

SENATE FINANCE COMMITTEE
March 23, 2017
9:15 a.m.

9:15:54 AM

CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 9:15 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Anna MacKinnon, Co-Chair
Senator Click Bishop, Vice-Chair
Senator Mike Dunleavy
Senator Peter Micciche
Senator Natasha von Imhof

MEMBERS ABSENT

Senator Donny Olson

ALSO PRESENT

Sheldon Fisher, Commissioner, Department of Administration;
Kate Sheehan, Director, Division of Personnel and Labor
Relations, Department of Administration; Bill Milks, Office
of the Attorney General, Department of Law.

SUMMARY

HB 57 APPROP: OPERATING BUDGET/LOANS/FUNDS

HB 57 was SCHEDULED but not HEARD.

HB 59 APPROP: MENTAL HEALTH BUDGET

HB 59 was SCHEDULED but not HEARD.

SB 31 NO ST. EMPLOYEE PAY INCREASE FOR 2 YRS

SB 31 was HEARD and HELD in committee for further
consideration.

#sb31

SENATE BILL NO. 31

"An Act relating to compensation, merit increases, and pay increments for certain public officials, officers, and employees not covered by collective bargaining agreements; and providing for an effective date."

9:16:22 AM

SHELDON FISHER, COMMISSIONER, DEPARTMENT OF ADMINISTRATION, discussed the presentation, "Salary Freeze for Nonunion Employees" (copy on file). He turned to slide 2, "What Does the Bill Do?":

- Addresses pay increases in the form of:
 - Cost of Living Allowance (COLA)
 - Merit increases (3.5% every year for five years)
 - Pay increments (3.25% every other year)
 - Bonuses
- Allows the Governor to reduce his salary
- Effective July 1, 2017 - June 30, 2019

Commissioner Fisher explained the legislation would freeze pay increases for two years, would affect the governor's pay, and apply to exempt and partially-exempt employees.

9:18:18 AM

Commissioner Fisher showed slide 3, "Understanding Exempt and Partially Exempt":

Exempt

- Can only be exempt through statute (AS 39.25.110)
- Exempt from Personnel Act and statutory pay plan
- Examples: Governor's Office, Legislative staff

Partially Exempt

- Through statute or Personnel Board
- Subject to Personnel Act and statutory pay plan
- Examples: Deputy Commissioners, Directors

Commissioner Fisher noted that the group referred to those employees who set policy.

9:19:00 AM

Commissioner Fisher displayed slide 4, "Who Does the Bill Include?":

- (1) Employees not covered under a collective bargaining agreement in the executive branch, including: employees of boards, commissions, authorities, and executive officers;
- (2) Employees in the legislative branch;
- (3) Employees not covered under a collective bargaining agreement of the University of Alaska;
- (4) The governor, lieutenant governor, department heads, and legislators.

Commissioner Fisher noted that the bill did not include the court system.

[9:19:32 AM](#)

Commissioner Fisher discussed slide 5, "Why is the Bill Needed?":

This legislation was introduced as part of the Administration's ongoing efforts to lead by example to:

- Reduce state expenditures
- Address serious budget shortfalls

Commissioner Fisher relayed that the governor had considered that it was appropriate to ask employees to lead by example for this two-year period as other Alaskans saw a reduction in their Permanent Fund Dividend.

[9:20:09 AM](#)

Commissioner Fisher reviewed slide 6, "Estimated Savings":

EMPLOYEES AFFECTED

This bill will affect approximately 5,000 state employees in the executive and legislative branches.

This represents 23% of the state employees in the executive and legislative branches.

SAVINGS

The Office of Management & Budget estimates the following savings in the executive branch:

FY 18 = \$2.3 million (\$1 million UGF)

FY 19 = \$1.9 million (\$.8 million UGF)

Total = \$4.2 million (\$1.8 million UGF)

Commissioner Fisher stated that some had questioned why the administration had first selected the group designated in the bill. He specified that it represented the second largest group of state employees. He noted that the savings over two fiscal years would be about \$4.2 million. It did not reflect the University as it had already implemented similar policies.

[9:21:26 AM](#)

Senator Micciche stated that he was in support of the effort. He inquired about Commissioner Fisher's comments pertaining to why the particular group was chosen first. He commented that essentially the bill was freezing the salaries of non-covered employees only. He wondered how the state would get to the point where the salary freeze would affect also those employees who were covered.

Commissioner Fisher asserted that it was necessary to start somewhere. He thought that if the legislation was not used as a foundation for negotiating with covered employees it would be difficult to bargain. He believed that it was appropriate to start with non-covered employees, and with the passage of the legislation the state was in a stronger position to negotiate with bargaining units to apply it to covered employees.

[9:23:46 AM](#)

Co-Chair Hoffman asked if the 3.5 percent merit increases beginning July 1, 2019 were based on employees' current salaries. He clarified he wanted to know the starting point on July 1, 2019.

Commissioner Fisher stated that with passage of the legislation, the salary of the employees would be frozen for two years, and then employees would receive increases based on the frozen income.

[9:24:38 AM](#)

Senator Micciche remarked that merit increases were not based on a consumer price index (CPI). He wondered how the state had arrived at a 3.5 percent merit increase rather than an indexed percentage.

Commissioner Fisher stated that the logic of the salary schedule contemplated that as employees grew in each job, the experience warranted an increase over time. He remarked that certain professional positions such as attorneys or technical professionals tended to start low and grow with experience. Also built in to the logic was the idea that there should be cost of living adjustments (COLA). He reminded that the current administration had not negotiated any CPI increases due to the fiscal situation. He thought the curve was too steep and that salaries grew too quickly. He thought the administration would welcome the opportunity to work collaboratively to rethink the percentage if it were deemed appropriate.

[9:27:18 AM](#)

KATE SHEEHAN, DIRECTOR, DIVISION OF PERSONNEL AND LABOR RELATIONS, DEPARTMENT OF ADMINISTRATION, referred to statutes regarding salary schedules. The percentage between merit increases and pay increments was set in statute. Merit increases dated back to the 1970s. Original pay increments of 3.75 percent was in the longevity statute which also dated to the 1970s. In 2013 that was reduced in legislation to 3.25 percent.

[9:27:47 AM](#)

Senator Micciche asked Commissioner Fisher if he believed that every employee grew at the same rate and should be compensated as such.

Commissioner Fisher stated that he shared the senator's private sector experience and believed that employees contributed differently and should be compensated accordingly.

Senator Micciche asked if there was any potential in the future to have an incremental reward system for those employees that were growing at a quicker rate than others.

Commissioner Fisher thought it would be necessary to work collaboratively on the matter. He remarked that there had

been discussion in that regard but there was no legislation prepared to address it.

[9:29:17 AM](#)

Senator Dunleavy asked if Commissioner Fisher could estimate the ballpark figure for all state employees.

Commissioner Fisher thought that it was near \$1.5 billion.

[9:29:52 AM](#)

Senator von Imhof understood that there was not a cap to pay increments, and wondered what happened over time.

Commissioner Fisher relayed that an employee received merit steps for the first five years, and afterwards received a pay increment step increase every other year for the duration of their employment.

Senator von Imhof asked how, considering the law of compounding, what happened after about eight or nine years.

Commissioner Fisher stated that the amount would continue to grow.

[9:30:59 AM](#)

Vice-Chair Bishop thought it was true to a point, but noted that step increases only went as far as the alphabet.

Ms. Sheehan confirmed that there was not an "end to the alphabet" but there was not currently anyone at the final step.

Vice-Chair Bishop expressed a desire to see all of the ranges and steps within the employees that would be affected by the bill.

[9:32:08 AM](#)

Senator von Imhof asked when an employee could effectively double their salary.

Commissioner Fisher did not recall, and offered to provide the answer at a later date. He believed that certain

categories started below market salary and ended up above market, while some never reached market salary levels.

Senator von Imhof thought the bill seemed like a short-term fix for what she considered to be a structural framework that needed more scrutiny. She mentioned the possibility of a salary comparison with the private sector to create reasonable ranges for each employee level. She thought a ten year re-evaluation of that made sense. She thought it was important to be fairly competitive within all categories. If the state was allowing employees with no extra responsibilities to price themselves out of the market, it could be problematic going forward. She thought that it would fairer to pay new employees at market rate from the start.

[9:34:58 AM](#)

Senator Micciche spoke to the 3.25 percent salary increase. The spending limit was based on Anchorage CPI, which was around half of that. He thought that in order to maintain that rate, other parts of the government would be continuously cut. If there was not a better system for analyzing what the market should pay for positions, and reducing the steps after the sunset of the legislation, the state could not catch up.

Commissioner Fisher thought it was important to understand that the department did not receive a budget increase for salary increases. Theoretically, the salary increases were managed through the ebb and flow of employee new hire and retirement. He thought that most departments had successfully managed the fixed amount of personal services dollars. He did not disagree that the matter needed examination, but reiterated that salary increases did not require an annual appropriation.

[9:37:31 AM](#)

Vice-Chair Bishop asked if the commissioner had evidence of an attrition rate for the affected employees.

Commissioner Fisher did not have rate for the 5,000 employees in question.

Ms. Sheehan offered to provide a number for the group, but all separation was seeing a 13 percent separation rate.

[9:38:17 AM](#)

Co-Chair MacKinnon asked for a walk-through of the sectional analysis.

BILL MILKS, OFFICE OF THE ATTORNEY GENERAL, DEPARTMENT OF LAW, went through the sectional analysis:

Section 1 Outlines intent of bill is to reduce state's expenditures.

Section 2 of the bill amends AS 39.25.140, AS 39.25.150 and AS 39.27.011 by disallowing for merit increases and pay increments for classified and partially exempt employees in the executive branch who are not covered by a collective bargaining agreement during the period of July 1, 2017 and June 30, 2019.

Section 3 of the bill disallows general salary increases, merit steps, pay increments, bonus or comparable salary increases for employees in the exempt service under AS 39.25.110 (9), persons employed in a professional capacity to make a temporary or special inquiry, study or examination as authorized by the governor, (11) the officers and employees of the following boards, commissions, or authorities; Alaska Permanent Fund Corporation; Alaska Industrial Development and Export Authority; Alaska Commercial Fisheries Entry Commission; Alaska Commission on Postsecondary Education; Alaska Aerospace Corporation; Alaska Gasline Development Corporation and subsidiaries of the Alaska Gasline Development Corporation, (12) the executive secretary and legal counsel of the Alaska Municipal Bond Bank Authority, (13) the state medical examiner, deputy medical examiner, and assistant medical examiners appointed under AS 12.65.015 and pharmacists and physicians licensed to practice in this state and employed by the Department of Health and Social Services or by the Department of Corrections, (14) petroleum engineers and petroleum geologists employed in a professional capacity by the Department of Natural Resources and by the Alaska Oil and Gas

Conservation Commission, (17) officers and employees of the state who reside in foreign countries, (18) employees of the Alaska Seafood Marketing Institute, (20) employees of the Office of the Governor and the office of the lieutenant governor, including the staff of the governor's mansion, (26) investment officers in the Department of Revenue, (30) a person employed as an actuary or assistant actuary by the division of insurance in the Department of Commerce, Community, and Economic Development, (34) the chief executive officer and employees of the Alaska Mental Health Trust Authority employed under AS 47.30.026 (b), (35) the assistant adjutant general for space and missile defense appointed under AS 26.05.185, (36) the victims' advocate established under AS 24.65.010 and the advocate's staff, (37) employees of the Alaska mental health trust land unit established under AS 44.37.050, (38) the executive director of the Council on Domestic Violence and Sexual Assault established under AS 18.66.011, (39) the executive director and employees of the Knik Arm Bridge and Toll Authority under AS 19.75.051 and 19.75.061, (40) the chair of the Workers' Compensation Appeals Commission (AS 23.30.007), (41) the Alaska Gasline Inducement Act coordinator appointed under AS 43.90.250, (42) oil and gas audit masters employed in a professional capacity by the Department of Revenue and the Department of Natural Resources to collect oil and gas revenue by developing policy, conducting studies, drafting proposed regulations, enforcing regulations, and directing audits by oil and gas revenue auditors, (43) the in-state gasline project coordinator appointed under AS 38.34.010, during the period of July 1, 2017 and June 30, 2019.

Section 4 of the bill prevents the State Officers Compensation Commission from increasing the salary of the Governor, Lieutenant Governor, Department Heads and members of the legislature through operation of AS 39.23.500-39.23.599.

Section 5 of the bill disallows general salary increases, merit steps, pay increments, bonus or comparable salary increases for permanent and temporary employees of the legislative branch of the state government, including employees of the house and senate receiving compensation under AS

24.10.210, the employees of the office of victims' rights and victims' advocate, and the employees of the office of the ombudsman and the ombudsman, who are not covered by a collective bargaining agreement during the period of July 1, 2017 and June 30, 2019.

Section 6 of the bill disallows general salary increases, merit steps, pay increments, bonus or comparable salary increases for employees of the University of Alaska who are not covered by a collective bargaining agreement during the period of July 1, 2017 and June 30, 2019.

Section 7 of the bill amends Provides that merit increases can be awarded on the merit anniversary date of the employee between July 1, 2019 and June 30, 2020 and accounts for time worked before July 1, 2017 to count toward the next merit step. Also provides that the merit increase may not be awarded retroactively.

Section 8 of the bill Provides that pay increments can be awarded on the merit anniversary date of the employee between July 1, 2019 and June 30, 2020 and accounts for time worked before July 1, 2017 to count toward the next pay increment. Also provides that the pay increment may not be awarded retroactively.

Section 9 of the bill states that this act does not apply to individual employment contracts entered into before July 1, 2017.

Section 10 of the bill provides transition language to allow for the personnel board to adopt any necessary regulation changes.

Section 11 of the bill provides that any necessary regulation changes can be adopted immediately.

Section 12 of the bill provides an effective date of July 1, 2017

[9:44:44 AM](#)

AT EASE

[9:45:25 AM](#)

RECONVENED

Vice-Chair Bishop referred to a question by Senator Dunleavy about what the total dollar amount of gross salary wages of the 5,000 employees affected.

Commissioner Fisher had misunderstood the question. He was not aware if OMB had the total number but would follow up.

Vice-Chair Bishop asked for follow up.

[9:46:21 AM](#)

Co-Chair MacKinnon stated that there were two questions. Senator Dunleavy had asked for the total number, and Senator Bishop wanted to know the total for the group affected by the legislation.

Senator Dunleavy asked if having an automatic pay increase incentivize or disincentivize retirement.

Commissioner Fisher thought that at some level it might be beneficial to stay another year and receive another pay increase prior to retirement. He wondered what might be the alternative.

Senator Dunleavy asked if the executive branch would be able to perform salary overrides under the legislation.

Commissioner Fisher did not know the answer to the question.

[9:48:10 AM](#)

AT EASE

[9:48:51 AM](#)

RECONVENE

Ms. Sheehan stated that it would depend on how salary overrides were defined. She noted that many salary overrides regarded geographic differential in which the salary went down, the salary of those employees was frozen. Additionally, if an employee is reclassified to a lower range under collective bargaining agreements, pay is frozen. Those would be considered salary overrides. Any type of advance step placement at hiring due to exceptional qualifications or recruitment difficulties is also done via a salary override.

Senator Dunleavy asked if it was the policy of the governor's office to freeze hires.

Commissioner Fisher stated that the governor's office had implemented a hiring restriction. He stated that every department had continued hiring. It had not been a complete salary freeze, just a greater degree of scrutiny around hires.

Senator Dunleavy asked if it was a restriction rather than a freeze. Commissioner Fisher answered in the affirmative.

Senator Dunleavy asked if, under the legislation, employees could be appointed at a range or step in excess of what the salary schedule would dictate, commensurate with their accrued time and grade at that step. He asked whether someone could be appointed a range 23-B if they had less than three or four years of service.

Ms. Sheehan answered that in order to appoint a person above step A, it was necessary for the employee to be a re-hire to the position, or it would have to be demonstrated recruitment difficulties. There was also a provision in statute that allows the governor to make appointments above F step.

[9:52:04 AM](#)

Senator Dunleavy asked if Ms. Sheehan could define the exception.

Ms. Sheehan specified that it was in Senate Bill 92 [Note: invalid bill reference]. The governor's office would have to demonstrate extreme difficulties in filling a position, or requirements for a position not in the pay structure. She gave the example of oil and gas expertise. She stated that it had only occurred a couple of times.

[9:52:53 AM](#)

AT EASE

[9:53:11 AM](#)

RECONVENED

Ms. Sheehan continued that the provision was contained in AS 39.27.011, Section K:

(k) Notwithstanding (a) - (j) of this section, the governor or a designee of the governor may, on a case-by-case basis, authorize for a partially exempt employee in the executive branch a higher pay than Step F. The authorization must be based on a determination that the action serves a critical governmental interest of the state, the employee possesses exceptional qualifications, recruitment difficulties exist, or the action is necessary due to competitive salaries in the relevant labor market. A determination made under this subsection must be in writing.

Senator Dunleavy thought the provision could be construed by some as fairly large.

Co-Chair MacKinnon OPENED and CLOSED public testimony.

Co-Chair MacKinnon stated that amendments to the bill were due to her office by Friday at 5:00 p.m.

[9:55:15 AM](#)

Vice-Chair Bishop read from FN1:

1. Increases for exempt and partially exempt positions eligible for merit and pay increment steps were calculated and compared to the current base. Two increases were identified: a) costs of FY2017 increases incurred for 12 months in FY2018 (versus less months at the higher merit step in FY2017). These costs are unavoidable in FY2018 despite a statute change but are used as the estimated avoided cost increase for the second merit step in FY2019. b) Costs of new increases that would have been paid in FY2018. Positions in merit steps were considered separately than those in pay increments.

2. Positions of certain corporations, such as Alaska Housing Finance Corporation and Alaska Permanent Fund Corporation, and positions that appeared to be outside of the "normal" salary rules (Commissioners and positions that have had no pay increases for a number of years) were excluded from the calculation in #1

above. Agencies provided the estimated savings for the positions outside of "normal" salary schedule.

The estimated savings that may be realized is \$4,165.6 over two fiscal years for the executive branch. Estimates for the Alaska Permanent Fund Corporation, the University, and the Legislative and Judicial Branches are not included in this fiscal note. The University is not included because the Board of Regents already implemented similar actions, so no additional savings would be realized from the University for this bill. Total savings are not realized in one year because individuals in pay increments receive a salary increase every other year. In addition, individuals in merit steps receive increases at various times during the fiscal year. It takes two years to get the full savings because merit steps increases don't happen on July 1, but on an employee's hire date. Additional savings in fiscal years beyond FY2019 are anticipated because salaries will be lower in those years than if the temporary freeze was not implemented, however that amount is indeterminate.

The FY2018 Governor's budget includes an initial estimate in the branch-wide component of \$1,817.9. This updated estimate of \$2,205.5 includes entities where data was not yet available at the time of the initial estimate. This estimate may be reflected in each component's budget versus in a statewide component at the legislature's discretion.

In addition to the \$2,205.5 reduction for the merit and pay increment freeze, a \$64.0 reduction in general funds in FY2018 is included for a one-third salary reduction for the Governor of Alaska. The total FY2018 reduction is \$2,269.5.

[9:57:17 AM](#)

Vice-Chair Bishop addressed a second fiscal note that was indeterminate [FN2]. Estimated savings for the legislative branch were \$407,600 for FY 18 and \$1,179,200 for FY 19.

[9:57:48 AM](#)

Co-Chair Hoffman asked why the Alaska Housing Finance Corporation (AHFC) and the Alaska Permanent Fund Corporation (APFC) were outside of the normal salary rules

[in FN1]. He noted that the wording of the fiscal note was "appeared to be outside of the "normal" salary rules."

Ms. Sheehan believed that AHFC had a separate pay plan with separate payroll. The APFC also had a unique pay plan.

Co-Chair Hoffman understood that. He asserted that ultimately the legislature had appropriation powers and could choose to include them.

Commissioner Fisher agreed and stated that the legislation did include the two agencies. He continued that the fiscal note was prepared by the OMB and did not include what was in the legislation.

Co-Chair Hoffman asked if the calculations were not in the fiscal note but did appear in the legislation. Commissioner Fisher answered in the affirmative.

[9:59:52 AM](#)

Co-Chair MacKinnon reiterated that amendments were due the following Friday at 5:00 p.m. She stated her intention to bring the bill back before the committee the following week.

SB 31 was HEARD and HELD in committee for further consideration.

#

ADJOURNMENT

[10:00:41 AM](#)

The meeting was adjourned at 10:00 a.m.