

ALASKA STATE LEGISLATURE
SENATE STATE AFFAIRS STANDING COMMITTEE

February 16, 2012

9:04 a.m.

MEMBERS PRESENT

Senator Bill Wielechowski, Chair
Senator Kevin Meyer
Senator Cathy Giessel

MEMBERS ABSENT

Senator Albert Kookesh
Senator Joe Paskvan, Vice Chair

COMMITTEE CALENDAR

SENATE BILL NO. 121

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

- MOVED CSSB 121(STA) OUT OF COMMITTEE

SENATE BILL NO. 179

"An Act relating to missing vulnerable adult prompt response and notification plans."

- MOVED SB 179 OUT OF COMMITTEE

SENATE BILL NO. 129

"An Act relating to the approval and administration of child care services by the Department of Administration primarily for the benefit of state officers and employees; and providing for an effective date."

- HEARD & HELD

OVERVIEW: ALASKA NON-PROFIT ECONOMY

- HEARD

PREVIOUS COMMITTEE ACTION

BILL: SB 121

SHORT TITLE: TEACHERS & PUB EMPLOYEE RETIREMENT PLANS

SPONSOR(s): SENATOR(s) EGAN

04/07/11	(S)	READ THE FIRST TIME - REFERRALS
04/07/11	(S)	STA, FIN
04/14/11	(S)	STA AT 9:00 AM BUTROVICH 205
04/14/11	(S)	Heard & Held
04/14/11	(S)	MINUTE(STA)
09/15/11	(S)	STA AT 9:00 AM Anch LIO Rm 220
09/15/11	(S)	Heard & Held
09/15/11	(S)	MINUTE(STA)
10/13/11	(S)	STA AT 12:00 AM Fairbanks
10/13/11	(S)	Heard & Held
10/13/11	(S)	MINUTE(STA)
01/26/12	(S)	STA AT 9:00 AM BUTROVICH 205
01/26/12	(S)	Heard & Held
01/26/12	(S)	MINUTE(STA)
02/09/12	(S)	STA AT 9:00 AM BUTROVICH 205
02/09/12	(S)	Heard & Held
02/09/12	(S)	MINUTE(STA)
02/16/12	(S)	STA AT 9:00 AM BUTROVICH 205

BILL: SB 179

SHORT TITLE: MISSING VULNERABLE ADULT RESPONSE PLAN

SPONSOR(s): SENATOR(s) DAVIS

01/27/12	(S)	READ THE FIRST TIME - REFERRALS
01/27/12	(S)	STA, FIN
02/09/12	(S)	STA AT 9:00 AM BUTROVICH 205
02/09/12	(S)	Heard & Held
02/09/12	(S)	MINUTE(STA)
02/16/12	(S)	STA AT 9:00 AM BUTROVICH 205

BILL: SB 129

SHORT TITLE: CHILD CARE CTRS: STATE EMPLOYEES & OTHERS

SPONSOR(s): SENATOR(s) MCGUIRE

04/15/11	(S)	READ THE FIRST TIME - REFERRALS
04/15/11	(S)	STA, FIN
02/09/12	(S)	STA AT 9:00 AM BUTROVICH 205
02/09/12	(S)	Heard & Held
02/09/12	(S)	MINUTE(STA)
02/16/12	(S)	STA AT 9:00 AM BUTROVICH 205

WITNESS REGISTER

SENATOR DENNIS EGAN
Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Sponsor of SB 121.

MIKE BARNHILL, Deputy Commissioner

Department of Administration (DOA)

Juneau, Alaska

POSITION STATEMENT: Testified in opposition to SB 121.

JESSE KIEHL, Staff

Senator Dennis Egan

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Provided information regarding SB 121 on behalf of the sponsor.

GENEVIEVE WOJTUSIK, Staff

Senator Lesil McGuire

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Offered to answer questions regarding SB 129 on behalf of the sponsor.

VERN JONES, Chief Procurement Officer

Division of General Services

Department of Administration

Juneau, Alaska

POSITION STATEMENT: Answered questions related to SB 129.

KATHIE WASSERMAN, Executive Director

Alaska Municipal League (AML) and

Board Member

Foraker Group

Juneau, Alaska

POSITION STATEMENT: Contributed to the discussion of the Alaska Nonprofit Economy.

DENNIS MCMILLIAN, President & CEO

Foraker Group

Anchorage, Alaska

POSITION STATEMENT: Presented an overview entitled Alaska Non-Profit Economy.

ACTION NARRATIVE

[9:04:22 AM](#)

CHAIR BILL WIELECHOWSKI called the Senate State Affairs Standing Committee meeting to order at 9:04 a.m. Present at the call to order were Senators Giessel, Meyer, and Chair Wilechowski.

SB 121-TEACHERS & PUB EMPLOYEE RETIREMENT PLANS

[9:05:11 AM](#)

CHAIR WIELECHOWSKI announced that the first order of business to come before the committee was SB 121. It is the sixth hearing on the bill. At the last meeting the committee adopted two amendments, the most significant of which would help ensure that the health care costs of the new defined benefits tier never exceed those of the existing contributions program. He opined that the committee has finally achieved the sponsor's goal of crafting a retirement system that will save the state and municipalities money, while providing teachers, police officers, fire fighters, and other public employees with retirement benefits they can count on.

SENATOR DENNIS EGAN thanked the committee for its work on SB 121. There have been six hearings of the bill in three cities. He commented that public servants around the state would like a choice to earn a pension. Experts talk about the benefits of both defined contribution (DC) and defined benefit (DB) systems. He stressed that the bill had changed a lot and now saves the state, at the onset, \$49 million in the first five years, is cost neutral long-term, shares the risk between employer and employees, and adds nothing to the unfunded liabilities from the past.

SENATOR EGAN related that SB 121 lets new hires who serve Alaska and Alaska's cities, who teach kids and respond in times of need, choose between a portable account to save for retirement or a monthly pension check. Personal accounts are great for recruiting researchers, military spouses, or corporate retirees to state and local government, and pensions are great for keeping those who spend their lives teaching children, patrolling prisons, and managing fisheries.

To make the new system cost neutral, employees will share the risk of health cost rising in the future. It's a risk worth taking and is fair to Alaskans.

CHAIR WIELECHOWSKI noted that he had asked the Department of Administration to prepare a fiscal note, which had not been done. He estimated that the bill would save the state \$49 million over the next five year. Long-term savings would be even

greater. He inquired if that was Senator Egan's understanding, also.

SENATOR EGAN said it was.

CHAIR WIELECHOWSKI stated that the goal of the new version of the bill is to be revenue neutral or to save money. He thanked Senator Egan for his hard work. He noted that the bill would receive a rigorous review in Senate Finance.

CHAIR WIELECHOWSKI asked for a motion to move SB 121, version R, as amended, from committee with individual recommendations and two attached fiscal notes: one for \$769,000 in FY 13 to help the Department of Administration get the new system up and running, and one from the Department of Revenue for \$593,000 in FY13 to cover additional retirement board management fees. He noted an additional fiscal note from the Department of Administration would be forthcoming. The bill has an additional referral to the Senate Finance Committee.

9:09:14 AM

SENATOR MEYER said he would make the motion, but first would like to ask a question of the Department of Revenue (DOR). He inquired about the revenue neutrality of the bill and asked if DOR agreed with the sponsor's statement.

MIKE BARNHILL, Deputy Commissioner, Department of Administration (DOA), testified in opposition to SB 121. He stated that the department's goal is to make the bill cost neutral to employers in terms of normal cost. He maintained that no defined benefit bill can guarantee cost neutrality for past service cost. For that reason, DOA continues to oppose SB 121. He recalled the history of the legislation, beginning with how the first version of the bill contained \$124 million in unfunded liability. Next, an incorrect fiscal note was drafted. Then, health care costs increased. He said in a defined benefit plan the state ends up owning the expense because costs increase more than what was projected. He reiterated the many problems with a defined benefit plan and argued against extending the bill for decades.

SENATOR MEYER thanked Mr. Barnhill for taking a position.

9:14:14 AM

CHAIR WIELECHOWSKI pointed out that fiscal notes are done to try to predict the cost of legislation. He continued to say that DOR fired an actuary who had had a year to work on the fiscal note. The latest fiscal note is a best estimate based on information

learned from past actuarial mistakes, which assumed that health care costs would increase by only 3 percent per year when they actually increased by 10 percent. He pointed out that the current assumption is that health care costs will increase by 10 percent for the next 30 years. He disagreed with that predicted 10 percent increase because it would mean that in 30 years the state would be paying \$150,000 per employee for health care benefits. He called it a worst-case scenario. Even so, the assumptions that DOR experts arrived at are being used in SB 121. The sponsor has put in a provision that says the cost of the defined benefit program cannot exceed 95 percent of the cost of the current program. He maintained that the system would save the state hundreds of millions of dollars. He noted that he requested a new fiscal note that has not been forthcoming from the administration. He expressed frustration at not having the new fiscal note.

[9:17:06 AM](#)

MR. BARNHILL disagreed with Chair Wielechowski's assumptions.

CHAIR WIELECHOWSKI maintained that they were not "his" assumptions, but rather DOR's assumptions.

MR. BARNHILL debated Chair Wielechowski's arguments. He maintained that the actuaries had only a week to work on the current version of the bill. He described a cascading series of "passing along the buck" if the assumptions turn out to be incorrect. He addressed the 10 percent cost growth assumption, saying it is instead 9 percent. He said the Alaska Retirement Management (ARM) Board's health care cost growth assumptions trend down over time. He spoke of the actuarial mistakes related to the DB plan and the resulting solution to have more actuarial oversight. He maintained that a week is not enough time for a full actuarial review.

[9:20:32 AM](#)

CHAIR WIELECHOWSKI countered that DOR had over a year to have the legislation fully vetted by actuaries.

JESSE KIEHL, staff, Senator Dennis Egan, provided information regarding SB 121 on behalf of the sponsor. He clarified that the new version of the bill guarantees that the new tier would not exceed the normal cost of the current DC system. He noted that when a retiree under the new DB tier retires, the amount they pay for their health insurance is not fixed. The percentage of the premium is fixed once a person retires. The statutory requirement that there is an actuarial analysis of the

retirement system, long precedes the 2005 enactment of the DC system. All of SB 141 safeguards for a DB system remain in place in SB 121. There will be a second actuary to check the first actuary, an ARM Board review, and a requirement that employers not pay less than the normal cost. It is the prefunding costs of the DB system that won't exceed the cost of the DC system.

MR. KIEHL took issue with the statement that costs are shifted to future generations of retirees. He emphasized that the health care cost adjustment in the bill is a pooling of risk and moving that risk to employees. He concluded that the risk could become burdensome for employees, but it is a risk that Alaska's public servants are willing to take for a chance to choose a DB system.

CHAIR WIELECHOWSKI asked how the fiscal note process has worked and what assumptions were used.

MR. KIEHL reported that the timeframes on the actuarial analyses have varied with different versions of the bill. He believed that the administration would have a fiscal note in time for the bill to be heard in the Senate Finance Committee. He appreciated the administration's cooperation in making the actuary available to the sponsor.

[9:27:48 AM](#)

SENATOR MEYER concluded that allowing state employees to have a choice of retirement systems is the best policy for the state. However, he did not know if the state could afford it. He spoke of military personnel who want a defined contribution and others who would prefer a defined benefit program. He said that most states have a hybrid system.

SENATOR MEYER moved to report SB 121, version R, from committee with individual recommendations and the accompanying fiscal notes.

CHAIR WIELECHOWSKI added, SB 121, version R, as amended, with two attached fiscal notes and a forthcoming DOA fiscal note. He announced that without objection, CSSB 121(STA) moved from the Senate State Affairs Standing Committee.

SB 179-MISSING VULNERABLE ADULT RESPONSE PLAN

[9:30:30 AM](#)

CHAIR WIELECHOWSKI announced the consideration of SB 179, which would create a new statewide alert system to help find vulnerable missing adults. Last week the committee heard

testimony from the Alaska State Troopers, Alaska Association of Retired People, Alaska Commission on Aging, the Department of Military and Veteran's Affairs, Division of Homeland Security and Emergency Management, and several Alzheimer's Associations, among others. No negative testimony was received. The bill has three zero fiscal notes: two from the Department of Public Safety and one from the Department of Military and Veteran's Affairs.

SENATOR BETTYE DAVIS, sponsor, thanked the committee for hearing the bill in a timely manner. She said SB 179 would be quite helpful to Alaskan citizens.

CHAIR WIELECHOWSKI requested a motion to move the bill from committee.

SENATOR MEYER moved to report SB 179 out of committee with individual recommendations and the attached fiscal notes.

CHAIR WIELECHOWSKI announced that without objection, SB 179 moved from the Senate State Affairs Standing Committee. At ease from 9:31 a.m. to 9:33 a.m.

SB 129-CHILD CARE CTRS: STATE EMPLOYEES & OTHERS

[9:33:11 AM](#)

CHAIR WIELECHOWSKI announced the consideration of SB 129. It would allow child care centers to be located in office buildings owned or leased by the State of Alaska.

GENEVIEVE WOJTUSIK, staff, Senator Lesil McGuire, offered to answer questions regarding SB 129, on behalf of the sponsor.

VERN JONES, Chief Procurement Officer, Division of General Services, Department of Administration, answered questions related to SB 129.

SENATOR MEYER said he supports the bill. He inquired about the cost of the day care program to the state. He suggested that the property could be leased and revenue brought in. He asked if the legislation was fair to small business day care centers.

[9:35:33 AM](#)

MR. JONES said he thought it was not accurate to say there was no cost for the state to implement child care in its facilities or in leased facilities. It is more accurate to say it is not possible to choose a number; therefore, the fiscal note is

indeterminate. He said there is a requirement in the bill to include new centers if a new facility is built, that houses more than 250 employees. He estimated the cost if day care centers were added to the last three buildings the state acquired. For the Atwood Building, the cost would have been a little over \$2 million. It is assumed rent would be charged to the day care provider, so there would be no operational loss of funds.

MR. JONES addressed Senator Meyer's question about "opportunity costs". The state typically operates a state facility and charges a tenant operating costs at less than market rates. He referred to the Atwood Building as an example where the operating costs are about half the market rate. Also difficult to factor in is the fact that an agency could be displaced by the day care center and would have to pay the open market rate. It is difficult to predict many costs.

SENATOR MEYER noted that day care centers can be justified as an employee benefit. He questioned if providing a day care would displace agencies. He wondered who would pay custodial and utility costs of future centers.

MR. JONES explained that a different agency deals with those costs. He said the Division of General Services would likely try to recoup operating costs. He addressed Senator Meyer's question about competition with the private sector. He did not see undue favoritism to a day care provider. There are strict rules regarding charge-back rates which could be cheaper than market rates. The division typically does not keep track of how many people inhabit a facility. However, the division is undergoing an efficiency study and has learned that only two buildings have over 250 people; the State Office Building and the Atwood Building. Also, four leased facilities currently have over 250 in them.

[9:43:44 AM](#)

SENATOR GIESSEL asked for clarification about the amount charged for operating costs - "about half the fair market value."

MR. JONES replied that state agencies are charged about half of market value for leases because of strict federal rules for operating costs and depreciation. The Atwood and SOB are charged roughly half of what could be gotten on the open market.

SENATOR GIESSEL pointed out that a private company would be leasing the space for a child care center. She said she wondered

if they would qualify for the same lease price break the state receives.

MR. JONES said the state was allowed to charge rent based on federal guidelines, but could also charge the market rate to a non-state entity. He said he would have to check on that. The fiscal note does not make any assumptions about the rate.

SENATOR GIESSEL spoke of a private company running a restaurant in the Atwood Building. She asked what rate they are being charged.

MR. JONES said he thought they were being charged an equivalent rate, but he would have to check on it. Future day care centers would not be state-run businesses; an RFP would be issued for open market competition.

CHAIR WIELECHOWSKI said SB 129 would be held over.

OVERVIEW: ALASKA NON-PROFIT ECONOMY

[9:47:36 AM](#)

CHAIR WIELECHOWSKI announced the Foraker Group presentation on Alaska's nonprofit economy. Alaska relies on nonprofit groups to provide a wide range of public services. As economic conditions in Alaska have tightened and the legislature has sought to constrain state spending, many of these organizations are struggling to meet public needs and accomplish their missions.

CHAIR WIELECHOWSKI introduced Dennis McMillian, president and CEO of the Foraker Group. He said that Mr. McMillian has devoted his professional career to helping nonprofit organizations better meet the needs of their communities. Mr. McMillian came to Alaska in 1992 to lead the United Way of Anchorage, and since then, he has helped build the state's philanthropic infrastructure through his work with United Ways across the state, and through his support in developing the Alaska Community Foundation. He is a strong advocate for Alaska's nonprofit sector. In 2001, Mr. McMillian led the effort to start the Foraker Group with the mission of building sustainability and organizational capacity in Alaska's nonprofits.

At ease from 9:49:01 a.m. to 9:49:53 a.m.

[9:49:53 AM](#)

KATHIE WASSERMAN, Executive Director, Alaska Municipal League (AML), Board Member, Foraker Group, contributed to the

discussion of Alaska Nonprofit Economy. She spoke of the benefits to AML and to Alaska from the Foraker Group. The Foraker Group has been instrumental in assisting AML's board operate more effectively. Non-profits that do a good job have become much stronger and more effective due to the efforts of the Foraker Group.

[9:52:09 AM](#)

DENNIS MCMILLIAN, President & CEO, Foraker Group, presented an overview entitled "Alaska Non-Profit Economy." He predicted that non-profit requests would escalate in the future. The Foraker Group provides training and research for non-profits in Alaska. They do research every three years to establish base-line data.

MR. MCMILLIAN reported on the total number of Alaska nonprofits in 2010 in Alaska. He showed a graph made by Institute of Social and Economic Research (ISER) showing the number of registered and non-registered nonprofits. There were 4,727 registered nonprofits and 2,300 other nonprofits. He commented on which groups do not show up under the 4,727 that are registered. The best guess is that there are 7,000 nonprofits operating in Alaska currently.

MR. MCMILLIAN showed the expenditures of nonprofits operating in Alaska. It is a \$4.5 billion industry, three-quarters of which are 501(c)(3) charitable nonprofits.

[9:57:39 AM](#)

MR. MCMILLIAN reported on the composition of Alaska public charities. Nine percent of the organizations, the health subsector, represents 61 percent of employment and 60 percent of expenditures. He showed how the largest ten public charities rank by expenditures. He noted that all ten were related to health care and all but three were Native entities. He added that the data was from 2007 and not particularly good; it was ISER's best guess.

He detailed the public charity composition of revenues in Alaska as compared to those in the entire United States. U.S. Government grants make up 43 percent of revenues in Alaska, as compared to only 9 percent nationally. The charitable contributions/other category in Alaska is 18 percent versus 23 percent nationally.

He noted a trend in Alaska since 2003 - government grants have dropped from 53 percent of total revenues to 43 percent. Alaska is disproportionally supported by foundations and corporations.

The state is overly dependent on one industry for charitable contributions. The Click, Pick, Give program has helped to increase individual giving.

[10:02:39 AM](#)

CHAIR WIELECHOWSKI noted tax breaks in Alaska for companies that contribute to education. He asked how that type of donation is counted.

MR. MCMILLIAN said that was IRS data.

CHAIR WIELECHOWSKI wondered if that type of donation increased the number for government spending.

MR. MCMILLAN guessed that it did.

MR. MCMILLIAN turned to the trends in Alaska that would be affecting charitable funding in the future. A funding crisis is inevitable due to the drop in contributions from federal earmarks and from organizations turning to the state for funding. He emphasized that the nonprofits have been warned that this was coming.

He addressed the "crash of the herd" crisis, which he described as an over population issue - one nonprofit for 28 people. He spoke of baby boomer population trends leading to not enough people to serve on, and staff, non-profits in order to maintain 7,000 nonprofits.

MR. MCMILLIAN discussed new nonprofit structures such as networked institutions with new ways of partnering and merging. He noted the Foraker Group was here to serve Alaska.

[10:09:36 AM](#)

SENATOR MEYER agreed that in tough times, companies and nonprofits will tend to merge. He asked how religious groups qualify as nonprofits.

MR. MCMILLIAN said they are all nonprofits and are a part of the 7,000.

SENATOR MEYER said that was good because they work together to provide food banks and soup kitchens.

MR. MCMILLIAN noted that in the nonprofit sector, competition does not work.

SENATOR MEYER suggested that when nonprofits request funding from the state, they should also have other matching funds.

MR. MCMILLIAN talked about capital campaigns. He opined that the state will have to have a different strategy for funding nonprofits. He predicted that nonprofits will need 67 percent from one donor when they seek funding from the state.

[10:14:03 AM](#)

SENATOR MEYER appreciated the work Foraker does. He said that nonprofits often require business-related assistance.

CHAIR WIELECHOWSKI asked for specific steps the legislature could take to strengthen nonprofits and ensure their sustainability in Alaska.

MR. MCMILLAN referred to a handout called "Nonprofit Sustaining Guidelines." He suggested four things to look for in a nonprofit to determine how sustainable it will be: having focus or clear understanding by the nonprofit of itself and its goals - being strategic and thinking ahead; having the right people involved - working together in partnership; being fluent in partnerships and in collaborations; generating unrestricted cash and making a profit.

[10:19:08 AM](#)

There being no further business to come before the committee, Chair Wielechowski adjourned the Senate State Affairs Standing Committee at 10:19 a.m.