

**ALASKA STATE LEGISLATURE**  
**SENATE LABOR AND COMMERCE STANDING COMMITTEE**

March 30, 2010

1:53 p.m.

**MEMBERS PRESENT**

Senator Joe Paskvan, Chair  
Senator Joe Thomas, Vice Chair  
Senator Bettye Davis  
Senator Kevin Meyer  
Senator Con Bunde

**MEMBERS ABSENT**

All members present

**COMMITTEE CALENDAR**

HOUSE BILL NO. 377

"An Act exempting certain volunteer work by amateur sports officials from certain requirements of the Alaska Employment Security Act."

- MOVED HB 377 OUT OF COMMITTEE

CONFIRMATION HEARINGS

Alcoholic Beverage Control Board

Belen M. Cook, Cordova

State Board of Registration for Architects, Engineers, and Land Surveyors

Brian R. Hanson, Anchorage

Burdett B. Lent, Wasilla

Donald W. Shiesl, Wasilla

State Assessment Review Board

Roger W. Nash

Board of Barbers and Hairdressers

Glenda Ledford, Wasilla

Jynal C. Radzuikinas, Sitka

Board of Chiropractic Examiners

Verdie A. Bowen, Wasilla

Dr. Walter L. Campbell, Palmer

Alaska Labor Relations Agency

Gary Bader, Anchorage

Daniel Repasky, Anchorage

Board of Marine Pilots

Richard Erickson, Ketchikan

Personnel Board

Dr. Keith J. Hamilton, Soldotna  
Board of Certified Real Estate Appraisers  
Clint H.A. Lentfer, Anchorage  
Donna H. Rulien, Anchorage  
Real Estate Commission  
Marianne K. Burke, Anchorage  
Regulatory Commission of Alaska  
T.W. Patch, Anchorage  
Board of Veterinary Examiners  
Dr. Teresa L. Beck, Palmer  
Dr. John E. Tuomi, Palmer  
Alaska Workers' Compensation Board  
Jeffrey R. Bizzarro, Two Rivers  
James P. Fassler, Soldotna  
John D. Garrett, Anchorage  
Don E. Gray, Anchorage  
Sarah L. Lefebvre, Fairbanks  
Michael J. Notar, Juneau  
Thomas J. Tibor, Anchorage  
Janet L. Waldron, Anchorage  
Workers' Compensation Appeals Commission  
Laurence Keyes, Anchorage

- HEARD

SENATE BILL NO. 298

"An Act adjusting the established geographic differentials in pay that apply to certain employees in state service who are not covered by collective bargaining agreements; requiring the director of the division of personnel to establish geographic pay differentials for positions located outside the state; and providing for an effective date."

- HEARD AND HELD

**PREVIOUS COMMITTEE ACTION**

BILL: HB 377

SHORT TITLE: VOLUNTEER AMATEUR SPORTS OFFICIALS

SPONSOR(S): REPRESENTATIVE(S) STOLTZE

02/23/10	(H)	READ THE FIRST TIME - REFERRALS
02/23/10	(H)	L&C
03/22/10	(H)	L&C AT 3:15 PM BARNES 124
03/22/10	(H)	Moved Out of Committee
03/22/10	(H)	MINUTE(L&C)

03/23/10 (H) L&C RPT 5DP  
03/23/10 (H) DP: BUCH, LYNN, HOLMES, T.WILSON, OLSON  
03/24/10 (H) TRANSMITTED TO (S)  
03/24/10 (H) VERSION: HB 377  
03/25/10 (S) READ THE FIRST TIME - REFERRALS  
03/25/10 (S) L&C  
03/30/10 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)

BILL: SB 298

SHORT TITLE: ST. EMPLOYEE GEOGRAPHIC PAY DIFFERENTIAL  
SPONSOR(S): SENATOR(S) EGAN BY REQUEST

02/24/10 (S) READ THE FIRST TIME - REFERRALS  
02/24/10 (S) L&C, FIN  
03/30/10 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)

**WITNESS REGISTER**

REPRESENTATIVE BILL STOLTZE  
Alaska State Legislature  
Juneau, AK  
**POSITION STATEMENT:** Sponsor of HB 377.

MORGAN HOBSON  
Staff to Representative Stoltze  
Alaska State Legislature  
Juneau, AK  
**POSITION STATEMENT:** Explained HB 377.

PAULA SCAVERA, legislative liaison  
Alaska Department of Labor and Workforce Development (DOLWD)  
Juneau, AK  
**POSITION STATEMENT:** Answered questions on HB 377.

BILL CRAEMER, Chief  
Unemployment Insurance  
Department of Labor and Workforce Development (DOLWD)  
Juneau, AK  
**POSITION STATEMENT:** Answered questions on HB 377.

RICHARD WISENEN  
USA Hockey  
Kenai, AK  
**POSITION STATEMENT:** Opposed HB 377.

T.W. PATCH  
Regulatory Commission of Alaska (RCA) appointee

Anchorage, AK

**POSITION STATEMENT:** Commented on his nomination for the RCA.

SENATOR DENNIS EGAN  
Alaska State Legislature  
Juneau, AK

**POSITION STATEMENT:** Sponsor of SB 298.

DANA OWEN  
Staff to Senator Egan  
Alaska State Legislature  
Juneau, AK

**POSITION STATEMENT:** Explained SB 298 for the sponsor.

CHRIS CHRISTENSEN, Deputy Administrative Director  
Alaska Court System  
Juneau, AK

**POSITION STATEMENT:** Commented on SB 298.

JIM CALVIN, principal  
McDowell Group  
Juneau, AK

**POSITION STATEMENT:** Explained survey methodology used in SB 298.

#### **ACTION NARRATIVE**

[1:53:39 PM](#)

**CHAIR JOE PASKVAN** called the Senate Labor and Commerce Standing Committee meeting to order at 1:53 p.m. Present at the call to order were Senators Thomas, Davis, and Paskvan.

#### **HB 377-VOLUNTEER AMATEUR SPORTS OFFICIALS**

[1:55:03 PM](#)

**CHAIR PASKVAN** announced HB 377 to be up for consideration.

[1:55:08 PM](#)

**REPRESENTATIVE BILL STOLTZE**, sponsor of HB 377, introduced himself. He said this issue was brought to him by folks active in both Southcentral and Interior youth sports activities facing the prospect of finding themselves in a unique situation of becoming something they didn't realize - direct employers. The problem arises out of enforcement by the Alaska Department of Labor and Workforce Development (DOLWD) to protect workers from manipulation and by strictures of the federal government on employee exemptions for volunteer work as sports officials.

1:56:27 PM

SENATOR BUNDE joined the committee.

REPRESENTATIVE STOLTZE said his intent is to bring forth a vehicle that provides for as much latitude for these volunteer organizations, which are basically scraping by to just keep kids on the ice or on the soccer fields and providing the basic scoring and officiating that is needed, without the having the responsibilities of unemployment tax. The federal government provides a \$1500 exemption for volunteer activities that have some compensation. It is not a wage, but rather a stipend or a per diem type of compensation. He preferred a broader approach, but his hands are tied by the federal law. He said that many Alaskans are involved in youth sports; so this is an important issue.

He said the Alaska School Activities Association (ASAA) is the main entity that brought this forward and it has avalanched into other folks presenting their interests.

1:59:46 PM

MORGAN HOBSON, staff to Representative Stoltze, said the intent of the bill is not to help folks who referee as a full time job, but to help people who volunteer their time at local sporting events and receive money to cover incidentals such as food and travel. These volunteers cover many of their own expenses including training, certification, costs associated with their officials organizations, uniforms, and this job is performed purely as an avocation for the sake of community sports. This measure would only apply to volunteers who receive less than \$1500 cumulatively per year over all sports they are involved with as well as supporting organizations. This amount cannot be raised, although many people have testified that it would be beneficial to have a higher amount. But the state would lose funding for unemployment insurance if that amount was raised.

Sports officials, whether they are volunteers or amateurs cannot be entirely exempted from unemployment insurance, but this gives leeway to help folks who do this for several games in the summer or who help out with a son or daughter's sport event.

2:01:40 PM

SENATOR BUNDE said he received several communications from people supporting this issue, but nothing from people opposing it and he wanted to know if there is any opposition.

MS. HOBSON replied that the only concerns they have heard are from folks who want a higher limit, but after looking into that they found it is not a possibility.

REPRESENTATIVE STOLTZE added that the opposition has been in legal form from the federal government.

SENATOR BUNDE asked if these various groups have liability insurance that would cover injuries.

MS. HOBSON answered that workers' compensation would be totally outside of this.

REPRESENTATIVE STOLTZE added that ASAA carries workers' compensation insurance, but he would leave that to them to testify about.

[2:03:40 PM](#)

CHAIR PASKVAN asked if it is possible for one of these officials to receive unemployment insurance, and if so, under what conditions.

SENATOR JOE THOMAS asked relative to the \$1500 cap for compensation, would it be a good idea to consider the soccer association or whatever as the employer so they can fill out some kind of contract acknowledging that they are a volunteer, and setting out standards to eliminate confusion at a later date.

REPRESENTATIVE STOLTZE replied that these people are not employees of the school districts or associations. They are usually dispatched through an official's association. They do it for love of the sport and to stay involved.

[2:06:23 PM](#)

SENATOR KEVIN MEYER joined the committee.

[2:06:31 PM](#)

SENATOR BUNDE said he is all in favor of the bill, but sometimes the push back from people who do activities like this for a living is that their opportunity to make a living is being undercut. His comment earlier was if they were full-time employees there would be some workers' compensation involved if there was an injury. What kind of liability coverage do these part time workers have?

PAULA SCAVERA, legislative liaison, Alaska Department of Labor and Workforce Development (DOLWD), said that she asked this question of the workers' compensation division and she was told that volunteers are volunteers and they are exempt from workers' compensation laws.

SENATOR BUNDE said that is a little part of his problem. It's a contradiction in terms. How can someone get paid for volunteering?

MS. SCAVERA replied that these are not considered wages - they get their uniform cleaned or they get reimbursed for a new rule book. Language on page 7 of HB 377 says that volunteer work means "work for which compensation does not exceed and is paid only to defray or reimburse the reasonable food, travel, and incidental expenses the person occurs in order to perform the work." The word "wages" isn't there.

SENATOR BUNDE said he is more familiar with it being labeled as an honorarium.

MS. SCAVARA stated that she wasn't a drafting attorney and that is the way it was drafted.

[2:09:17 PM](#)

CHAIR PASKVAN asked if they are exempted, could they still be covered under Unemployment Insurance.

BILL CRAEMER, Chief, Unemployment Insurance, Department of Labor and Workforce Development (DOLWD), answered if someone has covered wages in the system and then they file an unemployment claim they could draw unemployment benefits based on those wages. Reimbursement for expenses - uniforms and travel, for instance - are not considered wages. They are not taxed and they wouldn't help someone qualify for a claim.

[2:10:46 PM](#)

RICHARD WISENEN, certified USA Hockey official, Kenai, Alaska, said he is also a certified National Federation high school hockey official, a volunteer local supervisor and a trainer for USA Hockey that trains hockey officials. He also sits on the board of directors for their local hockey referee association. He said they need to avoid any unintended consequences of passing any bill, and if this bill passes it won't alleviate the current problem that is forcing sport programs to cut back due to the increased cost of obtaining officials for the games. In the case of the Hockey Referee Association, they supply official

for everything from youth hockey to varsity junior varsity at the high school level and adult leagues. If they have to charge each group the extra fees to cover unemployment and workers' compensation for these games it will be even more expensive for the programs.

He said the \$1500 cap only adds confusion. Any time a referee is assigned a game he has to charge the league for those fees and might have no idea which person that is going to bid for the job will be able to pass that threshold in their year. Their officials' contracts, which were drawn up with the help of an attorney, include the statement that they are working for the association as independent contractors and as such no workers' compensation or unemployment needs to be withheld. His association pays \$35,000 - \$40,000 a year to approximately 50 different officials. With these regulations, they are thinking about hiring an accountant that would add an extra \$10,000 to the fees they have to charge the association. Currently a volunteer treasurer handles this as an independent contractor.

He said a number of young people officiate at boys and girls soccer as well as the hockey program, and many are beyond the \$1500 threshold. Most states he has worked in treat officials as independent contractors and thus avoid this dilemma completely. They would be better served providing an exemption under AS 23.10.055 where 17 other exemptions for the Employment Security Act reside rather than forward HB 377. He suggested using language saying that "anyone officiating amateur sports where they are compensated on a per game basis" and that would eliminate the problem they are facing. Sports programs are already very costly, but they are important to the welfare and health of our communities. They are trying to help the kids out.

[2:15:01 PM](#)

REPRESENTATIVE STOLTZE commented that he prefers an exemption as well, but this is what the Department of Labor says the feds will allow. It's not as simple as what the gentleman from Kenai stated. The path in SB 377 will meet the legal test.

SENATOR BUNDE said previous testimony indicated that volunteers were part of an organization. His conception is that a lot of these teams are not hiring out of a main hall; they're getting their volunteer workers from an informal group locally.

REPRESENTATIVE STOLTZE responded that some of the more organized sports generally have an a bigger more sophisticated official's association like USA Hockey that that has expenses. It makes the

operation of a local summer soccer league pale in comparison. This issue is difficult, he said, and HB 377 won't help everybody, but it will provide relief for many. He would have preferred an exemption, but he didn't want to open other doors and provide abuse of contract employees. He said it's frustrating because their hands are tied at a level far beyond the borders of our state.

[2:19:32 PM](#)

MS. SCAVERA added that she helped Representative Stoltze's office send four different bill versions to the US Department of Labor (USDOL) to see what would pass. Then they looked at what other states tried to do and found this. USS Code 26.33.09 says non profits and government entities cannot exempt employees totally from the Unemployment Insurance Act. One of the drafts tried the exclusion and USDOL said no.

[2:21:30 PM](#)

SENATOR THOMAS said he was a little confused about what they are actually considering. They talked about volunteers in the bill, yet some of the attached information doesn't talk about volunteers at all, but rather people in two different classifications that are independent contractors or employees. Is that what is confusing the situation? Is workers' compensation the issue they are looking at?

MS. SCAVERA said she hadn't read the article he was referring to, but she knew there was a difference between independent contractors and volunteers. This bill is just about volunteers; it has nothing to do with the relationship of contractors and independent contractors. Since December she had been talking to people from other states that are trying to do the same thing, and some of them have gone to an independent contractor situation and later had those struck down by the USDOL.

SENATOR THOMAS asked if there is a way to solve the situation that was brought to them by Mr. Wisenen short of where they are. His concern seemed to be paying the individuals and somehow keeping track of the pay and when a person hits the \$1500 cap. Is that your understanding of the problem?

[2:24:34 PM](#)

MR. CRAEMER answered that the federal law is very clear that wages of sports officials working for non-profit organizations may not be exempted from being covered under the Unemployment Insurance Program. The federal statute tries to be very inclusive to provide coverage for workers; so they want the

wages included. They specifically say they may not be exempted because of being for a nonprofit organization. The question about employees versus independent contractors gets complicated fairly quickly. Alaska statute is very clear on it. To meet the level of independent contractor is a pretty difficult test.

He said he understands that HB 377 clarifies that reimbursement for incurred expenses should not be reported as covered wages.

SENATOR THOMAS said he didn't see this reimbursement up to \$1500 as wages, and he thought this bill was the best solution they could find.

MS. SCAVERA said this bill was for those people who have actually tried to referee a soccer game once, to reimburse them for gas or meals, a uniform or studying the rules. They aren't wages whatsoever. It's to help reimburse the "mom and pop" organizations. She said she has a friend who goes through a couple of uniforms a year officiating kids' basketball games - kids bleed on his shirt and things like that. So he can put in to be reimbursed for his uniform.

CHAIR PASKVAN stated he thought Representative Stoltze indicated it very well when he said this is not a solution for everyone. Federal law does not allow a broader solution. This is the best that can be done.

[2:29:33 PM](#)

SENATOR BETTYE DAVIS said she thought the Department of Law was on line and wanted to know if they had something to add. No one from the department was on line, so they moved on.

[2:30:02 PM](#)

SENATOR THOMAS moved to report HB 377 from committee with individual recommendations and attached zero fiscal note(s). There were no objections and it was so ordered.

[2:30:31 PM](#)

CHAIR PASKVAN announced an at ease from 2:30 to 2:32 p.m.

### Confirmation hearings

[2:32:44 PM](#)

CHAIR PASKVAN announced confirmation hearings for the following people:

Alcoholic Beverage Control Board  
Belen M. Cook, Cordova

State Board of Registration for Architects, Engineers, and Land Surveyors

Brian R. Hanson, Anchorage

Burdett B. Lent, Wasilla

Donald W. Shiesl, Wasilla

State Assessment Review Board

Roger W. Nash

Board of Barbers and Hairdressers

Glenda Ledford, Wasilla

Jynal C. Radzuikinas, Sitka

Board of Chiropractic Examiners

Verdie A. Bowen, Wasilla

Dr. Walter L. Campbell, Palmer

Alaska Labor Relations Agency

Gary Bader, Anchorage

Daniel Repasky, Anchorage

Board of Marine Pilots

Richard Erickson, Ketchikan

Personnel Board

Dr. Keith J. Hamilton, Soldotna

Board of Certified Real Estate Appraisers

Clint H.A. Lentfer, Anchorage

Donna H. Rulien, Anchorage

Real Estate Commission

Marianne K. Burke, Anchorage

Regulatory Commission of Alaska

T.W. Patch, Anchorage

Board of Veterinary Examiners

Dr. Teresa L. Beck, Palmer

Dr. John E. Tuomi, Palmer

Alaska Workers' Compensation Board

Jeffrey R. Bizzarro, Two Rivers

James P. Fassler, Soldotna

John D. Garrett, Anchorage

Don E. Gray, Anchorage

Sarah L. Lefebvre, Fairbanks

Michael J. Notar, Juneau

Thomas J. Tibor, Anchorage

Janet L. Waldron, Anchorage

Workers' Compensation Appeals Commission

Laurence Keyes, Anchorage

[2:33:23 PM](#)

T.W. PATCH, Regulatory Commission of Alaska (RCA) appointee, Anchorage, said he is honored to serve on the commission and is humbled as he reflects on the importance and magnitude of the task the RCA shoulders each day and as he examines how he can

make positive contributions as a commissioner. He said he would work at making the rationale behind every decision transparent and relevant. He pledged to Governor Parnell his focused and determined efforts to carefully analyze matters brought before the commission. He intended to side proceedings on a developed record and he hoped to be repeatedly accused of logical analysis and of carefully weighing important facts as cases are decided.

MR. PATCH said he would always apply the enacted, decided or otherwise relevant law to every proceeding. He hoped it would be apparent that hard work and honest effort was part of all RCA decisions, and that people would be able to understand clearly why they were made so they could be accepted. He committed to making the rationale behind every decision evident and the process the RCA uses to arrive at its decisions transparent. He said he was also committed to consistent application of policy decisions saying that carefully crafted policy decisions uniformly applied is the best way to provide predictability of result and to avoid the legal snares along the pathway where hard cases make bad law.

MR. PATCH said he is eager to start his service and eagerly looks forward to expanding his knowledge across the spectrum of utility regulation. He related his personal history before during and after coming to Alaska. He listed his many contributions to communities throughout Alaska, saying he is appreciative of the state's beauty and character by virtue of his exposure to its people.

In terms of his profession as an attorney, he began practice in Alaska in 1975 both in government service and private practice. His practice has involved criminal and civil litigation as well as transactional work. For a long while he practiced in professional dispute resolution; he has served as both an arbitrator and a mediator. He earned membership on several national hearing panels as well as being an arbitrator in other states and on labor and interest arbitration panels in Alaska.

[2:41:40 PM](#)

His training and service experience necessary to advance to chairmanship responsibilities and senior status on national panels has assisted in his development as a patient yet critical listener. It has helped in continuously honing the skills necessary to analyze facts and apply law and that experience has emboldened him in deciding issues of the magnitude so often seen in proceedings before the RCA. He said his service with the RCA and exposure to the agency's enabling legislation and its

regulations has further qualified him for a meaningful role in RCA matters. Serving as an administrative law judge exposed him to a broad array of RCA dockets, some involving routine matters and some of significantly greater importance.

He said the RCA has processed on average just under 600 tariff filings per year over the past five years. It has dealt with an average of 425 consumer protection matters per year over that some period. The RCA published about 1300 orders last year and today there are more than 170 open dockets of all types being considered. It is a very busy work environment dependent on sound management and a cooperative team of dedicated employees. He embraces the RCA's mission is to protect consumer interests and promote economic development and he looks forward to working with the RCA in a new role and contributing his life experience and qualifications to the analysis of complex matters.

SENATOR THOMAS said he appreciated his statement and enthusiasm.

CHAIR PASKVAN noted he was in his 38th year in the lawyer profession.

[2:46:23 PM](#)

CHAIR PASKVAN moved to forward all the appointees names to the full body for consideration. There were no objections and it was so ordered.

[2:46:50 PM](#)

CHAIR PASKVAN announced an at ease at 2:46-2:48 p.m.

**SB 298-ST. EMPLOYEE GEOGRAPHIC PAY DIFFERENTIAL**

[2:48:37 PM](#)

CHAIR PASKVAN announced SB 298 to be up for consideration.

[2:48:51 PM](#)

SENATOR DENNIS EGAN, sponsor of SB 298, said he introduced this bill by request of constituents. He said the Palin administration commissioned the geographic pay differential study in 2008, but declined to introduce the bill. He said regional differences in the cost of living change drastically over time and the statute update on this issue was over a quarter century ago. SB 298 will bring the geographic differential statute up to date and many citizens believe it is a matter of fairness.

[2:50:29 PM](#)

DANA OWEN, staff to Senator Egan, elaborated that 25 years have passed since this issue was updated. Serious pay inequities developed over that time and this inhibits recruitment and retention in certain areas of the state. It is time to begin the discussion on fixing this problem.

When the Palin administration requested the study McDowell was charged with looking at differences in cost of living in various communities across the state and in various regions of the state. SB 298 incorporates the findings of the McDowell study. It follows the structure of the current statute in that it uses the same original 19 election districts that are currently embedded in the statute, but it would change the approach by substituting the McDowell study's percentage variation for the current step variation. The way the statute recognizes the geographic differential is by applying one or two and up to as many as eight pay steps within that geographic area.

[2:52:23 PM](#)

MR. OWEN said it's important to note that McDowell recommended a different approach to grouping communities not in relation to their geography but in relation to their cost of living. The regions they recommended would have a maximum differential across the region of 10 percent. Using the approach suggested by the McDowell Group raises a new policy question of how to pick the number within the pool. Within a pool, for instance, if there is a 10 percent difference, do you split the difference or pick a number that is half between the lowest and the highest? Do you take a weighted average or use some other rationale for picking a number within that variation?

SB 298's approach is the simplest, Mr. Owen said, and is one that people are familiar with. However, it is only intended to be a point of departure for the discussion and the sponsor is open to considering other methods.

[2:54:13 PM](#)

CHRIS CHRISTENSEN, Deputy Administrative Director, Alaska Court System, said this is the third time he had addressed this subject with the legislature; the first time being in 1996 on SB 152 which failed to pass; the second time in 2002 was on SB 180 which passed but was vetoed by Governor Knowles. Both bills attempted to fix the geographic system for non union employees and both failed over the details. He said the legislative focus in 1996 and 2002 was finding a way to lower the state's personal services budget, not fixing the inherent unfairness in the current system.

The current differential was adopted in 1976 while the TAPS was still under construction. Obviously a lot has changed since then. The executive branch's union contracts, which are renegotiated every three years, have not reflected this out-of-date differential since around 1985, although the differentials in the current contracts are apparently also substantially out of date.

He said while the judiciary is a tiny branch using less than 2 percent of the state's general fund operating budget they actually employ about two-thirds of all the non union employees who are currently getting a geographic differential. They have 266 eligible employees as of late last year; the executive branch has 190 and the legislative branch has 10. He said this situation is especially problematic for his employees because most of them are clerical workers at ranges 10 and 12, whereas many of the executive branch employees are attorneys in the Department of Law and the Public Defender Agency who get a much higher base salary to live on.

Assuming that the differential rates reflected in the McDowell study are accurate, he has clerical employees who, in rural Alaska for example Dillingham, are being paid as much as 25 percent less than the actual cost of living. To put it a little differently, those employees are effectively being paid about 25 percent less than employees in Anchorage for doing the exact same work. Conversely, he has employees in certain urban areas, such as Fairbanks and Palmer, who are effectively being paid 5-10 percent more than Anchorage employees for the exact same work.

MR. CHRISTENSEN said every year they go without fixing the unfairness inherent in the current system it gets more expensive because the differential between Anchorage and most rural communities has increased compared to what it was the last times they tried to fix it. It's complicated because those employees who are benefiting from a too high differential in their communities like Fairbanks have based their economic decisions - like mortgage payments, car payments, and rate at which they save for retirement and their children's education - on their current salaries, projected longevity increases and cost of living adjustments granted by the legislature. Under those circumstances they think it would be unfair to reduce the differential of those employees as was proposed in the past or even to freeze those employees in place as the current bill proposes. Some employees would not get a merit increase for 5-10

years if this would pass because their geographic differential has been changed so much. In conclusion, Mr. Christensen urged them to do something that would address the inherent unfairness in the current system.

2:58:24 PM

SENATOR JOE THOMAS asked what he used to determine the differential in places like Bethel versus Anchorage.

MR. CHRISTENSEN answered that those figures were based on what the law currently gives employees and what the McDowell study would give those employees in those communities.

SENATOR THOMAS asked if the real problem wasn't finding a meaningful formula that everyone can agree on. He said they should have compared a comprehensive list of things that were done the same way every time. He said he received a complaint that a lot of the Fairbanks housing data was used when the military troops were gone and that applied downward pressure to the housing market as far as what rents were or sale of houses. He didn't know what the right answer was, but he did know that a lot of people were excited about it.

MR. CHRISTENSEN said he didn't know if the committee received a letter from the Association of Alaska Magistrates stating concern about the McDowell study because they disagreed with some of the methodology and the way it affected certain communities. He agreed that deciding what is fair is the most difficult thing.

SENATOR CON BUNDE asked what he thought would be a good solution.

MR. CHRISTENSEN replied their preferred method would be to give people who are getting paid substantially less than the cost of living relative to Anchorage a raise and freeze people who are getting paid too much. He said the court system has a great deal of turnover, about 10 percent per year, and that would make the fiscal note for the first year the same either way; the cost would go down more slowly if they were allowed to retain their current salaries and continue to get merit increases.

He explained that a merit system gives annual merit increases to employees, if they deserve it, but often it isn't used like that. In the Court System merit increases are withheld if people aren't performing adequately. When you tell people they aren't going to be eligible for merit increases for 4-10 years because

of this change in the law, you have to wonder what is going to happen in your organization. So, there are practical problems.

SENATOR BUNDE remarked that very few state employees think they get paid too much.

3:04:15 PM

JIM CALVIN, principal, McDowell Group, Juneau, said they provided the geographic differential survey. He said two primary methodological tasks were involved in this project. One was a household survey of 2500 Alaskan households in 74 communities scattered throughout the state; the purpose was to essentially understand the size and shape of the Alaskan household budget relative to housing, food, transportation, medical care, et cetera. The second was a retail price survey conducted in over 600 retail outlets throughout the state and 58 different communities to understand the difference in prices of a market basket of about 200 typical household items over the state - like the price of a loaf of bread in Angoon versus a price of a loaf of bread in Anchorage.

He stated clearly that the study never addressed nor implied that anyone was being overpaid in state government. In fact they didn't measure the cost of living; they measured the differences in cost of living between Anchorage as the base community, and a differential of 1 and a range of other districts. So the equity of pay overall is not part of what they were trying to do and they don't want that suggested.

MR. CALVIN said one last methodological background point is that they initially departed from the election district structure of the previous differential and focused instead on defining geographic differential pools, which are essentially collections of communities that exhibit like characteristics in terms of size, geographic location, climactic conditions and transportation infrastructure. One of the overarching conclusions the study found is that if you're on a road system you're in a very different situation than if you are off the road system, although small Southeast communities are different because they have ferry service. Road access is probably the most critical aspect in the cost of living.

3:08:01 PM

In regards to Senator Thomas's issues about the impact of the deployment of troops on the Fairbanks economy, there certainly was an impact. But typically about 60 percent of the residents in a community own their own home; so that deployment didn't

affect anyone's mortgage payment. It would affect rental payments if a typical renter were moving into a different rental situation during the period and new people coming into town might have experienced slightly lower rents if property values were slightly lower. But overall, if you think of the slice of the population that might have been affected because they were moving in or out of the community it was pretty small.

MR. CALVIN said turnover in Fairbanks housing is relatively low and it is typically about one-third of the household budget. Some minor variation in that aspect of the household budget is possible, but they didn't see that as having any meaningful impact on the differential. What really matters is transportation infrastructure and Fairbanks has great transportation infrastructure. Essentially they have the same overall cost of living as Anchorage and many other communities on a highway system.

SENATOR THOMAS said he appreciated that and would probably agree, but he wanted to know how values were assigned to these things. Rents and housing costs, for instance, vary dramatically from one part of town to another whether the town is Anchorage or Fairbanks. The cost of fuel is extremely volatile in Fairbanks but not in Anchorage, and the cost of fuel also affects the price of electricity because Fairbanks has a fuel surcharge that doubled the electric costs last year. It still exists now as it is getting paid off. That made his electric bill go from \$100/mo. to \$200/mo. and doubled the cost of fuel for his car. He had difficulty with understanding the methodology in the survey. He thought there should be relatively fair way of establishing it and then some adjustment would have to be made for up and down. People probably looked at their survey and compared it to what took place in 2009 and said it didn't make sense because the cost of fuel went way up and a variety of other things. He wasn't so much concerned about the cost of tooth paste and Campbell's soup.

MR. CALVIN responded that the basic methodology in the survey was to measure the cost of housing as people experience it in each community. Their challenge was to compare how people live in Anchorage versus how they live in Fort Yukon and look at how important the cost of housing is to a household budget in Fort Yukon versus Anchorage. Housing is the single most important factor; urban areas typically have higher mortgage rates and housing costs. Anchorage's are among the highest in the state. So, using Anchorage as the base doesn't mean it's the lowest

cost by any stretch of the imagination for all aspects of the household budget.

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SENATOR THOMAS said it's important for him to know how they settle on particular items that they think are indicative of the economy in that specific area and how they are adjusted because a lot of things are based on that - like salaries, for instance. They are talking about percents; so even if there was a minor impact to housing, it is such a big item in the overall household budget that 1 or 2 percent would have a big impact. Also, he wanted to know what McDowell used when they compared the heating cost - a dollar value or a barrel of equivalent - for the heating value that one gets out of a certain increment of a particular fuel.

MR. CALVIN replied that they collected a great deal of data on what people paid in each community regardless of the energy efficiency of their home or the price of fuel in their community and calculated how important it was to the average household budget there.

He said they conducted their household survey and all of their secondary research where they collected price data in the fall of 2008. The peak of fuel prices was in the summer of 2008; so fuel prices were changing dramatically right during their research effort, but they weren't at a peak. They asked people to tell them about their average monthly expenditures for the year of 2008. It interested them to understand if they had done the study in 2009 or 2007 what differences they might have seen in the differentials. There is some sensitivity in the differentials if prices had been 30 percent lower for fuel primarily in the small remote rural communities, not so much Fairbanks that might be 1.05 instead of 1.04 or 1.06. Sensitivity to prices is much more evident in the rural areas where they are not only paying higher prices for their fuel but the effect of a spike in fuel prices is multiplied because first you have to get the fuel out to the community and then you pay the additional price on that. It's really a geometric increase in prices when you look at a fuel change in Bethel. for example.

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CHAIR PASKVAN asked if the McDowell Group knew that the Striker Brigade had deployed.

MR. CALVIN answered yes, certainly; they keep close track of the economy.

CHAIR PASKVAN asked what numbers left Interior Alaska as a result of that deployment.

MR. CALVIN answered if 2000 people were deployed that might be a population change of 3 percent or so.

CHAIR PASKVAN asked if triple those numbers would that have an immediate effect on selling prices of homes and rents.

MR. CALVIN answered certainly in the rental market. The turnover in the population is what is meaningful. People leaving is not going to change anyone's mortgage nor will it change rent for a renter.

CHAIR PASKVAN asked if he didn't believe that rents dropped as a result of the deployment.

MR. CALVIN said they probably did, but it didn't change the rental rates for people already living in the community pre Striker Brigade deployment. He said a guy wasn't going to drop his rental rates; although someone who lost renters because of the deployment might need to offer lower rental rates to someone new coming in.

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CHAIR PASKVAN said this discussion has shown SB 298 to be a complex issue; he thanked everyone for their testimony and said it would be held for more work. He adjourned the meeting at 3:22 p.m.