

HOUSE FINANCE COMMITTEE  
March 15, 2007  
1:53 P.M.

CALL TO ORDER

Co-Chair Chenault called the House Finance Committee meeting to order at [1:53:07 PM](#).

MEMBERS PRESENT

Representative Mike Chenault, Co-Chair  
Representative Kevin Meyer, Co-Chair  
Representative Bill Stoltze, Vice-Chair  
Representative Harry Crawford  
Representative Richard Foster  
Representative Les Gara  
Representative Mike Hawker  
Representative Reggie Joule  
Representative Mike Kelly  
Representative Mary Nelson  
Representative Bill Thomas Jr.

MEMBERS ABSENT

None

ALSO PRESENT

Sharon Kelly, Staff, Representative Mike Chenault; David Teal, Director, Legislative Finance Division

SUMMARY

HB 95      An Act making appropriations for the operating and loan program expenses of state government, for certain programs, and to capitalize funds; making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska; and providing for an effective date.

HB 95 was HEARD & HELD in Committee for further consideration.

HB 96      An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date.

HB 96 was HEARD & HELD in Committee for further consideration.

#HB95  
#HB96  
HOUSE BILL NO. 95

An Act making appropriations for the operating and loan program expenses of state government, for certain programs, and to capitalize funds; making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska; and providing for an effective date.

HOUSE BILL NO. 96

An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date.

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Co-Chair Meyer MOVED to ADOPT work draft 25-GH1013\O, Bailey, 3/15/07, as the version of HB 95 before the Committee. (Copy on File). There being NO OBJECTION, it was adopted.

Co-Chair Meyer MOVED to ADOPT work draft 25-GH1015\E, Bailey, 3/14/07, as the version of HB 96 before the Committee. (Copy on File). There being NO OBJECTION, it was adopted.

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Co-Chair Chenault explained that public testimony would be heard on Friday, Saturday and Monday, March 16, 17 & 19<sup>th</sup>. The amendment deadline is Monday, March 19<sup>th</sup> at 5:00 p.m. Amendments must be received by the Chairman's office by that time. The Committee will begin to address amendments on Tuesday, March 20<sup>th</sup>, with the intention to pass both bills out of Committee no later than Thursday, March 22<sup>nd</sup>.

Co-Chair Chenault addressed some large items included in the Governor's bill and how they would be handled in the proposed HB 95. He said Sharon Kelly would review changes to both bills:

- The General Fund total in the committee substitute is \$3.46 billion dollars;
- The Governor's amended bill totaled \$3.61 million dollars; and
- There is a potential savings of \$163 million dollars more than the Governor's Amended budget.

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SHARON KELLY, STAFF, REPRESENTATIVE MIKE CHENAULT, provided a presentation on the House Finance Committee substitutes for HB 95 and HB 96. She discussed the order:

1. Review of the Subcommittee process and action
2. Review of language changes
3. Review of the Mental Health Bill

Ms. Kelly explained that the operating budget appropriation and the mental health budget have gone through a long process to achieve recommendations of the committee substitute.

1. The House Finance subcommittees for the 25<sup>th</sup> Legislature were appointed in January.
2. During January and February, the Subcommittee reviewed agency budgets while waiting for the Governor's amendments.
3. On March 1<sup>st</sup>, 442 amendments were delivered from the Governor to the Legislature. The subcommittees reviewed those amendments, adopting, reducing or rejecting them. Subcommittee action closed by March 12<sup>th</sup>.
4. At the request of Co-Chair Chenault, amendments pertaining to fuel were removed by the subcommittees to avoid increases added to the FY09 base budget. The Administration had requested \$16 million dollars in that budget. Language has been added that allows up to \$8 million dollars more than requested for a total of \$24 million, more in line with the FY08 costs. That appropriation is contingent upon the price of oil with a base of \$35 dollars per barrel and a cap of \$58 dollars per barrel.
5. Subcommittees were requested to remove retirement related fund source changes and action, which brought budget figures back to a consistent basis.
6. Subcommittees reviewed language pertaining to each department and their recommendations.
7. All subcommittee recommendations appear in the committee substitute (CS); the only addition is the \$1.3 million General Fund dollars, which replaces Oil and Hazardous Funds in the Department of Military & Veterans Affairs and Department of Transportation & Public Facilities budget.
8. Subcommittee final closeouts and narratives are posted for the public on the Legislative Finance website.

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LANGUAGE:

Ms. Kelly indicated the language differences from the Governor's bill including the subcommittee changes and those proposed by Co-Chair Chenault.

- Section 4 added legislative intent on Page 56.
- Section 5 added legislative intent.
- Section 6, the Alaska Aerospace Development added in federal receipts.
- Section 7, for the Alaska Housing Finance Corporation (AHFC) dividends will go into the Alaska Capital Income Account in the amount of \$38.8 million dollars.
- Section 8, the Alaska Industrial Development and Export Authority (AIDEA) dividends will go into the Alaska Capital Income Fund instead of the debt retirement in the amount of \$10 million dollars.
- Section 9 - no changes
- Section 10, the Alaska Student Loan Corporation (ASLC) dividends will go into the Capital Income Fund in the amount of \$1.2 million dollars
- Section 11, the Department of Administration items B & C were added together to total \$2.51 million dollars.
- Section 12, previously labeled Section 11 - to the Department of Corrections subcommittee removed health care costs, an open ended allocation for the inmate health care; the Subcommittee added \$1.9 million dollars. Inmate health costs will be addressed in another appropriation bill.
- Section 13, in the Department of Education & Early Development component, education was previously funded through HB 97. The amount in HB 95 is \$291, \$381 & \$200, making a \$30 million dollar reduction, coming from the Governor's proposed amendments with a \$75 million dollar reduction from Teacher Retirement System (TRS).
- Section 14 covers retirement funding direct appropriations and deposits to the Department of Administration to fund TRS, reducing the rate to 12.5%; Section C includes a direct deposit to the Department of Education & Early Development and reduces the rate to 22%.
- Section 15, the Department of Health and Social Services subcommittee added the Federal Medicaid Assistance Program (FMAP) contingency language for \$37.1 million dollars.
- Section 16, to the Department of Labor & Workforce Development, there were no changes.
- Section 17, to the Department of Military & Veterans Affairs, there were no changes.

- Section 18, to the Department of Natural Resources, there were no changes.
- Section 19, to the Department of Public Safety, there were no changes.
- Section 20, the Department of Revenue, Section C was modified, adding a cap of \$25 million dollars paid to the Alaska Retirement Management (ARM) Board and intends payment on additional claims.
- Section 21, to the Office of the Governor, including the \$24 million dollar fuel contingency; the trigger dates were changed.
- Section 22, to the University of Alaska, there were no changes.
- Section 23, to the Federal and other program receipts, there were no changes.
- Section 24, Fund Transfer changes: Item 4(a) was changed to \$102 million general fund dollars; 6(a) removes the AHFC dividend; 7(a) © removed the \$10 million from AIDEA; item C relates to Power Cost Equalization (PCE), removed by the Subcommittee for \$12 million; item D was modified to appropriate \$25 million from the PCE Endowment Fund to the Power Cost Authority (PCA) Capitalization Fund; item N removed \$3 million to the Disaster Relief Fund; item S produced \$20 million to the ASLC receipts to pay down student scholarships and was removed; item V, relating to Enterprise Technology Services (ETS) capitalization of \$5.3 million was removed
- Section 25, to Bond Claims, there were no changes.
- Section 26, to Retained Fees and Bankcard Service, there were no changes.
- Retirement for municipalities was removed (previously Section 22)
- Section 27, to Salary & Benefit Adjustments, there were no changes.
- Section 28, the Shared Taxes and Fees includes commercial passenger vessel excise tax and regional cruise ship impact funds.
- Section 29, State debt & other obligations, Section G was changed to coincide with the Governor's amendment to add miscellaneous fees of \$1.8 million dollars; item M was moved and a \$3.4 million dollar appropriation for the AHFC parking garage was added.
- Section 30, removed items E & F from the Capital Budget Request (CBR).

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MENTAL HEALTH

Ms. Kelly explained that one change was made to the Mental Health Bill, HB 96. It is customary for the House to remove one capital item and the Senate to remove the rest so all items are subject to the call of the Conference Committee. The item removed was \$650 thousand dollars in the Mental Health Trust receipts from the Department of Natural Resources Mental Health Land Trust Development located in Section 3.

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RETIREMENT:

Ms. Kelly spoke to the unfunded liability and the various approaches proposed to address the concern. Some reasons for the liability are a market crash, increases to health costs, increasing number of retirees and incorrect actuarial information.

The proposed remedies are:

- SB 141 changed the program from Defined Benefit to Defined Contribution.
- The Alaska Retirement Management (ARM) Board raised rates in FY07, the Teacher Retirement System (TRS @ 26 and the Public Employees Retirement System (PERS)) capped at 5% increase.
- The ARM Board again raised rates in FY08 - TRS 54%; PERS = various (uncapped low 12%, high 184%). The State rate was 22.75% in FY07 and 44% in FY08.
- The ARM Board calculated amounts needed to payoff the unfunded liability in 25 years with equal payments from the established rate.
- The ARM Board included a factor in calculating the rates to cover a decreasing wage base of the defined benefit members TRS 11.77%/PERS 7.25%.

Ms. Kelly discussed problems with the current retirement system:

- The school districts and the University are not competitive when seeking federal and other grants due to the escalating retirement costs.
- The Base Student Allocation (BSA) has been raised in the last two years to pay the retirement increases within the formula causing the military academy to be over-funded because they have no employees in the TRS system. The effect has become magnified because they receive seven times the BSA.
- An optional retirement program at the University tied participant retirement deposits directly to the ARM Board rate. The participants could receive an

unanticipated windfall increase directly to their personal accounts as the ARM Board continues to increase rates.

- That rate is so high, it directly impacts services in the schools and the municipalities by taking money away from the classroom and municipal services in order to payoff the liability.
- Municipality's inability to pay high rates.
- PERS is not a cost shared plan and each entity has a different rate.
- PERS needs to go to a cost share plan that includes the entire wage base of the Defined Benefit (DB) and Define Contribution (DC) plan so that only one rate is paid. Such action could insure no hiring discrimination because of the retirement status of the employee; the action could also eliminate the administrative burden of tracking retirement costs by employees.

Ms. Kelly addressed the FY08 fixes to date. The Governor proposed to fund the FY08 TRS and PERS retirement increases outside the education formula. The Governor's TRS amendments returned that rate to 26%. A resolution by the ARM Board indicated that they will reduce rates to FY06 levels if the State directly pays into the Unfunded Liability Account the difference they would have collected at the established FY08 rates.

Since the beginning of Session, the House Finance Committee (HFC) has been exploring with the Legislative Finance Division (LFD), approaches that could be put in place to fix the issue while at the same time, addressing the unfunded liability. The HFC "fix" requires three pieces.

- o Fixing the appropriation bill to reflect the appropriate amount of money necessary to fund retirement issues this year.
- o Amending the statute to makes the PERS a cost share system and set a base rate in statute for the rate that will be paid by participants.
- o Make PERS/TRS a blended system, a system that includes both DB and DC employees at one rate.

The committee substitute addresses only one piece, the appropriation in Section 14, TRS @ \$269 million dollars / PERS @ \$180 million dollars.

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Ms. Kelly discussed the fixes in the work draft including a TRS rate of 12.56%, funding the remaining portion outside

the formula. The draft calculates the PERS rate at 22% for municipalities with the State picking up the remaining difference. The rate used for the PERS system calculations is 22%. That rate was selected because:

- It is close to the State's rate of 22.75%; and
- It balances the municipality's needs with the State's ability to pay, paying \$65 million dollars of the municipality's request of \$78 million dollars this year. The fix would be permanent and would not need to be considered each year.

Ms. Kelly noted the second piece of the bill, discussed in the Senate Finance Committee (SFC), would be introduced soon. That legislation changes the PERS to a cost share system, not including the full wage base with one rate for all participants. Such amendments will need to be added.

Ms. Kelly identified who wins with the proposed system:

- The State, as the unfunded liability is being paid down and deposits for the TRS would be made in July instead of over a 12 month period. Everyone would pay the same rate. The military academy would be funded more currently. The calculation for the employee retirement would be a fixed rate versus calculating by individual employees. The unfunded liability would be paid off in 25 years.
- The school districts, as the BSA was calculated according to a district's need, would not include paying off an unfunded liability.
- The municipalities, as they would acquire a rate that they could depend upon and afford; there would be no hiring discrimination.

Ms. Kelly recapped important parts of her presentation:

- Pass the appropriation draft with retirement fixes listed;
- Pass the Governor's anticipated bill, implementing a cost share system in the PERS and amending the bill to include the PERS/TRS entire salary base; and the
- ARM Board dropping rates prior to June 30, 2007.

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Representative Nelson asked what DCDB employees were. Ms. Kelly explained that DC is Defined Contribution and DB as a Defined Benefit.

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Co-Chair Chenault expressed his gratitude to the work produced by the subcommittee chairmen and the subcommittee process. He highlighted the schedule for the upcoming week. Amendments will be addressed on March 21<sup>st</sup>-23<sup>rd</sup>.

HB 95 and HB 96 were HELD in Committee for further consideration.

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ADJOURNMENT

The meeting was adjourned at 2:22 P.M.