

ALASKA STATE LEGISLATURE
SENATE STATE AFFAIRS STANDING COMMITTEE

April 2, 2013

9:06 a.m.

MEMBERS PRESENT

Senator Fred Dyson, Chair
Senator Cathy Giessel, Vice Chair
Senator John Coghill
Senator Bill Wielechowski

MEMBERS ABSENT

Senator Bert Stedman

COMMITTEE CALENDAR

CS FOR HOUSE JOINT RESOLUTION NO. 11(MLV)
Commemorating the 30th anniversary of President Ronald Reagan's address to the nation concerning the Strategic Defense Initiative, recognizing the strategic importance of Alaska in the missile interceptor defense system, and urging the United States to deploy the number of ground-based interceptors originally intended at Fort Greely.

- MOVED CSHJR 11(MLV) OUT OF COMMITTEE

SENATE BILL NO. 48

"An Act requiring each municipality with a population that decreased by more than 25 percent between 2000 and 2010 that participates in the defined benefit plan of the Public Employees' Retirement System of Alaska to contribute to the system an amount calculated by applying a rate of 22 percent of the total of all base salaries paid by the municipality to employees of the municipality who are active members of the system during a payroll period; reducing the rate of interest payable by a municipality with a population that decreased by more than 25 percent between 2000 and 2010 that is delinquent in transmitting employee and employer contributions to the defined benefit plan of the Public Employees' Retirement System of Alaska; giving retrospective effect to the substantive provisions of the Act; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HJR 11

SHORT TITLE: COMMEM. ANNIVERSARY OF REAGAN SDI SPEECH

SPONSOR(S): REPRESENTATIVE(S) SADDLER

03/13/13 (H) READ THE FIRST TIME - REFERRALS
03/13/13 (H) MLV
03/19/13 (H) MLV AT 1:00 PM CAPITOL 120
03/19/13 (H) Moved CSHJR 11(MLV) Out of Committee
03/19/13 (H) MINUTE(MLV)
03/20/13 (H) MLV RPT CS(MLV) 6DP
03/20/13 (H) DP: HUGHES, GRUENBERG, REINBOLD,
SADDLER, LEDOUX, FOSTER
03/22/13 (H) TRANSMITTED TO (S)
03/22/13 (H) VERSION: CSHJR 11(MLV)
03/25/13 (S) READ THE FIRST TIME - REFERRALS
03/25/13 (S) STA
04/02/13 (S) STA AT 9:00 AM BUTROVICH 205

BILL: SB 48

SHORT TITLE: PERS CONTRIBUTIONS BY MUNICIPALITIES

SPONSOR(S): SENATOR(S) OLSON

02/11/13 (S) READ THE FIRST TIME - REFERRALS
02/11/13 (S) STA, FIN
03/12/13 (S) STA AT 9:00 AM BUTROVICH 205
03/12/13 (S) Heard & Held
03/12/13 (S) MINUTE(STA)
04/02/13 (S) STA AT 9:00 AM BUTROVICH 205

WITNESS REGISTER

REPRESENTATIVE DAN SADDLER

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Sponsor of HJR 11.

DAVID SCOTT, Staff

Senator Donny Olson

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Presented SB 48 on behalf of the sponsor.

MIKE BARNHILL, Deputy Commissioner

Office of the Commissioner

Department of Administration

Juneau, Alaska

POSITION STATEMENT: Provided information related to SB 48.

GREG MOYER, City Manager
Galena, Alaska

POSITION STATEMENT: Testified on SB 48.

ACTION NARRATIVE

9:06:23 AM

CHAIR FRED DYSON called the Senate State Affairs Standing Committee meeting to order at 9:06 a.m. Present at the call to order were Senators Wielechowski, Coghill, Giessel and Chair Dyson.

HJR 11-COMMEM. ANNIVERSARY OF REAGAN SDI SPEECH

CHAIR DYSON announced that the first order of business would be HJR 11.

REPRESENTATIVE DAN SADDLER, sponsor of HJR 11, reviewed the contents of the bill. He read from the following sponsor statement:

HJR 11 commemorates the 30th Anniversary of President Ronald Regan's "Strategic Defense Initiative" addressed to the nation on March 23, 1983. President Reagan believed that we should achieve "peace through strength," and called for the nation to develop the ability to intercept and destroy strategic nuclear missiles before they could reach the United States. Though his idea was initially mocked as a "Star Wars" fantasy, Reagan's vision was eventually realized. Americans developed what became better known, and better respected, as the "Strategic Defense Initiative."

HJR 11 commemorates the 30th anniversary of President Reagan's speech to the nation calling for the creation of the "Star Wars" defense system, and credits Reagan for his vision. HJR 11 also honors the Alaskans who play a critical role in this system: The Alaska National Guard's 49th Missile Defense Battalion mans the nation's primary installation of the Ground-Based, Mid-course Defense System and interceptor missiles, at Fort Greely, in Interior Alaska.

But while we have 26 missiles and silos at Fort Greely, the plans had originally called for 40. In 2009 President Obama stopped short of finishing deployment of the last 14 interceptors planned for deployment. This incomplete system left the nation vulnerable to the threat of increasingly sophisticated and capable missiles: from Iran, from China, and from North Korea. In recent weeks, the threat has gotten even more real, North Korea has made clear and credible threats to launch nuclear attacks on the United States.

HJR 11, therefore, also calls on the current President to deploy the full number of ground-based missiles originally intended to be installed at Fort Greely. But just as this resolution was being drafted, Secretary of Defense Hagel announced his decision to deploy an additional 14 interceptors to Fort Greely, Alaska by 2017 – bringing the total to 44 (40 in Alaska, 4 at Vandenberg AFB in California)

It's clear that President Reagan was right about Star Wars; that our nation needed and someday would be very glad to have, a defense against the threat of ICBMs.

REPRESENTATIVE SADDLER concluded that HBJ 11 recognizes President Reagan's "Star Wars" vision, honors his commitment to ensure our nation maintains peace through strength, expresses appreciation of the brave Alaskans manning the defenses at the frontiers of space, and validates Defense Secretary Hegel's timely decision to complete the installation of the full complement of missiles at Fort Greely.

CHAIR DYSON voiced appreciation for Representative Saddler's efforts.

[9:10:38 AM](#)

SENATOR GIESSEL moved to report CSHJR 11(MLV) from committee with individual recommendations and attached zero fiscal note. There being no objection, it was so ordered.

[9:11:10 AM](#)

At ease

SB 48-PERS CONTRIBUTIONS BY MUNICIPALITIES

[9:12:10 AM](#)

CHAIR DYSON announced that the final order of business would be SB 48.

DAVID SCOTT, Staff, Senator Donny Olson, sponsor of SB 48, introduced the bill. He stated that version A was before the committee.

CHAIR DYSON noted that the committee has heard the bill previously. He recalled that some communities are in financial trouble and have no way to fulfill their commitment to pay their PERS/TRS retirement costs. In 2008, SB 125 was intended to keep those communities from "gaming the system". The unintended result of that legislation is that communities decreasing in population are no longer able to pay their share and are trapped, so Senator Olson came up with a solution - SB 48.

MR. SCOTT agreed with Chair Dyson. He added that SB 48 is a solution to a problem, which if left unsolved, will result in the state's seeing no money from these communities. He said the bill is still in process and the other body has a similar bill in the works. The sponsor wishes to help communities get out of debt.

[9:15:09 AM](#)

CHAIR DYSON referred to a legal summary in members' packets.

SENATOR COGHILL requested an explanation of the House version of the bill.

MR. SCOTT said the other body is going to provide for communities that have lost 25 percent of their population by using the floor created by HB 125 in 2008 and forgiving a certain amount of debt. He noted there is ongoing communication between the other body and sponsor, the state, and Senator Olson's office.

CHAIR DYSON said he does not like the idea of continuing to deal with this issue on an ad hoc basis. A better way might be to deal with it by appropriation for a couple sessions. He said he was inclined to pass the bill on to the Senate Finance Committee. Nothing has been done since 2008, so there has to be some pressure for a solution.

SENATOR GIESSEL requested an opinion from Mr. Barnhill.

[9:18:35 AM](#)

MIKE BARNHILL, Deputy Commissioner, Office of the Commissioner, Department of Administration, provided information related to SB 48. He related that his office has been involved in a discussion since last fall with the Alaska Municipal League and both sponsors. He agreed that there is a problem and a variety of solutions. He said SB 48 is a workable solution, as is "advancing the floor to 2012." Another solution is to have an appropriation through the Municipal Grants Program every year. He said the administration leans toward the latter ad hoc solution and not toward changing the statute, which would be permanent and problematic if the population returns to the community. There is also a fairness issue if the community has the ability to pay some time in the future.

[9:21:00 AM](#)

CHAIR DYSON asked how much an appropriation would be if it were made in this budget.

MR. BARNHILL replied that about 23 municipalities fall into the delinquent category with the total amount of delinquency just over \$6 million and, of that, \$4 million is penalties and interest. The principal amount owed is between \$1 million to \$2 million.

CHAIR DYSON asked how to determine which communities deserve to get bailed out by the state.

MR. BARNHILL suggested paying off the largest bills first. He suggested it would be better to earmark it through the Municipal Grants Program.

CHAIR DYSON asked if the administration could determine which communities are absolutely without options.

MR. BARNHILL suggested the standards set forth in SB 48 could be used. He used Galena as an example of a community that has communicated its needs.

[9:23:48 AM](#)

CHAIR DYSON commented that the Institute of Social and Economic Research (ISER) did a study on what makes a viable community, as did the Denali Commission.

GREG MOYER, Galena City Manager, testified on SB 48. He emphasized that Galena would face the same inability to pay every year because its base salary is half of what was set by

law. He suggested that there be a permanent fix. He said his goal is to build up the city and increase the population.

[9:26:22 AM](#)

CHAIR DYSON asked what harm delaying this legislation would do.

MR. BARNHILL explained that the amount owed continues to grow and has persisted for several years. The interest rate of 12 percent is high. He said there is currently not much harm to the retirement system. He voiced concern about the number of cities in noncompliance. He shared the option of a statutory intercept, an abrupt and disruptive option, which the department is reluctant to do but may be necessary if non-compliance becomes more widespread.

[9:28:19 AM](#)

SENATOR WIELECHOWSKI asked what the administration recommends.

MR. BARNHILL said the preference is to deal with it through appropriation. The administration has no position on the bill.

SENATOR WIELECHOWSKI asked if the Governor is willing to put money into future budgets for this.

MR. BARNHILL said the Municipal Grant Program is always in the capital budget. He said he could not speak for the Governor.

[9:29:40 AM](#)

CHAIR DYSON addressed Mr. Moyer. He said he suspects that as the penalties and interest grow, Galena's credit will be affected and their credit rating is weakened.

MR. MOYER agreed it does have a detrimental effect on Galena. He believed strongly in a legislative fix, due to the yearly liability. He stressed that Galena needs help now.

MR. SCOTT said a single appropriation would still mean that Galena's bill would continue.

[9:32:37 AM](#)

CHAIR DYSON concluded that the state is going to end up assuming the communities' responsibilities due to the arbitrary floor. He suggested the penalties and interest should be forgiven. He asked if the sponsor thought of retroactively eliminating penalties via statute.

MR. SCOTT said it was discussed, but not included in the bill.

[9:34:03 AM](#)

CHAIR DYSON suggested not penalizing the communities, yet having an objective evaluation of who should be relieved of those penalties.

SENATOR COGHILL suggested passing the bill on to Senate Finance. He said the benefit of a statutory fix is that the legislature has to deal with it. He noted with an annual appropriation, municipal grant criteria must be considered. He questioned whether moving the date is the best fix, because later it could be amended and cause problems. He liked the idea of a budget amendment which has to be debated each year. He suggested it should be done at an appropriation level now. The bill sets up a structure that might not work in the future.

CHAIR DYSON said there could be unintended consequences again.

SENATOR COGHILL thought HB 125 might have to be re-written due to the economy in Alaska.

CHAIR DYSON asked Mr. Barnhill about the cost of making an appropriation.

MR. BARNHILL said between \$1 million and \$2 million of principle.

SENATOR WIELECHOWSKI pointed out there is still over \$4 million owed accumulating at 12 percent interest.

MR. BARNHILL agreed. He suggested if an appropriation is going to be made the entire amount should be paid.

SENATOR WIELECHOWSKI asked about lowering the 12 percent interest rate.

MR. BARNHILL said interest rates are to compensate the state for the time value of money, which is currently zero. Also, interest rate can be punitive designed to illicit compliance. The statute has a fixed rate of 8 percent, plus an additional 50 percent rate. He suggested the committee keep in mind the two components of interest rates as they proceed.

[9:40:58 AM](#)

CHAIR DYSON asked if there is \$3 million to \$4 million in interest and penalties.

MR. BARNHILL said yes.

SENATOR COGHILL pointed out that the state would be paying itself the interest under an appropriation. If the legislature passes the bill, it requires part of the debt to be paid back at a lower interest rate and that would draw the communities into the payment method. He disliked that an appropriation would be the state paying itself the interest.

SENATOR WIELECHOWSKI asked where the interest goes.

MR. BARNHILL said that "the state is paying itself" is a misnomer because the money goes into a trust fund for the benefit of the members of the retirement system.

CHAIR DYSON said that is an important distinction.

MR. BARNHILL emphasized that the interest going into the trust fund does not make a meaningful difference toward repaying the unfunded liability.

CHAIR DYSON inquired whether a municipality can file for bankruptcy in Alaska.

[9:43:43 AM](#)

MR. BARNHILL did not know.

CHAIR DYSON commented on bankruptcy. He said it would be an interesting discussion.

CHAIR DYSON suggested holding the bill until Thursday and compiling a letter of intent to the administration regarding a long-term solution.

SENATOR WIELECHOWSKI agreed. He said he thinks the administration knows what's best. He did not like the Band-Aid approach.

CHAIR DYSON asked if the Department of Law has someone who could work on the issue.

[9:46:03 AM](#)

MR. BARNHILL said yes.

CHAIR DYSON requested information on the status of bankruptcy in Alaska.

MR. SCOTT suggested contacting Scott Ruby from the Department of Commerce, Community and Economic Development.

CHAIR DYSON he suggested a deadline of noon tomorrow.

SENATOR COGHILL asked for a "kick out provision" regarding the population threshold.

MR. SCOTT said he thought the sponsor would agree with that.

[SB 48 was held in committee.]

9:48:15 AM

There being no further business to come before the committee, Chair Dyson adjourned the Senate State Affairs Standing Committee at 9:48 a.m.