

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

February 17, 2004
8:05 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. 394

"An Act extending the Alaska Commission on Aging."

- MOVED HB 394 OUT OF COMMITTEE

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

OVERVIEW: DEPARTMENT OF ADMINISTRATION

[Discussion of questions for department response at a future time.]

SENATE BILL NO. 270

"An Act establishing November as Avalanche Awareness Month."

- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 394

SHORT TITLE: COMMISSION ON AGING
SPONSOR(S): REPRESENTATIVE(S) HOLM

01/20/04 (H) READ THE FIRST TIME - REFERRALS
01/20/04 (H) STA, HES
02/10/04 (H) STA AT 8:00 AM CAPITOL 102
02/10/04 (H) Heard & Held
02/10/04 (H) MINUTE(STA)
02/17/04 (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
01/29/04 (H) Heard & Held
01/29/04 (H) MINUTE(STA)
02/05/04 (H) STA AT 8:00 AM CAPITOL 102
02/05/04 (H) <Bill Hearing Postponed>
02/17/04 (H) STA AT 8:00 AM CAPITOL 102

BILL: SB 270

SHORT TITLE: AVALANCHE AWARENESS MONTH
SPONSOR(S): SENATOR(S) GREEN

01/16/04 (S) READ THE FIRST TIME - REFERRALS
01/16/04 (S) STA
02/03/04 (S) STA AT 3:30 PM BELTZ 211
02/03/04 (S) Moved SB 270 Out of Committee
02/03/04 (S) MINUTE(STA)
02/04/04 (S) STA RPT 2DP 1NR
02/04/04 (S) DP: STEVENS G, GUESS; NR: STEDMAN
02/06/04 (S) TRANSMITTED TO (H)
02/06/04 (S) VERSION: SB 270
02/09/04 (H) READ THE FIRST TIME - REFERRALS
02/09/04 (H) STA
02/17/04 (H) STA AT 8:00 AM CAPITOL 102

WITNESS REGISTER

LAURA BAKER, Budget Chief

Division of Administrative Services
Department of Health and Social Services
Juneau, Alaska

POSITION STATEMENT: Explained the 2/12/04 fiscal note to HB 394.

STEVEN P. ASHMAN, Director
Central Office
Division of Senior and Disability Services
Department of Health and Social Services
Juneau, Alaska

POSITION STATEMENT: Discussed 2/3/04 fiscal note to HB 394.

BARNARSI LAL, Chair
Alaska Commission on Aging (ACoA)
Department of Health and Social Services
Fairbanks, Alaska

POSITION STATEMENT: During discussion of HB 394, answered questions.

SAM TRIVETTE
Retired Public Employees of Alaska
Juneau, Alaska

POSITION STATEMENT: During discussion of HB 394, testified in support the continuation of ACoA.

RUTH SANDVIK
Petersburg, Alaska

POSITION STATEMENT: During discussion of HB 394, encouraged the committee to continue ACoA.

CHRISTINE EARHARDT, Administrative Health Assistant
Tanana Tribal Council
(No address provided)

POSITION STATEMENT: During discussion of HB 394, encouraged the committee to continue ACoA.

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

POSITION STATEMENT: Discussed the fiscal note dated 2/14/04 that reflects the cost to administer HB 329.

BOB REYNOLDS
Mercer Human Resource Consulting

Seattle, Washington

POSITION STATEMENT: Discussed his letter dated 2/13/04, which accompanies the 2/13/04 fiscal note to HB 329.

KATHY LEA, Retirement Supervisor
Health Benefits Section
Division of Retirement & Benefits
Department of Administration
Juneau, Alaska

POSITION STATEMENT: During discussion of HB 329, answered questions.

KEVIN JARDELL, Assistant Commissioner
Office of the Commissioner
Department of Administration
Juneau, Alaska

POSITION STATEMENT:

JACK KREINHEDER, Chief Analyst
Office of the Director
Office of Management & Budget
Office of the Governor
Juneau, Alaska

POSITION STATEMENT: During discussion of HB 329, answered questions.

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

POSITION STATEMENT: Spoke on behalf of the sponsor, Representative McGuire.

MARV ST. CLAIR, Central Emergency Services
Soldotna Service Area
Soldotna, Alaska

POSITION STATEMENT: Encouraged moving HB 329 along.

CARL ROSE, Executive Director
Association of Alaska School Boards (AASB)
Juneau, Alaska

POSITION STATEMENT: Testified in support of HB 329.

JACQUELINE TUPOU, Staff
to Senator Lyda Green
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented SB 270 on behalf of the sponsor, Senator Green.

ACTION NARRATIVE

TAPE 04-16, SIDE A

Number 0001

CHAIR BRUCE WEYHRAUCH called the House State Affairs Standing Committee meeting to order at 8:05 a.m. Representatives Weyhrauch, Holm, Seaton, and Lynn were present at the call to order. Representatives Coghill, Berkowitz, and Gruenberg arrived as the meeting was in progress.

HB 394-COMMISSION ON AGING

CHAIR WEYHRAUCH announced that the first order of business was HOUSE BILL NO. 394, "An Act extending the Alaska Commission on Aging."

CHAIR WEYHRAUCH noted that before the committee is a fiscal note dated 2/12/04, and he requested the department review it.

Number 0165

LAURA BAKER, Budget Chief, Division of Administrative Services, Department of Health and Social Services (DHSS), explained that the earlier fiscal note the committee had received reflected an imbalance between the expenditures and the fund sources. However, the fiscal note dated 2/12/04 should reflect the operating expenditures and funding in the total of \$351.7, which is reflective of what is in the governor's fiscal year (FY) 2005 budget proposal. Ms. Baker clarified that the fiscal note is not an additional cost, rather it reflects the cost associated with the commission if it's extended.

CHAIR WEYHRAUCH informed the committee that the committee packet includes pages 1-4 of the commission's plan.

Number 0337

STEVEN P. ASHMAN, Director, Central Office, Division of Senior and Disability Services, Department of Health and Social Services, recalled that at the committee's prior hearing there was discussion regarding the 2/3/04 fiscal note analysis which specified: "If the ACoA [Alaska Commission on Aging] expires, the Department of Health and Social Services (DHSS) stands to

lose \$13 million in federal dollars for senior services." Under the Older American Act the State of Alaska is required to establish an advisory council and ACoA meets that requirement. He explained that ACoA is required to develop and administer an area plan, conduct public hearings, represent the interests of the older persons, and review and comment on community policies, programs, and actions that impact Alaskans. Without such an advisory commission as ACoA, the state would be in jeopardy of losing those funds.

Number 0486

BARNARSI LAL, Chair, Alaska Commission on Aging (ACoA), Department of Health and Social Services, recalled that at the last hearing clarification was requested regarding the need for a commission in order to receive federal dollars. Mr. Lal also recalled that there was concern with the fiscal note because it looked as if the ACoA was making a profit, which isn't the case. If one reviews the budget and compares it to the year 2004, one will discover that there is a reduction of about \$56,000. In response to Chair Weyhrauch, Mr. Lal said that other members of ACoA should be arriving as there is a three-day meeting being held [in Juneau] in order to do the hiring for the executive director of ACoA.

CHAIR WEYHRAUCH thanked Mr. Lal for his service on ACoA.

MR. LAL assured the committee that all the members serving on ACoA are very dedicated seniors who represent a wide spectrum of society. Mr. Lal highlighted that the members must keep in mind that the senior population is going to double by 2010 and by 2025 the senior population will be about 25 percent higher. Mr. Lal said that it makes sense that seniors be provided with services that would allow them to live with dignity, grace, and in settings that are close to their homes.

Number 0729

REPRESENTATIVE LYNN also thanked Mr. Lal for his service on ACoA. Representative Lynn asked if any legislation involving seniors has ever come before ACoA for advice.

MR. LAL noted that most recently ACoA has supported the governor's senior care program. In the past ACoA has been asked to provide support for various pieces of legislation, including the advisory vote for the pioneers' homes and veterans' homes. In further response to Representative Lynn, Mr. Lal recalled

that ACoA has been approached before legislation has been introduced with regard to whether it should be introduced or the content of such legislation. He recalled that one such piece of legislation dealt with the quality of life of senior citizens.

Number 0921

REPRESENTATIVE GRUENBERG related his understanding that members of ACoA aren't confirmed by the legislature.

MR. LAL agreed. In response to Representative Gruenberg's question regarding term limits for ACoA, Mr. Lal opined that seven or eight years of service is reasonable and provides others the opportunity to serve. Mr. Lal said that he didn't have any problems with the term limits for ACoA [as specified in AS 47.45.200(c)].

REPRESENTATIVE GRUENBERG pointed out that under AS 47.45[.240](a)(2) one of the duties of ACoA is to: "(2) make recommendations directly to the governor and the legislature with respect to legislation, regulations, and appropriations for programs or services that benefit older Alaskans". Therefore, he asked if there is anything Mr. Lal would like to recommend.

MR. LAL noted that ACoA is supporting the governor's senior care program.

Number 1059

REPRESENTATIVE HOLM directed attention to the Division of Legislative Audit's audit of the Department of Health and Social Services Alaska Commission on Aging Sunset Review dated October 1, 2003. On page 16 of the audit, it specifies that in a number of cases the backup [to the financial reports] haven't been sent to the [Division of Legislative Audit]. Therefore, Representative Holm charged Mr. Lal with reviewing the aforementioned in order that the appropriate supporting backup is sent so that the federal funding is at the [correct level].

MR. LAL pointed out that until last year ACoA was in the grant-making role. However, the Department of Administration was providing support to ACoA for generating those type reports as well as timely submission of those reports. He assured Representative Holm that he would convey the charge to Mr. Ashman and the deputy commissioner.

Number 1175

SAM TRIVETTE, Retired Public Employees of Alaska, testified in support of the continuation of ACoA, which is very important. He noted that he attends ACoA meetings on a fairly regular basis and receives the ACoA newsletter. The commissioners are very dedicated, he said. Mr. Trivette said, personally, he would like for ACoA to have a stronger voice. In response to Chair Weyhrauch, Mr. Trivette said that ACoA [meetings] are fairly easy to follow, although there has been some confusion regarding who is doing what since the changeover.

CHAIR WEYHRAUCH asked if there is a form available to provide input with regard to how to better facilitate the information coming out of ACoA to better benefit seniors and aging Alaskans.

MR. TRIVETTE answered that he hadn't given that much thought. However, he suggested that trying to get the newsletter more widely distributed might be of benefit. He explained that he is notified via e-mail that the newsletter is available, which is probably a good process for those seniors connected to the [Internet]. However, less than half of the Retired Public Employees of Alaska are connected to the Internet. In further response to Chair Weyhrauch, Mr. Trivette said that [the Retired Public Employees of Alaska] newsletter sometimes references an article [from ACoA's newsletter].

Number 1340

RUTH SANDVIK said that she is coming from the point of view of a customer of ACoA. Ms. Sandvik commended the work of ACoA and urged everyone to watch and listen to this program because the need for this type of program will never end. As was pointed out, the population of elders [in Alaska] is increasing. Therefore, she encouraged the committee to continue ACoA.

Number 1436

CHRISTINE EARHARDT, Administrative Health Assistant, Tanana Tribal Council, testified in support of extending ACoA, which is the exclusive funding agency for the Tanana elders residence. The Tanana elders' residence has been operated for over 20 years.

Number 1552

REPRESENTATIVE SEATON moved to report HB 394 out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, it was so ordered.

HB 329-RETIREMENT INCENTIVE PROGRAM

CHAIR WEYHRAUCH announced that the next 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."

CHAIR WEYHRAUCH reminded the committee that before the committee is CSHB 329, Version 23-LS1109\H, Craver, 1/28/04, along with two fiscal notes.

Number 1690

MELANIE MILLHORN, Director, Health Benefits Section, Division of Retirement & Benefits, Department of Administration, noted that the [division] has provided a fiscal note [dated 2/14/04] that reflects the cost to administer HB 329. The fiscal note made calculations based on the personnel [costs] and resources dedicated for the retirement incentive program (RIP) legislation from 1996-1999 as well as the existing staff and resources.

The committee took an at-ease from 8:28 a.m. to 8:30 a.m.

MS. MILLHORN recalled that the committee requested a cost analysis associated with the cost to the employers and she deferred to Mr. Reynolds for that.

Number 1954

BOB REYNOLDS, Mercer Human Resource Consulting (Mercer), informed the committee that Mercer works with the division and the respective boards for the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS). Mr. Reynolds turned to the fiscal note [dated 2/13/04 and the attached letter from Mercer]. He explained that [Mercer] has estimated the value of the benefits that would be provided under HB 329 versus the value of the benefits the members expected to be eligible would receive in the absence of HB 329. For PERS, the total employer cost was determined to be \$786.3 million and for TRS it was \$431.6 million.

MR. REYNOLDS, in response to Representative Seaton, clarified that the figures represent the incremental [cost] only, the cost over and above the cost of the benefits the individuals have earned in the absence of HB 329. This represents additional cost. In response to Representative Berkowitz, Mr. Reynolds' confirmed that his letter assumes all eligible people will take advantage of the RIP. Therefore, these figures provide the maximum cost.

REPRESENTATIVE BERKOWITZ inquired as to the percentage of eligible people who have historically taken advantage of RIPs.

MR. REYNOLDS deferred to Ms. Millhorn or Ms. Lea.

Number 2140

KATHY LEA, Retirement Supervisor, Health Benefits Section, Division of Retirement & Benefits, Department of Administration, informed the committee that during the last RIP 10,500 PERS members were eligible of which 1,359 actually retired, which represents approximately 13 percent. There were 3,200 TRS employees eligible to RIP of which 850 actually retired, which represents approximately 26 percent.

REPRESENTATIVE BERKOWITZ surmised then that a "really great RIP program" might result in 20 percent of those eligible actually retiring.

MS. LEA agreed.

MR. REYNOLDS, in response to Representative Berkowitz, agreed that if the percentage retiring was 20 percent, then the [incremental cost figures] would decrease considerably.

REPRESENTATIVE BERKOWITZ turned to page 2 of Mr. Reynolds' letter in which the first paragraph refers to the present value of the benefits. He inquired as to how long a period that extends.

MR. REYNOLDS explained that is the value of the additional benefits in today's dollar. The methodology the systems use to fund for that has been to pay for cost increases over 25 years.

REPRESENTATIVE BERKOWITZ surmised then that the present value means extending the value of services that might take place 25 years from now. Is that included in the calculation, he asked.

Number 2235

MR. REYNOLDS clarified that the figures shown represent the total cost increase that the systems would incur. Therefore, the figures represent the difference between the benefits the eligible members receive under the RIP, assuming they obtain the extra service and retire within the window, and the benefits the eligible members would receive if they stayed in the system until their assumed retirement age under [Mercer's] valuation assumptions and then retire without the extra RIP service. "Actuarially, the method that the systems use to ... fund for the program benefits is to attempt to fund for benefits over the lifetime of the membership, which generally is about 25 years," he explained.

REPRESENTATIVE BERKOWITZ related that his quick calculation results in about \$100,000 per employee.

MR. REYNOLDS agreed that for PERS the cost was roughly \$100,000 while for TRS it was a bit higher at around \$120,000 per member. Mr. Reynolds, in response to Representative Berkowitz, explained that the \$100,000 benefit for an individual would be paid for over a 25-year period. However, the value of the additional benefits is roughly \$100,000 per member.

REPRESENTATIVE BERKOWITZ surmised that would result in a [cost] of \$4,000 per year per person.

MR. REYNOLDS agreed.

REPRESENTATIVE BERKOWITZ opined that if more than \$4,000 a year per person is saved, then this would be a good deal for the state. Representative Berkowitz inquired as to what is included in Mercer's present value calculation.

Number 2365

MR. REYNOLDS informed the committee that he looks at the value of the benefits that eligible members would receive under HB 329. Therefore, it was assumed that [the eligible members who RIP] would receive the extra service outlined in HB 329 and that they would retire within the RIP period. At the point of retirement, the individual would receive both the pension benefit and whatever medical benefits for which he or she is eligible. For example, if the window were to occur today, [those who RIP] would receive a pension benefit based on three additional years of service as well as medical benefits. In the

absence of the investment program, [those who retired] wouldn't receive the extra service and would remain in employment until their assumed retirement age. Furthermore, those individuals wouldn't collect medical or pension benefits until [their assumed retirement age]. As mentioned earlier, the average incremental cost per member is roughly \$100,000 or \$120,000 depending upon the system.

MR. REYNOLDS said:

I think ... it would be unrealistic given the age of the membership and who's eligible to expect that they would stick around for 25 years. So, although the actuarial methodology for the system does typically ... pay for benefits over a 25-year period, for this membership the future working lifetime is expected to be much less because they are generally already at or fairly close to retirement age. So, I think that you would divide these figures by a much shorter time period in order to get the annual cost savings that you would need to have.

Number 2472

REPRESENTATIVE BERKOWITZ specified that his point is that although these numbers look huge, when they are broken down and analyzed they aren't that large.

MR. REYNOLDS reminded the committee that the \$120,000 isn't the funding target in 25 years, rather it's the amount of money that would need to be set aside now. He likened the \$120,000 to a principal on a mortgage.

Number 2547

REPRESENTATIVE SEATON surmised that the concern is with regard to the cumulative debt to the retirement system or the cumulative liability the retirement system would acquire from this program. He related his understanding that the PERS and TRS percentages have increased because there is an accumulated debt amount or payout amount. "These figures ... or the 20 percent of those would ... have to increase other retirees for the state's contribution for other retirees in the current system to pay this accumulated indebtedness. Is that right," he asked.

MR. REYNOLDS replied yes. For example, the unfunded liability in PERS, as of the end of fiscal year 2002, was \$2.6 billion. If the aforementioned was increased by the full RIP cost of \$.8 billion, then there would be an approximate increase in the rate by 3-4 percent of the entire system payroll, not just for the affected members. In further response to Representative Seaton, Mr. Reynolds expressed the need to be cautious when working with ratios because the members who would take advantage of the retirement program would be those whose average cost is higher than that average. Therefore, the members who would take advantage [of the retirement program] would benefit the most. Mr. Reynolds related his assumption that if 20 percent of membership took the RIP, then the cost would be more than 20 percent of the cost shown. He explained that this is what [Mercer] refers to as anti-selection.

Number 2752

REPRESENTATIVE GRUENBERG turned to the second page of the fiscal note dated 2/14/04, which estimates that two permanent employees and six long-term non-permanent employees will be needed. He asked if the assumption is that the two permanent employees would fully participate.

MS. MILLHORN replied no and recalled that was reviewed in relation to the staffing levels required during the 1996-1999 RIP and was compared to the existing staffing levels in order to determine the staffing level necessary. In further response to Representative Gruenberg, Ms. Millhorn agreed with his understanding that RIP programs [similar to that proposed in HB 329] are supposed to save the state money because some positions would remain unfilled or become filled by lower paid employees.

REPRESENTATIVE GRUENBERG commented that he didn't see any of that reflected in the fiscal note.

MS. MILLHORN explained that the fiscal note prepared for the division doesn't look at the savings rather it looks at the resources necessary to provide the adequate staffing level to allow the parties to retire.

REPRESENTATIVE GRUENBERG said that he didn't see any fiscal note showing the other side of the equation, and therefore he requested an explanation.

Number 2855

KEVIN JARDELL, Assistant Commissioner, Office of the Commissioner, Department of Administration, commented that it's difficult to show the savings. He related his belief that the legislation is set up such that it has to be a neutral cost and on top of that there would be some savings. Therefore, the actuary has reviewed the costs, which will have to be done in any instance in which a RIP is presented to the Department of Administration. The aforementioned needs to work out to be neutral and although there could potentially be additional savings, it would have to work out to at least be [cost] neutral. "The bill assumes it'll be a zero cost or you can't do it," he clarified. Therefore, Mr. Jardell opined that the more important analysis is to review the cost per employee and how likely it is that enough savings will be achieved to offset the cost to reach the neutral requirements of the legislation. In further response to Representative Gruenberg, Mr. Jardell related his understanding that the legislation requires a neutral cost savings before [a RIP] can be authorized.

REPRESENTATIVE SEATON asked if the term "neutral cost" means that the state would save money in current administrative terms while shifting the expense to the retirement system.

TAPE 04-16, SIDE B

MR. JARDELL deferred to the representative from the Office of Management & Budget.

Number 2956

JACK KREINHEDER, Chief Analyst, Office of the Director, Office of Management & Budget, Office of the Governor, turned to Representative Seaton's question regarding the liability to the retirement system. He explained that the legislation requires that the liability to the retirement system be offset before an employee is allowed to participate. In other words, the employee is required to contribute three years of his or her contributions, which would be roughly 18-20 percent of the employee's salary. The employer is required to pick up the difference. For example, if the cost per PERS employee is about \$100,000 for additional retirement benefits specified in this legislation, the employee would contribute three years of contributions and the employer would contribute the balance. The intent is to be cost neutral for the retirement system. Therefore, using Mercer's \$432 million and assuming that every [PERS] employee participated, the state and municipalities would end up writing checks to PERS for that \$432 million. Although

the legislation intends to be cost neutral, Mr. Reynolds' 2/13/04 letter specifies the following: "future changes (such as improvements in longevity or higher than anticipated medical cost increases) may affect the ultimate cost neutrality of the program."

Number 2823

REPRESENTATIVE SEATON highlighted that there has been an increase in PERS and TRS of 4 and 5 percent. According to the actuarial information presented [to the House Special Committee on] Education [the PERS and TRS percentages] to fund the balance should be at 34 and 35 percent of employee salaries. Therefore, there is the probability that it will increase from the 16 percent contribution rate this year. He informed the committee that the 7.5 percent for health care was increased by 3.5 percent in 2002 and thus it now totals 12 percent. Furthermore, the federal government has adopted a new longevity table that extends longevity by another two or so years. Representative Seaton opined that without including the aforementioned, there will be a deficit to the program.

MR. KREINHEDER said that Representative Seaton's concern is valid. Any unanticipated increases in costs later would result in the RIP not being fully cost neutral. All the costs expected today are included in the calculation.

REPRESENTATIVE BERKOWITZ suggested obtaining input from the Alaska Municipal League (AML) and those municipalities that will be impacted.

Number 2704

REPRESENTATIVE SEATON returned to the fact that this legislation is revenue neutral and inquired as to why Mercer would say that there would be a 3-4 percent increase if everyone eligible RIPS or an .6-.8 percent increase in everyone's rate of contribution. He related his understanding that this \$100,000 to \$120,000 that would have to be made up by the employee and his or her present dollar input shouldn't impact the rates at all. However, the 3-4 percent rate increase seems to be significantly out of balance.

MR. KREINHEDER remarked that he believes there may be some confusion on that point. He said that he believes that Mr. Reynolds' response was that the dollar amounts reflected in his letter for the total potential costs to the system if every

eligible employee participated would be equivalent to a 3-4 percent rate increase. However, the aforementioned would only occur if the required contributions weren't made. If the required contributions were made, the only risk of a rate increase would be from these unanticipated future costs such as higher medical or longevity costs.

MR. REYNOLDS agreed. However, Mr. Reynolds clarified that his figures have already taken into account the employee indebtedness. The aforementioned is specified in the first sentence of page 2 of Mercer's letter dated 2/13/04, which says "The total employer cost under proposed HB 329 is equal to the increase in the total present value of benefits, minus member indebtedness to be paid to the Systems."

Number 2568

MR. KREINHEDER turned to Representative Berkowitz' earlier question regarding participation rates of prior [RIPs]. For the State of Alaska [as an employer] the participation rates were a bit higher while Ms. Lea's figures reflect that some municipalities and school districts didn't opt to participate in the prior program. For example, the statewide totals, including state agencies, the university, the legislature, and the court system, for the prior [RIP] amounted to about 2,600 employees who were approved to participate of which about 1,250 applied and retired under the program. Therefore, it amounted to a little less than 50 percent for employees who were offered the opportunity.

Number 2509

CHAIR WEYHRAUCH asked if there is any way that HB 329 could impact the benefit received by those who are currently retired PERS and TRS members.

MR. KREINHEDER deferred to Mr. Jardell.

MR. JARDELL responded, "The simple answer is no." In further response to Chair Weyhrauch, Mr. Jardell said, "The definitive answer is still no."

CHAIR WEYHRAUCH related his understanding that the policy behind this legislation is to provide a cost neutral manner for the state to move out higher paid employees with lower paid newer employees.

MR. JARDELL deferred to the sponsor.

CHAIR WEYHRAUCH asked if previous RIP legislation has [been introduced] under the same policy basis.

MR. JARDELL deferred to Mr. Kreinheder.

Number 2400

MR. KREINHEDER explained that prior RIPs were [intended] to help avoid layoffs, absorb some of the cost increases the departments were facing. In the most recent RIP there was more of an emphasis on trying to delete positions or reclassify them downward to streamline operations. Mr. Kreinheder highlighted the importance of noting that per Mercer's figures the number of employees who would show a savings and would be eligible to participate [in a RIP] would likely be much less. He explained that it would be much more difficult to "pencil out" the savings under a scenario in which a higher paid employee is replaced with a lower paid employee. If a position is eliminated, the savings would be calculated over three years and thus [that situation] could show savings.

REPRESENTATIVE HOLM recalled that under the last RIP roughly 13 percent retired. Given that it costs more to buy the three years, he inquired as to the percentage who will retire under this proposal.

MR. KREINHEDER said that he wouldn't hazard a guess. Furthermore, he said he wasn't sure he could determine an answer. However, he did say that the number of employees who would qualify is likely to be substantially less. Mr. Kreinheder pointed out that the employee cost that the department or municipality has to contribute varies by each individual employee and thus it's difficult to predict.

REPRESENTATIVE HOLM clarified that he is interested in what the employee has to contribute because if it's higher, he suspected that people won't retire as quickly.

MR. KREINHEDER related his understanding that the employee contribution wouldn't change from the prior RIP. "My understanding is that constitutionally we cannot -- it's a contract with the employee so the state can't unilaterally increase the employee contribution rate," he said. For example, the employee rate for state employees is 6-7 percent, which has changed from the prior RIP. Therefore, the employee wouldn't

pay more and thus it wouldn't be less attractive. However, the problem is that the employer cost is nearly four times what it was in the last RIP and thus it's difficult to show a savings from replacing higher paid employees with lower paid employees.

MS. MILLHORN agreed that the employee contribution rate wouldn't be changed because it's set by statute. For PERS the employee contribution rate is 6.75 percent, she noted.

Number 2116

REPRESENTATIVE SEATON pointed out that this legislation offers a new contract that is mandatory. Therefore, he inquired as to whether anything prevents the legislature from increasing the PERS and TRS contribution rate if someone wants to take advantage of the RIP.

MR. JARDELL related his belief that under HB 329 if one is retiring, then that individual's employer contributions wouldn't be there. The legislation specifies what percentage an employee would have to put in before retiring. Therefore, the percentage that was mentioned as the employee's part of buying into the RIP could be changed. However, once the employee enters the retirement program the [individual] doesn't have an opportunity to contribute.

REPRESENTATIVE SEATON remarked that it seems like this program has assumed that the employee rate was fixed, although it doesn't necessarily have to be a fixed rate. He then turned to the fiscal note [dated 2/14/04] which specifies on page 2 that the legislation also allows for separation bonuses for state employees. He asked if there are any limits on the separation bonuses.

Number 1985

HEATH HILYARD, Staff to Representative Lesil McGuire, Alaska State Legislature, spoke on behalf of the sponsor of HB 329, Representative McGuire. He explained that the CSHB 329, Version 23-LS1109\H, Craver, 1/28/04, no longer has any references to the separation incentive program.

MR. JARDELL acknowledged that although 100 percent of [those eligible] won't participate, those inquiring about the program will amount to close to [100 percent] or greater. Therefore, a tremendous amount of resources go into a program like this in order to explain it and provide information to people.

CHAIR WEYHRAUCH related his understanding that this program wouldn't impact a person who is already retired.

MR. JARDELL confirmed Chair Weyhrauch's understanding, but noted that such an explanation isn't always enough.

MS. MILLHORN agreed with Chair Weyhrauch's understanding.

Number 1865

REPRESENTATIVE SEATON related his assumption that the administration will redo the fiscal note.

MR. JARDELL clarified that a new fiscal note will be prepared if this committee adopts and reports from committee a committee substitute (CS).

REPRESENTATIVE SEATON turned to the fiscal note dated 2/14/04, which says, "Reemployment into the PERS, TRS or JRS or the optional university retirement program after appointment to a RIP retirement will require members to repay 110 percent of the amount they received as a result of RIP participation plus they will forfeit the RIP credit when they retire again." However, he recalled that last year legislation passed allowing people to return to teach under TRS without repaying the PERS contribution.

MS. LEA explained that the legislation allowing a retired employee to re-employ didn't apply to RIP employees, which were expressly excluded from that legislation.

MR. HILYARD pointed out that Version H includes two specific provisions regarding re-employment as it pertains to school districts.

Number 1755

REPRESENTATIVE GRUENBERG turned to Section 9 of Version H and related that he reads that provision to apply to school districts as well as to local governments. He highlighted that page 10, line 1, refers to "an employer other than the state".

MR. HILYARD agreed. However, he clarified that his earlier point regarding re-employment was referring to the text on page 11, lines 3-7.

REPRESENTATIVE GRUENBERG inquired as to the liability that Section 9 subjects to municipalities because he foresaw that as being a financial problem. Representative Gruenberg surmised that the key triggering mechanism is found on page 2, lines 19-21, and it doesn't seem to require any review of the impact of an individual retirement to the retirement system. Is the aforementioned a potential danger to the retirement system, he asked.

MR. HILYARD remarked that if language regarding the long-term impacts could be penned, then [the sponsor] would be happy to include such language. Certainly, the intent isn't to create a problematic situation or further exacerbate existing problems with the retirement systems. [The intent] is to provide agencies, municipalities, and school districts with a flexible and optional tool for potential personnel reductions.

REPRESENTATIVE GRUENBERG suggested that perhaps the legislation should include a hold harmless provision for the state.

MR. HILYARD confirmed that he didn't have any objection to including [a hold harmless provision for the state].

Number 1459

REPRESENTATIVE GRUENBERG surmised that only one person, the administrative director, in the court system would be allowed to participate in this proposed RIP per the language on page 8, Section 8(a).

MR. HILYARD said that he didn't know.

MS. LEA agreed with Representative Gruenberg's understanding and pointed out that other court system employees who are members of PERS would participate as state employees. In further response to Representative Gruenberg, Ms. Lea confirmed that no other employees in the judicial retirement system would be able to RIP under this legislation.

REPRESENTATIVE GRUENBERG inquired as to why no other employees in the judicial retirement system would be able to RIP under this legislation.

MR. HILYARD said that the omission [of other employees in the judicial retirement system] was unintentional.

Number 1201

MARV ST. CLAIR, Central Emergency Services, Soldotna Service Area, encouraged moving HB 329 along. He noted that he would qualify for this proposed RIP. Mr. St. Clair turned attention to page 2, lines 19-21, and recalled that the last time a RIP program was offered it had to be approved by the Kenai Peninsula Borough Assembly in order for the Kenai Peninsula Borough to participate. The individual service areas had to approve the service area participation. [In order to participate] there had to be a cost savings to allow a senior employee to RIP. However, he understood the committee to be looking at the overall impact to PERS. Mr. St. Clair related his understanding that each individual department commissioner, et cetera would have a right to participate or not. He said he didn't know how the aforementioned could be figured into the overall costs, but he suggested it be reviewed.

REPRESENTATIVE GRUENBERG related his understanding that Mr. St. Clair wanted the committee to review accrual costs, which he gathered would be in addition to personal services costs.

MR. ST. CLAIR replied no, reiterating that each department or department commissioner, or finance directors at the borough level would have to review the financial costs. "Obviously, if you have a department that has few employees that are highly trained, that would be very hard to replace, I would think that department head, according to what you have drafted here, would have a right to not participate in the program. Am I correct?"

Number 0872

REPRESENTATIVE GRUENBERG directed attention to page 2, line 19, of Version H, which says "savings to the employer in personal services costs". He asked if Mr. St. Clair believes the language "personal services costs" is too narrow and thus other possible types of costs should be included.

MR. ST. CLAIR expressed the need to review what it may cost in the future if a fair amount of the employees who participated in the RIP didn't exist after several years and didn't reach the 25 years of participation in the program. Mr. St. Clair said he liked the language [on page 2, line 19] and felt it should be maintained.

Number 0693

CARL ROSE, Executive Director, Association of Alaska School Boards (AASB), announced AASB's support of HB 329. He noted that AASB is concerned with regard to costs, solvency, and the actuarial soundness [of the proposal in this legislation]. Mr. Rose informed the committee that he was first elected to the school board in 1974 when the world looked very different. In no way could the school board then project what these programs would look like 30 years later. Therefore, the same question is being asked today and that is: "What will be the anticipated costs of a future that we don't even see yet?" However, Mr. Rose viewed this as an economic tool that can be used in school districts to manage the decline of the public schools, which has been the case for the last decade and a half. Mr. Rose said:

So, our inability to keep pace with an adequate level of funding, the increased state and federal mandates that we are under that are redirecting the resources of the school districts, decreased capacity in our schools meet the expectations that are being set forth, the inability to attract and retain qualified teachers and administrators, all of these things we're faced with and we're looking anywhere we can to create savings. And if this bill can provide a level of savings we will eat the seed corn ... if we have to.

MR. ROSE urged the committee to review the issue of solvency and actuarial soundness while providing some level of latitude at the local levels. "Ideally, adequacy in funding is what we are looking for; it's what we need," he specified. He concluded by noting AASB's support for this legislation.

CHAIR WEYHRAUCH related his understanding that this legislation would create a financial savings that would allow higher paid teachers to retire and thus newer teachers could be hired at a lower cost.

MR. ROSE agreed.

CHAIR WEYHRAUCH asked if staff at school districts would also be able to take an early retirement.

MR. ROSE related his view that this legislation is optional legislation that one can take advantage of or not. He pointed out that the brain drain is tremendous, that is there are employees that one wants to retain while there is economic pressure to address. Mr. Rose pointed out that once the PERS and TRS crisis is reviewed in terms of the impact on increased

rates that employers will face, it will be a factor in the school districts' ability to afford this.

Number 0374

CHAIR WEYHRAUCH asked if this legislation would exacerbate the brain drain.

MS. ROSE answered that someone who has spent a career in the profession has talents that new people simply don't have, which has to be weighed. Mr. Rose stated that many teachers are highly talented, underpaid, and would like to pursue a second career. The school districts have to weigh [this proposed legislation] in terms of the additional cost to a school district and the impact on the instructional program as well as how to balance the [district's] budget.

CHAIR WEYHRAUCH asked if the current [PERS and TRS] situation has been exacerbated by previous RIP legislation.

MR. ROSE replied that he didn't believe so. He opined that the largest contributor was the down turn in the market, which is the largest contribution to the system.

Number 0228

REPRESENTATIVE HOLM said he shared Mr. Rose's concerns with regard to the brain drain. Representative Holm suggested that [this legislation] may be cause for great concern. He noted that since his wife is a teacher, he has [heard from] many teachers of the highest qualification who are very disturbed with the [new teachers] entering the system. Therefore, he asked if [with this legislation] "we" are trading off a better education for students in order to save money.

MR. ROSE remarked that this is an issue of displacement. If the talented teachers were kept at a higher rate, the economy suggests that some programs have to be reduced.

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MR. ROSE related his belief that economics are driving the decisions being made. He highlighted that a large portion of what is being done now is driven by federal legislation. The question is: "Quality of instruction versus a reduction in programs and offerings?" Although one can make an argument for either, that is the dilemma. Mr. Rose remarked that the brain

drain is going to have an impact and if the costs can't be reduced, he questioned what would be the ultimate effect in reduction of services.

Number 0118

REPRESENTATIVE HOLM posed a situation in which 26 percent of those in TRS retire, which would amount to 900 people statewide. He asked where the 900 replacements would be found in such a situation. He pointed out that currently there aren't qualified people to be hired by the school districts. "If what we're trying to do now is provide a good education for the children of Alaska, this may well not be our best methodology," he commented.

MR. ROSE reiterated that these decisions are purely economical and not program based or instructional based. With regard to finding replacements for those who RIP, Mr. Rose pointed out that the ability to attract and retain employees is hindered greatly because of the failure to keep pace with inflation. Although Mr. Rose acknowledged that [teachers] in Alaska are paid fairly well, he stressed that the state has lost its edge [in regard to pay and benefits package]. Mr. Rose explained that [AASB] is merely trying to obtain an opportunity to consider.

REPRESENTATIVE GRUENBERG directed attention to page 2, lines 19-21, and page 9, line 31 through page 10, line 5. Representative Gruenberg pointed out that there is the employer, the state, and the pension fund [involved]. From the point of view of the pension fund, there could be a situation in which the employer fulfills the requirement on page 2 and says there is a cost saving. However, with a huge deficit in the pension fund, the employer, because of the language on page 10, would basically be immunized. Therefore, the pension fund would wind up in a deficit situation worse than the current situation.

Number 0635

MR. ROSE recalled that under past RIP legislation, he didn't believe that recovery [of employer delinquencies] was heavily considered. However, he believes it will weigh in heavier now. He then inquired as to how "political subdivision of the state" would be defined, pointing out that school districts are a political subdivision of the state.

REPRESENTATIVE GRUENBERG opined that under this legislation school districts would be the employer. Representative Gruenberg surmised that those who could wind up paying for this could be the students due to the lack of future foundation money.

MR. ROSE noted his agreement and highlighted the inability to predict the future situation other than the fact that there is a major problem with PERS and TRS for which there is no quick fix. With regard to whether this legislation exacerbates the problem, Mr. Rose opined that he didn't believe so when taking into account the requirements. "If you're looking at solvency, I think the ... section of the bill for recovery is something that needs to be considered, and perhaps more of an emphasis," he said.

CHAIR WEYHRAUCH directed attention to Section 2(b) of Version H and asked if the three items listed under subsection (b) are intended to be alternative or cumulative requirements.

MR. HILYARD answered that he believes they were intended to be cumulative.

[HB 329 was held over.]

OVERVIEW: DEPARTMENT OF ADMINISTRATION

CHAIR WEYHRAUCH announced that there wasn't time to take up the Department of Administration overview. However, Chair Weyhrauch and the committee reviewed a list of questions to which the department could respond when the overview does occur.

SB 270-AVALANCHE AWARENESS MONTH

CHAIR WEYHRAUCH announced that final order of business was SENATE BILL NO. 270, "An Act establishing November as Avalanche Awareness Month."

Number 1216

JACQUELINE TUPOU, Staff to Senator Lyda Green, Alaska State Legislature, paraphrased from the following written sponsor statement:

Alaska is avalanche country. Each year Alaska loses more people to avalanches than any other state, regardless of population. During the last four winters alone, 28 Alaskans have died in avalanches.

Last winter, avalanche dust clouds hit school buses on Thane road in Juneau two times. It is chilling to think of the possible outcomes. While often little can be done to prevent the occurrence of an avalanche, much can be done to prevent the loss of life from avalanches.

Senate Bill 270 would establish November as Avalanche Awareness Month. This designation would serve to raise public awareness of the hazards associated with avalanches, and of the opportunities to participate in avalanche safety training at the beginning of the winter recreational season. It is hoped that public participation in avalanche safety programs will be increased. This increased participation will equip Alaskans with the skills necessary to survive potentially fatal encounters with avalanches and result in saved lives.

MS. TUPOU relayed that many people wanted to testify in support of this legislation. She noted that when this legislation passed on the Senate floor, it did so with everyone present signing on as co-sponsors.

[SB 270 was held over.]

ADJOURNMENT

There being no further business before the committee, the House State Affairs Standing Committee meeting was adjourned at 9:59 a.m.