

ALASKA STATE LEGISLATURE
HOUSE LABOR AND COMMERCE STANDING COMMITTEE

April 6, 2015

3:18 p.m.

MEMBERS PRESENT

Representative Kurt Olson, Chair
Representative Shelley Hughes, Vice Chair
Representative Jim Colver
Representative Gabrielle LeDoux
Representative Cathy Tilton
Representative Andy Josephson

MEMBERS ABSENT

Representative Sam Kito
Representative Mike Chenault (alternate)

COMMITTEE CALENDAR

HOUSE BILL NO. 46

"An Act relating to membership in the Alaska Workforce Investment Board."

- MOVED HB 46 OUT OF COMMITTEE

HOUSE BILL NO. 47

"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 retirement 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 retirement 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."

- MOVED CSHB 47(CRA) OUT OF COMMITTEE

HOUSE BILL NO. 120

"An Act relating to workers' compensation and transportation network companies; and providing for an effective date."

- HEARING CANCELED

PREVIOUS COMMITTEE ACTION

BILL: HB 46

SHORT TITLE: WORKFORCE INVESTMENT BOARD VETERAN MEMBER

SPONSOR(S): REPRESENTATIVE(S) SADDLER

01/21/15	(H)	PREFILE RELEASED 1/9/15
01/21/15	(H)	READ THE FIRST TIME - REFERRALS
01/21/15	(H)	L&C
04/06/15	(H)	L&C AT 3:15 PM BARNES 124

BILL: HB 47

SHORT TITLE: PERS CONTRIBUTIONS BY MUNICIPALITIES

SPONSOR(S): REPRESENTATIVE(S) FOSTER

01/21/15	(H)	PREFILE RELEASED 1/9/15
01/21/15	(H)	READ THE FIRST TIME - REFERRALS
01/21/15	(H)	CRA, L&C
02/10/15	(H)	CRA AT 8:00 AM BARNES 124
02/10/15	(H)	Heard & Held
02/10/15	(H)	MINUTE(CRA)
02/17/15	(H)	CRA AT 8:00 AM BARNES 124
02/17/15	(H)	-- MEETING CANCELED --
02/21/15	(H)	CRA AT 10:00 AM BARNES 124
02/21/15	(H)	-- MEETING CANCELED --
02/26/15	(H)	CRA AT 8:00 AM BARNES 124
02/26/15	(H)	Heard & Held
02/26/15	(H)	MINUTE(CRA)
03/05/15	(H)	CRA AT 8:00 AM BARNES 124
03/05/15	(H)	Moved CSHB 47(CRA) Out of Committee
03/05/15	(H)	MINUTE(CRA)
03/06/15	(H)	CRA RPT CS(CRA) NT 2DP 4NR
03/06/15	(H)	DP: NAGEAK, SEATON
03/06/15	(H)	NR: DRUMMOND, REINBOLD, HUGHES, TILTON
03/30/15	(H)	L&C AT 3:15 PM BARNES 124
03/30/15	(H)	Heard & Held
03/30/15	(H)	MINUTE(L&C)
04/06/15	(H)	L&C AT 3:15 PM BARNES 124

WITNESS REGISTER

REPRESENTATIVE DAN SADDLER

Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Testified as prime sponsor of HB 46.

JOSIE WILSON, Training Manager
CH2M Hill
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 46.

GREG CASHEN, Deputy Commissioner
Department of Labor & Workforce Development (DLWD)
Anchorage, Alaska

POSITION STATEMENT: Testified during the discussion on HB 46.

REPRESENTATIVE NEAL FOSTER
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Testified as sponsor of HB 47.

PAUL LABOLLE, Staff
Representative Neal Foster
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Testified on behalf of the prime sponsor,
Representative Neal Foster.

MIKE BARNHILL, Policy Analyst
Office of the Director
Office of Management & Budget (OMB)
Office of the Governor
Juneau, Alaska

POSITION STATEMENT: Testified during the discussion of HB 47.

KEVIN WORLEY, Chief Financial Officer
Central Office
Division of Retirement & Benefits
Department of Administration (DOA)
Juneau, Alaska

POSITION STATEMENT: Explained the fiscal note for HB 47.

ACTION NARRATIVE

[3:18:10 PM](#)

CHAIR KURT OLSON called the House Labor and Commerce Standing
Committee meeting to order at 3:18 p.m. Representatives Colver,

LeDoux, Tilton, Hughes and Olson were present at the call to order. Representative Josephson arrived as the meeting was in progress.

HB 46-WORKFORCE INVESTMENT BOARD VETERAN MEMBER

3:18:36 PM

CHAIR OLSON announced that the first order of business would be HOUSE BILL NO. 46, "An Act relating to membership in the Alaska Workforce Investment Board."

3:18:50 PM

REPRESENTATIVE DAN SADDLER, Alaska State Legislature, stated that this bill will improve the Alaska Workforce Investment Board's ability to improve employment prospects for an important and growing segment of the state's workforce, by adding a seat to represent veterans.

REPRESENTATIVE SADDLER read from the following sponsor statement [original punctuation provided]:

The Alaska Workforce Investment Board (AWIB) is a 25-member board charged with helping unemployed Alaskans find jobs, and helping current workers upgrade skills find better jobs. Board members represent business, industry, education, organized labor, state government and community-based service organizations.

However, there is no representation specifically for veterans, who represent a significant and growing segment of Alaska's population. Alaska is home to more than 73,000 veterans, and boasts the highest per-capita veteran population in the nation. Each month about 320 service members separate from service at Alaska's three main military facilities: Joint Base Elmendorf Richardson, Eielson Air Force Base, and Ft. Wainwright.

Polls show 80 percent of these new veterans would love to remain in Alaska, but only 20 percent do. The inability to find a good job plays a significant part in the state's loss of these highly trained, civic-minded individuals and their families.

Having a veterans' seat on the AWIB will help the board develop workforce development policies to meet this group's significant needs. It will help provide a pool of well-trained employees for Alaskan employers. And it will help veterans transition from uniformed service, close any skills gap, find work and remain in Alaska as productive citizens. I would appreciate your support for House Bill 46.

[3:20:58 PM](#)

REPRESENTATIVE HUGHES asked for further clarification on the definition of veteran in AS 43.20.048.

REPRESENTATIVE SADDLER answered that veteran is a person who has been honorably discharged from the armed forces of the United States, including the U.S. Army, the U.S. Navy, the U.S. Marine Corps, the U.S. Air Force, the U.S. Coast Guard, the Alaska Territorial Guard, the Alaska Army National Guard, the Alaska Air National Guard, or the Alaska Naval Militia.

[3:22:05 PM](#)

CHAIR OLSON opened public testimony on HB 46.

[3:22:21 PM](#)

JOSIE WILSON, Training Manager, CH2M Hill, spoke in support of HB 46 and a specific role on AWIB [Alaska Workforce Investment Board] for a veteran. She stated that her company employs veterans, noting that 9 percent of its employees are veterans, 10 percent of its construction employees are veterans, and 12 percent of Point Thomson's employees are veterans. She stated that CH2M Hill participates in the Hero-to-Hired program (H2H) that provides additional education and support necessary to transition veterans into the workforce. She offered her belief that this specific bill will help bridge the gap and CH2M Hill supports it.

[3:24:23 PM](#)

GREG CASHEN, Deputy Commissioner, Department of Labor & Workforce Development (DLWD), stated that he oversees the AWIB [Alaska Workforce Investment Board] and formerly served as the executive director of AWIB for five years.

[3:24:59 PM](#)

REPRESENTATIVE HUGHES stated that the AWIB has five public members and approximately 73,000 veterans reside in Alaska. She asked whether any veterans have served on the board since approximately 10 percent of Alaskans are veterans.

MR. CASHEN offered that the AWIB chair is a veteran, but he was not certain about the other members. He said that the department representative oversees the Employment Security Division which has veteran representatives at its job centers throughout the state. In addition, the department has a statewide veterans' coordinator. He suggested the department has pretty good representation for veterans' services within the department. Further, the state job centers give veterans priority service, such that they go to the front of the line for services for training and other reemployment benefits.

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REPRESENTATIVE HUGHES appreciated that information. She also appreciated the sponsor was not increasing the size of the board, but was using one of the slots for public members.

[3:26:45 PM](#)

CHAIR OLSON, after first determining no one wished to testify, closed public testimony on HB 46.

[3:27:03 PM](#)

REPRESENTATIVE HUGHES moved to report HB 46 out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, HB 46 was reported from the House Labor and Commerce Standing Committee

[3:27:35 PM](#)

The committee took an at-ease from 3:27 p.m. to 3:29 p.m.

HB 47-PERS CONTRIBUTIONS BY MUNICIPALITIES

[3:29:15 PM](#)

CHAIR OLSON announced that the final order of business would be HOUSE BILL NO. 47, "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 retirement

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 retirement 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." [Before the committee was CSHB 47(CRA)]

[3:29:35 PM](#)

REPRESENTATIVE NEAL FOSTER, Alaska State Legislature, introduced himself and his staff, Paul LaBolle.

[3:29:46 PM](#)

PAUL LABOLLE, Staff, Representative Neal Foster, Alaska State Legislature, stated that HB 47, Section 1 would reset the 2008 Public Employees Retirement System (PERS) floor to 2012 for communities that have lost more than 25 percent of their population and are paying less than they would have in fiscal year (FY) 2008. It specifically excluded Atka, which was the only community whose population dropped by more than 25 percent, but whose salaries are above the 2008 floor. He said that Section 2 of the bill would change the interest rate on delinquent payments from 1.5 times the actuarial assumed rate of return or 8 percent to simply the actuarial rate of return or 8 percent for communities that make payments to the PERS system under the "2008 floor" and not under current salaries. He indicated that if they pay under current salaries, the obligation will be unchanged on delinquent payments. He said Section 3 would provide a retroactive clause that goes back to 2009.

[3:31:27 PM](#)

REPRESENTATIVE LEDOUX asked whether the fiscal note was a zero fiscal note.

MR. LABOLLE explained that the fiscal note [Retirement and Benefits dated 4/3/15] was indeterminate due to the actuarial loss versus a real loss and an estimate of annual loss and assumed rate of returns. He referred to page 2 of the fiscal

note that provides an estimate of the yearly loss. The estimate starts in fiscal year (FY) 16 at \$131,000 and fall each year FY 21, \$85,000. He pointed out that the estimate leaves out the biggest part of the fiscal note, which is the retroactivity clause. He referred members to page 2 of the letter from the actuarial, [David H. Slishinshy, ASA], which indicates \$999,000 for FY 16, for a total of \$1.13 million in FY 16. He said that the remainder of the years are unchanged since the retroactivity clause would be closed out by then. In response to Representative LeDoux he clarified that the FY 21 ongoing cost is \$85,000.

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REPRESENTATIVE COLVER requested a review/summary of the actuarial letter.

[3:33:53 PM](#)

MIKE BARNHILL, Policy Analyst, Office of the Director, Office of Management & Budget (OMB), Office of the Governor, deferred to the Chief Financial Officer for the Division of Retirement & Benefits to explain the fiscal note.

[3:34:13 PM](#)

KEVIN WORLEY, Chief Financial Officer, Central Office, Division of Retirement & Benefits, Department of Administration (DOA), referred to page 2 of the fiscal note, stating that one line was for ongoing and the other for retroactive figures.

[3:34:29 PM](#)

MR. WORLEY explained that retroactive represents revenue from 2008-2015 that the PERS retirement system would not have collected as a result in the change in salary. For example, the department will waive difference between the salaries and the actual payroll for the City of Galena.

MR. BARNHILL explained that the way that works is that the actuarial has already treated them as actuarial losses for those years and has built in the losses for those years into the actuarial rate setting for FY 08, FY 09, FY 10, FY 11, FY 12, FY 13, and FY 14. He characterized it as "water under the bridge" since it was figured into the unfunded liability so going forward it's already built into the rate setting the actuary has done. The state has been paying for that through additional

state assistance contributions to the extent that the state had a net actuarial loss with the sum total of all the actuarial losses in a particular year.

[3:36:02 PM](#)

REPRESENTATIVE HUGHES asked whether the \$999,000 was the "water under the bridge."

MR. BARNHILL answered yes.

REPRESENTATIVE HUGHES recalled that it seemed like the City of Galena's rate of \$131,000 had been \$150,000 or \$160,000. She asked for further clarification on why the ongoing figures were only \$131,000.

MR. BARNHILL referred to Appendix "A" on page 3 of fiscal note analysis from the actuarial, which shows that the City of Galena had gross salaries in FY 08 of \$1.5 million and \$765,000 for FY 12. He said that the figures represented 22 percent of \$1.5 million, which was the bill the division sent to the City of Galena since FY 08. However, what the City of Galena actually paid was 22 percent of their current payroll, or something less than 22 percent of \$1.5 million. What has happened since FY 08 was that the city's salary base reset to a lower level and it has been going up each year. Thus in FY 12 the amount was \$765,000 and in FY 14 it was over \$866,000. The actuary is predicting that in FY 16-18, the City of Galena's salary base will continue to creep up and as creeps up to the FY 08 salary level, it gets smaller each year, which is reflected in the fiscal note.

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REPRESENTATIVE HUGHES asked whether the diminishment of revenue sharing was taken into account in this analysis.

MR. BARNHILL was not sure he followed the question.

[3:38:39 PM](#)

REPRESENTATIVE HUGHES referred to the revenue sharing the state gives back to local communities, which will be reduced each year.

MR. BARNHILL related his understanding that she was asking whether the actuarial took into account the resources available

to the City of Galena for its salary base to continue to go up might be less. He surmised that the actuarial did not take that into account, but just looked at the trend. He offered to contact the actuarial and report to the committee.

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REPRESENTATIVE COLVER asked whether the bill resets the floor to June 30, 2012 for municipalities who decreased by 25 percent in the last two census reports.

MR. BARNHILL answered yes.

REPRESENTATIVE COLVER asked how this affects communities that are close to that asked whether it would that take care of them or just the City of Galena.

MR. BARNHILL answered these are communities impacted by the bill. For instance, if a community loses population in the future, this bill would not impact the community.

[3:40:29 PM](#)

REPRESENTATIVE COLVER related his understanding that this bill would reset and write off bad debt that has accrued on the higher payrolls at 22 percent of the imputed payrolls at the FY 2008 level. He further understood that ongoing costs are reflected on page 2 of the fiscal analysis. He asked whether the department's fiscal note was indeterminate. The fiscal analysis shows \$131,000 in FY 16 and \$122,000 in FY 17.

MR. BARNHILL answered that some actuarial complexity exists. He stated that the table on page 2 represents lost employer contributions to the PERS [Public Employees Retirement System]. When the state doesn't collect the revenue from employers it would normally collect, it is treated as an actuarial loss, which is added to the existing unfunded liability and amortized over a 25-year period. For example, the \$131,000 in FY 16 would be capitalized as additional unfunded liability, which would be offset against all the other actuarial gains and losses for the year. The remaining number, if positive goes against the prior unfunded liability, and if negative, it is added to prior unfunded liability and amortized. All things being equal, if the actuarial loss to FY 16 was \$131,000, the amount added to state assistance - that the state pays on behalf of all participating employers would be a fraction of \$131,000,

probably in the range of \$25,000 to \$30,000 per year in extra state assistance.

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REPRESENTATIVE COLVER asked whether a large percentage of the unfunded liability was due to generous retirement commitments a few years ago that now are showing up as the true cost.

MR. BARNHILL answered that he could discuss this matter at length; however, he summarized that the causation of the unfunded liability was a product of investment losses that were not contemplated and actual projections that were badly wrong.

CHAIR OLSON asked whether those were the mortality tables that were used.

MR. BARNHILL answered it had more to do with health cost projections in 1990s calculated 4.5 percent for FY 1999 but the actual costs for FY 1999 was 20 percent. He acknowledged that the mortality tables will be a big challenge since medical science is doing amazing things to cure disease. He expected that people will live longer. He said that in the most current set of actuarial valuations, the actuarial has recommended some additional conservative numbers in terms of mortality, which was adopted by the Alaska Retirement Management Board last year. Again, as the state moves forward in time, the state anticipates the actuaries will bring an additional conservative recommendations with respect to mortality projections.

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REPRESENTATIVE HUGHES related her understanding that the fiscal note was indeterminate, but the actuarial has provided figures on the fiscal note. She said the \$131,000 would be amortized so it would really be \$20,000-25,000 cost to the state this year. Further the \$1 million that has was considered "water under bridge." She asked whether it was a \$150,000 cost to the state.

MR. BARNHILL said that was very nearly the amount. All things being equal that's what it would be; however the state never gets an 8 percent investment return. For example in FY 14, the investment return was over 18 percent, which resulted in a net actuarial gain. He was unsure what will happen in FY 16, since the investment markets could return more than 8 percent and that could offset the actuarial loss. He suggested that in viewing the scale of investment returns, it will be very easy to wipe

out \$131,000 in actuarial losses. He predicted that 8.2 percent could completely wipe it out or 8.0105 percent. He cautioned to take these figure with "a grain of salt."

[3:47:10 PM](#)

CHAIR OLSON, after first determining no one wished to testify, closed public testimony on HB 47.

[3:47:37 PM](#)

REPRESENTATIVE COLVER said that if the state was going to expect communities to be viable, given declining state assistance, that it was very troubling they would be charged so much when they had to reduce the budget. He said that something has to be done, that cities need to be viable and continue to operate. He agreed it was a difficult problem. He offered his belief that this bill seems to be a reasonable solution, noting that the 8.2 percent return would result in no cost to the state.

[3:49:09 PM](#)

REPRESENTATIVE HUGHES commented that she cringed at thought of increasing the unfunded liability, but in considering the small amount per year or that if the state has a good year that the \$131,000 would be wiped out. She said she felt more comfortable now that she better understands the fiscal note.

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REPRESENTATIVE LEDOUX suggested that if the legislature doesn't do this some places may "turn off lights and give the keys back." She suggested that just as bankers consider the terms of the loan, and if collecting means driving the borrower into bankruptcy and the bank gets nothing, this approach probably makes sense fiscally to the state and the smaller communities.

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CHAIR OLSON thanked the sponsor for providing what appears to be more accurate information than the committee has had in the past.

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REPRESENTATIVE HUGHES reiterated that understanding the fiscal note was valuable. Further, she offered her belief that this was the fair and right thing for the communities.

[3:51:08 PM](#)

REPRESENTATIVE HUGHES moved to report the proposed committee substitute, CSHB 47(CRA), out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSHB 47(CRA) was reported from the House Labor and Commerce Standing Committee.

[3:51:30 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 3:51 p.m.