

# Fiscal Note

State of Alaska  
2017 Legislative Session

Bill Version:	HB 47
Fiscal Note Number:	3
(H) Publish Date:	4/14/2017

Identifier: HB047-SPR-PSA-04-13-17  
 Title: MUNICIPAL PERS CONTRIBUTIONS/INTEREST  
 Sponsor: FOSTER  
 Requester: House Finance

Department: State Retirement Payments  
 Appropriation: PERS State Assistance  
 Allocation: All Other PERS  
 OMB Component Number: 2866

## Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2018	Included in	Out-Year Cost Estimates					
	Appropriation Requested	Governor's FY2018 Request	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
<b>OPERATING EXPENDITURES</b>	<b>FY 2018</b>	<b>FY 2018</b>						
Personal Services								
Travel								
Services								
Commodities								
Capital Outlay								
Grants & Benefits								
Miscellaneous	121.0		112.0	102.0	93.0	84.0	75.0	
<b>Total Operating</b>	<b>121.0</b>	<b>0.0</b>	<b>112.0</b>	<b>102.0</b>	<b>93.0</b>	<b>84.0</b>	<b>75.0</b>	

## Fund Source (Operating Only)

1004 Gen Fund (UGF)	121.0		112.0	102.0	93.0	84.0	75.0
<b>Total</b>	<b>121.0</b>	<b>0.0</b>	<b>112.0</b>	<b>102.0</b>	<b>93.0</b>	<b>84.0</b>	<b>75.0</b>

## Positions

Full-time							
Part-time							
Temporary							

## Change in Revenues

None							
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**Estimated SUPPLEMENTAL (FY2017) cost:** 129.0 *(separate supplemental appropriation required)*  
*(discuss reasons and fund source(s) in analysis section)*

**Estimated CAPITAL (FY2018) cost:** 0.0 *(separate capital appropriation required)*  
*(discuss reasons and fund source(s) in analysis section)*

## ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No  
 If yes, by what date are the regulations to be adopted, amended or repealed?

## Why this fiscal note differs from previous version:

Updated with current actuarial information. Department, Appropriation, Allocation, Component information updated.

Prepared By: Ajai Desai, Director  
 Division: Division of Retirement and Benefits  
 Approved By: Sheldon Fisher  
 Agency: Department of Administration

Phone: (907)465-4471  
 Date: 04/13/2017 10:15 AM  
 Date: 04/13/17

REPORTED OUT OF  
HFC 04/13/2017

FISCAL NOTE ANALYSIS

STATE OF ALASKA  
2017 LEGISLATIVE SESSION

Analysis

This bill modifies the 2008 salary floor set out in AS 39.35.255 on which the Public Employees' Retirement System (PERS) employer contributions are based for PERS municipalities that have sustained more than a 25% decrease in population between 2000 and 2010. The bill also creates a new subsection in AS 39.35.004 that allows the PERS Plan Administrator to determine the interest rate charged on delinquent payments to the PERS, which is currently a penalty rate of 12%. This Plan Administrator determined interest rate only applies to municipalities that meet the population decline described above.

This bill applies to five (5) PERS employers: Anderson, Atka, Galena, Pelican, and St. George. Of these five (5) employers, Atka is not impacted as their 2012 salary exceeds the 2008 salary floor. The remaining four (4) employers will see their 2008 salary floor reduced to their reported 2012 salaries.

This bill also adds AS 39.35.610(c) that if an employer who has suffered a decrease of more than 25% in population is late in transferring payrolls and funds, the Plan Administrator may assess an interest rate less than that required in section (a), which is one and one-half of the Plan's actuarial rate of return (8%), or currently 12%.

Conduent Human Resource Services (Conduent) (formerly Buck Consultants), the PERS actuarial consultant, has calculated the financial effects if this bill should pass. The basic result will be a shortfall in actuarially projected PERS employer contributions in the following amounts (\$ are in thousands):

FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
\$121.0	\$112.0	\$102.0	\$93.0	\$84.0	\$75.0

See attached letter from Conduent dated March 16, 2017. All else being equal, such amounts would count as an actuarial loss for the year, added to the unfunded liability and amortized over the descending 25 year period. The additional amortization amounts would be added to the amount of state contribution that is computed under AS 39.35.280. Over a 25 year period, the additional amounts paid under state assistance would accrue to an amount that is larger than shown in the actuarial letter.

If passed, this bill is effective immediately and is prospective, principal amounts owed by the impacted cities (the difference between the salary floor and actual payroll amounts times 22% for each fiscal year) are still due for fiscal years 2009 to 2016. The interest rate to charge on these outstanding payments would be determined by the Plan Administrator. Currently, principal amounts owed by impacted cities are as follows:

- Anderson - \$0.00
- Atka - \$0.00
- Galena - \$972,882.74
- Pelican - \$0.00
- St. George - \$208,027.03
- TOTAL - \$1,180,909.77

**EXPLANATION - SUPPLEMENTAL APPROPRIATION REQUEST**

Since the bill is effective immediately, this bill would also assume an FY 2017 supplemental contribution for the impacted employers for salary contributions that would not be collected as a result of the reduction of the salary floor for the four (4) employers effected. Conduent estimates that amount to be \$129,000. The source of the \$129,000 would also be General Funds, same as reflected for FY 2018 and out years.

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March 16, 2017

**VIA EMAIL**

Mr. Kevin Worley  
Chief Financial Officer  
Department of Administration  
State of Alaska  
333 Willoughby Avenue  
6th Floor State Office Building  
Juneau, AK 99811-0208

**RE: Fiscal Note for PERS Amending Termination Cost under HB 47**

Dear Kevin:

As requested, we are providing the following information for the fiscal note on HB 47, which assumes the State will assume certain costs with regard to the State of Alaska Public Employees' Retirement System Pension and Healthcare Plans (PERS).

**Summary of Provisions**

Under current law, employers must pay up to 22% of the maximum of:

- 1) Total current base salaries of all active members, and
- 2) Total base salaries of all active members as of June 30, 2008.

Under HB 47, this provision would be modified to have employers pay up to 22% of the maximum of:

- 1) Total current base salaries of all active members, and
- 2) The minimum of all active members' total base salaries as of June 30, 2008 and all active members' total base salaries as of June 30, 2012. The June 30, 2012 minimum would only apply to employers which are municipalities whose population decreased by more than 25% between January 1, 2000 and January 1, 2010, as reported by the United States Census Bureau.

The change takes effect immediately and impacts prospective costs only. The State is assumed to cover all costs not paid by the employers.

**Summary for Analysis**

A summary of applicable employers, as described above, was provided by you as well as payroll as of June 30, 2008 through June 30, 2016 for these employers. The three employers affected are the City of Galena, City of Pelican, and City of St. George. Of these three employers, it appears that only the City of Galena and City of Pelican are affected on an ongoing basis.



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 March 16, 2017  
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The table below shows the estimated cost of the bill for Fiscal Years 2018 through 2023. Dollars are in thousands.

HB 47 Cost	FY18	FY19	FY20	FY21	FY22	FY23
Ongoing	\$121	\$112	\$102	\$93	\$84	\$75

Future payroll was estimated to increase at 3.62% each year. Assuming this assumption holds into the future, costs would continue beyond Fiscal Year 2023, but the cost amount would be expected to continue to decrease each year.

Since the bill is effective immediately, the FY17 cost of \$129,000 may also be relevant. We leave it to the State to determine if how this cost will be reflected in this partial year.

**Additional Notes**

The assumptions, plan provisions and methods used are described in the draft actuarial valuation report as of June 30, 2016, including assumed 3.62% annual payroll growth.

Future actuarial measurements and projections may differ from the current measurements presented in this letter due to such factors as: plan experience different from that anticipated by the economic and demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements, and changes in plan provisions or applicable law.

Larry Langer is an Associate of the Society of Actuaries and David Kershner is a Fellow of the Society of Actuaries. Both are Enrolled Actuaries and Members of the American Academy of Actuaries, and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained in this letter. This letter has been prepared in accordance with all applicable Actuarial Standards of Practice.

Please let us know if you need any further information.

Sincerely,

Larry Langer, ASA, EA, MAAA, FCA  
 Principal and Consulting Actuary

David J. Kershner, FSA, EA, MAAA, FCA  
 Principal and Consulting Actuary

/mlp

cc: Ms. Kathy Lea, State of Alaska  
 Ms. Melissa Bissett, Buck Consultants



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**Appendix A**

Listing of employers whose population decreased by more than 25% between January 1, 2000 and January 1, 2010 with FY2012 payroll less than FY2008 payroll.

<b>Employer Number</b>	<b>Employer Name</b>	<b>FY08 Payroll</b>	<b>FY12 Payroll</b>
192	CITY OF GALENA	\$ 1,513,365.19	\$ 765,775.82
200	CITY OF PELICAN	\$ 161,583.91	\$ 109,791.14
256	CITY OF SAINT GEORGE	\$ 132,465.35	\$ 126,996.00

\* The most recent reported payroll for the City of St. George was for FY09. That payroll was projected at an annual increase rate of 3.62% to FY12.