

SENATE FINANCE COMMITTEE
February 5, 2019
9:02 a.m.

9:02:05 AM

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:02 a.m.

MEMBERS PRESENT

Senator Natasha von Imhof, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Click Bishop
Senator Peter Micciche
Senator Donny Olson
Senator Mike Shower
Senator Bill Wielechowski
Senator David Wilson

MEMBERS ABSENT

Senator Lyman Hoffman

ALSO PRESENT

Senator Cathy Giessel; Pam Leary, Director, Treasury Division, Department of Revenue; Kate Sheehan, Director of Personnel and Labor Relations, Department of Administration.

SUMMARY

PRESENTATION: SAVINGS ACCOUNTS and BUDGET RESERVES

PRESENATATION: NEGOTIATED LABOR CONTRACTS

Co-Chair Stedman reminded attendees to silence their cell phones. He reviewed the agenda for the day.

Co-Chair Stedman highlighted that the committee had updated slides from the previous day's presentation by Deven Mitchell, Executive Director, Alaska Municipal Bond Bank Authority, Department of Revenue (copy on file). He

explained that there was a request to add the statutory dividend under cash availability on slide 4. He noted the slide on page 12 provided a further look-back on the state's savings accounts, the Constitutional Budget Reserve (CBR), and the Statutory Budget Reserve (SBR). He explained that to draw from either account a vote was needed. The Constitutional Budget Reserve required a two-thirds majority vote, and the SBR required a simple majority vote. Historical data was added to the year 2000. Page 20 of the previous presentation was also updated to reflect historical data to the year 2000. He did not think the slide was difficult to read. The committee requested more readable graphs that also included the PERS/TRS payments. He wanted to have a clear picture of the state's total debt service. He indicated members should see something in their inboxes shortly.

Co-Chair Stedman recognized that Senator Cathy Giessel had joined the meeting.

^PRESENTATION: SAVINGS ACCOUNTS and BUDGET RESERVES

9:06:00 AM

PAM LEARY, DIRECTOR, TREASURY DIVISION, DEPARTMENT OF REVENUE, discussed her background. She had started as an accountant at Price Waterhouse. She climbed the ranks and finished her career there as a partner in the combined firm of Price Waterhouse Coopers. She traveled around and ended up in Juneau, Alaska. She performed a number of jobs until she returned to her roots as an accountant with the Alaska Permanent Fund Corporation (APFC) for a short time before being recruited into the Department of Revenue (DOR) as the Comptroller. In 2014, she became the director.

Ms. Leary stated she would give a brief overview of the Treasury Division and talk about the state's key investment funds including the savings accounts. She reported that the Treasury Division provided debt management, cash management, unclaimed property management, in addition to investment and portfolio management services for the 5 funds she would address in her presentation: the state's general fund (GEFONSI), the CBR fund, the Public School Trust fund, the Power Cost Equalization fund, and the retirement funds. The division also managed numerous other funds and their investments.

Ms. Leary noted that the division also provided staff to the Alaska Retirement Management Board (ARMB) and the Alaska Municipal Bond Bank Authority. The division currently had 45 treasury staff. About 80 percent of them touched investments in some capacity whether actually doing the investing, accounting for them, ensuring that the state's investment policies were in compliance, or handling cash management which allowed the state to know how much money there was at the beginning or end of each day for each investment.

Ms. Leary noted that on 12/31/18 the state had \$38.8 billion assets dispersed in 45 separate accounts that were managed. She indicated that 14 accounts were in the Defined Benefit funds under the ARMB. There were 4 participant-directed funds which were the defined contribution plans, the supplemental benefits, and the deferred compensation funds - also under the fiduciary of the ARMB. The division had 25 funds under the direction of the commissioner of revenue. There were 2 funds for other state fiduciaries: The Exxon Valdez Oil Spill Settlement (EVOSS) fund, and the Alaska Mental Health Trust. The accounts were managed in a pooled environment, an efficient way of managing investments. She relayed that pools were similar to building blocks; the state could invest 20 percent of one pool and 30 percent from another. It was an easy way to allocate funds.

Ms. Leary continued that for state assets there were 6 pools that funds could invest in. She indicated there were 23 investment pools for the ARMB assets and rolled up to 6 asset classes that the defined benefits plans could invest in.

[9:09:17 AM](#)

Senator Wielechowski wondered why the state would not have the APFC manage the assets listed by Ms. Leary for the sake of efficiency.

Ms. Leary stipulated that each of the managed funds had specific time horizons and risk challenges or appetites. Certain funds required separate allocations. She understood the APFC to have only one asset allocation which might not be an appropriate asset allocation for some of the funds managed at the state treasury.

Co-Chair von Imhof thought the statistics Ms. Leary had provided were useful. She wondered if the department could provide a list of the funds or a summary of the information Ms. Leary had just provided.

Co-Chair Stedman suggested that Ms. Leary could come back to the committee with a list of assets under management and their categories.

Ms. Leary agreed to provide the information. She noted that the division website identified all the funds she had mentioned and how they were structured.

Senator Olson asked about the rate of return and investment outcomes and how they compared with that of the Permanent Fund.

Ms. Leary agreed to provide the information. Some of the information would be presented in the current slide pack.

Ms. Leary stated that in terms of process, the APFC had already provided a presentation to the committee. Therefore, she would not go through a detailed process but there was a similar function. She explained that annually or as needed, for state assets the commissioner of revenue, as fiduciary, would sit down with the chief investment officer as well as the staff to determine asset allocations for each fund. Consideration was given to the type and use of the fund, how long the fund was expected to be invested, and what type of risk each fund could take. She noted that the division used Callan and Associates capital market assumptions to develop some of the asset allocation possibilities discussed with the fiduciaries. It was the same process with the ARMB. Generally, in June of each year the annual asset allocation was adopted. She reiterated that asset allocations could change depending on circumstances and a fiduciary's desire.

[9:12:51 AM](#)

Ms. Leary spoke to the presentation "State of Alaska Update on the State's Investment Funds" (copy on file). She began with slide 2: "General Fund and other non-segregated investments Historical Invested Assets (in billions)." She explained that the GEFONSI was created around statehood and held the cash and investments of the government funds. As more funds were added through the legislature, it became

necessary to separate the funds into their own accounts. In 1992 the GEFONSI pool was created and was a way of investing all of the smaller funds together along with the general fund proper. The general fund proper was what she referred to as the state's operating account. It was where all of the money came in and out of the state. The Department of Administration (DOA) in their finance division separately accounted for each of the funds within the state accounting system. The Department of Revenue, Division of Treasury, was responsible for investing the DEFONSI in calculating and allocating daily investment earnings to each of the funds.

Ms. Leary continued that there were 180 funds categorized as Type I, Type II, or Type III. The Type I assets were those that were given their earnings by statute or other law. Type II and Type III were not generally getting their earnings. Type III never received their earnings from the legislature. However, Type II might get their earnings from the legislature if it chose to appropriate the monies in any given year.

Ms. Leary continued to address slide 2. She relayed that in 2018 the state took a portion of the GEFONSI funds and created a GEFONSI II fund. The funds in the GEFONSI II were Type II and Type III funds that did not get their earnings. There was a mechanism by which the division was able to increase the target rate of return and risk allocation for assets that did not get their earnings. Essentially there was less risk to those assets.

[9:15:30 AM](#)

Ms. Leary spoke to slide 3: "General Fund and other non-segregated investments (GeFONSI I & II) - Fiduciary oversight: Commissioner of Revenue," which showed the statistics of the GEFONSI I and GEFONSI II assets. The investment objective, the target asset allocation, the market value, and the returns as of December 31, 2018 were included on the slide. She pointed out that the GEFONSI I had a short to intermediate investment horizon with moderate risk and had a target allocation that had primarily shorter term fixed income assets. She reported that the GEFONSI II had a moderately high risk appetite and was invested with an intermediate horizon and longer assets in the fund. She highlighted the pie chart showing some

equity and international equity as part of the GEFONSI II investment allocation.

She moved to the bottom of the slide listing Callan projected 10 year returns. The division used the 10 year market presumptions that Callan provided. Based on the asset allocations being used, the division developed a return target - what the division would expect to achieve on average over a 10-year period.

Ms. Leary directed attention to the market value. The combined market value equaled \$3.2 billion and about 56 percent were in GEFONSI I and the rest were in GEFONSI II. The one-year actual return as of 12/31, which was a 1-year rolling return, was 1.86 percent for GEFONSI I. She continued that because the GEFONSI II was so new she did not have a corresponding return. There were returns listed at the 3-month and 6-month marks. She highlighted that due to the volatility of the previous few months the actual return was lower in GEFONSI II than GEFONSI I, and it was negative over the previous 3 months ending 12/31.

Ms. Leary noted in her slides that she put the SBR in the general fund. She was unsure if the committee wanted to discuss the SBR and its values. For clarity, she explained that originally and for a short time the SBR was part of the GEFONSI funds. It was separated into its own account and asset allocation as it grew. In 2015, it was rolled back into the GEFONSI.

Co-Chair Stedman referenced slide 3 and asked how international and domestic equities' were invested.

Ms. Leary explained that as she had mentioned at the start of the presentation the state had pools, one of which was a domestic pool, a passive index fund managed by one of the state's managers, SSGA. In the international equity funds there was a mix of passive and active managers.

Co-Chair Stedman asked for an explanation of a "passive" investment fund.

Ms. Leary explained that a passive investment fund was a fund that targeted the market. It tried to follow the market rather than taking bets, considered active management, on different types of investments. She provided an example of a passive investment. She relayed that when a

person looked in a return box there was a benchmark. They were the passive investments of the marketplace. When the division created an asset allocation, it created a benchmark that approximated what the states' assets were and what it was investing its assets. It was what the division compared itself to when it invested.

9:20:30 AM

Co-Chair Stedman drew attention to the lower part of the slide which showed 3 month and 6 month returns. He wondered if the returns were annualized or to-date. Ms. Leary responded that they were for the 3-month period. Co-Chair Stedman asked about the actuals of .81 percent and 1.26 percent for 6-months. Ms. Leary replied that they were for the 6-month returns.

Co-Chair Stedman asked if they were annualized. Ms. Leary replied, "No." The 1-year actual was a rolling number. Therefore, it was at a particular point in time. Co-Chair Stedman added that annualizing less than a year of returns would result in distorted numbers.

Ms. Leary asked if would be appropriate to have a discussion about the general fund, since she was still on slide 3 and because the chairman wanted to address liquidity. The general fund was the operating account that required money coming in to pay assets. Co-Chair Stedman replied, "That would be fine."

Ms. Leary conveyed the general fund had a balance of just under \$400 million. On the division's website there was the ability to track the forecast of the expected general fund amount. The general fund was where the money flowed in an out of the state to pay salaries. The division had been working with declining revenues and often revenues came in at different times than expenditures were to be paid which sometimes required borrowing. In the past, the state's borrowing sources had been the SBR and the CBR. She continued that with the passage of SB 26 [Legislation passed in 2016 regarding appropriation limits and the earnings of the Alaska Permanent Fund] it also included the Earnings Reserve Account (ERA) from APFC. The state borrowed \$700 million from the CBR, took \$350 million in October and \$250 in December from the ERA, and anticipated taking \$250 million in February and \$250 million in April to address the cash short falls in the current year.

Co-Chair Stedman asked if the state would be taking about \$1.4 billion. Ms. Leary responded, "\$1.1 billion from the ERA." Co-Chair Stedman asked if the amount was the total.

Ms. Leary expected the state would take \$1.1 million through April, leaving a balance. She stated that the cash management tools used by the division were derived from a model using assumptions about what the state would pay out based on prior years. There were large ticket items such as education expenditures. The state had to be nimble with its model because in some months it anticipated more oil revenue than what came in. The division had to make some changes and worked with APFC asking for more or less advances depending on the needs of the state. She indicated the division's actions were in keeping with the intent language the legislature put into the budget. The intent language required as much of the ERA to be invested at APFC rather than the funds being transferred over to the general fund.

[9:24:49 AM](#)

Co-Chair Stedman wanted to know the maximum borrowing capacity for the current year that the general fund might be subject to. Ms. Leary stated that the amount coming from the ERA was \$2.7 billion total, approximately \$1 billion of which went for the dividend fund.

Co-Chair Stedman stated his question pertained to cash flow. He wondered, in the day-to-day operations of the state, about the source of cash flow if there was not sufficient liquidity. Historically, the legislature had gone to the CBR for short-term borrowing to pay bills and make payroll. He queried how much the state would have to borrow from a bank to pay its bills if the state had no CBR, no SBR, and no access to the ERA.

Ms. Leary replied that the state required an average of \$400 million to pay its bills. The division had a cash deficiency plan in place which was an agreement between DOR, DOA, the Department of Law, and the Office of Management and Budget (OMB) that dictated what should happen in times of shortages. The state would use the SBR, CBR, ERA, and smaller sub funds from the GEFONSI. The state would then approach the legislature for further direction about what to pay or not pay. The state had never had to

resort to such lengths because there had been other funding sources available.

Co-Chair Stedman wanted to know how much cash needed to be held in reserves. The legislature had the ability to liquidate everything, although he did not think the legislature would do so. He stated there would be a need for a positive CBR balance, which was approximately \$2 billion. He reiterated his question as to how much cash was borrowed in any given year to meet liquidity needs from other accounts within state coffers. He wanted a cash cushion dollar amount for operations. Ms. Leary responded that the amount was \$400 million.

[9:28:31 AM](#)

AT EASE

[9:28:47 AM](#)

RECONVENED

Co-Chair Stedman stated the committee would have a discussion about drawing from the CBR and the magnitude the finance committee was comfortable with, if any, with a balance of about \$2 billion. He did not want to make a policy call that placed the treasury department in an adverse position in liquidities.

Co-Chair von Imhof thought the presentation was adequate but not great. She thought there was more information that should have been added. She believed the presenter had made assumptions that the committee knew all of funds. She believed the first couple of slides should have provided a framework. She recommended the presentation should be redone and presented again to the committee. She believed more detail was needed for the committee to make decisions in the future.

Co-Chair Stedman wanted to accelerate the slides. He asserted the committee was concerned with the cash position of the state.

Senator Micciche referenced Ms. Leary's earlier comments about borrowing from the ERA. He clarified that she did not mean overdrawing the percent of market value (POMV) allowance. Ms. Leary responded in the affirmative. The state had not reached the balance of the POMV draw.

Co-Chair Stedman thought there needed to be a finer point drawn on the subject of borrowing from the CBR prior to drawing on other accounts.

Ms. Leary showed slide 4, "Constitutional Budget Reserve Fund Historical Invested Assets (in billions." She detailed that in 1990 the voters of Alaska adopted an amendment to the constitution creating the CBR. The fund was a savings fund created to enhance budget stability. It consisted of deposits resulting from resolutions of disputes about the amount of mineral lease bonuses and royalties or taxes. The legislature could appropriate from the CBR to fund operations under certain conditions. Use of the funds primarily required a 3/4 majority vote of the legislature. Borrowings were allowed to fund temporary cash deficiencies as well as shortfalls as appropriated by the legislature. She reported that the CBR must be repaid when there was a surplus in the general fund at the end of the year.

Ms. Leary continued that the sub-fund of the CBR was created in 2000 with the purpose of targeting higher returns. At the time, it had a higher risk tolerance than the main CBR fund. She pointed to the yellow portion of the graph and relayed that in 2008 it was funded to be as large as it was by a deposit of both constitutional budget main funds and about \$2.6 billion from the general fund. In 2015, it was liquidated as required by statute to meet the anticipated needs within 5 years.

[9:33:11 AM](#)

Ms. Leary displayed slide 5, "Constitutional Budget Reserve Fund Fiduciary oversight: Commissioner of Revenue," which showed the same statistics as for the GeFONSI seen on a previous slide. She highlighted the target asset allocation of mainly short-term fixed income. There was some equity that was added to the asset allocation shortly after the sub-fund was moved into the main fund. Its investment objective was an intermediate investment horizon with moderate risk. The balance on December 31, 2018 was \$1.7 billion after moving \$700 million to the general fund to pay for operating expenses. The projected 10-year return at the bottom was 2.89 percent. She reported that on December 31, 2018 the actual 1-year return was .78 percent. She reported an impact on the markets over the previous few months.

Co-Chair Stedman conveyed the good news that the legislature was looking to draw \$600 million from the CBR in the current fiscal year. However, because of the market, the amount would only be about \$250 million - down a few hundred million.

Ms. Leary discussed slide 6, "Power Cost Equalization Historical Invested Assets." The Power Cost Equalization (PCE) fund was created in 2000 with \$100 million from the CBR. The purpose of the fund was to provide for a long-term stable financing source for higher cost electric service areas of the state. In 2016, there was legislation that changed the goal of the fund of being able to take 7 percent down to 5 percent of the monthly average market value of the prior 3 fiscal years. The money could be used to fund various grant programs to be given to individuals and organizations to offset high electricity costs.

Ms. Leary continued to discuss slide 6. She noted that Department of Commerce, Community and Economic Development (DCCED) was the agency that oversaw the spending of the fund. The Department of Revenue worked with DCCED to let them know the balance of the fund and their budget appropriation request.

Ms. Leary reviewed slide 7, "Power Cost Equalization Fund Fiduciary oversight: Commissioner of Revenue," which showed a table with an embedded pie chart. She noted the list of statistics and the target asset allocation. There was more equity the fund was invested in because of its long-term investment horizon. It could afford to have higher risk investments that would withstand the volatility of equity markets over time. The projected 10-year return at the bottom of the slide was 6.2 percent using Callan's 10-year market assumption rates.

Ms. Leary pointed out that in looking at the 1-year actual as of December 31, 2018 there was a negative 5.63 percent return compared to June which was a positive 7.5 percent return. She stressed that the timeframes being reviewed mattered. The benchmarks showed that the entire market showed the effects of volatility in the market place.

[9:37:40 AM](#)

Ms. Leary moved to slide 8, "Public School Trust Historical Invested Assets (in millions)," which showed a line graph.

The Public School Trust was established in 1978 and replaced the territorial era Public School Land Grant created by congress in 1915. There was a permanent school trust created prior to 1978. The Public School Trust was created by transfer of those assets. Since then, the additional revenue that came in was from earnings as well as one-half of 1 percent of the income from state lands including royalty interests.

Ms. Leary continued that in the prior year the passage of HB 213 [Legislation passed in 2018 regarding the Public School Trust Fund and an education raffle] changed the structure of the trust fund. It used to be a 2-fund structure with a principle fund and an interest or income fund. The corpus of the Public School Trust had an asset allocation that had some equity in it and provided both interest and dividends into the income fund. The income fund was then used to offset some of the K-12 Public Education funding. The fund was to be used for public school.

Ms. Leary continued to discuss the Public School Trust Fund. After the passage of HB 213 it was managed as one fund and was structured as an endowment fund or a percent of market value (POMV) fund. There was a spending rule in the legislation that not more than 5 percent of the average market value for the 5 years preceding the last fiscal year could be spent.

Senator Olson asked if it had been a wise move to go to one fund as opposed to having two separate funds with the corpus in one fund and the investment in another - a result of the passage of HB 213.

Ms. Leary responded that the previous fund structure was considered to be "old school." The new structure was a more modern endowment-type fund. It allowed for riskier investments and would result in an accelerated growth of the fund. The former structure targeted income producing investments and resulted in less growth of the fund.

Senator Olson wondered if Ms. Leary was in favor of the change. Ms. Leary responded in the affirmative.

Ms. Leary spoke to slide 9, "Public School Trust Fund - Fiduciary oversight: Commissioner of Revenue." She pointed out that the fund had a long-term investment horizon with

high risk. It also had a significant amount of equity and an investment similar to the PCE Fund. She reported that the projected 10-year return was 6.2 percent. The difference between the principle fund and what it currently looked like was a shift from fixed income assets into equity markets. She highlighted that the 1-year actual was negative 5.66 percent. As of December 31, 2018 and June 30, 2018 the 1-year return would have been a positive 6 percent.

[9:41:44 AM](#)

Ms. Leary displayed slide 10, "Public Employees Retirement System & Teachers Retirement System Historical Invested Assets - Pension and Health Defined Benefit Plans (in billions)," which showed the historical invested assets for the defined benefit plans for the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS). The Alaska Retirement Management Board was the fiduciary of the funds and was a 9-person board that met about 5 times per year. She detailed that treasury staff were staff to the ARMB and the pension plans were administered by the Division of Retirement and Benefits within DOA. The asset allocated was set annually during the June meeting.

Ms. Leary reviewed slide 11, "Public Employees Retirement System & Teachers Retirement System Fiduciary oversight: Alaska Retirement Management Board" which showed statistics. She noted that the target allocation had seven different classifications for assets. There were numerous pools that rolled up into the asset allocations. There was a significant difference for the funds than the treasury funds that the department managed. There were more illiquid funds that were managed because there was a long time horizon. Some of the more illiquid funds included real assets such as real estate, farmland, timber, and some private equity and absolute return. She reviewed the balance of the four funds as of December 31, 2018. The defined benefit and health trust for PERS was a \$16 billion return. She relayed that the return for the teachers' plans was 7.9 billion. She had September 2018 returns which were final return numbers. The 1-year actual return was 9.39 percent as of September 30, 2018 and was very similar to the teachers' plan. She noted that the state had history over the 34 years that the department had been tracking the information. The returns had a nominal rate of about 9.15

percent over the 34-year period which related to a 6.52 percent real rate of return. It was a nominal rate plus inflation which was the real buying power of the fund.

[9:44:41 AM](#)

Co-Chair Stedman noted that the committee would invite the ARMB back to Senate Finance along with Callan to provide more detail.

Co-Chair von Imhof compared slide 11 to slide 9 noting the PERS and TRS funds. She noted a long-term investment horizon and a moderate risk for PERS and TRS and a high risk long-term investment horizon. She was curious about the moderate risk for PERS and TRS on slide 11 which was much more diversified, had an investment return of slightly more even though it was a moderate risk. The high risk with what Callan projected of a lower return of 6.2 was much less diversified and had tougher returns. She asked Ms. Leary if she would change the Public School Trust Fund target allocation and potential return target to be more in line with the PERS and TRS investments.

Ms. Leary explained that the investment objective had a significant amount of subjectivity as to whether risk was moderate or high. It was the fiduciary of the fund that would determine the fund's risk appetite. It was felt that the longevity of the Public School Trust Fund made it possible to have a high-risk tolerance. Although, the assets that were available to the fiduciary of the fund did not include those that were available to the ARMB fund. For a high risk category, the asset allocation shown on the slide meant more movement into international equity and domestic equity. For the retirement plans on slide 11, the moderate risk level indicated the ARMB wanted to moderate how much risk was being taken while developing the asset allocation of each fund. There were many ways to target returns. How and what the fiduciary chose to invest the funds was an outcome of their assessment and analysis.

[9:47:38 AM](#)

Senator Wielechowski thought it did not make sense that PERS and TRS investments with moderate risk and a long-term investment horizon showed an 8.2 percent return over 5 years. Whereas, the high risk investments showed lesser returns for the PCE Fund and the Public School Trust Fund.

The stock market was booming, and the Permanent Fund was returning over 8 percent in the same period.

Ms. Leary believed the higher earnings targets were a result of some of the illiquid assets that the ARMB had access to in terms of its investments. The Public School Trust Fund did not currently have a pool in which it could participate. There were limited pools managed for state assets. There were higher returns coming out of the illiquid markets. She thought it would be more obvious if the state had Callan and Associates show their breakdown of each of the assets, their rates of return, and what they contributed to the funds.

Co-Chair Stedman invited Ms. Leary to return and have a discussion with more concentration on the general fund. He asked for more information on the state's cash flow. He asked for a 5-year cash analysis month-by-month. He wanted to know when borrowing took place, the amount that was borrowed, and when it was paid back. It would provide a picture of the annual cash borrowing needs of the general fund and help in the legislature's future deliberations. He wanted members to give some thought to the ability of the treasury to borrow from the Permanent Fund while there were funds available. He understood the potential need for help from the Permanent Fund. He did not think the state should rely on the ERA for daily cash flow needs. He thought it would lead the legislature to eventually liquidating the CBR. He restated his request for a 5-year look back. He thought the legislature was on a slippery slope by not addressing the state's fiscal issues and looking to the Permanent Fund. He did not want the state to reach the point of having to look to the Permanent Fund to make payroll.

[9:52:04 AM](#)

Senator Micciche looked at the net position from 2000 to 2007. There were times when the state had nearly zero in the ERA. The state plodded along with \$2 billion in the CBR for years. He thought the spending was similar towards the end of the period. He was curious if the state was coming back to some normalcy after the years of high revenue. He was interested in how the division managed the net position of paying the state's bills at the time. The total net position in the state's savings at times was around \$2 billion and the state was spending similarly to what it was

currently spending. He realized that some of the revenue ended up being far more positive. He was curious how the treasury managed cash flow in the past. He relayed that the state's net position was much higher because of the ERA.

Co-Chair Stedman recalled that the legislature used the CBR without any hiccups in previous times. He expressed concern with liquidating the state's cash and looking to the Permanent Fund to bail it out rather than making the necessary and hard decisions. He believed the state was presently on an unsustainable trajectory. Ms. Leary would bring the information to the committee to help legislators make needed decisions.

^PRESENTATION: NEGOTIATED LABOR CONTRACTS

9:55:03 AM

KATE SHEEHAN, DIRECTOR OF PERSONNEL AND LABOR RELATIONS, DEPARTMENT OF ADMINISTRATION, discussed her background. She had started as a Labor Relations Analyst in 2004. Subsequently, she moved to the Department of Law for a brief stint as an assistant attorney general. In 2007, she returned to serve as deputy director of labor relations. After seven years she was appointed as a director of the division in May 2017.

Ms. Sheehan discussed the presentation, "Alaska Department of Administration 2018 Labor Contracts" (copy on file). She indicated it provided a background on negotiations and an update on the state's 11 collective bargaining agreements.

Ms. Sheehan turned to slide 2, "Framework." She reported that negotiations were governed by the Public Employment Relations Act (PERA) AS 23.40.070-23.40.250. The statute provided the ground work from which the state bargained. The state was required to bargain wages, hours, and other terms and conditions of employments. There was case law that described the terms and conditions in greater detail.

Ms. Sheehan relayed that the state had 11 collective bargaining units. The contracts set forth when the state could begin bargaining. Contracts were not to be more than 3 years in duration. Sometimes the contracts were for less than 3 years. Depending on the contract the department began negotiations in the fall. The state was required to submit the monetary terms to the legislature by the

sixtieth day of the session generally in mid-March. After the sixtieth day they could still be submitted and considered by the legislature. However, the legislature was not required to consider them if they were after the sixtieth day. In the past, as long as there has been a budget in play, either the operating budget or the capital budget, they had been included. The department's goal and the requirement was to submit the monetary terms by the 60th day of session.

Ms. Sheehan reiterated that the state had mandatory subjects of bargaining. There were also permissive subjects of bargaining such as classification that the state could bargain but was not required to.

Ms. Sheehan continued that if either side found the demands too unfavorable they could maintain the status quo. She indicated that when a contract expired until reaching impasse the state continued with the terms of the expired contract. She would be getting slides that show the state had several expired collective bargaining agreements of which the state was not at impasse and continued with the status quo.

Ms. Sheehan conveyed that once the state was at impasse, there were a couple of options for both sides. The state had 3 classes of employees: class 1, class 2, and class 3. Class 1 employees were troopers, correctional officers, and nurses. They were not allowed to go on strike. If the state reached impasse with them, the statute required that both parties went to binding interest arbitration.

Ms. Sheehan reported that class 2 employees could go on strike. However, the state could seek an injunction to bring employees back to work. The courts look at the health, safety, and welfare to make a determination. Most of the state's class 2 employees were Alaska Marine Highway vessel employees. The state also had a couple of information technology professionals in the field. The remaining employees were in the class 3 category and could go on strike.

Ms. Sheehan conveyed that when impasse was reached either by mutual agreement or the Alaska Labor Relation Agency agreed that impasse was reached, employees could go on strike assuming the contract had expired, or the employer (the state) could implement its last best offer.

Ms. Sheehan turned to slide 3, "State Personnel Overview" which showed a broad overview of the funding of the bargaining units. The slide was put together by OMB and provided the funding sources. The accounts and costs were based on the fiscal year 19 management plan for budgeted position control numbers (PCN).

Co-Chair Stedman asked Ms. Sheehan to define any acronyms she used on the slides.

Ms. Sheehan concurred.

Co-Chair von Imhof stated it was easier when cents were not included in monetary data tables. She also encouraged Ms. Sheehan to justify to her right in the number tables.

[10:00:28 AM](#)

Ms. Sheehan displayed slide 4, "Bargaining Unit (BU) Detail," which provided bargaining detail information. The slide was arranged in order of what was being negotiated. She noted that the Alaska Correctional Officers Association (ACO) were class 1 employees. Their contract expired in June 30, 2018. A few weeks prior the state went to interest arbitration with the Correctional Officers Union. The state expected a decision from the arbitrator on March 10, 2019 at which point the state would be required to submit the monetary terms for the arbitration award.

Ms. Sheehan reported that the Alaska State Employees Association (ASEA) was the largest union and included nurses, engineers, paralegals, and office assistants. Their contract expired June 20, 2019. The state reached agreement under the prior administration and the terms of the agreements were submitted to the legislature. They agreed to cost of living adjustments of 3 percent in the first year and effective in June 2019, 1 percent in the second year, and 1 percent in the third year. There were also some employer contributions into their health trust.

Ms. Sheehan continued to discuss slide 4. She reported that the contract for the Alaska Vocational Technical Center (AVTEC) Teachers Association representing the instructors at AVTEC expired on June 30, 2019. The department was just beginning negotiations. She explained that the Confidential Employees Association encompassed her staff, the division

of personnel, the human resources staff, the agencies, as well as some of the finance staff within the Alaska Marine Highway Dispatchers. Their contract also expired June 30, 2019. An agreement was reached under the prior administration. The agreement called for no cost of living adjustments but moving them to a 40 hour work week. It also included an employee contribution to health care. She detailed that for many years if an employee had the economy plan and Alaska Care did not have an employee contribution the state started bargaining employee contributions.

Ms. Sheehan addressed the Inland Boatmen's' Union (IBU), the Marine Engineers Beneficial Association (MEBA), and Masters, Mates, and Pilots (MMP); three contracts which expired June 30, 2017. The state had been in negotiations with the units since the fall of 2016. The state continued to meet with them in their less busy season in the fall.

Ms. Sheehan reported the final contract the state was currently negotiating was the Teachers' Education Association of Mount Edgecumbe. Their contract expired June 30, 2018. The state had reached an agreement under the prior administration and the terms had been submitted to the legislature. They received a cost of living adjustment of 3 percent the first year, 3 percent in the second year, and 3 percent in the third year. The reason that their percentage was higher than others was because their comparators was the Sitka School District which was paying higher. The state also looked at some of the negotiated wage increases which were significantly lower than some other state employees.

[10:04:22 AM](#)

Senator Wielechowski asked if they agreed to take on any additional burdens such as health insurance. Ms. Sheehan answered in the affirmative. The state bargained for health insurance the same as any other union which was up to 12 percent the first year and 15 percent in the second and third year.

Co-Chair Stedman asked if the committee should assume that the increases would be in the coming budget on the thirteenth. Ms. Sheehan answered in the affirmative.

Senator Micciche asked which employees were missing from the slide. Ms. Sheehan stated that University employees,

legislative employees, and court employees were not included. The slide was limited to employees of the executive branch.

Ms. Sheehan addressed the contract for the Public Safety Employees Association (PSEA). Their contract expired on June 30, 2020 and negotiations would begin in the coming fall. However, the state negotiated with them in October and November. She reminded members of the legislative intent language to open up negotiations for troopers due to recruitment and retention issues. She reported that DOA did a couple of things with them. The state took a classification action looking at a market-based pay study to determine that the state was paying too low in its trooper class series. The state increased all of them by one range. The series included trooper recruits, troopers, corporals, and sergeants. The division also took a look at the command staff in the supervisory union and increased their ranges. In addition to the classification action, a cost of living adjustment of 7.5 percent was bargained through a letter of agreement. The terms of the letter of agreement had already been sent to the legislature for funding and approval.

Senator Wilson asked if there was a review in changes for nurses at the Alaska Psychiatric Institute (API).

Ms. Sheehan responded positively. The state also did a market-based pay study to look at nurses which was still ongoing. The state increased the ranges for psychiatric nurses at API and a few at the Department of Corrections. The state also increased the ranges for correctional nurses. As a result, under the personnel act, classification required internal alignment - like pay, for like work. The state was looking at all nurses as part of the study including the psychiatric nurses and the correctional nurses.

Ms. Sheehan addressed the final 2 units - the Alaska Public Employees Association (APEA) which was the supervisors union, and labor trades and crafts. Both unions were currently under contract and the terms were sent last session. Both unions agreed to a 40-hour work week and no cost of living adjustments.

Senator Micciche thought it would be nice to have the status of each unit on a slide.

Co-Chair Stedman could have the presenter come back with a modified slide.

Ms. Sheehan agreed to provide the information.

[10:08:37 AM](#)

Senator Bishop thought it would also be helpful to have a slide showing the previous contract for comparison with the new contract.

Senator Shower asked Ms. Sheehan to speak to the timetable of negotiations.

Ms. Sheehan stated there was no timeframe. The state bargained until it reached impasse. Following an impasse, an interest arbitration, a strike, or an implementation of last best offer might occur. Some negotiations were taking a long time. The state had not been bargaining Cost of Living Adjustments (COLA) for a while until recently with some of the unions. It had been a sticking point. Bargaining and employee contributions were new for many employees which had also been a sticking point. Negotiations with the marine highway unions it had taken a significant amount of time.

Senator Wielechowski asked if the state was asking for employer contributions for health care. He asked about the contribution percentage. He had heard 12 to 15 percent with the average health care plan costing about \$20,000 per year. He asked if he was accurate.

Ms. Sheehan stated that the employer contribution to Alaska Care was \$1,555 per employee per month. She thought the employees contribution was about 8 percent.

Co-Chair Stedman asked Ms. Sheehan to come back to the committee with the information.

Ms. Sheehan turned to slide 5, "Summary of Bargaining," which showed the 2 units bargained under the previous administration and the other units that were currently under agreement. She noted that the state did not bargain any COLAs with the Supervisory Unit but moved to a 40-hour work week. The Supervisory Unit had employee contributions to the economy plan of 12 to 15 percent.

Ms. Sheehan reported that with the Labor Trades and Crafts unit the state moved the unit to a 40-hour work week without a COLA adjustment. The unit was in a health trust. Therefore, the state did not bargain employee contributions for the health trust. It only bargained the employer contribution. In a later slide it would show how much the state bargained.

Ms. Sheehan relayed that the state entered into an agreement with the Alaska State Employees Association Confidential Employees unit in the previous November and was pending legislative approval. The unit was moved to a 40-hour work week without a COLA.

[10:12:15 AM](#)

Ms. Sheehan discussed slide 6, "Sample Historical COLAs & Anchorage CPI Comparison," which showed historical COLAs in comparison to the Consumer Price Index (CPI). She noted that the Mt. Edgecombe teachers were at about 14 percent, significantly lower than others. Some of the higher totals stemmed from groups that had access to interest arbitration or class 1 employees such as public safety and correctional officers.

Co-Chair von Imhof thought the slide was interesting and wondered about including the entire benefit package that employees obtained through bargaining compared to the CPI.

Ms. Sheehan noted that not all unions had merit steps or pay increments such as the 3 marine highway units. The teachers unit and AVTEC did things differently. She explained that employees that received merit steps and pay increases received merit steps of about 3.5 percent for the first 5 years, COLAs, and pay increases of 3.25 percent every other year.

Co-Chair Stedman asked for Ms. Sheehan to formulate the data for an entire benefit package and provide the information to the committee. Ms. Sheehan responded, "Yes."

Senator Shower asked to see data regarding pay increases and inflation.

Co-Chair Stedman asked for more of a historical viewpoint. Ms. Sheehan agreed to provide the information.

Ms. Sheehan reviewed slide 7, "Benefits." She indicated that benefits were part of a total employment package. She thought the state had done studies through the Institute of Social and Economic Research (ISER) over time showing that much of the entry level pay was below market. However, when benefits were included, the state was at or above market. The state had started bargaining employee premium contributions. She believed the only unions that did not impose the cost was the Inland Boatman's Union and the Marine Engineers Beneficial Union. The state was currently in negotiations with both units. The state also implemented the employee contributions for partially exempt and exempt employees.

Ms. Sheen continued to address slide 7. She reported that for health trusts the philosophy of the state had been to contribute at a rate that neither over-funded or under-funded. The following slide would show what the state was contributing to the health trusts. The state had 4 health trusts including Masters, Mates, and Pilots; Public Safety Employees Association; Labors, Trades, and Crafts; and the Alaska State Employees Association.

[10:16:13 AM](#)

Co-Chair von Imhof asked if Ms. Sheehan saw the financials of the health trusts to determine whether the state was over or under funding. She wondered if the state had a way of seeing how well the trusts were bargaining with healthcare providers.

Ms. Sheehan stated that under the collective bargaining agreement, the division had the right to request information. The state's consultants performed an analysis to determine the amount to pay the health trusts. However, it was difficult with the Masters, Mates, and Pilots unit because of their plan being a multi-employer plan. The information could be obtained.

Co-Chair Stedman asked if Ms. Sheehan had figures to show how many MMP were state residents. Ms. Sheehan thought about 70 percent were residents.

Co-Chair von Imhof asked if the health trusts financial information was available to legislators. Ms. Sheehan would get back to the committee with an answer.

Ms. Sheehan considered slide 8, "State's Contribution to Health Trust/Health Insurance" which showed the AlaskaCare employee contribution at \$1,555 per employee, per month. The health trusts were slightly different. The state bargained the rates based on the recommendation from its consultant. She pointed to ASEA. The state was paying \$1,432 per employee per month - slightly less than AlaskaCare. The amount went up to \$1,530 then to \$1,555. She noted that for MMP the state only paid \$1,346 per employee, per year which was the same rate the state had been paying since the contract expired. She continued that the Public Employees Association's contract language required the state to bargain the employer contribution every year. The state's actuary was looking at the number every fall to determine the appropriate rate.

Ms. Sheehan noted that she included the following few slides that showed the bargaining unit summary for each of the state's 11 unions. It provided more information about each unit.

Co-Chair Stedman invited Ms. Sheehan to walk through each of the slides.

Ms. Sheehan reviewed slide 10, "Bargaining Unit Summary: Alaska Correctional Officers Association":

ACOA Bargaining Unit

Total Bargaining Unit Members 877
Average age of all members: 41
Average years of service: 8.52
Average monthly pay for permanent full-time member:
\$5,743.67
Average yearly pay for permanent full-time member:
\$68,924.04
Total overtime for all members: \$6,981,712.87
Total FY18 gross pay for all members: \$68,282,408.15

* Includes premium pays, excludes benefits

Ms. Sheehan reported that the total gross pay figures were actual numbers based on the previous fiscal year's payroll. It was not necessarily what was budgeted. The bargaining members were actual rather than budgeted PCNs.

Ms. Sheehan displayed slide 11, "Bargaining Unit Summary: Alaska Public Employees Association (SU)": and reported it was the second largest union.

Represents the Supervisory Bargaining Unit (SU)

Total Bargaining Unit Members 2,101
Average age of all members: 48
Average years of service: 13.70
Average monthly pay for permanent full-time member:
\$7,336.76
Average yearly pay for permanent full-time member:
\$88,041.12
Total overtime for all members: \$1,221,882.78
Total FY18 gross pay for all members: \$186,962,060.84

* Includes premium pays, excludes benefits

[10:20:07 AM](#)

Ms. Sheehan looked at the state's largest bargaining unit on slide 12: "Bargaining Unit Summary: Alaska State Employees Association":

Represents the General Government Unit (GGU)

Total Bargaining Unit Members 8,051
Average age of all members: 43
Average years of service: 8.10
Average monthly pay for permanent full-time member:
\$5,081.36
Average yearly pay for permanent full-time member:
\$60,976.32
Total overtime for all members: \$20,862,611.30
Total FY18 gross pay for all members: \$433,257,257.84

* Includes premium pays, excludes benefits

Ms. Sheehan turned to slide 13, "Bargaining Unit Summary: Alaska Vocational Technical Teachers Association":

AVTECA Bargaining Unit

Total Bargaining Unit Members 31
Average age of all members: 53
Average years of service: 8.95
Average monthly pay for permanent full-time member:
\$6,691.43

Average yearly pay for permanent full-time member:
\$80,297.16
Total FY18 gross pay for all members: \$2,458,201.88
* Includes premium pays, excludes benefits

Ms. Sheehan displayed slide 14, "Bargaining Unit Summary:
Confidential Employees Association":

Represents the Confidential Unit (KK)

Total Bargaining Unit Members 198
Average age of all members: 43
Average years of service: 9.58
Average monthly pay for permanent full-time member:
\$5,342.96
Average yearly pay for permanent full-time member:
\$64,115.52
Total overtime for all members: \$65,049.74
Total FY18 gross pay for all members: \$11,657,912.31
* Includes premium pays, excludes benefits

Ms. Sheehan stated that the unit encompassed the human resources staff. She clarified that the supervisors and the confidential employees were defined in regulation.

Ms. Sheehan showed slide 15, "Bargaining Unit Summary:
Inland boatmen's Union of the Pacific":

IBU Bargaining Unit

Total Bargaining Unit Members 430
Average age of all members: 48
Average years of service: 8.44
Average monthly pay for permanent full-time member:
\$4,717.16
Average yearly pay for permanent full-time member:
\$56,605.92
Total overtime for all members: \$4,110,224.78
Total FY18 gross pay for all members: \$28,260,252.60
* Includes premium pays, excludes benefits

Ms. Sheehan discussed slide 16, "Bargaining Unit Summary:
Labor Trades and Crafts":

LTC Bargaining Unit

Total Bargaining Unit Members 1654

Average age of all members: 46
Average years of service: 8.88
Average monthly pay for permanent full-time member:
\$4,711.50
Average yearly pay for permanent full-time member:
\$56,538.00
Total overtime for all members: \$10,857,000.08
Total FY18 gross pay for all members: \$93,048,693.95
* Includes premium pays, excludes benefits

Ms. Sheehan reviewed slide 17, "Bargaining Unit Summary:
Marine Engineers' Beneficial Association":

MEBA Bargaining Unit

Total Bargaining Unit Members 86
Average age of all members: 48
Average years of service: --
Average monthly pay for permanent full-time member:
\$7,092.65
Average yearly pay for permanent full-time member:
\$85,111.80
Total overtime for all members: \$498,954.57
Total FY18 gross pay for all members: \$9,364,620.23
* Includes premium pays, excludes benefits

Ms. Sheehan considered slide 18, "Bargaining Unit Summary:
Masters, Mates & Pilots":

MMP Bargaining Unit

Total Bargaining Unit Members 86
Average age of all members: 44
Average years of service: 12.81
Average monthly pay for permanent full-time member:
\$7,283.34
Average yearly pay for permanent full-time member:
\$87,400.08
Total overtime for all members: \$1,053,104.76
Total FY18 gross pay for all members: \$10,401,300.66
* Includes premium pays, excludes benefits

Co-Chair Stedman noted that MMP had longer years of service
- an average of about 8 or 9 years. He asked if he was
correct. Ms. Sheehan noted that MMP's were highly skilled.
It took them several years to get piloted for some of their

routes and it was true they stayed in their positions longer.

Ms. Sheehan looked at slide 19, "Bargaining Unit Summary: Public Safety Employees Association":

PSEA Bargaining Unit

Total Bargaining Unit Members

384 (AA) 73 (AP)

Average age of all members: 41 (AA) 37 (AP)

Average years of service: 11.49 (AA) 8.68 (AP)

Average monthly pay for permanent full-time member:

\$8,199.47 (AA) \$6,814.25 (AP)

Average yearly pay for permanent full-time member:

\$98,393.64 (AA) \$81,771.00 (AP)

Total overtime for all members: \$3,774,603.87 (AA)

\$863,317.60 (AP)

Total FY18 gross pay for all members: \$43,883,313.24

(AA) \$7,181,730.66 (AP)

* Includes premium pays, excludes benefits AA - DPS;
AP - DOTPF

Ms. Sheehan noted that the 7.5 percent COLA was pending in the legislature and applied only to troopers.

Ms. Sheehan showed slide 20, "Bargaining Unit Summary: Teachers Association of Mt. Edgecumbe":

TEAME Bargaining Unit

Total Bargaining Unit Members 29

Average age of all members: 43

Average years of service: 9.66

Average monthly pay for permanent full-time member:

\$5,653.41

Average yearly pay for permanent full-time member:

\$67,840.92

Total FY18 gross pay for all members: \$2,090,555.42

* Includes premium pays, excludes benefits

Ms. Sheehan turned to slide 21, "Striking," which provided information about the 3 strike classes and their definitions.

Ms. Sheehan advanced to slide 22, "Rejection of Monetary Terms: CBA Terms," which showed what happened if the union

failed to ratify the terms of a collective bargaining agreement or the legislature did not approve a contract. She reported that most of the contracts required that the state immediately reenter into negotiations.

Co-Chair Stedman asked Ms. Sheehan to review the 60-day rule. Ms. Sheehan explained that under statute, the state was required to submit the monetary terms to the legislature by the 60th day of session. If the state agreed to it outside of session, it had to be submitted within 10 days of the beginning of session. For most of the collective bargaining agreements, the state was still in the process of bargaining. If DOA submitted it later than the 60th day, the legislature would not be required to consider it, but it could.

Co-Chair Stedman asked if the legislature had ever not funded an agreement. Ms. Sheehan answered in the affirmative. Co-Chair Stedman asked her to provide the committee with a history on the issue. Ms. Sheehan agreed to bring back the information.

Co-Chair Stedman commented that he could not recall in his tenure the legislature not funding it. He thanked the presenter. He thought the years of service and average age was fairly close throughout all the bargaining units. The median age was 40, and the average number of years of service was between 8 and 9 years.

Co-Chair Stedman discussed the schedule for the following day.

#

ADJOURNMENT

[10:24:39 AM](#)

The meeting was adjourned at 10:24 a.m.