

ALASKA STATE LEGISLATURE
SENATE STATE AFFAIRS STANDING COMMITTEE

May 3, 2006
3:49 p.m.

MEMBERS PRESENT

Senator Gene Therriault, Chair
Senator Thomas Wagoner, Vice Chair
Senator Charlie Huggins
Senator Bettye Davis
Senator Kim Elton

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

SENATE BILL NO. 288

"An Act declaring September Education Savings Month."
MOVED SB 288 OUT OF COMMITTEE

CS FOR HOUSE BILL NO. 347(JUD) am

"An Act relating to mandatory motor vehicle insurance, license suspensions, mandatory impoundments of vehicles used in certain offenses, notices relating to motor vehicles, and notices relating to driver's licenses."

MOVED CSHB 347(JUD)am OUT OF COMMITTEE

CS FOR HOUSE JOINT RESOLUTION NO. 25(STA)

Urging the United States Congress to adopt Sec. 303 of the United States House of Representatives version of the Tax Relief Extension Reconciliation Act of 2005.

MOVED CSHJR 25(STA) OUT OF COMMITTEE

CS FOR HOUSE BILL NO. 375(FIN) am

"An Act establishing the teachers' retirement system past service cost liability account in the Department of Revenue; establishing the public employees' retirement system past service cost liability account in the Department of Revenue; and providing for an effective date."

MOVED CSHB 375(FIN) am OUT OF COMMITTEE

CS FOR HOUSE CONCURRENT RESOLUTION NO. 4(JUD)

Encouraging the establishment of a methamphetamine watch program.

MOVED CSHCR 4(JUD) OUT OF COMMITTEE

CS FOR SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 133(JUD) am
"An Act relating to incorporation of boroughs, to annexation by
local action, and to regulations of the Local Boundary
Commission to provide standards and procedures for municipal
incorporation, reclassification, dissolution, and certain
municipal boundary changes; and providing for an effective
date."

MOVED CSSSHB 133(JUD) am OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

BILL: SB 288

SHORT TITLE: SEPTEMBER AS EDUCATION SAVINGS MONTH

SPONSOR(s): SENATOR(s) ELLIS

02/13/06	(S)	READ THE FIRST TIME - REFERRALS
02/13/06	(S)	STA
04/27/06	(S)	STA AT 3:30 PM BELTZ 211
04/27/06	(S)	-- Meeting Canceled --
05/02/06	(S)	STA AT 3:30 PM BUTROVICH 205
05/02/06	(S)	Scheduled But Not Heard
05/03/06	(S)	STA AT 3:30 PM BELTZ 211

BILL: HB 347

SHORT TITLE: MOTOR VEHICLE INSURANCE/LICENSE/ NOTICES

SPONSOR(s): REPRESENTATIVE(s) GARA, LYNN

01/09/06	(H)	PREFILE RELEASED 1/6/06
01/09/06	(H)	READ THE FIRST TIME - REFERRALS
01/09/06	(H)	STA, JUD
01/31/06	(H)	STA AT 8:00 AM CAPITOL 106
01/31/06	(H)	Heard & Held
01/31/06	(H)	MINUTE(STA)
02/14/06	(H)	STA AT 8:00 AM CAPITOL 106
02/14/06	(H)	Heard & Held
02/14/06	(H)	MINUTE(STA)
02/16/06	(H)	STA AT 8:00 AM CAPITOL 106
02/16/06	(H)	Moved CSHB 347(STA) Out of Committee
02/16/06	(H)	MINUTE(STA)
02/17/06	(H)	STA RPT CS(STA) NT 3DP 3NR
02/17/06	(H)	DP: GARDNER, GATTO, SEATON;
02/17/06	(H)	NR: GRUENBERG, ELKINS, RAMRAS
03/31/06	(H)	JUD AT 1:00 PM CAPITOL 120
03/31/06	(H)	Heard & Held
03/31/06	(H)	MINUTE(JUD)

04/07/06 (H) JUD AT 1:00 PM CAPITOL 120
 04/07/06 (H) Moved CSHB 347(JUD) Out of Committee
 04/07/06 (H) MINUTE(JUD)
 04/10/06 (H) JUD RPT CS(JUD) NT 5DP 1AM
 04/10/06 (H) DP: GARA, WILSON, KOTT, GRUENBERG,
 MCGUIRE;
 04/10/06 (H) AM: ANDERSON
 04/21/06 (H) BEFORE THE HOUSE
 04/21/06 (H) TRANSMITTED TO (S)
 04/21/06 (H) VERSION: CSHB 347(JUD) AM
 04/22/06 (S) READ THE FIRST TIME - REFERRALS
 04/22/06 (S) STA, JUD
 04/27/06 (S) STA AT 3:30 PM BELTZ 211
 04/27/06 (S) -- Meeting Canceled --
 05/02/06 (S) STA AT 3:30 PM BUTROVICH 205
 05/02/06 (S) Scheduled But Not Heard
 05/03/06 (S) STA AT 3:30 PM BELTZ 211

BILL: HJR 25

SHORT TITLE: SUPPORTING VETERANS HOME OWNERSHIP ACT

SPONSOR(s): REPRESENTATIVE(s) KERTTULA

01/11/06 (H) READ THE FIRST TIME - REFERRALS
 01/11/06 (H) MLV, STA
 02/16/06 (H) MLV AT 1:00 PM CAPITOL 124
 02/16/06 (H) Moved CSHJR 25(MLV) Out of Committee
 02/16/06 (H) MINUTE(MLV)
 02/17/06 (H) MLV RPT CS(MLV) NT 6DP
 02/17/06 (H) DP: GRUENBERG, THOMAS, CISSNA, ELKINS,
 DAHLSTROM, LYNN
 03/02/06 (H) STA AT 8:00 AM CAPITOL 106
 03/02/06 (H) Moved CSHJR 25(STA) Out of Committee
 03/02/06 (H) MINUTE(STA)
 03/03/06 (H) STA RPT CS(STA) NT 4DP
 03/03/06 (H) DP: GARDNER, LYNN, GATTO, SEATON
 04/12/06 (H) TRANSMITTED TO (S)
 04/12/06 (H) VERSION: CSHJR 25(STA)
 04/13/06 (S) READ THE FIRST TIME - REFERRALS
 04/13/06 (S) STA
 04/27/06 (S) STA AT 3:30 PM BELTZ 211
 04/27/06 (S) -- Meeting Canceled --
 05/02/06 (S) STA AT 3:30 PM BUTROVICH 205
 05/02/06 (S) Scheduled But Not Heard
 05/03/06 (S) STA AT 3:30 PM BELTZ 211

BILL: HB 375

SHORT TITLE: PAST SERVICE COST LIABILITY ACCOUNTS

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
 01/30/06 (H) Heard & Held
 01/30/06 (H) MINUTE(W&M)
 02/01/06 (H) W&M AT 9:00 AM CAPITOL 106
 02/01/06 (H) <Bill Hearing Canceled>
 02/03/06 (H) W&M AT 9:00 AM CAPITOL 106
 02/03/06 (H) <Bill Hearing Canceled>
 02/06/06 (H) W&M AT 9:00 AM CAPITOL 106
 02/06/06 (H) Moved CSHB 375(W&M) Out of Committee
 02/06/06 (H) MINUTE(W&M)
 02/08/06 (H) W&M RPT CS(W&M) NT 3DP 1NR
 02/08/06 (H) DP: WILSON, GRUENBERG, WEYHRAUCH;
 02/08/06 (H) NR: SAMUELS
 02/21/06 (H) STA RPT CS(W&M) NT 5NR 1AM
 02/21/06 (H) NR: GARDNER, LYNN, GRUENBERG, RAMRAS,
 SEATON;
 02/21/06 (H) AM: GATTO
 02/21/06 (H) STA AT 8:00 AM CAPITOL 106
 02/21/06 (H) Moved Out of Committee
 02/21/06 (H) MINUTE(STA)
 04/24/06 (H) FIN AT 1:30 PM HOUSE FINANCE 519
 04/24/06 (H) Heard & Held
 04/24/06 (H) MINUTE(FIN)
 04/26/06 (H) FIN AT 8:30 AM HOUSE FINANCE 519
 04/26/06 (H) Heard & Held
 04/26/06 (H) MINUTE(FIN)
 04/26/06 (H) FIN AT 1:30 PM HOUSE FINANCE 519
 04/26/06 (H) Moved CSHB 375(FIN) Out of Committee
 04/26/06 (H) MINUTE(FIN)
 04/27/06 (H) FIN RPT CS(FIN) NT 4DP 2NR 2AM
 04/27/06 (H) DP: WEYHRAUCH, HOLM, KELLY, FOSTER;
 04/27/06 (H) NR: MOSES, CHENAULT;
 04/27/06 (H) AM: HAWKER, JOULE
 05/01/06 (H) BEFORE THE HOUSE

05/01/06 (H) TRANSMITTED TO (S)
05/01/06 (H) VERSION: CSHB 375(FIN) AM
05/02/06 (S) READ THE FIRST TIME - REFERRALS
05/02/06 (S) STA, FIN
05/03/06 (S) STA AT 3:30 PM BELTZ 211

BILL: HCR 4

SHORT TITLE: METH WATCH PROGRAM

SPONSOR(s): REPRESENTATIVE(s) RAMRAS

03/04/05 (H) READ THE FIRST TIME - REFERRALS
03/04/05 (H) STA, JUD
03/15/05 (H) STA AT 8:00 AM CAPITOL 106
03/15/05 (H) Moved Out of Committee
03/15/05 (H) MINUTE(STA)
03/16/05 (H) STA RPT 7DP
03/16/05 (H) DP: GARDNER, LYNN, GATTO, GRUENBERG,
RAMRAS, ELKINS, SEATON
04/19/06 (H) JUD AT 1:00 PM CAPITOL 120
04/19/06 (H) Moved CSHCR 4(JUD) Out of Committee
04/19/06 (H) MINUTE(JUD)
04/21/06 (H) JUD RPT CS(JUD) 6DP
04/21/06 (H) DP: GARA, COGHILL, WILSON, ANDERSON,
GRUENBERG, MCGUIRE
04/25/06 (H) TRANSMITTED TO (S)
04/25/06 (H) VERSION: CSHCR 4(JUD)
04/25/06 (S) READ THE FIRST TIME - REFERRALS
04/25/06 (S) L&C, STA
05/02/06 (S) L&C AT 1:30 PM BELTZ 211
05/02/06 (S) Moved CSHCR 4(JUD) Out of Committee
05/02/06 (S) MINUTE(L&C)
05/03/06 (S) STA AT 3:30 PM BELTZ 211

BILL: HB 133

SHORT TITLE: MUNICIPAL BOUNDARY CHANGES/ COMMISSION

SPONSOR(s): REPRESENTATIVE(s) COGHILL

02/09/05 (H) READ THE FIRST TIME - REFERRALS
02/09/05 (H) CRA, STA
02/16/05 (H) SPONSOR SUBSTITUTE INTRODUCED
02/16/05 (H) READ THE FIRST TIME - REFERRALS
02/16/05 (H) CRA, STA
02/24/05 (H) CRA AT 8:00 AM CAPITOL 124
02/24/05 (H) Heard & Held
02/24/05 (H) MINUTE(CRA)
03/03/05 (H) CRA AT 8:00 AM CAPITOL 124
03/03/05 (H) Moved CSSSHB 133(CRA) Out of Committee

03/03/05 (H) MINUTE(CRA)
 03/04/05 (H) CRA RPT CS(CRA) 5DP 2NR
 03/04/05 (H) DP: SALMON, NEUMAN, KOTT, THOMAS,
 OLSON;
 03/04/05 (H) NR: LEDOUX, CISSNA
 04/02/05 (H) STA AT 10:00 AM CAPITOL 106
 04/02/05 (H) Moved CSSSHB 133(STA) Out of Committee
 04/02/05 (H) MINUTE(STA)
 04/04/05 (H) STA RPT CS(STA) NT 3DP 2NR
 04/04/05 (H) DP: LYNN, ELKINS, SEATON;
 04/04/05 (H) NR: GARDNER, GRUENBERG
 04/04/05 (H) JUD REFERRAL ADDED AFTER STA
 04/13/05 (H) JUD AT 1:00 PM CAPITOL 120
 04/13/05 (H) <Bill Hearing Postponed to 4/18>
 04/18/05 (H) JUD AT 1:00 PM CAPITOL 120
 04/18/05 (H) Moved CSSSHB 133(JUD) Out of Committee
 04/18/05 (H) MINUTE(JUD)
 04/19/05 (H) JUD RPT CS(JUD) NT 2DP 3NR
 04/19/05 (H) DP: COGHILL, MCGUIRE;
 04/19/05 (H) NR: GRUENBERG, DAHLSTROM, GARA
 04/25/05 (H) TRANSMITTED TO (S)
 04/25/05 (H) VERSION: CSSSHB 133(JUD) AM
 04/26/05 (S) READ THE FIRST TIME - REFERRALS
 04/26/05 (S) CRA, STA
 05/02/05 (S) CRA AT 1:30 PM BELTZ 211
 05/02/05 (S) Heard & Held
 05/02/05 (S) MINUTE(CRA)
 05/06/05 (S) CRA AT 1:30 PM BELTZ 211
 05/06/05 (S) Heard & Held
 05/06/05 (S) MINUTE(CRA)
 05/01/06 (S) CRA AT 1:30 PM BELTZ 211
 05/01/06 (S) Moved CSSSHB 133(JUD) am Out of
 Committee
 05/01/06 (S) MINUTE(CRA)
 05/02/06 (S) CRA RPT 2NR 3DP
 05/02/06 (S) NR: STEDMAN, ELLIS
 05/02/06 (S) DP: WAGONER, STEVENS G, KOOKESH
 05/02/06 (S) STA AT 3:30 PM BUTROVICH 205
 05/02/06 (S) Moved SCS CSSSHB 133(STA) Out of
 Committee
 05/02/06 (S) MINUTE(STA)

WITNESS REGISTER

Representative John Coghill
 Alaska State Capitol
 Juneau, AK 99801-1182

POSITION STATEMENT: Sponsor of HB 133 asked members to rescind action from 5/2/06 and move bill without Amendment 1

Christian Gou-Lendhardt, Staff
Senator Ellis
Alaska State Capitol
Juneau, AK 99801-1182

POSITION STATEMENT: Introduced SB 288 for the sponsor

Hannah McCarty, Staff
Representative Beth Kerttula
Alaska State Capitol
Juneau, AK 99801-1182

POSITION STATEMENT: Introduced HJR 25 for the sponsor

Emily Stancliff, Staff
Representative Jay Ramras
Alaska State Capitol
Juneau, AK 99801-1182

POSITION STATEMENT: Introduced HCR 4 for the sponsor

Representative Jay Ramras
Alaska State Capitol
Juneau, AK 99801-1182

POSITION STATEMENT: Sponsor of HCR 4

Representative Les Gara
Alaska State Capitol
Juneau, AK 99801-1182

POSITION STATEMENT: Sponsor of HB 347

Duane Bannock, Director
Division of Motor Vehicles (DMV)
Department of Administration
PO Box 110200
Juneau, AK 99811-0200

POSITION STATEMENT: Supported HB 347

Jacqueline Tupou, Staff
Representative Bruce Weyhrauch
Alaska State Capitol
Juneau, AK 99801-1182

POSITION STATEMENT: Introduced HB 375 for the sponsor

ACTION NARRATIVE

CHAIR GENE THERRIAULT called the Senate State Affairs Standing Committee meeting to order at [3:49:35 PM](#). Present were Senators Bettye Davis, Thomas Wagoner, Kim Elton and Chair Gene Therriault. Senator Charlie Huggins arrived during the course of the meeting.

CSSSHB 133(JUD) am -MUNICIPAL BOUNDARY CHANGES/ COMMISSION

CHAIR GENE THERRIAULT announced HB 133 to be the first order of business. He noted that the action taken the previous day had unintended consequences.

REPRESENTATIVE JOHN COGHILL, sponsor of HB 133, explained that Mr. Hargraves suggested a review of the language that was amended into the bill yesterday. As a result he respectfully asked the committee to rescind its action on including detachment language. Including the detachment language might well go against the local self-governance principle that he strongly supports and removing the language will protect the rights of a minority group.

[3:52:32 PM](#)

CHAIR THERRIAULT remarked, "If we had only listened to Senator Elton yesterday."

SENATOR WAGONER motioned to rescind the action on passing SCS CSSSHB 133(STA) from committee.

CHAIR THERRIAULT announced that without objection SCS CSSSHB 133(STA) was before the committee.

SENATOR WAGONER motioned to rescind action adopting Amendment 1.

CHAIR THERRIAULT announced that without objection the original bill was before the committee.

SENATOR WAGONER motioned to report CSSSHB 133(JUD) am from committee with individual recommendations. There being no objection, it was so ordered.

SB 288-SEPTEMBER AS EDUCATION SAVINGS MONTH

[3:53:54 PM](#)

CHAIR GENE THERRIAULT announced SB 288 to be up for consideration.

CHRISTIAN GOU-LENDHARDT, Staff to Senator Ellis, introduced SB 288 for the sponsor and discussed the information he had distributed. First was a recent US New & World Report article about college affordability and the second was the page on the National Report Card evaluation giving Alaska an F in affordability for 2004.

He explained that SB 288 identifies September as education savings month and establishes a framework for schools, communities and interested groups to hold activities to increase awareness of financing for college education.

[3:56:18 PM](#)

CHAIR THERRIAULT noted the zero fiscal note and asked the will of the committee.

SENATOR WAGONER took exception to the report saying he didn't know of a state that does more than Alaska when it comes to helping postsecondary students.

CHAIR THERRIAULT asked who compiles the report card information.

MR. GOU-LENDHARDT replied the National Council of State Legislatures set up the group that compiles the report card.

SENATOR CHARLIE HUGGINS commented that October might be a more appropriate month since that's the month that the Permanent Fund Dividend comes out.

CHAIR THERRIAULT noted that other Alaska governors have used September.

SENATOR ELTON motioned to report SB 288 and attached fiscal note(s) from committee with individual recommendations. There being no objection, it was so ordered.

CSHJR 25(STA)-SUPPORTING VETERANS HOME OWNERSHIP ACT

[4:01:31 PM](#)

CHAIR THERRIAULT announced HJR 25 to be up for consideration.

HANNAH McCARTY, Staff to Representative Beth Kerttula, introduced HJR 25 with the explanation that Alaska is one of five states that participates in the Veterans' Home Ownership Program, which allows the state to issue tax exempt bonds and use the proceeds to make low interest home loans to veterans who

served before 1977 and apply within 30 years of leaving active duty.

MS. McCARTY explained that without congressional action, fewer veterans would qualify. She related that about 11,700 Alaska veterans have benefited from the program since 1983 but just 57 veterans qualified in the last fiscal year. Repeal of the qualifying date was inserted into the tax reconciliation bill last year, but the U.S. Senate version of the bill doesn't have the language. The bill is currently in conference committee and HJR 25 urges passage.

SENATOR KIM ELTON stated that this program allowed him to buy a home several years earlier than would have been possible without such a program.

SENATOR THOMAS WAGONER urged support for the program.

SENATOR CHARLIE HUGGINS expressed support for veterans.

[4:05:17 PM](#)

SENATOR WAGONER motioned to report CSHJR 25(STA) and attached fiscal note(s) from committee with individual recommendations. There being no objection, it was so ordered.

CSHCR 4(JUD) -METH WATCH PROGRAM

CHAIR THERRIAULT announced HCR 4 to be up for consideration.

[4:06:17 PM](#)

EMILY STANCLIFF, Staff to Representative Jay Ramras, explained that HCR 4 is the first national effort to curb the spread of methamphetamine use across the state through increased awareness of the dangers associated with its use.

The goal of the program is to engage retailers, law enforcement and other partners to reduce precursor products for illicit manufacture of methamphetamine, to increase community awareness, and to assist local communities in addressing problems.

CHAIR THERRIAULT noted that the Division of Behavioral Health has indicated that it has sufficient funding for the program so the resolution is actually asking for coordination of existing activities under the umbrella of the Meth Watch Program.

[4:09:26 PM](#)

REPRESENTATIVE JAY RAMRAS, sponsor of HCR 4, advised that the tri-group of mayors from Anchorage, MatSu, and Kenai have raised about \$200,000 for a Meth Watch Program and the Fairbanks mayor has committed \$20,000. Currently he is personally working to secure \$100,000 from the House Finance Committee and Senator Murkowski is working in Washington D.C. to secure some of the \$5 million to \$12 million that is earmarked for methamphetamine education programs.

The program is two pronged. The first is to educate children and the second is to educate retailers. Although law enforcement is a wonderful dynamic, educating kids to move away from the drug is the first step.

CHAIR THERRIAULT noted that the Montana program is hard hitting and drives the point home.

SENATOR WAGONER remarked there is no distribution list.

REPRESENTATIVE RAMRAS said Anchorage has identified the man who will run the program and the hope is that the program will be fairly distributed across the state. He noted that he had attended a mock meth lab project last fall and it was a very positive dynamic and he hopes the process will proliferate through both rural and urban Alaska.

SENATOR WAGONER motioned to report CSHCR 4(JUD) and attached fiscal note(s) from committee with individual recommendations. There being no objection, it was so ordered.

CSHB 347(JUD) am -MOTOR VEHICLE INSURANCE/LICENSE/ NOTICES

CHAIR THERRIAULT announced HB 347 to be up for consideration.

REPRESENTATIVE LES GARA, Sponsor of HB 347 explained that the bill closes a loophole in the DMV law and criminal statutes in which people are charged with not having insurance when, in fact, they do.

In the event of a car accident, the driver must show the officer proof of insurance. Subsequent to that, the driver must fill out paperwork and send it to the Department of Motor Vehicles (DMV). If for some reason the paperwork doesn't get to DMV then a reminder notice is sent to the driver at the address on the driver's license. It is not sent to the address on the police report even though that is a more recent and probably a more accurate address. Because the paperwork isn't complete, the

driver is technically driving without a license, which is a crime. If the driver happens to get pulled over, he or she will be charged with driving without a license. Although the problem will likely be straightened out by the time the case comes to trial, it's still hanging over the driver's head.

HB 347 will do several things: it tells the driver that he or she doesn't have to worry about the criminal charge; it tells DMV that it can send paperwork to the correct address; and it establishes a minimum fine of \$500 for driving without insurance.

The House State Affairs Committee added a provision so that law enforcement can impound a driver's car if a number of driving crimes have been committed.

[4:18:00 PM](#)

DUANE BANNOCK, Director, Division of Motor Vehicles (DMV), Department of Administration, stated strong support for HB 347 and Section 4 in particular. It clarifies that DMV may use the address on the police report rather than an old address from the license.

CHAIR THERRIault asked if this addresses drivers who had insurance the whole time.

REPRESENTATIVE GARA assured members that this is only a defense for drivers who had insurance.

MR. BANNOCK recapped saying the system begins to fall apart when DMV looks in its "tickler file" for the purpose of contacting the customer by certified mail and the address in the file is bad.

SENATOR KIM ELTON motioned to report CSHB 347(JUD) am and attached fiscal note(s) from committee with individual recommendations. There being no objection, it was so ordered.

CSHB 375(FIN) am -PAST SERVICE COST LIABILITY ACCOUNTS

[4:22:54 PM](#)

CHAIR THERRIault announced HB 375 to be up for consideration.

JACQUELINE TUPOU, Staff to Representative Bruce Weyhrauch, advised that HB 375 relates to Alaska's \$6.9 billion unfunded liability. The Alaska Retirement Management (ARM) Board recently

submitted its findings and priority recommendations and the most important are encapsulated in HB 375.

The bill would 1) establish past service retirement liability accounts for PERS and for TRS within the Department of Revenue; 2) establish a formula for calculating how payments will be made; and 3) provide incentives for employers to pay down the debt.

Finally, she said, this works in much the same way as the school debt reimbursement program.

[4:25:28 PM](#)

GARY BADER, Chief Investment Officer, ARM Board, recapped the history of the board and that it is charged with developing a strategy of addressing the unfunded liability of the PERS and TRS systems. Clearly, he said, the liability will have to be paid incrementally.

Referencing page 2 of a handout he advised that the liability for TRS increased \$376 million last year while the assets increased \$114 million. The reason is that there isn't enough money in the fund for the earnings to be much better.

Addressing the concept of "normal cost" he explained that this is what the actuaries are using to describe what it would cost each year to pay for the people in the system if there was no debt and all assumptions were met. In a defined benefit system the idea is to put aside enough money during the working life of the employee to pay for the liability during retirement years.

The chart on page 3 indicates what happened in 2003 when the TRS system went from 95 percent funded to 68 percent funded. This is the result of changes in actuarial assumptions, recognition of the changes in the cost of health liability, and poor performance in the financial markets.

MR. BADER noted that incremental changes in the contribution rates from employers have addressed past funding shortfalls and HB 375 creates a mechanism for the ARM Board to ask employers to pay the full actuarial rate with state assistance.

The chart on page 4 demonstrates the same idea except that the actuarial liability increased \$1.4 billion between 2004 and 2005.

Page 5 shows the funding ratio history for PERS.

4:30:10 PM

CHAIR THERRIault asked what steps were taken back in 1979 to get back to 100 percent funding.

MR. BADER replied his understanding is that the employer required contribution rates were increased, which is what he believes the ARM Board will suggest for 2008. In the past two years the incremental increase has been 5 percent for PERS but the contribution rate lost 4 percent last year due to unfunding. This indicates that the contribution rate will have to be increased to more than 5 percent increments in a year. He stressed that delay costs money.

Continuing with the handout, he said that page 6 is the actuary's conclusion, which states that for PERS the actuarially computed contribution rate increased 4 percent between 2004 and 2005 while TRS increased slightly. The funded ratios declined for each.

The chart on page 7 demonstrates outcomes if the contribution rate is set at a particular percent with the assumption that payoff would occur in a certain number of years. For example, if the TRS contribution rate for the employer is set at 21 percent and payoff is projected in 30 years the actuaries calculate that the increased contribution would amount to \$100 million per year.

The chart on page 8 uses the same examples to demonstrate the outcome for PERS.

4:32:54 PM

Page 9 shows calculations for determining the past service cost rate. If there is a loss, it is amortized over 25 years and the sum of all the gains and losses becomes the past service cost which is then calculated as a percent of the payroll.

Page 10 explains the allocation for TRS employers all of which are pooled and treated the same regardless of district. The payments to those employees are based on 85 percent of the past service cost rate for the three prior years.

This is similar to the school debt reimbursement plan in that it provides money to communities to pay off 85 percent its debt for school districts. Describing it as somewhat circular, he said this provides money to school district and requires that it be sent back to the state to fund the retirement system.

MS. TUPOU stressed the importance of this point because federal dollars aren't lost under this system.

MR. BADER continued with page 11 saying it's the same general concept, but it recognizes that each political subdivision in the state has its own past service liability rate so the employer rate is used rather than the system rate. The 85 percent reimbursement and three year look back works the same, but it also provides an incentive fee for PERS employers that either contribute more to the system than is required or an employer that may have contributed more this year. He noted that last year the Legislature provided some municipalities with a 5 percent payment and some used it to pay down their liability.

[4:38:51 PM](#)

SENATOR ELTON said he's heard that Anderson has just one public employee and it had a \$200,000 surplus. With that anomaly in mind, he questioned the reliability of the data.

MR. BADER replied he's heard of the anomaly and he believes it's under investigation. The data comes from the Division of Retirement and Benefits and the legislation is working from the best information that's available. Even so, he said, the existence of an anomaly wouldn't affect how this works.

SENATOR ELTON recapped it's under review so those that shouldn't be rewarded won't be rewarded.

MR. BADER replied that's fair, but he doesn't want to go quite that far since he's only heard of the one case.

SENATOR ELTON conceded he'd heard of just the one case.

SENATOR WAGONER asked if different scenarios had been run for faster pay down.

MR. BADER referenced page 8, which has amortization periods ranging from 25 to 40 years and said the actuaries could calculate different periods.

SENATOR WAGONER reiterated he'd like to look at scenarios for paying down the principle faster. For instance, he'd like to see the result of doubling the effort in a year.

MS. TUPOU chimed in that this isn't a panacea; it's a starting point.

MR. BADER said he could have other timeframes calculated and send the report to legislatures.

SENATOR WAGONER commented this is a heavy debt for the entire state and it ought to be paid down as fast as possible.

MR. BADER reiterated there is an incentive for paying the debt down faster and the ARM Board will probably be back next year with additional suggestions.

SENATOR WAGONER said he didn't want to reward bad behavior.

MS. TUPOU mentioned the incentives and said the idea is that some communities would take advantage of those.

CHAIR THERRIAULT said he and Senator Wagoner had to leave for caucus so the committee could hold the bill or move it on to the Finance Committee.

SENATOR WAGONER expressed the desire to move the bill.

SENATOR ELTON said he didn't object but he questioned why there is need for an account for money that would be spent in the same fiscal year. "If we're going to appropriate money to the account to be distributed why can't we just appropriate money to be distributed?" He asked Ms. Tupou to get back to him with an answer.

SENATOR WAGONER moved CSHB 375(FIN) am and attached fiscal notes from committee with individual recommendations. There being no objection, it was so ordered.

There being no further business to come before the committee, Chair Therriault adjourned the meeting at [4:47:14 PM](#).