

HOUSE FINANCE COMMITTEE  
April 24, 2006  
2:17 p.m.

CALL TO ORDER

Co-Chair Meyer called the House Finance Committee meeting to order at [2:17:41 PM](#).

MEMBERS PRESENT

Representative Mike Chenault, Co-Chair  
Representative Kevin Meyer, Co-Chair  
Representative Bill Stoltze, Vice-Chair  
Representative Richard Foster  
Representative Mike Hawker  
Representative Jim Holm  
Representative Reggie Joule  
Representative Mike Kelly  
Representative Beth Kerttula  
Representative Carl Moses  
Representative Bruce Weyhrauch

MEMBERS ABSENT

None

ALSO PRESENT

Wendy Lindskoog, Director, External Affairs, Alaska Railroad Corporation; Gary Bader, Chief Investment Officer, Treasury Division, Department of Revenue; Tom Boutin, Deputy Commissioner, Department of Revenue; Jaqueline Tupou, Staff to Representative Weyhrauch.

PRESENT VIA TELECONFERENCE

Larry Semmens, Alaska Retirement Management Board, Kenai; Rick Thompson, Acting Deputy Director, Division of Mining Land and Water, Department of Natural Resources; John Duff, Borough Manager, Mat-Su Borough; Ron Swanson, Community Development Director, MatSu Borough.

SUMMARY

SB 308 "An Act authorizing the Alaska Railroad Corporation to issue revenue bonds to finance rail transportation projects that qualify for federal financial participation; and providing for an effective date."

SB 308 was REPORTED OUT of Committee with one previously published, zero fiscal note (#1; CED) and "no recommendation".

HB 375 "An Act relating to the retirement benefit liability account and appropriations from that account; relating to deposits of certain income earned on money received as a result of State v. Amerada Hess, et al., 1JU-77-847 Civ. (Superior Court, First Judicial District); and providing for an effective date."

HB 375 was HEARD and HELD for further consideration.

HB 306 "An Act making certain land available for selection by the Matanuska-Susitna Borough."

HB 306 was HEARD and HELD for further consideration.

#SB308

SENATE BILL NO. 308

"An Act authorizing the Alaska Railroad Corporation to issue revenue bonds to finance rail transportation projects that qualify for federal financial participation; and providing for an effective date."

[2:18:24 PM](#)

Co-Chair Meyer noted that the bill had been heard on Friday, 4/21,2006, and that no amendments were being offered.

WENDY LINDSKOOG, DIRECTOR, EXTERNAL AFFAIRS, ALASKA RAILROAD CORPORATION provided information on the legislation. She explained that the federal transit administration funds were similar to federal highway administration funds. The railroad qualifies under formula funding, under the FTA. This is a new tool to bond against revenues and would not affect highway funds. Responding to a follow-up, she confirmed that the appropriation would not affect other agency funds of affect highway funds.

Responding to another question by Representative Chenault, Ms. Lindskoog noted that this would not affect funding for other agencies. Only 30 to 50 percent of the FTA funds were actually used to repay the bond debt, leaving the remainder of the funds for use in other capital projects.

Representative Chenault MOVED to REPORT SB308 out of Committee, with individual recommendations and a zero fiscal note from the Department of Commerce. There being NO OBJECTIONS, it was so ordered.

SB 308 was REPORTED OUT of Committee with one previously published, zero fiscal note (#1; CED) and "No Recommendation".

#hb375

[2:21:51 PM](#)

HOUSE BILL NO. 375

"An Act relating to the retirement benefit liability account and appropriations from that account; relating to deposits of certain income earned on money received as a result of State v. Amerada Hess, et al., 1JU-77-847 Civ. (Superior Court, First Judicial District); and providing for an effective date."

[2:22:35 PM](#)

Representative Chenault MOVED TO ADOPT Work Draft 24-LS1467\L.1, Wayne, 4/24/06. There being NO OBJECTIONS, the Committee Substitute was ADOPTED.

[2:23:16 PM](#)

Representative Weyhrauch, Sponsor, discussed the bill. He noted that it had been introduced by the House Ways and Means Committee in early February. The bill was created after nine months of public hearings on the Public Employee and Teachers' Retirement Systems (PERS and TRS). The bill sets up an account to hold funds from legislative appropriations to pay into the unfunded liability of the system. He explained that testimony had revealed that, while cash was the easiest way to pay the unfunded liability, the State could not fund one hundred percent of the current unfunded liability, and that this might not be wisest action. He stressed that there were other demands on State resources.

Representative Weyrauch stated that the account is somewhat modeled after the Public School Education Fund, which the legislation has the discretion to fund. He noted that the Alaska Retirement Management (ARM) Board, the provisions of SB 141 (enacted in 2005), was tasked with developing solutions to address the unfunded liability. The Board took time to develop its recommendations, which was presented in an appendix provided to Committee members. The Ways and Means version of the bill adds the provisions contained in these recommendations.

Representative Weyrauch noted that Mr. Bader worked most aggressively on the Committee Substitute, as well as Mr. Semmens.

[2:25:35 PM](#)

LARRY SEMMENS, ALASKA RETIREMENT MANAGEMENT BOARD, KENAI, testified via teleconference. He explained that the board was established in October, 2005 as a result of SB 141, which directed the board to prepare recommendations for the legislature to address the unfunded liability of the State retirement plan. The Board unanimously approved the final report, delivered to the House Ways and Means Committee in [April] 2006. He stated that the proposed bill related directly to the Board's first priority recommendation. The Board heard presentations from numerous experts, and identified funding strategies that would have minimal impact on Alaskans. He pointed out that a key assumption was that the ARM Board would accept the FY 2008 employer contribution rate at the actuarially required rate. He noted that the combined unfunded liability of both the PERS and TRS systems had grown from \$5.7 billion to \$6.9 billion by June 30, 2005. He stressed that delaying action would worsen the situation.

[2:28:55 PM](#)

GARY BADER, CHIEF INVESTMENT OFFICER, TREASURY DIVISION, DEPARTMENT OF REVENUE testified regarding the bill. He noted that the Department was staff to the ARM Board, and stated that his presentation related to the Board's priority one recommendation. He referred to a handout prepared for Committee members. He stated that the first priority was the ARM Board's strategy for dealing with the long-term approach to address the unfunded liability of the system. The Board envisioned that this strategy would be put in place in 2006, so as to be operative during the FY 2008 budget. This recommendation did not anticipate an appropriation from the Legislature in the current fiscal year, but rather set up a mechanism for amounts funded in the future.

On Page 2 of the report, Mr. Bader pointed out line 3, showing the increase in the unfunded actuarial accrued liability. He stated that the reason for the increase between FY 2004 and 2005, dropping the funded ratio, was that contributions were not yet taking place at the rate anticipated by the actuary. The FY 2007 rate that is currently operational is 26% for the teacher's retirement system, compared to 42 percent anticipated by the actuary. He noted the \$2.5 billion of unfunded liability which would lead to a shortfall in the coming fiscal year.

[2:32:41 PM](#)

Mr. Bader pointed out the history of the funding ratios in the Teacher's Retirement System, going back to 1979 (Page 3 of the handout). He noted that, while the State did not need to eliminate its unfunded liability in one year, it must establish a mechanism for doing so.

[2:33:13 PM](#)

Mr. Bader pointed out that Page 4 gives similar numbers for the Public Employees Retirement System. The contribution rate for employers set by the ARM Board was 27%, as opposed to the amount recommended by the actuary at 32.4%. He noted two reasons that the ARM board had set the rates as they are: a current regulation stipulating that PERS could only increment its employer contribution rates by 5% each year; the rate was set at October, since that was the rate that employers had been led to expect in the coming year. The combination of the unfunded liability is down \$4.4 billion for PERS, resulting in \$363 million fewer earnings at 8.25%. He concluded that not having adequate money in the fund results in increased costs.

[2:34:43 PM](#)

Mr. Bader reviewed Page 5 and noted that the State had faced these circumstances in the past, but that the unfunded liability had been addressed through the employer contribution rate.

[2:35:04 PM](#)

Mr. Bader compared contribution rates, and noted an increase in PERS of 4.24 percent, and for TRS of .36 percent [Page 6 compares data on each fund in fiscal years 2004 and 2005.] The funded ratio for the liability decreased.

[2:35:55 PM](#)

Mr. Bader directed Committee members to compare three columns: the amortization period; employer contribution rate; and supplemental contributions [Page 7 lists the amortization period for TRS]. He explained that, if one chose a time period of 25 years to fully fund the system, at an employer contribution rate of 16 percent, \$146 million additional funds would be needed to complete funding. He noted that, even at the current employer contribution rate of 26 percent, \$90 million would still be needed to fully fund the system in a 25-year period. He predicted that when the Board sets its actuarial assumptions, it will set the amortization at 30 years, bringing the additional contributions needed down to \$71 million at the current contribution rate.

[2:37:58 PM](#)

Mr. Bader reviewed Page 8, which illustrates the amortization periods for PRS, and observed that \$70 million is needed to eliminate the liability over 30 years.

[2:38:45 PM](#)

Mr. Bader noted the use of the term "past service cost rate" contained in the proposed legislation. Page 9 illustrates how the past service cost rate is calculated by an actuarial. He maintained that it was important, not to master the figures on the page, but rather to understand and uniformly apply the term when it is written into law. He pointed out line 4, representing the level of unfunded liability at the time of cost rate calculation. He noted that each year the past service cost rate was built based on the occurrences of the previous year.

[2:40:16 PM](#)

Mr. Bader discussed Page 10, which outlines the plan contained in the proposed legislation. A past service liability account would be created, requiring an annual appropriation from the legislature. He observed that TRS employers, other than the State of Alaska and the University of Alaska, would be paid from this account, although not directly into the retirement account. This gives the employer the ability to assess uniform rates in the case of an employee who is partially federally funded. He also stated that if the legislature did not appropriate enough funds to pay the calculations in the bill, they would be pro rated. If there remained an excess of funds at the end of the year, the funds would lapse into the General Fund.

[2:42:34 PM](#)

As to the question of why the State of Alaska and the University of Alaska were not included in this strategy, Mr. Bader commented that they could easily be included, but the Board believed that the Legislature could deal with these two budgets without input from the ARM Board. He noted the Legislature could choose to fund these personnel services at whatever actuarial rate they determined was appropriate.

[2:43:33 PM](#)

Regarding the question of why PERS and TRS employers were treated differently, Mr. Bader noted that TRS employers all have the same rate and system; PERS employers participate differently in the system at various rates [Page 11 addresses the plan for PERS employers]. He stated that the ARM Board believed that employers should have a stake in the liability, however, that a large portion of the support should come from the State. He pointed out that in a past piece of legislation, reference was made to an average past service cost rate. An average past service cost rate sets a maximum for the State as to the amount of support given to municipalities and school districts. The proposed legislation directs the State to "provide the lesser of the

past service cost rate of the employer's three years earlier".

[2:46:05 PM](#)

Mr. Bader explained that the ARM board also desired to address the fact that some employers have paid more into the system in the past two years than required. It was felt that those employers should not be penalized for being proactive. He noted that the Board recommends that fifty percent should be rebated to them. At the time the board was considering this plan, pension obligation bonds had not been moved through legislation. He pointed out that the Committee should be informed about new developments. He noted that an amendment by Representative Weyhrauch could address this issue. He proposed that unless the bill was amended, a greater amount might be returned to municipalities than intended by the State.

[2:48:26 PM](#)

Mr. Bader pointed out that Page 12 gives examples of past service cost rate calculations. Different communities - like Anchorage, Fairbanks, and other - would cost the State a variety of amounts, based on their past service cost rate. He concluded that these cost rates could vary by a great deal, but that these rates were averaged.

[2:50:53 PM](#)

Mr. Bader stated that the Board suggested achieving full funding over an actuary period of 30 years, and changing the employer contribution rate to agree with the actuary [Page 13 outlines various goals suggested by the Board in any solution]. He stressed that they did not wish to cause disruption in public service, which is why the legislation would provide additional support to communities. The plan encourages State participation, as well as accelerated contributions, providing a means of equitable support, and minimal supplanting of Federal and other non General Fund costs.

[2:52:00 PM](#)

TOM BOUTIN, DEPUTY COMMISSIONER, DEPARTMENT OF REVENUE testified. He noted that the ARM board voted unanimously for the concepts contained in the Committee Substitute, with the caveat that since this was for funding in FY 2008, it would not impact the Governor's current priorities. He pointed out that the fiscal note prepared by the Department of Revenue reflects no incremental cost for implementation. He observed that one state had been placed on negative credit outlook, because their latest actuarial reflected a 60 percent funding level. He observed that TERS is close to 60 percent,

and proposed that if the State was planning to enter the credit market, it would be good to have a plan in place to address the liability.

[2:54:07 PM](#)

Representative Joule asked about employers with no past (cost) service liability and how they would benefit from this strategy. Mr. Bader replied that if communities had a past service cost rate of less than five percent, they would not receive the benefit, since five percent would be deducted under the calculations. Responding to a follow-up, he confirmed that if a community had no past cost service liability, they would receive no support.

Representative Kelly asked how certainly this system would accomplish a goal at the federal level. Mr. Bader noted that currently the system set one rate, and all employers paid this rate.

[2:56:12 PM](#)

Representative Kerttula asked why the system operated on averages and not actual employer's percentages. Mr. Bader conceded that this was possible, and gave the example of the cost for fully funding the past service cost rate for all communities for PERS being at \$82 million, as opposed to \$47 million with a cost average approach. The Legislature could choose to fund a level based on a percentage, rather than an average. He noted that 20 communities paid more than required and would qualify for fifty percent incentive.

[2:57:29 PM](#)

Representative Chenault asked about incentives, and observed that those communities that have already paid down their unfunded liability, would be penalized by 50 percent. Mr. Bader maintained that paying the liability early was a benefit in itself, and noted that fifty percent was given to communities last year in the operating budget.

[2:58:30 PM](#)

Representative Chenault noted the concern for a municipality that paid more than required, and proposed that if the solution were implemented, that community would in effect be penalized, having not received the same benefit as other communities.

[2:59:15 PM](#)

Representative Chenault closed public testimony on the bill.

[2:59:57 PM](#)

Representative Weyhrauch MOVED Amendment #1,24-LS1467\L.1, Wayne, 4/24/06. Representative Stoltze OBJECTED.

JAQUELINE TUPOU, STAFF TO REPRESENTATIVE WEYHRAUCH, deferred to Mr. Bader to address the amendment.

Mr. Bader commented on the amendment. He observed that the amendment proposed an incentive of "50 percent or no more than \$3,300,000". He noted that the \$3,300,000 represented 50 percent of what a maximum contribution by a community might have been; in this case the municipality of Anchorage paid \$6.6 million into their unfunded liability that was not required. In order to prevent communities from accessing the system for very large sums of money, this amendment set a limit.

Representative Weyhrauch pointed out discussion about certain communities that maintained "permanent funds", and asked how this would interact with the bill. Mr. Bader noted that this language would restrict those communities who pay more than \$6.6 million in one year from receiving more than \$3.3 million. He pointed out that the ARM board did not wish a large number of communities to pay down their debt in order to receive the 50 percent benefit.

[3:03:08 PM](#)

Representative Weyhrauch conceded that there existed some confusion over the proposed system. He acknowledged questions by Representative Joule, and noted that the goal was to implement significant portions of the solution to begin a long-term strategic plan.

[3:03:53 PM](#)

Representative Kelly referred to a comment by Representative Kerttula, and noted that Fairbanks had experienced unexpectedly large bad outcomes. He asked if there were any provisions in place to prevent this from occurring. Mr. Bader expressed his belief that the Legislature wished to address communities that have experienced the highest level of past service liability. He proposed that if communities experienced high levels of liability, language might be changed and the legislature might make a policy call and dictate a particular percent.

[3:05:24 PM](#)

Representative Holm observed that in the past there had been forgiveness of liability for some communities and not for others. He asked how there might be a sense of equanimity established. Mr. Bader stated that he was unaware of any

forgiveness given. He also noted his understanding that, while rates set for PERS employers were based on best efforts by the actuary and the Division of Retirement and Benefits, there was a certain commonality since not all employees remain with the same employer for their entire career. He proposed that if an employee switched to another employer after many years of service and received a higher rate of pay, their original employer might face the liability for their retirement costs. He concluded that employers might face various liabilities, and municipalities' debts may not be a result of their own fiscal policies. This is why averages are suggested, while at the same time, the legislature is given discretion.

[3:08:03 PM](#)

Representative Kelly asked how Amendment #1 would affect the fairness between communities. Mr. Bader noted that this would not affect this issue. It would merely set a cap on the amount reimbursed should a community pay liability.

[3:08:56 PM](#)

Representative Hawker noted that the same issue had been raised in discussion on HB 278. He commented that, in work with Representative Kelly, the solution determined was not to create an arbitrary reimbursement amount, but rather language in HB 278, stating that if any municipality made extra payments. Payments should not be considered if the State, through another mechanism, made payments that benefited multiple employers. He stated that he was more supportive of that concept than this amendment.

[3:10:34 PM](#)

Co-Chair Meyer referred to the \$6.9 billion unfunded liability, and asked how this broke down by local, state, and federal governments. Mr. Bader did not have these figures, but stated that the Department of Education website reflected percent of funding for the operating budget. The federal and special revenue funds were over 20 percent of the total amount. He compared this to 10 percent as shown in the operating budget. He concluded it was difficult to determine percentages.

[3:12:46 PM](#)

Representative Kelly observed that for a community the size of Fairbanks, taking into consideration the 100 percent multiplier on the average payroll cost, the \$3 million cap would have an affect. Mr. Bader responded that the cap only applied to the incentive payments for overpayment.

Representative Stoltze REMOVED his OBJECTION.

Representative Hawker MAINTAINED an OBJECTION. He suggested while there might be room in this context for a reward to employers that met their liability, he was not prepared to support it at this time.

Representative Kelly also expressed that while he was not against the amendment, he needed to understand how this affected specific circumstances.

Co-Chair Meyer expressed some discomfort with the amendment.

Representative Weyhrauch noted that the amendment was developed with the Department. He stated that it does not preclude other options, but stressed that it was important to continue moving ahead during the final days of the legislative session. He acknowledged that the bill was a "work in progress", and that he was not absolutely committed to the amendment. He maintained that it was an important issue that should move forward.

Representative Kelly agreed, but suggested that the step ought to be refined.

Representative Hawker asked if the chair intended to move the bill. Co-Chair Meyer responded that it was not the intent.

Representative Weyhrauch WITHDREW the amendment.

Co-Chair Meyer asked how the unfunded liability compared to other states. Mr. Bader noted that most states did not include the medical aspect of their program in the unfunded liability calculations, meaning that the state of Alaska might be better well off than the numbers reflected. He stressed that time was a key factor in the solution.

[3:18:02 PM](#)

Representative Weyhrauch observed that experts advised legislatures throughout the country. He noted that other states were taking more aggressive means to address unfunded liabilities created as a result of the economic downturn of September, 2001. He proposed that Alaska could take a leadership role in the country.

[3:19:19 PM](#)

Co-Chair Meyer expressed concern with the loss of federal contributions and questioned the fund source. Representative Weyhrauch clarified that the Amerada Hess funds were taken out of the legislation. The funding mechanism would be capital funds. He noted that David Teal, Director,

Legislative Finance Division, could provide more information regarding the federal liability.

[3:21:16 PM](#)

Representative Hawker referred to section (e), which would require a rebate to municipalities. He observed that it is a policy call, as to whether the Legislature wants to provide an incentive. He questioned if the intent is to provide an incentive and whether section (e) should be deleted. He added that the Administration opposes the utilization of Municipal liability bonds, although the Legislature has allowed the use for TRS. He noted that the same procedure would be needed for PRS.

HB 375 was heard and HELD in Committee for further consideration.

#hb306

[3:24:15 PM](#)

HOUSE BILL NO. 306

"An Act making certain land available for selection by the Matanuska-Susitna Borough."

Representative Stoltze, sponsor, spoke in support of the legislation. He observed that the Mat-Su Borough requested the legislation. The legislation would transfer land out of a public use area as part of the borough's land entitlement to facilitate a proposed development. The legislation was amended in the previous committee with the addition of a 600 feet set back on the Little Susitna River and an requirement of a vote in the MatSu Borough prior to conveyance.

RICK THOMPSON, ACTING DEPUTY DIRECTOR, DIVISION OF MINING LAND AND WATER, DEPARTMENT OF NATURAL RESOURCES, testified via teleconference in support of the legislation. He observed that the department worked with the borough to achieve the objectives set out in the legislation.

In response to a question by Representative Kerttula, Mr. Thompson noted that the public use area was set aside in either 1984 or 1986. He thought the margin was approximately a half a mile. Public use areas sustain all uses and do not restrict public use for hunting, fishing or other recreational uses. The ski area activities were not thought to conflict with the public use at the time of its conception. He thought that the planned ski area would be 10,000 acres.

JOHN DUFF, BOROUGH MANAGER, MAT-SU BOROUGH, testified via teleconference in support of the legislation. He observed that the legislation would convey 200 acres, which would provide access to other borough properties and is critical

to the success of the Hatcher Pass Ski Area project. The borough has 3,000 acres immediately west of the 200 acres being proposed for transfer. The addition would allow for development on the northern part, supplemental parking for the alpine ski area, and community picnic area and trails. The project provides public and private partnership and fulfills long-term economic objectives for diversification of the tax base and recreational opportunities. The Hatcher Pass Management Unit, which is open for public use is 200,000 acres in size. Local and state funds have been used to provide infrastructure improvements such as electrical power and parking. The borough has conducted numerous public hearings on various aspects of the project. The borough anticipates further public hearings. Northern Economics has completed an economic assessment, which identified 1,600 jobs would be created and a public and private investment of approximately \$41 million in investments. The legislation contains lands to be transferred that are critical to the success of the project.

[3:33:58 PM](#)

Representative Kerttula asked how many acres were developable. Mr. Duffy noted that there are 3,000 on the south side of Government Peak, where most of the residential village development would take place. An additional 5 - 10 acres would be used for the lodge. He clarified that they are only asking for 200 acres at this time. He observed that the entire area borders the Lower Susitna River. The Hatcher Pass Management Plan has a setback of 200 feet. The House Resource Committee added a 600 foot setback, which is the river corridor.

[3:36:13 PM](#)

Representative Kerttula asked if the negotiation price was public. Mr. Duffy observed that the price has not been negotiated. There is a joint venture between the borough and JL Properties, where the borough would provide the real property assets and JL Properties would provide the majority of the funding (approximately \$31 million) to invest in the alpine ski area and the south side residential/commercial development.

[3:37:24 PM](#)

RON SWANSON, COMMUNITY DEVELOPMENT DIRECTOR, MATSU BOROUGH, pointed out that the Hatcher Pass Public Use Area was created in 1986. The management plan was created the same year, but amended in 1989, in response to a proposal to build a ski area. The ski area for a seasonal resort was not considered for three years. The lease area does cover public use, anywhere from one half to three-quarters of a mile wide on either side of the river. He maintained that the request

is within their municipal land entitlement and objective of recreational and economic diversity. An extensive public process was in its final stages, including two advisory board public hearings. Any actions will receive scrutiny from the public. He proposed that the current plan was a great deal more restrictive than the 1989 plan.

[3:40:05 PM](#)

JAY NOLFI, BIG LAKE, testified via teleconference. She expressed concern about conveying the properties for economic development. She suggested that designated public use property was being given to a private company for development and that this was a case of imminent domain. She also noted that the longevity bonus was taken due to non sustainability. She applied this term to the current situation. She stressed that it was the intention when the area was designated that it be used for public use and benefit all people. She stated that the residents of the area were not in support of the project, and suggested that the entire project should be placed on the ballot. She noted that setback projections were not adequate to meet borough requirements.

[3:43:48 PM](#)

Representative Stoltze agreed that these concerns should be worked out in further public process.

Co-Chair Meyer closed public testimony on the bill.

Representative Hawker noted that the Alaska Outdoor Council testified in opposition in the previous Committee.

[3:45:00 PM](#)

Co-Chair Meyer noted that the bill would be held until Wednesday, at which time amendments would be heard.

HB 306 was HEARD AND HELD in Committee for further consideration.

#

ADJOURNMENT

The meeting was adjourned at 3:45 PM