely on "replacing ... each position with a B ... step." He said he is trying to figure out whether "that" has any reality to "the real potential of the fiscal note."

REPRESENTATIVE SEATON, in response to a question by Mr. Kreinheder, confirmed that he was referring to materials supplied by the sponsor.

MR. KREINHEDER replied that he cannot comment directly on those materials that he does not have; however, to the extent that he understands Representative Seaton's question, he surmised that it sounds like the savings estimate that were calculated based on refilling positions at a B step, rather than eliminating them.

REPRESENTATIVE SEATON said that's correct.

MR. KREINHEDER said, given a number positions are eliminated rather than be refilled at a B step, the savings would be considerably larger. He said he has done research looking at other states that have used RIPs and, not surprisingly, the biggest savings are where positions can be eliminated rather than refilled.

Number 0175

REPRESENTATIVE SEATON clarified that he would like to see an analysis where the RIP doesn't cause the position to be eliminated; rather, the position is going to be eliminated anyway. He said that in most of the school districts 30 to 50 teachers are being eliminated, but he is not seeing the analysis to reflect "the actual circumstance that we're looking at."

MR. KREINHEDER responded that the savings are greatest by laying people off, rather than through a RIP. In a RIP, the employer has to contribute the full actuarial cost. The argument for the RIP is that it avoids layoffs and people are allowed to choose to leave.

Number 0076

REPRESENTATIVE SEATON noted that there are two considerations to be made: economic and social. He stated that what he is not seeing is an actual analysis of the economic considerations, "with these positions already scheduled to be eliminated." He said he would like to see that in a fiscal note.

The committee took a brief at-ease.

TAPE 04-10, SIDE A

Number 0001

REPRESENTATIVE SEATON said that he would like to see a fiscal note based on the probable scenario of the elimination of the jobs in either case and the savings or cost through the imposition of a RIP program versus without.

MR. KREINHEDER interjected that he assumed Representative Seaton was referring to the State of Alaska as opposed to the school districts, because the state wouldn't do a fiscal note on behalf of the school districts.

REPRESENTATIVE SEATON said that would be acceptable because he merely wanted to get to the analysis.

MR. KREINHEDER recalled that the governor's 2005 budget is looking at eliminating 400 positions, of which only about one-third are currently filled. Therefore, there are 100-135 filled positions that could potentially be eliminated. However, the aforementioned is subject to some caveats such as attrition. Mr. Kreinheder surmised that Representative Seaton wanted to know the potential savings from eliminating the filled positions as opposed to those employees being offered a RIP.

REPRESENTATIVE SEATON agreed with Mr. Kreinheder's understanding of what he was requesting.

MR. KREINHEDER clarified that it's a bit of an apples and oranges situation because a number of the employees in those 130 positions probably aren't eligible to participate in a RIP because they are too young and don't have enough years of service.

REPRESENTATIVE SEATON specified that what is being reviewed is either eliminating positions or if there is a RIP, then positions will be eliminated and other [individuals] will move into them.

Number 0341

REPRESENTATIVE GRUENBERG summarized [Representative Seaton's] question as follows: "What are the impacts of eliminating employee A versus employee B?" The [aforementioned information] will allow the legislature to properly and logically analyze the situation. Representative Gruenberg returned to viewing this as a triangle in which there is the state employer, the employees, and the pension fund. He asked if Mr. Kreinheder represents the pension fund.

MR. KREINHEDER answered that he doesn't work for the pension boards, which are administered by the respective PERS and TRS boards with support from the administration, primarily through the Division of Retirement & Benefits.

REPRESENTATIVE GRUENBERG requested that witnesses who could advocate from the [PERS and TRS] perspectives be available to the committee.

Number 0606

REPRESENTATIVE SEATON inquired as to the effect of changing the [years of service necessary for retirement] to 17 and 27 versus a RIP.

MR. KREINHEDER agreed that the state could legally reduce the number of years of service for retirement. However, the concern is that doing a RIP every so many years is tantamount to reducing the years of service for retirement and thus might even encourage employees to delay retirement until the next RIP, which would have the opposite impact of the RIP. With regard to the fiscal impact to the state, any enhancement to the retirement system, such as reducing retirement age, would cost the state more unless the employee contributions were increased. However, he said he believes that an increase in employee contributions could only be done for new employees.

Number 0871

MELANIE MILLHORN, Director, Health Benefits Section, Division of Retirement & Benefits, Department of Administration, in response to Chair Weyhrauch, confirmed that the division's actuarial consultant, Bob Reynolds, who is going to do a cost analysis on HB 329, is a contractor. She informed the committee that Mercer Human Resource Consulting has been the division's actuarial consultant for approximately 12 years. In further response to Chair Weyhrauch, Ms. Millhorn noted that Mr. Reynolds is stationed out of Seattle, Washington.

MS. MILLHORN related to the committee that at this time the division has a neutral position as it relates to HB 329. However, the division contacted Mercer Human Resource Consulting last week and requested that it prepare a cost analysis associated with HB 329. Mercer Human Resource Consulting hasn't provided an estimate with regard to the completion of the cost analysis.

CHAIR WEYHRAUCH expressed the need to move on this matter due to the shortness of the session and the scrutiny that this legislation will receive.

Number 1045

REPRESENTATIVE SEATON asked if the cost analysis will discuss the elimination of positions that he discussed earlier.

MS. MILLHORN pointed out that the [consulting firm] would identify the pool of individuals who are available. She said

she understood Representative Seaton to be requesting additional analysis that would specifically review the elimination [of positions]. She highlighted that, as the legislation is currently written, it allows the employer to produce a cost savings in a number of different mechanisms.

CHAIR WEYHRAUCH noted that the [committee] has a history of reviewing RIP legislation, and therefore he asked if any of these sort of cost-benefit analysis has been done.

MS. MILLHORN said that she has reviewed one of the earlier legislative audits, which includes some caveats that specify that although the legislation had cost savings associated with it, depending on the case the savings seemed a bit elusive.

Number 1228

REPRESENTATIVE GRUENBERG commented that it would be helpful to see the legislative audit to which Ms. Millhorn referred. Representative Gruenberg requested that a session be devoted to this legislation and that perhaps the House Special Committee on Ways and Means be invited to participate.

[HB 329 was heard and held.]

ADJOURNMENT

There being no further business before the committee, the House State Affairs Standing Committee meeting was adjourned at 9:54 a.m.