

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

March 5, 2007

3:33 p.m.

MEMBERS PRESENT

Representative Mike Hawker, Chair
Representative Anna Fairclough, Vice Chair
Representative Bob Roses
Representative Paul Seaton
Representative Peggy Wilson
Representative Sharon Cissna
Representative Max Gruenberg

MEMBERS ABSENT

All members present

OTHER LEGISLATORS PRESENT

Representative Bob Lynn

COMMITTEE CALENDAR

HOUSE BILL NO. 13

"An Act relating to prepayments of accrued actuarial liabilities of government retirement systems; 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, notes, commercial paper, or other obligations 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; authorizing a governmental employer to issue obligations to prepay all or a portion of the governmental employer's shares of the unfunded accrued actuarial liabilities of retirement systems and to enter into a lease or other contractual agreement with a trustee or the Alaska Municipal Bond Bank Authority or a subsidiary of the authority in connection with the issuance of obligations for that purpose, and relating to those obligations; and providing for an effective date."

- MOVED CSHB 13(W&M) OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

BILL: HB 13

SHORT TITLE: RETIREMENT SYSTEM LIABILITY/BONDS/CORP.

SPONSOR(S): REPRESENTATIVE(S) HAWKER

01/16/07	(H)	PREFILE RELEASED 1/5/07
01/16/07	(H)	READ THE FIRST TIME - REFERRALS
01/16/07	(H)	W&M, STA, FIN
02/14/07	(H)	W&M AT 3:30 PM HOUSE FINANCE 519
02/14/07	(H)	Heard & Held
02/14/07	(H)	MINUTE(W&M)
02/16/07	(H)	W&M AT 3:30 PM HOUSE FINANCE 519
02/16/07	(H)	Heard & Held
02/16/07	(H)	MINUTE(W&M)
03/05/07	(H)	W&M AT 3:30 PM HOUSE FINANCE 519

WITNESS REGISTER

BRIAN ANDREWS, Deputy Commissioner
Treasury Division
Department of Revenue (DOR)
Juneau, Alaska

POSITION STATEMENT: Testified in favor of HB 13 and answered questions.

DEVEN MITCHELL, Debt Manager
Treasury Division;
Executive Director
Municipal Bond Bank Authority (MBBA)
Department of Revenue (DOR)
Juneau, Alaska

POSITION STATEMENT: Explained provisions of HB 13 and answered questions.

MIKE BARNHILL, Assistant Attorney General
Labor and State Affairs Section
Department of Law (DOL)
Juneau, Alaska

POSITION STATEMENT: Presented an overview of HB 13 and answered questions.

LAWRENCE A. SEMMENS, CPA, Finance Director
City of Kenai
Kenai, Alaska

POSITION STATEMENT: Testified in favor of HB 13 and responded to questions.

MICHAEL E. LAMB, CPA, CGFM, Chief Financial Officer

Fairbanks North Star Borough
Fairbanks, Alaska

POSITION STATEMENT: Expressed his support for development of options which would facilitate the reduction of unfunded pension liabilities.

ACTION NARRATIVE

CHAIR MIKE HAWKER called the House Special Committee on Ways and Means meeting to order at [3:33:19 PM](#). Present at the call to order were Representatives Hawker, Roses, Cissna, Seaton, Wilson, and Fairclough. Representative Gruenberg arrived as the meeting was in progress.

HB 13-RETIREMENT SYSTEM LIABILITY/BONDS/CORP.

[3:34:13 PM](#)

CHAIR HAWKER announced that the only order of business would be HOUSE BILL NO. 13, "An Act relating to prepayments of accrued actuarial liabilities of government retirement systems; 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, notes, commercial paper, or other obligations 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; authorizing a governmental employer to issue obligations to prepay all or a portion of the governmental employer's shares of the unfunded accrued actuarial liabilities of retirement systems and to enter into a lease or other contractual agreement with a trustee or the Alaska Municipal Bond Bank Authority or a subsidiary of the authority in connection with the issuance of obligations for that purpose, and relating to those obligations; and providing for an effective date."

[3:34:42 PM](#)

REPRESENTATIVE FAIRCLOUGH moved to adopt the proposed committee substitute (CS) for HB 13, Version 25-LSO0084\E, Cook, 3/1/07. There being no objection, Version E was before the committee.

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BRIAN ANDREWS, Deputy Commissioner, Treasury Division, Department of Revenue (DOR), explained that the bill broadens

the different authorities that can issue pension obligation bonds (POBs). It authorizes the establishment of subsidiary authorities within the Alaska Housing Finance Corporation (AHFC), and DOR. It expands the authority of the state bond committee to allow it to assist in the issuance of POBs. He set forth two parameters for the committee to consider. First, under the bill, the state is limited to issuance of no more than \$5 billion in POBs. Second, the bill contains a limitation that these bonds may not be issued unless there is a minimum positive arbitrage of 1.5 percent between the actuarially assumed rate of return and the interest cost on the POBs. He said that DOR recommends approval of HB 13.

[3:38:01 PM](#)

CHAIR HAWKER reminded the committee that a similar bill considered by the legislature last year only enhanced the authority of the Alaska Municipal Bond Bank Authority (MBBA) to issue POBs on behalf of municipalities. The bill currently before the committee proposes to expand the ability of the executive branch to issue POBs, he said.

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REPRESENTATIVE SEATON asked whether the three entities with the authority to issue bonds will issue bonds for separate sections of government. He also inquired whether one of the entities could end up competing with another entity to issue bonds; or whether one entity could issue a POB if another bonding entity had refused to do so.

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MR. ANDREWS replied that the bill allows for multiple entities to accomplish what he hopes is a coordinated effort and that only one entity will issue the POBs.

[3:40:09 PM](#)

CHAIR HAWKER indicated that today's review of the bill will consider whether there will be centralized state control over bond transactions.

[3:40:33 PM](#)

DEVEN MITCHELL, Debt Manager, Treasury Division; Executive Director, Municipal Bond Bank Authority (MBBA), Department of

Revenue (DOR), said he believes that there will be centralized control over POB transactions. He went on to say that any transaction must have a basis for a credit structure in place; this empowerment is provided by the bill. The entities with the power to issue bonds will not be able to "double up," meaning one entity will not be able to issue bonds on the same basis or for the same purpose as another entity, he explained. The intent of authorizing more than one state agency to issue POBs is to enhance the ability for the state to make the best decision as to how to tailor transactions to achieve the maximum benefits for the state. He said there is currently some uncertainty regarding the possible participation of some municipal entities. He related his understanding that some other legislation currently being considered may impact this issue; therefore there is an added layer of flexibility in HB 13.

[3:42:58 PM](#)

MIKE BARNHILL, Assistant Attorney General, Labor and State Affairs Section, Department of Law (DOL), explained that he believes Section 1, subsection (d) is identical to last year's bill on this same subject.

CHAIR HAWKER confirmed the aforementioned point.

MR. BARNHILL went on to say that subsection (e) on pages 2-3, enables a revision in the employer contribution rate in recognition of any financed portion of the employer's accrued unfunded pension liability.

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MR. MITCHELL said that the aforementioned point is very important. An employer that elects to prepay all or part of its pension liabilities needs to receive relief from its past service contribution rate and begin to pay debt service on the borrowed money, which should be less than the amounts paid by the employer on its past service contribution rate, he explained. He agreed with the observation that the employer's contribution rate would be recalculated within 180 days following any prepayment.

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REPRESENTATIVE SEATON noted that Section 1 covers the Teachers' Retirement System (TRS), which is a combined system that

employers contribute to at the same rate. He asked whether it is possible to determine an employer's individual past service cost for a combined system like TRS. He offered his understanding that there has been some discussion about changing the Public Employees' Retirement System (PERS) to a unified system with unified employer contribution rates, and expressed concern that this bill would allow TRS' to separate into a multi-part system in which individual employers can contribute varying amounts to their unfunded pension liabilities.

[3:45:51 PM](#)

MR. BARNHILL explained that TRS is a cost-share system with one employer contribution rate and one unfunded pension liability to which all employers in the system contribute. In contrast, PERS is a multiple-employer system with 160 employers with differing contribution rates, resulting in 160 unfunded liabilities that need to be paid. He noted there has been some interest within the administration in converting PERS to a system similar to TRS. However, the provisions in this bill could create something of a hybrid system for TRS because a new contribution rate is created for TRS employers that finance their pension liabilities through POBs. He said he does not believe this creates a "mini system," but it would result in relief from high employer contribution rates for those employers that use POBs to pay all or part of their unfunded liabilities.

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CHAIR HAWKER pointed out that Section 1 page 2, line 17 states "the lump sum payment shall be accounted for separately in accordance with regulations adopted by the commissioner." This provision would take care of the accounting issues related to TRS, he opined.

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REPRESENTATIVE SEATON asked whether an employer that prepays all or part of its pension liability is no longer liable for any further obligations, even if costs continue to escalate and the whole system accrues further liability.

MR. BARNHILL replied that an employer can pay its existing liability, but if assumptions change in the future that result in a systemwide cost increase, the employer is still responsible to pay off its portion of unfunded pension liabilities.

3:50:09 PM

REPRESENTATIVE SEATON asked whether an employer will get a rebate if favorable investment returns result in lowering that employer's share of any unfunded liability.

MR. ANDREWS said that it is expected that employer contribution rates will remain flexible, noting it is not unusual for contribution rates to vary, depending on outside variables such as medical costs. The employers remain responsible for their share regardless of rate changes.

3:51:17 PM

REPRESENTATIVE WILSON asked whether the state or individual school districts would issue POBs for school district obligations.

MR. MITCHELL explained that the transaction details are not completely clear at this time, which is why the bill sets forth different options. This approach will give the state the flexibility to determine how to approach the unfunded liabilities. He went on to say that a potential structure for TRS could be that the state would contract with municipalities to fund the bonds directly for the schools, noting that the state pays for the costs of education. In this type of scenario, that there may be a recognition of the state's payment in the education foundation formula, he suggested. In essence, this approach would replace an ongoing contribution for the past service liability for the school districts' pension funds, he said. Currently, the legislature provides funding for school districts to pay their past service contribution. In the future, it may be recognized that a portion of the state's payment is going to pay debt service instead of being paid directly into the education foundation formula.

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CHAIR HAWKER noted that the aforementioned scenario sets forth a potential transaction, but the bill provides the broad authority and structures necessary to allow the executive branch to craft these transactions. He opined it is not possible to give exact scenarios for POB issuance at this time.

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MR. MITCHELL indicated, in his opinion, the bill sets forth mechanisms intended to allow a centralized approach to POB issuance, and anticipates that the state will pursue transactions on behalf of smaller entities.

[3:57:18 PM](#)

REPRESENTATIVE WILSON sought assurance that the intent of the bill was to allow transactions for payment of the school districts' unfunded pension liabilities so that the schools could have a reasonable employer contribution rate.

[3:57:54 PM](#)

CHAIR HAWKER indicated that the bill is intended to facilitate a structure to accomplish the aforementioned scenario.

[3:58:12 PM](#)

REPRESENTATIVE ROSES observed that an employer's contribution rate can be lowered by one legislature, but raised by another. He opined that the provisions of the bill create an opportunity for school districts to issue POBs for their unfunded liabilities regardless of future scenarios.

[3:59:13 PM](#)

REPRESENTATIVE SEATON offered his understanding that bonding can lower an employer's contribution rate, but perhaps only by 4 percent. He stated his concern that if some school districts issue bonds, but others do not, it could result in the various school districts' each having different employer contribution rates. He noted that a school district with a larger tax base, such as Anchorage, may be able to avail itself of the bonding provisions of the bill and thereby lower its employer contribution rate. However, a smaller school district that is not able to pursue a POB transaction to lower its contribution rate may have a very different approach to school funding. He expressed concern that this may place school districts throughout the state in "entirely different seats" when they come before the legislature and request education funding.

MR. MITCHELL said he believes the aforementioned issue can be differentiated from the PERS situation, where there could be underlying credit concerns. He said this had been considered last year, noting that there is a fairly finite list of communities that have no property tax base and limited

economies. However, school districts are very reliant on the state for funding; therefore any district could participate in the program and would not be barred from participating based on some kind of credit issue.

4:03:16 PM

REPRESENTATIVE SEATON reiterated his concern that school districts will have very different economic scenarios and thus different approaches in their education funding requests, if some districts issue POBs while others do not.

MR. MITCHELL replied that school districts currently have fairly different situations, for example urban areas have some advantages due to economies of scale caused by their larger size.

4:05:15 PM

REPRESENTATIVE SEATON continued to express concern that if individual school districts had differing employer contribution rates due to POB issuance, it could inject a "massive unknown" into issues of education funding. He stated he does not object to issuance of POBs on a statewide basis for TRS so as to reduce the employer contribution rate. However, he related his discomfort with allowing individual districts to take action that will result in differing contribution rates, which may have unexpected consequences.

CHAIR HAWKER said that he believes the aforementioned point covers policy issues that are discussed annually. He reminded the committee that a small reduction in the employer contribution rate, even if it is only 4 percent, results in an aggregate possible savings of perhaps \$1 billion. He further said that if the state did pursue POBs to pay the school districts' past service liability, it could result in a substantial reduction in an individual district's contribution rate.

4:07:43 PM

REPRESENTATIVE WILSON related her hesitation to take any action that would further complicate or worsen the already difficult issue of education funding. She indicated her support to allow the state to act for all the school districts, and expressed concern that other approaches could cause difficulties for some schools.

4:09:02 PM

REPRESENTATIVE FAIRCLOUGH respectfully stated her disagreement with the prior statements related to school districts. She offered her understanding that each district has a calculated TRS obligation, and can use their individual management techniques to reduce that obligation. As an example, two persons may each owe a debt of \$100, and although they may use different methods to pay the debt, they each end up paying back the principal debt of \$100. Similarly, school districts will choose to use different management tools to reduce their TRS obligations.

CHAIR HAWKER noted his agreement with the aforementioned comment, and emphasized that the provisions in the bill are intended to empower various entities to issue POBs through the authorized entities. He went on to say that not every state entity will avail itself of this opportunity, however, he does not anticipate that the lack of bond issuance would be punitive or injurious to non-participating entities.

REPRESENTATIVE FAIRCLOUGH opined that if one school district chose to issue POBs while another chose not to issue POBs, the non-issuing district could be required to pay a large portion of its debt at one time while the district that issued bonds would be paying off its debt in smaller increments. In the end, they are paying off the same debt, she opined.

4:11:03 PM

REPRESENTATIVE WILSON opined that the bill would allow larger communities to avail themselves of its provisions, while smaller communities could not because the state no longer provides funds to communities through revenue sharing.

CHAIR HAWKER responded that the bill's provisions empower smaller communities to join together and work with the MBBA to pursue a POB transaction. Furthermore, he recalled that testimony from last year indicated that smaller communities are more likely to pursue the credit enhancement services of the MBBA than larger areas, such as Anchorage.

MR. MITCHELL assured Representative Wilson that the MBBA has experience in working with smaller communities, and has facilitated a loan with Wrangell for \$600,000, which was then eligible for school debt reimbursement. He said he believes the

intent of the bill, on the TRS side, is to include as many entities as possible through collaborative loan arrangements.

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REPRESENTATIVE ROSES set forth his understanding that Section 6 of HB 13 includes provisions to allow smaller communities to join together to issue POBs. He said he understands the concerns of other committee members, but warned that the committee should be careful because the intent of the bill is to include as many options as possible for government employers to address their unfunded pension liabilities. The first option would be to consolidate all state entities so that the state handles the obligations, which would be the preferable option, he opined. The second option is that inclusion of Section 6 will avoid the need to amend the bill in the future. He said he is in favor of creating options now because it can be difficult to make future amendments to include the municipal empowerment provisions. He noted that in the area of education funding, there are disadvantages to "pass through" funding options. First, this type of funding can distort the perception of how much money is truly going to the classroom. He said that currently there is discussion of whether 70 percent of funding should be going directly to fund classroom needs. However, if the salary and benefits portion is inflated by paying the unfunded liability, then the districts meet the 70 percent ratio, even though it does not result in enhancement of the educational process. Furthermore, "pass through" funding can affect a school district's ability to receive grants because its salary and benefit packages are too high. Third, some entities could lose federal grants if there is a finding that salary and benefits are over-inflated. He said he supports the bill because it gives more options for payment of the unfunded liabilities. He noted that if all education funding comes out of the education funding formula there is only one way to pay -- through the general fund.

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REPRESENTATIVE SEATON opined that because TRS is a unitized system, it is incorrect to characterize individual school districts as having individual past service cost liabilities. He reminded the committee that a teacher covered by TRS can move within the system, and still be covered by TRS. In comparison, each individual employer in PERS is liable for an employee's years of service within its system. He expressed concern that breaking up TRS and allowing different levels of contributions,

with its accompanying effect on levels of past service cost liabilities, will cause significant changes in how schools are funded. He also reminded the committee that school districts are funded by the state, so if individual school districts issue POBs, it could result in districts having different employer contribution rates. This could make the legislature's funding decisions for schools even more complex. He opined that TRS should have the ability to issue bonds, but only through the authority of the state, not through individual districts.

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MR. BARNHILL continued his review of HB 13 and explained that Sections 2-5 empower the AHFC to create a subsidiary with the authority to pursue POB transactions. In response to a question, he explained that formation of a subsidiary was recommended by bond counsel.

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MR. MITCHELL stated that there are a number reasons to form subsidiary corporations to issue bonds. He said the MBBA has a debt cap of \$750 million; but its subsidiary will be exempt from that cap. Furthermore, AHFC does not currently have power to issue bonds for pension obligations. He said he believes that the purpose of establishing a separate subsidiary within AHFC is because the act of issuing POBs is a different activity than its main corporate purpose. A separate entity will allow separate indentures for borrowing purposes, he explained. The recommendation to form the Alaska Pension Obligation Bond Corporation ("POB corporation") came about due to bond counsel's concern that the current structure of the state bond committee may not allow it to issue POBs. The proposed POB corporation will have the same membership as the state bond committee, is close to the state treasury, and establishes a viable alternative for bond issuance if the state bond committee structure is deemed inappropriate, he opined.

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MR. BARNHILL responded to a query by stating that only governmental employers, as defined by Section 5, can avail themselves to the bonding powers of the AHFC or other entities. Sections 6 and 12-18 are carried over from last year's bill and pertain to the authority of the MBBA to issue POBs. Section 7 proposes an amendment to the state bond committee statute to create the Alaska POB Corporation with the authority to issue

POBs. He explained that this section is similar to other sections of the state bond committee statute.

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CHAIR HAWKER stressed that the bill had been drafted with reference to other relevant statutes, and incorporates pre-existing language from those statutes where appropriate.

MR. BARNHILL noted that the bill was drafted to create maximum flexibility to structure bond transactions, and whether all of its provisions will be used will depend on the nature of the actual transaction. He opined that with all the options contained in the bill, he is fairly certain that there will be some state structure that can issue POBs.

[4:27:44 PM](#)

REPRESENTATIVE SEATON asked about the 1.5 percent figure on page 8, line 16 and whether bond issuance costs would lower the state's return on the bonds.

MR. MITCHELL stated that he believes the costs of issuing the bonds can be as much as 2 percent. However, the 1.5 percent on page 8, line 17, provides the state bond committee a figure to compare the interest cost on the bonds with the current assumed rate of return of 8.25 percent. Therefore, if the cost of capital rises to 7 percent, it will be too high because there is less than a 1.5 percent difference between 7 percent and 8.25 percent. In the situation where the cost of capital has decreased the margin between expected interest rates and current rate of return, the bond issuance is more likely to be unsuccessful, he opined.

CHAIR HAWKER clarified that the aforementioned point concerns the true interest cost, which is the "all in" cost.

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MR. BARNHILL explained that Section 8 on pages 10-11 creates the POB corporation for the purpose of issuing POBs. He said this approach was suggested by bond counsel as the most straightforward way for the state to issue a type of POB akin to a moral obligation bond. He went on to say that his understanding is that moral obligation bonds do not pledge state general funds. However, if the state's reserve fund reaches a point where its ability to pay debt service is impaired, the POB

corporation will notify the legislature and the governor of the need for an appropriation to satisfy debt service, he said.

MR. MITCHELL reminded the committee that the POB corporation is one possible structure through which bonds could be sold and indicated that there are other possibilities for bond issuance besides moral obligation bonds.

[4:32:26 PM](#)

REPRESENTATIVE WILSON requested further discussion of debt repayment scenarios.

MR. BARNHILL pointed out that a useful document in this area is the "Alaska Public Debt" report prepared by the Treasury Division of DOR, which describes in detail the various categories of state debt.

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MR. MITCHELL explained that debt issued under a moral obligation pledge oftentimes is secured by a reserve fund. Establishment of a reserve fund may be required by statute; or may be optional, as in Section 8 of the bill. The reserve fund is set aside to assure payment of bond debt. He indicated under the provisions of the bill, the legislature must be notified if there is a draw on the reserve fund. This type of provision gives investors assurance that their debt will be paid, he opined. However, if the legislature failed to appropriate money back into the reserve fund after a draw was made, the market would penalize the issuer by reducing its credit rating, he indicated.

REPRESENTATIVE WILSON questioned whether the permissive nature of the reserve fund in Section 8 would put the state in jeopardy if it failed to have money set aside for debt repayment.

MR. MITCHELL agreed that an inability to pay a debt is very serious, and the capital market penalizes non-payment by downgrading the debtor's credit rating. He indicated that in his opinion, the bill does not diminish the requirement for a reserve. Indeed, it is likely there would always be some type of reserve fund, but the bond issuer would not necessarily apply the moral obligation pledge to it. He noted there are other options for the state to use besides moral obligation bonds.

[4:38:53 PM](#)

REPRESENTATIVE WILSON expressed concern that a reserve fund would likely not be established because the bill makes it optional.

CHAIR HAWKER interjected the point that establishment of a reserve fund is not something the state dictates; rather it will be dictated by the demands of the capital market. He explained that the reasonable expectation is that the market will require a reserve fund.

MR. MITCHELL stated there are benefits to structuring a transaction without a reserve, noting that there are complexities with, and restrictions on, funds placed in reserve accounts.

MR. ANDREWS stated that in most instances the issuance of POBs has been a credit neutral experience for most states; indeed it could even have a positive effect on the state's credit rating.

[4:41:31 PM](#)

REPRESENTATIVE CISSNA related her understanding that POB success depends in part on conservative planning and expectations, coupled with fortuitous timing. She indicated that she is under the assumption that the additions to the bill may optimize conservative planning. However, she expressed concern about the timing element in light of market fluctuations and some negative state history in financial matters.

MR. ANDREWS replied that current market rates are very low and bonds could be issued today at a 5.5 percent interest rate. Historically, the returns from the equity market fluctuate, but can be around 10-12 percent. The average return from the state pension plan investments in the last 20 years has been around 9.5 percent, he said. He explained that there are statistical models that can be used to achieve a confidence level on how to invest to achieve returns of more than 5.5 percent. He indicated that for POBs with a 25-year term, one could achieve a confidence level of around 97 to 98 percent that the bonds will garner a greater rate of return than 5.5 percent.

[4:45:21 PM](#)

MR. BARNHILL set forth a hypothetical situation whereby the POB corporation could decide to issue \$2 billion worth of bonds on behalf of the PERS employers. The POB corporation's board of

directors, consisting of the commissioners of commerce, community and economic development; administration; and revenue, would enter a contract with the state whereby the POB corporation would issue bonds in exchange for the state's agreement to pay debt service on the bonds. A reserve fund would be established as set forth in Section 8.

MR. MITCHELL said it would be ideal under the aforementioned hypothetical situation if contractual agreements could be reached with PERS employers so that all contribution rates flowed through the POB corporation, with a portion allocated to pay debt service and the balance allocated to pay the ongoing contribution rate. He opined that this structure could create a credit strength.

MR. BARNHILL said he believes the bill is structured to allow the state to receive as a good a rate as possible.

CHAIR HAWKER reminded the committee that realistically the state would be the bond issuer.

[4:49:23 PM](#)

MR. BARNHILL continued with his hypothetical situation and explained that if the amount in the reserve funds dips below what is necessary to service the bonds, the POB corporation has the ability to certify and deliver to the governor and legislature a certificate of the amounts required to be restored to the reserve fund. This creates the moral obligation, he said.

MR. MITCHELL summarized that the bill's provisions allow the state to exchange an unfunded liability for a financed amount that is certain for the 25-year term of the bonds; therefore, for budgeting purposes the state would know exactly what it needs to pay for debt service.

[4:50:47 PM](#)

REPRESENTATIVE SEATON stated he would like to see the effect on the employer contribution rate if there was a 2 percent arbitrage on \$2 billion worth of bonds over a 25-year period.

MR. ANDREWS indicated he has some information from Buck Consultants on that matter that he will provide the committee.

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REPRESENTATIVE WILSON noted that some past funding decisions have had unintentional consequences; therefore expressed concern that whatever approach taken be fair to all parties that could be affected.

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REPRESENTATIVE SEATON asked whether the state could use funds it currently has available, such as funds under the Alaska Retirement Management Board (ARM Board) and the Alaska Permanent Fund Corporation (APFC), and enter some type of transaction which would enable the state to receive similar returns with less risk.

MR. MITCHELL responded that since the ARM Board and the APFC are tax-exempt corporations, they could only issue tax-exempt bonds, whereas POBs target the taxable market. He said he is not aware of whether there would be any advantage to having either of these corporations buy "this particular revenue stream." He said that the likely buyers of POBs would be overseas investors.

REPRESENTATIVE SEATON opined it would be beneficial to ask DOR about other, perhaps less risky, options.

MR. ANDREWS indicated that a future discussion regarding how the bond proceeds should be invested and allocated could be helpful.

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LAWRENCE A. SEMMENS, CPA, Finance Director, City of Kenai, testified that he is familiar with POBs and is pleased with the efforts of the administration and this committee to set up a structure whereby the state could issue POBs. He said he is hopeful that the state will continue to treat TRS as a cost-sharing plan and that POBs will be a factor in reducing the overall plan costs. For PERS he said that perhaps a cost sharing plan could be created, and that POBs could also be issued to reduce these liabilities.

[4:59:25 PM](#)

REPRESENTATIVE SEATON asked whether Mr. Semmens was comfortable with the indemnity provisions of Section 1 which holds TRS' employers harmless if they prepay all or part of their pension fund liabilities.

MR. SEMMENS responded that he recognizes that certain employers have contributed to their pension liabilities in excess of what was required. He said he believes the intent of the language in the bill is to protect those employers, and he supports that effort.

[5:00:55 PM](#)

MICHAEL E. LAMB, CPA, CGFM, Chief Financial Officer, Fairbanks North Star Borough, said that he has been a proponent of POBs for several years. He testified that he is extremely supportive of having systemwide options available to help reduce the obligation costs of the PERS/TRS unfunded liabilities.

[5:02:07 PM](#)

CHAIR HAWKER stated he would like to move the bill and suggested that members could inform him of any specific areas of concern they would like addressed.

REPRESENTATIVE FAIRCLOUGH related that she is comfortable moving the bill out today, noting she will not be available for the next meeting date of March 7, 2007. She noted that the concerns raised today could be addressed by the House State Affairs Standing Committee, which is the next committee of referral.

REPRESENTATIVE ROSES indicated his agreement to moving the bill on to the next committee. He reminded the committee that he is on the House State Affairs Standing Committee and assured committee members that he will bring forward any of their concerns or issues on the bill to that committee.

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REPRESENTATIVE FAIRCLOUGH stated she does not want to do anything to adversely affect any smaller TRS district. Although she said she agrees that it is likely the state will bond on behalf of the smaller districts, she believes the concerns can still be addressed as the bill moves through the system.

[5:05:46 PM](#)

REPRESENTATIVE SEATON reiterated that his concern relates to the TRS section of the bill and suggested a conceptual amendment in Section 1, page 2, line 10, to replace the phrase "An employer" with "The state." He explained that the effect of the amendment

would be to make clear that the state is the entity authorized to issue POBs on behalf of the TRS system.

The committee took an at ease from 5:07:04 p.m. to 5:11 p.m.

REPRESENTATIVE FAIRCLOUGH stated she understands the conceptual amendment but does not know if she can support it without knowing if it affects other portions of the bill. She pointed out that with bond issues timing is very important and it can be advantageous to move at the right time. She said she understands the concerns, but is not clear whether the conceptual amendment fixes the concerns. However, she feels that this bill provides options to Alaska communities to address the issue of their unfunded pension liabilities.

[5:14:16 PM](#)

REPRESENTATIVE SEATON characterized his amendment as affecting only the school districts, which have no tax base and no liability for the debt since they receive their funding from the state. He said his proposed amendment does not affect the ability of municipalities to issue bonds on their PERS debt. He said that he heard one of today's witnesses express the opinion that TRS should be kept as a unitized system. He expressed concern with allowing the bill to go forward without resolution of this fundamental issue of whether TRS should be broken apart or kept as a unitized system.

REPRESENTATIVE FAIRCLOUGH offered that the role of this committee is to bring forth as many revenue options as possible for other committees to consider. She referenced that the committee will have to wait for two weeks to consider the bill again.

[5:17:48 PM](#)

CHAIR HAWKER stated that in his opinion the committee has discharged its duty in consideration of the bill, and that the issue raised by Representative Seaton is within the purview of the House State Affairs Standing Committee, which he believes is a more appropriate committee for this debate.

[5:19:03 PM](#)

REPRESENTATIVE ROSES reminded the committee that he has set forth his reasons why he believes the state has the obligation to shoulder TRS' pension fund liabilities and to issue any

bonds. He assured the committee that he plans to offer an amendment in the House State Affairs Standing Committee to that effect.

[5:20:20 PM](#)

REPRESENTATIVE CISSNA expressed her belief that the legislative system was not designed for speed because of the powerful effect its decisions have on constituents.

[5:21:28 PM](#)

REPRESENTATIVE FAIRCLOUGH noted she would like to take steps for the state to resolve the pension fund issues and suggested that perhaps Representative Seaton should offer his conceptual amendment.

CHAIR HAWKER stated the bill will remain active if a motion to move it out fails, but that he would like to see the bill moved out of this committee. He stated they would be receiving an indeterminate fiscal note from the DOR.

[5:22:29 PM](#)

REPRESENTATIVE FAIRCLOUGH moved to report the proposed committee substitute (CS) HB 13, Version 25-LS0084\E, Cook, 3/1/07 out of committee with individual recommendations and the forthcoming fiscal notes.

[5:22:54 PM](#)

REPRESENTATIVE WILSON objected.

REPRESENTATIVE SEATON stated that he is comfortable with the PERS section of the bill, but he has concerns about the TRS section. He stated although he will not object to moving the bill, he will proceed to draft an individual recommendation to amend the bill in the next committee. He said he believes that this committee should move bills out in as complete a form as possible, but that he does not think the committee is doing so in this case. However, he will agree to move this bill out in consideration of his desire to work with Chair Hawker and in light of Representative Roses' assurances that his concerns will be addressed in the next committee of referral.

[5:24:26 PM](#)

CHAIR HAWKER took issue with any characterization that the bill is being sent to the House State Affairs Standing Committee to be fixed; rather he believes that it is a better venue to discuss the issues raised here.

REPRESENTATIVE WILSON said she was not sure if the next committee has a member with the depth of Representative Seaton's knowledge of TRS, or one who can offer the perspective of a smaller community.

[5:25:56 PM](#)

REPRESENTATIVE WILSON then withdrew her objection to Representative Fairclough's motion to move the bill from committee.

There being no further objections, CSHB 13 (W&M), Version 25-LS0084\E, Cook, 3/1/07, was reported from House Special Committee on Ways and Means with individual recommendations and the forthcoming fiscal note.

CHAIR HAWKER stated he would write a letter to the Chair of the House State Affairs Standing Committee, who is currently present, about the issues discussed today.

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at [5:27:02 PM](#).