

SENATE FINANCE COMMITTEE

March 30, 2012

1:17 p.m.

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CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 1:17 p.m.

MEMBERS PRESENT

Senator Bert Stedman, Co-Chair
Senator Lyman Hoffman, Co-Chair
Senator Lesil McGuire, Vice-Chair
Senator Johnny Ellis
Senator Dennis Egan
Senator Donny Olson
Senator Joe Thomas

MEMBERS ABSENT

None

ALSO PRESENT

Jessie Kiehl, Staff, Senator Dennis Egan; William B. Fornia, Pension Trustee Advisors; Michael Barnhill, Deputy Commissioner, Department of Administration; Marie Darlin, American Association of Retired Persons; Bill Ernst, Teacher; Sean Genson, Teacher; Jeff Jones, Firefighter; Hillary Seeland, Teacher; Tim Grussendorf, Staff, Senator Lyman Hoffman; Karen Rehfeld, Director, Office of Management and Budget; Senator Cathy Giessel; Senator Joe Paskvan; Senator Linda Menard.

PRESENT VIA TELECONFERENCE

Holley Dennison, Self, Sitka; Kristen Green, Self, Sitka; Leila Sheffield, Self, Bethel; Dorothy Leake, Acting City Clerk, City of Anderson, Anderson; Josephine Edwards, Self, Anchorage; Ladawn Druce, President, Kenai Peninsula Education Association, Kenai; Ted Moninski, Legislative Director, Retired Public Employees of Alaska, Anchorage.

SUMMARY

SB 121 TEACHERS & PUB EMPLOYEE RETIREMENT PLANS

SB 121 was HEARD and HELD in committee for further consideration.

SB 100 PERS TERMINATION COSTS

SB 100 was SCHEDULED but not HEARD.

CSHB 284(FIN) APPROP: OPERATING BUDGET/LOANS/FUNDS

SCS CS HB 284(FIN) was REPORTED out of committee with a "do pass" recommendation.

CSHB 285(FIN) APPROP: MENTAL HEALTH BUDGET

SCS CSHB 285(FIN) was REPORTED out of committee with a "do pass" recommendation.

#sb121

SENATE BILL NO. 121

"An Act relating to the public employees' retirement system and the teachers' retirement system; and providing for an effective date."

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Senator Egan introduced SB 121 and read from the sponsor statement:

SB 121 lets teachers, Troopers, firefighters and other public employees choose one of two state retirement systems: an individual defined contribution retirement account, or earning a defined benefit pension.

A defined benefit pension takes time to earn, but rewards a record of public service by paying a guaranteed monthly benefit and, for long-term employees, health insurance. An individual defined contribution account is portable from one employer to another, and flexible in how it can be used, but makes no guarantees. SB 121 keeps these smart reforms, making Alaska pensions stronger than ever.

And the defined benefit pensions for new employees under SB 121 will cost employers less than the pension tiers that came before, saving money for schools, cities, and the State of Alaska.

Alaska teachers and public employees don't earn Social Security benefits they earned in past jobs. S for most, a defined benefit pension makes sense. Other employees will choose individual defined contribution accounts because they prefer flexibility, portability, and control, or because their plans do not include long-term service in the public sector. SB 121 maintains their option to choose an individual account. The teachers who educate our children, their police and firefighters who protect our families and the public employees who serve our state and cities will be able to choose the benefit that best fits their service.

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JESSIE KIEHL, STAFF, SENATOR DENNIS EGAN, further explained that SB 121 created a new defined benefit tier within Alaska's pension systems: the Public Employees Retirement System (PERS) and the Teachers Retirement System (TRS). He communicated that a new-hire had a choice between a guaranteed benefit and the ability to control their retirement funds. The choice provided the state tools to recruit and retain employees. He cited that the economic benefit of defined benefit pensions in Alaska totaled \$1.4 billion and supported approximately 9000 private sector jobs in 2010. He noted that federal retirement systems were excluded from the estimate.

Mr. Kiehl mentioned that the Senate State Affairs Committee received significant testimony from Alaska municipalities expressing concern about turn-over costs. The testimony communicated difficulty recruiting and retaining public employees in Alaska. Those municipalities testified that a choice, such as the one proposed in SB 121, would provide great benefit in both property and sales tax dollars.

Mr. Kiehl noted the strengths of the defined benefit and the defined contribution systems. He explained that the defined benefit system was attractive to employees because it ensured that an established amount of money was available to the retired person each month. The defined

contribution system was attractive because the participant could make their own investment decisions. He added that the defined contribution system did not provide guarantees.

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Mr. Kiehl began a PowerPoint presentation: "SB 121 Alaska Pension" (Copy on File). He noted that the graphs included in the presentation were prepared by the state's actuary, Buck Consultants. The graphs intended to represent two different situations. He pointed out that the pension portion was included in the two charts.

Mr. Kiehl reviewed slide 5, "Two PERS employees" and pointed out that until an employee was vested, the defined benefit and the defined contribution were similar. He referred to slide 6 titled "Two TRS Employees" which represented a potential monthly benefit amount. He stressed that the choice was significant and presented a decision for the public employee. He noted that once an employee settled on a plan, the choice was permanent.

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Mr. Kiehl discussed slide 7 titled "What Stays the Same? What's different?"

What Stays the Same?

- The Defined Contribution systems do not change.
- The 2005 safeguards remain in place
- DB pension benefits
- Health plan coverage

What's different?

- Most employees pay more into the new tier
- It takes longer to earn retiree health insurance
 - Medicare eligibility for most
 - Cost sharing
 - Risk Sharing
- DB retirement eligibility similar to DC tiers.
- DC employees get one chance to switch.

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Mr. Kiehl explained the slide on page 8 titled "A responsible approach."

- SB 121's new tier adjusts so it doesn't cost more than DC tiers
- SB 121 takes longer to earn retiree health insurance
 - Eliminates that most expensive years for most retirees
 - Shares the cost
 - Shares the risk until the employee retires
- Conversions to the new tier at employee's option-and cost.
- All the 2005 safeguards remain:
 - Review by a second actuary
 - Minimum salaries for elected officials
 - Experience studies
 - ARM Board
 - No paying less than the cost
 - Refunding DB contributions is permanent

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Mr. Kiehl explained the slide on page 9 titled "More for Alaskans' Money."

- Professional managers earn more
- No added costs- we're already running two systems
- \$762 million/year in DB benefits are a shock absorber for the Alaska economy
- Employees who prefer portability and control have a choice
- Cities, school districts, and the state have excellent recruiting tools

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Mr. Kiehl discussed the slide on page 10 titled "Cost Neutral." He explained that the slide provided a 22 year actuarial projection for the new tier as compared to the defined contribution system for the PERS system and a 24 year projection for TRS. The data was attached as analysis to the indeterminate fiscal note in the member's packet. He highlighted that the chart provided the cost difference between the new defined benefit tier and the defined contribution system. He pointed out that the new tier would cost employers less than the defined contribution system. As healthcare costs were projected to rise, the cost savings would decline. A cost increase was prevented by

cost and risk sharing with employees. If healthcare inflation costs did not trend down over time, the employees would pay the difference.

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Mr. Kiehl stated that he was happy to answer questions about the bill.

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WILLIAM B. FORNIA, PENSION TRUSTEE ADVISORS, presented a PowerPoint presentation titled "Alaska Senate Finance Hearing of SB 121."

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Mr. Fornia discussed the slide on page 2 titled "William B. Fornia Credentials." He explained that he was a practicing actuary specializing in public pensions. He was hired by the Alaska Public Pension Coalition to help design a defined benefit option. He furthered that he was an author with much experience providing testimony to legislatures and city councils.

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Mr. Fornia explained the slide on page 3 titled "Sample Work History."

- Corporate actuary for Boeing 1980-1984
- Alaska related experience
 - ARMB first ongoing review actuary 2005-2006
 - Audited Alaska PERS/TRS actuarial valuations 2009
 - Former leader of Buck Consultants' Denver retirement practice
- Consulting services for 22 statewide retirement systems in Alaska, Colorado, Missouri, North Dakota, Oklahoma, Puerto Rico, Utah, Texas, Wyoming and others.
 - Served as system actuary for most of these (including CO, MO, ND, OK, PR, UT, WY, Houston)
 - Currently working on pension reform with Ohio Retirement Study Council
- Expert testimony and consulting for pension systems, governments and labor groups

- Other clients have included the US Department of State, Cities of Baltimore, Oakland and Philadelphia, IBM, US WEST and Ford Motor Company.

Mr. Fornia discussed the slide on page 4 titled "Agenda."

- Overview of SB 121
- Advantages of Including defined Benefit Plan Option
- Financial Analysis of Defined Benefit Plan Option
- History of SB 121 Fiscal Notes and responses
- Discussion

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Mr. Fornia addressed the slide on page 5 titled "Findings."

- DB plan option is more economical for Alaska
 - DB more efficient delivery of retirement benefits
 - Helps keep jobs in Alaska
 - Provides the safety new other have from Social Security
- Have structured DB choice alternative at \$9,000,000 FY 2015 savings
 - Health cost risk shifted to employees
 - Higher employee contributions than current DB
 - Employee health cost sharing

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Mr. Fornia explained that portions of his presentation were previously covered by Mr. Kiehl.

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Mr. Fornia explained the slide on page 9 titled "Other motives for SB 121."

- Alaska public servants not covered by Social Security
 - Every state other than Alaska and Michigan offers Defined Benefit Option
 - Michigan public servants get Social Security, Alaska Public servants don't
 - All private US employers pay at least 6.2 percent to Social Security; Alaska PERS employers pay 5.22 percent

- o Soon, Alaska will be largest employer in America with workers not covered by any safety net DB plan
- Current DC structure facilitates short service workers leaving Alaska public service for DB plan after a few years of service
- Retirement in Alaska is good for the State economy

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Mr. Fornia discussed the slide on page 12 titled "Benefits Available from DCR Program are Substantially Lower than from Latest DB Tier" and the slide on page 13 titled "Illustration of Hypothetical Teacher Benefits - \$50,000 Final Average Salary." He explained that the slides exemplified the benefits received by a teacher earning \$50 thousand at the end of her career with 25 years of service. The slides examined the benefits under Tier II (defined benefit plan) and Tier III. He pointed out that the pension decreased by one-third. He stated that a Social Security benefit would provide an equal amount. He added that a teacher in Alaska was not eligible to receive Social Security benefits. He stated that a defined benefit plan eliminated the risk of destitute former employee citizens becoming a burden on the state.

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Mr. Fornia discussed the slide on page 16 titled "Why DB? - More Economically Efficient."

- Longevity Risk Pooling
 - o DB plans better manage longevity risk, or the chance of running out of money in retirement
 - o DB plans avoid the "over-saving" dilemma and do more with less
- Maintenance of Portfolio Diversification
 - o DB plans are able to take advantage of the enhanced investment returns that come from a balanced portfolio throughout an individual's lifetime
- Superior Returns
 - o DB plans, which are professionally managed, achieve greater investment returns versus those of individual accounts

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Mr. Fornia discussed the slide on page 18 titled "Under a DC Plan 24% of Assets Are Not Used for Retirement - -1,000 Sample Teachers." He opined that the purpose of a public sector retirement program was to help workers retire over their lifetime. The purpose was not to build life insurance benefits for the workers. He mentioned that an older individual must become more conservative in their investments. The Alaska Management Retirement Board (ARMB) had a long time horizon and could invest more aggressively, while individuals could not. He added that ARMB was an efficient and experienced investor.

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Mr. Fornia spoke to the slide on page 22 titled "What about Unfunded Liabilities?"

- Unfunded Liability has grown by more than \$5 billion since 2005
 - "Unfunded Liability" is attributable to prior benefits, not future benefits
 - SB 141 DC approach was not designed to solve unfunded liability
 - Several safeguards have been introduced to manage unfunded liability
- Addition of DB option not anticipated to increase unfunded liabilities
 - To the extent that actuarial assumptions' conservatism is borne out, would actually decrease unfunded liabilities
- DB systems are advance funded, not left to future generations

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Mr. Fornia explained the slide on page 26 titled "Contributions for Various Members." He stated that contributions increased for PERS, while they decreased slightly for TRS.

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Mr. Fornia discussed the slide on Page 27 titled "Retiree Medical Coverage."

- Retirees eligible to receive retiree major medical coverage with subsidized premiums, under the following conditions:
 - Retired teachers are eligible with 25 years of service or at the age of Medicare eligibility (65) with at least 10 years of service.
 - Retired peace officers and firefighters are eligible with 25 years of service or at the age of Medicare eligibility with at least 10 years of service
 - Other PERS retirees are eligible with 30 years of service or at the age of Medicare eligibility with at least 10 years of service
- Retiree share of premiums range from 10 percent to 30 percent based on service at retirement
 - This range may increase or decrease in future based on experience

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Mr. Fornia explained the slide on page 28 titled "Cost Comparison Estimates - Teachers." The slide exhibits the first year's cost savings for teachers. The idea was to make the bill cost-neutral because health care costs had increased drastically.

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Mr. Fornia explained the slide on page 33 titled "Summary of Revisions to SB 121."

- Initial SB 121 essentially was return to prior tier
 - But with choice
 - Members could trade DCR accounts to get prior DB service
 - Future pension costs were neutral
 - But some past pension costs due to transition
 - And health costs were not neutral due to anticipated rapid increase in health care costs.
- Revisions include
 - DB prior service can be purchased only, if DCR accounts not adequate, service limited
 - Increased worker contributions
 - Reduced healthcare benefits
 - premium share rather than full premium paid

- only for full career retirees or post-Medicare
- if normal costs increase, sharing would be reduced

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MICHAEL BARNHILL, DEPUTY COMMISSIONER, DEPARTMENT OF ADMINISTRATION, began a PowerPoint presentation titled "SB 121: Making Promises and Keeping Promises" (copy on file). He expressed respect for the good-faith intentions of the bill sponsors. The legislation's intention was to provide fair retirement security for public workers. The administration expressed similar intentions. The difference between the administration and the sponsor was the method of providing a fair retirement security for public workers.

Mr. Barnhill discussed the slide on page 2 titled "Making DB Promises."

- Defined Benefit Plan Promises
 - Pension up to 67 percent of average salary
 - Annual cost of living increases
 - System-paid medical premiums
- Membership: 95,667

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Mr. Barnhill explained the slide on page 3 titled "Current DB Promises Must be Kept."

- "Accrued benefits of these (retirement) systems shall not be diminished or impaired." Alaska Constitution, Article XII, Section 7
- Benefit payments-
 - at least \$1 billion per year from now until 2063
 - \$3 billion per year from 2027-2046

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Mr. Barnhill discussed the slide on page 4 titled "Cost of keeping existing PERS and TRS." The graph showed the benefits paid between 2012 and 2080. The benefits cost more than \$1 billion per year in 2012. He explained that when the baby boomer generation retired, the state would pay in excess of \$3 billion per year, over the next 20 years. As

the existing members of the defined benefit systems pass away, he stated that the amount that the system will pay will decrease.

Mr. Barnhill elaborated that \$140 billion was the total anticipated cost of the defined benefit system. He pointed out that the state had \$15.5 billion in the bank. The actuary suggested an unfunded liability of \$11 billion in Alaska. He noted that the slide demonstrated a defined benefit system that was lengthy and expensive. He acknowledged that the system had resources like employee and employer contributions until 2032. The system also had investment returns and the legislature was generous in providing revenue from the general fund.

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Mr. Barnhill explained the slide on page 5 titled "How Long Will Keep DB Promises?" He pointed out that the state would continue to keep defined benefit promises through 2080, and possibly longer. He pointed out that the US government continued to pay pensions to two children of Civil War veterans from their fathers' service.

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Mr. Barnhill discussed the slide on page 6 titled "Lessons Learned: DB Pensions Need Revenue Backstops"

- Alaska's experience from the 2000s
- Unfunded liabilities arise for a variety of reasons, negligent and non-negligent
 - Rising medical costs
 - Longer life spans
 - Actuarial negligence
 - Investment loss
- When unfunded liabilities have developed in Alaska, by and large the GF has provided the solution.

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Mr. Barnhill spoke to the slide on page 7 titled "Breaking Promises."

- Retirement promises have been broken elsewhere

- Private employer retirement plan defaults prompted federal passage of ERISA in 1974
- Current threat of public pension defaults across the country (Jefferson County, AL; Vallejo, CA; Central Falls, RI; Harrisburg, PA)

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Mr. Barnhill addressed the slide on page 8 titled "Reduced Post-Retirement Benefit Increases Enacted in 2010 and 2011 (NCSL)." He exthat 18 states have cut cost-of-living adjustment benefits. He stated that six of the states cut the benefits for active retirees. He stressed that the administration did not want to place Alaska in that position.

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Mr. Barnhill discussed the slide on page 9 titled "Pension Headlines." He explained that other states had limited resources to allocate fairly between priorities like education, public safety, roads. Benefits were cut in Rhode Island, New York and New Jersey.

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Mr. Barnhill explained the slide on page 10 titled "SB 121: Making New DB Promises."

- SB 121 makes new DB retirement promises to the next generation of state employees
- The State will need to keep those promises until at least 2080-2090
- \$3 billion in current annual DB payment obligations will extend beyond 2047
- Where is the GF income in the future to backstop these new DB retirement promises in 2070, 2080, 2090...?

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Mr. Barnhill referred back to the slide on page 4 titled "Cost of keeping existing PERS and TRS." He queried the source of revenue if new unfunded liabilities developed.

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Mr. Barnhill discussed the slide on page 11 titled "What is the Long-Term Future of GF Revenues?" He highlighted the fact of declining oil production since 1989. He hoped for an Alaska gas pipeline to extend the state's revenue.

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Mr. Barnhill pointed out that the fiscal note was indeterminate. The actuary projected that SB 121 would save money.

Mr. Barnhill looked at the slide on page 12 "Will SB 121 Save Money?"

- SB 121 will cost employers the same or less than the current DCR plan if all of the ARMB adopted actuarial assumptions remain true indefinitely
 - o Inflation
 - o Mortality
 - o Retirement date
 - o Investment return

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Mr. Barnhill discussed the slide on page 13 titled "PERS/TRS Annualized Returns." He stated that the PERS and TRS investment returns were volatile. He noted that the ARMB board's actuarial assumption for investment return was 8 percent. The bill was balanced on an 8 percent return assumption.

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Mr. Barnhill looked at the slide on page 14 titled "What is the appropriate rate of return?" If returns come in at less than 8 percent, an unfunded liability would exist at the outset. He noted the national debate regarding the 8 percent return assumption, which resulted in public pension plans reducing their rate of return. He mentioned various states' decisions to reduce their rates of return. He opined that the state would face further unfunded liability with a rate of return that was less than 8 percent.

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Mr. Barnhill discussed the slide on page 15 titled "Impact of Defined Contribution Retirement (DCR) Plan on

Retention." He stated that the DCR plan had a positive rate of retention. Fewer people were leaving state service in 2012 than in 2005.

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Mr. Barnhill reviewed slide 16 titled "Retirement security is important." He stated that the administration believed in the importance of retirement security. The administration also believed that the existing defined contribution plan allowed retirement with dignity. He opined that Alaska's defined contribution plan was one of the most generous in the country.

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Mr. Barnhill discussed the slide on page 17 titled "Administration Position re SB 121."

- Keep the retirement promises we have made to date
- Don't make the problem worse
- Don't make new DB retirement promises that we are not sure we can keep
- A revenue backstop is necessary to ensure new promises are kept; until Alaska's long term fiscal situation is solved this discussion is premature

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Mr. Barnhill looked at the slide on page 18 titled "SB 121 Actuarial Fiscal Note Timeline."

- AS 24.08.036:
Before a bill which would have an effect on the retirement systems of the state is reported to the rules committee, there shall be attached to the bill an analysis of the long-term and short-term costs to the state if the bill is adopted, as well as the impact of the bill on the actuarial soundness of the fund. The analysis is in addition to the fiscal note requirements of AS 24.08.035.
- 04/07/2011: SB 121 introduced (version I)
- 04/14/2011: Hearing Senate State Affairs

- 04/17/2011: Regular session adjourns
- 08/04/2011: Governor's legislative office transmits actuarial fiscal note (version I) to sponsor and Senate State Affairs
- 09/07/2011: Kiehl asks DRB whether actuary (Buck) correctly understands bill
- 09/15/2011: Hearing Senate State Affairs; DOA acknowledges actuarial fiscal note in error
- 10/07/2011: DOA transmits revised actuarial fiscal note (version I) to sponsor and Senate State Affairs
- 10/13/2011: Hearing in Senate State Affairs; revised actuarial fiscal note discussed; actuary explains why the actuarial note is positive; DOA agrees to make actuary available to achieve neutral actuarial note
- 01/26/2012: Hearing in Senate State Affairs; version R. introduced
- 02/07/2012: DOA provides Buck 30 year actuarial analysis on version R to sponsor and Senate State Affairs; analysis shows that note will remain positive; DOA offers to refrain from filing a second positive fiscal note pending amendment to version R.
- 02/9/2012: Hearing in Senate State Affairs; amendment R.2 introduced
- 02/16/2012: Hearing in Senate State Affairs; version R, amended, moved from committee
- 03/09/2012: Governor's legislative office transmits indeterminate actuarial fiscal note (version R, amended) to sponsor and Senate Finance

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Co-Chair Stedman wondered about available risk analysis on the proposed 8 percent target.

Mr. Barnhill responded that the department had not asked the actuary to run analysis using different return rates, although he agreed to provide the information to the committee upon request. He noted the priority of refining the fiscal note attached to the legislation prior to the hearing.

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Senator Thomas recalled earlier conversations regarding the actuarial assumption of 8 percent. He recalled that decreasing the actuarial assumption would increase the unfunded liability.

Mr. Barnhill replied that more money would be required to pay the benefits if the actuarial assumption was decreased to 7 percent. He stated that the structure of the bill kept employer costs lower than the defined contribution employer costs.

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Senator Thomas proposed the idea of an average, long-term actuarial assumption.

Mr. Barnhill spoke of the ongoing debate regarding the precise actuarial assumption. He offered to provide testimony from the actuaries and economists involved in the debate, if desired by the committee. He furthered that the bill initiated a new defined benefit tier without any unfunded liability for the future generations of public employees. He argued that the legislature should make the decision regarding the initial assumptions.

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Co-Chair Stedman highlighted the three fiscal notes attached to SB 121 including one indeterminate fiscal note from Department of Administration, another for \$769,700 in general funds for FY 13 from DOA and the third note from the Department of Revenue (DOR) for management fees costing \$593 thousand annually beginning in FY 14 for the ARMB additional management fees.

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MARIE DARLIN, AMERICAN ASSOCIATION OF RETIRED PERSONS, testified in support of SB 121. She understood that considerable discussion was warranted, but the American Association of Retired Persons (AARP) was in favor of providing retirement options for public employees.

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BILL ERNST, TEACHER, expressed support of SB 121 and relayed a personal story of his family's journey to Alaska. He pointed out that Alaska attracted his family because it was a land of opportunity and adventure. He shared that both of his daughters were raised and educated in Alaska, but that they had chosen not to work in the state because of the lack of a defined benefit retirement system. He reported additional acquaintances whose grown children left the state for economic opportunities outside of Alaska. He wished to see his state value its public employees by encouraging them to remain in Alaska. He believed that the changes proposed in SB 121 would make Alaska competitive and encourage retention in the workplace.

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SEAN GENSON, TEACHER, testified in support of SB 121 and relayed that he was uncertain about his retirement in Alaska. He shared that he did not feel comfortable relying on the state's retirement plan. He pointed out that Alaska should be a leader in attracting and maintaining a viable workforce. He observed that the bill provided a good economic option for the state.

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JEFF JONES, FIREFIGHTER, spoke in support of SB 121 and stated that he was a firefighter with the city of Ketchikan. He noted that his defined contribution plan had \$40 thousand. He admitted that he was not an expert in money management and expertise was necessary to make the best decisions with his investment. He had coworkers with defined benefit plans controlled by world-class money managers.

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HILLARY SEELAND, TEACHER, spoke in support of SB 121. She reported to the committee that she taught at a small school in Sitka. She expressed trepidation about her future retirement in Alaska. She pointed out the high cost of living in Sitka, and without a secure retirement plan her future felt uncertain. She wished to see Alaska as a leader in education. She supported the option of a defined benefit retirement plan for Alaska's public employees.

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HOLLEY DENNISON, SELF, SITKA (via teleconference), testified in support of SB 121 and stated that she spoke in representation of five other employees with the Department of Fish and Game (DFG). She stated that she was born and raised in Sitka and had worked for DFG for four years. She enjoyed her job and loved living in Sitka. She expressed a lack of confidence in her current retirement plan. She stated that the Tier IV defined contribution plan might prove sufficient for short-term employees.

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KRISTEN GREEN, SELF, SITKA (via teleconference), spoke in support of SB 121 and relayed concerns about her future with the state's defined contribution plan. She expressed a lack of security that might affect her decision to remain in the state throughout the course of her career. She advocated for a Tier V system for employees currently enrolled in a defined contribution plan.

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LEILA SHEFFIELD, SELF, BETHEL (via teleconference) testified in support of SB 121. She believed that a public servant provided an honorable profession. She pointed out that state employees lose the majority of their Social Security benefits.

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JOSEPHINE EDWARDS, SELF, ANCHORAGE (via teleconference), expressed her support of SB 121 and shared that she was an Alaskan high school and college graduate. She was employed as a program manager for the Anchorage School District within the Title VII Indian Education Program. She stated

that she was a Tier IV employee. She expressed concern about her future.

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LADAWN DRUCE, PRESIDENT, KENAI PENINSULA EDUCATION ASSOCIATION, KENAI (via teleconference), testified in support of SB 121 and related that she had transmitted a letter to the committee regarding the resignation of a teaching couple in her district. She expressed the difficulty filling the position in the village school. She stated that the couple did enjoy their post, but would leave the state because of the lack of a secure retirement plan.

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TED MONINSKI, LEGISLATIVE DIRECTOR, RETIRED PUBLIC EMPLOYEES OF ALASKA, ANCHORAGE (via teleconference), spoke in support of SB 121 and shared that the legislation provided good public policy. He explained that a defined benefits option would enhance the public workforce and he advocated for the reinstatement of the defined benefit retirement program.

SB 121 was HEARD and HELD in committee for further consideration.

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AT EASE

#hb284

#hb285

CS FOR HOUSE BILL NO. 284(FIN)

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs, capitalizing funds, amending appropriations, and making reappropriations; and providing for an effective date."

CS FOR HOUSE BILL NO. 285(FIN)

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date."

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RECONVENED

[2:42:25 PM](#)

Co-Chair Stedman moved to ADOPT Amendment number 1.

Co-Chair Hoffman OBJECTED for purpose of discussion.

[2:42:49 PM](#)

AT EASE

[2:43:26 PM](#)

RECONVENED

[2:43:30 PM](#)

Co-Chair Hoffman clarified that the working document before the committee SCS CSHB 284(FIN), version O.

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Co-Chair Stedman MOVED to ADOPT Amendment number 1 for version O.

Co-Chair Hoffman OBJECTED for the purpose of discussion.

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TIM GRUSSENDORF, STAFF, SENATOR LYMAN HOFFMAN, discussed the new amendment:

AMENDMENT #1

FY13 OPERATING BUDGET AMENDMENT

OFFERED IN: The Senate Finance Committee

TO: HB 284/HB 285

OFFERED BY: Senator Hoffman

Part A

Add the following subsection to the FUND TRANSFERS section after (d):

The sum of \$50,000,000 is appropriated from the general fund to the Alaska marine highway vessel replacement fund (AS 37.05.550).

Effective Date 6/30/12 (FY12)

Part B

Add the following subsections to BUDGET RESERVE FUND section.

(a) The sum of \$1,750,000,000 is appropriated from the general fund to the statutory budget reserve fund (AS 37.05.540).

Effective Date 6/30/12 (FY12)

(b) The sum of \$250,000,000 is appropriated from the general fund to the statutory budget reserve fund (AS 37.05.540).

Effective Date 7/1/12 (FY13)

Part C

Add subsections to section 26. RETIREMENT SYSTEM FUNDING.

(d) The sum of \$500,000,000 is appropriated from the general fund to the Department of Administration for deposit in the defined benefit plan account in the public employees' retirement trust fund for payment of public employees' retirement system unfunded liability.

(e) The sum of \$500,000,000 is appropriated from the general fund to the Department of Administration for deposit in the defined benefit plan account in the teachers' retirement trust fund for payment of teachers' retirement system unfunded liability.

(f) The sum of \$50,000,000 is appropriated from the general fund to the judicial retirement trust fund (AS 22.25.048) for payment of the judicial retirement system unfunded liability.

Effective Date for Part C is 6/30/12 (FY12)

PART B

DEPARTMENT: Commerce, Community and Economic
Development

APPROPRIATION: Community and Regional Affairs

ALLOCATION: Community and Regional Affairs

ADD: \$200,000 General Fund Match, 1003

EXPLANATION: This amendment adds funding to the
Division of Community and Regional Affairs for a Named
Recipient Grant to Kawerak, Inc. The grant will be
used to cover administration and 50% match to the
federal Essential Air Service program for the city of
Diomedes.

PART E

DEPARTMENT: Commerce, Community and Economic
Development

APPROPRIATION: Corporations, Business & Professional
Licensing

ALLOCATION: Professional Licensing

DELETE Intent Language:

It is the intent of the legislature that the
Department of Commerce, Community and Economic
Development set license fees approximately equal to
the cost of regulation per AS 08.01.065(c). Further,
it is the intent of the legislature that the
Department of Commerce, Community and Economic
Development submit a six year report annually to the
legislature that includes at least the following
information for each licensing board: revenues from
license fees; revenues from other sources;
expenditures broken out by direct expenditures, RSAs
for investigations, RSAs for other services,
interdepartmental cost allocation plans, departmental
cost allocation plans and internal cost sharing plans;
number of licensees; carry forward balance and
proposed license fee increase/decrease.

ADD Intent Language:

It is the intent of the legislature that the Department of Commerce, Community and Economic Development set license fees approximately equal to the cost of regulation per AS 08.01.065(c). Further, it is the intent of the legislature that the Department of Commerce, Community and Economic Development submit a six year report annually to the legislature that includes at least the following information for each licensing board: revenues from license fees; revenues from other sources; expenditures by line item, including separate reporting for investigative costs, administrative costs, departmental and other cost allocation plans; number of licensees; carryforward balance; and potential license fee changes based on statistical analysis.

EXPLANATION: This amendment clarifies intent language that was added by the Senate Finance Subcommittee.

PART F

DEPARTMENT: Education & Early Development

APPROPRIATION: Teaching & Learning Support

ALLOCATION: Early Learning Coordination

ADD: \$250,000 GF (1004)

EXPLANATION: The funding added to the grants line for the Parents as Teachers program is to support pre-kindergarten, parent-based programs throughout the state. The House added \$250,000 UGF as one-time funding. The Governor did not request additional funding for the program but \$300,000 is included in the base budget for the Parents as Teachers program.

PART G

DEPARTMENT: Education & Early Development

APPROPRIATION: Teaching & Learning Support

ALLOCATION: Early Learning Coordination

ADD: \$400,000 GF (1004)

EXPLANATION: The funding added to the grants line for the Best Beginnings program is to strengthen and expand early learning partnerships, expand the Imagination Libraries, and provide additional parent resources to increase public engagement in early literacy and learning.

The House added \$250,000 UGF. No additional funding was included in the Governor's Amended budget for Best Beginnings but \$612,500 is included in the base budget for this program.

PART H

DEPARTMENT: Fish and Game

APPROPRIATION: Commercial Fisheries

ALLOCATION: Headquarters Fisheries Management

ADD: \$300,000 General Fund (1004)

Explanation: This project will provide for genetic-based stock composition estimates of sockeye salmon harvested in Chatham Strait, Icy Strait, and District 15 fisheries.

\$300,000 annually is needed for four years. The sockeye stock composition data from the commercial fisheries would, in conjunction with existing escapement monitoring projects, provide for more complete run reconstruction for the stocks.

The six reporting groups identified as being important in this study include Chilkat River, Chilkoot River, Taku River, northern Chatham Strait (conglomerate of several small stocks), Port Snettisham (Crescent Lake/Speel Lake/Snettisham Hatchery), and "Other" (sockeye salmon not included in any of the other reporting groups). Mixed stock fishery samples will be collected from selected purse seine harvests (e.g., statistical area 112-16 Hawk Inlet shoreline, 112-14/114-27 Augusta/Whitestone shoreline, and 112-17 west Admiralty shoreline), the District 15 drift

gillnet fishery, and other area fisheries harvesting sockeye salmon. Fishery harvests will be sampled to achieve levels of precision and accuracy sufficient for fishery management. Approximately 9,600 samples are expected to be used annually for mixed stock analysis.

In addition to mixed stock fishery samples the Department will attempt to obtain baseline genetic samples from several (Hasselborg, Gut, Lake Eva, Sitkoh, Kutlaku, and Pavlof small sockeye systems in Chatham Strait. These populations are not yet adequately represented in the sockeye salmon genetic baseline.

PART I

DEPARTMENT: Office of the Governor

APPROPRIATION: Office of Management and Budget

Insert Intent Language:

It is the intent of the legislature that the office of management and budget develop a plan to address the declining balance of the oil and hazardous substance release prevention and response fund. The plan should include an analysis of prior expenditures from the fund for the remediation of state owned contaminated sites and a proposal to expeditiously remediate state owned contaminated sites.

PART J

DEPARTMENT: Health and Social Services

APPROPRIATION: Office of Children's Services

ALLOCATION: Children's Services Management

ADD: It is the intent of the legislature that \$200,000

GF be used for the Education and Training Voucher program within the Independent Living Program.

Explanation: The House added the above intent language and \$200,000 UGF for the Education and Training

Voucher program within the Independent Living Program. The Senate Subcommittee added the funding but not the intent language.

PART K

Add a subsection to Sec. 14. DEPARTMENT OF HEALTH AND SOCIAL SERVICES.

(b) The sum of \$5,000,000 is appropriated from the general fund to the Department of Health and Social Services, public assistance, energy assistance program, for the purpose of making payments under AS 47.25.621 - 47.25.626, for the fiscal year ending June 30, 2013.

Explanation: This amendment appropriates \$5 million of UGF for the Energy Assistance program. This funding is in excess of the statutory formula and exceeds the amount required to fully fund all applications for assistance for Alaska affordable heating payments under AS 47.25.621 - 47.25.626, and will be distributed according to AS 47.25.623(d)(2).

PART L

DEPARTMENT: Health & Social Services

APPROPRIATION: Human Services Community Matching Grant

ALLOCATION: Human Services Community Matching Grant

ADD: \$200,000 GF 1004

EXPLANATION: Increase funding by \$200,000 (from \$1,685,300 to \$1,885,300) to keep pace with increasing costs and need.

PART M

DEPARTMENT: Health & Social Services

APPROPRIATION: Community Initiative Matching Grants

ALLOCATION: Community Initiative Matching Grants

ADD: \$150,000 UGF 1004

EXPLANATION: This amendment increases UGF in this component by \$150,000 (from \$744,300 to \$894,300) to keep pace with increasing costs and need.

PART N

DEPARTMENT: Transportation and Public Facilities

APPROPRIATION: Highways, Aviation and Facilities

ALLOCATION: Central Region Highways and Aviation

DELETE: \$897,400 of Unrestricted General Funds (Fund Code 1004)

ADD: \$897,400 of Vehicle Rental Tax Receipts (Designated General Funds -Fund Code 1200).

EXPLANATION: The House budget utilized Vehicle Rental Tax Receipts (derived from car rentals) in the amount of \$850,000 for maintenance of roads in the Central Region. This amendment matches the House level and adds the remaining available receipts (\$47,400) for road maintenance in FY13.

PART 0

LTC and TEAME bargaining unit agreements:

FY2013 OPERATING BUDGET AMENDMENT

OFFERED IN: The Senate Finance Committee

TO: CSHB 284(FIN)

CSHB 285(FIN)

OFFERED BY:

ADD: Amend the SALARY AND BENEFIT ADJUSTMENTS section as follows:

SALARY AND BENEFIT ADJUSTMENTS. (a) The operating budget appropriations made in sec. 1 of this Act include amounts for salary and benefit adjustments for public officials, officers, and employees of the

executive branch, Alaska Court System employees, employees of the legislature, and legislators and to implement the terms for the fiscal year ending June 30, 2013, of the following ongoing collective bargaining agreements:

- (1) Alaska Public Employees Association, for the confidential unit;
- (2) Alaska State Employees Association, for the general government unit;
- (3) Alaska Public Employees Association, for the supervisory unit;
- (4) Alaska Vocational Technical Center Teachers' Association, National Education Association, representing the employees of the Alaska Vocational Technical Center;
- (5) International Organization of Masters, Mates, and Pilots, for the masters, mates, and pilots unit;
- (6) Inlandboatmen's Union of the Pacific, Alaska Region, for the unlicensed marine unit;
- (7) Marine Engineers Beneficial Association;
- (8) Public Safety Employees Association, representing the regularly public safety officers unit;
- (9) Public Employees Local 71, for the labor, trades, and crafts unit;
- (10) Teachers' Education Association of Mt. Edgecumbe.

(b) The operating budget appropriations made to the University of Alaska in sec. 1 of this Act include amounts for salary and benefit adjustments for the fiscal year ending June 30, 2013, for university employees who are not members of a collective bargaining unit and for the terms of the current agreements for the fiscal year ending June 30, 2013, providing for the staff benefits for university employees represented by the following entities:

(1) Alaska Higher Education Crafts and Trades Employees, Local 6070, APEA/AFT (AFL-CIO);

(2) University of Alaska Federation of Teachers;

(3) United Academics-AAUP/AFT;

(4) United Academics-Adjuncts;

(5) Fairbanks Firefighters Association, IAFF Local 1324.

(c) If a collective bargaining agreement listed, in (a) of this section is not ratified by the membership of the respective collective bargaining unit, the appropriations made by this Act applicable to the collective bargaining unit's agreement are reduced proportionately by the amount for the collective bargaining agreement, and the corresponding funding source amounts are reduced accordingly

(d) If a collective bargaining agreement listed in (b) of this section is not ratified by the membership of the respective collective bargaining unit and approved by the Board of Regents of the University of Alaska, the appropriations made by this Act applicable to the collective bargaining unit's agreement are reduced proportionately by the amount for the collective bargaining agreement, and the corresponding funding source amounts are reduced accordingly.

EXPLANATION:

The State of Alaska has reached agreement on bargaining unit terms with the Public Employees Local 71, for the labor, trades, and crafts unit, and the Teachers' Education Association of Mt. Edgecombe.

[2:49:23 PM](#)

KAREN REHFELD, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET appreciated the inclusion of the amendment's items. She hoped to continue working with the legislature on refining the two versions of the bill.

[2:49:52 PM](#)

Co-Chair Hoffman removed his OBJECTION.

There being NO FURTHER OBJECTION, Amendment number 1 for version 0 was ADOPTED.

[2:50:04 PM](#)

Co-Chair Stedman MOVED to report SCS CSHB 284(FIN) out of committee with individual recommendations.

There being no OBJECTION, SCS CSHB 284(FIN) was REPORTED out of committee with a "do pass" recommendation.

[2:50:25 PM](#)

Co-Chair Stedman MOVED to report SCS CSHB 285(FIN) out of committee with individual recommendations.

There being NO OBJECTION, SCS CSHB 285(FIN) was REPORTED out of committee with a "do pass" recommendation.

[2:50:46 PM](#)

Co-Chair Stedman MOVED that authorization be given to the Legislative Finance Division and Legislative Legal Services to make any necessary technical and/or conforming changes to SCS CS HB 284(FIN) and SCS CS HB 285(FIN).

[2:51:06 PM](#)

There being NO OBJECTION, authorization was given to the Legislative Finance Division and Legislative Legal Services to make any necessary technical and/or conforming changes to SCS CS HB 284(FIN) and SCS CS HB 285(FIN).

[2:51:08 PM](#)

AT EASE

[2:51:23 PM](#)

RECONVENED

[2:51:29 PM](#)

Co-Chair Hoffman expressed appreciation for the Legislative Finance Division and the Senate Secretaries and acknowledged the savings of \$2 billion, which exemplified fiscal responsibility. He pointed out the \$1 billion allocated toward the unfunded liabilities in the PERS and TRS system. He expressed concern about the absence of a solution to the long-term needs of education. He hoped to include additional funding for education through fiscal notes for legislation heard in the House.

ADJOURNMENT

[2:53:47 PM](#)

The meeting was adjourned at 2:53 PM.