

MINUTES
SENATE FINANCE COMMITTEE
April 23, 2007
9:22 a.m.

CALL TO ORDER

Co-Chair Bert Stedman convened the meeting at approximately [9:22:09 AM](#).

PRESENT

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

Also Attending: ANNETTE KREITZER, Commissioner, Department of Administration; DENISE LICCIOLI, Staff to Senator Olson; JERRY BURNETT, Legislative Liaison, Department of Revenue; MILES BAKER, Staff to Senator Stedman; DAVID TEAL, Director, Legislative Finance; PAT SHIER, Director, Division of Retirement & Benefits, Department of Administration; JIM CARROLL, Representative, AARP and Juneau Retired Teachers Association; DAVID HULL, Vice Chair, Alaska Council on Emergency Medical Services

Attending via Teleconference: From Anchorage: JOHANNA BALES, Excise Audit Manager, Tax Division/Anchorage Office, Department of Revenue; From Fairbanks: WARREN CUMMINGS, President, Alaska Fire Chief's Association and Fire Chief, City of Fairbanks; From Kenai: LARRY SEMMENS, Finance Director, City of Kenai, and Member, Alaska Retirement Management Board; From an Offnet Location: MICHAEL LAMB, Chief Financial Officer, Fairbanks North Star Borough

SUMMARY INFORMATION

SB 84-TESTING & PACKAGING OF CIGARETTES

The Committee heard from the bill's sponsor, the Department of Revenue, and took public testimony. The bill reported from Committee.

SB 125-PERS /TRS CONTRIBUTIONS; UNFUNDED LIABILITY

The Committee heard from the bill's sponsor, the Division of Legislative Finance, the Department of Administration, and took public testimony. A committee substitute was adopted and the bill was held in Committee.

[9:23:29 AM](#)

Co-Chair Stedman called the meeting to order.

Senator Dyson inquired as to when SB 53, the FY 2008 (FY 08) capital budget bill, might again be addressed by the Committee.

Co-Chair Stedman expected SB 53 to be on the Committee schedule within the next week. Governor Sarah Palin's capital budget amendments and other drafting revisions to the original bill were being reviewed.

Senator Dyson asked the deadline by which Member's amendments should be submitted.

Co-Chair Stedman urged Members to submit their amendments as soon as possible.

In response to a question from Senator Dyson, Co-Chair Stedman communicated that a memorandum outlining the amendment submittal timeframe should have been distributed to Members. The status of that notice would be revisited. The bill is "a work in progress".

[9:25:20 AM](#)

#sb84

CS FOR SENATE BILL NO. 84(JUD)

"An Act relating to the testing and packaging of cigarettes to be sold, offered for sale, or possessed in this state; and providing for an effective date."

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

9:25:59 AM

Senator Olson, the bill's sponsor, cited cigarettes as being the leading cause of home fatalities in Alaska and the nation. One-quarter of cigarette home fire fatalities do not even smoke. This legislation is an attempt to address this issue by specifying that "only self-extinguishing cigarettes" could be sold in the State.

Senator Olson stated that when he was a practicing physician, he had treated a child for injuries received in a cigarette-related home fire. That incident has been a major factor in his decision to sponsor this bill.

9:27:10 AM

DENISE LICCIOLI, Staff to Senator Olson, expressed that in addition to allowing only self-extinguishing cigarettes to be sold in the State, this bill would establish testing and certification requirements to support that mandate.

Ms. Liccioli communicated that while it is impossible to create a "safe" cigarette, allowing only self-extinguishing or "fire safe" cigarettes to be sold would have an impact. These "reduced ignition propensity cigarettes ... are designed to be less likely than a conventional cigarette to ignite soft furnishings such as a couch or mattress".

Ms. Liccioli stated that in order to allow these cigarettes to be easily identified, the bill also included specifics as to how self-extinguishing cigarette packages should be marked.

Ms. Liccioli reiterated that cigarettes are "the leading cause of home fire fatalities in Alaska" and the nation. "The most common material first ignited in home fires is mattresses and bedding, upholstered furniture, and floor coverings." Fires are often started by a dropped or forgotten cigarette, as evidenced in an April 21, 2007 article in the Juneau Empire newspaper [copy on file] that credited the cause of an April fourth apartment building fire in Juneau as being a discarded cigarette that ignited in a couch.

Ms. Liccioli stressed that one-quarter of smoking-related fatalities are non-smokers and more than one-third of that one-quarter are children. Studies also indicate that the risk of dying in a smoking-related residential fire increases with age. "38 percent of fatal smoking material fire victims are age 65 or older."

Ms. Liccioli stated that "the most common technology utilized by cigarette manufacturers for reduced cigarette ignition propensity [RCIP] ... is to make a paper thicker in places to slow down a burning cigarette". She directed attention to a Coalition for Fire-Safe Cigarettes handout [copy on file] which included an image of the RCIP "speed bumps".

Ms. Liccioli explained the speed bump technology. When an unattended cigarette burns down to the thicker paper speed bump area, the burning will self-extinguish. In order to qualify as a self-extinguishing cigarette, a cigarette must meet "established fire safety performance standards".

Ms. Liccioli advised that similar legislation has been enacted in New York, Massachusetts, Vermont, New Hampshire, California, and Illinois. Utah, Kentucky and Oregon have recently passed such legislation. Canada has enacted a nationwide fire-safe cigarette mandate.

Ms. Liccioli pointed out that the legislation is supported by the Alaska Fire Chiefs Association, the Alaska Firefighters Association, the Department of Public Safety Division of Fire Prevention, AARP, and numerous other organizations. "There is no known opposition to this legislation."

Ms. Liccioli concluded that this legislation would save lives, reduce injuries, and save property. It would, in essence, have zero fiscal impact as the revenue generated by the fees established by the bill would exceed the expense the legislation would incur on the Department of Revenue. That Department is charged with tracking the cigarettes that are permitted to be sold in the State. She urged the Committee to support the bill.

[9:32:05 AM](#)

Co-Chair Hoffman asked whether this legislation would increase the cost of a pack of cigarettes.

Ms. Liccioli assured that adoption of the bill would not increase costs to consumers.

Co-Chair Hoffman asked whether it would increase costs to cigarette manufacturers.

Ms. Liccioli understood that manufacturers would absorb any increase in cost if there were any. During discussion on this bill in a separate committee hearing, the industry had testified that the "difference in cost to them was negligible".

[9:32:52 AM](#)

Senator Thomas asked for further information about the compliance markings that would be required on each pack of cigarettes.

Ms. Liccioli specified that, in order to maintain consistency, the bill would establish marking standards. The bill's language would allow the State's fire marshal to determine specific marking requirements. The bill does direct that markings established in other states should be considered.

Senator Thomas asked why the bill included language that specified that not more than 25 percent of the cigarettes tested in a test may exhibit full-length burns.

[9:34:12 AM](#)

Ms. Liccioli expressed that this requirement was based on the "Certificate of Analysis" "Cigarette Ignition Strength Standard" report compiled by the National Institute of Standards & Technology (copy on file). That analysis "establishes the standards for what's acceptable".

[9:34:47 AM](#)

Senator Elton questioned the \$41,600 fiscal impact reflected in the Department of Revenue's fiscal note #3, dated March 19, 2007, as that Department currently has a division that maintains a listing of cigarettes. He thought the bill would have "the greatest impact" on the Department of Public Safety, specifically the fire marshal's office, and to a lesser degree, the Department of Law. He noted, however, that the Department of Public Safety had submitted a zero fiscal note.

Senator Elton asked for further information about the Department of Revenue's determination that this legislation would require an additional one-half time position.

Ms. Liccioli assured Senator Elton that the Department of Revenue's fiscal note had been discussed. The Department currently maintains a directory of cigarettes in compliance with existing State tax laws. That directory is "broad" in the sense that it would include cigarettes that would not meet the fire-safe standards identified in this bill.

Ms. Liccioli continued. This legislation would require the Department to maintain two different lists: one specific to each fire-safe brand name and brand style cigarette certified fire-safe by the State; the other specific to which cigarettes in compliance with State tax laws. Distributors and retailers could only sell cigarettes listed in both directories.

Ms. Liccioli advised that expanding the directory in this manner would initially require an additional fulltime position. Eventually that position would be reduced to halftime.

[9:37:23 AM](#)

Senator Elton thought that establishing and maintaining a list would "be simpler and less resource intensive" than being professed; therefore, he asked that the Department speak to their fiscal note.

[9:37:53 AM](#)

Senator Dyson also asked whether New York and other states that have enacted fire-safe cigarette legislation have experienced a reduction in cigarette related fires.

Ms. Liccioli responded that no in-depth studies have been conducted in this regard; however, preliminary reports in New York indicate there has been a reduction in cigarette-related fires.

[9:38:34 AM](#)

JOHANNA BALES, Excise Audit Manager, Tax Division/Anchorage Office, Department of Revenue, testified via teleconference from

Anchorage to respond to the fiscal note question. She affirmed that a comprehensive directory of cigarettes "approved for sale in the State" is currently maintained by the Department. The entirety of "those cigarettes must be stamped and in compliance "with the nationwide Master Settlement Agreement (MSA)".

Ms. Bales advised that this legislation would change the manner in which the Department conducts its cigarette enforcement and investigation practices. Furthermore, the Department "would be the primary agency" tasked with ensuring that only fire-save cigarettes were sold in the State.

Ms. Bales communicated that the current directory includes approximately 200 brands of MSA compliant cigarettes. The Department would be required to compile an additional list specific to fire-safe cigarettes. "Because of the way this" legislation's language is written, that list would contain approximately 1,000 different brands of cigarettes.

Ms. Bales specified that the Department would then be required to compile a third list which would depict those cigarettes in compliance with both the MSA and the fire-save regulations. In addition, the Department would be required to conduct an educational campaign for the approximate 2,000 cigarette product retailers and distributors in the State.

Ms. Bales surmised that "additional duties" would also be assigned to the Department.

[9:41:10 AM](#)

Co-Chair Stedman asked whether the enforcement process would become less burdensome as more and more states adopted fire-save cigarette legislation.

JERRY BURNETT, Legislative Liaison, Department of Revenue, acknowledged that over time that could be the case. However, the immediate affect would be that additional work would be levied on the Department. Thus, it is "reasonable" to request the additional staffing reflected in the Department's \$41,600 fiscal note.

[9:42:19 AM](#)

Senator Elton understood that the testing would be conducted by other entities and the test results would be provided to the State Fire Marshall in the Division of Fire Prevention, Department of Public Safety. A list would then be provided to the Department of Revenue. It appears that the responsibility of the Department of Revenue would be "a data entry issue". To that point, he questioned why this would warrant contractual expenses and an additional staffing position the initial year and a half-time position thereafter.

Mr. Burnett asked Ms. Bales to discuss the Department's responsibilities in this regard.

[9:43:21 AM](#)

Ms. Bales clarified that the Department would be the sole entity responsible for compiling the list. She noted that each cigarette manufacturer is required to provide their cigarette marking signatures to both the State Fire Marshal and the Department of Revenue.

Ms. Bales asserted that the Department is responsible for compiling and maintaining the directory, and, were this legislation enacted the Department would be required to maintain three lists.

Ms. Bales noted that the Department is also the primary enforcement agency. They seize and destroy cigarettes that are non-compliant and they must ensure that the entity from whom the cigarettes were seized has a hearing. All these activities incur expenses to the Department.

Ms. Bales pointed out that the Department did not receive any additional funding when the MSA was implemented. Nor, was its funding increased when it was subsequently directed to develop the directory of approved MSA cigarettes. These efforts place fiscal demands on the Department year-round as the directory is updated constantly. Similar efforts would be applied to the two additional lists this legislation would require.

Ms. Bales stressed that existing Department responsibilities, including its auditing activities, are impacted whenever the Department is asked to absorb additional functions. She reiterated the expectation that additional duties would be placed on the Department by this legislation.

Ms. Bales divulged that the \$83,000 the State annually receives from cigarette certification fees typically matches Department costs; however, this legislation would incur additional expenses.

[9:45:33 AM](#)

WARREN CUMMINGS, President, Alaska Fire Chief's Association and Fire Chief, City of Fairbanks, testified via teleconference from Fairbanks in support of the bill. "Cigarettes are the leading cause of home fire fatalities in the United States, killing 700 to 900 people" annually, including both smokers and non-smokers. Approximately four people die this way each year in Alaska. Numerous people are also injured from cigarette related structure fires.

Mr. Cummings noted that one-quarter of the people injured or killed in structure fires are not the person who had been smoking the cigarette. 34 percent of that number is children of the smoker; 25 percent are their neighbor or friend; 14 percent are their spouse and partner; and 13 percent are their parent.

Mr. Cummings shared that research conducted in the 1980s concluded that fire-safe cigarettes would eliminate three out of four cigarette related fire deaths. Had cigarette manufacturers begun producing fire safe cigarettes at that time, an estimated 15,000 lives would have been saved to date. 27 lives would have been saved in Alaska over the past ten years.

Mr. Cummings shared that research conducted in New York indicates there has been "no decline in cigarette sales" since fire safe cigarettes were introduced. However, a one-third reduction in cigarette fire fatalities was experienced during the first six month period in 2004 when the law went into effect.

Mr. Cummings urged the Committee to advance this legislation.

[9:48:14 AM](#)

JIM CARROLL, Representative, AARP and Juneau Retired Teachers Association spoke in support of the bill. As a former firefighter, he has experienced firsthand the aftermath of cigarette related fires.

[9:49:50 AM](#)

DAVID HULL, Vice Chair, Alaska Council on Emergency Medical Services, spoke in support of the bill. This issue impacts all the services associated with the Council. It is a life-safety issue.

Mr. Hull avowed that rather than being an attempt "to regulate the industry or to restrict smoking"; this legislation "is an effort to curb needless fires from starting from a carelessly discarded cigarette". During his 32 years in the medical services industry, he responded to numerous cigarette related fires, including a recent apartment building fire in the City and Borough of Juneau that placed numerous people in harm's way. The origin of that fire was a discarded cigarette that caught a couch and ultimately the entire building on fire.

Mr. Hull urged the Committee to pass this legislation. Its goal is to save lives and property.

[9:52:17 AM](#)

Senator Thomas, observing that the safe cigarette language that would be required on each pack of cigarettes was extensive, voiced concern that it might overshadow other required warnings. He also understood that in recent years cigarette manufacturers have reduced the number of additives included in cigarettes. This has reduced the tendency for cigarettes to continue to burn. He was surprised this had not been addressed in the testimony.

[9:53:20 AM](#)

Senator Elton, who had signed on as a bill sponsor, thanked Senator Olson for initiating the effort. While he considered this "an important bill" and supported its being reported from Committee, there were fiscal note issues that should be further addressed, specifically that the Department of Revenue's fiscal note did not address enforcement efforts. He also continued to question the Department's request for additional staffing to maintain the directory.

[9:54:24 AM](#)

Senator Dyson shared his continuing wariness "about government intrusions and forcing industries to do things that they ought to be doing on their own". Nonetheless, he exemplified a government intrusion he had supported which dealt with prostate cancer screening. He had asked the insurance industry why government had to intervene and force them to cover this since it was "such a wise thing for them to do for their clients". The response "behind closed doors" was that "we would if our competition would do it ... we don't want to have to run our rates up a little and be at a competitive disadvantage".

Senator Dyson concluded that government interference in that matter was acceptable; it was beneficial to both individuals and the industry as it placed them "on the same level playing field". He considered this legislation in the same light. Cigarette manufacturers would have done this on their own had everyone done it. Now that numerous states were taking similar action, he surmised that cigarette manufacturers would eventually switch to solely producing fire-safe cigarettes rather than maintaining two production lines.

[9:56:18 AM](#)

Co-Chair Hoffman moved to report the bill from Committee with individual recommendations and accompanying fiscal notes.

There being no objection, CSSB 84(JUD) was REPORTED from Committee with two previous fiscal notes: \$41,600 fiscal note #3 from the Department of Revenue and zero fiscal note #4 from the Department of Public Safety.

AT EASE [9:56:57 AM](#) / [10:01:38 AM](#)

#sb125

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 third hearing for this bill in the Senate Finance Committee.

Co-Chair Stedman, referring to this legislation "as the Public Employees cost share bill", informed the Committee that discussions with Governor Sarah Palin's Administration, the State's actuaries, and the Alaska Retirement Management (ARM) Board have been ongoing. The intent today would be to review a new committee substitute, discuss updated analysis, and address some policy issues. It is anticipated that the legislation could report from Committee within the next few weeks.

[10:02:57 AM](#)

Co-Chair Hoffman moved to adopt Finance committee substitute Version 25-GS1074\E as the working document.

There being no objection, the Version "E" committee substitute was ADOPTED as the working document.

Co-Chair Stedman informed Members that, like the Governor's original bill, Version "E" would continue to provide "a 90-day window for amending a participation agreement". He advised Members however, that this issue is of concern to municipalities.

Co-Chair Stedman stated that today's discussion should include such things as the risk-sharing component between the State and municipalities in regards to the unfunded liabilities of the retirement system as well as considering the establishment of "some sort of a floor to prevent changes in the payroll base in the future". This has been referred to as the "gaming issue".

[10:04:51 AM](#)

MILES BAKER, Staff to Senator Stedman, referred Members to the "Analysis of Changes CS SB 125 vs. SB 125" handout [copy on file] prepared by Co-Chair Stedman's office on April 22, 2007. The four page handout, which compared Version "E" to the original version of the bill, was reviewed as follows.

| | | |
|---------------------|---------------|---------------------|
| CS SB 125 | | SB 125 |
| (Ver E 4/20/07) | | Corresponding |
| <u>Bill Section</u> | <u>Change</u> | <u>Bill Section</u> |

| | | |
|-------|--|---------------------|
| Title | Expanded to include "Alaska Retirement Management Board" and "Teachers' Retirement System" | Title - Modified |
|-------|--|---------------------|

Mr. Baker stated that the title change was required as Version "E" included a new bill section that slightly changed the duties of the Alaska Retirement Management Board (ARMB). The title change was also required to specify that the Teachers' Retirement System (TRS) would be changed to mirror the cost share system currently in effect for the Public Employees Retirement System (PERS).

| CS SB 125 (Ver E 4/20/07) <u>Bill Section</u> | <u>Change</u> | SB 125 Corresponding <u>Bill Section</u> |
|---|--|--|
| Sec. 1 | AS 14.25.070 *Repeals & Reenacts the employer contribution section of the Teachers' Retirement System (TRS) Define Benefit (DB) statutes *Sets the annual employer contribution rate to 12.56%, or the DB plan employer normal cost - whichever is greater. *Rate applies to entire payroll base - regardless of Tier *Contributions are used to pay DB and Defined Contribution Retirement (DCR) normal costs *Money in excess of what Is needed to pay system's normal costs is applied to the accrued unfunded liability *Employer contribution rate applies to retiree/rehires | N/A - New |

and their salary must be included in the payroll base
 *Defines "accrued unfunded liability", "employer normal cost rate" and "normal cost"

Mr. Baker reviewed the changes in Section 1 pertaining to the employer contribution provisions of the TRS Defined Benefit (DB) statutes. In the past, the State "assumed the unfunded liability for the TRS systems" and made its annual payments to the school districts "through an increase" in the Base Student Allocation (BSA) formula. Section 1 would change "the employer contribution rate for the school districts" to the Defined Benefit normal cost rate which currently is 12.56 percent. As a result, "school districts would be required to pay that rate ... on their entire payroll base, regardless of Tier.

Mr. Baker reminded the Committee that this payroll base concept had been discussed during the hearings on SB 123-RETIREMENT/BENEFITS: PUB EMPLOYEES/TEACHERS, the technical fix bill which had previously reported from Committee.

Mr. Baker stated that TRS employer contributions would be used to pay both the normal cost of the DB members and the normal cost of the Defined Contribution (DC) plan members. Any excess money, which is anticipated to be a minimal amount, would be credited toward the unfunded liabilities of the system.

Mr. Baker reiterated that these provisions are similar to those of the PERS system.

| CS SB 125 (Ver E 4/20/07) <u>Bill Section</u> | <u>Change</u> | SB 125 Corresponding <u>Bill Section</u> |
|---|---|--|
| Sec. 2 | AS 14.25.085 *Adds new section to statute establishing the state's contribution requirements within TRS *As an employer, the state must make contributions on behalf of its own TRS members | N/A - New |

*State also makes one annual direct payment to TRS, in an amount sufficient to pay the system's full unfunded liability payment as determined by the board for the coming fiscal year

Mr. Baker stated that Sec. 2 is new language that is specific to the State's contribution. The State would be required to pay the 12.56 percent contribution rate for any of its employees in the TRS system. The State would also be required to make an annual payment "to the administrator of the system" for the full payment of the unfunded liability amount due. He reiterated that "the mechanics" rather than the policy that had been in effect for several years has changed in this regard: instead of providing this money via the BSA to the school districts which then paid the administrator, the State would now be paying the retirement system directly.

Mr. Baker revisited Section 1. SB 141, the legislation which established the new DC plan, established the concept of a "floor" for the normal cost rate. Thus, the 12.56 contribution rate, which was determined at the last valuation period, is the "floor". The normal cost rate is recalculated on an annual basis and if the normal cost drops below or exceeds 12.56 percent, "the employers would be required to contribute the greater of the two".

| CS SB 125 (Ver E 4/20/07) <u>Bill Section</u> | <u>Change</u> | SB 125 Corresponding <u>Bill Section</u> |
|---|--|--|
| Sec. 3 | AS 14.25.220 *Adds definition of "system" to the TRS DB section of statute *"System" means all TRS plans | N/A - New |

Mr. Baker explained that as a result of the changes to the retirement system, it is important to provide consistency in the definitions of both the PERS and TRS plans.

[10:12:03 AM](#)

| CS SB 125 (Ver E 4/20/07) Bill Section | Change | SB 125 Corresponding Bill Section |
|--|---|---|
| Sec. 4 | AS 37.10.220(a)(8) *Amends Alaska Retirement Management Board's (ARMB) powers and duties (page 4, lines 17-19) *Board can't set an amortization period for liquidating the accrued unfunded liability of less than 25 years | N/A - New |

Mr. Baker stated that this section addresses changes to the ARMB. Since the State would now be responsible for picking up the difference between what employers are contributing and what the Board establishes as the amount required to pay down the retirement system's unfunded liability, it was deemed necessary to insure that the ARMB did not establish a shorter amortization period than was feasible to pay off the liability. 25 to 30 years is the actuarial industry standard; establishing a shorter time period would increase the rate.

| CS SB 125 (Ver E 4/20/07) Bill Section | Change | SB 125 Corresponding Bill Section |
|--|--|---|
| Sec. 5 | AS 39.35.100 *No change | Sec. 1 |
| Sec. 6 | AS 39.35.115 *Slightly reworded to match language already passed in SB 123-Technical Clarification Bill | Sec. 2- Modified |

Mr. Baker stated that this change would align the language with that of SB 123.

| | |
|-----------|--------|
| CS SB 125 | SB 125 |
|-----------|--------|

| (Ver E 4/20/07) Bill Section | Change | Corresponding Bill Section |
|---------------------------------|--|-------------------------------|
| Sec. 7 | AS 39.35.125(a) * No change | Sec. 3 |
| Sec. 8 | AS 39.35.160(c) * No change | Sec. 4 |
| Sec. 9 | AS 39.35.255 *Adds a new section that rewrites the employer contribution section of the Public Employee's Retirement System (PERS) DB statutes *Sets the annual employer contribution rate to 22%, or the DB plan employer normal cost - whichever is greater *Rate applies to entire payroll base - regardless of Tier *Contributions are used to pay DB and DCR normal costs *Money in excess of what is needed to pay system's normal costs - are applied to the accrued unfunded liability *22% employer contribution rate applies to retire/rehires and their salary must be included in the payroll base *Defines "accrued unfunded liability", "employer normal cost rate" and "normal cost" | Sec. 5 - Modified |

Mr. Baker noted that the provisions in Section 1 applied to TRS and the provisions in Sec. 9 would apply to PERS. Both the PERS and TRS systems would be cost share systems in which all assets and liabilities would be "pooled" and shared across all employees. Employers would be required to "pay a fixed rate of 22 percent on their entire payroll, regardless of Tier". Those contributions would then be used by the administrator" to pay the DB normal cost as well as the DC normal cost. Any remaining balance would be directed toward the unfunded liability.

| CS SB 125 (Ver E 4/20/07) Bill Section | Change | SB 125 Corresponding Bill Section |
|--|--|---|
| N/A | AS 39.35.260 *No longer necessary. Incorporated into AS 39.35.255 | Sec. 6 - Deleted |
| N/A | AS 39.35.260 *No longer necessary. Incorporated into AS 39.35.255 | Sec. 7 - Deleted |

[NOTE: These sections were not discussed.]

[10:14:22 AM](#)

| CS SB 125 (Ver E 4/20/07) Bill Section | Change | SB 125 Corresponding Bill Section |
|--|--|---|
| Sec. 10 | AS 39.35.280 *Repeals and reenacts the section of statute dealing with the state's contribution requirements within PERS *As an employer, state must make the 22% contribution on behalf of its own PERS members *State also makes one annual direct payment to PERS, in an amount | N/A - New |

sufficient to pay
the system's full
unfunded liability
payment as determined
by the board for
the coming fiscal year

Mr. Baker stated that Sec. 10 would apply to PERS in a manner similar to how Sec. 2 applied to TRS. In addition to paying 22 percent on its own employees, this section would require "the State to make an appropriation to the system of the amount required above the 22 percent collected from all PERS employers to meet the Board's adopted rate to fund the unfunded liability for that fiscal year".

| CS SB 125 (Ver E 4/20/07) <u>Bill Section</u> | <u>Change</u> | SB 125 Corresponding <u>Bill Section</u> |
|---|-------------------------------|--|
| Sec. 11 | AS 39.35.520(a) *No change | Sec. 8 |
| Sec. 12 | AS 36.35.610 *No change | Sec. 9 |
| Sec. 13 | AS 39.35.615(a) *No change | Sec. 10 |
| Sec. 14 | AS 39.35.615 *No change | Sec. 11 |
| Sec. 15 | AS 39.35.620 *No change | Sec. 12 |

[NOTE: Sections 11, 12, 13, 14, and 15 were not discussed.]

[10:15:20 AM](#)

| CS SB 125 (Ver E 4/20/07) <u>Bill Section</u> | <u>Change</u> | SB 125 Corresponding <u>Bill Section</u> |
|---|--|--|
| Sec. 16 | AS 39.35.625 *Addition requested by the Administration | N/A - New |

*Adds a new section of statute indicating how PERS termination costs will be determined under a new cost share system

Mr. Baker informed that this section was added at the request of the Administration as the original bill they introduced did not clarify "how termination costs would be determined going forward if an employer decided to completely exit from the system".

| CS SB 125 (Ver E 4/20/07) <u>Bill Section</u> | <u>Change</u> | SB 125 Corresponding <u>Bill Section</u> |
|---|----------------------------|--|
| Sec. 17 | AS 39.35.650 *No change | Sec. 13 |

[NOTE: Sec. 17 was not discussed.]

[10:15:40 AM](#)

| CS SB 125 (Ver E 4/20/07) <u>Bill Section</u> | <u>Change</u> | SB 125 Corresponding <u>Bill Section</u> |
|---|---|--|
| Sec. 18 | Repeals *Adds AS 39.35.260 to the list of repeals (see SB 125 Sec. 6 & Sec. 7 comments above) *Removes AS 39.35.280 (see CSSB 125 Sec. 10 comments above) | Sec. 14 |

Mr. Baker noted that Sec. 18 would repeal AS 39.35.260 and remove references to AS 39.35.280, as new provisions in the bill addressed those issues.

| CS SB 125 (Ver E 4/20/07) <u>Bill Section</u> | <u>Change</u> | SB 125 Corresponding <u>Bill Section</u> |
|---|---------------------|--|
| Sec. 19 | Transition Language | Sec. 15 - |

*Subsection (a)- No Modified
change

*Subsection (b) - Adds
new sentence (Page
12, Lines 5-8)

-Sentence added
at the request
of the Adminis-
tration to conform
to House amendments
to SB 123 - Technical
Clarification Bill
-Elected officials
cannot be amended
into participation
agreements unless
they make at least
the same monthly
salary as Legislators
(\$2,001)

*Subsection (c) - New
subsection

-Sets FY 08 contri-
bution rates below
22% for certain poli-
tical subdivisions
that make PERS contri-
butions in excess of
what was required
between FY05 - 07
-Rates are for 1 year
only and will allow
these employers to recoup
their excess contributions
in FY 08

Mr. Baker reviewed the changes in Sec. 19, subsections (b) and (c), page 12 of the bill. Language was added to subsection (b) at the request of the Administration. It would conform the Version "E" committee substitute to language adopted "in a technical fix bill in the House that says that if an employer opts in their elected officials" only those elected officials who are drawing a salary equal or above that made by Legislators would be allowed.

Mr. Baker pointed out that were this legislation adopted, employers would have 90 days after the effective date of the bill, "to make any participation agreement changes to their current PERS plan". They could opt out of the plan, add or delete classes of employees, including elected officials meeting the aforementioned criteria. No changes would be allowed after the close of that 90-day window.

[10:17:57 AM](#)

Mr. Baker identified Sec. 19 subsection (c) as new language. He explained that when the Administration introduced the original version of the bill, a packet of spreadsheets had accompanied it. Those spreadsheets included a reference to a group of PERS employers, referred to as "Heroes", who, "during the last two years", in addition to paying the amount required of them, "paid an additional amount of money, assuming that they were paying off their own individual liability". One of the Heroes, the City of Soldotna, had also made a one million dollar deposit in FY 2005 (FY 05).

Mr. Baker stated that consideration must be given to the Heroes, else wise, "those payments would have been for naught" if the retirement system simply transitioned "to a pooled shared liability system". "The whole pool is now benefiting from their generosity."

Mr. Baker thus informed the Committee that transitional language was included in Sec. 19 subsection (c) of Version "E" "that would set a one year contribution rate" for the Heroes for FY 08 "that would allow them to recoup the money they contributed over the last two years". Then, beginning with the FY 09 contribution rate period, the Heroes rates would align with other municipalities at the 22 percent rate.

Mr. Baker referred the Committee to a one-page spreadsheet titled "FY 08 Rate Adjustments Required to Recoup Excess Muni PERS Contributions from Prior 3 Years" [copy on file], prepared by Co-Chair Stedman's office on April 22, 2007. This spreadsheet depicted the mechanics of the calculations.

Mr. Baker pointed out, however, that the City of Soldotna's FY 08 contribution rate at the 22 percent level would be \$537,000. They have contributed an excess of \$1,276,229, and even if their contribution level dropped to zero in FY 08, they would still

have an excess balance under the proposed formula in Version "E". Thus, "it is contemplated that the Legislature" would address this and other Heroes' excess payments in the FY 08 Capital Budget.

| CS SB 125 (Ver E 4/20/07) Bill Section | Change | SB 125 Corresponding Bill Section |
|--|--------------------------------------|---|
| Sec. 20 | Transition Language *No change | Sec. 16 |
| Sec. 21 | Revisor's Instructions *No change | Sec. 17 |
| Sec. 22 & | Effect Date Clauses | Sec. 18 & |
| Sec. 23 | *No change | Sec. 19 |

[NOTE: Sections 20, 21, 22, and 23 were not discussed.]

Mr. Baker concluded his overview of the changes in the Version "E" committee substitute.

[10:20:53 AM](#)

SB 125
Setting Employer Contribution Rates in Statute
PowerPoint Presentation by the Legislative Finance Division

DAVID TEAL, Director, Legislative Finance Division, utilized a PowerPoint presentation [copy on file] to address the fiscal component of the bill.

Page 2

Categorization of the Governor's FY 08 GF Increments
(\$750.8 Million Total from FY 07 Base)

[Pie chart depicting General Fund increments as proposed in
the Governor's FY 08 budget.]

Mr. Teal informed the Committee that the information depicted on page 2, mirrored information provided earlier in the Legislative

Session when Governor Sarah Palin first introduced her FY 08 budget.

Mr. Teal noted that this information was included solely "as a reminder of the magnitude" of the retirement increments supported by the State's general funds (GF). For example: the School District TRS/PERS FY 08 GF increment of \$207,400,000; the Agency Retirement, Health, and Wage increases FY 08 GF increment of \$186,400,000; and the Political Subdivisions PERS FY 08 GF increment of \$77,500,000. In excess of \$450 million would be spent to support these retirement increases in the FY 08 budget.

Page 3

- The pie chart is based on June 2005 actuarial valuation (and a PERS contribution rate just under 40%).
- Preliminary June 2006 actuarial valuation put the PERS rate near 47%.
- Each point means a \$17 million cost increase, so the amount of PERS contributions could increase another \$120 million in FY09.

Mr. Teal reviewed the information. Each percent of the approximately \$1,700,000,000 wage base "carries with it \$17 million worth of additional contributions". "The PERS contribution could be understated by as much as \$120 million."

[10:22:39 AM](#)

Page 4

Liability/Asset Gap
PERS/TRS Funding Ratio

[Chart comparing the PERS/TRS Accrued Liability to Assets for the time period FY 97 through Rate Year FY 08. The gap between accrued liabilities and assets is the Unfunded Liability of the PERS/TRS Systems. The Unfunded Liability in FY 08 is anticipated to be \$6.9 billion.]

Mr. Teal stated that this chart reflects the unfunded liabilities of the systems.

[10:22:59 AM](#)

Recap of Major Points

1. The gap will grow before it begins to fill.
 - 5 point cap on annual rate increases
 - lag between action and response
2. Unfunded liability is not going away by itself - it is a bill that must be paid.
3. The State will pay most of the bill, either by appropriating money to agencies and school districts (so they can pay their bills) or by appropriating money directly to DOA.
4. The cost of the direct and indirect methods is identical in most cases.
5. Paying the bill is not the same as fixing the system.

Mr. Teal reviewed the information and stressed that the unfunded liability gap would continue to grow before it begins to decrease. This is because, for a period of time, the system was under-funded as a result of there being a five point maximum annual rate increase limit imposed on employer contribution rates. Another reason is the two to three year lag time between when a rate was adopted and when the payments at that rate impacted the unfunded liability.

[10:24:13 AM](#)

Moving Forward

Goal: Find a permanent fix that is affordable to both the state and its political subdivisions.

1. Paying TRS costs directly to DOA in order to reduce the employer contribution rate will save \$11 million annually in the University's Optional Retirement Plan. (In the operating budget; SB 125 makes the fix permanent)
2. Cap the employer contribution rate to PERS.
3. Revise actuarial methods.

Mr. Teal reviewed the goal sought by this bill and the three components that would support that effort. He noted that the

ARMB supports making payments for the costs of PERS and TRS directly to the Department of Administration. This effort would allow the TRS employer contribution rates to be reduced to 12.56 percent. This would save the University of Alaska approximately \$11 million a year on its annual optional retirement system.

Mr. Teal advised that the savings to the University have already been considered in the FY 08 operating budget as the TRS rate is funded in that budget. Thus, "in the perspective of SB 125, this first point is not particularly interesting."

Mr. Teal informed the Committee that ARMB "has passed a resolution in support of direct payments to the Department of Administration". This direction is included in both the House and Senate operating budgets, and there is no impact beyond that unless, the discussion was expanded to address K-12 education funding.

Mr. Teal advised that he would not be addressing K-12 education funding at this point, as the intent is to keep the discussion focused on the retirement funding issue. Nonetheless, when K-12 education funding legislation was before the Committee, it would include some TRS issues that would require addressing.

[10:26:14 AM](#)

Page 7

Impact of SB 125's Fixed PERS Rate

1. The impact is primarily on political subdivisions - the state pays the full bill for agencies.
A fixed rate can make retirement costs more affordable to political subdivisions by shifting costs to the state; a fixed rate for employers does not reduce the total amount that must be paid.
- 2 Implements two of AML's three pillars - a fixed rate is as stable and predictable as possible.
3. The third pillar - affordability - is more complex. The bill must be paid; the question is "Who pays it?"

Resolution: SB 125 set employer rates in statute at 22% of payroll, with the state picking up the remainder.

Mr. Teal reviewed the information and noted that when the Alaska Municipal League (AML) testified on this bill, they had requested the retirement funding fix consider three "pillars: stability, predictability, and affordability".

Mr. Teal stated that the 22 percent fixed rate proposed in this legislation clearly addresses the stability and predictability pillars. However, a tremendous amount of consideration has been given to the more complex affordability pillar in the development of this bill.

Mr. Teal concluded however, that the bill must be paid, and the question is whether the State or the municipalities would be responsible for paying it. The resolution is that the employer rate would be set at 22 percent of payroll, "with the State picking up the remainder of the cost".

[10:27:57 AM](#)

Page 8

Contribution Rates on Total Alaska PERS Payroll
Based on Buck's 2006 Actuarial Valuation

[A chart comparing four employer contribution level scenarios over the period from 2008 through 2032: the employer contribution levels that would have been paid based on actuarial valuations; the employer contribution levels that would have been paid based on a Level Dollar Rate mechanism recommended by the actuary "as the appropriate method to use for a closed" Defined Benefit System; the fixed 22 percent contribution level proposed in this bill; and a contribution rate level recommended by the actuarial for an open Defined Benefit System plan.]

Mr. Teal stated that this chart is best explained by realizing that under the provisions of this bill, the municipality employer contribution rate would be set "at 22 percent regardless of what the full rate is". He cautioned that the chart solely depicts contribution rate levels and does not reflect costs.

[10:28:55 AM](#)

Page 9

State Spending for Municipal PERS Assistance
Based on Buck's 2006 Valuation
(Real 2008 Dollars)

[A chart reflecting the costs to the State under the fixed municipal 22 percent contribution rate proposed in this legislation as calculated by either the Actuarial Rate or the Level Dollar Rate.]

Page 10

Reading the Charts

- The cost of municipal PERS assistance is expected to decline over time.
- Both payment schedules eliminate the unfunded liability in 25 years or less, but the Level Dollar method costs more, especially in the near-term.
- The amortization methods used by the actuaries produce rates that are too low in the distant future, implying that near-term rates are too high.
- Risk Sharing is not likely to be needed - it is likely that municipalities will push for a rate reduction in a few years.

Mr. Teal noted that, under the Actuarial Rate scenario, the State would be responsible for approximately \$45 million dollars in FY 08. The amount would peak at approximately \$65 million in 2010 and then decline. While the State's obligation would initially be higher under the Level Dollar Rate scenario than it would be under Actuarial Rate scenario, both would peak around 2010 and then decline. It should be noted that "both payment schedules eliminate the unfunded liability in 25 years or less".

Mr. Teal stated that the unfunded liability is eliminated when the rate reaches the Normal Rate, which "is the cost of simply funding the system on a continuing basis". It is the Past Service Cost, which is "the cost to pay the unfunded liability" that encompasses everything above the Normal Rate cost.

Mr. Teal stated that by the end of the amortization period, the payment schedule would be below the Normal Cost rate. This would indicate that "the unfunded liability has been paid off". However, the fact that "the rates actually go below the Normal

Cost rate and don't just meet it gradually ... implies that rates" in the initial years are too high.

Mr. Teal noted that, as mentioned in Co-Chair Stedman's initial remarks, another issue of concern is that of "'risk sharing'. The Administration has expressed concern that" there is too much risk to the State involved in the 22 percent rate plan. While municipalities would be given stability and predictability, the State would subject itself to risks by agreeing to be responsible for the balance of the unknown costs.

Mr. Teal stated that risk sharing was not included in the original bill and has not been addressed in the committee substitute. It was not addressed in the original bill as rates are declining and risk levels decline in tandem with declining rates.

Mr. Teal pointed out that rates are not anticipated to continue their upward trend as originally "feared when we first started looking" at establishing a fixed 22 percent rate.

Page 11

What is not in the Charts

- Money to fund the "blue line" amortization schedule is in the operating budget; the \$125 million required to follow the "black line" schedule has not been appropriated.
- The revised revenue forecast essentially eliminates the FY 08 surplus projected earlier, and a deficit is projected for FY 09. This raises questions about the wisdom of paying as much as possible as soon as possible.
- We are no longer required to follow the black line because the full wage base is subject to contributions, meaning that PERS no longer operates as a closed system for funding purposes.

Mr. Teal advised that funding of the Level Dollar Rate funding method, depicted by the "black line" on the chart, is included in the FY 08 operating budget. Funding for the Actuarial Rate funding method, depicted by the "blue line" on the chart, which was adopted by the ARMB, is not.

Mr. Teal next reminded the Committee that the recently revised revenue forecast eliminated the surplus that had been

anticipated in FY 08. Due to the deficit anticipated for FY 09, the State would not have the cash flow required to pay high rates and high cash flow toward the unfunded liability in the initial years.

Mr. Teal also advised there is a lack of certainty in regards to whether to adopt the Actuarial Rate or the Level Dollar Rate methodology. During discussions with the State's actuary, Buck Consultants, the Division learned that the rate adopted by the ARMB was appropriate for a closed system; however, if SB 123-RETIREMENT/ BENEFITS:PUB EMPLOYEES/TEACHERS is enacted, the full wage base would be subject to contribution. Thus, even though "it is technically" a closed system in that employees cannot join the Defined Benefit System, "the PERS system would no longer act as a closed system". However, "from a funding perspective, the employer will be paying the same contributions on new employees as they are on existing employees, so that the system, for actuarial purposes, acts like an open system".

Mr. Teal concluded therefore that "there would be no need to go to the higher rate schedule".

[10:34:02 AM](#)

Page 12

Where Do We Go From Here?

Work with the ARM Board to Revise Actuarial Methods and Reset FY 08 Rates

Objectives:

1. A permanent, affordable fix for the burden that contribution rates above 22% would place on political subdivisions.
2. A smooth curve that pays off the unfunded liability in 25 years.

Mr. Teal reviewed actions that should be taken. Buck Consultants has been working on developing a proposal that would provide "a smooth curve that pays off the unfunded liability and meets the" Normal Cost Rate in 25 years.

Mr. Teal concluded his remarks.

[10:35:06 AM](#)

Senator Thomas asked for further information regarding the information on page 3 that specified that each contribution point increase would equate to a \$17 million PERS cost increase.

[10:35:35 AM](#)

Mr. Teal explained that the total wage base for all PERS employees is approximately \$1.7 billion. Thus, the cost of each percent required to pay into the retirement system is approximately \$17 million. For example, increasing the contribution rate from 40 percent to 47 percent would be a seven percent increase. This would equate to approximately \$120 million.

AT EASE [10:36:14 AM](#) / [10:37:38 AM](#)

ANNETTE KREITZER, Commissioner, Department of Administration, informed the Committee that the Administration debated about whether or not to include a 90-day "window" in this cost-share bill. Ultimately the decision was made to support it as a matter of fairness to the municipalities. During this "window", municipalities could "amend their participation agreements" and opt groups of employees in or out of the PERS system. She also noted that the House added language that would allow municipalities to opt in local elected officials, provided they met specified criteria, during this 90-day period.

Commissioner Kreitzer stated that an effort was made to craft the 90-day window language in a manner which would both provide flexibility to municipalities and, at the same time, negate their ability to conduct "gamesmanship", a term that refers to a situation in which a municipality might opt in and out groups of employees to their benefit. Further discussion on the appropriate language should occur before the bill reports from Committee.

[10:39:44 AM](#)

Co-Chair Stedman asked for further information about the potential for gaming.

[10:39:55 AM](#)

Commissioner Kreitzer understood "gamesmanship" is a term for a situation in which "you [an employer] move covered employees in and out of your participation agreement", and in effect "shrink the amount of your payroll base". Thus, when transitioning to a cost share system, the concern is whether "you [an employer] should force folks to pay for members that you had opted out of, that you had taken out of the PERS system that now you may, in this 90-day period, want to add back in".

Senator Elton characterized gamesmanship "as a semi-pejorative term". He exemplified a situation in which the City and Borough of Juneau rehired a retired individual as the airport manager "and that position was removed from the PERS plan because of that". He understood that under this legislation, the City would have 90 days to decide whether or not to opt back in that position, for, in the future, a person with a different circumstance might hold that position.

Commissioner Kreitzer affirmed. As exhibited by Senator Elton's example, many types of circumstances could be addressed in the 90-day period. She apologized for utilizing the term gamesmanship in a blanket fashion.

[10:41:45 AM](#)

PAT SHIER, Director, Division of Retirement & Benefits, Department of Administration, advised that Sec. 9 of the bill addresses the issue of rehiring a retired person; including the situation exemplified by Senator Elton. Sec. 9 specifies that that individual must be included in the municipality's payroll base.

[10:42:35 AM](#)

Due to the anticipation of the State experiencing cash flow problems in the next few years, Commissioner Kreitzer expressed concern that the State would be responsible for funding any shortfall beyond the amount paid by municipalities. She has communicated to both Mr. Teal and members of the Legislature the fact that she does not consider either this bill or SB 123 to be "a permanent fix".

Commissioner Kreitzer also recommended that the Legislature continue to consider "a cash infusion into TRS..."

[10:43:45 AM](#)

Co-Chair Stedman emphasized that the current effort is focused on this bill and the "fix-it bill", SB 123; "they're two big pieces" of the effort to address the liability of the retirement systems. Once the liability is "isolated", the next step would be "to look at the cash flow and work on slicing that up and minimizing the impact on the general fund draw.

Commissioner Kreitzer corrected a component of the Division of Legislative Finance's presentation; the unfunded liability estimated for FY 08, as depicted on page 4, should be \$8.6 billion rather than \$6.9 billion.

Co-Chair Stedman agreed with Commissioner Kreitzer. The unfunded liability could range between eight and ten billion dollars depending on such things as which year the valuation was based on. There have been incremental increases in the liability level for the past several years.

[10:45:13 AM](#)

Senator Elton asked the Commissioner to provide information on the affect the 90-day window might have on administrative hearings, such as the dispute currently being considered about how the City & Borough of Juneau manages some of its police department employees. A decision on this issue is not expected until the fall of 2007.

Commissioner Kreitzer stated that clarification on this issue would be provided, as she has an opportunity to discuss it with the Department of Law.

[10:46:13 AM](#)

Senator Thomas questioned how the rehire of a past service employee during the 90-day period would be treated. Language in the bill specifies that "an employer may not award past service to employees added during the 90-day period. To that point, he asked whether "past service is considered unearned" in that an employer could "grant service to employees that are not previous employees".

Commissioner Kreitzer thought not. The language was carefully developed with the objective to be very clear on what options

were available to municipalities. Nonetheless, she would clarify this with the Department of Law.

Senator Huggins noted that the bill also contained similar provisions regarding individuals with military service.

Senator Dyson also understood that to be the case.

[10:47:44 AM](#)

LARRY SEMMENS, Finance Director, City of Kenai, and Member, ARMB, testified via teleconference from Kenai and thanked those who have worked so diligently on addressing the PERS and TRS funding issues.

Mr. Semmens asked for clarification on the ARMB's ability to specify the amortization period as 25 years; specifically whether the intent was to adopt a rolling 25-year period in which each year the ARM Board would re-finance the unfunded liability over the remaining years depending on that year's valuation.

Co-Chair Stedman acknowledged that for several years the unfunded liability was addressed in a rolling amortization manner; however, "the intent here is to amortize and liquidate this liability over next 25 years".

Mr. Semmens approved of this approach.

Mr. Semmens next addressed language in Sec. 9 of the bill. While a rate lower than the 22 percent employer contribution rate specified in this bill would have been preferred, employers would accept the certainty of a set rate. Nonetheless, numerous employers set their FY 08 rate based on the language in the Governor's budget which specified a maximum five percent increase "over their FY 07 out-of-pocket costs".

Mr. Semmens noted that under the Governor's budget plan, the City of Kenai would have experienced a 36 percent increase over their FY 07 budget, absent consideration of the State's five percent PERS assistance. That increase was factored into the City's FY 08 budget. Increasing the contribution rate to 22 percent as proposed in this legislation would amount to a 60 percent increase. Therefore, he asked the Committee to consider the Governor's budget plan for FY 08.

Mr. Semmens also questioned the intent of the "regardless of the employee's employment status at date of termination" language in Sec. 13, page 9, line 31. In his view, a former employee, who he defined as an active employee, "should not be impacted by an employer's termination, and therefore should not vest".

Mr. Semmens next addressed language in Sec. 15 regarding termination. "60 days is not a very long time for a municipality to either pay their termination bill or" establish a payment plan that must be approved by their local legislative body.

[10:52:22 AM](#)

While Mr. Semmens agreed with language in Sec. 16 that provided the State the ability to calculate an employer's termination plan, he questioned the mechanics of the process as the State is currently unable to determine either an employer's assets or liabilities.

While Mr. Semmens appreciated the ability provided in Sec. 19 that would allow a municipality to include elected officials in its plan, he was concerned that going forward, municipalities would be limited to the classes of employees that were in place at the 90-day period. This is bad public policy; it would not consider an "immediate or abrupt change in an employer's salary base". An example of this would be the City of Kenai opting out or contracting out its street department. While that class of employee would continue to be part of the City's plan, the city's salary base would drop significantly. "And the rest of the members, particularly the State, would pay for it".

Mr. Semmens strongly objected to the provision in the bill that would prohibit a municipality from being able "to add or delete classes of employees". This is an important issue. A different method in this regard should be adopted.

[10:55:04 AM](#)

MICHAEL LAMB, Chief Financial Officer, Fairbanks North Star Borough, testified via teleconference from an offnet location and concurred with Mr. Semmens' remarks and concerns.

Mr. Lamb then referenced Commissioner Kreitzer's comments regarding the 90-day window and the associated concern about the possibility of a municipality "shrinking" its salary base and

forcing other employers "to end up sharing or having to cover the costs".

Mr. Lamb contended that the 90-day window option was unlikely to be the best way to avoid the gamesmanship issue. While he thought this might be a universal concern, an alternate method to address it should be sought. He agreed that the shrinking of the salary base due to opting out or contracting out services is a real concern.

Mr. Lamb suggested that an AML suggestion to specify FY 06 as the salary base year could be a preferred option to the 90-day window method.

Mr. Lamb concluded that a flat TRS rate, adopting a 25 year amortization schedule, and other provisions in the bill would "make a huge difference to understanding the State's volatility out into the future". He looked forward to the receipt of an updated report from Buck Consultants as mentioned by Mr. Teal. In summary, while there are still a few items that need addressing, he is "pleased with the effort" and appreciated the work to date.

Co-Chair Stedman asked Mr. Lamb to provide further comments to his office once he had time to review the new committee substitute more thoroughly.

[10:59:06 AM](#)

Senator Elton stated that in addition to the consideration afforded the Hero communities; consideration should also be given to those communities that might experience a substantial increase in their contribution rate. There is concern that those communities might decide to entirely opt out of the plan.

AT EASE [10:59:52 AM](#) / [11:00:03 AM](#)

Co-Chair Stedman noted the intent to re-address this bill in a few days.

[11:00:22 AM](#)

Commissioner Kreitzer announced that the Department had developed a response to a question asked earlier by Senator Thomas.

Mr. Shier communicated that individuals with military service would be unaffected by this bill. The intent of the language was to prevent credit for non-PERS service for those groups of employees that may, in that period of time, opt in".

[11:01:06 AM](#)

The bill was HELD in Committee.

#

ADJOURNMENT

Co-Chair Bert Stedman adjourned the meeting at [11:01:13 AM](#).