

SENATE FINANCE COMMITTEE
March 11, 2021
9:01 a.m.

9:01:58 AM

CALL TO ORDER

Co-Chair Bishop called the Senate Finance Committee meeting to order at 9:01 a.m.

MEMBERS PRESENT

Senator Click Bishop, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Lyman Hoffman
Senator Donny Olson
Senator Natasha von Imhof
Senator Bill Wielechowski
Senator David Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Neil Steininger, Director, Office of Management and Budget, Office of the Governor.

PRESENT VIA TELECONFERENCE

Mike Barnhill, Deputy Commissioner, Department of Revenue, Juneau; Stacie Kraly, Chief Assistant Attorney General, Department of Law, Civil Division; Adam Crum, Commissioner, Department of Health and Social Services, Wasilla.

SUMMARY

SB 55 EMPLOYER CONTRIBUTIONS TO PERS

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

FOLLOW UP: EXECUTIVE ORDER 119 - REORGANIZATION OF DEPARTMENT OF HEALTH AND SOCIAL SERVICES

DEPARTMENT OF LAW

#sb55

SENATE BILL NO. 55

"An Act relating to employer contributions to the Public Employees' Retirement System of Alaska; and providing for an effective date."

[9:04:16 AM](#)

NEIL STEININGER, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, discussed the presentation, "State of Alaska, Office of Management and Budget, SB55-Employer Contributions to PERS, Senate Finance Committee, March 11, 2021" (copy on file). He looked at slide 2, "SB55 -Employer Contributions to PERS":

- Removes cap on Public Employee Retirement System (PERS) payroll contributions made by the State of Alaska as an employer
- Continues to fully fund state's obligation to the PERS system
- Applies only to the State of Alaska, does not impact other PERS employers
- Does not impact Teachers Retirement System (TRS)
- Does not change retiree benefits
- Does not reduce contributions to PERS
- Allows for full cost share with federal programs and other sources used to fund state programs, thereby reducing general fund expenditures by \$25.7 million in FY22

Senator Olson wondered why the other Public Employees' Retirement System (PERS) employers were not included in the presentation.

Mr. Steininger replied that other PERS employers, such as municipalities, did not have access to those federal funds.

Senator Olson queried the reason for not including the teachers retirement system (TRS).

Mr. Steininger replied that most of those employees did not have a significant federal cost share, so there was not a significant cost savings to the TRS employees.

Senator Olson wondered whether the other PERS employers were in favor of the move.

Mr. Steininger replied that, initially, the municipalities had concerns about the applicability of the change, but they were supportive of the change.

Mr. Steininger highlighted slide 3, "SB55-Background: Alaska's Retirement Obligations":

- Alaska has four public employee retirement tiers
- Total annual obligation based on a blended contribution rate
- Current cost of obligation split between "Employer Obligation" and "On-Behalf Payment"
 - Employer contributions (22 percent) on employee salaries -mixed fund sources
 - On-behalf payments for Municipalities and other PERS employers -100 percent UGF
 - On-behalf payment for State of Alaska as an employer -100 percent UGF
- This bill addresses the on-behalf payment for State of Alaska as an employer

[9:10:56 AM](#)

Co-Chair Stedman queried the history of the concept.

Mr. Steininger replied that over the last couple of years, from FY 15 there was a large deposit into the pension systems. He remarked that the deposit significantly reduced the ongoing liability. He noted that there was an upward trend to the payment, with a current \$300 million payment for the retirement. He stated that there had been ideas about addressing the issue.

Co-Chair Stedman recalled a presentation in the previous week that the unfunded liability payments were intended to conclude at the end of century.

Mr. Steininger agreed, and stated that the unfunded liability for the Tiers 1 through 3 retirement plan were scheduled to end payments at the end of the century.

Co-Chair Bishop wondered whether there was federal guidance to use federal money.

Mr. Steininger replied that there was work with the federal groups that dealt with cost allocations to the state about allowability.

[9:16:53 AM](#)

Senator Wilson surmised that the federal groups were on board.

Mr. Steininger replied that there were discussions about allocation of cost to determine the allowability of application full actuarial right.

Senator Wilson queried any downsides to the state's federal contractors.

Mr. Steininger replied that he had not heard any misgivings about the proposal.

[9:20:21 AM](#)

Senator Wielechowski surmised that the proposal took a portion of federal money for another department and use it for retirement.

Mr. Steininger replied in the affirmative.

Senator Wielechowski surmised that there were not additional federal dollars.

Mr. Steininger replied that it depended on the specific federal program.

Senator Wielechowski remarked that the portion of money intended for a project would not be taken from that project, rather there was a loophole to take in more federal dollars and not reduce the services.

Mr. Steininger replied in the affirmative.

Co-Chair Bishop wondered whether money would be reduced for a specific project.

Mr. Steininger replied that the full money would still be used for the project or department, but the cost would be reflected higher, because it would reflect the true

actuarial retirement obligation to the employees working on the roads.

[9:25:05 AM](#)

Senator Wilson wondered whether the proposal would affect all federal grant programs.

Mr. Steininger replied in the affirmative.

Senator Olson wondered whether there were other states that had a similar plan.

Mr. Steininger replied that every state was unique in their handling of the obligations. He deferred to Mr. Barnhill to discuss the states' handling of their unfunded liabilities.

Senator Olson surmised that no other state had the same type of system in place.

Co-Chair Bishop stated that the committee may want to see a spreadsheet on hypothetical projects with the potential implementation.

Senator von Imhof requested an examination of the state and federal match, with a determination of the possible changing metrics over time.

[9:30:07 AM](#)

Senator Wielechowski wondered whether the percentage of payroll could increase.

Mr. Steininger replied that the 30.11 percent of payroll was calculated by the state's actuarial firm, which determined that the actuarial liability was 30.11 percent in FY 22.

Senator Wilson queried the number of federal grants that were up for renegotiation in the upcoming year.

Mr. Steininger agreed to provide that information.

Senator Wilson wanted to know how soon there could be actual data and outcomes to the committee.

Mr. Steininger replied that each year over the upcoming years would begin to show the actual costs, and their fund sources.

[9:33:24 AM](#)

Mr. Steininger pointed to slide 4, "SB55 -State of Alaska as an Employer Retirement Obligation -Current Law." The slide showed how the obligation was paid under current law. He noted that employer contribution was 22 percent of payroll.

Mr. Steininger addressed slide 5, "SB55 -State of Alaska as an Employer Retirement Obligation -Proposed Law":

Savings will grow over time:

- Some programs show savings in year one
- Some cost allocations require 1 to 3 years to adjust -dependent on negotiation of federal cost allocation plans

Mr. Steininger noted that the total amount budgeted was greater than under current law. He stated that actuaries could not predict future factors.

Senator Wielechowski asked whether there was a reason that it was not written in a way to have the federal government pick up the cost for local, municipal, and borough projects.

Mr. Steininger replied that it would only be possible if the local communities were receiving significant federal grants.

Senator Wielechowski felt that Fairbanks, Anchorage, and Juneau received significant federal funds. He wondered what was considered "significant."

Mr. Steininger replied that the additional cost on the local communities would be greater than what they could federally claim on their retirement contribution.

[9:40:02 AM](#)

Mr. Steininger discussed slide 6, "SB 55: FY2022 Budget Impact." He pointed out that the bill did save money to UGF

spending, but shifted costs from the language section into agency budgets.

Co-Chair Stedman wondered whether the historic costs could be restated for an accurate comparison.

Co-Chair Bishop queried a handicap of the total budget impact going backwards.

Mr. Steininger felt that there would be work to ensure prevention any miscommunication.

Mr. Steininger looked at Handout A in the members' packets (copy on file). He noted that it was a representation with more detail that went to some earlier statements about the implementation timing.

[9:47:28 AM](#)

Senator Hoffman queried the breakdown of the actual revenue sources.

Mr. Steininger pointed to Handout B in the members' packets (copy on file).

Co-Chair Bishop noted a \$26 million savings.

Mr. Steininger agreed.

Senator Hoffman wondered whether item 1105 was the Permanent Fund.

Mr. Steininger replied that the number paid for employees in the Permanent Fund Division, and others in the Department of Law. He agreed to provide further information.

[9:51:37 AM](#)

Senator Wielechowski wondered whether the federal government expressed concern about the 22 percent rate.

Mr. Steininger stated that the rate was established prior to his time as a state employee, so he deferred to Mr. Barnhill.

[9:52:14 AM](#)

MIKE BARNHILL, DEPUTY COMMISSIONER, DEPARTMENT OF REVENUE, JUNEAU (via teleconference), stated that he was not aware of any objections by the federal government to the percentage rate.

[9:52:49 AM](#)

Mr. Steininger addressed slide 7, "Historical PERS Contribution Rates."

Co-Chair Stedman remarked that it was important to reduce the contribution after the larger influx.

Co-Chair Bishop OPENED public testimony.

Mr. Barnhill stated that he was not going to provide public testimony, but would be available for historical comment.

Co-Chair Bishop CLOSED public testimony.

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

[9:57:26 AM](#)

RECESSED

[1:01:30 PM](#)

RECONVENED

^FOLLOW UP: EXECUTIVE ORDER 119 - REORGANIZATION OF DEPARTMENT OF HEALTH AND SOCIAL SERVICES

[1:02:05 PM](#)

Co-Chair Bishop stated that Governor Dunleavy had withdrawn Executive Order 119. He remarked that the order had broad support, but had some action items that needing addressing over the upcoming months.

[1:02:52 PM](#)

STACIE KRALY, CHIEF ASSISTANT ATTORNEY GENERAL, DEPARTMENT OF LAW, CIVIL DIVISION (via teleconference), discussed the withdrawal of EO 119. She shared that efforts that were undertaken by the administration to prepare the executive order and present to the legislature were done with the

clear understanding of the scope and parameters of an executive order. She remarked that an executive order was an organizational change document to the Executive Branch under the authority of the governor; and that there could not be any substantive changes to state law through the executive order. She remarked that, as a result, there was not means to amend the executive order during legislative review. She shared that the Department of Law (LAW) and the Department of Health and Social Services (DHSS) did their best to meet the goals with the understanding of those limitations. She stressed that there was a potential for mistakes and errors. She shared that Legislative Legal had submitted a memorandum dated March 1, 2021, which outlined some of the concerns with EO 119. She pointed out that while LAW might agree with some of the substantive conclusions outlined by Legislative Legal, she agreed that there were substantive errors within the drafting of EO 119. She shared that after sharing the issues with the governor, it was determined to withdraw EO 119. She furthered that there would be a reintroduction of the concept at a future date. She shared that the action of withdrawal had occurred with other executive orders. She shared that the conversation with Legislative Legal about EO 119 helped to specify the vision of DHSS, and LAW was able to get a better understanding of some of the substantive concerns in the memorandum. She wanted the transition to be a smooth as possible if and when the eventual executive order was adopted.

Senator Hoffman wondered whether there would be work with the legislature to include legislative findings in the next executive order on the subject.

Ms. Kraly replied that the legislative findings that were included in EO 119 existed in current statute, so there were no new additions. She stated that, providing context to the reorganizations would be helpful to outline some of the concerns. She stated that additional legislative findings would be considered substantive changes, would require legislation, and therefore would not be included in an executive order.

Senator Hoffman commented that each legislature may have different view on a variety of topics that may not coincide with a current legislature.

Ms. Kraly remarked that an executive order was strictly and organizational endeavor. She agreed that the legislative findings that were adopted in the past may not be the purview of the current legislature. She stressed that the legislative findings could not be amended in the executive order, but could be changed through legislation.

[1:09:09 PM](#)

Senator Hoffman felt that the committee should look at the legislative findings which may be included in a future executive order before it becomes the draft.

Ms. Kraly agreed.

Senator Olson stressed that the legislature must be involved in the process, and wondered whether there would be more involvement with the legislature with the upcoming executive order.

Ms. Kraly replied that there would be continued "robust engagement" with the legislature and other stakeholders when moving forward with the process.

Senator Wielechowski felt that the executive branch could put legislative findings into a new section of law. He felt that it was a clear violation of constitutional authority. He surmised that there would be another executive order and not a new piece of legislation.

Ms. Kraly replied that the department was evaluating all of the options on how to pursue the policy of the administration to bifurcate DHSS into two new departments. She shared that they may pursue a new executive order or legislation.

Co-Chair Bishop pointed out that there were questions from the legislature and the governor had recognized those concerns, resulting in LAW withdrawing EO 119.

Ms. Kraly agreed

Senator von Imhof hoped the committee would examine the question of intent versus execution. She pointed out that the intent was to bifurcate the "very large" Department of Health and Social Services so that Juvenile Justice, the Pioneer Homes, Alaska Psychiatric Institute (API), and the

Office of Children's Services (OCS) could have the time and allocation needed to properly function. She stressed that the intent was to improve the divisions, especially OCS. She shared that she was the chair of the Health and Social Services subcommittee, so she understood the challenge. She remarked that the execution may not seem appropriate or correct. She hoped that the intent of EO 119 was honest, and felt that it was for the good of Alaska.

Co-Chair Bishop asked for any comments regarding the questions from committee members.

[1:15:18 PM](#)

ADAM CRUM, COMMISSIONER, DEPARTMENT OF HEALTH AND SOCIAL SERVICES, WASILLA (via teleconference), restated that the governor had withdrawn EO 119, because there were some required technical changes. He reiterated that the reform was necessary. He stressed that there needed to be trust from the legislature in order for the reform to be successful. He shared that there would be continued meetings with groups and stakeholders. The hope was for full transparency that a technical issue was identified, and hoped to move forward with the bifurcation plan. He agreed that there should be a partnership with the legislature as identification of certain items come to light. He looked forward to the continued engagement to ensure that the questions were addressed in the new path forward.

Senator Wilson congratulated Commissioner Crum on the birth of his child.

Co-Chair Bishop

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ADJOURNMENT

[1:18:52 PM](#)

The meeting was adjourned at 1:18 p.m.