

SENATE FINANCE COMMITTEE

April 19, 2014

9:40 a.m.

9:40:46 AM

CALL TO ORDER

Co-Chair Meyer called the Senate Finance Committee meeting to order at 9:40 a.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

None

ALSO PRESENT

Darrell Breese, Staff, Representative Bill Stoltze; Christine Marasigan, Staff, Senator Kevin Meyer; Brodie Anderson, Staff, Representative Steve Thompson; Sara Chambers, Director, Division of Corporations, Business and Professional Licensing, Department of Commerce, Community and Economic Development; Representative Doug Isaacson; Representative Lora Reinbold; Arnold Liebelt, Policy Analyst, Office of Management and Budget; Anna Latham, Staff, Representative Kurt Olson; Barbara Huff Tuckness, Director, Government and Legislative Affairs, Teamsters Local 959; James Armstrong, Staff, Senator Kevin Meyer; David Teal, Director, Legislative Finance Division; Angela Rodell, Commissioner, Department of Revenue.

PRESENT VIA TELECONFERENCE

Rachael Petro, President and CEO, Alaska Chamber, Anchorage; Ward Hurburt, Chief Medical Officer, Department of Health and Social Services, Anchorage.

SUMMARY

CSHJR 10(FIN)

CONST. AM: TRANSPORTATION FUND

CSHJR 10(FIN) was SCHEDULED but not HEARD.

CSHB 19(RLS)(efd am)

PERM. MOT. VEH. REGISTRATION/TRAILERS

CSHB 19(RLS)(efd am) was REPORTED out of committee with a "do pass" recommendation and with previously published indeterminate fiscal note: FN3(ADM).

CSHB 140(FIN) am

REGULATIONS: NOTICE, REVIEW, COMMENT

CSHB 140(FIN) am was HEARD and HELD in committee for further consideration.

CSHB 160(FIN)

LICENSING OF ATHLETIC TRAINERS

CSHB 160(FIN) was REPORTED out of committee with a "do pass" recommendation and with previously published fiscal impact note: FN1 (CED).

CSHB 278(FIN)am

EDUCATION

CSHB 278(FIN)am was SCHEDULED but not HEARD.

CSHB 282(JUD)

LANDLORD AND TENANT ACT

CSHB 282(JUD) was REPORTED out of committee with individual recommendations and with previously published zero fiscal note: FN1 (REV).

CSHB 287(RLS)am

OIL ROYALTIES; TAX CREDIT

CSHB 287(RLS)am was SCHEDULED but not HEARD.

CSHB 306(FIN)

Eval. INDIRECT EXPENDITURES; TAX CREDITS

CSHB 306(FIN) was SCHEDULED but not HEARD.

CSHB 316(FIN)

WORKERS' COMPENSATION MEDICAL FEES

CSHB 316(FIN) was REPORTED out of committee with individual recommendations and with previously published fiscal impact note: FN2 (LWF); and previously published indeterminate fiscal note: FN3 (ADM).

HB 384am ALASKA MINIMUM WAGE

HB 382 am was SCHEDULED but not HEARD.

HB 385 PERS/TRS STATE CONTRIBUTIONS

SCSHB 385(FIN) was REPORTED out of committee with a "do pass" recommendation and with two new fiscal impact notes from the Senate Finance Committee and the Governor.

#hb19

CS FOR HOUSE BILL NO. 19(RLS)(efd am)

"An Act relating to permanent motor vehicle registration in the unorganized borough and in a municipality that has elected to allow permanent registration; relating to the registration fee for noncommercial trailers and to the motor vehicle tax for trailers; and providing for an effective date."

[9:42:23 AM](#)

DARRELL BREESE, STAFF, REPRESENTATIVE BILL STOLTZE, stated that the bill provided an option for permanent vehicle registration for vehicles eight years or older and noncommercial trailers.

[9:42:45 AM](#)

AT EASE

[9:43:42 AM](#)

RECONVENED

Senator Bishop MOVED to REPORT CSHB 19(RLS)(efd am) out of committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

CSHB 19(RLS)(efd am)was REPORTED out of committee with a "do pass" recommendation and with previously published indeterminate fiscal note: FN3(ADM).

[9:44:24 AM](#)

AT EASE

[9:45:12 AM](#)

RECONVENED

#hb160

CS FOR HOUSE BILL NO. 160(FIN)

"An Act relating to the licensing and regulation of athletic trainers."

[9:45:29 AM](#)

Vice-Chair Fairclough MOVED to ADOPT the committee substitute for SCS CS HB 160(FIN), Work Draft 28-LS0423\H (Martin, 4/19/14). There being NO OBJECTION, it was so ordered.

CHRISTINE MARASIGAN, STAFF, SENATOR KEVIN MEYER, explained the changes in the committee substitute. She stated that the version addressed some of the concerns that were considered during the committee. She announced that she worked closely with the sponsor and took into account some comments from various physical therapists that had expressed concern. She announced that many problems could not be resolved in regards to the definitions, but Mr. Anderson could provide further detail.

BRODIE ANDERSON, STAFF, REPRESENTATIVE STEVE THOMPSON, stated that page 2, line 12 resolved some problems regarding emails from fitness trainers and coaches. He read from the bill:

Nothing in this chapter requires the licensing of a coach or fitness trainer who 1) does not use a title listed in (d) of this section, and is acting within

the scope of the person's duties as a coach or a fitness trainer.

Mr. Anderson shared that he had worked with the fitness trainers and coaches to resolve the conflict. He shared that there were various definitions regarding a defined scope of practice that included "athletic injury or illness" found on page 4.

Vice-Chair Fairclough wondered if the CS affected the fiscal note. Mr. Anderson replied that he did not believe that the CS affected the fiscal note.

Vice-Chair Fairclough stressed that she would like to know for sure that the fiscal note does not change.

SARA CHAMBERS, DIRECTOR, DIVISION OF CORPORATIONS, BUSINESS AND PROFESSIONAL LICENSING, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, stated that the fiscal note remained the same.

Vice-Chair Fairclough MOVED to REPORT SCS CSHB 160(FIN out of committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

SCS CSHB 160(FIN) was REPORTED out of committee with a "do pass" recommendation and with previously published fiscal impact note: FN1 (CED).

#hb282

CS FOR HOUSE BILL NO. 282(JUD)

"An Act relating to the rights and obligations of residential landlords and tenants; and relating to the taking of a permanent fund dividend for rent and damages owed to a residential landlord."

[9:52:41 AM](#)

REPRESENTATIVE DOUG ISAACSON, stated that he was available to answer questions.

Vice-Chair Fairclough MOVED to REPORT CSHB 282(JUD) out of committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

CSHB 282(JUD) was REPORTED out of committee with individual recommendations and with previously published zero fiscal note: FN1 (REV).

[9:55:31 AM](#)

AT EASE

[9:58:52 AM](#)

RECONVENED

#hb140

CS FOR HOUSE BILL NO. 140(FIN) am

"An Act relating to the proposed adoption, amendment, or repeal of a regulation; and relating to contact with agencies about regulations."

[9:59:19 AM](#)

REPRESENTATIVE LORA REINBOLD, stated that the intent of the legislation was to provide better information about regulations that may significantly affect private individuals and businesses, other state agencies and local governments. She shared that HB 140 required that regulation notices include information about estimated costs beyond those to the agency. In view of the increasing reach of the Washington D.C. into Alaska's affairs, the bill also requires that when the federal government is the reason for the regulation, the exact federal law, executive order or decision be identified in order for Alaskans to better understand government actions that affect their businesses and lives.

Senator Dunleavy wondered who might be in opposition to the bill. Representative Reinbold replied that there was some initial opposition to the bill from the Regulatory Commission of Alaska (RCA), and the Alaska Oil and Gas Conservation Commission (AOGCC). She pointed out that neither organization offered vocal opposition until she asked for their input. She stressed that the current version exempted those organizations.

Senator Hoffman queried the reason that they wanted to be exempted. Representative Reinbold responded that she did not want to speak for those organizations. She furthered that, in general, those organizations felt that they were

independent and "quasi-judicial." She stated that the Alaska's legal department felt that, just because they were independent did not merit their exemption.

Senator Olson wondered if Representative Reinbold was in favor of the exemptions. Representative Reinbold responded that she felt fine about the exemptions, and remarked that many bills required some compromise.

[10:04:57 AM](#)

Senator Olson felt that some of the exempted agencies should be examined further.

Co-Chair Meyer felt that the legislation could be expanded at a later date, in order to incorporate some of the exempted organizations. Representative Reinbold announced that all of the agencies, boards, and commissions were included with the four exclusions. She felt that there were good reasons for the Board of Game and Board of Fish to be excluded, because of the number of regulations. She did not want to be inundated as a regulatory review committee with 600 emails based on regulations. She felt that increasing accountability and transparency was essential, and was provided in a packet.

Senator Hoffman felt that the organizations were exempt because the fiscal note for the executive branch stated that the exemption would reduce the overall fiscal impact. He relayed that the last paragraph of the executive branch fiscal note stated that the agencies must add indeterminate positions and resources would be needed to comply with the legislation.

Co-Chair Meyer wondered if the fiscal note total for the bill was \$600,000. Vice-Chair Fairclough replied that the total for the fiscal notes was \$677,000.

Co-Chair Meyer stated that the bill had been modified from its original version in order to reduce the fiscal impact.

Vice-Chair Fairclough looked at FY 16, and noted that the annual operating cost increase that was quantified under the three fiscal notes was \$677,200, without the indeterminate note.

Senator Olson felt that there were many people that may be negatively impacted by the exclusion of some of the organizations. He felt that the people should be protected by having many of the regulations publicly reviewed.

10:09:31 AM

Vice-Chair Fairclough wondered if there was a consideration for a tiered approach for gradual implementation of the program in order to understand the fiscal impact of the broader approach. She stressed that she supported the concept, but was concerned about the indeterminate note. Representative Reinbold replied that she felt the legislation outlined a phased approach. She shared that the bill was "gentle" as related to her feelings about the regulatory process. She explained that the bill looked in aggregate of the costs to the agency, other agencies, and municipalities. It provided an aggregate based on a good faith effort with no ability to sue for inaccuracy or inefficient information, and provide online public transparency.

Vice-Chair Fairclough stressed that she was not commenting on the pressure that the bill may provide, but rather whether a phased approach focusing on each department may be simpler. She felt that the bill may be outlining a broader approach to the issue.

Ms. Chambers testified regarding the fiscal note. She announced that one of the fiscal notes totaled \$333,000 in the first year. She noted that there were many elements in the bill which triggered that number. She stated that the division supported transparency in government, and remarked that there were many activities in the bill that the agency currently conducts. She remarked that the division's boards and commissions operated slightly differently than other boards and commissions. The bill had the potential to impact the licensees, because any costs that result from the bill would be picked up by the licensees. The fiscal impact was not a general fund obligation. She looked at Section 2 of the bill, and expressed concern regarding the issue of aligning the boards and commissions with regular response to specific issues raised by the administrative regulation review committee and some governor's office concerns. She felt that the issue was important to her division, because they tried to be as transparent as possible. She stressed that the travel cost in the fiscal

note should be considered a "worst case scenario", because it related to the possibility of board meetings in response to any changes or recommendations by the Governor's Office or the Administrative Regulation and Review Committee. She stated that the division conducted approximately 25 regulation projects per year, which were board and commissions. She stated that she did not anticipate the division's travel costs, she stressed that there could be a possibility for an in person meeting.

10:16:29 AM

AT EASE

10:26:13 AM

RECONVENED

Co-Chair Meyer CLOSED public testimony.

Ms. Chambers stated that she had some more fiscal concerns that she would like to express to the committee. She looked at Section 3, and remarked that there was a requirement for the agency to make a good faith effort to estimate the cost to the state agency, private persons, other agencies, and municipalities. She stated that the division had a logistical concern with its twenty volunteer boards and commissions and the type of regulations that were often passed. She felt that it may be difficult to estimate the cost in a good faith effort that would amount to education to the public to some of the board regulations. She remarked that there could be continuing education changes, and the cost to the private person could be difficult to quantify if the variety of courses were examined nationwide. She understood that it was an extreme example, but was a potential way to not satisfy the education of the public. She also pointed out Section 7 regarding agency contact with the public. She remarked that she was not intending to call out the division's inability to comply, but rather the difficulty with the boards and commissions to potentially comply with the requirements. She remarked that the good faith effort to answer public questions received in writing, or asked at a public meeting, were received, weighed, and deliberated at the boards and commissions meetings. She felt that the bill would require the boards to speak to questions that may come up in writing through the agency prior to public input would be collected. She stressed that the agency did not have staff that was empowered by the boards to speak on their behalf.

She remarked that many of the boards were ably administered by the staff, but were mostly managed by licensee examiners that oversaw up to three boards. She felt that the bill may require additional meetings or procedures for boards to answer.

[10:31:28 AM](#)

Ms. Chambers she pointed out that Section 8 only allowed oral commentary as public comment, which could be received through the division office. She explained that interested parties, licensees, and the public could contact the office to ask questions that the division would be obliged to respond. She noted that many of her concerns from the previous section would be amplified with the Section 8 issue. She remarked that there would need to be an additional staff person to corral the comments and maintain the concerns for the public record.

Vice-Chair Fairclough wondered why the governor's order did not accomplish the proposed tasks in the bill. Ms. Chambers responded that the governor's order was received the fall prior, and the division worked to analyze the scope of regulations. She felt that the compliance level would result in a similar outcome.

Vice-Chair Fairclough felt that the indeterminate fiscal note should be changed to zero. She suggested that a highly justified supplemental budget item could be included in following year. She stressed that the governor's order was the catalyst for implementation.

Senator Hoffman felt that there should be an inclusion of the RCA, Boards of Fish and Game, and the AOGCC, so they can comply with the governor's executive order. He remarked that there were concerns regarding the actions of the Boards of Fish and Game, and stressed that they especially should be included in the legislation.

[10:36:10 AM](#)

Senator Olson queried the most recent review of the regulations. He recalled that he never had to meet with a regulatory board while he was a member of a medical board. If there was a regulatory review of the medical board, he assumed it was conducted via teleconference. He wondered what had changed recently to require physical attendance

for the review board meetings. Ms. Chambers responded that the fiscal note reflected the "worst case scenario", where board members may make the executive decision to meet. She shared that there were tools provided for teleconferencing. Many boards and commissions strived to meet via teleconference for focused purposes.

Senator Olson felt that continued education did not require a face to face meeting. He agreed with Vice-Chair Fairclough, that the fiscal note could be almost zero. Ms. Chambers responded that the division would advise the boards to meet via teleconference, because there were minimal costs for meeting via teleconference. She stressed that, if a board intended to meet in person, she would allow that meeting to occur.

ARNOLD LIEBELT, POLICY ANALYST, OFFICE OF MANAGEMENT AND BUDGET, (OMB) spoke to the fiscal impact of the legislation across all departments as related to Section 3. He stated that Section 2 should be considered the policy portion of the bill. He remarked that Section 2 outlined the repeal of the boards and commissions from the existing language. There were approximately more than 100 boards and commissions. He restated that the bill exempted the Board of Game, Board of Fish, RCA, and the AOGCC. He explained that the regulations would pass before the governor, and he would participate in the process. He stated that boards and commissions generally operated independently, and were staffed with members of the public to represent the public within the industries. He pointed out that Section 3 addressed the cost impact for the department and the boards and commissions, because it asks the state agencies to prepare an annual cost impact for private person including businesses and municipalities. Through the fiscal note process, the division already ascertained with that cost would be for legislation and anticipated regulations to state agencies. He stated that providing a cost estimate in the aggregate was helpful, but that was primarily the source of the cost. The indeterminate note from OMB represented all the other agencies that did not submit a fiscal note, but remarked that the note would have some impact. He stressed that OMB could not estimate the number of regulations or the cost therein.

[10:43:05 AM](#)

Co-Chair Meyer looked at AO.266, and felt that the work outlined in the proposed legislation should already occur. Mr. Liebelt responded that the work was similar, but the cost came in when departments need to add to their workload by estimating what the cost would be for private persons. He stated that the departments were not currently staffed for the requirements in the legislation. He noted that the Boards of Game and Fish could see as much as 500 proposals per year for regulations.

Senator Hoffman looked at the third paragraph of the executive branch fiscal note, which referred to 162 municipalities in Alaska. He assumed that those municipalities would also be impacted, but the fiscal note did not reflect what costs would be attributed to them. He wondered if there was an estimate for fiscal impact to the municipalities in Alaska. Mr. Liebelt agreed that the fiscal note excluded the municipalities, and the paragraph was included to comment on the number of municipalities that could or could not be impacted by regulations. He looked at Section 3, which stated that the department's boards and commissions would be required to provide the cost impact to the municipality as a result of regulations.

Senator Hoffman stated that he did not understand why a fiscal note would be zeroed out, with the knowledge of probable costs. He felt that the agencies should be held accountable for cost outlines, because those agencies drafted the indeterminate fiscal note. He did not want to impose an unfunded mandate to the agencies or municipalities.

[10:47:38 AM](#)

AT EASE

[11:01:14 AM](#)

RECONVENED

CSHB 140(FIN)am was HEARD and HELD in committee for further consideration.

[11:02:02 AM](#)

AT EASE

[11:02:42 AM](#)

RECONVENED

#hb316

CS FOR HOUSE BILL NO. 316(FIN)

"An Act relating to workers' compensation fees for medical treatment and services; relating to workers' compensation regulations; and providing for an effective date."

11:03:16 AM

ANNA LATHAM, STAFF, REPRESENTATIVE KURT OLSON, introduced the legislation and read from the sponsor statement:

For the past decade, Alaska has faced the highest workers compensation rates in the nation.

The Alaska Workers' Compensation Board, the Legislature, the Alaska Health Care Commission and the Administration agree that effective reform is needed, and is crucial to Alaska's economic future.

In 2005, the Alaska Legislature passed HB 13, which established a workers' compensation fee schedule based on usual, customary and reasonable rates, set at the 90th percentile, with a geographic differential. This made incremental changes for the better, but it wasn't the sweeping reform that Alaska truly needs.

HB 316 proposes a solution to this challenge by introducing a new fee schedule. HB 316 changes the basis for the fee schedule from what physicians charge in a geographic area, to what it costs physicians to perform medical procedures. Thirty-two states currently use this relative values unit methodology, which incorporates the relative value of a physician's work, practice expense, and professional liability insurance. A conversion factor and geographic differential is applied to the formula. This relative value unit methodology is a system that is owned by the American Medical Association, and is the basis for Medicare and Medicaid's payment schedules.

The Medical Services Review Committee will set the conversion factors for the fee schedules, which require the approval of the Commissioner of Labor and Workforce Development before they are adopted into regulation by the Workers' Compensation Board. The

Board will also set reimbursement rates for air ambulance services, and the markup rates for prescription drugs and durable medical equipment.

HB 316 introduces comprehensive reform of Alaska's workers' compensation fee schedule, in an effort to reduce exorbitant costs in both the public and private sectors.

I urge your support of this legislation.

Co-Chair Meyer understood that the bill had received support from the majority of affected parties. Ms. Latham agreed that there were 38 letters of support in the bill packet from various medical, union and other related groups. She furthered that the sponsor had worked with all stakeholders involved during the legislative process; 5 hearings were heard in House Labor and Commerce and 2 in the House Finance Committee, prior to the bill moving to the senate.

Vice-Chair Fairclough read from an April 17, 2014 letter from the Alaska Chamber of Commerce:

While Committee Substitute House Bill 316 (HB 316) is singularly focused on the medical fee schedule, it is an important piece of the overall workers' compensation system. Until now, the Alaska Chamber has withheld support from HB 316. Not because the changes made by HB 316 move workers' comp in the wrong direction, but because additional reforms introduced during the legislative process have yet to be included. Our primary concern is that HB 316 will only have a short-term effect on workers' compensation medical costs over the next several years.

Vice-Chair Fairclough noted that Alaska ranked last in the nation when it came to worker's compensation reform. She wondered if the legislation would improve the state's standing, and what the effects would be on employers and employees. Ms. Latham replied that there were many reforms that needed to be addressed when discussing worker's compensation. She believed that the chamber wanted to implement evidence based best practices and utilization as part of the reform. The sponsor holds that the process should consist of 2 parts, lowering fees and implementing utilization and evidence based best practices.

11:08:45 AM

Vice-Chair Fairclough understood that the legislation would also benefit employers. Ms. Latham responded yes; employers would pay lower premium rates.

Senator Bishop expressed support for the intent of legislation. He noted in member packets the letters of support from labor and contract associations, as well as certain municipalities and boroughs (copy on file).

Senator Olson remarked that the letters of support were from industry. He queried whether employees had offered support for the legislation. Ms. Latham replied one individual testified in House Labor and Commerce concerning their experience in the worker's compensation system. She relayed that the previous hearings of the legislation had been publicly noticed and that the process had been very open to the public. She added that the Alaska State Medical Association offered full support of the legislation following the amendment of the bill in the House Finance Committee; the amendment would allow the Commissioner of Labor to approve the conversion factor set by the Medical Services Review Committee (MSRC). She maintained that the process had been open and transparent.

Senator Olson expressed concern that the bill could be too ambitious. He worried about a hasty transition from the usual, customary, and reasonable (UCR) fee schedule to a resource based scenario. He wondered if the sponsor had been in discussions with pain management clinics, or patients that dealt with pain management. Ms. Latham stated that a HB370 was up in Senate Judiciary, and spoke to the fee schedule as it pertained to pain management. She asserted that the Resource-Based Relative Value Scale (RBRVS) methodology in the bill was sound and had been developed by Harvard researchers. She relayed that the UCR was inherently inflationary. She shared that 32 states had adopted the RBRVS methodology with a conversion factor, not in phases but in a swift switch from one to the next.

11:13:13 AM

Senator Dunleavy asked whether practitioners from remote areas of the state had testified on the legislation. Ms. Latham said that the only practitioners that had testified

on the bill were physical therapists in Fairbanks. She added that the sponsor had worked closely with the Alaska State Hospital and Nursing Home Association (ASHNA), adopting a critical access hospital exemption because ASHNA used a different federal Medicaid billing schedule. She furthered that a geographic differential had been applied for smaller, rural hospitals and clinics.

Senator Olson understood that there was a letter of support from the Alaska State Medical Association (ASMA) in member packets. Ms. Latham replied in the affirmative.

Co-Chair Meyer wondered if chiropractors had expressed an opinion on the bill. Ms. Latham responded that the chiropractic community had not expressed an opinion on the legislation.

Senator Dunleavy asked whether cost issues due to Alaska's unique terrain had been considered during the process. Ms. Latham replied yes. She reiterated that the bill contained a critical access hospital exemption and the ability of the board to apply a geographic differential, as well as the initial conversion factor.

RACHAEL PETRO, PRESIDENT AND CEO, ALASKA CHAMBER, ANCHORAGE (via teleconference), testified in support of the legislation. She referred to the letter of support in member packets (copy on file). She believed that the legislation was a step in the right direction for systemic, comprehensive change.

[11:17:17 AM](#)

WARD HURBURT, CHIEF MEDICAL OFFICER, DEPARTMENT OF HEALTH AND SOCIAL SERVICES, ANCHORAGE (via teleconference), spoke in support of the legislation. He shared that the legislation was consistent with the recommendations of the Alaska Healthcare Commission and that the new methodology would encourage a free market. He opined that healthcare and medical costs in the state were the highest in the nation and the bill would open up better negotiations. He said that there would be a conversion factor for the resource based scale to reflect the costs in Alaska. He noted that organized labor groups had testified in support of the legislation.

BARBARA HUFF TUCKNESS, DIRECTOR, GOVERNMENT AND LEGISLATIVE AFFAIRS, TEAMSTERS LOCAL 959, testified in support of the legislation. She believed that the medical review board, with the make-up of doctors and lay representatives, would be effective.

Co-Chair Meyer CLOSED public testimony.

Senator Olson expressed concern that the legislation could prove to alienate those already on the margins of society.

Vice-Chair Fairclough spoke to the fiscal notes. She remarked that the FY15 column reflected \$62 thousand, while FY16 through FY18 reflected \$54 thousand with an estimated supplemental appropriation of \$13,700. She felt that the numbers were appropriate. She pointed out that fiscal note 3 reflected several indeterminate costs; however, the analysis on page two of the note provided an appropriate explanation for the indeterminate amount.

Vice-Chair Fairclough MOVED to REPORT CSHB 316(FIN) out of committee with individual recommendations and the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

CSHB 316(FIN) was REPORTED out of committee with individual and with previously published fiscal impact note: FN2(LWF); and previously published indeterminate fiscal note: FN3(ADM).

[11:23:18 AM](#)
AT EASE

[11:44:29 AM](#)
RECONVENED

Co-Chair Meyer handed the gavel to Co-Chair Kelly.

#hb385
HOUSE BILL NO. 385

"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."

[11:45:23 AM](#)

Co-Chair Meyer MOVED to ADOPT SCSHB 385(FIN), Work Draft, 28-LSGH2241\U (Wayne, 4/17/14). There being NO OBJECTION, it was so ordered.

11:46:05 AM

JAMES ARMSTRONG, STAFF, SENATOR KEVIN MEYER, discussed the committee substitute sectional analysis (copy on file):

Section 1.

This section amends the Teachers' Retirement System (TRS) state assistance statute (AS 14.25.085). This statute was enacted in 2008 by SB 125, and currently provides that the state shall appropriate the amount sufficient to fully pay the total past service liability for the year at the employer contribution rate adopted by the Alaska Retirement Management Board (ARMB). In practice, this means that the State appropriates the amount that reflects the difference between the TRS employer contribution rate cap of 12.56 percent and the actuarial contribution rate to the TRS trust funds. In FY14, this amount was approximately \$317mm.

Section 1 amends AS 14.25.085 to implement the Governor's proposal. Under the Governor's proposal, \$1.1 billion would be appropriated from the constitutional budget reserve to the TRS trust fund, and then from FY16 - FY36, an annual flat payment of \$343mm would be appropriated as state assistance.

According to Buck Consultants, the Governor's plan would convert the actuarial approach for TRS from an actuarial ratemaking paradigm to a fixed contribution paradigm. In a ratemaking paradigm, each year the actuary calculates what contribution rate is necessary to pay down the accumulated past service liability.

In Alaska, this has resulted in highly volatile employer contribution rates that over the past decade have ranged from 12 percent to over 70 percent.

In a fixed contribution paradigm, the rate volatility is eliminated. Instead the annual contribution is fixed. In the case of TRS, the annual contribution is

fixed at \$343mm. What can change each year, however, is the term of the amortization.

Under the Governor's plan, the initial amortization term is 21 years -fixed payments of \$343mm through FY36.

In the event of actuarial losses, the actuary may advise that the amortization term needs to be extended. So if there is a market downturn that results in investment losses in FY18, the actuary may advise that the amortization term must be extended to FY43 in order to fully amortize the TRS unfunded liability. Conversely, actuarial gains could result in a shortening of the amortization term of less than 21 years.

Under the Governor's plan, the length of the amortization term necessary to pay down the unfunded liability will be evaluated each year. There could be cases where the actuarial loss over a particular period is sufficiently profound that payment of \$343mm over any length of amortization term is insufficient to fully pay off the unfunded liability. In such case, the actuary will assign a date on which the TRS trust fund will exhaust its funds unless the \$343mm annual payment amount is increased. The actuaries call this date the "cross-over" point.

The last new sentence of the amendment to AS 14.25.085 is intended to address situations where a cross-over point is reached. It provides that the state will appropriate an additional fixed amount sufficient to amortize the unfunded liability over a period consistent with actuarial standards.

Section 2.

This section implements the same amendment as does section 1, for the Public Employees' Retirement System (PERS) state assistance statute, AS 39.35.280. A benefit to making this amendment in the PERS context, is that a fixed contribution paradigm aligns the respective interests of all PERS employers. PERS employers all share in the actuarial gains, through having a shorter amortization schedule, and share in actuarial losses, through having a longer amortization schedule.

Under the current version of AS 39.35.280, PERS municipal employers are largely indifferent to the impact of market downturns that create new unfunded liability because their rate does not change, and the State absorbs 100 percent of the impact of any new unfunded liability. The Governor's proposal cost shares such new unfunded liability in a fair way by extending the amortization term, so that PERS employers pay at the 22 percent capped contribution rate for a longer period of time.

Section 3.

This section makes the bill contingent on the enactment of constitutional budget reserve fund appropriations to TRS in the amount of \$1.1 billion, and to PERS in the amount of \$1.9 billion.

Section 4.

Establishes the effective date of this act as July 1, 2014.

Co-Chair Kelly queried the details of the legislation.

DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION, looked at a collection of graphs titled "Cumulative Costs of Options to Eliminate PERS and TRS Unfunded Liability" dated 4/19/2014 (copy on file). He explained that the first graph represented the total PERS and TRS. He stated that the fine dashed line represented the fiscal impact of the legislation, which was \$1 billion for PERS and \$2 billion for TRS at a level percent. He stated that in 2015 there would be a \$3 billion cash infusion. He remarked that the line started at \$3 billion and showed its increased cumulative costs with added state assistance each year, with a total cost of approximately \$10 billion in state assistance through 2040. The second graph represented the PERS system only, with a \$1 billion starting point and a total cost of approximately \$4 billion. He stressed that there was a discount of 3 percent, which was roughly the anticipated rate of inflation. The third graph was for TRS starting at \$2 billion cash infusion and increases to a total cost of just over \$6 billion by 2040. The numbers represent what was used to generate the graph.

[11:51:07 AM](#)

Co-Chair Kelly asked for explanation of the fiscal notes. Mr. Teal replied that the TRS was \$1 billion, and the source of the money was the Constitutional Budget Reserve (CBR). Because the CBR required a three-quarter vote, it would not be attached to Section 2 of the operating budget bill, rather it would be added to the Language Section. He stated that 2016-2020 showed reductions from the base, where the base had a level percent of pay under the current scenario. There would be a reduction of roughly 200 million per year from the current scenario under the legislation. The TRS fiscal note had \$2 billion cash infusion from the CBR, and had savings of approximately \$200 million per year in the out years.

[11:52:34 AM](#)

AT EASE

[11:53:38 AM](#)

RECONVENED

[11:53:43 AM](#)

Senator Hoffman remarked that there were conversations in previous committees that looked at the funding level of 70 percent. He queried the percentage impact of PERS and TRS. Co-Chair Kelly replied that the legislation would put TRS beyond 70 percent immediately, and deferred to Mr. Armstrong.

Mr. Armstrong pointed to the two new fiscal notes. He looked at page two, and referred to the funding ratios. He stated that the infusion would bring PERS to 68.8 percent by FY17, and would exceed 70 percent in FY18. The \$2 billion infusion in TRS would bring it up 20 percent in one year. He noted that the following year had a cumulative increase of over 70 percent.

Vice-Chair Fairclough discussed a conceptual amendment. She stated that there were some previous numbers that showed potential of the fund in the out years retaining a balance that should belong to the state, because the state was providing the initial cash infusion. She remarked that the current TRS funding ratio was 52.1 percent. The action before the committee would increase the number by 17 percent, and would be brought to 73 percent. She felt the funding could level, if given the right statements over time.

Vice-Chair Fairclough MOVED to ADOPT Conceptual Amendment 1, 28-GH224\A.1, Wayne, 4/13/14 (copy on file).

Page 1, line 2, following the second occurrence of "plan:

Insert "and to excess assets of those plans on termination of the plans"

Page 2, following line 6:

"Sec. 2. AS 14.25.181(b) is amended to read:

(b) If, upon termination of the plan, all liabilities are satisfied, any excess assets shall be deposited in the general fund, [REVERT TO THE EMPLOYERS AS DETERMINED BY THE ADMINISTRATOR] subject to the approval of the termination by the Internal Revenue Service.

Sec.3. AS 39.35.115(e) is amended to read:

(e) If, upon termination of the plan, all liabilities are satisfied, any excess assets shall be deposited in the general funds [REVERT TO THE EMPLOYERS AS DETERMINED BY THE ADMINISTRATOR], subject to the approval of the termination by the Internal Revenue Service."

Renumber the following bill sections accordingly.

Page 2, line 25:

Delete "This Act is"

Insert "Sections 1 and 4 of the Act are"

Page 2, line 29:

Delete all material and insert:

"Sec 6. If secs. 1 and 4 of the Act take effect, they take effect on the effective date of the appropriations described in sec. 5 of the Act or July 1, 1014, whichever is later.

Sec. 7. Except as provided in sex. 6 of the Act, this Act takes effect July 1, 2014."

Co-Chair Meyer OBJECTED for discussion.

Vice-Chair Fairclough explained the conceptual amendment.

11:58:00 AM

Co-Chair Kelly announced that the conceptual amendment would ensure that the excess money be cycled back into the general fund.

Vice-Chair Fairclough felt that the Department of Law needed to review the language in the conceptual amendment.

Co-Chair Meyer REMOVED his objection. There being NO further OBJECTION, Conceptual Amendment 1 was adopted.

11:59:33 AM

AT EASE

12:01:19 PM

RECONVENED

12:01:46 PM

ANGELA RODELL, COMMISSIONER, DEPARTMENT OF REVENUE, (DOR) shared that she had no concerns with the proposed changes or the amendment that was adopted.

12:03:15 PM

Vice-Chair Fairclough stressed the importance of the legislation. She commended the efforts of the governor and the committee's effort on the legislation.

Co-Chair Kelly appreciated Vice-Chair Fairclough's gratefulness.

Co-Chair Kelly remarked that the Buck Consultants memo should travel with the bill.

Co-Chair Meyer stressed that the unfunded liability included medical liability, and hoped that the bond raters would take note of the enormous cash infusion. He stressed that \$3 billion was a substantial amount of money.

Co-Chair Kelly remarked that the committee must be prudent, but felt that the legislation did not address the issue of the state's reserves.

Co-Chair Meyer MOVED to REPORT SCSHB 385(FIN) out of committee with individual recommendations, Letter from Buck

Consultants and the accompanying fiscal note(s). There being NO OBJECTION, it was so ordered.

SCSHB 385(FIN) was REPORTED out of committee with a "do pass" recommendation and with two new fiscal impact notes from the Senate Finance Committee and the Governor.

12:17:15 PM

AT EASE

12:17:50 PM

RECONVENED

#hb278

CS FOR HOUSE BILL NO. 278(FIN) am

"An Act increasing the base student allocation used in the formula for state funding of public education; relating to the exemption from jury service for certain teachers; relating to the powers of the Department of Education and Early Development; relating to high school course credit earned through assessment; relating to school performance reports; relating to assessments; establishing a public school and school district grading system; relating to charter schools and student transportation; relating to residential school applications; relating to tenure of public school teachers; relating to unemployment contributions for the Alaska technical and vocational education program; relating to earning high school credit for completion of vocational education courses offered by institutions receiving technical and vocational education program funding; relating to schools operated by a federal agency; relating to a grant for school districts; relating to education tax credits; establishing an optional municipal tax exemption for privately owned real property rented or leased for use as a charter school; requiring the Department of Administration to provide a proposal for a salary and benefits schedule for school districts; making conforming amendments; and providing for an effective date."

CSHB 278(FIN)am was SCHEDULED but not HEARD.

#hb287

CS FOR HOUSE BILL NO. 287(RLS) am

"An Act relating to the determination of the royalty received by the state on oil production refined or processed in the state; providing tax credits for qualified infrastructure expenditures for in-state refineries and hydrocarbon processing facilities; approving and ratifying the sale of royalty oil by the State of Alaska to Tesoro Corporation and Tesoro Refining and Marketing Company LLC; and providing for an effective date."

CSHB 287(RLS)am was SCHEDULED but not HEARD.

#hb306

CS FOR HOUSE BILL NO. 306(FIN)

"An Act relating to the review and administration of tax credit programs; requiring the Department of Revenue to report indirect expenditures; relating to the duties of state agencies; requiring the legislative finance division to analyze certain indirect expenditures; relating to lapse dates for appropriations for capital projects; repealing the insurance tax education credit, the income tax education credit, the veteran employment tax credit, the oil or gas producer education credit, the property tax education credit, the mining business education credit, the fisheries business education credit, the fisheries business tax credit for scholarship contributions, the fisheries business salmon product development tax credit, the fisheries business salmon utilization tax credit, the fisheries business landing tax credit for scholarship contributions, the fisheries resource landing tax credit for the fisheries resource harvested under the community development quota, the fisheries resource landing tax education credit, and the film production tax credit; and providing for an effective date."

CSHB 306(FIN) was SCHEDULED but not HEARD.

#hb384

HOUSE BILL NO. 384 am

"An Act increasing the minimum wage; and providing for an effective date."

HB 384 am was SCHEDULED but not HEARD.

#hjr10

CS FOR HOUSE JOINT RESOLUTION NO. 10(FIN)

Proposing amendments to the Constitution of the State of Alaska creating a transportation infrastructure fund.

CSHJR 10(FIN) was SCHEDULED but not HEARD.

#

ADJOURNMENT

[12:18:19 PM](#)

The meeting was adjourned at 12:18 p.m.