HOUSE FINANCE COMMITTEE
April 23, 2021
9:05 a.m.

9:05:56 AM

CALL TO ORDER

Co-Chair Merrick called the House Finance Committee meeting to order at 9:05 a.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Kelly Merrick, Co-Chair
Representative Dan Ortiz, Vice-Chair
Representative Ben Carpenter
Representative Bryce Edgmon
Representative DeLena Johnson
Representative Andy Josephson
Representative Bart LeBon
Representative Sara Rasmussen
Representative Steve Thompson

MEMBERS ABSENT

Representative Adam Wool

ALSO PRESENT

Elise Sorum-Birk, Staff, Representative Josephson.

PRESENT VIA TELECONFERENCE

Ryan Fitzpatrick, Commercial Analyst, Division of Oil and Gas, Department of Natural Resources; Jhonny Meza, Commercial Manager, Division of Oil and Gas, Department of Natural Resources; Jim Slater, Self, Pelican; Eric Gurly, Executive Director, Access Alaska, Anchorage; Paul Miranda, President, Alaska Professional Firefighters Association.

SUMMARY

HB 55 PEACE OFFICER/FIREFIGHTER RETIRE BENEFITS

HB 55 was HEARD and HELD in committee for further consideration.

HB 81 OIL/GAS LEASE:DNR MODIFY NET PROFIT SHARE

HB 81 was HEARD and HELD in committee for further consideration.

SB 19 EXTEND SPECIAL EDUCATION SERVICE AGENCY

CSSB 19(FIN) was REPORTED out of committee with a "do pass" recommendation and with one previously published fiscal note: FN2 (EED).

Co-Chair Merrick reviewed the agenda for the meeting.

#hb81
HOUSE BILL NO. 81

"An Act authorizing the commissioner of natural resources to modify a net profit share lease."

9:06:35 AM

[Secretary Note: A prior meeting on HB 81 was held on April 22, 2021, at 9:00 A.M.]

RYAN FITZPATRICK, COMMERCIAL ANALYST, DIVISION OF OIL AND GAS, DEPARTMENT OF NATURAL RESOURCES (via teleconference), continued with the PowerPoint (copy on file): "HB 81 - Net Profit Share and Royalty Modifications on Oil and Gas Leases," beginning on slide 21. He discussed Slide 21 titled "Eligible Scenarios for Modification:"

- Current statute for royalty modification; and

- HB81 would allow net profit share modifications in these scenarios as well.

A. New Production: If the development of a new field or pool would not be economic without modification, so long as the field or pool is sufficiently delineated. AS 38.05.180(j)(1)(A)

B. Extend Production: To prolong the economic life of a field or pool when rising per-barrel costs (due to declining production or otherwise) would make continuing production no longer economic without modification. AS 38.05.180(j)(1)(B)

C. Restore Production: To reestablish production of shut-in oil or gas that would otherwise not be economically feasible without modification. AS 38.05.180(j)(1)(C)

- New scenario under HB81 proposal

- Applies to net profit share modifications

D. Incremental Production: If incremental production from producing pools requiring incremental capital expenditures is uneconomic in the absence of modification.

Examples: Expansion of existing pools, additional drilling pads, enhanced oil recovery projects, etc.

Mr. Fitzpatrick expounded that the fourth scenario was another end of field life modification. The scenario applied to fields where additional capital expenditure was required to increase production and the capital investment would be uneconomic without the modification. It was very similar to the second scenario but instead of increasing operating costs it was an increase in capital expenditures necessary to increase the life of the field. He delineated that the modification was only allowed for the net profit share rates and the provision was added in the House Resources Committee version committee substitute (CS).

Co-Chair Merrick indicated Representative Rasmussen and Representative Carpenter had joined the meeting.

9:10:02 AM

Representative Johnson wondered how many fields the legislation would apply to. Mr. Fitzpatrick referred to slide 8 that listed the fields that currently had net profit share leases within the unit. He listed the fields as follows: Collville River, Oooguruk, Nikaitchug, Kuparuk River, Duck Island, Point Thompson, and Milne Point. He noted that from a straight eligibility standpoint anyone of the fields could "potentially" apply for a modification. He expounded that most of the leases were currently in production already and likely would not see a modification for new production. He deduced that applications for modification would likely come from fields at the end of their production life for some of the smaller fields. Representative Johnson understood Mr. Fitzpatrick's response. She inquired whether there were fields the department was aware of that would likely come online within 3 years that were not end of life fields. Mr. Fitzpatrick thought that she was referring to Pikka and Nikaitchug North fields. He suggested that there might be an application for a royalty modification but not a net profit modification. He noted that Nikaitchug North was a federal field and decisions regarding royalties were made on a federal level. He speculated that under the fourth scenario some Milne Point and Duck Island fields might apply.

9:14:39 AM

Mr. Fitzpatrick moved to slide 22 titled "Eligible Scenarios for Modification." He deferred to his colleague to describe the modeling work on the following two slides.

9:15:04 AM

JHONNY MEZA, COMMERCIAL MANAGER, DIVISION OF OIL AND GAS, DEPARTMENT OF NATURAL RESOURCES (via teleconference), indicated that the slides showed a graphic presentation of eligibility for the 4 modification scenarios. He highlighted that the beige colored section of the graphs represented development costs and the investment and operating costs were depicted in light gray. In addition, revenue was portrayed as triangles and operating profits in circles associated with a hypothetical project. The royalties to the state were portrayed in dark gray, net profit share in light orange, and a proxy for production tax was shown in blue. He noted that "proxy" was based on the field level versus the production tax that was accessed on the taxpayer level. In the case of new production shown on the left graph on the slide, it was assumed in year zero, the lease holder had not yet decided whether to invest and obtain production from the oil and gas pool. If it was determined to be uneconomic unless modification of royalty or net profit share was applied the resources would remain stranded and potential state revenues would not occur. He turned to the second scenario [extended production] in year 17, after production for 16 years it was determined that continued production would translate into operating losses, modification of reduction of royalty or net profit shares could prevent the abandonment of the field by year 18 and ensure production and state revenue would continue. However, when evaluating the production in future years past performance of the field did not influence the lease holder regarding whether to continue production. He turned to slide 23 with the same title as slide 22 and continued with the remaining two scenarios.

9:18:14 AM

Mr. Meza continued with the third scenario [restore production] in year 21 where production from the pool had ceased. However, with a modification, production could resume if it was technically feasible. He examined the graph on the right depicting the fourth scenario from the original version of the bill. He explained that HB 81 created a fourth scenario. The lease was in year 15 and the lease holder was considering a capital investment to a producing field to access incremental production that would extend the life of the field, stem or reverse the decline rate through enhanced recovery program or drilling outside the boundaries of a known reservoir. He qualified that without modification of the royalty or net profit share the capital investment might not occur. He reiterated that the committee substitute only allowed for modification of the net profit share and excluded royalty modification. He pointed out that the lease holder would not qualify for the first three scenarios under the royalty modification statute. Scenario A was disqualified because the pool was already producing. He added that scenario B would not qualify because the lease holder had not yet incurred the capital expenditures and could not yet claim that per barrel costs were increasing to the point of abandonment. He restated that the original version of HB 81 proposed that both royalty and net profit share could be modified.

9:20:29 AM

Representative Josephson cited the CS and asked if the original bill would have allowed for royalty adjustment for Prudhoe Bay itself. Mr. Meza responded that the existing statute allowed for the modification of royalty for any lease that had a royalty component, for every state oil and gas lease. The applicant needed to make a "clear and convincing" case that the modification was warranted from an economic standpoint in order for the department to make any modifications. Representative Josephson understood that the amendment reflected on page 2 of the CS, restricted royalty modification that was allowed under the original bill. He asked whether he was correct.

Mr. Fitzpatrick responded in the affirmative. The original bill mimicked the statutory language that applied to all the first three scenarios. He reiterated that the CS pulled out the royalty modification in scenario 4 and only allowed for net profit share modification.

9:23:07 AM

Mr. Fitzpatrick advanced to slide 24 titled "Decision-Making Process."

A. HB 81 does not propose to change the modification process.

B. A producer applying for a royalty modification must provide a clear and convincing showing that they meet the statutory requirements.

   • A higher standard of proof than required for most other DNR applications.

   • Applicants required to provide abundant evidence to justify any request for relief.

C. DNR may require (for .180(j)(1)(A)) or request (for .180(j)(1)(B)-(C)) that producers pay up to $150,000 per application for consulting work to support DNR's evaluation of the application.

D. Publication of Best Interest Finding and offer presentation to Legislature (AS 38.05.180(j)(9)-(10)).

E. If granted, modifications are not transferrable without the authorization of the Commissioner. (AS 38.05.180(j)(5)).

Mr. Fitzpatrick emphasized that the modification application process was held to a higher standard and was unchanged in HB 81. The clear and convincing standard applied to both types of modifications - royalty modifications and net profit sharing modification. He elaborated that the external consulting fee allowed the Department of Natural Resources (DNR) to obtain consulting services for scenarios of understaffing due to vacancies or lacking the necessary expertise to review an application. The external consultant participated in the review process for both types of modifications. He furthered that after a modification review, the department published a "best interest finding" that contained the justification and decision and was subject to a public comment period. During the comment period, DNR was required to testify before the legislature to discuss the decision. The requirement remained unchanged in statute. Finally, if a modification was granted under current statute, the modification was not transferable without prior written approval by the commissioner of DNR, which applied to both modifications.

9:28:53 AM

Mr. Fitzpatrick indicated that the final portion of the presentation contained tables that were side-by-side comparisons of the original version of HB 81 versus the committee substitute beginning on slide 26 titled "HB 81 vs. CS for HB 81." He offered that the original bill and CS both allowed for modification of net profit share under existing eligibility scenarios for royalty modification and clarified that the condition of prior production refers to commercial production. He noted that the language in the CS that created a new eligibility scenario for modification when additional capital expenditures were needed was refined by Legislative Legal Services. He reminded the committee that the CS restricted applicability of the new scenario only to net profit share modification.

9:30:13 AM

Mr. Fitzpatrick briefly described slide 27. He commented that language included in the CS regarding the modification of the net profit share provided a floor of 10 percent, the modification could not be less than 10 percent. There were additional requirements for the new scenario. He explained that the capital expenditure had to be made by the lease holder or the modification would lapse and the commissioner of DNR had to approve the additional capital investments based on the need to maximize economic production. He noted that the conditions were typical for a DNR modification. He referenced the most recent modification from 2014 for the Oooguruk formation. He delineated that one condition lapsed the modification if the operator did not make the investment by a certain time. In the case, the modification lapsed and voided because the investment was not made. He believed that the conditions "encapsulated best practices." He added that Legislative Legal also suggested other conforming language changes.

9:32:43 AM

Co-Chair Merrick asked for the justification for removing the royalty modification. Mr. Fitzpatrick responded that there were some concerns about extending royalty modifications to larger fields. He communicated that the department viewed the royalty modification useful but understood it was a matter of legislative policy.

9:33:47 AM

Representative Josephson suggested that because the changes were historically infrequent, he wondered why the legislature would not be given the opportunity to approve modifications. He noted that a modification was granted for the North Star unit via legislation in 1996. He relayed that the legislation moved quickly through the legislature and doubted delay would be a problem. He wondered what the department's position might be. Mr. Fitzpatrick was unable to speak to the department's position. He acknowledged that the legislature had approved modifications in the past. The current modification statute allowing the commissioner to approve modifications was in place for the previous 26 years. He would follow up on the representative's question. Representative Josephson would appreciate the information.

Representative Rasmussen did not believe the legislature would be able to move quickly on any legislation under the current political environment.

Mr. Fitzpatrick thanked the committee for hearing the bill.

Co-Chair Merrick set the bill aside.

HB 81 was HEARD and HELD in committee for further consideration.

#sb19
CS FOR SENATE BILL NO. 19(FIN)

> "An Act relating to allocations for the special education service agency; extending the special

education service agency; and providing for an effective date."

9:37:10 AM

Co-Chair Merrick indicated that SB 19 was last heard in committee on April 19, 2021.

Co-Chair Merrick OPENED public testimony.

9:37:35 AM

JIM SLATER, SELF, PELICAN (via teleconference), indicated that one of his children had autism. He shared that he served as president of the Pelican City School Board, which was one of the smallest districts in the state. He explained that there were no specialists employed by the school district for autism or other disabilities. He detailed that prior to the creation of Special Education Service Agency (SESA), the district only had access to coordinators that facilitated the development of Individualized Educational Plans (IEP) and testers who set benchmarks. There was no regular input from specialists that could develop and modify curriculums. He reported that SESA provided crucial input for IEP's. In addition, SESA also provided parents and teachers ongoing sources of information regarding progress, further modifications, and materials from their lending library. He appreciated SESA's extra support of his son during the pandemic while school was closed. He shared that a staffer from SESA along with his wife instructed the child for a short period each day. The son would continue his lesson for the remainder of the day under SESA's guidance. His son advanced several grade levels in math in a sixth month period and currently his son was advancing in reading under further assistance from SESA. The model of regular remote engagement was extremely effective. He clearly believed that without SESA, his son would not receive the education he needed. He believed that to be true of all the children SESA assisted.

Vice-Chair Ortiz had and inquiry of Mr. Slater who dropped off the line.

9:41:44 AM

ERIC GURLY, EXECUTIVE DIRECTOR, ACCESS ALASKA, ANCHORAGE (via teleconference), related that the agency supported center for independent living philosophies for persons with disabilities and seniors via grants and Medicaid waivers for consumer directed personal care assistance. The agency was working with youth across the state and partnered with SESA. He acknowledged that rural communities had limited options in performing such services as transitional services to help youth seeking employment. His organization was strongly supported by SESA who provided collaboration and training for organizations like his who provided "essential support" for services. He urged members to support the bill and SESA.

9:43:44 AM

Mr. Slater was back online.

Vice-Chair Ortiz restated his question. He inquired if he was correct that there were no other resources for IEP services in his district besides SESA. Mr. Slater answered in the negative. He related that Pelican was too small of a school district to have a special education teacher. The school district contracted with an agency (facilitators) that helped develop the IEP through input from SESA, teacher, and parents. The IEP was executed with the help of SESA on a regular basis.

Vice-Chair Ortiz clarified that SESA played a major role in consulting with the organization that was contracted to develop the IEP. Mr. Slater responded, "That's correct." He furthered that the contractor filled out the paperwork and wrote the IEP under the guidance of the school district and SESA.

9:46:51 AM

Representative Carpenter asked if he had heard Mr. Slater correctly that his son's performance outpaced the expectations during the COVID crisis. Mr. Slater responded in the affirmative. Representative Carpenter wondered how the Pelican school district continued to provide education during COVID. Mr. Slater replied that in March 2020, the school district moved to an online curriculum. He elucidated that prior to COVID input was provided on an irregular basis. When the school shut down, the school did not have anyone to work with his son. SESA stepped in meeting with his son Jim, every day. During the time, his son made huge gains in 6 months moving from a kindergarten level of math to a third grade level. The model had such success, it was continued with regular school back in session. He specified that SESA was engaged on a weekly basis with Jim’s teacher and contact was much more regular. The IEP stayed on track. The model had proven very effective. Representative Carpenter asked if the model included a daily 30 minute meeting from SESA with instruction primarily carried out by his mother. Mr. Slater responded in the affirmative. He added that currently the interaction was continued with Jim’s teacher and his success had continued in the in-school model.

Vice-Chair Ortiz clarified that if he was really talking about a paraprofessional rather than a teacher related to Jim’s direct instruction. Mr. Slater answered in the affirmative.

9:50:28 AM

Co-Chair Merrick CLOSED public testimony. She had not received any amendments to the bill.

Co-Chair Foster MOVED to report CSSB 19(FIN) out of Committee with individual recommendations and the accompanying fiscal note.

CSSB 19(FIN) was REPORTED out of committee with a "do pass" recommendation and with one previously published fiscal note: FN2 (EED).

9:52:31 AM
AT EASE

9:54:36 AM
RECONVENED

#hb55
HOUSE BILL NO. 55

> "An Act relating to participation of certain peace officers and firefighters in the defined benefit and defined contribution plans of the Public Employees' Retirement System of Alaska; relating to eligibility of peace officers and firefighters for medical, disability, and death benefits; relating to liability of the Public Employees' Retirement System of Alaska; and providing for an effective date."

9:54:45 AM

Co-Chair Merrick reported that HB 55 was previously heard in committee on April 21, 2021.

REPRESENTATIVE ANDY JOSEPHSON, SPONSOR, commented that there was some discussion about contribution levels. He reminded committee members that under Tier 4, employees had a contribution level of about 8 percent and under HB 55 contributions would be 8 to 10 percent. He considered that "further skin in the game." He referred to the pie chart on slide 10 of the PowerPoint [titled "HB 55"] (copy on file) presented at the prior meeting and noted it was an excellent graphic depiction of the contribution breakdown of "where the contributions came from and where they went."

Co-Chair Merrick moved to invited testimony.

9:56:34 AM

PAUL MIRANDA, PRESIDENT, ALASKA PROFESSIONAL FIREFIGHTERS' ASSOCIATION (via teleconference), began the PowerPoint Presentation titled "Costs of Maintaining The Status Quo" (copy on file). He shared that the purpose of his presentation was to illustrate that Alaska was facing a public safety recruitment and retention crisis and to demonstrate that there was a "real cost to maintaining the status quo."

9:57:59 AM

Mr. Miranda began with slide 2 titled "Unintended Consequences of Tier IV for Public Safety:"

- Recruitment Difficulties
- Retention Costs
- Workers Compensation Costs
- Unforeseen Costs

Mr. Miranda elucidated that Alaska can no longer compete with the lower 48 when it comes to recruitment of public safety officers. The state held a clear disadvantage compared to what other states offered for retirement benefits. He stressed that police officers and paramedics were in high demand. He noted that no other state offered a similar retirement plan as Alaska's.

9:59:27 AM

Mr. Miranda turned to slide 3 titled "Recruitment Difficulties:"

- "Alaska cannot compete with agencies offering defined benefit plans. This has left us with vacancies in multiple academies as applicants decide to pursue careers elsewhere." – APD Police Chief Justin Doll
- "The number of individuals wanting to work at the Fairbanks Fire Department has declined drastically over the last several years." – FFD Fire Chief Jim Styers

- Our firefighter alumni populate most Alaska career fire departments. The 42 young men and women in my program are far more aware of financial planning and retirement concerns than I was at their age. It is troubling that the majority of them are testing and interviewing for jobs in other states."
  - UFD Fire Chief Doug Schrage

10:00:04 AM

Mr. Miranda turned to slide 4 titled "Retention:"

- "… the inability to provide a defined benefit retirement system have placed the department at critically low staffing levels."
  – DPS Recruitment and Retention Plan Overview 2018-2023

- "We are seeing our highly trained, qualified, and experienced officers leave APD to work out of state for other law enforcement agencies offering competitive defined benefit retirement systems." – APD Police Chief Justin Doll

- "The turnover of career staff appears to be higher… compared with other clients. Turnover not only has a financial effect on the department, but it also loses valuable experience. " – Fitch & Associates consultant report Capital City Fire and Rescue

Mr. Miranda highlighted the retention issues. He pointed out that the fiscal analysis by the state's actuary for HB 79 [HB 79-PEACE OFFICER/FIREFIGHTER RETIRE BENEFITS' 2019-

2020] from the prior session, which was "virtually" identical to HB 55, assumed increased retention.

10:00:53 AM

Mr. Miranda advanced to slide 5 titled "Worker's Compensation Costs:"

- Firefighters particularly prone to musculoskeletal disorders (MSDs).

- "FFs age 55 and older have an MSD injury rate that is more than double that of youngest FFs, and more than ten times greater than that of private-sector workers of same age."

- "It is apparent that older firefighters are associated with much higher rates of reported workplace injuries than both younger firefighters and private sector workers."

- "This is consistent with the notion that the rigorous physical demands of firefighting subject them to trauma throughout their working lives, making them more subject to MSDs in later years."

  *Rand Corporation study on California fire fighters' workers compensation injuries.

Mr. Miranda discussed that Tier IV had been in place for 15 years and the state had yet to have a 20 to 25 year career member retire. He relayed that three independent reviews from the Department of Administration (DOA), Deven Mitchell, Executive Director, Alaska Municipal Bond Bank Authority, Department of Revenue, and William B. Fornia, Fellow of the Society of Actuaries (FSA), President found that most of Alaska's public safety employees would lack money to retire after a 30 year career and most were not covered by social security. The average hiring age was 31, as the workforce aged without enough financial security to retire, the state would expect to see increased workers compensation costs due to the physical nature of the job and because older workers sustain more injuries.

10:04:06 AM

Mr. Miranda moved to slide 6 titled "Unforeseen Costs:"

* Increase overtime costs due to inadequate staffing
* Increased training costs
* Loss of operational capabilities
* Loss of experience and future leadership
* Rise in organizational stress levels

Mr. Miranda returned to slide 5 and added that the mental tolls of the job build over time and employees should be able to leave the job when necessary. He discussed slide 6.

10:04:54 AM

Mr. Miranda continued to slide 7: "Recruitment and Retention Problems Will Only Increase:"

* Current recruitment & retention difficulties highlighted by DPS, DOC, and chief Officers from across the state are occurring with 40-50% of workforce in DB system

* Tier 4 currently makes up 50-60% of public safety workforce

* The problems will be magnified as the Tier 4 workforce population grows

* A 100% portable public safety workforce is a frightening thought for chief Officers around the state

Mr. Miranda relayed that both labor and management were united in finding a solution to issues resulting from Tier IV. The intensifying problems troubled police chiefs throughout the state.

10:06:12 AM

Mr. Miranda reviewed the costs of remaining at the status quo level on slide 8 [untitled]:

3,400 = Number of public safety employees in Alaska

$120,000 = Average training cost for public safety employees

* Some agencies report costs as high as $240,000 (Airport Police & Fire)

10:07:22 AM

Mr. Miranda advanced to slide 9 titled "What is the fiscal note for maintaining the status quo:"

- DPS & DOC have testified to the Legislature of non-retirement separations greater than 6%

- This is at a time when Tier 4 makes up less than 60% of overall public safety workforce

- Here we will examine costs of Alaska losing 1%, 2% and 3% of a Tier 4 public safety workforce each year

- We will use a conservative training cost of $120,000 , not increased for inflation over a 20-year period

Mr. Miranda moved to slide 10 titled "1 Percent of Workforce Leaving:" The slide reflected the costs of training and recruitment and the costs of one percent of public safety officers leaving the state.

- 3,400 x 0.01 = 34 employees
- 34 x $120,000 = $4,080,000 cost per year
- 5 x $4,080,000 = $20,400,000 5-year cost
- 20 x $4,080,000 = $81,600,000 20-year cost

10:09:35 AM

Mr. Miranda continued to slide 11 titled "2 Percent of Workforce Leaving:"

3,400 x 0.02 = 68 employees
- 68 x $120,000 = $8,160,000 cost per year
- 5 x $8,160,000 = $40,800,000 5-year cost
- 20 x $8,160,000 = $160,200,000 20-year cost

10:09:48 AM

Mr. Miranda looked at Slide 12 titled "3 Percent of Workforce Leaving:"

- 3,400 x 0.03 = 102 employees
- 102 x $120,000 = $12,240,000 cost per year
- 5 x $12,240,000 = $61,200,000 5-year cost

20 x $12,240,000 = $244,800,000 20-year cost

10:10:19 AM

Mr. Miranda reiterated that some agencies estimated significantly higher pre-retirement separations. He highlighted slide 13 titled "Conclusions:"

- These costs do not fully represent the problems that will result from non-retirement separation of public safety employees, it is only one aspect.
- These costs far outweigh the cost of HB 55.
- Other jurisdictions across the country have restored DB systems after experience such as this.

Mr. Miranda indicated that even a 1 percent improvement from adoption of the bill more than paid for its cost and the costs of officers leaving the state was much greater. He related that there were several other states that had returned to a defined benefit system after experiencing a similar situation as Alaska.

10:11:36 AM

Mr. Miranda explained that HB 55 proposed a shared risk hybrid retirement system for public safety employees. He highlighted a few of the provisions in the bill. He pointed out that the bill dramatically decreased the benefit from the legacy DB tiers. The plan did not provide retiree medical coverage that accounted for 36 percent of the liability of the defined benefit tiers. The bill established a minimum retirement age of 55 that did not exist in previous tiers. He elaborated that a provision utilized a high 5-year average for benefit calculations rather than a high 3-year. The provisions resulted in significant benefit reductions. Additionally, a portion of the retirees Post Retirement Pension Adjustments (PRPA) inflation proofing benefit could be withheld if the plans funding level decreased. It was an "incredibly powerful lever" that was employed in Wisconsin during the economic downturn in 2008; currently the Wisconsin plan is fully funded. The bill allowed for employees to contribute more and retirees to receive less if the funding level dropped below 90 percent. He reported that 80 percent was considered a healthy standard for retirement plans. He concluded that the risk was shared among employees, retirees, and employers together so that no one group was left holding all the risk.

10:13:35 AM

Mr. Miranda finished his presentation on slide 15 titled "Conclusion:"

> We have a shared interest in ensuring quality public servants fill the ranks of Alaska's public safety agencies.
>
> Adopting an adequate retirement plan with reasonable costs, fair benefits, and shared risk will help us in this mission.

10:14:11 AM

Representative LeBon thanked Mr. Miranda for his presentation. He wondered how portable the plan would be for an employee to move to another state. Mr. Miranda responded that the allowance for portability was the problem the state was currently experiencing. In the current system, vested employees could move away after 5 years and carry their account balances with them. Some out-of-state agencies allowed the employee to buy time in its system. He voiced that the possibility did not exist in HB 55. The qualifications for retirement in HB 55 was 55 years old or 20 years of service or 60 years of age if vested with less than 20 years of service. Someone could leave once they were vested but could not receive any benefit from the plan until age 60. There was a high incentive for employees to stay and invest in the system. He indicated that Chief Schrage, Fire Chief, University of Alaska, Fairbanks, testified that under the defined benefit plan, it was rare for an individual to quit before working a full career and presently, it was a common occurrence under Tier IV.

10:16:48 AM

Representative LeBon supposed that someone hired under a DB plan wanted to reach vestment. He deduced that if a 25 year old was hired, worked for 5 years then moved, they would not have access to their money for 30 years. He wondered whether his statement was correct. Mr. Miranda responded in the affirmative. He added that at age 60, the individual would only receive 10 percent of their average salary. Representative LeBon asked whether there would be a buy in factor if a person were to change over from Tier IV. Mr. Miranda replied in the affirmative. He indicated that there was a buy-in and the buy-in amount would be calculated by an actuary. Current employees could choose to remain in Tier IV or buy-in to the new tier.

10:19:33 AM

Representative LeBon suggested that Mr. Miranda would find out how many employees would want to switch from Tier IV to the new plan. He wondered if it was a concern that some would take their accrued benefits under Tier IV after vestment and leave and not join the new defined benefit (DB) plan. Mr. Miranda speculated that most individuals in Tier IV in the public safety group would exercise the option to join the new tier. There were many advantages to a DB plan.

Representative Josephson interjected that Section 5 of the legislation provided for a 90 day period for current employees to make the election. The bill was identical to what the prior bill offered on the same subject. The defined contribution employee would likely find that their accrued contribution would fully qualify them for the new plan. Representative LeBon was surprised that the average age of public safety professionals was 31. He suggested that the University of Alaska campus had a very highly rated fire management program. He wondered whether students graduating from the program who chose to work for an Alaskan fire department would automatically be entered into the new DB plan if adopted. He asked if the Tier IV system would be voided. Representative Josephson responded in the affirmative. He explained that a new employee would fall under the new Tier V. Representative LeBon reasoned that only those already in Tier IV could remain in Tier IV. Representative Josephson replied in the affirmative.

Vice-Chair Ortiz understood that HB 55 continued the Tier IV medical plan and relied on the Health Reimbursement Arrangement (HRA) to cover premiums from retirement until the retiree was Medicaid eligible. He asked if the health insurance portion of the plan was similar to and as equally competitive as other states who returned to a DB plan.

Representative Josephson deferred to Mr. Miranda.

10:26:05 AM

Mr. Miranda responded in the affirmative. He relayed that many of the plans across the nation were similar to the medical portion of the HB 55 plan. He was certain that the Washington state plan's retiree health plan was similar. Vice-Chair Ortiz understood that the person under Tier V would be responsible for 100 percent of the medical insurance premium upon retirement and 20 percent thereafter. He inquired whether he was correct. Mr. Miranda answered that it was correct that the TIER V plan had the same medical plan as the Tier IV medical plan. He explained that the plans utilized a health reimbursement arrangement, which was an account in which 3 percent of the average Tier IV employees' salaries were deposited. The employees, at retirement, would have access to the lump sum of money to purchase coverage until Medicare age. Once on Medicare, there was cost sharing based on years of service.

10:28:48 AM

Representative Thompson asked about an actuarial analysis. He wondered when it would be available.

10:29:04 AM

ELISE SORUM-BIRK, STAFF, REPRESENTATIVE JOSEPHSON, answered that the Division of Retirement and Benefits was in the process of updating the actuarial analysis. She had included the previous actuarial analysis in the members files [A letter from Buck Consulting dated February 29,2020 (copy on file)]. She did not think the updated actuarial analysis would be much different.

10:29:50 AM

Co-Chair Merrick indicated the committee was waiting on the committee substitutes for the operating budget bills. She recessed the meeting to the call of the chair. [The meeting never reconvened.]

#
ADJOURNMENT

10:30:26 AM

The meeting was adjourned at 10:30 a.m.