

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

January 30, 2006
9:39 a.m.

MEMBERS PRESENT

Representative Bruce Weyhrauch, Chair
Representative Norman Rokeberg
Representative Ralph Samuels
Representative Paul Seaton
Representative Peggy Wilson
Representative Max Gruenberg
Representative Carl Moses

MEMBERS ABSENT

All members present

OTHER LEGISLATORS PRESENT

Representative Kurt Olson

COMMITTEE CALENDAR

HOUSE BILL NO. 374

"An Act relating to establishment of a retirement benefit liability account in the Department of Revenue and redirecting deposit of annual dividends of the Alaska Housing Finance Corporation to that account; and providing for an effective date."

- HEARD AND HELD

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."

- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 374

SHORT TITLE: RETIREMENT BENEFIT LIABILITY ACCT/AHFC

SPONSOR(S): WAYS & MEANS

| | | |
|----------|-----|---------------------------------|
| 01/17/06 | (H) | READ THE FIRST TIME - REFERRALS |
| 01/17/06 | (H) | W&M, STA, FIN |
| 01/20/06 | (H) | W&M AT 9:00 AM CAPITOL 106 |
| 01/20/06 | (H) | Heard & Held |
| 01/20/06 | (H) | MINUTE(W&M) |
| 01/25/06 | (H) | W&M AT 9:00 AM CAPITOL 106 |
| 01/25/06 | (H) | Heard & Held |
| 01/25/06 | (H) | MINUTE(W&M) |
| 01/27/06 | (H) | W&M AT 9:00 AM CAPITOL 106 |
| 01/27/06 | (H) | Heard & Held |
| 01/27/06 | (H) | MINUTE(W&M) |
| 01/30/06 | (H) | W&M AT 9:30 AM CAPITOL 106 |

BILL: HB 375

SHORT TITLE: RETIREMENT BENEFIT LIABILITY ACCT/PF

SPONSOR(S): WAYS & MEANS

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| 01/30/06 | (H) | W&M AT 9:30 AM CAPITOL 106 |

WITNESS REGISTER

TOM BOUTIN, Deputy Commissioner

Treasury Division

Department of Revenue (DOR)

Juneau, Alaska

POSITION STATEMENT: Provided information on DOR's fiscal note for HB 374; provided information on HB 375.

KEVIN BROOKS, Deputy Commissioner

Department of Administration (DOA)

Juneau, Alaska

POSITION STATEMENT: Provided information on DOA's fiscal note for HB 374 and HB 375.

DANIEL FAUSKE, Chief Executive Officer/Executive Director
Alaska Housing Finance Corporation (AHFC)
Department of Revenue (DOR)
Anchorage, Alaska

POSITION STATEMENT: Offered his opinion of the effect HB 375 would have on AHFC in appropriating corporation funds to address the ongoing unfunded liability of the state retirement system.

JOE DUBLER, Chief Financial Officer and Finance Director
Alaska Housing Finance Corporation (AHFC)
Department of Revenue (DOR)
Anchorage, Alaska

POSITION STATEMENT: Provided information on the financial impact HB 375 would have on AHFC.

KEVIN RITCHIE, Executive Director
Alaska Municipal League (AML)
Juneau, Alaska

POSITION STATEMENT: Answered questions on the effect HB 374 and HB 375 might have on municipalities.

ACTION NARRATIVE

CHAIR BRUCE WEYHRAUCH called the House Special Committee on Ways and Means meeting to order at [9:39:20 AM](#). Representatives Weyhrauch, Gruenberg, Moses, Samuels, Seaton, and Wilson were present at the call to order. Representative Rokeberg arrived as the meeting was in progress. Representative Olson was also in attendance.

HB 374-RETIREMENT BENEFIT LIABILITY ACCT/AHFC

[Contains brief discussion of HB 375.]

[9:39:29 AM](#)

CHAIR WEYHRAUCH announced that the first order of business would be HOUSE BILL NO. 374, "An Act relating to establishment of a retirement benefit liability account in the Department of Revenue and redirecting deposit of annual dividends of the Alaska Housing Finance Corporation to that account; and providing for an effective date."

CHAIR WEYHRAUCH relayed that both HB 374 and HB 375 were drafted to set up accounts, not funds, which would provide some revenue to address the unfunded liability of the Public Employees' Retirement System (PERS) and the Teachers' Retirement System

(TRS). He explained that in response to comments from the Alaska Housing Finance Corporation (AHFC), a proposed committee substitute (CS) for HB 374, Version 24-LS1453/Y, Wayne, 1/24/06, was drafted.

[9:40:56 AM](#)

REPRESENTATIVE WILSON moved to adopt the proposed CS for HB 374, Version 24-LS1453/Y, Wayne, 1/24/06, as the working document. There being no objection, Version Y was before the committee.

[9:41:11 AM](#)

CHAIR WEYHRAUCH requested an explanation of the fiscal effect of [Version Y] from the Department of Revenue (DOR) and Department of Administration (DOA).

[9:44:55 AM](#)

TOM BOUTIN, Deputy Commissioner, Treasury Division, Department of Revenue (DOR), said that the [original] fiscal note was drafted according to the estimated amounts of revenue forecasted by the Alaska Housing Finance Corporation (AHFC). He explained that the fund, as established under HB 374, would receive \$80 million in [fiscal year (FY)] 07, \$40 million annually thereafter, and would not entail any management charges since the money would "sit there for a very short time" before being invested in the general fund (GF). He commented that since [Version Y] would modify this, a new fiscal note would need to be prepared.

MR. BOUTIN, in response to a question by Chair Weyhrauch as to whether the administration supports the bill, said DOR takes no position on the "choices that the legislature has to make about where money goes."

[9:46:20 AM](#)

CHAIR WEYHRAUCH said that before addressing the issue of local communities negatively affected by retirement debt, sources of recurring revenue have to be identified. He commented that the only ones he was aware of in the state were from investment income, AHFC, Amerada Hess, and North Slope oil production revenue. He said that the recurring revenue from AHFC and Amerada Hess were the basis in forming HB 374 and HB 375.

MR. BOUTIN, in response to Chair Weyhrauch's request for feedback on applying the AHFC dividends toward the unfunded liability of the retirement systems, said "it's a choice that the legislature gets to make as to ways to allocate that."

9:48:00 AM

REPRESENTATIVE GRUENBERG recalled previous discussion on interest earnings and said he assumed that "this large amount of money" would earn a substantial amount of interest. He asked Mr. Boutin how much it would earn in one quarter.

MR. BOUTIN projected the GF will earn an annual rate of 3.7 percent, which would mean that earnings on the \$40 million would be \$370,000 for one quarter. In further response to Representative Gruenberg, Mr. Boutin expressed his belief that the funds would accumulate in the [retirement benefit liability] account prior to being appropriated and that the appropriations were meant to pay down the annual contributions, not the unfunded liability.

9:50:00 AM

CHAIR WEYHRAUCH, in response to a question by Representative Wilson, confirmed that the funds do not go directly toward paying the retirement liability but would stay in the GF until each legislature determined where to appropriate the funds. He explained that it is not a dedicated fund, but instead goes into a special named account similar to the one for public education. He said the design of the bill is to accomplish two things: to provide a stream of income into an account that's available for appropriation to address the retirement and benefit liabilities, and to identify the recurring sources of revenue to that account so the legislature would know the amount available for appropriation.

9:51:48 AM

REPRESENTATIVE SEATON referred to page 3, Section 4, of Version Y and opined that the bill is structured such that municipalities and school districts can determine whether or not to use the appropriated funds toward reducing their retirement debt or for other purposes. He asked if DOR thought it's possible to restructure the bill so that the payment is made directly into the retirement funds on behalf of those municipalities and school districts.

[9:53:04 AM](#)

CHAIR WEYHRAUCH explained that when the drafter came back with the bill, "it had legislative intent language ... that would require [municipalities and school districts] to pay it directly to their unfunded liability." He opined that this legislative intent language was "awkward" for a legislative measure as opposed to a budget measure, and therefore was removed.

[9:53:48 AM](#)

REPRESENTATIVE SEATON noted his agreement with Chair Weyhrauch regarding not having intent language in the bill. However, he asked if it is possible for DOR to structure the intent into the bill in order to ensure the contributions go toward paying the unfunded liability of political subdivisions.

[9:54:29 AM](#)

CHAIR WEYHRAUCH explained that because the bill cannot bind future legislatures and because it would have to be an appropriation through the budget, specific language regarding where funds are to be applied "was held more or less in abeyance until the budget bill comes up."

[9:55:02 AM](#)

MR. BOUTIN related that [DOR] discussed how it would make more sense to get the money working at the 8.25 percent assumed rate of return as soon as possible. This would happen, he said, if the legislature appropriated the money directly to the employer retirement funds where it could immediately begin earning at the higher rate, as opposed to having the funds distributed directly to the employer, earning a presumed lower rate.

CHAIR WEYHRAUCH reminded the committee that "the intent of these two measures before us is to find sources of revenue to pay for this debt or liability as well as the current costs."

[9:56:47 AM](#)

MR. BOUTIN, in response to Chair Weyhrauch's question regarding "lag time," said that payment of funds directly to the [employers] versus direct payment to the [employers'] retirement [debt] could entail a six-month lag time. He suggested that Melanie Millhorn, Director, Health Benefits Section, Division of Retirement and Benefits, DOA, would be able to provide

clarification as to if and when communities can receive credit for any earned interest.

[9:57:34 AM](#)

REPRESENTATIVE GRUENBERG, referring to page 2, line 28 of Version Y, opined that the wording is specific in directing "employer contributions to pay past service liabilities"; however, the language in the following line, "and for other purposes" is not specific enough. He asked whether there was any way to short-circuit the entire process [of appropriating funds] by designating a certain amount of AHFC funds to directly pay the debt.

CHAIR WEYHRAUCH opined that Representative Gruenberg's suggestion "broadened AHFC's mission beyond what it really should be."

REPRESENTATIVE GRUENBERG said it would only broaden [the AHFC's mission] to the extent [the legislature] allows. He questioned the possibility of including a sunset for the bill should, at some future point in time, the liability be paid in full.

[10:00:16 AM](#)

REPRESENTATIVE ROKEBERG asked "What the historic dividend has been in the use of the dividend."

MR. BOUTIN deferred to AHFC representatives.

[10:01:33 AM](#)

KEVIN BROOKS, Deputy Commissioner, Department of Administration (DOA), said the department has submitted a zero fiscal note, could administer whatever system is established, and regardless of how payments are set up, there would be little to no fiscal impact as far as the mechanics. Mr. Brooks suggested that the more relevant question might be how much of an impact the infusion of \$80 million or \$40 million might have on the system in the first year. He explained that \$100 million is the amount needed to cover the 5 percent increase and that "as long as we're building up to that actuarially determined rate, [the state is] paying down that unfunded liability as [it] increases that rate."

CHAIR WEYHRAUCH asked Mr. Brooks what the general policy reaction is to establishing a retirement benefit liability account.

MR. BROOKS replied that there has only been preliminary discussion with the governor's office regarding the [AHFC] account, and he did not know the intent for the expenditure of those funds in the governor's budget.

[10:03:38 AM](#)

CHAIR WEYHRAUCH reminded the committee that [Version Y] does not dedicate funds; it simply establishes the account mechanisms.

[10:03:47 AM](#)

REPRESENTATIVE ROKEBERG, in referencing Mr. Brooks' mention of the annualized increase of \$100 million, sought confirmation that this level actually increases annually.

MR. BROOKS explained that the rate is "ramped up" 5 percent per year until the required rate is met, which he believed would occur by 2008 for PERS and 2009 for TRS.

[10:04:33 AM](#)

DANIEL FAUSKE, Chief Executive Officer/Executive Director, Alaska Housing Finance Corporation (AHFC), Department of Revenue (DOR), said he was not "excited in terms of getting AHFC involved on an ongoing basis to fund this liability." He highlighted that due to legislation passed a couple years ago, AHFC is currently required to pay a percentage of "net income" - a term which, because of changes in accounting standards by the Governmental Accounting Standards Board Statement No. 34 (GASB 34) and the [Federal Accounting Standards] FAS, is now referred to as "change in net assets." Under the former standard, he explained, "there would be a dividend of \$40 million coming to the state"; however, if [HB 361] passes, "the dividend [to the state] will be \$81.5 million." He listed the following AHFC expenses totaling \$30.9 million: debt service obligations on older bonds issued on behalf of the state, public housing bonds, and bond payments for University of Alaska, Anchorage (UAA) dormitories. This expense, he added, with the \$31.2 million expense of addressing capital requests, would leave AHFC a balance of \$19.3 million to meet other state funding needs.

MR. FAUSKE said the concern [AHFC] has with adding to the list of those seeking AHFC funds, particularly with the possibility of having to fund the large recurring liability of the state's retirement system, is the difficulty in explaining to Wall Street how long AHFC will be required to pay into this amount, "in the event that this amount grows and [AHFC] becomes ... embroiled into a debate as to how much money is left over for AHFC's capital requirements" He referred to a second group that would be affected as well, which would consist of AHFC constituencies heavily involved in the housing program: homebuilders, realtors, mortgage bankers, senior citizen groups, veterans, and others. He said, as the housing finance corporation for the state, there are requirements and statutory guidelines AHFC must follow for those groups it serves.

MR. FAUSKE expressed his belief that the creation of the [retirement benefit liability] account causes a lot of problems for AHFC, and therefore he said he is not certain it will actually solve [the unfunded liability]. He suggested that perhaps inclusion of a timeline which determines when the debt will actually be paid in full [might be beneficial]; however, he said he sees this [debt] as ongoing.

MR. FAUSKE informed the committee that his intent is to keep the corporation focused in the direction that it has been. He said that over the last 11 years, AHFC has developed and generated \$1.3 billion in cash for the state and has "been a good partner for the state." He suggested that the state, in addressing its unfunded retirement liability, "look at dead issuance or other obligations to help pay for their capital projects" and invest any residual cash in this type of fund to "free up some capital from the state's perspective."

[10:09:25 AM](#)

REPRESENTATIVE ROKEBERG referred to page 2, lines 6-7, of Version Y:

(1) the lesser of \$103,000,000 or 75 percent of the adjusted change in net assets [NET INCOME] of the corporation for the base fiscal year;

REPRESENTATIVE ROKEBERG inquired as to what the current net asset base is for AHFC and the impact that would that have on AHFC's rating standards and the viability of the corporation.

[10:10:07 AM](#)

MR. FAUSKE replied that the actual adjusted change in net assets, formerly referred to as "net income," is approximately \$86 million. He explained that 95 percent of this amount, which comes to \$81,506,000, is "what's being freed up for discussions with the state, which was submitted in our capital budget."

[10:11:07 AM](#)

JOE DUBLER, Chief Financial Officer and Finance Director, Alaska Housing Finance Corporation (AHFC), Department of Revenue (DOR), in response to Representative Rokeberg's question, said that GASB 34 changed the way governmental entities have to report their financial statements. For example, balance sheets are now referred to as a "statement of net assets" and income statements are now referred to as a "change in net assets." In addition to these title changes, GASB 34 affected the way AHFC reported some items on its financial statements which is what led to the adjusted change in net assets that AHFC is proposing under HB 361.

[10:11:45 AM](#)

REPRESENTATIVE ROKEBERG asked if this was at odds with the [Generally Accepted Accounting Principles ("GAAP")] and sought clarification as to the difference between a GAAP net asset and a GASB net asset.

[10:11:59 AM](#)

MR. DUBLER explained that prior to GASB 34, "net assets" were equivalent to an equity account showing both assets and liabilities. However, GASB 34 changes the equity part of a balance sheet "to what's called 'net assets' and on the income statement they've changed it to 'a change in net assets' so all it shows is your revenues and your expenditures and the bottom line is your change in net assets."

MR. DUBLER, in further response to Representative Rokeberg, explained that every time the GASB and Financial Accounting Standards Board (FASB) "puts out a new pronouncement, that becomes the new GAAP." He clarified that the GASB only applies to governmental entities and certain nonprofits. For-profit entities, however, follow FASB guidelines and may use different accounting terms, he said.

[10:13:32 AM](#)

MR. FAUSKE pointed out that prior to GASB 34, the amount of money made available to the state [through AHFC] would have been \$40 million which, with the following changes in GASB, was determined to be an inappropriate amount and resulted in AHFC making changes and submitting [HB 361] to ensure the dividend to the state would be \$81.5 million. In response to a question by Chair Weyhrauch, he said he believes the fiscal note prepared by DOR reflects the current situation and not the GASB-introduced changes.

[10:14:35 AM](#)

MR. DUBLER explained that for fiscal year FY 07, AHFC "went ahead with the \$81 million number because that's what the governor had proposed in his budget and we're counting on that passing, but for future years, we didn't want to be presumptuous and assume that the legislation passed."

[10:15:04 AM](#)

REPRESENTATIVE SEATON indicated that Version Y does include the adjusted change in net assets on page 2. He then asked, referencing page 5, subparagraph (A), whether these are recommendations made by AHFC or are those are recommendations made by AHFC or merely conformances to budgetary contributions. He further asked if the amount determined at the 95 percent change in net assets as designated in Version Y, would "somehow impact your ability to invest in the requirements that AHFC has for other capital differently than if [funds are made] available in the governor's budget?"

[10:17:00 AM](#)

MR. DUBLER replied that the current statutes are reflected in Version Y with any modifications underlined. He then directed the committee's attention to page 3, line 20, where it addresses the "TRANSITION: PHASE-IN OF AMOUNT OF DIVIDEND." He said that the phase-in amount was designed to "ease off of the \$103 million the corporation has typically made available," and therefore is set at 95 percent of the corporation's adjusted change in net assets for FY 07, page 5, line 1, and then 85 percent for FY 08, page 5, line 15. He explained that once the transition language has run its course, "we get into the regular dividend of 75 percent [page 2, line 7]. With the current proposal of \$81 million, he said that approximately \$31 million is applied to debt service on prior state capital project bonds

and approximately \$31 million to the corporation's capital budget, with a remaining \$19 million available for appropriation by the legislature.

[10:18:44 AM](#)

REPRESENTATIVE SEATON asked if he was correct in his understanding that in identifying what would be available for the legislature to appropriate, [Version Y] identifies the full amount which would then result in having to identify another appropriation source to fund [AHFC's] \$31 million for capital [expenses] and \$31 million for past debts.

MR. DUBLER replied, "that's exactly the corporation's concern [as] we end up in line behind PERS and TRS to fund our own capital budget ... [which is] partially addressed by the modifications [made to HB 374 by Version Y] today where on page 1, lines 10-12, we are deducting amounts appropriated for capital projects before the amount that's determined to go to the retirement benefit liability account."

MR. FAUSKE confirmed Representative Seaton's understanding that the "only real difference in this bill" deals with how the state will appropriate the \$19 million - whether to the retirement account or to any other purpose the legislature chooses.

[10:20:38 AM](#)

REPRESENTATIVE GRUENBERG observed, in referring to both Section 1 and Section 2, lines 18-21, on page 2, that whereas the current AHFC dividend is the lesser of \$103 million or 75 percent of the corporation's "net income," in Version Y the 75 percent would be applied to the corporation's "adjusted change in net assets." He asked if he was correct in interpreting this change [in accounting terms] as possibly resulting in nothing more than a paper change, not reflected in any real money, like income. "Isn't that much more risky than basing it on income," he asked.

MR. DUBLER explained that the changes embodied in Version Y were made to conform [HB 374] to HB 361 and the required changes in GASB 34.

[10:24:13 AM](#)

REPRESENTATIVE GRUENBERG, in reviewing AS 18.56.089(d), said he did not see the term "net assets" defined anywhere in the

statute. He asked, "Is it defined in state law or could this just change like the wind as some federal regulation changes based on things that occur on Wall Street or Washington or some other place on the planet?"

MR. DUBLER expressed his hope that 10 years from now people would recognize "change in net assets" as the new term for "net income" and mentioned as well that the definition for "adjusted change in net assets" is included in HB 361. Due to the financial recording requirements of GASB 34, he said that there are now a few expenditures the corporation must account for on the statement for "changes in net assets" - amounts which reduce the corporation's "net income" to a level that did not exist prior to GASB 34 as these expenditures were formerly accounted for on balance sheets. Therefore, in order to conform to GASB 34, he explained, these expenses were added back in and thus increase the corporation's net income to make the dividend what it would have been had those changes not occurred.

[10:26:00 AM](#)

Mr. FAUSKE, in response to Representative Rokeberg's question regarding available funds, related that \$81.5 million is available, \$30.9 million is committed to debt service, and \$31.2 million [is necessary] for the AHFC capital budget, which funds the teacher housing loan program, the supplemental program, the weatherization program, the federal and competitive grants, and the energy efficiency program. "Then you have remaining \$19.332 million that is generally held out, and the legislature appropriates that where it is necessary," he said. Historically, that entire amount has helped fund the Village Safe Water Program and has been as high as \$25 million. Mr. Fauske, per the request of Representative Rokeberg, said he would provide the committee with a breakdown of these expenses.

[10:27:49 AM](#)

REPRESENTATIVE ROKEBERG inquired as to the approximate impact on the state domestic product, "which you think may be in jeopardy because of this bill."

MR. FAUSKE replied that, in total, [AHFC] estimates that the housing industry represents roughly 25 percent of the [gross domestic product] (GDP) of the state.

CHAIR WEYHRAUCH clarified that Version Y was drafted with the intent to only address those funds available after appropriation

of the amounts needed for capital projects and to not interfere with AHFC's mission.

[10:29:17 AM](#)

REPRESENTATIVE SEATON made a motion to adopt [Amendment 1], labeled 24-LS1453/Y.1, Wayne, 1/24/06, which read:

Page 3, line 12, following "section":

Insert "and reducing the calculation by the amount of the political subdivision's unpaid past service cost for that fiscal year for each elected official eligible for the plan but not paid an hourly wage or a salary based on an hourly wage, unless the contribution for that official during that fiscal year by the political subdivision meets or exceeds the contribution required of a participating employer for an employee who was paid the average salary of all employees in the retirement plan established under AS 39.35.095 - 39.35.680"

CHAIR WEYHRAUCH objected for discussion purposes.

[10:29:28 AM](#)

REPRESENTATIVE SEATON explained that [Amendment 1] proposes to modify Section 4, subparagraph (A), by reducing the state contribution by a proportionate amount to those municipalities or school districts that opted for "voluntary, unfunded liability" by having elected officials eligible for PERS but "without [the] adequate contributions to allow for payment of those over time." He explained that should these political subdivisions decide to not incur an unfunded liability and "contribute into the retirement system the amount of the average wage, then that wouldn't be subtracted" [from the state contribution].

[10:31:30 AM](#)

CHAIR WEYHRAUCH, responding to Representative Gruenberg's request to hear testimony from those entities addressed by Amendment 1, said that the amendment would not be acted upon at this time.

[10:32:16 AM](#)

MR. FAUSKE, in response to a request from Chair Weyhrauch to learn more about the growing concern of interest groups on "what this bill may do," said that, in reference to the amount of money flowing from AHFC to the state, he could provide the committee with information as to the kinds of questions continually addressed to the corporation by Wall Street.

[HB 374, Version Y, was held over. Amendment 1 was left pending.]

[10:33:25 AM](#)

The committee took a brief at-ease at 10:33 a.m.

HB 375-RETIREMENT BENEFIT LIABILITY ACCT/PF

[Contains discussion of HB 374.]

[10:33:56 AM](#)

CHAIR WEYHRAUCH announced that the final order of business would be 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."

[10:34:38 AM](#)

TOM BOUTIN, Deputy Commissioner, Treasury Division, Department of Revenue (DOR), said that in regard to the fiscal note, the Permanent Fund Corporation estimates earnings of the Amerada Hess [Corporation] account to be \$27.6 million annually, of which 50 percent of that would be \$13.8 million. He explained that in holding that amount for one quarter at the 3.7 percent assumed rate on the general fund, would result in \$13.9 million being available to help employers meet their contribution amount for the Public Employees' Retirement Account (PERS) and Teachers' Retirement Account (TRS). He said that to his knowledge, DOR does not have a position on this.

[10:35:28 AM](#)

REPRESENTATIVE ROKEBERG asked whether there would be any difficulty in using Amerada Hess funds by fiscal year 2007 (FY 07) for the purposes stated in [HB 375] or for any other

purpose. He also asked whether there were any prior commitments or timing issues.

MR. BOUTIN replied that he couldn't remember the specifics of prior year deliberations on the use of Amerada Hess funds to pay debt service, and opined that the funds should be available by FY 07 for whatever purpose intended by the state.

[10:36:31 AM](#)

MR. BOUTIN, responding to questions by Representative Seaton, said that "the idea that we could be a bit more efficient by appropriating the money directly into the retirement funds and thereby putting them to work sooner, would apply equally [to HB 374 and HB 375]." He said Chair Weyhrauch was correct in his understanding that \$13.9 million is the amount available for the [retirement benefit liability account] as specified in [HB 375], and explained that there is more earnings volatility in the Amerada Hess fund - "invested at the rate of the permanent fund" - which might entail higher earnings some years and no earnings other years. He opined that it might make sense to calculate a percent of market value for Amerada Hess funds just as it does for the permanent fund; however, the mechanics of doing so while the Amerada Hess funds are invested with the permanent fund requires further consideration. He said he would report back to the committee with his findings.

[10:39:57 AM](#)

MR. BOUTIN, in response to Representative Rokeberg, related his belief that the current corpus of the Amerada Hess subaccount is \$425 million and that the estimated Amerada Hess earnings "of the \$27.6 million annual" might have been calculated on a rate of 6.7 percent. He explained to the committee that regardless of the applicable interest rate, [the bill and accompanying fiscal note specify that] 50 percent of that rate will go to the [retirement benefit liability account].

[10:41:21 AM](#)

CHAIR WEYHRAUCH reminded the committee that the purpose of the bill is "to not take the entire interest thrown off by that amount in recognition that there is going to be political requests for other uses of that fund."

[10:41:34 AM](#)

REPRESENTATIVE WILSON, in referring to page 2, lines 13-14, sought confirmation in her understanding as to where Amerada Hess earnings are appropriated and by what amounts. She asked whether the "earnings are just there and growing and not used for anything right now."

MR. BOUTIN replied that 50 percent of the \$27.6 million earnings would be available for appropriation to the retirement benefit liability account as specified in DOR's fiscal note.

REPRESENTATIVE SEATON provided further clarification to Representative Wilson by explaining that [HB 375] specifies the other 50 percent of [the \$27.6 million] earnings would be deposited in the Alaska capital income fund, an existing account, established by prior year legislation, and to which 100 percent of the earnings are currently appropriated.

[10:46:02 AM](#)

MR. BOUTIN, in response to a question by Representative Rokeberg, clarified that the 6.7 percent rate of return on the \$27 million was "just my recollection," and was not specified in the fiscal note. He confirmed that he was using Alaska Permanent Fund Corporation projections.

[10:46:58 AM](#)

KEVIN BROOKS, Deputy Commissioner, Department of Administration (DOA), announced that since HB 374 and HB 375 are constructed largely the same, the department submitted another zero fiscal note for the mechanics of allocating funds [for HB 375] and said that his comments on [HB 374] would basically apply to [HB 375] as well.

[10:47:53 AM](#)

CHAIR WEYHRAUCH asked if there was anyone present wishing to testify on either HB 374 or HB 375. He explained that there was an amendment offered to HB 374 that might affect the interests of [PERS and TRS employers].

[10:48:18 AM](#)

KEVIN RITCHIE, Executive Director, Alaska Municipal League (AML), expressed his thanks to the committee for its work on [legislation addressing the unfunded liability]. He commented that there are three community dividend bills that also use

Amerada Hess as a primary funding source and "that's obviously a conflict, ... we'll work through that"

[10:49:11 AM](#)

REPRESENTATIVE SEATON, referring to the purpose of the bill, wondered if those Mr. Ritchie represents would have a problem with contributions being made [directly] to [employers'] past service liability accounts "instead of giving money to them directly and then having them return it over time back through their contributions."

[10:50:04 AM](#)

MR. RITCHIE replied that he has not had the opportunity to speak with all the finance officers but "supposed it's possible that thoughts might vary on that. However, all those finance officers I've talked to on our legislative committee don't see any reason why you would have to put in that extra step in passing money to municipalities and passing it back." He opined that the real issue is reducing the past service liability.

[10:50:36 AM](#)

CHAIR WEYHRAUCH announced that there is a committee substitute for HB 375 which would be distributed to committee members for the following meeting.

[HB 375 was held over.]

[10:50:45 AM](#)

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 10:50 a.m.