

ALASKA STATE LEGISLATURE
HOUSE STATE AFFAIRS STANDING COMMITTEE

January 19, 2006
8:09 a.m.

MEMBERS PRESENT

Representative Paul Seaton, Chair
Representative Jim Elkins
Representative Bob Lynn
Representative Jay Ramras
Representative Berta Gardner
Representative Max Gruenberg

MEMBERS ABSENT

Representative Carl Gatto, Vice Chair

COMMITTEE CALENDAR

HOUSE BILL NO. 273

"An Act relating to the dividends of individuals claiming allowable absences; and providing for an effective date."

- HEARD AND HELD

HOUSE BILL NO. 278

"An Act relating to the Alaska Municipal Bond Bank Authority; permitting the Alaska Municipal Bond Bank Authority or a subsidiary of the authority to assist state and municipal governmental employers by issuing bonds and other commercial paper to enable the governmental employers to prepay all or a portion of the governmental employers' shares of the unfunded accrued actuarial liabilities of retirement systems and authorizing governmental employers to contract with and to issue bonds, notes, or commercial paper to the authority or its subsidiary corporation for that purpose; and providing for an effective date."

- HEARD AND HELD

HOUSE BILL NO. 34

"An Act relating to the expungement of records relating to conviction set asides granted after suspended imposition of sentence."

- SCHEDULED BUT NOT HEARD

PREVIOUS COMMITTEE ACTION

BILL: HB 273

SHORT TITLE: PFD: DELAY PAYMENT FOR ALLOWABLE ABSENCES

SPONSOR(s): REPRESENTATIVE(s) WEYHRAUCH

04/18/05	(H)	READ THE FIRST TIME - REFERRALS
04/18/05	(H)	STA, FIN
05/05/05	(H)	STA AT 8:00 AM CAPITOL 106
05/05/05	(H)	Heard & Held
05/05/05	(H)	MINUTE(STA)
01/12/06	(H)	STA AT 8:00 AM CAPITOL 106
01/12/06	(H)	Scheduled But Not Heard
01/17/06	(H)	STA AT 8:00 AM CAPITOL 106
01/17/06	(H)	Heard & Held
01/17/06	(H)	MINUTE(STA)
01/19/06	(H)	STA AT 8:00 AM CAPITOL 106

BILL: HB 278

SHORT TITLE: RETIREMENT SYSTEM BONDS

SPONSOR(s): REPRESENTATIVE(s) HAWKER

04/19/05	(H)	READ THE FIRST TIME - REFERRALS
04/19/05	(H)	STA, FIN
01/12/06	(H)	STA AT 8:00 AM CAPITOL 106
01/12/06	(H)	Heard & Held
01/12/06	(H)	MINUTE(STA)
01/17/06	(H)	STA AT 8:00 AM CAPITOL 106
01/17/06	(H)	Heard & Held
01/17/06	(H)	MINUTE(STA)
01/19/06	(H)	STA AT 8:00 AM CAPITOL 106

WITNESS REGISTER

TERRY HARVEY, Staff
to Representative Bruce Weyhrauch
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Reviewed the intent of HB 273 on behalf of Representative Weyhrauch, sponsor.

SHARON BARTON, Director
Central Office
Permanent Fund Dividend Division
Department of Revenue
Juneau, Alaska

POSITION STATEMENT: Answered questions during the hearing on HB 273.

KIM SMITH
Homer, Alaska

POSITION STATEMENT: Testified on behalf of herself in opposition to HB 273.

KEITH APPLEMAN
Wrangell, Alaska

POSITION STATEMENT: Testified during the hearing on HB 273.

VIOLA "VI" JERREL, Ph.D.
Anchor Point, Alaska

POSITION STATEMENT: Testified on behalf of herself in opposition to HB 273.

JULI LUCKY, Staff
to Representative Mike Hawker
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Testified during the hearing on HB 278 on behalf of Representative Hawker, sponsor.

REPRESENTATIVE MIKE HAWKER
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Testified as sponsor of HB 278.

ACTION NARRATIVE

CHAIR PAUL SEATON called the House State Affairs Standing Committee meeting to order at [8:09:20 AM](#). Representatives Elkins (via teleconference), Lynn, Gardner, and Seaton were present at the call to order. Representatives Ramras and Gruenberg arrived as the meeting was in progress.

HB 273-PFD: DELAY PAYMENT FOR ALLOWABLE ABSENCES

[8:10:06 AM](#)

CHAIR SEATON announced that the first order of business was HOUSE BILL NO. 273, "An Act relating to the dividends of individuals claiming allowable absences; and providing for an effective date."

[8:10:19 AM](#)

REPRESENTATIVE GARDNER moved to adopt the committee substitute (CS) for HB 273, Version 24-LS0871\Cook, 1/18/06, as a work draft. There being no objection, Version F was before the committee.

[8:11:10 AM](#)

CHAIR SEATON reviewed the amendments that had been previously adopted to HB 273.

[8:12:13 AM](#)

TERRY HARVEY, Staff to Representative Bruce Weyhrauch, Alaska State Legislature, reviewed the intent of HB 273 on behalf of Representative Weyhrauch, sponsor. Mr. Harvey said over the years the Permanent Fund Dividend Division has compiled some compelling statistics that indicate that most of the individuals leaving Alaska with an allowable absence and receiving their permanent fund dividend (PFD) are not returning to the state. He indicated that the sponsor of the bill does not think the intention of those who began the PFD program was to give the PFD to those who never return to the state; therefore, HB 273 modifies the qualifications for receiving a PFD and stipulates that the recipient with an allowable absence must return to Alaska to receive all the PFDs that were held while he/she was out of the state.

[8:14:55 AM](#)

MR. HARVEY said this is not a debate about the importance of the PFD to any individual, nor is it a debate about fraud. The intent of the bill is not to change the eligibility of those already receiving allowable absences. He said there are 13 categories of allowable absences that are spelled out in the bill exactly as they are in statute. He said millions of dollars leave the state and it is important for the Alaska economy that the PFD dollars are kept in the state.

[8:19:20 AM](#)

MR. HARVEY, in response to a request from Representative Gruenberg, reviewed the changes made to a previous version of the bill that resulted in Version F.

[8:20:53 AM](#)

REPRESENTATIVE GARDNER, in response to further requests for clarification, said one of the two amendments that were incorporated into Version F had been offered by her. The language appears on page 4, line 19. She said the bill would hold dividends for a qualified recipient of the PFD while he/she is out of state. The language added by her would delay that holding of the PFD for two years.

[8:23:06 AM](#)

REPRESENTATIVE GRUENBERG, in response to Chair Seaton, indicated his satisfaction with the language that had made it into Version F. He mentioned a concept for an amendment which would have exempted one class of military people from the delay in receiving a PFD; it would have given preference to people who entered the military from Alaska. However, he said he will not be offering that amendment because he came to the conclusion that that might cause significant constitutional problems and jeopardize the entire bill. Notwithstanding that, he stated concern that a lot of people who may be affected by the bill will have cause to challenge it. Therefore, he recommend having a findings and a purpose section in the bill, in order to show evidence supporting what impelled the legislature to pass the bill and for what purpose. That way, he explained, any review in court will have evidence to support the bill.

[8:25:30 AM](#)

CHAIR SEATON said there are some committees opposed to including findings in a bill; therefore, he suggested the committee may want to also include a findings letter to accompany the legislation.

CHAIR SEATON noted that there is a handout in the committee packet entitled, "Permanent Fund Dividend HB 273 2005 Absentee Return Study Methodology & Summary," which was provided by the Permanent Fund Dividend Division.

[8:26:23 AM](#)

SHARON BARTON, Director, Central Office, Permanent Fund Dividend Division, Department of Revenue, in response to requests for clarification, explained that there is a handout in the committee packet that is identical to the one just mentioned by Chair Seaton, except that it has a cover letter on it dated December 9, 2005. The one with the cover letter should be disregarded, she said. To further clarify the correct handout,

she said the bottom line shows the amount of \$15.4 million. She explained that the handout is an updated summary that was requested from the division by the House State Affairs Standing Committee.

[8:27:52 AM](#)

MS. BARTON noted that the handout shows "did not return" percentages for the following groups, based on a ten-year period: "Accompanying" at 81 percent - which includes children and spouses accompanying those with allowable absences; Students at 64 percent; Active Military at 66 percent; and Medical at 40 percent - which includes those who are out of state on allowable absences for medical reasons. She said the medical group is different, because it includes a lot of elderly people who don't come back [because they die while Outside].

[8:31:15 AM](#)

MS. BARTON said currently [the PFD program] is "way out of alignment." She indicated that the assumptions that led to the allowable absence laws being adopted were that people would return, but so many people don't return. She cited information from the handout, which read [original punctuation provided]:

Applying these percentages to each year 1996-2005 indicates that a total of \$154,206,323 was paid over the ten year period to individuals who have not or will not return to the state, an average of \$15.4 million each year.

[8:32:47 AM](#)

MS. BARTON, in response to a question from Chair Seaton, confirmed that if the approximately \$154 million had not been paid over a ten-year period to those individuals who did not return to the state, that money would have been divided amongst the rest of the qualified Alaskans receiving a PFD.

[8:32:51 AM](#)

REPRESENTATIVE GARDNER asked Ms. Barton if she would agree that the longer a person is away, the less likely it is that he/she will come back.

[8:33:10 AM](#)

MS. BARTON said she had thought that the point at which people were not likely to come back was probably at the five-year mark; however, her studies have shown that that point is actually after just one year.

[8:34:02 AM](#)

REPRESENTATIVE GARDNER asked Ms. Barton if she has numbers showing how long a person in the military is likely to be gone if stationed overseas, or "how quickly" a college student comes back.

[8:34:28 AM](#)

MS. BARTON answered no. In response to a question from Chair Seaton, she said she would be happy to look up that information, beginning with a "smaller sampling" and moving to a bigger one.

[8:35:18 AM](#)

CHAIR SEATON mentioned the second page of the handout, which shows the total numbers of individuals absent in the previously mentioned categories.

[8:36:13 AM](#)

MS. BARTON, in response to a question from Chair Seaton regarding the division's study, said, "We just took a statistically valid sample - a sample that would be 95 percent reliable, plus or minus 5 percent - and I think the total sampling was something like 360-370."

[8:36:28 AM](#)

CHAIR SEATON concluded, "So, we would have taken more from the accompanying and we would have less from the medical, so that it reflects that actual ... number of applicants that qualify for these."

[8:37:24 AM](#)

MS. BARTON, in response to questions from Representative Lynn, said the "active duty" category includes only those who are active duty in the military. As to whether most National Guard members from Alaska return to Alaska, she said although that sounds like a reasonable assumption she hasn't looked at the figures to know that that's the case.

[8:37:45 AM](#)

CHAIR SEATON opined that the amount of money being sent out of state to people who never return to the state is shocking. He said that shows the significance of the proposed legislation.

[8:38:12 AM](#)

MS. BARTON said she understands there is interest in making exceptions to various groups, but she emphasized the importance of asking attorneys to first look at the constitutionality of making such exceptions. She said the division has been advised that it is walking on thin ice in this regard.

[8:39:13 AM](#)

CHAIR SEATON said hopefully Representative Gardner's amendment that was adopted to give people two years to return will take care of some of the problems. He said he would not anticipate that someone in the National Guard would be called on active duty for more than two years, but he said it's possible.

[8:40:14 AM](#)

REPRESENTATIVE LYNN asked who would get the interest on the money that would be held back.

[8:40:45 AM](#)

MS. BARTON said the permanent fund gets it. In response to a follow up from Representative Lynn, she said that's the way it is in statute.

[8:41:22 AM](#)

REPRESENTATIVE LYNN said that issue ought to be looked at. He stated that he has a lot of concerns regarding the bill. He said when a military spouse returns home, he/she needs the money to make ends meet. Those in the military are not the highest paid in the world. It's hard to say how long someone will be overseas, he commented. He stated that it seems like it is almost an insult to military families for the state to hold hostage their dividend.

[8:43:16 AM](#)

MS. BARTON said the committee will have to weigh that issue when dealing with HB 273. She said, "Our hearts all go out to those folks." Notwithstanding that, she noted that the dividend was not created based on needs.

[8:44:26 AM](#)

CHAIR SEATON said he would be reopening public testimony.

[8:44:41 AM](#)

REPRESENTATIVE LYNN asked Ms. Barton if the term "hold hostage" is unfair in her opinion.

[8:44:59 AM](#)

MS. BARTON said it seems to her there is a responsibility to realign with the original purposes of the dividend. She explained, "We've gone way out with these allowable absences and now we now that they don't work the way we thought they were going to work." The dividend was meant for people who are Alaskans and intend to live and remain in Alaska. She said, using the term "hold hostage" goes a little further than she would.

[8:46:04 AM](#)

REPRESENTATIVE LYNN asked how much feedback Ms. Barton has received from those in the military - especially from family members - regarding the subject.

[8:46:32 AM](#)

MS. BARTON answered that the division has not heard a lot of feedback and she suspects that the legislature is getting more feedback on this issue.

[8:47:01 AM](#)

REPRESENTATIVE GARDNER said she would like Ms. Barton to come back to the committee with figures showing return patterns after she has had a chance to look at the statistics again.

[8:47:53 AM](#)

REPRESENTATIVE GRUENBERG said he would like time to work on the language in the bill. He stated his wish to have legislative

findings and purpose included in the bill, adding that he would like them to embrace Ms. Barton's study. Regarding students and their need for money, he proposed the idea of having students sign an affidavit that they do plan to come back within a year of their studies. If they don't come back then the amount they got would be payable to the state with a modest interest. He said he realizes there would be some cost associated with this, but said, "There's no perfect justice here."

[8:51:20 AM](#)

MS. BARTON responded that currently the people leaving on a 180-day absence certify that their intention is to return, thus, no affidavit is needed.

REPRESENTATIVE GRUENBERG interjected, "But at least they would be ... notified that because of the unusually high rate of nonreturn, ... this is subject to recoupment."

MS. BARTON again cautioned about carving out an exception for certain groups of people.

[8:52:16 AM](#)

REPRESENTATIVE GRUENBERG concurred, but said, "But we go down that road once we start with the military."

[8:52:34 AM](#)

MS. BARTON added that [Representative Gruenberg's suggestion] would slightly change the fiscal note because of the collections effort that would be required to get repayment.

[8:53:01 AM](#)

REPRESENTATIVE LYNN, regarding Representative Gruenberg's point that the students need the money now rather than later, submitted that those in the military also need the money now.

[8:53:39 AM](#)

KIM SMITH, testifying on behalf of herself, said she is married with three children and has a daughter going to graduate school at the University of Pennsylvania. Ms. Smith said her daughter claimed Alaska residency while in undergraduate school and spent every possible chance in Alaska, but now that she is in graduate school she no longer collects a PFD. Ms. Smith said that she

has two sons, 18 months apart, which creates a special burden [regarding putting them through school]. She stated that her children worked hard to get to where they are. One son is a junior at Yale and the other attends Connecticut College. Both sons spend each summer in Alaska, working and contributing to the Alaska economy. They are both registered voters in Alaska. She emphasized the boys' desperate need to have their PFDs now. She stated:

It doesn't matter right now whether I know Evan and Jamie will come back to the state after they graduate. What I hope they do is that they actually don't come back right away, because I want them to come to grad school. Right now, while they are undergrads, they are Alaskans. They live here; this is their home. Your legislation is counterintuitive and your logic is wrong if you want to encourage students to come back.

What we need are different issues around getting them back to Alaska. Holding their permanent fund dividends hostage - I will use that word - is flawed logic. Holding their money will not bring them back here. What's going to bring them back are job opportunities

MS. SMITH questioned whether some students will want to go to college in the first place, without a PFD. She said she and her husband are struggling to afford their children the opportunity to go to a private college. She said her boys are only given tuition by their parents; everything else they pay for on their own from the money they earned in Alaska, including the money from their PFD. The PFD, for example, often provides the money needed for the boys' airfare home.

MS SMITH said this is a constitutional issue. She concluded, "You cannot tell me that my sons are not Alaskans right now and should [not] be provided the same opportunity to receive those funds."

[8:59:15 AM](#)

CHAIR SEATON asked if her sons and daughter received any student aid or scholarships.

[8:59:32 AM](#)

MS. SMITH noted that both her sons were valedictorians and received some community scholarships. Both boys are attending colleges that cost \$40,000 a year.

9:00:09 AM

CHAIR SEATON remarked that most people who get student aide "have to subtract right from it their income."

9:00:35 AM

MS. SMITH responded that the federal government has just made it more difficult to get student loans. She said, "All three of my children are student-loaned to the max through the State of Alaska and through [Free Application for Federal Student Aid (FAFSA)]."

9:01:02 AM

CHAIR SEATON explained that the committee has been given the information that a student's income is subtracted directly from the amount for which he/she qualifies for a loan. Under HB 273, other than the first two years away at school, the PFD would be conditional upon the students' returning, thus, "that would not be subtracted from their student aid money."

9:01:53 AM

MS. SMITH told Chair Seaton that "that whole equation is going to change ... because of what's happening at the federal government level."

9:01:58 AM

REPRESENTATIVE RAMRAS shared his experience of having gone to school out of state - at times for longer than the allowable absence - while never feeling that he was not an Alaskan. He mentioned student loans. He stated that there is abuse by both students and those in the military who have no intent of returning to the state. Conversely, he noted that there is tremendous retention within his district of people who live off-post who have been in the service for many years and have chosen Fairbanks as home. Furthermore, he said there are many students who have lived in Alaska all their lives who are going out of state for school. He asked Ms. Smith to put herself in the position of a committee member and share her thoughts regarding

"how you balance those two very delicate points on this spectrum."

[9:05:15 AM](#)

MS. SMITH responded that for five years she was the division supervisor for juvenile justice in Homer, during which she dealt with criminals. She said she thinks HB 273 is not "separating out the issues." She said it is wrong to say the discussion is not about fraud, because "we are talking about criminals who are bilking the system." She indicated that there needs to be a logical separation made between those who are currently Alaskans and intend to come back to Alaska and those who are committing crimes by lying to the system. She suggested one delineation might be students whose parents live in Alaska, for example. She said the Alaskan students studying out of state are already paying out-of-state tuition and HB 273 would punish them further.

[9:07:49 AM](#)

REPRESENTATIVE GARDNER mentioned Ms. Smith's letter [included in the committee packet]. She said she has three children who have gone out of state for college. One of the three has returned to the state. The other two are still in school, but come home at every opportunity. She said her children consider themselves Alaskans. Notwithstanding that, she said she recognizes that the longer they are away, the less likely it is that they will come back to Alaska permanently. She said that's why she offered the amendment that was adopted, which allowed students two years without their PFD being held.

[9:09:41 AM](#)

MS. SMITH clarified that she is not recommending an "indefinite ... provisional thing out there." She suggested that graduate students from Alaska could be required to come home during the summer. She said there are not many opportunities for students to attend graduate school in Alaska.

[9:11:43 AM](#)

CHAIR SEATON pointed out that [the existing allowable absences] have been made over time as exceptions to the requirement that people be Alaskans residing in Alaska in order to qualify for a PFD. He stated, "We do have the burden of looking to the system and making sure that the people that do reside in Alaska get the

maximum benefit of the permanent fund dividends." He explained that's why the bill would require people to come back to Alaska to get the dividends that had been issued while they were out of state. Chair Seaton said there may be more amendments to the bill.

[9:13:24 AM](#)

REPRESENTATIVE LYNN said he agrees with Ms. Smith that the concern is with fraud, but he rejects the notion that military and students are more likely to commit fraud than anybody else.

[9:14:04 AM](#)

KEITH APPLEMAN, testifying on behalf of himself, told the committee that he has been a resident of Alaska for over 50 years and has a son in college and a daughter in high school. He said he concurs with Ms. Smith's testimony. He said it seems to him that a student who goes out of state to school, comes home on the holidays, works in Alaska during the summer, and has the right to a resident's fishing license, should qualify for an allowable absence.

[9:16:46 AM](#)

CHAIR SEATON, in response to a remark made by Mr. Appleman, clarified that the bill would not exclude any student from Alaska from getting an allowable absence, it would just hold the PFD after the first two years' absence until that student returned to Alaska.

[9:17:25 AM](#)

MR. APPLEMAN responded that he doesn't think the PFD should be held back.

[9:17:43 AM](#)

VIOLA "VI" JERREL, Ph.D. testified on behalf of herself in opposition to HB 273. She suggested that the bill could be thrown out and the legislature could be focusing on bills to create more jobs. She opined that HB 273 is unconstitutional. She emphasized that both military personnel and college students from Alaska who go Outside intend to come back to Alaska. She related her experience regarding the military. She indicated that those presently in the military are not even aware of what's happening [regarding HB 273], but they would oppose the

legislation. She predicted that if HB 273 passes, lawsuits will happen.

[9:21:58 AM](#)

CHAIR SEATON closed public testimony.

[9:22:36 AM](#)

REPRESENTATIVE GRUENBERG said that in view of the fact that there are some legal questions, he would like the committee to seek legal opinion.

[9:23:54 AM](#)

CHAIR SEATON, in response to Representative Lynn, suggested that any amendment he has to offer be drawn up for the next hearing.

[9:24:59 AM](#)

REPRESENTATIVE LYNN noted that his amendment would be designed to protect the PFD for the military.

[9:25:31 AM](#)

CHAIR SEATON announced that HB 273 was heard and held.

HB 278-RETIREMENT SYSTEM BONDS

[9:25:43 AM](#)

CHAIR SEATON announced that the next order of business was HOUSE BILL NO. 278, "An Act relating to the Alaska Municipal Bond Bank Authority; permitting the Alaska Municipal Bond Bank Authority or a subsidiary of the authority to assist state and municipal governmental employers by issuing bonds and other commercial paper to enable the governmental employers to prepay all or a portion of the governmental employers' shares of the unfunded accrued actuarial liabilities of retirement systems and authorizing governmental employers to contract with and to issue bonds, notes, or commercial paper to the authority or its subsidiary corporation for that purpose; and providing for an effective date."

[9:26:10 AM](#)

CHAIR SEATON noted that he had listened to tapes that had been presented to the Alaska Retirement Management (ARM) Board and would share highlights from them. He stated that the workforce influences the investment strategy. For example, a young workforce would have an aggressive investment strategy, a workforce that is "going along with the system" would have a more intermediate investment strategy, and a system that is ending because of an older workforce getting ready to retire would have a more conservative investment strategy. He said the committee has been talking about a 25-year amortization, but many of the payments need to happen in the next 20 years for all the retirees for which the state did not collect enough money. He explained that consideration needs to be made regarding the amount of money that needs to be pulled out of a pension bond for the schedule of payments, because there can be no long-term strategy if payments are needed right away for the past service cost. He said it is a balancing act. He suggested one possible solution would be to make a balloon payment. He added, "And I think that that is what we would be looking at, scheduling something of a balloon payment on a mortgage, if we were going to have lower payments at the beginning. Currently, he noted the contribution can go up no more than 5 percent a year. He said, "If we issued amortized pension bonds, you would immediately go to the higher rate; it's going to be lower than the overall rate under the current system by about 3 percent, but you immediately jump to it." He said balloon payments have their own problems.

[9:29:15 AM](#)

REPRESENTATIVE GARDNER said she would like to hear from experts regarding the immediate jump that Chair Seaton just mentioned.

[9:30:07 AM](#)

CHAIR SEATON said there is also a possibility of making a balloon payment at the end. He said Seattle Northwest talked about variable versus fixed rates. He concurred with Representative Gardner regarding getting more information.

[9:31:03 AM](#)

JULI LUCKY, Staff to Representative Mike Hawker, Alaska State Legislature, on behalf of Representative Hawker, sponsor, agreed that it would be a good idea to hear from experts. She said:

What I have been discussing with them is that you can pretty much structure it how you want to structure it, but that would be something ... down the line that the person that's entering into the agreement would ... [discuss] with their financial advisor. Basically, you'll ... sell the bonds and get a lump sum of money, and how that is repaid would be a structure that would be able to be worked out in the financial agreements.

[9:32:02 AM](#)

CHAIR SEATON offered to loan the previously mentioned cassette tapes to any legislators or staff who may want to listen to them.

[9:32:43 AM](#)

REPRESENTATIVE GARDNER asked Ms. Lucky if an employer who switched to a POB would automatically be converting a soft debt to a hard one.

[9:32:58 AM](#)

MS. LUCKY stated her understanding that that is not necessarily the case. She said with a lump sum liability, the bond is being repaid rather than the unfunded liability. She said it is her hope that a more official answer to that question will be made available.

[9:33:58 AM](#)

REPRESENTATIVE GARDNER responded that that would assume that the bond covers the entire amount of the liability, which is not necessarily the case.

[9:34:22 AM](#)

MS. LUCKY said discussion is taking place on the specifics of what a particular plan might look like, but there is not necessarily a plan.

[9:35:06 AM](#)

CHAIR SEATON reiterated his comments about the information on the tapes for Representative Hawker who had just arrived in the committee room.

9:35:18 AM

REPRESENTATIVE MIKE HAWKER, Alaska State Legislature, testifying as sponsor of HB 278, explained as follows:

The transactions contemplated are a structured debt transaction. A public entity borrows money on the international capital markets. The terms for the repayment of that a money can be structured in ... [a] myriad of choices for how to structure that payment. In fact, frankly, some of the structures would not be advisable in this circumstance. ... But a structure that allows the repayment curve not to - ... in all cases - be less than our current 5 percent annual incrementing normal pension contribution can be structured. ... You could structure these so that they pay off in their entirety in one balloon payment 25 years down the way. That, of course, would be ... a very inappropriate decision for someone to make. But the point is that the markets are extremely adaptable, extremely flexible, very creative, ... limited only by the creativity of both bond council, the borrowing organization, the public entity that might be interested in pursuing this, and their financial advisors.

9:37:13 AM

CHAIR SEATON said the other issue highlighted by the tape is that when less is paid up front, not as much is saved. He clarified that the previously mentioned 5 percent [cap for contributions] is not the same as interest rates. He said an issue discussed by the State Bond Council was in relation to Article 9, Section 11, which read as follows [original punctuation provided]:

The restrictions on contracting debt do not apply to debt incurred through the issuance of revenue bonds by a public enterprise or public corporation of the State or a political subdivision, when the only security is the revenues of the enterprise or corporation. The restrictions do not apply to indebtedness to be paid from special assessments on the benefited property, nor do they apply to refunding indebtedness of the State or its political subdivisions.

CHAIR SEATON said there is question regarding whether municipalities would be allowed to take debt without a vote of the people.

[9:39:51 AM](#)

REPRESENTATIVE HAWKER said the state, municipal, and school district employers have, in fact, already entered into a debt contract via the employees' pension plans, which they have a constitutional obligation to provide. He said the inner structure by which municipalities manage themselves and choose what goes before their public is certainly adequate. He advised against opening up the issue of the state usurping local decision-making authority. Representative Hawker stated his belief that the existing statutory structure at both the state and local levels is adequate to provide an appropriate protection for the public good.

[9:43:00 AM](#)

CHAIR SEATON suggested that Representative Hawker might like to listen to the tapes, as well. He reiterated the subject of differing requirements for investment strategies for various types of pension plans. He stated that the committee is in somewhat of a conundrum, because the bill proposes issuing pension bonds, but the investment strategy that would be employed either "makes it work or makes it not work." He said it is necessary to ascertain when the structured payments on past service costs accrue. He continued:

It's not like we have the principal and we can just leave it there and invest it, and have it grow over 25 years. Because we are going to be making payments - in 8 or 10 years - of that money; we've got to take that principle out and make ... scheduled payments on that.

[9:46:14 AM](#)

REPRESENTATIVE HAWKER emphasized that the bill before the committee authorizes nothing; "it grants empty authority for the investment banking community to work with the state's public employers to find a way to ... ultimately save our taxpayers money through a potential transaction." He continued:

Essentially, the decision was made last legislative session to terminate the previous plan, which means

ultimately there will be a final payout, the last employee will die, and the plan will be liquidated and it will be no more. The sensitivity of ... the investment decision will be driven very much by when ... this new money being put into the plan [will] be needed. I would offer that if we were in an extraordinarily underfunded position and we needed the money immediately in order to meet payments to beneficiaries - the money that we would be potentially securing through [an] issuance of [an] obligation bond, we very definitely would have to invest that money short, and ... truly the transaction would not be viable, because we wouldn't be able to invest for the arbitrage that is what this is all about. However, the State of Alaska's plans - both PERS and TRS - on aggregate are truly exceptionally well funded today. ... I can't tell you the numbers right off the top of my head, but despite the fact that we are arguably, actuarially \$6 billion underfunded today, we still have a tremendous amount of money in those plans. That money is there invested, will remain invested to meet obligations that are going to go -- we've got an employee that started today that's 18 years old; they will vest in that plan Potentially, if they become a permanent state employee, that plan will be in existence for the ... actual lifetime of employees today that may be as young as 16 or 18 years old.

So, again, we have the luxury before us today of time: time to manage these investments, time to achieve what is again we've demonstrated over and over again is the ability of the State of Alaska's investment managers, whether they be Department of Revenue, whether they be the pension managers, or whether it be the permanent fund, to obtain a 10-year return in excess of 8 percent.

And again, ... we're looking a ... potentially bonded indebtedness transaction that would be designed to work over a 20-25 years period that is still well within the expected anticipated existence of our current pension plan structure. So, again, we could create ... hypothetical transactions or circumstances, but facts are that to make a transaction contemplated under this bill work, you will have the best and the brightest financial counselors from Wall Street, the

best and the brightest bond council, and, quite, frankly, as we certainly like to think of ourselves, we have a very competent public administration of all municipalities and the state making judicious decisions.

... I have faith in the markets, the legal community, and the elected officials statewide.

[9:50:14 AM](#)

REPRESENTATIVE RAMRAS expressed his appreciation of Representative Hawker's abilities and efforts. He said, "I hope that as we go forward with this you don't see these people from the state of Washington trotting around here, flipping out their business cards from Merrill, et al, and that we look further south or further east for counsel in how to structure a POB program should we go forward with that."

[9:50:57 AM](#)

REPRESENTATIVE HAWKER, regarding the investment bankers that have been providing counsel through this process, stated that Merrill Lynch is a global, credible, and major Wall Street firm. He said the credibility that Seattle Northwest Securities brings is that it has been very active and successful in this type of transaction, having represented the State of Oregon. He said Representative Ramras brings up a good point. He said investment banking is a competitive market and the best and brightest will be vying for the work.

[9:52:25 AM](#)

CHAIR SEATON said the committee will take up the bill again when it gets the information back that it has requested.

[9:53:52 AM](#)

REPRESENTATIVE HAWKER said he wants to regroup with Chair Seaton when all the information is gathered to ensure all issues have been covered. He said the bill was originally crafted to focus on the larger, more sophisticated municipalities; however, if the committee decides it would be appropriate to expand that authority, he would be amenable to the idea. Regarding Chair Seaton's previously stated concern about cash flow, he said he is working on getting professional comments on that issue.

9:55:50 AM

CHAIR SEATON said if it's structured so that less money is up front, he wants to know if there will be the same percentage drop, regarding the 2.6 percent of wage-base contributions by the employers. He mentioned a presentation from Jeff Sinz, which showed two scenarios with a decrease in payroll contribution of 2.6 percent or 3.8 percent. He said he would be interested in finding out whether that was structured on an amortized payment that frontloaded up to 26 percent of payroll as soon as the bonds are issued, or whether that would be the collared payment.

9:57:15 AM

REPRESENTATIVE HAWKER answered, "They structured their amortization for a hypothetical issue ..., and yes, they did in fact incorporate into that a ramping up paralleling the deferred structure of the current state system that did not immediately jump into a fixed amortization period." He offered further details.

[HB 278 was heard and held.]

ADJOURNMENT

There being no further business before the committee, the House State Affairs Standing Committee meeting was adjourned at 9:59:00 AM.