

MINUTES
SENATE FINANCE COMMITTEE
March 21, 2007
9:05 a.m.

CALL TO ORDER

Co-Chair Bert Stedman convened the meeting at approximately [9:05:48 AM](#).

PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Kim Elton
Senator Donny Olson
Senator Joe Thomas
Senator Fred Dyson
Senator Charlie Huggins

Also Attending: SENATOR GARY STEVENS; TIM LAMKIN, Staff to Senator Gary Stevens; BENJAMIN BROWN, Vice Chair, Alaska State Council on the Arts; SHANA CRONDAHL, Alaska Municipal League;

Attending via Teleconference: From Kenai: LARRY SEMMENS, Finance Director, City of Kenai and Member, Alaska Retirement Management Board; From offnet locations: SAUNDERS MCNEIL, Chair, Alaska State Council on the Arts; MICHEAL LAMB, Chief Financial Officer, Fairbanks North Star Borough, and Co-chair, Revenue/Finance Subcommittee, Alaska Municipal League.

SUMMARY INFORMATION

SB 97-ALASKA NATIVE ART IDENTIFICATION SEALS

The Committee heard from the sponsor and the Alaska State Council on the Arts. The bill was reported from Committee.

SB 125-PERS CONTRIBUTIONS; UNFUNDED LIABILITY

The Committee heard from the Alaska Retirement Board, municipality officials and the Alaska Municipal League. The bill was held in Committee.

#SB97

9:06:49 AM

SENATE BILL NO. 97

"An Act relating to identification seals for certain articles created or crafted in the state by Alaska Native persons; relating to the Alaska State Council on the Arts; and making certain identification seal violations unfair trade practices."

This was the first hearing for this bill in the Senate Finance Committee.

9:07:23 AM

SENATOR GARY STEVENS, Sponsor of the bill, introduced Mr. Lamkin.

9:07:36 AM

TIM LAMKIN, Staff to Senator Gary Stevens, presented a slideshow to "personalize" the issue, while reading his testimony into the record as follows.

It is with great pride that Senator Stevens and myself offer SB 97 on behalf of the Alaska State Council on the Arts. Despite its existence of for decades, I venture to say that many people in our great state don't recognize this emblem right here. It's known simply as the Silver Hand.

It's a marketing tool that's used to represent a piece of art as being authentically made by an Alaskan Native in Alaska. It's origins date back to at least the 1930s when market demand for authentic Alaskan Native arts and crafts was clearly increasing. Since that time there's been an ongoing effort to bring credibility to the program currently embodied by the Silver Hand and to honor Alaska Native artists wishing to sell their wares.

Unfortunately, that effort has been repeatedly thwarted by fraud. A new line of thinking has emerged that with some success that puts focus on the artist instead of the art.

Senate Bill 97 embraces those efforts made by the Arts Council to simply clean house. There's no motivation here other than to strengthen and modernize the statutes relating to the Silver Hand permitting and to help rejuvenate a program that's poised to reblossom.

Personally, I have 16 years of experience in the private sector of the summer tourism business where I receive daily requests for authentic Native art and thus I believe that SB 97 and the efforts of the State Arts Council will help make the Silver Hand emblem more readily recognizable and sought for by the buying public.

[9:10:16 AM](#)

Senator Gary Stevens noted the slideshow contains photographs of well known Alaska Native artists as well as some of their creations.

[9:11:46 AM](#)

Co-Chair Hoffman asked how this bill would clarify existing language.

[9:12:04 AM](#)

Mr. Lamkin replied that "generally speaking", the changes would "make the language modern".

[9:12:24 AM](#)

BENJAMIN BROWN, Vice Chair, Alaska State Council on the Arts, testified that he collaborated with Saunders McNeil, staff of the Council and whose portfolio of activities includes the Silver Hand program. Current statutory language refers to "Alaskan art and handicrafts". The inclusion of handicraft was determined to be "inaccurate", as it represents a "lesser form of creativity than art". The products being created by Alaskan Native artists deserve to be referred to as art or artwork. This bill clarifies those references.

[9:13:40 AM](#)

Senator Elton asked whether an "exceptional" non-Native artist who produces traditional Native style artwork and who has been adopted into a tribe could qualify for the Silver Hand program.

[9:14:16 AM](#)

Mr. Brown replied that unless that artist were a tribal member of a tribe recognized by the federal government or was granted special tribal recognition through an act of the Legislature, that person would not qualify for participation in the Silver Hand program. Such legislative action has not occurred but this bill accommodates possible future practices. The non-Native artist could take advantage of other marketing opportunities, including the Made in Alaska program.

[9:15:16 AM](#)

Co-Chair Hoffman noted language in the bill which references a list of federally recognized tribes and asked if the Committee had this list.

Mr. Brown indicated he would provide a copy of the list of federally recognized tribes.

[9:15:52 AM](#)

Senator Thomas asked about the deletion of existing statutory language noted on page 3, line 13 of the bill and asked the reasoning.

[9:16:18 AM](#)

Mr. Brown answered that the original statute had been written to allow Silver Hand seals to be issued by an agent of the Alaska State Council on the Arts. The use of agents has never occurred and because of the possibility of fraud, the Council recommended the removal of this provision.

[9:16:52 AM](#)

Senator Thomas asked how artists residing in remote areas of the state participate in the program.

[9:17:02 AM](#)

Mr. Brown explained how residents of all communities other than Anchorage, which houses the Council, would contact the Council office. Seals are mailed to participating artists.

[9:17:36 AM](#)

Senator Olson deemed it a "stretch" to have to authenticate art and asked the necessity of the program.

[9:17:50 AM](#)

Senator Gary Stevens replied that the program "makes it clear" that Alaska Native art is authentic. Otherwise, items manufactured elsewhere, such as Taiwan, could be "passed off" as Alaskan Native.

Senator Olson asked whether the fraud or "fear of fraud" was so significant as to threaten the artists' livelihood.

Senator Gary Stevens surmised it was. A consumer would have no other method to determine if an ivory polar bear was carved in Alaska or in the Orient. The problem exists.

[9:18:38 AM](#)

Senator Olson asked the assessment of this program by artists themselves.

Senator Gary Stevens responded that the Alaska State Council on the Arts has overseen this program for many years. The Council reviewed the language of existing statute and identified shortcomings. Although he was not an Alaskan Native artist, he as well as many present share a concern about these arts.

[9:19:35 AM](#)

Mr. Lamkin emphasized that this bill was offered on behalf of the Council. The issue is the protection of Alaskan Native artists as well as consumers.

[9:19:57 AM](#)

Mr. Brown declared that many items sold in shops located on South Franklin Street in Juneau and at other tourism shopping localities could be conceived to be created by Alaskan Natives

if not identified otherwise. A large group of Alaskan Native artists conceived the Silver Hand program. The current chair of the Alaska State Council on the Arts is himself an Alaskan Native and an artist.

[9:20:47 AM](#)

Senator Olson asked about the input from artists. He cited the adage, "Don't protect me from myself", surmising that artists could interpret this program as needless or a hindrance.

[9:21:24 AM](#)

Senator Gary Stevens reiterated the credentials of the Council chairperson.

[9:21:59 AM](#)

Co-Chair Stedman noted the inclusion of substantial supporting documentation for this legislation.

[9:22:11 AM](#)

SAUNDERS MCNEIL, Chair, Alaska State Council on the Arts, testified via teleconference from an offnet location that Native Alaskan artists support the Silver Hand program, especially those who subscribe to the program. The Council polled artists on this matter and received "overwhelming support" from "across the state." Many of those who responded to the questionnaire also took the opportunity to renew their seal permits.

[9:23:10 AM](#)

Senator Elton ascertained that the provision of Section 4 would allow the Council to collect a fee from participants of the Silver Hand program. He asked the amount of the fee and whether it would impose an impediment to the ability for the artists to earn a livelihood.

[9:23:39 AM](#)

Mr. Lamkin reported that the \$20 fee is paid bi-annually, so the cost of participation is \$10 per year. The funds are utilized to cover the expense of the stickers. He perceived that this amount would not be cost prohibitive.

[9:24:22 AM](#)

Co-Chair Stedman deduced that no further testimony was forthcoming.

[9:24:29 AM](#)

Co-Chair Stedman, noting the zero fiscal note, asked if the enactment of this legislation would incur any additional cost to the Arts Council.

[9:24:56 AM](#)

Mr. Brown relayed the Council's goal to utilize the nominal amount of funding it receives from the Legislature, the National Council on the Arts and other sources to promote Alaskan art. Council staff prepared the fiscal note as an "honest prediction" of the financial implication. The Council would not submit a supplemental appropriation request to implement the changes.

[9:25:52 AM](#)

Co-Chair Stedman discerned that the Committee would not expect any additional funding requests pertaining to this legislation.

Mr. Brown affirmed.

[9:26:10 AM](#)

Co-Chair Hoffman offered a motion to report the bill, 25-LS0405\M, from Committee with individual recommendations and accompanying fiscal note.

There was no objection and SB 97 was REPORTED from Committee with zero fiscal note #1 from the Department of Education and Early Development.

AT EASE [9:26:36 AM](#) / [9:31:29 AM](#)

#SB125

[9:31:39 AM](#)

SENATE BILL NO. 125

"An Act relating to the accounting and payment of contributions under the defined benefit plan of the Public Employees' Retirement System of Alaska, to calculations of contributions under that defined benefit plan, and to participation in, and termination of and amendments to participation in, that defined benefit plan; making conforming amendments; and providing for an effective date."

This was the second hearing for this bill in the Senate Finance Committee.

Co-Chair Stedman announced that this legislation would not report from Committee at this hearing. He directed attention to a letter addressed to Charlene Morrison of the Division of Retirement and Benefits from Buck Consultants dated March 19, 2007, and to a memorandum dated March 21, 2007 from Melanie Millhorn of the Division of Retirement and Benefits addressed to the Committee [copies on file]. These documents provide responses to some of the questions posed at previous hearings

[9:33:04 AM](#)

LARRY SEMMENS, Finance Director, City of Kenai and Member, Alaska Retirement Management (ARM) Board, testified via teleconference from Kenai, reading his testimony into the record as follows.

First, thank you for working so diligently to craft a solution to the pension system challenges. I believe this is some of the most important work that the legislature can do and I am glad it is a priority for this Administration and the Senate Finance Committee.

First, a few words from by ARMB seat.

Recent ARMB resolutions support direct contributions to TRS to reduce the employer rate, and we support changing the PERS to a cost share plan.

Last year the ARMB made recommendations in our long term solution that the State pay a large share of the past service rate, that employers that contributed in excess amounts be protected and that accounts be established to

facilitate budgeting. Last session, HB 375 contained these concepts and passed the House but not the Senate. HB 179 currently includes much of the same language as HB 375. SB 125 includes many of these concepts.

The ARMB also recommended that significant cash contributions be made to pay down the growing unfunded liability.

In September 2006 the ARMB set the FY 08 PERS rate at 39.76% and the TRS rate at 54.03% as recommended by Buck Consultants for a closed system. This was also based on the understanding that Governor Murkowski was going to recommend that the incoming Governor budget for the required \$505 million to cover the increase and an additional \$500 million to pay down the unfunded liability. Governor Palin included funding in her budget to cover the full cost of the rate increases.

[9:35:13 AM](#)

Mr. Semmens continued as follows.

The ARMB adopted modifications of the actuarial assumptions per the recommendations of Buck Consultants contained in their experience study. The new assumptions, along with changes to actuarial method and the amortization method, will increase the unfunded liability. The presentation projected the FY 08 rates would have been 46.64% for PERS and 59.56% for TRS.

[9:36:10 AM](#)

Mr. Semmens:

Wrapping up my ARMB comments I am pleased to tell you that the ARMB, with the help of excellent staff in the Treasury Department led by Gary Bader, earned 11.7% for the year ended June 30, 2006 and over 15% in calendar year 2006 putting the Alaska Retirement Systems in the top 18% of public funds in the Callan database.

[9:36:41 AM](#)

Mr. Semmens, reading from his prepared statement, continued.

Now some comments from my finance director seat:

From a municipal point of view the two most important components of the plan to address PERS are:

1. that the State accepts financial responsibility for a significant portion of the past service cost currently assigned to local governments. This is so that municipalities can remain financially solvent without draconian cuts to services or huge tax increases. Most municipalities can handle a PERS rate in the low 20% range even though this is a huge increase over historical rates.

2. that the rate is stable and predictable. Until recently, for the past 20 years or so most employers, the State included, have had low and quite stable PERS rates. So it is no surprise that the last three years of 5% increases and especially the 2008 rate increase have caused widespread consternation. This is due both to the fiscal impact of the rate increases and to the uncertainty of what future rates will be.

[9:37:46 AM](#)

Mr. Semmens:

Now to address specific points in the bill:

The AML [Alaska Municipal League] is in favor of a cost sharing plan, but the share is the critical thing. I don't know if the AML would support a cost share if the State doesn't pick up a large part of the rate. Note that the State is the biggest winner if we were to go to a cost share plan where everyone pays 39.76%. Imagine the irony if that came to pass.

[9:38:12 AM](#)

Mr. Semmens:

The 65% share in the bill produces an employer rate of 31.86% after the impact of issuing \$1.7 million [sic] in Pension Obligation Bonds July 1, 2007. 32% is too high for

municipalities. The solution we need to find brings this rate down to the low 20s.

Using the entire payroll of DB [defined benefits] and DCR [defined contribution retirement] plan employees is a great idea because it lowers the rate and eliminates the temptation to discriminate in hiring.

[9:38:43 AM](#)

Mr. Semmens:

Employers will not like the provision that prevents opting out of certain classes of employees. This is meant to prevent an employer from taking advantage of the share system. But I think there is a better tool to use. Consideration should be given to establishing a baseline salary amount that an employer would be required to pay contributions on, even if actual salaries were less. For example, the baseline could be the 2006 salary that employers calculated their contributions on. If 2009 salaries were actually less than 2006 because the employer contracted out, or perhaps sold, a part of its operation the employer would have to calculate their contributions on the 2006 baseline salary. This base could be adjusted for inflation if necessary.

[9:39:55 AM](#)

Mr. Semmens offered a caveat that he has had a mission to convince local government elected officials to voluntarily withdraw from the retirement program. The cost is significant and the contributions from public elected officials are minimal. The City of Kenai has chosen to withdraw participation of elected officials. The provision in this legislation would prevent future municipal governing councils as a body from opting out of the Public Employees Retirement System (PERS) and would only allow individuals the option.

[9:40:36 AM](#)

Mr. Semmens continued reading his prepared statement as follows.

I think it is important to figure out how the plan liabilities will be allocated to an employer that wants to

terminate membership in the plan. Since there are no individual employer liabilities in a shared system a well defined allocation method should be created.

Mr. Semmens asserted that the investment of entities that paid in excess of their contributions must be protected.

[9:41:02 AM](#)

Mr. Semmens concluded his testimony as follows.

Municipalities have either adopted their calendar year 2007 budgets or they are currently preparing their FY 08 budgets. Most of us have built our budget for PERS contribution based on the Governor's budget. Governor Palin's budget includes \$78.5 million to pay the full cost of the increase in the PERS rate from 2007 to 2008 for political subdivisions. Kenai's rate for 2007 is 18.67% including the 5% that the State provided. For FY 08, Kenai will see a 5% effective increase even if the State pays the full cost of the rate increase from 18.67% to 45.71%. Just for information a 5% increase in the rate is equal to a 36.6% increase in the amount of our 2007 contribution (less the State portion) or almost \$300,000. For Kenai this is significant. To increase from effectively 13.67% to the 31.86% in the bill is an increase in our contribution of \$1,055,264. While this is much better than having to pay the contribution required at 45.71%, I hope it is clear that a million dollar increase in a \$10 million general fund budget is going to be very difficult. And Kenai will feel like we lost a bunch when compared to the Governor's budget.

[9:42:42 AM](#)

Mr. Semmens concluded his testimony as follows.

I would like to suggest that for FY 08, the funding that is in the Governor's budget be used to hold PERS employer rates at the FY 07 levels. This will be a 5% increase for most employers from the rate they paid from their own resources in FY 07. If a final solution results in municipal employer rate of less than 25%, most employers

will not see a large jump in the FY 09 rate. This is a worthy goal and I hope you will consider doing this.

[9:43:22 AM](#)

Co-Chair Stedman asked if municipal government officials "at the local level" recognize that for several years, employer contribution rates had been significantly less than the 14 percent necessary to fully fund the retirement program and thus the political subdivisions were paying lower rates.

[9:43:51 AM](#)

Mr. Semmens responded that City of Kenai officials understand this. He had warned the city council at the time that contribution rates were low ten years prior that the rates would likely increase substantially in future years. Most municipalities also acknowledge this.

[9:44:29 AM](#)

Co-Chair Stedman asked if, from the perspective of a municipal finance officer, whether the witness deemed a contribution rate of 20 to 23 percent a "burden" yet "bearable".

[9:45:00 AM](#)

Mr. Semmens shared his interpretation of the language of this legislation as establishing a rate of at least 31.86 percent. Utilizing his experience as a finance officer involved in the Alaska Municipal League (AML), he deemed a rate of approximately 20 percent to be "reasonable, sustainable, predictable and affordable" for municipalities. However rates in excess of 25 percent would cause a burden and would "drive" the budgetary decisions of local governments. Municipalities would be "held hostage" to the adopted rate at the expense of providing other services demanded and deserved by the public. Local governments do not have unlimited ability to increase taxes. He requested recognition of this as well as recognition of the reduction in the amount of funding allocated to local governments by the State in recent years.

[9:46:37 AM](#)

Co-Chair Stedman thanked Mr. Semmens for his contributions to resolving this issue.

[9:46:49 AM](#)

MICHEAL LAMB, Chief Financial Officer, Fairbanks North Star Borough, and Co-chair, Revenue/Finance Subcommittee, Alaska Municipal League, testified from an offnet location, reading a prepared statement into the record as follows.

Thank you for the opportunity to comment on SB 125, and I guess in reality, on the very dire and critical PERS issue as a whole. Though I work with great diligence to never offend, or burn bridges, given the significance of this issue to PERS member employers, and the very real press of time for legislative action this session, my comments today are going to be purposely direct, and I am going to be as transparent as I can be in conveying how the Borough and other AML member employer's feel about what is going on with PERS/TRS legislation. With that, my comments are as follows:

1. I am happy to see that SB 125 recognizes that we really do not have a single agent multiple employer system, and that legislative language needs to move forward such that our statutes reflect the reality that the State operates PERS as a consolidated blended system.

2. Section 5 contains language that essentially says one rate, which is the combined total of the normal and past service cost rates that will be applied to both DB and DC [defined contribution] salaries. I concur with this provision, to do otherwise would at some point lead to discriminatory hiring practices.

3. Section 7, the 65/35 percent allocation of the unfunded liability is a significant disappointment. It is a disastrous proposition that sets rates at levels that cannot be paid by school districts, the university system, cities, or by boroughs. I am particularly disappointed that the exhibits behind this proposition used labels such as winners, losers, and heroes! The Borough's position and the AML's position, and my position has been, and continues to be, that given how the system has been administered, and how one employer's actions affect another's liabilities and

how assets have every year for decades been blended and the reallocated it is impossible to say what assets or liabilities any member entity has, and therefore, what their piece of the unfunded liability is, which drives their past service cost rates. Labeling winners and losers is nonproductive and divisive. Those who have been advantages and disadvantages, is not determinable, period. This section of the bill clearly does not align in any way with the AML position of needing predictability, stability, nor affordability. 65/35 is a call to fiscally incapacitate member employers.

4. Then, after rates get set that can't be paid by member employers, we get to section 9, a poison pill provision that essentially says that even if a member employer has a legitimate reason not to make a payment, or maybe simply can not because they just don't have the money, the Administrator of the plan will simply go and take funds from any agency of the state or political subdivision that has in its possession funds of the employer that couldn't pay its bill. So we set a rate that will cripple employers and then any life blood funding available can be summarily taken with no due process? I understand the Administration needs a tool to collect from employers that will not pay a legitimate bill. This is the wrong tool. This is instead a heavy handed tool that will only accelerate the bankrupting of employers, the who will be left to pick up their piece of the bar tab that they can no longer pay, in the end it'll be the State.

5. Sections 10 through 15 deals with terminations. Scrutiny needs to be given to language that allows for unlimited termination cost charges, that can then be extracted from an employer using the section 9 language. Scrutiny also needs to be given to the section 15 language that says you only have 90 days after receipt of notice to decide if you want to add or terminate coverage of a department, group, or other classification of employees. First off, 90 days in a public process environment isn't even enough time to deal with an issue as significant as what is contemplated in this section. Secondly, who can predict what makes sense in the future? Why would we want to preclude future changes that may help the system? Though there will be an attrition factor, is it the intent of this language that all existing school board members, council members or assembly members

would have to stay in the system because they couldn't elect out because a 90 day period was missed? This makes no sense. If the administration is trying to fix an abuse, then prevent the abuse, but don't preclude all changes, both good and bad.

In summary, SB 125, and its companion HB 206, does not introduce language to amend the statutes to reflect that we do in-fact have a consolidated plan, and that we should use both salary bases when setting rates. However, and quoting from a recent AML letter: Any legislation which leaves communities having to pay unaffordable rates for an unfunded liability which was not of our making, and which risks bankrupting communities, is not a concept we can accept. This 65/35 proposal is just that kind of legislation as it does not provide any component of predictability, stability, or affordability.

Mr. Lamb then began to speak to other legislation relating to the retirement system.

[9:53:25 AM](#)

Co-Chair Stedman interrupted to request that comments on other legislation be deferred to a later date.

Co-Chair Stedman reposed the question to Mr. Lamb that he asked of Mr. Semmens. Regardless of how the unfunded liability situation was reached, Co-Chair Stedman asked the approximate contribution rate that would be "reasonable" and "affordable" for communities, recognizing the different financial strengths of each political subdivision.

[9:54:21 AM](#)

Mr. Lamb responded that the ratio proposed by the AML in which the State would assume 85 percent of the unfunded liability and the remaining employers would assume the remaining 15 percent, the contribution rate would be 18.27 percent "for all entities". Some AML members present at the meeting, in which this recommendation was adopted, determined that the State should be responsible for the entire unfunded liability; others supported a 90:10 ratio. Ultimately, the debate concluded that employers likely "paid less than we should have in the past", although employers paid 100 percent of the required contribution rate.

Mr. Lamb opined that a contribution rate of 18.27 percent "is a rate that hurts". The Fairbanks North Star Borough, for 22 years, paid a rate of 4.17 percent on average. A rate of 20 to 22 percent would equate to a 500 percent rate increase. Five percent of the Borough's salary base computes to approximately \$1 million and therefore a contribution rate increase to 20 to 22 percent would result in a cost to the Borough of \$4 to \$5 million. This would be "a horrendous pill to swallow" and would become "unpalatable".

[9:56:18 AM](#)

Mr. Lamb asserted that the 85:15 ratio with an employer contribution rate of 18.27 percent generated from FY 05 figures and applied to FY 08, "was always understood and known that the next year would come and because of the reasons Larry [Semmens] explained, we knew the rates would go up slightly." Mr. Lamb had expected a contribution rate between 19 percent and 21 percent, which was "palatable".

Mr. Lamb warned that if rates over 21 percent were imposed "we are all heading into a danger zone that we can't pay." Already, the City of Fairbanks has been experiencing a "revolt" over current tax rates. The Borough operates with a "tax cap" and is unable to legally generate additional revenues.

Mr. Lamb asserted that rates above 22 percent would "be in the break zone". Rates closer to 21 percent would garner more community support.

[9:58:15 AM](#)

Co-Chair Hoffman asked how the Borough has addressed the increased contribution rates in its FY 08 budget.

[9:58:30 AM](#)

Mr. Lamb replied that the Borough has accounted for a rate below 20 percent; it did not "build in a rate higher what we could afford to pay and or that we believe we should pay" given that the normal cost rate is 14.48 percent. It was recognized that the Borough must share a portion of the unfunded liability obligation and therefore budgeted for a rate slightly less than

20 percent. A nominal increase could be "absorbed" and would be the decision of the mayor.

Mr. Lamb informed that Borough officials "have stripped about everything out of the budget we could as a result of what is going on in this community and the impact that the property taxes are having." Therefore, funding requests submitted by department directors for other services were not included in the mayor's recommended budget. Decisions were already being made concerning the following year's budget based on "this PERS issue". An increased expense of \$3 million annually diverted to PERS would no longer be available for other items. Additionally, the Borough is registered as a second class borough and subsequently must also fund schools. The impact of increased contribution rates for TRS is also a concern.

[10:00:46 AM](#)

Co-Chair Stedman clarified that the "split" would not "be erasing any liability", but rather would provide that the State would assume a portion of the debt. Just as potential loss of goods and services offered by municipal governments could result, as the State expends more general funds, the amount of goods and services it provides could also decrease. These services include road maintenance and other important functions.

[10:01:25 AM](#)

Mr. Lamb offered his assistance in resolving this issue. Although all parties were somewhat "unhappy" all supported finding a solution.

[10:02:14 AM](#)

SHANA CRONDAHL, Alaska Municipal League, testified in Juneau as follows.

AML supports amending state statutes to reflect that PERS has been managed as a consolidated plan. SB 125 makes the changes to statutes necessary to accomplish that. Cost sharing resolves some of the accounting issues currently plaguing the system that will otherwise be very difficult for PERS employers to come to agreement on.

AML also supports a uniform consolidated normal cost rate and a provision to amortize the unfunded actuarial accrued liability (UAAL).

While we understand that the governor's proposal to pay 65% of the unfunded liability as of June 30, 2006 is just a starting point for negotiations, we urge you to remember that ultimately the amount the state pays for will come down to just one thing: what communities can afford.

If the normal cost rate plus the amortization rate on the unfunded actuarial accrued liability exceeds what communities have the ability to pay, which we think it will at the proposed rate of 65%, local governments will be unable to provide for the basic needs of citizens, and the state will be forced to step in.

I would also like to point out that 65% of the unfunded liability as of June 30, 2006 is not actually 65% of the total unfunded liability. The unfunded liability has increased since June 30, 2006, and will continue to increase.

Each year the unfunded liability is recomputed. With a set date in SB 125 - June 30, 2006, upon which the state's share will continue to be computed, we may end up in a situation where all the other employers' liabilities will continue to rise, while the state's share remains a fixed amount.

Let's find a way to avoid this scenario, so we're not back here at the table again next year. I commend you for your efforts to address this very difficult issue.

Ms. Crondahl extended that although she could not provide expertise in the technical aspects of this legislation, she would be willing to assist in other ways.

[10:04:43 AM](#)

Co-Chair Stedman requested input from the AML on determining an appropriate ratio of the unfunded liability for the State and other employers to assume, as well as a plausible contribution rate. He intended to achieve a long term solution to the issue

and required direct input from affected parties to accomplish this.

[10:05:25 AM](#)

Ms. Crondahl noted that the previous witnesses had provided information regarding the financial obligations their respective communities could afford. The AML would collaborate with the Committee to reach agreement on a solution that could be accomplished by all parties.

[10:05:51 AM](#)

Senator Huggins asserted that some would consider the State's assumption of a portion of the unfunded liability held by municipalities as "revenue sharing".

[10:06:08 AM](#)

Ms. Crondahl disagreed. The unfunded liability is affecting the services that local governments could fund, as was occurring with State services. The unfunded liability "is a hole and putting money into that hole" diminishes the amount of funding available for services that municipalities still must provide. While State assistance in "putting money into that hole" is somewhat beneficial for municipal budgets, it does not provide funding assistance for other essential services.

Ms. Crondahl reported that 94 second class governments do not participate in PERS and would therefore receive no financial benefit from this legislation. Although Commissioner Kreitzer had testified in a previous hearing that a State assumption of more than 65 percent of the unfunded liability would be unfair to those employers that own a lesser debt, Ms. Crondahl contended that some communities have no liability in the PERS system and therefore any State contribution would be unfair. Assisting some communities with "part of the liability" while requiring other communities to contribute a rate higher than their individual portion of the unfunded liability, would also be unfair.

[10:07:56 AM](#)

Co-Chair Hoffman partially agreed but expressed that the issue remains that the ARM Board set the rates regardless that the

statute governing how those rates are set contains "some flaws". A "very large" variance exists between the highest individual contribution rate of 185 percent for the City of Fairbanks with the 29.76 percent or \$10.4 million that the State would provide under the provisions of this bill and the other political subdivisions that would receive no State funding. The assets of the State must "treat all citizens equally" to the greatest extent possible. He requested the witness' recommendation on reconciling this.

Ms. Crondahl relayed that the League had not taken a position on this. However, "assisting with PERS/TRS" was not considered revenue sharing. As with the State government, many communities were "hurting" financially for different reasons. Without revenue sharing provided to rural communities the local governments "gradually close down" and a point is reached "where there's no turning back."

[10:09:36 AM](#)

Co-Chair Stedman acknowledged that the fairness issue would be a "struggle" for the Committee.

[10:09:59 AM](#)

Senator Elton commented on Ms. Crondahl's testimony, which extended "beyond what the rate should be" and "what the division on the payment should be". She had also pointed out that under the provision of this bill the data utilized to determine the portion of the unfunded liability that the State would assume would be outdated. The calculation would be made to the valuation as of June 30, 2006; however the unfunded liability has increased since that date and continues to do so. By "locking in" this date, the State would actually assume less than 65 percent of the unfunded liability and other employers would be assigned more than 35 percent. Senator Elton recommended the Committee consider this matter.

[10:11:30 AM](#)

Co-Chair Stedman ascertained that no other testimony was forthcoming at this time.

Co-Chair Stedman offered the Department of Administration an opportunity to respond to the testimony received. Representatives of the Department declined.

Co-Chair Stedman ordered the bill HELD in Committee.

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ADJOURNMENT

Co-Chair Bert Stedman adjourned the meeting at [10:12:59 AM](#)