

SENATE FINANCE COMMITTEE

April 12, 2014

10:12 a.m.

10:12:35 AM

CALL TO ORDER

Co-Chair Meyer called the Senate Finance Committee meeting to order at 10:12 a.m.

MEMBERS PRESENT

Senator Pete Kelly, Co-Chair  
Senator Kevin Meyer, Co-Chair  
Senator Anna Fairclough, Vice-Chair  
Senator Click Bishop  
Senator Mike Dunleavy  
Senator Lyman Hoffman  
Senator Donny Olson

MEMBERS ABSENT

None

ALSO PRESENT

Senator Peter Micciche; Senator Bill Wielechowski; Senator Peter Micciche, Sponsor; Angela Rodell, Commissioner, Department of Revenue; Michael Barnhill, Deputy Commissioner, Department of Administration; Gary Bader, Chief Investment Officer, Treasury Division, Department of Revenue.

PRESENT VIA TELECONFERENCE

James Nagel, Mechanical Inspection Manager, Department of Labor and Workforce Development, Anchorage; John MacKinnon, Executive Director, Associated General Contractors, Anchorage; Brother Tom Patmor, Self, Clam Gulch; Jenny Olendorff, Self, Soldotna; Chrystal Schoenrock, Business Owner, Nikiski; Susan Smalley, Volunteer, Central Pen Hospital, Kenai; John Parker, Self, Kenai; Gary Superman, Business Owner, Nikiski; Patricia Patterson, Owner, Lucky Lady Tobacco, Soldotna; Carmen Lunde, Kodiak Cabaret, Hotel, Restaurant, and Retailers Association (CHARR), Kodiak; George Gatter Jr., Self, Kodiak; Becky Stoppa,

Self, Wasilla; Sara Wilber, Self, Wasilla; Ashley Peltier, Self, Wasilla; Terry Snyder, Self, Palmer; Elizabeth Ripley, Executive Director, Mat-Su Health Foundation, Wasilla; Robin Minard, Self, Wasilla; Janet Kincade, Business Owner, Palmer; Mike Gutierrez, Director, American Cancer Society Alaska, Anchorage; Marge Stoneking, American Lung Association, Anchorage; Heather Aronno, American Cancer Society Action Network, Anchorage; Dale Fox, President and CEO, Alaska CHARR, Anchorage; Brendan Doyle, AK Vapors Club; Isaac Howell, Owner, Cold Vapes 907, Anchorage; Brian Caton, Owner, Northern Lights Vapor Company, Anchorage; Melissa G. Mudd, Self, Palmer; David Hubbard, Self, Cold Vapes 907; Linda Gutierrez, Self, Anchorage; Matthew Rossiter, Self, Anchorage; Cindy Powell, Self, Anchorage; Ellen Adlam, Consumer Representative, Alaska Primary Care Association, Anchorage; Angelo Reale, Owner, Reale Vapes, Wasilla; Logan Kling, Self, Wasilla; George Pierce, Self, Kasilof; Richard Fields, Self, Wasilla; Cory Frisby, Self, Wasilla; Fred Edelen, Self, Wasilla; Jackie Ness, Self, Wasilla; Jennifer Adzima, Self, Anchorage; Betty MacTavish, Self, Cordova; Zoya Ponomareva, Self, Anchorage; Aaron Cardwell, Mad Murdocks, Anchorage; Kathy Jackman, Self, Palmer

#### SUMMARY

##### SB 141 NATIONAL GUARD ID & VEHICLE FEES

SB 141 was HEARD and HELD in committee for further consideration.

##### SB 193 CONTRACTORS: BONDS; LICENSING

SB 193 was REPORTED out of committee with a "do pass" recommendation and with previously published indeterminate fiscal notes: F1(CED) and F2(LWF).

##### SB 209 REGULATION OF SMOKING

SB 209 was REPORTED out of committee with a "do pass" recommendation and with a new indeterminate fiscal note from the Department of Health and Social Services; four previously published fiscal impact notes: FN1(DOT), FN2(DOT), FN3(DOT), and FN4(DOT); and previously published zero fiscal notes: FN5(ADM) and FN6(DEC).

SB 220 PERS/TRS STATE CONTRIBUTIONS

SB 220 was HEARD and HELD in committee for further consideration.

CSHB 32(FIN)

LINES OF BUSINESS ON BUSINESS LICENSE

CSHB 32(FIN) was SCHEDULED but not HEARD.

CSHCR 15(FIN)

TASK FORCE ON UNMANNED AIRCRAFT SYSTEMS

CSHCR 15(FIN) was SCHEDULED but not HEARD.

#sb193

SENATE BILL NO. 193

"An Act relating to bonds required for contractors."

10:13:54 AM

SENATOR PETER MICCICHE, explained that the legislation would increase the license bond amounts to the following: general contractors, \$25,000; general contractors who perform only residential, \$20,000; mechanical or specialty contractors, \$10,000; and contractor performing minimal work, \$5,000. The construction industry, which will be impacted by the legislation, brought forth the recommendation to make an adjustment in the bond amounts. given the increase in inflation over the last 30 years, the industry felt an increase was long overdue. Purchasing a bond generally costs a small percentage of the total amount of coverage, thus providing a significant benefit to the public and other businesses in relation to the small cost increase as a result of the legislation. He stated that SB 193 also corrected a loophole in the statute. All professional contractors are required to be licensed and file a bong. A notable exemption is that the law did not intend to impose license and bond requirements upon non-professional contractors such as family members, friends, or neighbors who get paid for a small amount of work. Current law allows work under \$10,000 to be exempt and this wording allowed individuals who sell themselves as professionals to avoid the statutory licensure

requirements. In these cases, the public has no recourse against unlicensed and un-bonded contractors.

Co-Chair Meyer stated that he has some people online that would be able to testify about the legislation. Senator Micciche stated that those testifiers may be able to explain how the current bond rates hamper the Department of Law's consumer protection activities. He stated that the bill was about modernization and fairness.

Co-Chair Meyer wondered how the bill would impact the handyman. Senator Micciche replied that the bill would not impact the handyman. If that individual advertises, it would not affect the individual. The only impact the bill might have is that it would save the individual approximately \$250 per year, because that person currently was bonded at the next highest level of contractor.

Senator Micciche stressed that if someone chose to not follow the current law by not being bonded as a contractor, that person would still be able to become bonded. The bill provided savings for the smaller contractors, who were fully bonded, licensed and insured.

[10:18:07 AM](#)

Senator Dunleavy remarked that he had many questions, but would not know how to approach the topic without seeing how the legislation was implemented. He wondered how the bill would affect someone who was providing \$5000 worth of work. Senator Micciche asked if that person would be advertising that work.

Senator Dunleavy stated that the individual would not be advertising their work. Senator Micciche stated that the legislation would change the bonding for the few people that were not advertisement.

Senator Dunleavy queried the requirement. Senator Micciche responded that the legislation changed the requirement at the \$5000 level, and would add about \$250 per year to that person's business cost.

Senator Dunleavy wondered how the legislation would affect a person who advertised. Senator Micciche replied that nothing would change for the person who advertised.

Senator Bishop felt that the legislation held a universal benefit, based on the number of letters of support. He felt that the legislation would be of benefit to the smaller contractors, because the creditors may have improved confidence that the contractor will complete a project or receive funding to initiate a project.

Senator Bishop queried the Department of Labor and Workforce Development's (DLWF) position on the legislation.

JAMES NAGEL, MECHANICAL INSPECTION MANAGER, DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT, ANCHORAGE (via teleconference), stated that DLWF was neutral on the bill. He stated that the legislation provided some benefit to the consumer and to the current group of business people that were operating under the current handyman law. Those individuals were currently prohibited from advertising that would lead a reasonable person to believe that they are a contractor. By requiring bonding, that handyman would be a licensed contractor. The legislation would open up their opportunities for business and advertising.

Senator Dunleavy queried the groups that could be negatively impacted by the bill. Mr. Nagel felt that the bill would only increase the cost by about \$250 per year for the individuals who were operating solely under a business license, but were not a licensed contractor. Under current law, if that individual embarked on a project that was valued at \$2500 or more, that individual already had to carry the same liability insurance as a general contractor, which was the largest expense.

[10:23:50 AM](#)

Senator Olson wondered how the bill would affect owner builders. Senator Micciche replied that the bill would not affect owner builders, unless there was a hired contractor.

JOHN MACKINNON, EXECUTIVE DIRECTOR, ASSOCIATED GENERAL CONTRACTORS, ANCHORAGE (via teleconference), testified in support of the legislation. He stated that he began work on the legislation four years prior, and engaged other trade associations. At that time, the home building market was not very robust, so there was not a strong effort to move the legislation. The home market had recently improved, so the organizations felt the pressure to promote the legislation. He stated that there was a focus on ensuring

that the levels were beneficial to all involved. The level was ultimately agreed upon, and the level was close to what the 1983 levels would have been, if they had been adjusted for inflation. He stressed that SB 193 was about increased bond amounts for contractors, to ensure that the individuals in the contracting business receive a license and a bond. He stressed that neighbors, friends, etc., could assist in building, but if they begin to advertise, they must obtain a bond.

Co-Chair Meyer CLOSED public testimony.

Co-Chair Meyer wondered why the fiscal notes were considered indeterminate. Senator Micciche replied that DLWF was not sure how the finances would be impacted. He stressed that the effects would be negligible, if any.

Co-Chair Kelly MOVED to REPORT SB 193 out of committee with individual recommendations and the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

SB 193 was REPORTED out of committee with a "do pass" recommendation and with previously published indeterminate fiscal notes: F1(CED) and F2(LWF).

[10:29:00 AM](#)

AT EASE

[10:33:47 AM](#)

RECONVENED

#sb209

SENATE BILL NO. 209

"An Act prohibiting smoking in certain locations; and providing for an effective date."

[10:35:04 AM](#)

BROTHER TOM PATMOR, SELF, CLAM GULCH (via teleconference), He stated that he was a former smoker. He felt that businesses should have smoking rooms, because many smokers were forced outside into the freezing cold in order to have a cigarette.

[10:36:50 AM](#)

JENNY OLENDORFF, SELF, SOLDOTNA (via teleconference), spoke in support of the legislation.

[10:37:48 AM](#)

CHRYSTAL SCHOENROCK, BUSINESS OWNER, NIKISKI (via teleconference), spoke against the legislation. She testified that smokers should be given rights as much as nonsmokers.

[10:40:26 AM](#)

SUSAN SMALLEY, VOLUNTEER, CENTRAL PEN HOSPITAL, KENAI (via teleconference), spoke in support of the legislation. She stressed that the effects of smoking was carried by the entire community.

[10:41:40 AM](#)

JOHN PARKER, SELF, KENAI (via teleconference), stated that he was a smoker, and testified in support of the legislation. He stressed that cigarette smoking and cigarette smoke was killing people.

[10:43:28 AM](#)

GARY SUPERMAN, BUSINESS OWNER, NIKISKI (via teleconference), testified against the legislation.

[10:46:24 AM](#)

PATRICIA PATTERSON, OWNER, LUCKY LADY TOBACCO, SOLDOTNA (via teleconference), spoke in opposition to the legislation.

[10:50:50 AM](#)

CARMEN LUNDE, KODIAK CABARET, HOTEL, RESTAURANT, AND RETAILERS ASSOCIATION (CHARR), KODIAK (via teleconference), testified against the legislation.

[10:53:21 AM](#)

GEORGE GATTER JR., SELF, KODIAK (via teleconference), testified against the legislation. He felt that an individual had a right to smoke in a public place.

[10:56:32 AM](#)

BECKY STOPPA, SELF, WASILLA (via teleconference), testified in support of the legislation, but spoke against the exclusion of e-cigarettes and the opt out provision.

[10:57:09 AM](#)

SARA WILBER, SELF, WASILLA (via teleconference), spoke in support of the legislation, but spoke against the exclusion of e-cigarettes and the opt out provision.

[10:57:55 AM](#)

ASHLEY PELTIER, SELF, WASILLA (via teleconference), testified in support of the legislation, but spoke against the exclusion of e-cigarettes and the opt out provision.

[10:58:33 AM](#)

TERRY SNYDER, SELF, PALMER (via teleconference), urged support of the legislation, but testified against the exclusion of e-cigarettes and the opt out provision.

[10:59:23 AM](#)

ELIZABETH RIPLEY, EXECUTIVE DIRECTOR, MAT-SU HEALTH FOUNDATION, WASILLA (via teleconference), testified in support of the legislation, but spoke against the exclusion of e-cigarettes and the opt out provision.

Co-Chair Meyer handed the gavel to Vice-Chair Fairclough.

[11:02:02 AM](#)

ROBIN MINARD, SELF, WASILLA (via teleconference), testified in support of the legislation.

[11:02:58 AM](#)

JANET KINCADE, BUSINESS OWNER, PALMER (via teleconference), testified in support of the legislation, but spoke against the exclusion of e-cigarettes.

[11:04:11 AM](#)

MIKE GUTIERREZ, DIRECTOR, AMERICAN CANCER SOCIETY ALASKA, ANCHORAGE (via teleconference), testified in support of the legislation.

[11:04:44 AM](#)

MARGE STONEKING, AMERICAN LUNG ASSOCIATION, ANCHORAGE (via teleconference), testified in support of the legislation, but spoke against the exclusion of e-cigarettes and the opt out provision.

[11:05:53 AM](#)

HEATHER ARONNO, AMERICAN CANCER SOCIETY ACTION NETWORK, ANCHORAGE (via teleconference), testified in support of the legislation, but spoke against the exclusion of e-cigarettes and the opt out provision.

[11:06:25 AM](#)

DALE FOX, PRESIDENT AND CEO, ALASKA CHARR, ANCHORAGE (via teleconference), spoke against the legislation. He felt that the bars and restaurants should be exempted from the legislation.

[11:09:06 AM](#)

BRENDAN DOYLE, AK VAPORS CLUB (via teleconference), spoke against the legislation, because he felt that e-cigarettes should be allowed in public spaces.

[11:11:38 AM](#)

ISAAC HOWELL, OWNER, COLD VAPES 907, ANCHORAGE (via teleconference), testified against the legislation, because he felt that e-cigarettes should be allowed in public spaces.

[11:13:42 AM](#)

BRIAN CATON, OWNER, NORTHERN LIGHTS VAPOR COMPANY, ANCHORAGE (via teleconference), quoted the Alaska Constitution. He spoke against the legislation.

[11:16:46 AM](#)

Mr. Caton stressed that he would like to continue with his testimony. Vice-Chair Fairclough stated that he was allowed two minutes to testify.

Mr. Caton disagreed, because he had timed a testifier who spoke for twelve minutes Vice-Chair Fairclough stated that that was an invited testimony.

[11:17:13 AM](#)

MELISSA G. MUDD, SELF, PALMER (via teleconference), testified in support of the legislation, but spoke against the exclusion of e-cigarettes and the opt out provision.

[11:17:57 AM](#)

DAVID HUBBARD, SELF, COLD VAPES 907 (via teleconference), testified against the legislation.

[11:19:16 AM](#)

LINDA GUTIERREZZ, SELF, ANCHORAGE (via teleconference), testified in support of the legislation, but spoke against the exclusion of e-cigarettes and the opt out provision.

[11:20:07 AM](#)

MATTHEW ROSSITER, SELF, ANCHORAGE (via teleconference), testified against the legislation. He remarked that e-cigarettes were helpful to helping him quit smoking.

[11:22:06 AM](#)

CINDY POWELL, SELF, ANCHORAGE (via teleconference), testified in support of the legislation, but spoke against the exclusion of e-cigarettes and the opt out provision.

[11:23:41 AM](#)

ELLEN ADLAM, CONSUMER REPRESENTATIVE, ALASKA PRIMARY CARE ASSOCIATION, ANCHORAGE (via teleconference), testified in support of the legislation, but spoke against the exclusion of e-cigarettes and the opt out provision.

[11:24:25 AM](#)

ANGELO REALE, OWNER, REALE VAPES, WASILLA (via teleconference), testified against the opt-out e-cigarettes portion of the bill.

[11:26:26 AM](#)

LOGAN KLING, SELF, WASILLA (via teleconference), strongly opposed the legislation.

[11:27:10 AM](#)

GEORGE PIERCE, SELF, KASILOF (via teleconference), spoke against the legislation.

[11:30:28 AM](#)

RICHARD FIELDS, SELF, WASILLA (via teleconference), testified against the legislation.

[11:31:58 AM](#)

CORY FRISBY, SELF, WASILLA (via teleconference), spoke against the legislation.

[11:32:31 AM](#)

FRED EDELEN, SELF, WASILLA (via teleconference), spoke against the legislation.

[11:33:54 AM](#)

JACKIE NESS, SELF, WASILLA (via teleconference), testified against the legislation.

[11:34:47 AM](#)

JENNIFER ADZIMA, SELF, ANCHORAGE (via teleconference), testified in support of the legislation.

[11:35:18 AM](#)

BETTY MACTAVISH, SELF, CORDOVA (via teleconference), testified in support of the legislation.

[11:36:23 AM](#)

ZOYA PONOMAREVA, SELF, ANCHORAGE (via teleconference), testified in support of the legislation, but spoke against the exclusion of e-cigarettes and the opt out provision.

[11:36:54 AM](#)

AARON CARDWELL, MAD MURDOCKS, ANCHORAGE (via teleconference), testified against the inclusion of e-cigarettes in the legislation.

[11:40:11 AM](#)

KATHY JACKMAN, SELF, PALMER (via teleconference), testified in support of the legislation, but spoke against the exclusion of e-cigarettes and the opt out provision.

[11:40:56 AM](#)

Vice-Chair Fairclough stated that written testimony could be submitted to the Senate Finance Committee by sending it to senate.finance.committee@akleg.gov.

[11:41:51 AM](#)

Vice-Chair Fairclough CLOSED public testimony.

[11:41:58 AM](#)

AT EASE

[11:42:34 AM](#)

RECONVENED

SB 209 was HEARD and HELD in committee for further consideration.

#sb141

SENATE BILL NO. 141

"An Act relating to vehicle registration fees for members of the Alaska National Guard."

[11:43:01 AM](#)

SENATOR BILL WIELECHOWSKI, explained the legislation. He stated that the act would waive vehicle registration fees for active members of the Alaska National Guard. There are approximately 4,000 Alaskans serving in the Alaska Army

Guard and the Alaska Air Guard. He felt that their dedication and service were greatly appreciated, and the Guard provided support to the state and local governments with fire suppression, flood management, and other emergency services. Currently, Guard members receive free hunting and fishing licenses, and other limited benefits.

Vice-Chair Fairclough stated that written testimony could be submitted to the Senate Finance Committee by sending it to [senate.finance.committee@akleg.gov](mailto:senate.finance.committee@akleg.gov).

Vice-Chair Fairclough CLOSED public testimony.

SB 141 was HEARD and HELD in committee for further consideration.

[11:45:30 AM](#)

AT EASE

[11:45:42 AM](#)

RECONVENED

[11:46:06 AM](#)

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[5:08:55 PM](#)

RECONVENED

#sb209

SENATE BILL NO. 209

"An Act prohibiting smoking in certain locations; and providing for an effective date."

[5:09:32 PM](#)

Co-Chair Meyer noted that public testimony for the legislation had concluded earlier in the day. He wondered whether there were additional comments on the bill. He thanked the sponsor for introducing the bill. He invited the sponsor to address the committee.

SENATOR PETER MICCICHE, SPONSOR, addressed the bill. He shared that he had been against the ordinance in Anchorage, but was now a big proponent of a smoke-free workplace. He referred to the restaurant Humpy's in Anchorage. The ultimate goal was the health of Alaskans. He stressed that

the bill tried to save the state over \$500 million annually.

Co-Chair Meyer thanked the sponsor. He noted that he and Vice-Chair Fairclough had been on the Anchorage Assembly when the ordinance had come through. He recalled that the business Chilkoot Charlie's had initially been opposed to the ordinance, but it was now a proponent. He pointed to the fiscal notes. He asked if the sponsor had comments on the fiscal notes.

Senator Micciche commented on the fiscal notes.

Co-Chair Kelly MOVED to REPORT CSSB 209(HSS) out of committee with individual recommendations and the accompanying fiscal notes.

SB 209 was REPORTED out of committee with a "do pass" recommendation and with a new indeterminate fiscal note from the Department of Health and Social Services; four previously published fiscal impact notes: FN1(DOT), FN2(DOT), FN3(DOT), and FN4(DOT); and previously published zero fiscal notes: FN5(ADM) and FN6(DEC).

[5:15:38 PM](#)

AT EASE

[5:19:34 PM](#)

RECONVENED

#sb220

SENATE BILL NO. 220

"An Act relating to additional state contributions to the teachers' defined benefit retirement plan and the public employees' defined benefit retirement plan; and providing for an effective date."

Co-Chair Kelly noted that the committee was hearing the bill for the first time.

ANGELA RODELL, COMMISSIONER, DEPARTMENT OF REVENUE, pointed to a PowerPoint presentation titled "PERS/TRS Funding Solution" dated April 2014 (copy on file). She stressed that pension funding, and its associated liability was a concern for many years. She stated that she had evaluated the history, and shared that there had been several Arm

Board meetings that addressed the severity and urgency of the unfunded liability.

MICHAEL BARNHILL, DEPUTY COMMISSIONER, DEPARTMENT OF ADMINISTRATION, pointed to slide 3, which outlined the organization of the state's pension system. He stated that the far left showed the DOR Treasury Division, the middle showed the Alaska Retirement Management Board, and the right showed the Department of Administration (DOA). He moved to slide 4. He announced there were currently 27,000 active employees and close to 42,000 retirees. He looked at slide 5 titled "Benefits." The state was currently paying out \$1 billion in benefits. All told the state was looking at over \$130 billion in benefit payments over the next 70 years. He stressed that the unfunded liability was approximately \$11.9 billion

[5:25:43 PM](#)

Mr. Barnhill looked at the basic actuarial formula on slide 6. He stated that hopefully the amount would equal the benefits. He stated that it was 7.5 percent for teachers, and the amount typically did not change, but it had changed in the past. He remarked that TRS had gone from 12 percent to over 70 percent. He pointed to a variety of actuarial assumptions. He turned to slide 7 titled "Events":

2002 - Milliman actuarial audit; dotcom collapse

2003 - FY 2002 valuations released with revised assumptions. \$4.1 billion unfunded liability

2005 - SB 141 enacted: DB plans closed; DC plans created; PERB/TRB/ASPIB sunset; ARM Board created

2007 - ARM Board files suit against Mercer for actuarial negligence; SB 123 enacted: PERS cost share

2008 - SB 125 enacted; employer contribution rates capped; state assistance begins; Great Recession begins

2009 - PERS/ TRS investment loss: 20.5 percent

2010 - Mercer litigation settled for \$500 million, net \$403 million; other states begin to cut defined benefits, change plans

2012 - Arm Board adopts level dollar amortization ;  
\$11.9 billion unfunded liability

2013 - 12.5 percent investment gain; recession over  
question

[5:31:39 PM](#)

Co-Chair Meyer queried what kind of cash infusion it would take to get to the 80 percent. Mr. Barnhill answered that if the \$3 billion was funded the 80 percent would not quite be reached. He looked at the actuarial letter, which outlined the date as to which it would be met.

Co-Chair Meyer asked if it was easier to reach 80 percent if there was a focus on only one approach. Mr. Barnhill replied that it was difficult to say, when the discussion was regarding appropriating billions of dollars from the Constitutional Budget Reserve (CBR). He stressed that TRS had a \$4.7 billion unfunded liability, so if that was funded more than PERS, the question was whether TRS could reach the 80 percent mark quicker than TRS. He felt that approach was possible, because it was a smaller unfunded liability. He added that, with the governor's proposal, PERS would reach the 80 percent level in 2025 and TRS would reach the 80 percent level in 2027.

Co-Chair Meyer agreed that TRS would be easier to reach 80 percent, but felt that the PERS was a shared responsibility with 60 percent from the state at 40 percent from the municipalities. Mr. Barnhill agreed that it was a shared responsibility. He remarked that there could be some additional cost sharing between the state of Alaska employers and the municipal employer, but the question was regarding the best method to share the responsibility.

Mr. Barnhill moved to slides 9 and 10 that included different ways to pay down the unfunded liability. Until 2012, the ARM Board had methodologies to amortize the unfunded liability over a 25-year period at a level percentage of pay. This means that the payments on the unfunded liability will increase at the same rate as payroll. He stated that the trend of the payments from FY 15 through the FY 20s, the payments will increase. He remarked that there was a concern that the approach would be more expensive over time, so the ARM Board had examined

dozens of scenarios to find an affordable and appropriate way to address the unfunded liability. He stated that slide 10 showed that the ARM Board created a level-dollar amortization, which provided for level payments over time. This formula was identical to a house mortgage formula. He noted that the payments would increase from \$630 million in FY 14 to \$975 million in FY 15, then crest over \$1 billion in in FY 16, and slowly decrease after that. He stated that the ARM Board's recommendation caused some concern, because of the affordability of the cash infusion. Reconciliation must be met between the current needs and the future needs. The governor weighed man approaches to strike the future and current needs.

GARY BADER, CHIEF INVESTMENT OFFICER, TREASURY DIVISION, DEPARTMENT OF REVENUE, introduced himself.

[5:38:48 PM](#)

AT EASE

[5:39:14 PM](#)

RECONVENED

Co-Chair Kelly asked to leave the investments out of the presentation, because that topic had been discussed at a previous meeting.

Commissioner Rodell moved to slide 16, "Problem: \$11.9 Billion Retirement System Unfunded Liability."

The Public Employees Retirement System (PERS) and Teachers' Retirement System (TRS) combined unfunded liability is \$11.9 billion

State Assistance payments to PERS and TRS rise from \$629 million in FY2014 to over \$1 billion per year

Funding State Assistance solely through the operating budget crowds out funding for other vital public services

Rating agencies express concern with the increasing liability

Commissioner Rodell highlighted slide 17, "Proposal: \$3 Billion Investment in Trust Funds."

Invest a total of \$3 billion in the Retirement Trusts in FY 15:

\$1.12 billion - Teachers' Retirement Fund  
\$1.88 billion - Public Employees' Retirement Fund

Funding source: The CBR

Includes state assistance payments for FY 15

Beginning FY 16, State Assistance payments would be fixed at \$500 million annually:

\$157 million - Public Employees' Retirement System (PERS)

\$343 million - TRS

State assistance projected until FY 36; length of time depends on actuarial gains or losses experienced

Commissioner Rodell looked at slide 19, "Governor's Proposal." She noted that the governor proposed a one-time cash infusion, so the annual payments into the 2030s would remain at \$500 million per year.

[5:42:50 PM](#)

Senator Bishop thanked the department for the presentation. He asked about the number one credit concern raised by ratings agencies. He wondered if the ratings agencies would provide something to the state showing that its credit was okay if the infusion was made. Commissioner Rodell replied that the ratings agencies issued reports. The department would report on the action taken by the legislature, expected to see something over the course of the year.

Vice-Chair Fairclough asked about the two components related to the ratings agencies. Commissioner Rodell answered that each of the ratings agencies had its own criteria. Debt counted for an additional 20 percent and also included pension debt.

Senator Dunleavy had heard that if a certain approach was used the accumulated debt included bonds, the unfunded liability, and other potential liabilities. Commissioner Rodell replied that agencies had noted strengths and

challenges in their reports. She announced that the unfunded liability was listed as a credit concern for the state.

Senator Dunleavy wondered what about the proposed approach was made it the best option. Commissioner Rodell responded that the approach recognized that additional contributions were necessary and that a lump sum was not enough to make the trust funds healthy, but amortized the debt over 25 years and put the state in a better place 5 years from now.

[5:51:21 PM](#)

Senator Dunleavy asked what the department would say about putting another \$2 billion or other into the fund. Commissioner Rodell answered that DOR would examine what the ongoing obligation would be for an additional \$2 billion. She remarked that \$3 billion was chosen, because there was a consideration for other needs from the reserves.

Co-Chair Meyer referred to Vice-chair Fairclough's earlier question. He surmised that the cash infusion would be a good option, if oil revenue would be increasing. Commissioner Rodell believed it was the challenge the state was faced with related to the revenue forecast. The concern was not something that would continue to have support especially with a closed system. There was no reason to believe that it would not. She stressed that the liability was inching up instead of down, which was why the concern remained.

Co-Chair Meyer would appreciate acknowledgement from the ratings agencies on how the action would impact the state's credit rating. He asked if the bill locked the state into annual payments of \$500 million. Commissioner Rodell replied that the bill did not lock the legislature into the amount, it only recognized a fixed amount.

Co-Chair Meyer wondered how it differed from the pay as you go plan. Commissioner Rodell answered that the pay as you go method did not allow for the one-time appropriation. The bill recognized the actuarial recommendation and the commitment to an annual payment.

Co-Chair Meyer asked about the \$700 million payment. Commissioner Rodell answered that the bill included the amount.

Co-Chair Kelly did not see vast differences between the approaches to justify the bond rating improvement. He wondered if Commissioner Rodell had ever worked for a bond rating agency. Commissioner Rodell replied that she had never worked for a bond rating agency.

Co-Chair Kelly never heard the case beyond bond raters on why the state should not use the pay as you go method.

[5:57:55 PM](#)

Vice-Chair Fairclough pointed to slide 18 of the presentation. She queried the effect on the state's partners with the accumulation of the 38 percent and the extension on the flat payments. She wondered how the flat payments would impact the municipalities. She specifically wondered if there was an analysis of the additional employer contributions that would be required at a local level to support the proposal. Mr. Barnhill replied that those payments had been calculated, and agreed to provide that information. He stated that the Buck letter outlined the specifics of those payments.

Vice-Chair Fairclough clarified that she was interested in specific costs to communities. She believed that Anchorage was in the \$200 million range.

Co-Chair Kelly asked the presenters to stay on track.

[6:02:10 PM](#)

Vice-Chair Fairclough wondered about an allocation to PERS/TRS, and stated that David Teal, Director, Legislative Finance Division had stated that the unfunded liability was 100 percent the state's responsibility. She wondered why the specific mix had been chosen. Mr. Barnhill answered that there were a variety of reasons and ways to slice and dice the issue. He stressed that the PERS unfunded liability was greater than TRS.

Vice-Chair Fairclough looked at the unfunded liability ratio, and remarked that the unfunded liability was higher in the TRS system. She remarked that 80 percent was a good

target, but the lower rates would affect the ratio. She wondered why the ratio was not examined as well as the dollars.

Co-Chair Kelly asked if 60 percent was the minimum funding for TRS. Mr. Barnhill replied that he would like to get above 60 percent. He furthered that exploring ratios was a legitimate concern, and he was willing to engage in that conversation.

Co-Chair Meyer referred to the bill language "subject to appropriation." He was attempting to determine what a bond rater may consider. He felt that the proposal may not appropriate the amount. Commissioner Rodell replied that the language was to recognize the constitutional requirement that future legislatures could not be bound.

Co-Chair Meyer asked if the language would give the bond raters cause for concern. Commissioner Rodell replied that DOR had made avenues available to adjust the amount. She stressed that the focus what on not locking in to something the state could not sustain.

Co-Chair Meyer pointed to an issue that had not been addressed. He believed Alaska was one of four states that counted its medical benefits in the unfunded liability. He wondered if the state received credit for counting it in the unfunded liability. Commissioner Rodell replied in the affirmative.

SB 220 was HEARD and HELD in committee for further consideration.

#hb32

CS FOR HOUSE BILL NO. 32(FIN)

"An Act providing for the issuance of one business license for multiple lines of business; and providing for reissuance of a business license to make a change on the license."

HB 32 was SCHEDULED but not HEARD.

#hcr15

CS FOR HOUSE CONCURRENT RESOLUTION NO. 15(FIN)

Relating to the Task Force on Unmanned Aircraft Systems.

HCR 15 was SCHEDULED but not HEARD.

Co-Chair Meyer discussed the schedule for the following day.

6:07:37 PM

AT EASE

6:08:10 PM

RECONVENED

Co-Chair Kelly asked about conference committee.

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ADJOURNMENT

6:08:38 PM

The meeting was adjourned at 6:08 p.m.