

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

February 5, 2014

3:16 p.m.

MEMBERS PRESENT

Representative Kurt Olson, Chair
Representative Lora Reinbold, Vice Chair
Representative Mike Chenault
Representative Bob Herron
Representative Dan Saddler
Representative Andy Josephson

MEMBERS ABSENT

Representative Charisse Millett

COMMITTEE CALENDAR

OVERVIEW: DEPARTMENT OF ADMINISTRATION BY COMMISSIONER CURTIS THAYER

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

CURTIS THAYER, Acting Commissioner
Department of Administration (DOA)
Anchorage, Alaska

POSITION STATEMENT: Presented an Overview on Department of Administration.

MIKE BARNHILL, Deputy Commissioner
Office of the Commissioner
Department of Administration
Juneau, Alaska

POSITION STATEMENT: Answered questions during the Department of Administration's overview presentation.

ACTION NARRATIVE

[3:16:45 PM](#)

CHAIR KURT OLSON called the House Labor and Commerce Standing Committee meeting to order at 3:16 p.m. Representatives Reinbold, Saddler, Herron, Josephson, Olson were present at the call to order. Representative Chenault arrived as the meeting was in progress.

Overview: Department of Administration Commissioner Curtis Thayer

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CHAIR OLSON announced that the only order of business would be an overview by Department of Administration Commissioner Curtis Thayer.

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CURTIS THAYER, Acting Commissioner, Department of Administration (DOA), offered to update the committee on several topics of interest with respect to the Department of Administration, specifically the universal space standards and labor contracts. He characterized the DOA as a "department within a department" since it consists of ten diverse divisions and five commissions. The department provides services ranging from the Division of Motor Vehicles (DMV) and the Public Defender Agency (PDA) to the Violent Crimes Compensation Board (VCCB) and the Oil & Gas Conservation Commission (OGCC) [slide 2]. The DOA has over 1,000 employees, a budget of \$343 million, and offers services throughout the state, primarily through its 31 DMV and PDA locations. Additionally, the Office of Public Advocacy (OPA) has offices in several locations, and the state owns 15 public buildings, primarily in Juneau, Palmer, and Anchorage.

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ACTING COMMISSIONER THAYER provided an overview of labor contracts and a status report on contracts [slide 4]. He reported that this year the state is in the process of negotiating five contracts, including three maritime unions: Inland Boatmen's Union of the Pacific (IBU), Marine Engineers' Beneficial Association (MEBA), and Masters, Mates and Pilots (MMP), as well as the Alaska Vocational Technical Teachers Association (AVTECTA) and the Public Safety Employees Association (PSEA). Last year, the DOA negotiated three-year contracts for the General Government Unit (GGU), the Alaska Public Employees Association (APEA), Supervisory Unit (SU), and the Confidential Employees Association (CEA) covering the period

July 1, 2013 through June 30, 2016. He said that the contracts are for three-year terms so they constantly rotate.

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ACTING COMMISSIONER THAYER said that negotiations are mandated by the Public Employment Relations Act (PARA) and generally begin in October, and, by statute the department must have an agreement to the legislature for consideration by the 60th day of session. He reported the DOA met this deadline last year with all three contracts and he hoped to have the current five contracts completed timely. He anticipated that one union's bargaining negotiations should be completed this month.

ACTING COMMISSIONER THAYER explained that if negotiations do not lead to an agreement and mediation fails, employees have the right to strike [slide 6]. He noted some exceptions, such as the Alaska State Troopers, as Class 1 employees are subject to binding arbitration, and the Alaska Marine Highway System (AMHS) workers, who would likely be subject to an injunction due to the life and safety aspects that require service. While the department doesn't plan on [binding arbitration or injunctions], it could happen. The department's goals are to reach fair and balanced agreements.

ACTING COMMISSIONER THAYER said the classes of striking are Class 1, Class 2, and Class 3. He said that "Strike Class 1" relates to public safety, "Strike Class 2" relates to AMHS vessel employees, and "Strike Class 3" primarily consists of public employees covered under contracts that were negotiated last year.

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ACTING COMMISSIONER THAYER turned to a listing of bargaining units (BU) by contract negotiation year [slide 8]. He detailed the number of employees in each bargaining unit, such that AVTECTA has 41 employees, IBU has 669, MEBA has 107, MMP has 98, and PSEA has 508 employees or a total of approximately 1,300 employees as compared to the nearly 12,000 employees covered under contracts negotiated last year.

ACTING COMMISSIONER THAYER turned to a listing of the average yearly base salaries for fiscal year 2013 (FY 13). He reported the yearly average pay is approximately \$76,000 for AVTECTA employees, \$51,000 for IBU, \$73,000 for MEBA, and \$85,000 for MMP employees. Additionally, the department adds 49 percent to

cover benefits. He stated that this year the department is negotiating with highly-compensated public safety employees. He pointed out that the MMP (Mates and Pilots) are the highest paid employees in state government, with some salaries approaching \$180,000 to \$190,000.

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REPRESENTATIVE REINBOLD asked for the long-term impacts of SB 95, which passed the legislature last year, and how it will affect the state's Public Employees' Retirement System (PERS) and the Teachers' Retirement System's (TRS) unfunded liability.

ACTING COMMISSIONER THAYER offered to provide the committee with details; however, he related that nearly 50 percent of state employees fall under the defined contribution (DC) and not under the PERS and TRS. He noted last year was the largest take back the state has ever had with employees. He said that last year the state employee increase was [1 percent effective July 1, 2013, another 1 percent increase effective 1, 2014 and a final 2.5 percent increase effective July 1, 2015 (often referred to as 1, 1, and 2.5)].

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REPRESENTATIVE REINBOLD more specifically requested the fiscal note for SB 95 and how passage of the bill will affect the Public Employees' Retirement System (PERS)/Teachers' Retirement System (TRS) unfunded liability.

ACTING COMMISSIONER THAYER said he did not have those figures today but offered to provide the committee with the information.

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REPRESENTATIVE REINBOLD referred to page 9 of the DOA's presentation and asked if the number of IBU employees is 41.

ACTING COMMISSIONER THAYER answered yes.

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REPRESENTATIVE JOSEPHSON asked for clarification on the term "take back" used to describe the 1, 1, and 2.5 percent negotiated increases.

ACTING COMMISSIONER THAYER responded that the 1, 1, and 2.5 percent increases represent the Cost of Living Allowance (COLA). He explained that the DOA and the unions have worked to address concerns, including the unfunded leave liability. He elaborated that the department did not cap leave so employees could accumulate an unlimited amount of leave and then cash it out. In some instances, the department experienced employees leaving service or retiring with \$200,000 to \$300,000 payment for leave balances, thus, the DOA negotiated a cap of 1,000 hours and increased the mandatory leave usage from one to two weeks. Further, employees with 400 hours or more accumulated leave must take three weeks of leave or cash in one week of leave. Additionally, the state negotiated a lower leave accrual rate for new hires effective July 2013. Finally, the merit increases were negotiated from 3.75 to 3.25 percent for outlying years. Additionally, the state also paid a health care premium of \$700 to \$800 per member per year, which totaled about \$20 million. He estimated that the state saved \$14 million by providing a one-time lump sum and no longer paying ongoing premiums.

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REPRESENTATIVE JOSEPHSON acknowledged that he is a fan of public workers, but accumulating \$200,000 to \$300,000 in leave seems to represent "another retirement." He asked whether the policy changes will result in more absent workers since workers will exercise their leave rights more liberally.

ACTING COMMISSIONER THAYER answered yes. He explained more details on the leave earnings, noting employees could essentially bank five weeks of leave each year, which contributed to such high leave balances.

REPRESENTATIVE JOSEPHSON understood it would likely be impossible to measure the impact the policy changes will have on the functioning of government.

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REPRESENTATIVE HERRON asked the commissioner to add to the information he'll provide the committee and identify the location of where all the employees live.

ACTING COMMISSIONER THAYER agreed to do so. He reported that 10 percent of IBU's members, 20 percent of MMP's members, and 40 percent of MEBA's members reside outside of Alaska. He said that this is a concern during negotiations since 40 percent of

the members may not understand some of the cost constraints and issues the state faces in operating the Alaska Marine Highway System.

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CHAIR OLSON asked whether this includes the Ocean Ranger program since he recalled about 90 percent of its participants previously resided outside Alaska.

ACTING COMMISSIONER THAYER offered to confirm the figures.

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ACTING COMMISSIONER THAYER compared expenses versus revenues for marine vessel operations [slide 10]. Referring to the chart, he explained that the green bar represents the personnel services and the red bar represents the total cost of marine operations. He estimated that the AMHS will lose \$114 million in 2014, of which personnel costs is the largest driver. He said that the state can't afford to continue on this trend.

REPRESENTATIVE JOSEPHSON understood this to mean that the state must subsidize the AMHS.

[3:31:08 PM](#)

REPRESENTATIVE REINBOLD offered her belief that the disparity between revenues and expenditures couldn't happen in the private sector. She asked how the department plans to remedy this.

ACTING COMMISSIONER THAYER answered that the DOA negotiates contracts, but the department also works very closely with the Department of Transportation & Public Facilities (DOT&PF), which is the agency responsible for the AMHS. While the DOA works with the DOT&PF on operational issues and personnel costs, the fundamental operational costs for the AMHS rest with the DOT&PF.

REPRESENTATIVE REINBOLD surmised that there isn't a plan to fix the [revenue shortfall].

[3:31:42 PM](#)

ACTING COMMISSIONER THAYER reiterated that the DOA negotiates contracts, but the DOT&PF operates the AMHS, so he deferred to the DOT&PF to respond.

REPRESENTATIVE REINBOLD asked whether the state will lose \$117 million. She said she definitely would like to know what the plan is to fix this.

CHAIR OLSON asked whether the \$117 million includes any costs for fuel charges in excess of the budgeted amount.

ACTING COMMISSIONER THAYER answered yes.

[3:32:33 PM](#)

REPRESENTATIVE HERRON, referring to the graph on the marine vessel operations on page 10, asked for a similar graph that shows the expenses versus revenues for Alaska's highway system.

ACTING COMMISSIONER THAYER indicated the next slide, page 11, entitled "Per Capita Transportation Cost," might answer the question. He highlighted the approximate number of primary users of the highway system is 675,000, the net cost to the state at \$28 million, with a per capita cost of \$42. He reported the rural aviation per capita cost is \$166, and the AMHS per capita cost is \$1,100.

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REPRESENTATIVE HERRON reiterated his request to obtain a breakout of the total expenditures, cost, and expenditures of Alaska's highway system using the graph format as on slide 10.

ACTING COMMISSIONER THAYER answered that the graph was obtained from a University of Alaska study. Further, the state doesn't charge the public to use the highway system; however, he offered to work with the DOT&PF to try to provide the requested graph.

REPRESENTATIVE HERRON indicated that [Acting] Commissioner Thayer's response illustrates his point, which is to identify the amount of revenue the highway system generates.

[3:34:59 PM](#)

REPRESENTATIVE SADDLER asked whether he could estimate the number of Alaska residents versus non-resident passengers using the Alaska Marine Highway System's ferries.

ACTING COMMISSIONER THAYER answered that he was unsure of the break out of resident and non-resident passengers, but he

offered to obtain the figures from the DOT&PF. In further response, he answered he couldn't even offer a rough estimate.

[3:35:19 PM](#)

REPRESENTATIVE JOSEPHSON asked whether uncompensated travel time is subject to collective bargaining.

ACTING COMMISSIONER THAYER answered that the issue of travel has been brought up, but at this point travel is not negotiated as part of the collective bargaining process.

REPRESENTATIVE JOSEPHSON asked whether he was aware of employees who are not compensated for their travel time.

ACTING COMMISSIONER THAYER said he has observed state employees at the airport; however, the state tries to encourage employees to travel during business hours. He reiterated that it is not currently part of the contract.

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REPRESENTATIVE REINBOLD referred to the graph on page 10 with the green bar representing personnel services. She pointed out that the 2014 figures are approximately \$90 million of the \$150 million of the operational costs for the ferry system. She asked the commissioner to identify who serves on the contract negotiating team.

ACTING COMMISSIONER THAYER answered that the Division of Personnel & Labor Relation's employees are the primary negotiators. Also, employees within the AMHS, including Deputy Commissioner Yost, also sit on two of the three bargaining teams. He explained that having DOT&PF's management involved in the process is important since complex business rules apply to the AMHS system.

REPRESENTATIVE REINBOLD asked the department to provide a long-term 20-year projection for the effects of SB 95 as well as a list of negotiators.

ACTING COMMISSIONER THAYER asked for clarification and responded that he could provide a list of the negotiators for all five of the current contracts being negotiated.

CHAIR OLSON clarified that his office will post additional information received for each hearing on the legislature's website.

[3:39:41 PM](#)

ACTING COMMISSIONER THAYER explained that negotiations are confidential in nature; however, he discussed three items contained in current contracts that are public information [slide 12]. For example, the cost of living differential (COLD) was established in 1977 and initially provided for a cost-of-living differential between Seattle and Anchorage. The COLD currently ranges from \$450 to \$650 per pay period for some employees. He said some studies show it could be argued that a COLD does not exist so the department would like to address this issue with bargaining teams. Second, he highlighted that travel pay, which is pay for time spent traveling outside of work hours to temporary work assignments, is a provision the maritime unions have in their contracts, but it is not a provision in other contracts. Thus, the DOA would like more alignment in this area. Third, some employees are paid nonwatch pay in lieu of certain overtime entitlements, in particular, for higher level of employees. For example, maritime employees are not eligible for overtime so they receive "watch pay." He summarized that these three items will be discussed during the contract negotiations for maritime employees.

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REPRESENTATIVE REINBOLD referred to the COLD on page 12. She returned to SB 95, to a chart within the bill indicating Juneau employees will receive an additional five percent Cost of Living Allowance (COLA). She asked for the justification for the COLA contained in SB 95.

ACTING COMMISSIONER THAYER responded that the COLA was derived from a 2008 study. He offered to provide the information to the committee. He said that COLA has been negotiated into most of the contracts. He pointed out that the study showed that the COLD between Anchorage and Seattle is zero; however, it identified Juneau as having a 5 percent geographical differential, although Fairbanks experienced a reduction from 11 percent to 4 percent geographical differential.

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REPRESENTATIVE SADDLER asked whether travel pay is paid at straight time.

ACTING COMMISSIONER THAYER answered yes.

[3:42:57 PM](#)

ACTING COMMISSIONER THAYER, with respect to monetary terms, said that if the state negotiates a 1 percent raise in FY 15 it will cost \$500,000 in the first year, but cumulatively, when the raise is compounded over three years it represents \$5 million [slide 13]. He noted that it is easy to consider a proposed 1 percent raise theoretically, but he cautioned that the increases are in "real dollars," which is something the DOA is concerned about. He said that COLD costs the state and IBU about \$8 million, with an additional \$1 for MMP and MEBA for a total of \$10 million. He emphasized that these costs are based on a 1977 study that is in statute. He characterized these issues as some of the challenges the state faces during contract negotiations.

CHAIR OLSON remarked that conceivably the statutory language just referenced could be addressed by the legislature.

ACTING COMMISSIONER THAYER agreed. He reported that between the years 2007-2013, the MMP and MEBA received a 31 percent increase. Additionally, the MMP and MEBA received a lump sum. Further, the IBU received similar increases. For comparison, the PSEA would have received a 33 percent increase, but since that union also receives merit increases the total increases would actually have been closer to 50 percent for the prior ten years. Ironically, he noted that the largest increases for MMP and MEBA fell during [former Governor] Murkowski's administration, with increases of "7 percent, 7 percent, and 2 percent." He noted that the MMP, MEBA, and IBU unions do not receive merit or pay increments, but negotiate the COLA.

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REPRESENTATIVE JOSEPHSON remarked that it was interesting to note the absence of any pay increases in 2011, 2012, and 2013, when the state was particularly "flush." He asked for an explanation.

ACTING COMMISSIONER THAYER offered to find out and report back to the committee.

CHAIR OLSON commented that some other items may be negotiated besides wages.

ACTING COMMISSIONER THAYER agreed. He highlighted that the negotiations might also cover leave and operational or shift differential pay, which are typically provided as "packages."

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REPRESENTATIVE JOSEPHSON asked whether the pilots are captains of large cruise ships.

ACTING COMMISSIONER THAYER answered no; these employees are all AMHS workers. He said he also chairs the Board of Marine Pilots, and the marine pilots are often retired captains who will apply to be a pilot on one of the larger vessels.

CHAIR OLSON commented that the pilots are independent contractors.

ACTING COMMISSIONER THAYER agreed.

REPRESENTATIVE REINBOLD asked to discuss the statutory merit increases. She related her understanding that the private sector links merits to pay increases based on their employees' performance. She asked whether the state's merit increases are given automatically or if they are linked to performance.

ACTING COMMISSIONER THAYER explained that if a state employee's performance is less than satisfactory, the employee will not receive a merit increase, otherwise, for steps "A-F," the increase happens automatically without a performance evaluation. Once a state employee reaches the "F" step, his/her evaluation must be given or the employee will not receive a raise. He said the department encourages supervisors to complete evaluations since otherwise the department must pay the merit increases retroactively. He offered his belief that the state does not have a robust evaluation of its employees. Evaluations help monitor employee performance but the way the system is designed, an employee doesn't need an evaluation in the first six years unless performance is unsatisfactory. He said it seems as though employees should have their strengths and weaknesses identified, which would be helpful to supervisors, too. He acknowledged that some departments are better than others in completing evaluations. In fact, some are fantastic at getting their evaluations in, but others are not.

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REPRESENTATIVE REINBOLD related her understanding that almost all state employees receive their raises, although a tiny percentage do not receive any merit increases.

ACTING COMMISSIONER THAYER answered that for the most part she is correct.

[3:50:36 PM](#)

ACTING COMMISSIONER THAYER discussed the top three earners for the MMP, MEBA, IBU, and PSEA to provide a perspective for the committee. He reported that the top MMP's master receives approximately \$165,000, the MEBA's chief engineer and first assistant's salaries range from \$161,000-\$183,000, and the IBU's average salary is \$51,000, with the highest wages ranging from \$116,000-\$138,000, and the top PSEA's Alaska state trooper earns approximately \$202,000. He explained that the top PSEA earners are typically in rural Alaska and receive geographical differential pay and sea duty, which is considered premium pay. He reiterated these are the salaries for personnel for unions currently under contract negotiations.

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REPRESENTATIVE SADDLER asked whether sea duty applied to the ocean.

ACTING COMMISSIONER THAYER answered that these AST operate a fish and wildlife protection boat. In response to a question, he agreed the AST operates in coastal waters and tend to work more overtime since shift relief is not necessarily available.

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ACTING COMMISSIONER THAYER discussed the growing leave liability [slide 16]. He acknowledged that the leave liability is capped for most of the unions. He anticipated that FY 14 will show a reduction and the threshold has likely been reached at \$169,765,136. He stated that this figure represents the total amount if everyone cashed out their leave banks; however, capping the leave and increasing the mandatory leave will help to shift that figure down. He reported that the new leave rules became effective on December 13 and the new measure will be in December 2014.

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REPRESENTATIVE CHENAULT referred to page 15, to the MEBA section and for clarification of "other pay."

ACTING COMMISSIONER THAYER answered that it usually represents cashed-out leave.

REPRESENTATIVE CHENAULT noted several were in the \$20,000 range.

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REPRESENTATIVE JOSEPHSON asked whether some personnel are prevented from taking leave due to their work loads, which is something he experienced as a state prosecutor in Kotzebue. In fact, he said he could have been sanctioned by the court if he had taken leave so his leave time piled up. He wondered if that might explain some of the large leave balances.

ACTING COMMISSIONER THAYER answered that it depends on the job function. He acknowledged that some employees have the availability of relief workers. He noted that the state contracts have a provision to carry leave forward with the supervisor and commissioner's approval.

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ACTING COMMISSIONER THAYER turned to page 17 entitled, "Leave Liability Example - Top Ten," which identifies the specific concern. He pointed out the ten employees depicted on the slide represent \$1.6 million in accrued leave. He provided some details, including that the confidential bargaining unit has the most accumulated hours, at 4,469 hours, but their salary rates are \$31.80. He reiterated that caps have been negotiated but some employees, such as correctional officers, are up for negotiations next year and the department will continue to strive to negotiate a cap on its future negotiations.

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REPRESENTATIVE REINBOLD expressed her concern, noting she has recently been attending education meetings and some teachers are being laid off. She offered her belief that the contract negotiators were possibly negligent in not fixing these loopholes. She did not believe this could happen in the private sector and indicated she supports negotiations going "public."

CHAIR OLSON asked whether some of these issues go back to statehood.

ACTING COMMISSIONER THAYER agreed that leave liabilities are the "800-pound gorilla in the room when we walk into negotiations." He also said, "This is what the state negotiated. This is what bright light brought to the subject." He indicated that when the department shared the leave liability obligations with union representatives, they also recognized the problem and the union negotiated and worked together with the administration to come up with a solution. In fact, Alaska was the only state that does not have a cap on leave. He provided a brief history, such that the state moved from sick/annual leave to personal time; however, a cap was not negotiated until the department highlighted the leave liability. He predicted that the leave balance figures were cut by two-thirds last year. He characterized last year's negotiations as very well done by the negotiating team and unions.

REPRESENTATIVE REINBOLD thanked him for identifying the issue although she wished it had been addressed sooner. She expressed concern that the state is at risk of failure as has occurred in other states, such as California. She hoped that negotiations take into consideration the future so funding for education, disasters, and the elderly will be available to Alaskans.

ACTING COMMISSIONER THAYER responded that he couldn't agree more. He reiterated his support for a cap on leave benefits. He related his understanding that in order for contracts to receive legislative approval they must include a cap.

[4:00:27 PM](#)

REPRESENTATIVE JOSEPHSON agreed [the leave liability issue] is alarming. He surmised that some people like their work and did not exercise leave.

ACTING COMMISSIONER THAYER was uncertain of the reasons for the high leave balances. He acknowledged that as some employees get close to retirement they save their leave. He also remarked that the state could have done a better job by counseling its employees on retirement planning since there are a number of ways to better accomplish savings.

[4:02:40 PM](#)

ACTING COMMISSIONER THAYER discussed the bargaining priorities and concerns for the marine units, noting that much of it has been covered. He read from a list of contract priorities, such as fiscally prudent cost-of-living increases, operational flexibility, and conflicts of interest on board vessels between masters and fellow union members. Also, the department will negotiate limiting pass privileges for dependents and family members and eliminate cash draws on board vessels. The DOA strives for voluntary and balanced agreements, and if a strike occurs, to work to provide essential services to citizens. Finally, DOA has been working to clarify the limitation on the right to strike or cross a picket line. He said, "We're not there yet," but there is plenty of time to negotiate.

[4:04:38 PM](#)

ACTING COMMISSIONER THAYER turned to the "Public Safety Employees Association (PSEA) [slide 19]." He said that the department's approach has been to mirror last year's contracts, in terms of being prudent with cost-of-living allowances, reducing longevity steps, addressing leave liability, creating operational flexibility, and striving for voluntary, balanced agreements. He suggested that the department is close to reaching an agreement with the PSEA, and it will submit monetary terms of an agreement by mid-March to allow time for the legislature to decide whether to fund it [slide 20].

ACTING COMMISSIONER THAYER turned to slide 21 entitled, "Universal Space Standards." He said the primary reason for implementing universal space standards is to save the state over \$125 million in the next 20 years [slide 22]. He provided some details, including that the state will save on system furniture by contracting with the Western States Contracting Alliance (WSCA). The department believes that the new spaces will provide improved space for employees with better airflow, additional natural lighting, as well as achieving reduced costs by sharing printers and copiers. He emphasized that if it does not make good fiscal sense, DOA won't do it. The department has focused on state-owned buildings, and the photographs depict "before and after" spaces of the accounting department. He said that by using shared printers, general services will save \$30,000-\$40,000 per year on its space that serves 30 people.

[4:09:59 PM](#)

CHAIR OLSON asked whether the commissioner could set up tours of the State Office Building.

ACTING COMMISSIONER THAYER answered yes. He said the DOA also encourages a clean desk policy, which means that confidential information should not be left on the desk at the end of the day. He said that DOA manages 17 buildings totaling 1,623,383 square feet and \$70 million in annual lease costs. He indicated the department believes that the legislature must ultimately decide whether to cut programs, people, or space costs.

ACTING COMMISSIONER THAYER briefly referred to a list of state buildings, including the Robert B. Atwood building, the Palmer State Office building, and the Dimond Courthouse building. Most of the larger buildings, such as the State Office Building were initially built with an open concept design as shown [slide 25].

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ACTING COMMISSIONER THAYER discussed the recent history of lease costs, noting that they have risen by \$15 million in the past 11 years [slide 26]. He explained that the most expensive private lease per square foot cost in Anchorage is \$3.75, in Juneau it is \$2.86, in Nome it is \$3.00, and in Fairbanks it is \$2.63. He compared that to state lease costs to maintain the building per square foot, noting the State Office Building is \$2.06 and the Atwood building plus the parking garage is \$1.89. He pointed out that one agency, the Department of Natural Resources, believes that implementing universal space standards will result in over \$1 million in savings once completed, primarily due to current inefficient use of space.

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REPRESENTATIVE REINBOLD referred to slide 23 to the 1.6 million total square feet of space at an annual cost of \$20 million. She asked the total space when new standards are implemented.

ACTING COMMISSIONER THAYER explained that the department plans on consolidating some of the current space owned and move in other agencies that currently have private leases.

REPRESENTATIVE REINBOLD asked if the state will still own it.

ACTING COMMISSIONER THAYER provided an example. He said that once the standards are applied in the Atwood building, the department will save 40,000 square feet of space and will be able to move additional agencies currently under private lease to the Atwood building. The DOA estimates some of these private

lease costs range from \$3.00 to \$3.50 per square foot. Therefore, reducing the cost to \$1.89 per square foot represents the cost savings.

[4:15:49 PM](#)

REPRESENTATIVE REINBOLD reiterated her question is to identify the state's total lease space after the standards are applied.

ACTING COMMISSIONER THAYER answered that the DOA charges the agencies for the actual square footage used and the costs are not split equally between divisions. For example, the DNR will shrink from nine floors to six floors, which will free up three empty floors in the Atwood building. As private leases expire, the DOA will be able to relocate the employees to the three available floors in the Atwood building.

REPRESENTATIVE REINBOLD said it seemed that a lot of malls were purchased by the government over the years. Additionally, the state doesn't pay property taxes so that has an impact.

ACTING COMMISSIONER THAYER agreed.

REPRESENTATIVE REINBOLD asked whether he could identify the total square feet of space the state owns for all its buildings.

ACTING COMMISSIONER THAYER answered no; the DOA owns and operates 17 office buildings and the DOT&PF maintains facilities, such as warehouses and public facilities. He offered to consult with DOT&PF and report back to the committee.

[4:18:06 PM](#)

ACTING COMMISSIONER THAYER explained that DOA evaluates existing space and works with the other departments [slide 27]. For example, the Department of Corrections consolidated its space on the 18th floor of the Atwood building and collaborated with the DOA on the layout, conference rooms, and phone rooms. The DOC consolidated its offices from three floors to one, which also achieved additional efficiencies since its staff needed to interact and can now do so more efficiently. He summarized that the DOA's analysis includes considering the agency's mission, public interface, employee needs, parking, and current lease terms. The DOA will not implement the space standards unless savings can be achieved.

ACTING COMMISSIONER THAYER said that a significant number of small appliances, including refrigerators, microwaves, and toasters, were seen in the Atwood building. Once the space standards are implemented, employees will have break rooms and the policy doesn't allow many small appliances in personal spaces and limits employees to the ones listed [slide 28].

[4:21:47 PM](#)

REPRESENTATIVE HERRON asked whether the 3rd floor of the Capitol building has implemented the appliance restrictions.

ACTING COMMISSIONER THAYER said the office has a break room. The Fairbank's governor's office has a space-standard credenza and desk, and has implemented universal space standards.

REPRESENTATIVE HERRON asked whether the legislature should consider restricting appliances as per slide 28 for its floor.

[4:23:02 PM](#)

REPRESENTATIVE JOSEPHSON remarked that he appreciated the work. He asked whether employees' morale has been affected.

ACTING COMMISSIONER THAYER answered that the department surveys employees about three months after implementing space standards and asks for suggestions. For example, in Anchorage, sliding pocket doors were used in conference rooms, but employees reported they could hear private conversations so the doors were replaced. In some instances the acoustical panels in the existing spaces were old and inefficient so the new standards reduced the overall noise levels.

[4:24:35 PM](#)

REPRESENTATIVE JOSEPHSON recalled efficiencies suggested by Frederick Law Olmsted in the late 1800s, and he hoped the measures being taken are not Draconian and will allow for some personality.

ACTING COMMISSIONER THAYER agreed and provided examples of personal effects allowed.

[4:27:16 PM](#)

ACTING COMMISSIONER THAYER reviewed some changes to the Atwood building's 4th floor, noting the department gained training and

conference rooms and that the space standards were accomplished primarily with federal funds [slide 29]. He pointed out "before and after" photographs that showed improvements [slide 30]. He remarked that employees like the new break rooms and have made positive comments.

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ACTING COMMISSIONER THAYER discussed space standard changes to the Atwood's 18th floor for the Department of Corrections, detailing the "before and after" changes made to workstations, reductions in the number of private offices, plus eliminating 37 appliances [slide 32-33].

REPRESENTATIVE CHENAULT acknowledged the Atwood building has great views, especially looking south.

ACTING COMMISSIONER THAYER turned to slide 33 entitled, "Sample-Juneau SOB 7th Floor," which replaced 30-year-old outdated systems, furniture, carpet, and paint using agency funds. Before the change 12 windows were available to 4 staff but now 24 windows are available to 31 staff. He showed photographs showing significantly improved work space by de-cluttering, removing partitions, and providing lots of natural light.

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ACTING COMMISSIONER THAYER discussed funding, including that some departmental operating funds are used or the cost can be amortized within the monthly lease payment [slide 35]. Finally, departments have realized savings in the overall reduction of leased space. He pointed out that the new space standards, including an analysis and report, have all been posted on the website at www.doa.alaska.gov/dgs [slide 36].

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CHAIR OLSON asked for an update on the state's health care conversion from Blue Cross to Aetna.

ACTING COMMISSIONER THAYER explained that the department received four bids for the \$100 million health care contract, awarded the bid with zero protests, and converted 84,000 active and retired employees from Health Smart to Aetna. He lauded Deputy Commissioner Mike Barnhill and his team as being instrumental in the conversion. He stated that the state spends \$600 million per year on medical claims for retirees and active

employees not in union trusts. The component in the request for proposal (RFP) was to reprice medical costs all four vendors. He said Aetna believes it can reduce claims by \$50 million and stated that previously the DOA focused on the third party administrator rather than the total claims. The state and Aetna have focused on the network and subsequent savings.

CHAIR OLSON expressed concern that in the smaller communities the doctors, internists, and dentists that have signed up to be in the network are limited. He wondered how the federal health care plays into the limited providers in the network.

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MIKE BARNHILL, Deputy Commissioner, Office of the Commissioner, Department of Administration, stated that network issues for health insurance plans have been problematic for decades. He explained that Alaska has a small market with little competition between providers so many providers don't see the benefit in joining a network and negotiating a discount for fees and abiding by the standards that the third-party administrator or network provider impose. He hoped that providers will recognize the benefits through Aetna. Thus far, he has been impressed with Aetna's efforts to reach out to providers across the state to create "win-win" situations. Last fall in Juneau there weren't any major providers, and now three primary care practices are in the network, including pediatrics and Bartlett Regional Hospital, noting that BRH has never fully been in the network. He said that at this point no one is being penalized, and active employees or retirees may use providers out of network for care, but it is common in the Lower 48 to be subject to network differential. For example, the insurance company would reimburse 60 percent of an allowed cost as opposed to 80 percent or 90 percent for network providers. He concluded that this practice drives people into the network for care; however, the state doesn't have network differential since the network is not fully robust across Alaska.

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MR. BARNHILL indicated that if constituents have concerns about the health care coverage to pass them on since Aetna has been very responsive. He acknowledged that people take their health care coverage very seriously and any changes are viewed as a potential hardship. He assured members that this is not the department's intention and the DOA will consider all concerns.

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REPRESENTATIVE REINBOLD recognized the transition in the federal health care changes and asked how the [Patient Protection and Affordable Care Act (PPACA)] has affected Alaska's residents and businesses. She offered her belief that 3 million people in the Lower 48 and 3,000 Alaskans have signed up so far.

MR. BARNHILL answered that Alaska's retiree plan is not directly subject to the PPACA and although the active plan is somewhat, it is a grandfathered plan so the state can maintain current plan design so long as certain changes are not made to the cost structure. He said that it is hard to overstate the impact the PPACA has had in the medical marketplace throughout the U.S. He explained that Alaska's plans have been affected even though the plans are not directly subject to the PPACA. First, the PPCA has impacted expectations for coverage, in particular, for dependents up to 26. While the retiree plan is not legally subject to that provision, many members would like coverage to be expanded. Thus, the DOA has engaged in discussions with retirees on whether to do so and the state may make some changes. He cautioned that any time additional coverage happens it results in cost more money. Additionally, some restrictions occur if the state loses its grandfathered status. Finally, the state is subject to some of the PPACA's taxing provisions so the state contributes a \$2 fee per person to the Patient-Centered Outcomes Research Institute (PCORI), as well as a reinsurance fee at \$63 per head for the first year, which is reduced to \$25 per person in the third year. He summarized that these are additional financial burdens placed on the state's plans that the DOA seeks funding from the legislature to cover.

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REPRESENTATIVE REINBOLD asked for the projected costs if the state adds coverage for dependents ages 26 and under.

MR. BARNHILL answered that the state made the change in the active plan, but has not done so in the retiree's plan. He offered to share the actuarial letter, noting that initially the projections were higher than the actuals. He emphasized that the state is reluctant to add any costs to the retiree health care plan since it is underfunded. One aspect under discussion is that enhanced benefits for dependents up to age 26, preventive care, or shingles vaccines, raises the issue of how to cover the additional costs. For example, the state could

raise deductibles, increase out of pocket maximums, or decrease other coverage. He said it is an important discussion.

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REPRESENTATIVE REINBOLD asked how many retirees live out of state and for clarification on the \$2 per head cost.

MR. BARNHILL answered that 42,000 retirees are in the Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS), and 40 percent live out-of-state; however, based on where medical care is provided that it could be as high as 50 percent. He explained that retirees living in Alaska receive a Cost of Living Allowance (COLA). He explained that the PCORI is an entity created by the PPACA as a federal research entity designed to research patient-centered outcomes.

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REPRESENTATIVE REINBOLD asked whether the department is asking the state to cover the federal program.

MR. BARNHILL answered that the state must comply with the law.

REPRESENTATIVE REINBOLD related her understanding that the state will pay for this. She asked who will be making the decision and when will it be made.

CHAIR OLSON said that DOA is responding to a federal mandate.

MR. BARNHILL answered that the federal mandate requires the tax be paid.

CHAIR OLSON remarked that the state doesn't have a choice.

REPRESENTATIVE JOSEPHSON asked whether he could receive a copy of the recent actuarial letter mentioned earlier.

MR. BARNHILL offered to provide a copy to committee members.

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ADJOURNMENT

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 4:45 p.m.