

HOUSE FINANCE COMMITTEE

April 21, 2016

8:33 a.m.

8:33:09 AM

CALL TO ORDER

Co-Chair Thompson called the House Finance Committee meeting to order at 8:33 a.m.

MEMBERS PRESENT

Representative Mark Neuman, Co-Chair  
Representative Steve Thompson, Co-Chair  
Representative Dan Saddler, Vice-Chair  
Representative Bryce Edgmon  
Representative Les Gara  
Representative Lynn Gattis  
Representative David Guttenberg  
Representative Scott Kawasaki  
Representative Cathy Munoz  
Representative Lance Pruitt  
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Representative Craig Johnson, Sponsor; Representative Charisse Millett, Sponsor; Robert Ervine, Staff, Representative Craig Johnson; Grace Abbott, Staff, Representative Charisse Millett; Leslie Ridle, Deputy Commissioner, Department of Administration; Kate Sheehan, Director, Division of Personnel and Labor Relations; Jim Duncan, State Employee, Association; Jake Metcalf, PSEA Local 803, Juneau; Curtis Thayer, Alaska Chamber, Juneau; Vince Beltrami, Alaska AFL-CIO, Juneau; Representative Dan Ortiz; Representative Louise Stutes.

PRESENT VIA TELECONFERENCE

Kelsi Pulczinski, Self, Anchorage; Elisha Waugh, Self, Anchorage; Mike Coons, Self, Palmer; Ryan McKee, Self, Mat-Su; Kimberly Rudge-Karic, Self, Kasilof; Nathan Lockwood,

Self, Kenai; Michael Jespersen, Self, Anchorage; David Nees, Self, Anchorage; Carl Kancir, Self, Anchorage; Crystal Norman, Self, Anchorage; David Boyle, Self, Anchorage; Jeremy Price, Americans for Prosperity, Anchorage; Delice Calcote, Self, Sutton; Alicia Hughes, Self, Juneau; Bob Fassino, Self, Wasilla; Sybille Castro, Self, Nikiski; David Landry, Self, Anchorage; Mike Mason, Self, Anchorage; Daniel Hamm, President of AK Republican Assembly, Palmer.

SUMMARY

HB 379 STATE EMPLOYEE & OFFICER COMPENSATION

HB 379 was HEARD and HELD in committee for further consideration.

Co-Chair Thompson relayed the agenda for the day.

[8:33:49 AM](#)

#hb379

HOUSE BILL NO. 379

"An Act eliminating pay step increases and pay increments for certain state employees; relating to collective bargaining agreements entered into by the state; and providing for an effective date."

[8:34:56 AM](#)

REPRESENTATIVE CRAIG JOHNSON, SPONSOR, stated that it was senseless to appropriate "pay raises" during a fiscal crisis and hoped that future layoffs could be avoided by eliminating step increases. He emphasized that pay was not being cut and the legislation only targeted pay increases for elimination. He believed the action was the "responsible thing to do." He pointed out that many people in the private sector were losing jobs and no one received automatic raises. He commented that the bill ensured that future contracts would be negotiated without pay increases and applied to every state worker. He indicated that the reduction was not permanent and when the state's economy recovered merit increases would be reintegrated into pay based on the price of oil. He noted "overwhelming" public response for the bill.

8:37:51 AM

REPRESENTATIVE CHARISSE MILLETT, SPONSOR, emphasized that she appreciated state workers and admitted they were the "backbone workforce for the state of Alaska and kept government running smoothly." She explained that merit increases would be frozen until oil prices increased or fiscal stability was secured and that the bill was not removing the statute regarding merit increases. She mentioned that this was one of many other solutions that had been evaluated through the legislative process. She listed the budgetary options that had been weighed by the legislature that included new resource taxes and tax increases, income taxes, and restructuring the permanent fund. She commented that at a time when the state was looking at revenue increases the state could not justify merit increases that were merely based on an annual date rather than merit. She explained that merit increases were reinstated when a trigger of \$90 per barrel for the price of oil was reached. She declared that the bill was a reflection of the "drastic" budget difficulties the state was facing. She claimed that the private sector was lying off workers and decreasing wages making the state's merit increases were hard to explain to her constituents. She cited Commissioner Fisher's [Commissioner of the Department of Administration] testimony reporting that the average wage for a state worker was \$64 thousand per year. She recounted that in 10 years the state had provided 63 percent increases based on Cost of Living Allowance (COLA) and merit raises. The recent labor contracts eliminated the COLA but the merit increases, which were an automatic 3.25 percent to 3.75 percent, increase each year. She thought it was a "judgement call" to look at the issue. She wanted to retain her ability to "look her constituents in the eye" and say "she had done everything she could" before instituting taxes or restructuring permanent fund reserves. She agreed with the governor that every option was on the table and all options should be discussed. She indicated that the bill only affected contracts going forward and in the first year the savings were \$18 million and up to \$30 million in the second year. She believed the bill was the "right thing to do."

Co-Chair Thompson indicated that Representative Munoz, Representative Pruitt, and Representative Gara joined the meeting.

8:43:32 AM

Vice-Chair Saddler wondered whether the constitution mandated a system of merit increases. Representative Millett responded that the constitution mandated a merit system but was not specific.

Representative Kawasaki asked why the bill was introduced as "By the House Rules Committee by Request." Representative Johnson stated that the majority caucus requested the legislation. He offered to remove "by request." Representative Kawasaki asked about the labor contracts that have been negotiated in the current year. Representative Millett responded that she wanted to see the contracts honored and believed they were "negotiated in good faith" and offered to change the effective date of the bill to July 2, 2016 to accommodate the contracts. Future contracts would be subject to the bill.

Representative Johnson interjected that currently the bill would impact the contracts but he also wanted the state to "keep its word." He also understood the effective date would have to be changed.

Representative Kawasaki referenced an opinion from Legislative Legal Services addressed to Co-Chair Thompson that discussed the constitutionality of the legislature "getting involved" in negotiating labor contracts and could be seen as an "impairment of contracts." He asked the sponsor to address the constitutionality of the legislation. Representative Millett disagreed with Legislative Legal's interpretation and thought that the legislature had the right to freeze wages written in statute and that the merit system would remain in statute.

Representative Johnson thought that the legislature's ability to either reject or accept a contract was not interference in contract negotiations.

8:48:12 AM

Representative Kawasaki referenced Title 43 that dealt with oil and gas tax credits. He relayed that the statute authorized the legislature to withhold payment of oil and gas taxes going forward due to lack of funding. Representative Millett commented that his discussion was not germane to the bill.

Representative Gara revealed that he read the entire history of the Alaska Constitution and pointed out that the merit pay principle existed to ensure the state hired people based on merit and not political connections. He was not sure the Constitution related to merit increases. He asked whether the intention of the bill was to freeze merit raises and step increases until the price of oil was \$90, per barrel. Representative Millett specified the words "merit raises" and answered in the affirmative. Representative Gara requested clarity about what type of pay was being eliminated.

Representative Johnson replied that the bill included step increases and merit pay. He believed that merit pay rewarded and employee for exemplary work. He stated that currently the state granted the merit increase to any employee unless he received an unsatisfactory evaluation. Representative Gara questioned whether the intention of HB 379 was to eliminate merit increases and step increases. Representative Millett clarified that step increases were merit increases. Representative Gara asked whether school district teachers were impacted by the bill. Representative Johnson stated that teachers would not be affected.

Representative Gara stated that according to the Department of Revenue (DOR) forecasts the price of oil was not anticipated to reach \$90 per barrel in the next ten years; therefore, there would be no merit or step increases. He wondered how not granting any raises and possibly COLA's for ten years would affect employee morale. Representative Johnson stated that it was the House Finance Committee's bill. He suggested that terms were negotiable and the sponsors would be receptive to a balanced compromise. He reminded the committee that COLA's were negotiated via contracts. He restated that the sponsor's did not want to interfere with contract negotiations and was specifically targeting merit increases. He "did not want to leave any stone unturned." He offered that the proposed mining and fish tax revenues amounted to the pay increases.

[8:55:31 AM](#)

Representative Gara stated that the information from the Department of Administration (DOA) regarding state salaries reported below market salaries for professional employees and new employees typically received low pay. He spoke to the negative impacts of not being able to motivate

employees to remain employed in the state due to lower wages and elimination of pay increases for up to 10 years. He wondered how the state would be able to maintain a talented workforce. Representative Millett responded that the state had just lost 65 percent of its income and shared his concern. She believed eliminating increases would save state jobs and cited labor statistics that the state recently laid off 37 employees out of a 24thousand member workforce. She suggested that the private sector oil companies were laying off employees at higher rates. She understood workplace morale but thought that having "a job" was preferable to unemployment. She cited the governor's statement in regards to the fiscal crisis that everyone needed to "pull the rope." She discussed the lost revenue due to low oil prices and the devastating effects on the state's budget that was the factors for drafting the bill. She emphasized and reiterated that 65 percent of the state's income was lost. She relayed her constituent's grievances regarding state employee merit increases. Representative Gara pointed out that the legislature failed to adopt a fiscal plan, which caused the problem. He thought that the legislation came from a "perspective" of not taking action on a fiscal plan. He wanted legislators to compromise and adopt a plan in order to alleviate the fiscal problem.

[9:01:31 AM](#)

Representative Wilson asked whether the geographical difference for state salaries was affected by the bill. Representative Millett responded in the negative but thought that was worth examining since the last study was published 11 years ago. Representative Wilson stated that employee advancement with the resulting wage increases through contract negotiations were still allowable. Representative Millett responded in the affirmative. She stated that the bill did not prevent an employee from being promoted. Representative Wilson asked whether only the governor could issue a hiring freeze. Representative Millett responded in the affirmative and noted a hiring freeze was done through executive order. She was not certain whether the legislature could legally enact a hiring freeze. Representative Wilson thanked the sponsors for introducing the legislation. She wanted to clarify that the bill did not affect recently negotiated contracts. Representative Johnson stated that the legislation affected the contracts that had not been ratified and he wanted to

change the effective date of the bill to exempt recently negotiated contracts. He restated the importance of the state "keeping its word" in honor of employees and their service. He thought the legislature had the ability to freeze employees within its own branch but not the executive branch.

Co-Chair Thompson asked whether the number of outstanding negotiated contracts was 4. Representative Johnson was uncertain but knew that the contracts included a "substantial number of employees."

[9:06:06 AM](#)

Representative Gattis asked when the automatic merit increases were put into statute. Representative Johnson was uncertain but did not think the increases existed since statehood.

Representative Gattis voiced that state salaries had been "tweaked" or adjusted over the years. She contended that she struggled with the notion of the "legislature keeping its word." She elaborated that the administration negotiated the contracts and the legislature ratified the contracts and surmised that it was "not our word it's their word." She relayed from personal experience receiving 50 percent pay cuts when employed in the private sector and thought the ability "to have a job" was most important. She appreciated the bill.

[9:10:18 AM](#)

Representative Munoz mentioned that the merit increases were established in 1960. She wondered whether the merit system had ever been suspended before. Representative Johnson was unsure. Representative Munoz asked whether the suspension applied to the University or the Permanent Fund Corporation. Representative Johnson did not believe so. Representative Munoz referenced testimony stating that 41 positions had been removed from the budget. She had asked Commissioner Fisher and he reported more than 700 employees were affected and requested more accurate data reporting for the record. Representative Johnson questioned whether the number included vacant positions cut or actual layoffs.

Representative Millett noted the sensitive nature of the issue. She meant no disrespect to state employees and was

looking for ways to keep the state workforce whole. She suggested that the choice was between foregoing a pay raise or getting furloughed or laid off. She stated that the bill would affect everyone in state employment. She reported that as she examined all of the cuts the state faced employee salaries had to be examined. The "intent was to keep the backbone of state workers whole."

Co-Chair Thompson voiced that the issue was not only sensitive but emotional as well.

Representative Johnson referred to a comment made by Representative Gara about a fiscal plan and likened the plan to a puzzle. He thought it was necessary to put pieces of the puzzle together to develop a plan. Adjusting merit increases was only one piece of the puzzle that could complete the plan but by itself would not fix the problem. He voiced that \$30 million in savings was not an insignificant amount of money.

[9:16:45 AM](#)

ROBERT ERVINE, STAFF, REPRESENTATIVE CRAIG JOHNSON, introduced himself and offered to discuss the sectional analysis (copy on file).

Representative Edgmon remarked on the governor's presentation from the previous day regarding spending down savings in the absence of a fiscal plan. He recognized the need to have the conversation based on the fiscal crisis. He also viewed the bill from another aspect which was the troublesome effect on rural communities and the difficulties of recruiting and retaining state employees. He spoke to generalized statements regarding considerable job loss in the private sector in Alaska. He expressed doubt that job loss was universal and noted areas of the private sector and federal jobs that were flourishing in the state. He wondered whether the sponsors researched the dynamic between recent job losses and gains and if there was a cause and effect relationship between recruitment and retention of employees.

[9:20:12 AM](#)

GRACE ABBOTT, STAFF, REPRESENTATIVE CHARISSE MILLETT, agreed with Representative Edgmon's premise and answered that the research had not been done. She cited headline

news and business's press releases indicating the loss of jobs. The legislation was an attempt to be responsive to the sponsor's observations of a "general tenor" and "initial economic outlook" as well as communication from constituents and remarked that they had not examined anyone's "bottom line." Representative Edgmon contended that had not implied that the sponsors scrutinize every business's "bottom-line" in the state. His question was about the different analysis for different industries. The economy was made up of sectors and macroeconomic analysis and Department of Labor (DLWD) information on economic trends were available. He understood many jobs were being eliminated within the oil industry and was looking for analysis presenting the "big picture." He was attempting to balance the interest between the difficulties of recruitment and retention in rural areas and the economic difficulties in the private sector.

[9:23:04 AM](#)

Vice-Chair Saddler wanted to clarify "misstatements" that were made in the press and by committee members in regards to Commissioner Fisher's statements. He contended that Commissioner Fisher had reported that entry level "educated" state workers were paid higher than "normal market wages" but at the higher ranges professionals were paid less than "market" salaries." He understood that state employees were given 3.5 percent raises each year for their first 5 years of state employment subsequently they received a 3.25 percent merit increase every two years unless a negative evaluation was issued. He cited previous testimony stating that an employee's merit increase was based on an evaluation and she would receive retroactive compensation if the satisfactory evaluation was late. He stated that the "two systems resulted in a higher pay than inflation" and in addition, employees received COLA's which counted for inflation. He reported that state "wages were 31 percent higher than inflation" in combination with the five year raises, step increases, and COLS's combined. He mentioned that the state's total payroll was \$1.2 billion. He asked whether the sponsors calculated "what the \$30 million fiscal note represented in terms of reduced raises for the \$1.2 billion in total payroll." Mr. Ervine deferred to the administration for the answer.

[9:25:19 AM](#)

Representative Gara understood that Vice-Chair Saddler had certain points he wanted to make, but felt that his own points were not misstatements and should not be characterized as such.

Co-Chair Thompson noted that DOA would testify later in the meeting.

Vice-Chair Saddler believed that he had the "right to ask that the words be taken down and verified."

[9:26:03 AM](#)

AT EASE

[9:42:49 AM](#)

RECONVENED

Representative Guttenberg mentioned that comments had been made about the private sector. He declared that the private sectors bottom line was profit driven and the state's bottom line delivered services which was a "critical" endeavor. He exemplified the court system as an entity that determined the correct level of services and had taken measures to absorb the reductions. He believed the state had asked public employees to do more with less and that the budget reductions over the last few years' impacted employees, the public sector, cut programs, and eliminated positions. He wondered whether the sponsors considered the "non-economic" impacts to the state. Mr. Ervine thought that the current bill was trying to address the loss of services by not eliminating jobs.

Ms. Abbott thought that there were non-economic impacts resulting from the legislation such as morale and that prioritizing the impacts was a policy call.

Co-Chair Thompson cautioned against asking staff policy questions. Representative Guttenberg agreed and voiced that he was asking for analysis regarding non-economic impacts and not for a value judgement of the bill.

[9:48:13 AM](#)

Representative Gara referred to page 5 of the previous day's PowerPoint presentation titled: "2016 Labor Contracts" [April 19, 2016] (copy on file). He pointed to the slide titled: "Cash Compensation" and read: "Higher

range professional employees tend to be below market and new employees tend to be below market." He noted that the statements related to salaries and asked for concurrence.

LESLIE RIDLE, DEPUTY COMMISSIONER, DEPARTMENT OF ADMINISTRATION, answered in the affirmative. She elaborated that the professionals being referred to represented professions like attorneys, doctors, and troopers with special training. New employees tended to be paid below market but the benefits helped bring their salaries up to market levels.

Representative Gara wondered whether the troopers were part of the high range professional employees. Ms. Ridle was uncertain but replied that some troopers had special training and the state was competing with local police departments within and out-of-state. She would need to research further for an accurate answer.

Co-Chair Neuman referred to the salaries of the deputy commissioners and noted the \$250 thousand salary including benefits for the Deputy Commissioner of the Department of Fish and Game (DFG). He wondered whether the salary was above or below the standard for deputy commissioners. Ms. Ridle was not familiar with deputy commissioner salaries. She did not know whether there was an across the board standard for deputy commissioners.

Co-Chair Neuman asked where it compared to compensation in the private sector. Ms. Ridle responded that she had worked in city and federal jobs and her state compensation was "on par" with those salaries. Co-Chair Neuman wanted to make the point that some state employees made exceptionally high wages and that the pay scale should be reexamined.

[9:53:33 AM](#)

Representative Wilson asked what state employees were excluded from the legislation. Ms. Ridle stated that the University and exempt agencies were not included in the bill. Representative Wilson asked her to list the exempt agencies.

KATE SHEEHAN, DIRECTOR, DIVISION OF PERSONNEL AND LABOR RELATIONS, DEPARTMENT OF ADMINISTRATION, relayed that some exempt agencies followed the state pay plan set in statute through policy and some had their own pay plan.

Representative Wilson reiterated her request. Ms. Sheehan would provide more information. Representative Wilson asked what happened when a retired person re-entered state employment. Ms. Sheehan replied that a person rehired into a permanent position could receive the same step placement based on "creditable" state service if the individual was returning to the same position. Representative Wilson asked whether the person would also receive their retirement. Ms. Sheehan responded that the retired person entering a permanent position would not receive retirement and the same scenario applied to a non-permanent position allowed the person to collect retirement but not receive a salary based on creditable state service.

Representative Guttenberg wondered whether there was a tangible benefit to the state for granting lower paying positions pay increases. He voiced that the inference was that the state was just handing employees money. Ms. Sheehan deduced that salary increases helped with recruitment and retention.

[9:57:34 AM](#)

Vice-Chair Saddler asked whether Ms. Ridle would expect to have more or fewer applicants for state jobs at a time of higher private sector unemployment. Ms. Ridle surmised that she expected to have more applicants. Vice-Chair Saddler asked whether fewer people would apply for state jobs and more employees leave state jobs if the legislation was adopted. Ms. Ridle had not analyzed recruitment in depth and could not answer the question. Vice-Chair Saddler asked whether the division knew of any studies pertaining to "where pay fits into employee morale." Ms. Ridle remarked that the state had not done any specific studies on employee morale and anecdotally thought that people who enjoyed their job and felt adequately compensated tended to have good morale. Vice-Chair Saddler was looking for scientific evidence that demonstrated a link between pay and employee morale.

Representative Wilson thought that some of the questions should be directed to the commissioner and were policy questions.

Vice-Chair Saddler asked whether Ms. Ridle felt "inadequate" to answer his questions. Ms. Ridle thought that he was asking specifically for Alaskan studies. She

agreed that there were studies that showed that morale was affected by compensation and working conditions.

Representative Pruitt was curious about exit interviews. He wondered whether state employees had been surveyed regarding employment satisfaction. Ms. Ridle stated that the state did perform exit interviews upon request.

Ms. Sheehan stated that the state did not survey its employees but was considering a system the City and Borough of Juneau (CBJ) used to perform a similar employee study.

10:02:16 AM

Representative Kawasaki referred to the previous question about merit pay ever being suspended. Ms. Ridle replied that a similar wage freeze had not been mandated in the previous 20 years. Representative Kawasaki noted that the state personnel act, Title 39 contained the merit principle from Article 7, Section 6 of the Alaska constitution. He wondered about the impact on employees if DOA abandoned the merit principle and there was a situation where one employee earned merit pay and the other did not and both were capped at the same level of pay. Ms. Ridle clarified that the merit principle related to hiring, granting wage increases, and firing based on merit and he was referring to merit step increases. She further clarified that his question was whether the state would be in conflict with the merit principle if merit step increases were not rewarded. Representative Kawasaki responded in the affirmative. Ms. Ridle responded that attorney consultation was needed to answer the question. Representative Kawasaki hypothesized a situation where two people, hired at the same time; one person performing well and the other performing poorly but neither received merit pay. He asked whether the scenario would affect morale. Ms. Ridle believed it would.

Co-Chair Thompson asked legislators to stick to questions regarding the provisions in the bill and not seek opinion.

Representative Gara hypothesized that the state's oil forecast showing that the price of oil would not rise to \$90 per barrel in 10 years was correct. He recapped that the amount was the trigger to restate merit increases. He asked whether it would be difficult for retention and recruitment if the state went 10 years without paying merit

increases. Ms. Ridle thought that it would be difficult to maintain higher level professional employees under a similar scenario.

[10:07:34 AM](#)

Representative Gattis stated she was thinking about raises in particular. She received a legal opinion and relayed that "in some instances prior legislatures have not funded salary increases mandated by state collective bargaining agreements and such action was upheld by the Alaska Supreme Court." In addition, the legal opinion noted that in the past the legislature had not appropriated increases and that it had not happened since 1985.

Co-Chair Thompson OPENED public testimony.

[10:09:07 AM](#)

KELSI PULCZINSKI, SELF, ANCHORAGE (via teleconference), supported HB 379. She thought freezing "automatic pay increases was absolutely reasonable" relative to the state's current economic situation. She related the difficult economic conditions in the private sector and its consequences. She opined that the private sector had "skin in the game" through cost cutting measures and layoffs and thought the same should apply to the state's workforce. She thanked the committee and urged member's support for the bill.

[10:11:02 AM](#)

ELISHA WAUGH, SELF, ANCHORAGE (via teleconference), spoke in favor of HB 379 and believed the bill was a "positive step" in creating a sustainable budget. He cited Department of Labor estimates that 2,300 oil and gas industry workers had been laid off in the last 12 months. He remarked that the bill was freezing pay increases and was a "reasonable" measure. He encouraged legislators to make the necessary tough decisions and urged passage of the bill.

[10:12:30 AM](#)

MIKE COONS, SELF, PALMER (via teleconference), supported HB 379. He recommended eliminating the state's unfilled positions that would save the state an "estimated \$7 million in savings." He empathized with state workers and

felt they were hard workers but felt that they had to have "skin in the game." He urged the committee to eliminate duplicate executive positions in addition to freezing wage increases.

10:14:17 AM

RYAN MCKEE, SELF, MAT-SU (via teleconference), supported passage of HB 379. He stated that the private sector had lost jobs and it was time for the state to make adjustments. He noted that the bill did not cut pay and was "just a freeze on raises" until the economy recovered. He believed that it was "absurd" to "increase taxes on oil companies" at a time of oil industry layoffs in order to "finance a pay raise for state employees." He urged the committee to pass the legislation as soon as possible.

10:15:34 AM

KIMBERLY RUDGE-KARIC, SELF, KASILOF (via teleconference), opposed HB 379. She mentioned her experience as a seasonal state employee since 1978. She felt that passage of the bill would "remove an incentive to attract and retain qualified employees." She spoke to her experience as a seasonal employee and observed supervisors and seasonal workers quit for more lucrative federal and private sector jobs that offered better opportunities for advancement. She spoke to the time investment in new hire training and the disruption in projects and lack of consistency that resulted from non-retention. She indicated that merit increases had greatly impacted her decision to remain in her seasonal position. She listed some seasonal state positions and felt they offered vital services for the state.

10:18:00 AM

NATHAN LOCKWOOD, SELF, KENAI (via teleconference), opposed the legislation. He reported that he worked for the state in the Public Defender Agency. He spoke to the issue of morale and stated that pay increases made a huge impact on morale and employment satisfaction; much more than lighting or ventilation. He understood the public's comparison between the state and private sector and voiced that "everyone in Alaska was feeling the pain of the budget crisis." He felt that the bill created a greater divide between the public and private sector and thought that the

legislation "pitted" on against the other. He believed that the perception that the public sector was "not doing anything" in response to the fiscal crisis was a "fallacy." He related that in his office three attorney positions were cut and consolidations, cost cutting measures, and furloughs were imposed. He stressed that the legislature should start generating revenues and solve the problem rather than solving the fiscal crisis by "passing the hurt on to public employees" in order to placate the private sector. He suggested that efforts should be made to educate the public about the cost cutting measures that were enacted.

[10:20:40 AM](#)

MICHAEL JESPERSON, SELF, ANCHORAGE (via teleconference), supported HB 379. He opined that a 3.5 percent automatic "cost of living" pay increase was not a pay cut. He made comparisons with the private sector. He stated that "turnover" was a common occurrence and that the bill should not affect retention. He relayed that the Alaska Chamber of Commerce reported that the state would save \$70 million by eliminating the pay increases and felt that would help offset revenue measures. He urged the committee to support the bill.

[10:22:08 AM](#)

DAVID NEES, SELF, ANCHORAGE (via teleconference), supported HB 379. He spoke to his experience of receiving a 6 year pay freeze in his job as an educator in the Anchorage School District. He noted that the freeze "contributed to a morale decline but guaranteed" that jobs stayed intact. He listed some municipalities that froze pay during the fiscal crisis in the 1980's. He urged members to support the bill.

[10:23:20 AM](#)

CARL KANCIR, SELF, ANCHORAGE (via teleconference), spoke in favor of HB 379. He discussed cuts to Social Security checks and believed that state wages should also be cut. He referenced testimony that characterized the savings from the legislation as a "drop in the bucket" but suggested that many drops added up. He thanked the committee for its time.

[10:25:17 AM](#)

CRYSTAL NORMAN, SELF, ANCHORAGE (via teleconference), supported the bill. She had worked as a contractor for Conocophillips, had received a raise, had it taken away, and eventually lost her job. She believed that the bill would not affect job retention in a job market full of job seekers. She supported the legislation in an effort to help balance the budget before "passing taxes on to the private sector."

[10:26:39 AM](#)

DAVID BOYLE, SELF, ANCHORAGE (via teleconference), spoke in favor of the legislation. He thought that "all Alaskans must sacrifice and share in the pain" during the fiscal crisis. He did want public sector employees receiving merit increases when the private sector was laying off employees and reducing benefits. He felt that the state's merit pay system was broken due to the fact that 95 percent of employees received it. He discussed the difficulties the fiscal crisis imposed on senior citizens. He noted the salary and benefit package for (Alaska State Employees Association (ASEA), the largest public employee union, and voiced that he would rather have "fewer employees standing in the unemployment line" and get paid less. He thanked the committee and urged support of HB 379.

[10:29:00 AM](#)

JEREMY PRICE, AMERICANS FOR PROSPERITY, ANCHORAGE (via teleconference), expressed strong support for HB 379 and opined that the bill was long overdue. He expressed his appreciation of state employees. However, he did not support automatic merit increases and stated that the bill "would save \$70 million to \$75 million that would not come out of taxpayer pockets." He urged members to support the bill.

[10:30:44 AM](#)

DELICE CALCOTE, SELF, SUTTON (via teleconference), relayed that she had worked for over 8 years for the Alaska Commission on Post-Secondary Education in Anchorage and supported the bill. She discussed her workload and learned that she had been replaced by 6 people over the years since she left. She referenced the commission's current administrative costs of \$15 million. She suggested that the legislature review the state's corporations and commissions

and apply the pay freeze to them. She urged support for the bill.

10:33:02 AM

JIM DUNCAN, EXECUTIVE DIRECTOR, ALASKA STATE EMPLOYEE ASSOCIATION, shared that he was previously the commissioner of DOA and served as a legislator for 24 years. He stated that "the way the bill was written really changed the rules of the game after the game was over." He did not believe the bill was a good piece of legislation. He reported that negotiations were engaged in "good faith" and contracts were written this year with no costs at the request of the legislature. The contracts took further steps and accepted additional reductions in order to contribute to the solution for the fiscal crisis. He noted that the contracts contained a zero cost of living adjustment for three years, decrease in employer health insurance contributions, mandatory furlough hours, and language that management could reduce travel costs. He declared that state employees had "stepped to the plate." He detailed that merit steps had been in place since 1960 and had never been frozen. Merit steps were not a part of monetary terms of the contract and were built into the base budget, and were funded due to turnover. Under Governor Palin they were changed to "pay increments" and were previously known as "longevity steps." He elucidated that merit steps and pay increments were established as a way to retain and recruit quality employees. He felt elimination of both would be a "major step backward for the state." He strongly opposed the legislation.

Mr. Duncan interjected that ASEA lost 400 members over the last year due to layoffs.

10:36:55 AM

JAKE METCALF, EXECUTIVE DIRECTOR, PUBLIC SAFETY EMPLOYEE ASSOCIATION, PSEA LOCAL 803, JUNEAU, reported that PSEA represented state troopers, court service officers, airport police and fire fighters, and some municipal police departments. He strongly agreed with Mr. Duncan. He stated that recruitment and retention was a serious issue and that municipal police departments were in competition with the state in recruitment to state troopers. He relayed that currently the Anchorage Police Department was recruiting for police officers and he heard that 15 to 20 Alaska State

Troopers were applying due to better pay and no travel requirements. He informed the committee that the state invested \$300 thousand to train state troopers over the first five years of state service. He suggested that the state would become the training ground for municipal and other state police forces with passage of the bill. He believed that merit pay was a fair way to ensure rewards for good service and that most police departments in the country offered merit pay. He revealed that under the PSEA contract merit pay was not automatic and issued for "above average" evaluations. He opposed the legislation.

10:39:35 AM

CURTIS THAYER, ALASKA CHAMBER, JUNEAU, spoke in favor of HB 379. He offered that he also was a previous commissioner of DOA. He was aware of the value of state employees but felt that it was unfair to grant automatic wage increases when other sectors of the economy were "handing out pink slips." He reviewed a list of reductions the private sector was engaged in. He thought HB 379 allowed state employees to keep their jobs.

10:42:25 AM

VINCE BELTRAMI, ALASKA AFL-CIO, JUNEAU, spoke against HB 379. He cited Representative Johnson's statement that the bill was something the majority caucus was working on all session. He believed that introducing the bill on the ninety-first day of session was "an example of terrible public process." He also referenced Representative Johnson's remarks that HB 379 was introduced as a bargaining chip for budget negotiations. He thought it was unconscionable to treat state employees as "bargaining chips." He compared the legislation's "\$18 million" in savings to the "\$775 million" in oil tax credits issued in FY 17. He pointed out that he was previously the executive director of the largest apprenticeship program in the state, and likened the process of journeyman apprentice advancement to a full wage over 5 years to public employees. He viewed step increases as a "progression" to full wage. He commented that step and merit increases were cost neutral as new employees replaced retired employees and absence of them "stifled incentives for performance." He quoted DOLWD statistics reporting the loss of 1,800 jobs since October, 2014 and that the state lost 1,400 jobs over the same time period with the possible loss of 1000 more

jobs. He noted that 20 percent to 30 percent of oil and gas workers lived out-of-state and did not contribute to the Alaskan economy. He furthered that "it boggled his mind that the "State Chamber of Commerce" supported a bill that cut the wages of the people that patronized chamber member's businesses. He urged the committee to oppose the bill.

[10:44:55 AM](#)

ALICIA HUGHES, SELF, JUNEAU (via teleconference), strongly opposed HB 379. She reminded the committee that state workers were also part of the legislature's constituency. She believed that a "small state tax" would generate revenues and ensured that the "public and private" sectors would share the burden. She spoke to her experience as a state employee and valued her ability to serve the state. She relayed that she had gone to the negotiation meeting with the unions. She had encouraged the contract negotiating committee to share in the burden. She felt that the bill was a divisive move and a "betrayal" and that state workers "did their part" by taking furlough days, cutting employer health contributions, and accepted a zero COLA. She suggested generating more revenue rather than keeping the state "anchored to oil" and imposing the current legislation. She felt that the bill "targeted" state employees. She opposed the legislation.

[10:47:49 AM](#)

BOB FASSINO, SELF, WASILLA (via teleconference), opposed the legislation. He did not think the legislation was "well thought out" and done at the last minute. He spoke to the necessity of merit increases for public safety, correction officers, and public employee retention. He supported raising revenue through taxes, oil tax reform, and restructuring the Permanent Fund Dividend.

[10:48:53 AM](#)

SYBILLE CASTRO, SELF, NIKISKI (via teleconference), opposed HB 379. She shared that she was a former police officer and believed that public safety and correctional officers deserved regular merit increases. She related that she was the mother of a handicapped adult and spoke to the reduction in social services in her community. She commented that she was already feeling the pain from budget

cuts and that "the elderly and the needy" were suffering the most from budget cuts. She felt that everyone in the state should stick together through the fiscal crisis. She offered that firefighters, police officers, and troopers were important positions. She suggested reducing the amount of the merit increases but not eliminating them completely.

[10:50:47 AM](#)

DAVID LANDRY, SELF, ANCHORAGE (via teleconference), spoke against HB 379. He reported that he was a construction contractor in the private sector. He referenced the sponsors and other testifier's frequent statements regarding state workers having "skin in the game." He felt that state workers would have skin in the game" just like everyone else" when taxes were imposed. He remarked that state workers reaped rewards or suffered consequences from whatever condition the economy was in. He thought the bill was "a side show" and it was "laughable" to say that the bill would help save state jobs. He thought the problem could be solved with passage of the governor's fiscal reform plan. He urged committee members to vote against HB 379.

[10:52:40 AM](#)

DANIEL HAMM, PRESIDENT OF ALASKAN REPUBLICAN ASSEMBLY, PALMER (via teleconference), spoke in favor of the bill. He stated that the public sector realized that "you don't raise labor costs during a deficit." He supported the bill because every possible budget reduction should be enacted.

[10:53:25 AM](#)

MIKE MASON, SELF, ANCHORAGE (via teleconference), spoke against HB 379. He relayed his work experience as a manager of a multimillion dollar Alaskan business and lifelong Alaskan. He called the measure "ludicrous" and stated that the bill "did nothing to resolve the very serious and dire economic circumstance" the majority in the legislature had placed the state in through "short-sighted" actions. He did not think the bill would fix what he considered a "structural budget problem" and would "degrade" state services. He urged instituting an income tax that would "offset a PFD grab." He opined that "draconian cuts" would not fix the problem but that raising revenue and supporting the governor's fiscal plan would.

10:55:29 AM

Co-Chair Neuman CLOSED public testimony.

Co-Chair Thompson indicated that he was setting the bill aside. He told committee members that amendments were due by 5:00 PM on Friday.

HB 379 was HEARD and HELD in committee for further consideration.

#  
ADJOURNMENT

10:56:05 AM

The meeting was adjourned at 10:56 a.m.