

ALASKA STATE LEGISLATURE
HOUSE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE

February 28, 2017

8:00 a.m.

MEMBERS PRESENT

Representative Zach Fansler, Co-Chair
Representative Justin Parish, Co-Chair
Representative Harriet Drummond
Representative Dean Westlake
Representative George Rauscher
Representative Dan Saddler
Representative David Talerico

MEMBERS ABSENT

Representative DeLena Johnson (alternate)
Representative Jonathan Kreiss-Tomkins (alternate)

COMMITTEE CALENDAR

HOUSE BILL NO. 47

"An Act requiring certain municipalities with a population that decreased by more than 25 percent between 2000 and 2010 that participate 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; authorizing the administrator of the defined benefit retirement plan of the Public Employees' Retirement System of Alaska to reduce the rate of interest payable by certain municipalities that are delinquent in transmitting employee and employer contributions to the retirement plan; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 47

SHORT TITLE: MUNICIPAL PERS CONTRIBUTIONS/INTEREST

SPONSOR(S): REPRESENTATIVE(S) FOSTER

01/18/17	(H)	PREFILE RELEASED 1/13/17
01/18/17	(H)	READ THE FIRST TIME - REFERRALS

01/18/17 (H) CRA, FIN
02/28/17 (H) CRA AT 8:00 AM BARNES 124

WITNESS REGISTER

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

POSITION STATEMENT: Presented HB 47 on behalf of Representative Foster, prime sponsor.

REPRESENTATIVE NEAL FOSTER
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: As prime sponsor, offered remarks during the hearing on HB 47.

KATHIE WASSERMAN, Executive Director
Alaska Municipal League (AML)
Juneau, Alaska

POSITION STATEMENT: Testified in support of HB 47.

JON KORTA, Mayor
City of Galena
Galena, Alaska

POSITION STATEMENT: Testified in support of HB 47.

SHANDA HUNTINGTON, Manager
City of Galena
Galena, Alaska

POSITION STATEMENT: Answered a question during the hearing on HB 47.

ACTION NARRATIVE

[8:00:58 AM](#)

CO-CHAIR JUSTIN PARISH called the House Community and Regional Affairs Standing Committee meeting to order at 8:00 a.m. Representatives Talerico, Saddler, Westlake, Rauscher, Fansler, and Parish were present at the call to order. Representative Drummond arrived as the meeting was in progress.

HB 47-MUNICIPAL PERS CONTRIBUTIONS/INTEREST

[8:01:48 AM](#)

CO-CHAIR PARISH announced that the only order of business would be HOUSE BILL NO. 47, "An Act requiring certain municipalities with a population that decreased by more than 25 percent between 2000 and 2010 that participate 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; authorizing the administrator of the defined benefit retirement plan of the Public Employees' Retirement System of Alaska to reduce the rate of interest payable by certain municipalities that are delinquent in transmitting employee and employer contributions to the retirement plan; and providing for an effective date."

8:02:41 AM

PAUL LABOLLE, Staff, Representative Neal Foster, Alaska State Legislature, presented HB 47 on behalf of Representative Foster, prime sponsor. He paraphrased the sponsor statement [included in the committee packet], which read as follows [original punctuation provided, with some formatting changes]:

HB 47 seeks to correct an unintended consequence of the PERS "salary floor" established in Senate Bill 125 of the 25th Legislature.

Senate Bill 125 changed the PERS system from a multiple employer plan to a cost share plan. It transferred the individual liability of the 160 PERS employers and consolidated it so that all the employers share in that liability.

Senate Bill 125 also created what is commonly referred to as the 2008 salary floor. This requires employers contribute 22% of annual salaries or 22% of FY 08 salaries, whichever is greater. The floor was instituted to ensure that the system could not be "gamed" by discouraging employers from replacing PERS employees with contract hires to reduce their base contribution to the system.

Some municipalities have found themselves under the 2008 floor through no fault of their own. A large change in population results in a reduced tax base,

which affects the services a city can provide. As that financial reality drives a city to downsize, current law exacerbates this problem by keeping their PERS contribution at the 2008 level. This bill targets the communities whose population has dropped by more than 25% since the previous census.

HB 47 will address this issue in two ways:

1. Establish a new floor of FY 2012 for communities whose population decreased by more than 25% between 2000 and 2010.
2. Allows the PERS administrator to negotiate penalty interest rates on delinquent payments.

HB 47 does not intend to repeat the "2008 floor" debate but to correct one of the unintended consequences caused by the arbitrary line that debate created.

I urge your support of this legislation.

[8:04:48 AM](#)

MR. LABOLLE stated that from a fiscal point of view, as the [amount owed in] payments continues to increase and communities are unable to pay, and because the communities cannot, under state law, declare bankruptcy and cannot dissolve without first resolving their debts, these communities "turn off the lights and leave the keys in the door," and as a result the state must pay the entirety of the Public Employees' Retirement System (PERS) obligation, not just its own portion of it.

MR. LABOLLE named the following communities cited in HB 47 that have lost population: Anderson, St. George, Atka, Pelican, and Galena. Of the five, Pelican and Galena are the only ones that would be affected by the proposed legislation, because Anderson and St. George no longer have any PERS employees and Atka is presently above the 2008 salary floor in its gross salaries.

[8:06:17 AM](#)

REPRESENTATIVE NEAL FOSTER, Alaska State Legislature, as prime sponsor of HB 47, stated that one of the concerns was that municipalities would contract out for their employees so that the employees were not actually on their rolls, thus the

communities were not responsible for having to contribute to the retirement system. He indicated a floor was set to prevent municipalities from gaming the system, which was a good thing; however, it was not foreseen that communities such as Galena would have a military base leave its small community and end up having to substantially reduce the number of people on the employee rolls. When that happened, he said, Galena's bill began adding up, because the municipality is liable for a minimum amount of payment into the retirement system, and yet it has significantly lower personnel on its employee rolls. He echoed Mr. Labolle's caution that the community may just shut down and [leave the state with the full payment obligation]. He said HB 47 provides the opportunity to continue to allow those affected by this issue to continue to operate as a municipality and be able to pay at least a minimal rate rather than walking away without paying anything.

[8:08:35 AM](#)

REPRESENTATIVE RAUSCHER asked how much the state is "on the hook for."

MR. LABOLLE answered that to know the amount in total, an actuarial study needs to be done, and a study will at some point be completed and the results will be added to the proposed legislation before it is heard by the House Finance Committee. In regard to the difference in cost going forward, he advised that for the two affected communities: Take the FY 08 floor, subtract the FY 12 floor, and multiply that by 22 percent - the contribution rate - and that equals the "worst-case scenario," which is about \$186,000. He explained that neither Galena nor Pelican are at that worst-case scenario, at FY 12; they are paying above that. He said, "What those ... gross salaries will be in the future is indeterminate, so we don't know what the total cost will be, but that's as bad as it gets."

REPRESENTATIVE RAUSCHER, in reference to the aforementioned municipalities, asked, "How bad off are they?"

MR. LABOLLE responded that he is not well acquainted with Pelican, but it is a small fishing town that has been dwindling over the years. He added that although the proposed legislation would certainly help Pelican, it may not be enough help. He said Galena is doing quite well, having begun biomass heating and doing quite a bit within the community to be self-sufficient; however, it still has a looming, crushing debt. In

response to a follow-up question, he renamed the list of communities.

8:12:34 AM

CO-CHAIR PARISH noted that the list of communities affected is found on "the second page of your first fiscal note."

8:12:52 AM

MR. LABOLLE, in response to Representative Rauscher, reiterated the reasons why Anderson, St. George, and Atka would not be affected by the proposed legislation. He stated that in FY 12, gross salaries for Galena were \$755,000 and were up to \$913,000 for FY 16 gross salaries. Pelican's gross salaries were down to \$105,000 and are now up to \$135,000. He concluded, "So, those employees' salaries are growing."

8:14:08 AM

REPRESENTATIVE SADDLER asked if the affected communities increased their contribution to PERS in the face of their reduced employee counts or "did they just let it ride at the same rate?" He explained he was trying to figure out why the increasing delinquencies occurred.

MR. LABOLLE answered that Galena maintained its 22 percent payment on current gross salaries rather than paying the 2008 floor, which he confirmed would have been more money.

REPRESENTATIVE SADDLER concluded then that Galena had "adhered ... to one of the requirements and not the other."

MR. LABOLLE answered that is correct. In response to a follow-up question, he said whether or not Galena should be held culpable for that choice is the policy call of the committee.

REPRESENTATIVE SADDLER said he knows that the U.S. Department of Defense (DoD) offers economic readjustment funds to communities that are affected by base closures. He asked if the City of Galena obtained any benefit from DoD for economic readjustment after the air station was closed.

MR. LABOLLE deferred to representatives from Galena to answer the question. He did offer his awareness that "they did leave behind a significant amount of fuel for the city," which has been using that as a bridge while working on its biomass energy

source. In response to a follow-up question, he offered his understanding that the military had pulled out of Galena in 2008.

REPRESENTATIVE SADDLER questioned whether HB 47 would be a fix for only a couple of specific situations and if other communities might experience such a "large reduction" [in population]. He said he wants to ensure the legislature sets the right policy for the future rather than just fixing an individual situation that potentially could be fixed by "working a deal or special appropriation or a special assessment." He said, "I don't know whether this is an appropriate situation to be making ongoing future policy." He cautioned that one solution that might work for Galena may not work for another community.

MR. LABOLLE proffered that the way the 2008 law was passed tied the hands of the administration and did not allow a deal to be made. The administration has to collect the '08 floor or the gross salaries, whichever is greater - it has no negotiating option in statute - and delinquent payments must be assessed the statutory 12 percent interest rate - the administration has no option on that.

REPRESENTATIVE SADDLER said he had not gone through the statute to figure out what 12 percent is, but surmised it is a good deal higher in the current market. He asked whether there is a section in [the proposed bill] that might reset that interest rate.

MR. BOLE answered that there is no provision under HB 47 to reset the interest rate, but there is a provision that would allow the PERS administrator to "negotiate the delinquent interest rate for affected communities." He said the 12 percent interest rate is "not set by the number 12," but is set by the expected actuarial return, which is 8 percent, then one and a half times that, which is 12.

[8:18:44 AM](#)

REPRESENTATIVE DRUMMOND said she feels like she has seen this bill at least twice in the last four years. She stated that the aforementioned communities had paid "all of the PERS supports for employees that they had when they had them." She asked for confirmation that HB 47 would assist those communities that have lost employees and, thus, fallen below the floor that was set in 2008, and those communities paid the contributions for the PERS

employees at the time they actually had the employees and continue to pay for any PERS employees they do have; "it's just that the floor was set artificially high and they have fallen below in some cases."

MR. LABOLLE confirmed that is correct.

[8:19:48 AM](#)

REPRESENTATIVE SADDLER clarified that communities pay only part of the PERS obligation, while the State of Alaska pays the rest.

MR. LABOLLE clarified that the communities have paid their gross salary requirement of 22 percent; however, they paid it on their current employees and not on the 2008 floor.

REPRESENTATIVE SADDLER asked if the State of Alaska had paid in excess of that 22 percent.

MR. LABOLLE deferred to the administration.

[8:20:47 AM](#)

REPRESENTATIVE WESTLAKE said HB 47 looks like a good bill. He observed, "You're locking down the floor; you're going from 2000 to 2010 on that." He asked, "Is there a reason we're going to an off year, a 2012 level, as we're talking about the PERS rather than the chronological lock ... that we have on here?"

MR. LABOLLE answered that 2012 is the "bottoming out point" for both the affected communities; it's the point at which the salaries of those communities stopped going down and "started going back up."

[8:21:25 AM](#)

REPRESENTATIVE TALERICO asked if "the bill that we would submit" to Galena "would be about 50 percent of their current employees' salary level."

MR. LABOLLE answered that [Galena's] gross salaries were at approximately \$1.5 million in FY 08 and now are at approximately \$900,000.

REPRESENTATIVE TALERICO asked for clarification that "they're still well above the 22 percent because of that floor that's structured there."

MR. LABOLLE answered that [Galena] is below the FY 08 floor, but above the FY 12 floor.

[8:22:30 AM](#)

REPRESENTATIVE RAUSCHER expressed concern that people will see the state bailing out these communities from bankruptcy and will get the message that they will "get a break" if they don't pay the state back and instead spend their money on something else.

MR. LABOLLE said he thinks it is better to have [municipalities] pay what they can rather than have the state be on the hook for the entire amount.

[8:24:44 AM](#)

REPRESENTATIVE FOSTER indicated that he thinks [Representative Rauscher made] a valid point. He said he thinks this is a policy call and "you take things on a case-by-case basis." He opined that the situation where a military base relocates is one for which the state can make an exception, but perhaps in a case where a smaller military unit moves out the decision may not be the same. He said it is a subjective issue.

[8:25:40 AM](#)

MR. LABOLLE pointed out that because the metric of the bill is based on the 2000 and 2010 Censuses, the information has already been gathered on the aforementioned communities and all the details about each them are known.

[8:26:11 AM](#)

REPRESENTATIVE SADDLER stated that the legislature is encouraged not to pass legislation that benefits any one person or entity. He asked if the sponsor thinks that "the narrow applicability" of the proposed legislation is cause for concern.

MR. LABOLLE answered that "the single entity is not specified in legislation." He said the proposed legislation has to do with population loss, and it just so happens that there are only five communities with such a high population loss. He said the bar was set high on purpose, and when the bill sponsor initiated HB 47, he did not know how many communities would be affected.

REPRESENTATIVE SADDLER asked Mr. Labolle to talk about the circumstances under which the four communities besides Galena experienced a large drop in population.

MR. LABOLLE deferred to Representative Talerico for information pertaining to Anderson; he said Pelican is a fishing community that has lost people that have moved elsewhere; and he said he could not answer the question in relation to St. George and Atka.

[8:28:21 AM](#)

REPRESENTATIVE TALERICO offered that a change in the management plan at the Clear Airforce Station and a new shift structure resulted in more of its active members living elsewhere and commuting to the base.

[8:29:33 AM](#)

REPRESENTATIVE RAUSCHER observed that although there is a zero fiscal note, the proposed legislation would cost the state \$1,014,000.

MR. LABOLLE responded that the fiscal note is actually indeterminate and there certainly will be a cost associated with HB 47. He said the actuarial study he mentioned before will, when done, give a guideline, but will not give an exact cost. He explained that under HB 47, the unfunded liability in PERS will be increased slightly. He said David Teal from Legislative Finance described that increase when compared to the entire system as "decimal dust."

[8:31:36 AM](#)

KATHIE WASSERMAN, Executive Director, Alaska Municipal League (AML), told the committee that she had been the mayor of the City of Pelican for over eight years, and the reason [for the drop in population there] was not just people moving to Juneau, but that the main economic driver of Pelican for about 80 years was a cold storage, which was purchased by Kake Tribal Corporation, who then went into bankruptcy and left town. She said that took away the majority of jobs, and many fishermen went elsewhere to sell their fish. In terms of whether Pelican is a viable community, she said that is up in the air. She pointed out that many small communities such as Pelican rely on the certain decisions made by the legislature.

MS. WASSERMAN stated that AML and all 164 municipalities - or at least all those with PERS employees - have been working for many years on this issue. She said HB 47 morphed from a study done related to termination costs and below-the-floor costs, which have taken a toll on most municipalities by not allowing them to be flexible with their workforce, because if a municipality falls below the 2008 floor, it automatically incurs added expenses. She said, "So, in order to trim ... your employee base, you're going to look at adding money to your budget, rather than ... depleting your budget, ... in some ways." She stated that when "these other communities" that could not pay the below-the-floor cost began incurring 12 percent, "we saw that amount just skyrocket." She said at some point the state will not get that money, because those cities do not make enough in any year to be able to pay the amount they owe the state.

MS. WASSERMAN stated:

To say that "well, we don't want to set a precedent," and "these communities have got to pay what they owe," remember: this all came about because we have taken on the responsibility to pay 22 percent of the ... state PERS retirement system that was mismanaged by the state.

MS. WASSERMAN stated that AML supports HB 47 as a help to a few small communities. She indicated that AML would work with communities to find ways to manage their personnel in a better, more effective way.

[8:35:47 AM](#)

CO-CHAIR PARISH opened public testimony on HB 47, acknowledging that he had not done so prior to Ms. Wasserman's testimony.

[8:36:00 AM](#)

REPRESENTATIVE SADDLER offered an analogy of someone who has a car loan and cannot make payments because of job loss but then starts getting late fees and higher interest rates, which snowball. He asked if the analogy illustrates what is happening with some municipalities.

MS. WASSERMAN answered yes. She indicated that when this issue first came to her attention, Galena had a bill for \$194,000. Years later, that community could be facing a bill of over one

million dollars. She said, "At some point, you just don't keep tacking on thousands and thousands and thousands of dollars [in] interest, because nobody's going to win. The state ... can't collect from very small communities." She said Pelican does not have the ability to pay 12 percent interest. She added, "I mean they didn't even go out and get something for this bill." She reiterated that these small communities have taken on the state's liability. She concluded, "So, at some point, it's just not going to happen."

REPRESENTATIVE SADDLER suggested that the analogy that may fit more closely is one related to credit card debt with high interest rates rather than car payments. He noted that Ms. Wasserman had said this is not a community obligation but is a state obligation. He asked, "Does a local municipality bear any responsibility for the retirement cost for its employees or is that entirely a state cost?"

MS. WASSERMAN answered that municipalities have taken responsibility by paying 22 percent of salary, and a great portion of that goes to the unfunded liability. She emphasized that municipalities have not fought and will not fight that 22 percent.

REPRESENTATIVE SADDLER asked how much the state has taken on above the 22 percent threshold as part of its "agreement to help bear that cost for the poly subs."

MS. WASSERMAN answered, "This year I think the actuarial required rate is 25 percent, so 25.1, so I think year it's 3.1 percent."

[8:39:09 AM](#)

REPRESENTATIVE RAUSCHER told Ms. Wasserman that there are always two sides to every story and he appreciated hearing her side.

[8:39:44 AM](#)

JON KORTA, Mayor, City of Galena, emphasized the importance of HB 47 for communities such as Galena that have seen population decreases in the last decade. He related that the Galena forward operating location (FOL) was closed by the U.S. Air Force on 10/1/10 as part of the Base Realignment and Closure (BRAC), but the process had been in motion for four years. He said the air force base was the main source of employment for residents of Galena, and not surprisingly, the base closure

resulted in a reduction of the population. He said in 2000, the City of Galena had 675 residents; in 2010, the community had 470, which represented a 30 percent decline. He said the City of Galena was again hit by hardship in the spring of 2013, when ice dammed the Yukon River and inundated the city, leading to a federal disaster declaration.

MR. KORTA said the 2008 floor established by current law did not prevent a municipality from gaining PERS by contracting out work previously performed by municipal employees in order to avoid making ongoing contributions to PERS. He said the current minimum contribution is based on the level of salaries that existed in 2008. He said, "This purpose does not account for Galena's situation." He said it neither intended nor does it contemplate municipalities with sharply declining populations. He said HB 47 does not change the PERS policy, but recognizes nuance, because the proposed legislation would recognize those communities, like Galena, that suffered a minimum 25 percent decline in population between 2000 and 2010. He said to put that in perspective, the 25 percent threshold would represent the loss of 75,000 people from Anchorage or 8,000 people from Juneau. He asked the committee to consider what would happen if the borough's population declined by 30,000, while at the same time Fort Wainwright and Eielson Air Force Base were closed. He said the demand for municipal administrative and public services would decline sharply, and so would the municipality's ability to provide these services having lost the region's economic driver.

MR. KORTA said HB 47, which would move the floor from 2008 to 2012 for the communities that have experienced these huge losses does not provide a loophole allowing Galena, or any other community with a similar population loss between 2000 and 2010, to "game the system now or in the future." He said the City of Galena's budgeted payroll for fiscal year 2015 (FY 15) is "above the 2012 amount for 17 employees," though the city's circumstances are not a result of any choices that it made. He said the relationship between the declining population and the declining payroll is clear: Fewer residents lead to fewer public employs, which in turn leads to lower public payroll. Mr. Korta stated that based on the 2008 floor, the City of Galena is required to pay an amount "owed by a city substantially larger than Galena." Galena's required PERS contribution approaches half of the city's entire payroll. He said the City of Galena's FY 08 salary total was \$1,513,365 for 36 employees; therefore, the city's annual minimum PERS contribution is \$332,940. He said in FY 12, the City of

Galena's payroll was \$765,000 for 17 employees, and that is the year that HB 47 proposes to move the floor for cities that saw a decrease in population between 2000 and 2010. He said under the 2008 floor, the City of Galena's annual minimum PERS contribution is nearly half of the city's entire payroll cost. He stated that for the City of Galena, the difference in PERS contributions between the 2008 and 2012 floors is \$154,000. He indicated that the difference would continue to increase going forward. Under statute, any unpaid amount accrues interest at 12 percent.

MR. KORTA stated, "This ever-increasing obligation adds to an already stressed situation." He said the city's financial situation was so severe in FY 11 that it required a low-interest loan through the Alaska Municipal Bond Bank to address the severe cash flow crisis that was preventing the city from being able to secure fuel for heat and electricity. He emphasized that if the city cannot pay its bills, "the lights go out in Galena." He opined that the 2008 floor was a "solid piece of legislation furthering its own policy," but it does not account for cities that have suffered massive population contractions. The proposed bill would further the underlying policy goals of the regulatory structure and help ensure that municipalities are able to continue contributing to PERS, while recognizing that a city "cannot and should not have to make the contribution of a city that has a significantly larger population." He opined that recognizing that the City of Galena is not the same community it was before the base closed and 30 percent of its population moved away is good policy that would help ensure that the community continues to contribute to PERS while keeping its lights on. He concluded, "Recognizing the reality of sharply declining populations is a worthy amendment and is just plain fair."

[8:46:11 AM](#)

REPRESENTATIVE SADDLER asked if the U.S. Department of Defense (DoD) offered the City of Galena any economic readjustment assistance either through goods or services, financing, equipment, or cash. He also asked if the military facility that had been in Galena was a "forward air station."

MR. KORTA reiterated that it was an FOL. He said that he was not the mayor at that time, but the most significant contribution offered by the air force at that time was fuel, which the community was able to utilize and still uses to this day to operate a boarding school on the base. He said the use

of that fuel has allowed the City of Galena to "grow that program." He related that the city is transitioning away from diesel fuel and into biomass. In response to a follow-up question from Representative Saddler, regarding the value of the fuel, he deferred to the city manager.

[8:47:37 AM](#)

SHANDA HUNTINGTON, Manager, City of Galena, offered her recollection that the City of Galena received 1.9 million gallons of fuel in 2009 to support the boarding home school program. In response to a follow-up question, she said she thinks the value placed on the fuel at the time was \$1.92 [per gallon].

[8:48:28 AM](#)

REPRESENTATIVE RAUSCHER expressed appreciation for the testimony given by the mayor of the City of Galena.

[8:48:52 AM](#)

REPRESENTATIVE WESTLAKE asked if the fuel was a federal or state asset at the time.

MR. KORTA said he assumes that it was a federal asset.

[8:49:20 AM](#)

MS. HUNTINGTON began to paraphrase her written testimony [included in the committee packet], which read as follows [original punctuation provided, with some formatting changes]:

My name [is] Shanda Huntington and I am the city manager for Galena, Alaska. Before serving as the city manager, I served as the city clerk for 6 years. I was also born in Galena, grew up there, and raised my children in Galena. I would like to follow up on Mayor Korta's testimony with information relating to Galena's population decline, the base closure, and the effects on city payroll and finances.

As Mayor Korta said, the air force base officially closed in 2010, following a multi-year drawdown. In 1990, before base realignment, Galena's population was 847. Galena has always been a small city and the base was the driver of economic activity. According to the

2000 census, the number of residents, which does not include all of the Air Force personnel, was 675. That number had dropped to 470 with the 2010 census. 205 people may not sound like a lot, but it represents a 30% decrease in the City's resident population between the two censuses. 30% of residents moved away, but the decline in the city's economic activity was much greater. Without the base, the decline in demand for city services was disproportionate to the population decrease.

For FY 2008, the current floor year, Galena's salary total was \$1,513,365.19 for 36 employees. Therefore, Galena's annual minimum PERS contribution is \$332,940. In FY 2012, the amended floor year, Galena's payroll was \$765,776 for 17 employees. Between FY 2008 and FY 2012, Galena's payroll was cut in half, reflecting the decrease in population and in economic activity. Galena's current annual minimum PERS contribution of \$332,940 is nearly half of the City's FY 2012 total payroll costs. Allowing a floor year of 2012 for cities that experienced a drastic decrease in population changes Galena's annual minimum contribution to \$168,940.

For Galena, the difference in PERS contributions between the 2008 floor and FY 2012 actual payroll is \$164,000. This difference will continue going forward creating an ever increasing obligation. By statute, any amount unpaid accrues compounded interest at 12%. This ever-increasing obligation adds to an already stressed situation. The City's financial situation was so severe in FY 2011 that it required a low interest loan through the Alaska Municipal Bond Bank to deal with a severe cash flow crisis that was preventing us from being able to secure fuel for heat and electricity. Simply put, if Galena can't pay its bills, the lights go out in Galena.

Reasonably adjusting the floor year for severely impacted cities does not mean that the cities will pay the minimum amount only. Modifying the floor year changes Galena's minimum annual contribution from \$332,940 to \$168,940; the actual contribution may be higher. For FY 2013, Galena would in fact pay more than that amended minimum. For FY 2013, Galena added one employee, for a total payroll of \$895,784.53. For

FY 2013, Galena's contribution would have been above the 2012 floor by approximately \$30,000.

HB 47 simply recognizes that reality of drastic population decreases experienced by some Alaska cities, using a clearly defined metric: a 25% decrease in population according the 2000 and 2010 censuses.

The base closure has been very difficult for Galena. As previously noted, Galena required a low interest loan through the Alaska Municipal Bond Bank to secure fuel for heat and electricity in FY 2011. In the last several years, Galena's finances have stabilized and there are even indicators of recovery after the catastrophic decline. We cannot say what will happen to Galena's population long-term, but we believe that we've turned a corner in terms of population and finances.

The City of Galena is adjusting to a new reality following the base closure and loss of 30% of the population. This legislation is one part of that adjustment. I became city manager during a difficult period for the City. Our finances have stabilized somewhat over the last several years. Requiring the City of Galena to pay to PERS a contribution owed by a much larger city weakens Galena, and threatens its ability to provide any contribution to PERS. We are cautiously optimistic that the City will become stronger and even grow over time. If and when Galena becomes the city it was in 2008, the city will be required to make a PERS contribution commensurate with that size and payroll, and will do so gladly, but it's not that city right now and the oversized PERS contribution inhibits it from becoming so.

Recognizing the reality of drastically declining populations is a matter of simple fairness. The amendment recognizes this and ultimately promotes the goals of PERS: ensuring that Alaska municipalities continue to contribute their fair share to the system.

I'd like to thank the committee for taking time today so that I may explain the importance of this amendment for communities like Galena that have seen significant population decreases in the last decade.

[8:55:31 AM](#)

REPRESENTATIVE SADDLER asked what the population of the school is and whether the trend is that it is on the increase or decline or holding steady.

MS. HUNTINGTON offered her understanding that currently the population at the boarding home school is 225 students and the number is increasing.

REPRESENTATIVE SADDLER said he appreciates that the City of Galena is looking to the future and trying to build itself up as an educational center. He remarked that by his calculation, the aforementioned diesel price per gallon would mean that the total value of the fuel was approximately \$3.6 million. He asked if the value of that was used solely for the school or if some of it was used to help out with the municipal government's expenses.

MS. HUNTINGTON recollected that in 2008, the City of Galena transferred 300,000 gallons to its power plant, but was penalized for three years following that, and she said she thinks the City of Galena learned a hard lesson because of that. She said right now the fuel is used solely for the school. In response to a follow-up question, she said she believes there are 385,000 [gallons remaining] in the tank.

[8:57:39 AM](#)

CO-CHAIR PARISH, after ascertaining that there was no one else who wished to testify, closed public testimony on HB 47.

[8:57:55 AM](#)

REPRESENTATIVE RAUSCHER asked if the intent is to pass the bill out of committee today.

CO-CHAIR PARISH answered no, but possibly as soon as Thursday.

[8:58:18 AM](#)

REPRESENTATIVE SADDLER said special interest legislation causes him concern because it sets a bad overtone, and HB 47 would address only those communities that "happen to fall into this trench." He suggested he may speak with the bill sponsor to consider all communities in the future that see such a significant drop in population from Census to Census, because

what happens in each ten-year period may result in the need to bring similar legislation back before the legislature.

[HB 47 was held over.]

[8:58:54 AM](#)

ADJOURNMENT

There being no further business before the committee, the House Community and Regional Affairs Standing Committee meeting was adjourned at 8:59 a.m.