

SENATE FINANCE COMMITTEE
March 29, 2016
1:14 p.m.

[1:14:13 PM](#)

CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 1:14 p.m.

MEMBERS PRESENT

Senator Anna MacKinnon, Co-Chair
Senator Pete Kelly, Co-Chair
Senator Peter Micciche, Vice-Chair
Senator Click Bishop
Senator Mike Dunleavy
Senator Lyman Hoffman
Senator Donny Olson

MEMBERS ABSENT

None

ALSO PRESENT

Laura Cramer, Staff, Senator Anna MacKinnon; Brett Huber, Staff Senator Pete Kelly; James Armstrong, Staff, Senator Pete Kelly.

SUMMARY

SB 207 PERS AND TEACHERS EMPLOYER CONTRIBUTIONS

SB 207 was HEARD and HELD in committee for further consideration.

SB 208 ELIMINATE AK PERFORMANCE SCHOLARSHIP

SB 208 was HEARD and HELD in committee for further consideration.

SB 209 PERS EMPLOYER CONTRIBUTIONS

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

SB 210 COMM. REV. SHARING;PROP. TAX EXEMPTIONS

SB 210 was HEARD and HELD in committee for further consideration.

[1:15:34 PM](#)

Co-Chair Kelly shared that there would be a suite of bills that acted in concert with the operating budget. He hoped that the bill would cover the reduction portion of the budget. He stated that there were other bills that covered reductions in Medicaid and crime costs. He stressed that there should be a focus on mitigating the impact on communities. He stressed that the communities would be given warning, and be provided time to adjust to the proposals within the bills. He hoped that the pieces of legislation would pass, but he understood that many would not pass through the system. He remarked that the input of members of the various communities were extremely valuable.

Senator Hoffman commented on the community revenue sharing program. He stated that, at the time of the program's creation, Alaska was enhanced by substantial revenue. He hoped that the legislation would examine the program to limit its availability. He announced that the name of the program would be changed to the "Community Assistance Program."

[1:20:17 PM](#)

Co-Chair Kelly stressed that many people affected by the bills had a heightened level of concern, because they may not have all of the information. He hoped that there would be a complete discussion regarding the motivations of the bills. He stressed that there was a \$4.1 billion budget deficit, so there must be a change in the structure of government. He remarked that the bills attempted to improve the current structures.

Co-Chair MacKinnon announced that public testimony would not be taken during the current meeting. She shared that there were various pieces of analysis that should be considered, before the public could weigh in on the bills. She stated that there would be a notice regarding public testimony. She urged any criticism to be followed by recommendations.

#sb207

SENATE BILL NO. 207

"An Act relating to increasing employer contributions to the defined benefit plan in the teachers' retirement system."

1:24:15 PM

JAMES ARMSTRONG, STAFF, SENATOR PETE KELLY, introduced the legislation:

Senate Bill 207 proposes a gradual, multi-year increase in the employer contribution rate for the Teachers Retirement System (TRS) from the current level of 12.56 percent to 19 percent for FY 2017, 20 percent in FY 2018, 21 percent in FY 2019, and a final increase to 22 percent in FY 2020.

The TRS was established as a cost sharing plan in which all employers pay one uniform rate and share in the liabilities and the assets of the plan. In 2008, with the passage of Senate Bill 125, the uniform rate was established at 12.56 percent, with the State of Alaska paying the difference in costs between the uniform rate and the actuarial cost, which was determined by the Alaska Retirement Management Board and the actuary consultants to the State of Alaska. This allowed the state to share in the payment of the unfunded liability of the system with the employers.

The establishment of the 12.56 percent and the commitment of the state to assist in costs over 12.56 percent was made at a time when oil value was setting not only record price, but generating record state revenue.

From FY2008 through FY2016, TRS appropriations ranged from \$130 million to \$317 million annually. During those nine years, a cumulative total of \$1.824 billion was appropriated to the TRS unfunded liability. In addition to the state assistance payments, in FY 2015, an appropriation was made to the TRS Fund in the amount of \$2,000,000,000 in order to improve the health of the system and reduce the unfunded liability. In total, state unrestricted general fund

assistance has exceeded \$3.8 billion over the past nine years.

SB 207 is a conservative approach to balancing the state's current fiscal reality and its commitment to assisting TRS employers with the cost and the unfunded liability of the system.

[1:26:08 PM](#)

Co-Chair Kelly shared that, in 2008, there was an increase in the Base Student Allocation (BSA) to cover the PERS obligations. He stated that the increase was approximately \$80 million per year, totaling \$220 million to date. He shared that the legislature appropriated \$2 billion into the TRS unfunded liability. He queried the current number. Mr. Armstrong replied that it was \$228 million.

Co-Chair Kelly shared that the \$228 million was for TRS. Je remarked that the money was the district's obligation carried by the state. He pointed out that the districts would be obligated to a much healthier system, because of the recent deposits into the unfunded liability. He felt that the state would mitigate the impact on the community, because the state would allocated money to cover the increased cost. He shared that there was concern from the districts, because they wanted time to adjust to the increases. The bill gives the districts five years, which was more than the request for three years. He shared that it was anticipated that the districts would receive \$36.5 million to cover the costs of the increases. He wondered whether the state would cover the 10 percent. Mr. Armstrong replied that he could provide the estimates.

Co-Chair MacKinnon felt that the better numbers would be available with the Buck Analysis. She stressed that the state was working with local communities. She remarked that the state had "carried" an additional responsibility in a budget surplus time. She felt that the reiterated that the state needed to "bridge" the costs to the cause of the costs.

Mr. Armstrong noted that the mitigating funds would be appropriated using the adjusted average daily membership, which increased local need, and allowed for the communities to fund to the education cap.

Co-Chair MacKinnon noted the cash infusion to TRS of \$2 billion, as an effort to make the system whole. She remarked that there was an additional proposed cash infusion to help communities shoulder the burden

Vice-Chair Micciche felt that there should be a discussion about assignment of responsibility.

Co-Chair MacKinnon felt that the Department of Administration (DOA) could provide that information.

SB 207 was HEARD and HELD in committee for further consideration.

#sb208

SENATE BILL NO. 208

"An Act eliminating the Alaska education grant program and the Alaska performance scholarship program; and providing for an effective date."

[1:33:12 PM](#)

BRETT HUBER, STAFF SENATOR PETE KELLY, introduced the bill:

Senate Bill 208 sunsets the direct State aid for post-secondary scholarships and grants provided through the Alaska performance scholarship (APS) program and the Alaska education grant (AEG) program. This legislation proposes a wind down period to allow current APS participants, and high school seniors in the preparatory process for this application period, to finish their course of study. The APS will close to new entrants following the application deadline this July and the program will be repealed in July of 2022. Although students must qualify annually for grants under the AEG program, the sunset coincides with that of the APS in this legislation.

These state scholarship programs were adopted at a time when oil value was setting not only record price, but record state revenue. Under SB 208 the State would still continue to fund the APS the program, and the corresponding AEGs during the wind down phase, providing an orderly closure of these programs as well as a glide path for the transition.

Co-Chair MacKinnon requested a history of the program. Mr. Huber replied that in 2010, SB 221 was passed. It established the original direct state-funded post-secondary scholarship program, "The Alaska Merit Scholarship Program." A task force was established to examine higher education, and the appropriate funding for the future. He furthered that in 2012, HB 104 passed, which renamed the program to "The Alaska Performance Scholarship", and created the direct state-funded grant program, "The Alaska Education Grant." The bill also created the Higher Education Fund, which was capitalized to fund the two programs. It provided a formula of 7 percent of market value and a split of two-thirds and one-third between the performance scholarships and the education grant programs. There were other needs based and performance based grants and scholarships that had existed since the 1970s. He remarked that, in 2009, there was a multi-year capital budget appropriation of \$2.5 million as the funding mechanism that ran through 2012.

Co-Chair MacKinnon requested a Sectional Analysis.

Co-Chair Kelly remarked that there was a hope to have an overall savings, in combination with the passage of current bills, of hundreds of millions of dollars.

[1:39:04 PM](#)

Mr. Huber discussed the Sectional Analysis (copy on file):

Section 1: Removes references to statutes that are repealed in later sections of the act.

Section 2: Amends AS 14.43.810 (a) to limit Alaska performance scholarships to Alaska residents who graduate from high school in or before July 15, 2016.

Section 3: Provides that, to be eligible for an Alaska performance scholarship a student must apply to the commission on or before July 15, 2016.

Section 4: Prohibits the Department of Education and Early Development from extending a student's eligibility for Alaska performance scholarship past July 15, 2022.

Section 5: Amends AS 14.45.130(a), which relates to the duties of religious or private schools to remove references to the Alaska performance scholarship.

Section 6: Amends AS 37.14.750 (a), which establishes the Alaska higher education investment fund, to remove references to the Alaska education grant program and the Alaska performance scholarship program.

Section 7: Repeals AS 14.03.113, which requires school districts to determine whether graduating students are eligible for Alaska performance scholarships, on July 2016.

Section 8: Repeals sections that establish the Alaska Advantage education grant program and the Alaska's performance scholarship program on July 16, 2022.

Section 9: Provides that the Alaska Commission of Postsecondary Education may not award an Alaska performance scholarship to a new applicant who first applies for a scholarship after July 15, 2016.

Section 10: Allows the Department of Education and Early Development, the Department of Labor and Workforce Development, and the Alaska Commission on Postsecondary Education to adopt regulations necessary to implement the act. The regulations may not take effect before the effective date of the law being implemented.

Section 11: Makes sections 2- 4 of the act retroactive to July 15, 2016.

Section 12: Provides that sections 1, 5, and 6, of the act take effect July 16, 2022.

Section 13: Provides that sections 2 - 4, and 7 - 10 of the act take effect immediately.

Co-Chair MacKinnon queried a resource for additional information.

[1:43:37 PM](#)

Senator Dunleavy requested numbers from the inception of the program and the completion rate.

Vice-Chair Micciche requested a full set of numbers since the inception of the program; and the results and benefits to Alaskans.

Mr. Huber looked at the document titled, "Alaska Performance Scholarship and Education Grant History" (copy on file). The document provided numbers on awards, dollars, recipients, etc. He noted that the Postsecondary Education Commission also had a website; and provided an annual report to the legislature of the participation and results in the program.

Co-Chair MacKinnon stated that the commission at university would comment on the program.

Vice-Chair Micciche remarked that he wanted to know how many students were kept in the state through the program. Mr. Huber remarked that there was information available.

Senator Bishop commented that there was a program through the PickClickGive that captured all students.

Co-Chair Kelly queried more information for the state's ability to provide an education to the gifted students.

SB 208 was HEARD and HELD in committee for further consideration.

#sb209

SENATE BILL NO. 209

"An Act relating to increasing employer contributions to the defined benefit plan in the Public Employees' Retirement System of Alaska."

[1:48:51 PM](#)

LAURA CRAMER, STAFF, SENATOR ANNA MACKINNON, introduced SB 209:

Senate Bill 209 proposes a gradual, multi-year increase in the employer contribution rate for the Public Employees Retirement System (PERS) from the current level of 22 percent to 24.5 percent for FY

2017, 25.5 percent in FY 2018, and 26.5 percent in FY 2019.

In 2008, with the passage of Senate Bill 125, the uniform rate was established at 22 percent, with the State of Alaska paying the difference in costs between the uniform rate and the actuarial cost, which was determined by the Alaska Retirement Management Board and the actuary consultants to the State of Alaska. This made the PERS a cost sharing plan in which all employers pay one uniform rate and share in the liabilities and the assets of the plan. This allowed the state to share in the payment of the unfunded liability of the system with the employers.

The establishment of the 22 percent and the commitment of the state to assist in costs over 22 percent was made at a time when oil value was setting not only record price, but generating record state revenue.

From FY2008 through FY2016, PERS appropriations ranged from \$108 million to \$312 million annually. During those nine years, a cumulative total of \$1.708 billion was appropriated to the PERS unfunded liability. In addition to the state assistance payments, in FY 2015, an appropriation was made to the PERS Fund in the amount of \$1,000,000,000 in order to improve the health of the system and reduce the unfunded liability. In total, state unrestricted general fund assistance has exceeded \$2.7 billion over the past nine years.

Senate Bill 209 is a conservative approach to balancing the state's current fiscal reality and its commitment to assisting PERS employers with the cost and the unfunded liability of the system.

This legislation provides a level of stability that will assist the State of Alaska and PERS employers in fulfilling the obligation to a healthy retirement system for its members.

Co-Chair MacKinnon felt the sectional analysis was covered in the bill introduction.

[1:49:37 PM](#)

Co-Chair Kelly recalled that the initiation of the 22 percent was at a period of time when the unfunded liability obligation was approximately \$4 billion. He remarked that the stock market fell in 2008, which changed it to a \$15 billion unfunded liability.

Co-Chair MacKinnon queried the desired information to evaluate the bill.

Vice-Chair Micciche requested the history of the state's contributions to municipalities. He also wanted to understand the true rate.

Co-Chair MacKinnon explained that the state covered above the 22 percent, so municipalities covered the 22 percent.

Vice-Chair Micciche wondered what happened to the defined contribution plan piece. He wondered if the new contribution would be higher than 24.5 percent.

Co-Chair MacKinnon hoped to hear from Buck on the actuary analysis.

Ms. Cramer stated that the system allowed for every employee to be covered. She remarked that there was no differentiation between the two plans. She stated that there would be a more thorough discussion.

Co-Chair MacKinnon explained that if an average employee made \$100,000 under tier 1 with a cash call of 36 percent, the state would contribute \$36,000. A new employee under the defined contribution, the state may contribute \$12,000, creating a disadvantage. The system looked at the employees as a whole, so all employees were treated equitably when applying for a job. She remarked that it would be unfair for a new employee to outpace an older employee.

Vice-Chair Micciche wanted to clarify the burden to municipalities and the state.

Senator Hoffman queried the annual costs over the course of the five-year increment.

Senator Dunleavy wanted to examine the time of inception.

[1:56:12 PM](#)

Co-Chair MacKinnon shared that there was a new general accounting rule, so the municipalities were working on keeping up with the debt.

Co-Chair Kelly felt that there was not a connection between the APS and the bill. He felt that the money would be used as a "shock absorber" to the communities in SB 207 and SB 208.

Co-Chair MacKinnon stated that SB 207 and SB 208 were linked in an effort to use a one-time funding source to TRS.

Vice-Chair Micciche stressed that he wanted to best research the municipalities who were in the most need of relief.

Co-Chair MacKinnon stressed that SB 209 and SB 210 were interrelated in order to share the financial responsibility.

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

#sb210

SENATE BILL NO. 210

"An Act relating to the community revenue sharing program; changing the name of the community revenue sharing program to the community assistance program; and relating to the municipal property tax exemption on the residence of a senior, a disabled veteran, and a widow or widower of a senior or disabled veteran."

2:00:20 PM

LAURA CRAMER, STAFF, SENATOR ANNA MACKINNON, explained SB 210:

With a \$3.7 billion shortfall for Fiscal Year 2016 and a projected shortfall of \$4 billion for Fiscal Year 2017, the legislature is examining programs that were created to provide assistance to communities when Alaska was experiencing surplus revenues due to the high price of oil. In 2008, the legislature created the Community Revenue Sharing program, which distributes funds to communities to be spent at their

discretion. The program was established under the principle that when oil revenues were high, the wealth would be shared with local communities.

Senate Bill 210 proposes changes to the program, allowing for communities to continue to receive assistance, while establishing a structure to phase out the program as originally intended when created.

Additionally, the legislature has heard concerns from communities throughout Alaska about the burden unfunded mandates, enacted by the legislature, places on local governments. At low oil prices, the burdens on communities are enhanced and even limits local decision making. Under SB 210, discretion is returned to the local communities to enact certain property tax exemptions. This would allow communities to structure their tax exemptions to serve their residents and meet the needs of the communities to the maximum extent possible.

Senate Bill 210, helps communities transition to more local control, while continuing to receive assistance from the state as they become less reliant on state resources to support local government.

Co-Chair MacKinnon requested a sectional analysis.

Ms. Cramer discussed the Sectional Analysis (copy on file):

Section 1: Updates AS 28.10.181(d) reflecting the repeal of AS 29.45.030(i) and inserts reference to AS 29.45.050(x) where the definition of "disabled veteran" is now located as a result of this legislation

Section 2: Updates the program name change "community assistance" in AS 29.20.640(b)

Section 3: Updates the program name change "community assistance" in AS 29.45.020

Section 4: Updates AS 29.46.030(h) reflecting the repeal to 29.46.030(e) - (h) and (j)

Section 5: Moves repealed language under AS 29.45.030(k) to this section

Section 6: Updates AS 29.45.040(f) reflecting the repeal of AS 29.45.030(i) reference to AS 29.45.050(x) where the definition of "disabled veteran" is now located as a result of this legislation

Section 7: Amends AS 29.45.050(i) allowing a municipality to exempt real property from taxation making it optional under state statute and places widow or widower as a qualifier under this section

Section 8: Adds the definition of "disabled veteran" and "widow or widower" to AS 29.45.050(x)

Section 9: Moves repealed language under AS 29.45.030(e) and AS 29.45.030(i) to this section

Section 10: Updates the program name change "community assistance" in AS 29.45.660(b)

Section 11: Updates the program name change "community assistance" in AS 29.60.810 (A)

Section 12: Updates the program name change "community assistance" in AS 29.60.850 and reduces the minimum balance to \$15,000,000

Section 13: Updates the program name change "community assistance" in AS 29.60.855, changes the basic amount to \$384,000, and directs the department to reduce the basic amount pro rata if the fund balance is less than \$15,000,000

Section 14: Updates the program name change "community assistance" in AS 29.60.860(a)

Section 15: Updates the program name change "community assistance" in AS 29.60.860(b)

Section 16: Updates the program name change "community assistance" in AS 29.60.865

Section 17: Adds the community assistance program to the definition of "state money" in AS 29.71.040(h)(2) - Procurement Preference

Section 18: Updates the program name change "community assistance" in AS 36.10.090(b)

Section 19: Adds the community assistance program to AS 36.10.125(c) - employment preferences

Section 20: Adds the community assistance program to the definition of "state money" in AS 36.15.050(h)(3) - Alaska Product Preference

Section 21: Adds the community assistance program to AS 44.33.020(a) (20) requiring the Department of Commerce, Community and Economic Development to administer the program

Section 22: Updates the program name change "community assistance" in AS 46.07.080(2)(iii)

Section 23: Repeals AS 29.45.0303(a)(6), 29.45.030(e), 29.45.030(f), 29.45.030(g), 29.45.030(i), and 29.45.030(k)

[2:06:42 PM](#)

Co-Chair MacKinnon queried recommendations from the committee.

Co-Chair MacKinnon stressed that the state was in a \$4 billion deficit.

Co-Chair Kelly shared a history of the state's unfunded liability.

Co-Chair MacKinnon stressed that the suite of bills attempted to address the holes in Alaska's budget. She remarked that the bills would provide an opportunity for communities to understand the state's problems. She stressed that the committee was attempting to address the long-term fiscal problem, and the state could not continue to address the major issue with budget. She remarked that the funds were not available to continue to invest in the same way as it had in the past.

SB 210 was HEARD and HELD in committee for further consideration.

#

ADJOURNMENT

[2:13:19 PM](#)

The meeting was adjourned at 2:13 p.m.