

**MINUTES**  
**SENATE FINANCE COMMITTEE**  
**May 2, 2007**  
**2:06 p.m.**

**CALL TO ORDER**

Co-Chair Bert Stedman convened the meeting at approximately [2:06:05 P M.](#)

**PRESENT**

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

**Also Attending:** DAVE GRAY, Chief of Staff to Senator Olson; GUY BELL, Assistant Commissioner, Department of Labor and Workforce Development; MILES BAKER, Staff to Senator Stedman; KEVIN BROOKS, Deputy Commissioner, Department of Administration; KATHY WASSERMAN, Alaska Municipal League

**Attending via Teleconference:** From Anchorage: MIKE ANDREWS, Director, Alaska Works Partnership Inc.; From Fairbanks: MICHAEL SEXTON, Executive Director, Mechanical Contractors; From an Offnet Location: LARRY SEMMENS, Finance Director, City of Kenai

**SUMMARY INFORMATION**

SB 124-ALASKA WORKFORCE INVESTMENT BD ALLOCATION

The Committee heard from the bill's sponsor, the Department of Labor and Workforce Development, and took public testimony. The bill was held in Committee.

SB 125-PERS /TRS CONTRIBUT'NS; UNFUNDED LIABILITY

The Committee reviewed and adopted a committee substitute. An explanation of the committee substitute was provided by Co-Chair Stedman's staff; the bill's fiscal note was explained by the

Department of Administration, and public testimony was heard. The bill reported from Committee.

SB 104-NATURAL GAS PIPELINE PROJECT

This bill was scheduled but not heard.

[2:07:08 PM](#)

#sb124

CS FOR SENATE BILL NO. 124(L&C)

"An Act relating to unemployment contributions for the Alaska technical and vocational education program and to the allocation of money appropriated to the Alaska Workforce Investment Board; and providing for an effective date."

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

Co-Chair Stedman specified that the intent today was to hear an explanation of the bill from its sponsor, hear public testimony, and address Committee questions. The bill would be held in Committee.

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Senator Olson, the bill's sponsor, informed the Committee that this legislation would increase training opportunities for the workforce that would be required to support the anticipated Alaska gas pipeline project. The University of Alaska participated in the development of the bill.

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DAVID GRAY, Chief of Staff to Senator Olson, explained that the original version of the bill solely proposed expanding the Alaska Training and Vocational Education Program's (ATVEP) vocational and technical (Voc-Tec) training opportunities to include the Voc-Tec training center in Nome. Subsequently however, as specified in the Senate Labor and Commerce (L&C) committee substitute before the Committee, the training

opportunities were broadened as the result of discussions with Alaska Work Products, Inc. and the University.

Mr. Gray noted that to support the additional training opportunities, funding for ATVEP would be increased as reflected in the Department of Labor and Workforce Development's revised fiscal note dated April 27, 2007.

Mr. Gray pointed out that the funding levels for current ATVEP participants would be increased under this legislation and three additional Voc-Tec entities would be added: the Northwest Alaska Career and Technical Center in Nome; the Delta Career Advancement Center, and the Alaska Works Partnership Program (AWPP). AWPP is "a consolidation of many union training programs that are available to both union and non-union Alaskans".

Mr. Gray communicated that AWPP has a history of working with the University and technical centers throughout the State, specifically those in rural areas, to train individuals.

Mr. Gray clarified that ATVEP's current and proposed funding levels are depicted on page 3 of the revised fiscal note. Existing program participants' funding levels would simply be increased were the legislation adopted; else wise they would be unaffected.

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Senator Dyson asked how the school selections were made.

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Mr. Gray reiterated that the original bill only proposed expanding the program to include the North Arctic Career Center in Nome. The Delta Career Center and the Alaska Work Products training program were added at the recommendation of the University and Alaska Work Products, Inc.

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Senator Dyson qualified his concern. The question was whether other qualified Voc-Tec training schools had been considered or notified of this opportunity.

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Mr. Gray was uncertain whether "a broad solicitation" had been conducted. To that point however, he attested that the University was aware of the spectrum of Voc-Tec programs in the State. The Alaska Works Partnership program has also coordinated Voc-Tec efforts throughout the State.

Mr. Gray emphasized that the intent of this legislation was to enhance pipeline construction training center opportunities.

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Senator Dyson worried that only government or union schools had been considered to the detriment of private trade schools.

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GUY BELL, Assistant Commissioner, Department of Labor and Workforce Development, informed the Committee he was available to answer questions about the Department's fiscal note.

No questions were forthcoming.

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MIKE ANDREWS, Director, Alaska Works Partnership Inc., testified via teleconference from Anchorage and attested to the benefits the bill would provide. It "would significantly increase the ability of our State's trained workers for good paying jobs in Alaska, particularly those in construction and pipeline construction jobs".

Mr. Andrews stated that Alaska Works Partnership has a good working relationship with the training centers supported by ATVEP. Alaska Works Partnership has trained hundreds of workers from all regions of the State, including rural and remote areas. Programs include building construction, highway construction, student programs, and electrical and plumbing programs.

Mr. Andrews also noted that training is provided regardless of union or non-union status.

Mr. Andrews informed the Committee that the bill is supported by a wide range of the State's construction industry including Associated General Contractors of Alaska, numerous homebuilder

associations in the State, the North Slope Contractors Association, Bristol Bay Housing Authority, and Wilder Construction. Several school districts also work with Alaska Works Partnership to train youth. The entities that support the bill are involved in such things as road construction, commercial and residential building construction, and pipeline construction in rural and urban areas of the State.

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Mr. Andrews addressed Senator Dyson's concern regarding how the training entities were chosen. For the past several years, the Legislature selected six entities to receive State Voc-Tech training funds: the University of Alaska, AVTEC, Kotzebue, SAVEC in King Salmon, Yuut in Bethel, and the Galena Regional Training Center. It has been determined that additional training centers were necessary and places such as the Delta Career Advancement Center and the Nome training center were recommended.

Mr. Andrews stated that Alaska Works Partnership was "engaged" because it "was constructing a pipeline training facility in Fairbanks" that would offer four types of construction training.

Mr. Andrews urged the Committee to advance the bill.

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Senator Thomas acknowledged there being widespread support for vocational technical training. While there has been mention of school districts' involvement with construction training programs, he has not heard about an outreach to the State's military population; particularly young veterans.

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Mr. Andrews informed the Committee that Alaska Works Partnership offers a statewide "Helmets to Hardhats" program with outreach to veterans, their spouses, particularly those involved with the Alaska National Guard and National Guard Reserves. He shared details of the program and characterized it as "a very active program". Only one other state has such a program.

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MICHAEL SEXTON, Executive Director, Mechanical Contractors of Fairbanks, testified via teleconference from Fairbanks on behalf of contractors in the welding, plumbing, and pipefitting industry. He appreciated Senator Olson's effort to expand this training program as these contractors place tremendous emphasis on hiring local Alaskan workers. They have worked for the past six years with Alaska Works Partnership to further training and hiring of rural Alaskans. Expanding this program would strengthen the Alaska workforce that will be required to support the pipeline industry. It would also support the operation of the Fairbanks pipeline training center. He urged the Committee to support the bill.

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Co-Chair Stedman invited Guy Bell to discuss the Department's \$2,912,200 fiscal note dated April 27, 2007. He also noted the bill was accompanied by a \$129,600 fiscal note from the University, dated April 30, 2007. A one page spreadsheet titled "SB 124: Allocation Changes to Alaska Workforce Investment" [copy on file] has been developed by his office for reference purposes.

Mr. Bell directed attention to the comparison of current and proposed Program funding as depicted on page 3 of the fiscal note. The total status quo program funding for FY 08 is estimated to be \$6,043,600. The cost of the program would be expanded to \$9,166,100 if this bill was enacted.

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Mr. Bell stated that the net program increase of \$3,122,500 consisted of the projected increase in program revenues and the increase in distribution amounts to the existing program entities and the three new program participants.

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Senator Olson thanked the Committee for scheduling this hearing on the bill. It would benefit the future needs of Alaska and its citizens.

The bill was HELD in Committee.

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#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 fifth hearing for this bill in the Senate Finance Committee.

Co-Chair Stedman specified that this legislation, referred to as the "cost share bill", pertained to the retirement funds of the majority of municipalities in the State.

Co-Chair Stedman advised that a new committee substitute had been developed. The intent is that this forthcoming committee substitute, which incorporated the issues discussed by the Committee, would be reported from Committee.

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Co-Chair Hoffman moved to adopt committee substitute, Version 25-GS1074\0, and it's accompanying fiscal notes as the working documentation.

Co-Chair Stedman pointed out that Members' bill packets also contained a "side-by-side comparison" titled "Analysis of Changes CSSB 125 vs. SB 125" [copy on file] which compared language differences between Version "0" and the original version of the bill. A five page spreadsheet titled "CSSB 125 Rate Backup: Impact on 22% Employer Rates of Hold Harmless and Recoup provisions" [copy on file] had also been distributed.

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MILES BAKER, Staff to Co-Chair Stedman, directed his remarks to the "Analysis of Changes CSSB 125 vs. SB 125" side-by-side comparison. Sections of Version "0" that mirrored language in

the previously adopted committee substitute, Version 25-GS1074\K, would not be discussed as those changes had been addressed during the overview of that committee substitute on April 28, 2007.

Mr. Baker announced that the first change that would be addressed was the addition of a new section, Sec. 4, on page 3 beginning on line 5. This section addressed concerns regarding how the 22 percent Public Employees Retirement System (PERS) employer contribution rate would be allocated. It clarified that employers must allocate three percent of the 22 percent to the Health Reimbursement Arrangement (HRA). Part of the confusion was that HRAs were specified in a different State Statute than the Statute pertaining to the contribution rate.

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Mr. Baker identified the next change as being in Sec. 19, page 9 line 14. While Sec. 4 addressed the HRA allocation concern regarding PERS, this change would similarly clarify the Teachers Retirement System (TRS) employer contribution rate allocation to the HRA account.

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Mr. Baker announced that the most substantial change in Version "0" is in Sec. 21, page 9, line 20. He referred the Committee to the aforementioned five page spreadsheet. Sec. 21 addressed the concern that the hold harmless provisions in the previous bill versions only applied to PERS employers. This section was revised to include TRS employers who employed PERS members.

Mr. Baker continued. Sec. 21(a) established the appropriate contribution rate for FY 2008 (FY 08). This enabled those employers "who had paid excess into the system over the last three years to recoup that excess amount".

Mr. Baker specified that Sec. 21(b) would specify the employer contribution rates for FY 09 through FY 12.

Mr. Baker also communicated that the five-year hold-harmless provision "would bring some parity" to those employers whose contribution rates had been "substantially below" 22 percent. This parity effort also considered those entities who had been

paying substantially more than 22 percent and who would experience "a substantial savings in their general fund budget".

Mr. Baker directed attention to the five page spreadsheet and noted that the information it depicted, in essence, "justifies the percentages that are in the bill". The first two pages deal with the PERS political subdivisions; page 3 deals with entities referred to as "PERS Other". This would include entities such as the Alaska Municipal League, the Southeast Regional Resource Center, and the Tlingit Housing Regional Housing Authority. Page 4 depicts school districts and page 5 is a summary of the total.

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Mr. Baker communicated that the spreadsheet contains information on projected wage bases, entities' FY 07 contribution rates, the amount paid in FY 07 as calculated at the FY 07 employer contribution rate formula, the Alaska Retirement Management Board (ARMB) recommended rate for FY 08, and the "gain/loss" on that rate as affected by the 22 percent "fix".

Mr. Baker, using the spreadsheet as a tool, exemplified the savings that an entity such as Fairbanks, whose prior contribution rates were significantly above the proposed 22 percent employer contribution rate, would experience.

Mr. Baker also exemplified the affect of the proposed 22 percent rate on entities whose FY 07 contribution rate or FY 08 rate, based on the ARMB adopted rate, was below 22 percent. Any such community with a dollar amount showing in Column (9) would be subject to the "hold-harmless" credit provision. The result of that recalculation is depicted in Column (10).

Mr. Baker next spoke to columns (12) through (18). Any community that had paid an excess contribution amount in FY 05, FY 06, or FY 07 would have an amount reflected in Column (15). The total excess amount paid by communities was \$7,194,207. These entities rates would be adjusted to allow them to recoup their overage in the fiscal year following the enactment of this legislation.

Mr. Baker specified however that some of the communities that made excess contributions had also contributed at a rate less than 22 percent. They would also be subject to the hold harmless provision. The total affect of the credit adjustments reflected

in the bill on their rate was depicted in Columns (19), (20), and (21).

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Mr. Baker continued to address the calculations reflected in Columns (19) through (21). The provisions pertinent to these adjustments are included in Sec. 21 of the bill.

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Mr. Baker informed that the entities depicted on page 3 of the spreadsheet were not addressed in the previous committee substitute, as it had not included provisions pertinent to "PERS Other" employers. The format of the information on this page mirrored that of pages 1 and 2.

Mr. Baker stated that page 4 of the spreadsheet depicted the affect of this legislation on school districts. The hold-harmless provisions would also apply to districts such as the Nenana School District, which had previously paid a contribution rate below 22 percent. The total hold-harmless amount for school districts was \$1,102,187.

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Mr. Baker referred Members to the totals depicted on page 5. The total five year annual hold-harmless amount is specified at \$5.15 million. He allowed that slight adjustments to this amount might occur as payrolls fluctuated. The State would be required to contribute any amount required beyond the maximum 22 percent employer contribution rate.

Mr. Baker reminded the Committee that the City of Soldotna had contributed an excess amount of one million dollars in FY 05. Even after re-calculating their FY 08 rate to zero, that overage could not be recouped in one year. Thus, they were added to the hold harmless column and their rate would be adjusted over a five-year period as reflected on page 5. As a result, \$255,246 was added to the \$5.15 million hold-harmless amount for FY 08.

Mr. Baker also noted that "one-time FY 08 rebate costs to the State" of \$7,194,207 would also be added for a total FY 08 cost of \$12,579,579. The State's costs for each of the following four

years would be \$5,385,372. The rebate expense would not be a factor.

Mr. Baker noted that this expense was a component of the Department of Administration's fiscal note.

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KEVIN BROOKS, Deputy Commissioner, Department of Administration, thanked Mr. Baker for developing the five-page spreadsheet. It was helpful to the Department when they compiled this complicated fiscal note.

Mr. Brooks reminded the Committee that Governor Sarah Palin based her FY 08 operating budget on the employer contribution rates that were calculated last fall. The State's PERS contribution rate at that time was projected to be 44 percent. The average PERS employer rate at the time was 39 percent.

Mr. Brooks specified that "the increases for that rate increase" have since been "backed out" of the operating budget. The operating budget in its current form specifies 22.5 percent for the State's employer contribution rate. This was the current FY 07 rate. That number was the starting point for developing the Department's fiscal note.

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Mr. Brooks also noted that the FY 08 operating budget, as presented in HB 95-APPROP: OPERATING BUDGET/LOANS/FUNDS, included a \$180 million appropriation for PERS. That number should be subtracted from the \$193,113,200 FY 08 expense depicted in the April 30, 2007 fiscal note. Thus "the differential" increase is \$13,100,000. \$12,600,000 of that reflects the \$5.4 million in hold harmless money and the \$7.2 million rebate provision. The \$500,000 remaining variance could be the result of various changes in formulas.

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Mr. Baker attested that a variance in the numbers was inevitable, "depending on which numbers were run". The calculation was based on projected salaries for all the employers and the FY 05 valuations. The mechanics of the

calculation would attribute to the seemingly "half million dollar rounding error".

Co-Chair Stedman acknowledged the explanation.

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Mr. Brooks noted that this concluded his fiscal note comments. He was available to answer Committee questions.

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Senator Olson asked whether the \$180 million the Governor included in the FY 08 operating budget should also be subtracted from the \$218,287,000 FY 09 expense depicted on the fiscal note.

Mr. Brooks clarified that the entire amount depicted on the fiscal note would be required in the out-years. As specified in the bill, the State would be obligated to provide any amount beyond the 22 percent paid by employers. He understood that going forward that annual appropriation would not be included in the operating budget. Thus, \$218,287,000 would be required in FY 09. As the result of provisions in the bill, this amount is expected to decline in FY 2011.

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LARRY SEMMENS, Finance Director, City of Kenai, testified via teleconference from an offnet location and thanked the Committee, the Legislature, and the Administration for the hard work on this bill. He was pleased with the results and supported the bill being moved forward.

Mr. Semmens informed the Committee that the Alaska Retirement Management Board (ARMB) recently passed a resolution specifying that if the direction of the bill continued "in its present form", they would "support lowering the employer average rate to 32.51 percent".

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Co-Chair Stedman thanked Mr. Semmens for the contribution he has made in addressing this issue.

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KATHY WASSERMAN, Alaska Municipal League (AML), spoke in "full support" of the bill. She also appreciated the efforts exerted to develop this bill; particularly those of Commissioner Annette Kreitzer and Melanie Millhorn with the Department of Administration; Miles Baker with Co-Chair Stedman's office; Larry Semmens, Michael Lamb, and Co-Chair Stedman.

Ms. Wasserman expressed that this legislation would provide "some closure to a very, very huge controversial issue" to AML members and others.

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Co-Chair Hoffman acknowledged the effort put into this bill; however, he exclaimed there being "no rhyme or reason to the problems that people are experiencing above the 22 percent, and I think that that goes to the Chairman when he looked at resolving this problem. There still is some inequities in what I perceive as assistance to those communities and we are still contemplating a revenue sharing bill that can try to bring some resemblance of fairness to the other communities that aren't participating in PERS".

Co-Chair Hoffman asked Ms. Wasserman whether AML continued to support the development of "a revenue sharing program with some resemblance of fairness to offset the big beneficiaries of this legislation".

Ms. Wasserman answered in the affirmative. AML hoped there would be "some cash infusions" to help those communities that are in need.

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Senator Elton voiced appreciation for the work conducted by Co-Chair Stedman and his staff on this bill.

Co-Chair Hoffman repeated his earlier motion to adopt committee substitute, Version 25-GS1074\0 as the working document.

There being no objection, Version "0" was ADOPTED.

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

Co-Chair Stedman repeated the motion and specified that the spreadsheet would be included as part of the fiscal note.

There being no objection, CSSB 125(FIN) was REPORTED from Committee with new \$193,113,200 fiscal note from the Department of Administration, dated April 30, 2007.

[NOTE: Co-Chair Stedman ordered a four-page March 29, 2007 Buck Consultants response letter [copy on file], addressed to Kathy Lea, Retirement Benefits Manager, Department of Administration, regarding an unidentified PERS Analysis Request [copy not provided] to be attached to the Committee Report.]

Co-Chair Stedman thanked the Committee for the attention provided to this bill. It was a step forward in addressing the State's retirement system issue.

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Co-Chair Stedman conducted housekeeping of the next day's Committee meeting schedule.

**ADJOURNMENT**

Co-Chair Bert Stedman adjourned the meeting at [2:55:55 PM](#)