

SENATE FINANCE COMMITTEE
January 25, 2024
9:02 a.m.

[9:02:30 AM](#)

CALL TO ORDER

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

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Donny Olson, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Click Bishop
Senator Jesse Kiehl
Senator Kelly Merrick

MEMBERS ABSENT

Senator David Wilson

ALSO PRESENT

Alexei Painter, Director, Legislative Finance Division

SUMMARY

^FY 25 BUDGET OVERVIEW: LEGISLATIVE FINANCE DIVISION

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ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION, (LFD) discussed the presentation, "Update on State Employee Vacancies and Other Budget Issues" (copy on file). He looked at slide 2, "Outline":

- Updated State employee vacancy data
- How are vacancies addressed?
- Operating and capital budget crossover

Mr. Painter addressed slide 3, "State of Alaska Budgeted versus Filled PCNs, 2015-2023." He stated that the slide showed the positions from the state positions. He remarked

that the budgeted and filled positions had decreased since 2015. He remarked that the number of filled positions had decreased more than the budgeted positions.

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Mr. Painter highlighted slide 4, "Percentage of Full-Time State PCNs Filled, 2015-2023." He noted that there was a decrease by nearly 3 percent, with only a slight improvement from the all-time low. He stressed that the slide only represented the executive branch positions.

Senator Bishop requested a ballpark total number of all state positions.

Mr. Painter replied that it was difficult to do a straight-line comparison.

Senator Kiehl wondered whether there was money for the positions represented in the blue line.

Mr. Painter replied that generally there was a budgeted vacancy factor when budgeting positions. He stressed that sometimes vacancies caused increased cost, and sometimes the vacancies caused decreased costs.

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Mr. Painter discussed slide 5, "Full-Time PCN Vacancy Percentages by Agency, December 2022 and December 2023." He stated that the agencies were sorted by the number of positions, comparing the current year to the previous year. He noted that overall there was a 14.5 percent vacancy rate in December 2022 and a 13.8 percent vacancy rate in December 2023. He noted that there was some improvement, but it was not a universal improvement. He noted the Department of Corrections (DOC) vacancy rate improvement. He summarized the remaining departments represented in the slide.

Mr. Painter addressed slide 6, "Vacancy Percentages by Range, December 2022 to December 2023." He stated that most positions were in ranges between 10 and 24. He noted that there was not a clear pattern in the changes from year to year. He remarked that the highest vacancy rates were at either end of the spectrum of the ranges. He remarked that

the trend in wage growth happened in the last year at the lower end of the pay range.

Mr. Painter looked at slide 7, "Position Titles with Highest Vacancy Rates, December 2023." He pointed out that the highest vacancy rate was for Unemployment Insurance Techs at a vacancy rate of around 38 percent. He noted that there had been a longstanding problem filling the public health nurse positions.

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Mr. Painter pointed to slide 8, "Allocations with the Highest Vacancy Rates, December 2023." He noted that the highest vacancy rate increase went from 23.7 percent to 42.1 percent. He detailed the vacancy rate allocation increases in the other agencies on the slide.

Mr. Painter displayed slide 9, "What Is the Impact of Vacancies?"

- For some types of employees, the workload is fixed so vacancies result in higher costs due to overtime. Examples:
 - Correctional Officers earn time-and-a-half for overtime, and overtime is often worked by more senior employees rather than new recruits, so vacancies increase costs substantially.
 - The work of two vacant actuarial positions in the Department of Commerce have been filled by contracts estimated to cost between \$500.0 and \$1,000.0 in FY25.
- In other cases, vacancies result in work being done more slowly, services being reduced, or employees having unsustainable workloads. Examples:
 - The Alaska Marine Highway System has been unable to run a full schedule in part due to staffing shortages.
 - There have been delays processing retirement paperwork, due to a shortage of Retirement Technicians in the Division of Retirement and Benefits.
 - Burnout appears to be a problem in Public Assistance, Public Defenders, Public Guardians, and the Division of Personnel, among others, due to unsustainable workloads.

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Mr. Painter addressed slide 10, "How Are Vacancy Issues Addressed?"

- For issues that apply to a broad class of employees (such as an entire bargaining unit), there can be across-the-board raises.
 - Examples: Public Safety Employees Association (primarily representing State Troopers) will receive increases of 7 percent in FY24, 3 percent in FY25, and 10 percent in FY26.
 - The legislature created a new salary schedule for attorneys in 2022 that is 15 percent higher than other partially exempt positions.
- For issues regarding a particular position type, a classification study (conducted by the Division of Personnel and Labor Relations in the Department of Administration) can increase wages to match the market.
 - For example, Public Health Nurse salaries were increased in FY22 after completion of a salary study.
 - However, there is currently a substantial backlog of classification studies. The legislature appropriated \$1.0 million in FY24 for a broader review of classification that is expected at the end of the fiscal year.
- Narrower issues can be handled through regular contract negotiations, but often are done through Letters of Agreement (LOAs) outside the regular contract.
 - For example, the Correctional Officers contract includes a provision providing a permanent step increase to employees who work at the Spring Creek Correctional Institute due to long-term vacancy issues in that institution.
 - So far in FY24, 13 LOAs with monetary terms have been sent to the legislature, ranging from applying to a single person to all AMHS employees. These include bonuses, overtime pay, and extra merit steps.

Senator Bishop requested a ballpark timeline to complete a classification study.

Mr. Painter agreed to provide that information.

Senator Bishop noted the permanent step increase for Spring Creek Correctional Center, and wondered whether the increase was because it was a maximum security prison.

Mr. Painter replied that there were some various issues with the facility. He remarked that it being a maximum security prison was a factor in that permanent step increase. He stressed that housing was limited in Seward.

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Mr. Painter looked at slide 11, "More about LOAs":

- LOAs including a monetary term are required to be approved by the legislature. In the FY23 and FY24 budgets, the legislature has included language that approves all LOAs provided that they are sent to the Legislative Finance Division (ensuring that the legislature can review them).
- Agencies can often absorb the costs of LOAs due to the vacant positions. However, this is not a sustainable way to fix the problems because LOAs tend to be temporary measures.
 - The Division of Finance had an LOA in FY23 providing bonuses to Human Resources Technicians. In June 2023, the vacancy rate for these positions was 30.4 percent. The LOA did not continue into FY24. By August 2023, the vacancy rate for these positions was up to 41.1 percent, and in December it was 46.4 percent. The Governor's FY25 budget includes funding for bonuses again in FY25.
 - If positions are subsequently filled, vacancy can no longer pay for these extra measures.

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Senator Kiehl wondered who was working in the systemic solutions.

Mr. Painter replied that that he did not know the actions of the administration.

Senator Kiehl appreciated the work on the issue, but wanted to explore the issue to determine the root of the problem.

Senator Bishop wanted to ensure that help was provided on issue of payroll payments.

Mr. Painter discussed slide 12, "Operating Items in Capital Budget":

- AS 37.07.120(4) states:
"capital projects" and "capital improvements" mean an allocation or appropriation item for an asset with an anticipated life exceeding one year and a cost exceeding \$25,000 and include land acquisition, construction, structural improvement, engineering and design for the project, and equipment and repair costs
- Operating budget items in the numbers section lapse at the end of the fiscal year. Capital project appropriations last the life of the project, some spanning many years. This makes capital appropriations more flexible for agencies than operating items.
- When operating items are placed in the capital budget, it can distort the true size of the State's ongoing budgetary obligations. Keeping a clear separation between the two budgets is important for maintain a transparent budget and for enabling fiscal planning.
- The line between capital and operating items is not always clear; items such as funding for maintenance can be found in both budgets.

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Senator Bishop agreed that the capital item was an asset until it becomes a liability through deferred maintenance.

Mr. Painter looked at slide 13, "Potential Operating Items in the FY25 Governor's Capital Budget."

[9:51:12 AM](#)

Senator Kiehl wondered whether there was a way to automated way to put the ongoing cost into the operating budget.

Mr. Painter replied that there were various efforts, but were not necessarily "smooth."

Mr. Painter noted that there were slides included in the presentation in the appendix.

Co-Chair Stedman asked for an overview of those slides.

Mr. Painter looked at slide 15, "Appendix":

The following slides are repeated from a March 9, 2023, presentation to the Senate Finance Committee and are included at the chair's request.

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Mr. Painter discussed slide 16, " Historical Retention Data - About the Data Source":

- The Division of Retirement and Benefits provided data on employee retention from FY03-22.
- The data shows whether employees hired in a given fiscal year are still employed by the same PERS employer in subsequent years.
- The data is broken out by employer in three categories: the State as an employer, other SBS employers, other non-SBS employers.
- It's further broken out for TRS, PERS public safety and fire employees (PERS P/F), and all other PERS employees. This presentation will only cover PERS "non-P/F" employees.
- Finally, it distinguishes between employees in a DB or DC system.
- One limitation of this data: if an employee leaves and comes back, they show up as a new employee when they return. This may skew the comparisons for the early years of the DC system if returning employees and new employees have meaningful differences in retention.

Mr. Painter pointed to slide 17, "Retention Rate by Class Year, PERS Non-P/F, State Only."

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Mr. Painter discussed slide 18, "Year 6 and 11 Retention, PERS All Others, State Only."

Mr. Painter pointed to slide 19, "Non-State Employers in Social Security/SBS":

- In addition to the DB or DC system, all State of Alaska employees are in the Supplemental Annuity Plan (SBS), which is a defined contribution plan with a 6.13 percent employee contribution, matched by 6.13 percent employer contribution. This system essentially replaces Social Security for these employees.
- Non-State PERS employers have varied supplemental plans. Of the 14,163 non-State, non-P/F PERS employees in the DC system, 7,473 are in Social Security, 1,645 are in SBS, and 5,045 are in neither plan.

Mr. Painter displayed slide 20, "Retention Rate by Class Year, PERS Non-P/F, Non- State, Non-SBS Only."

Mr. Painter highlighted slide 21, "Year 6 and 11 Retention, PERS Non-P/F, Non-State, Non-SBS Only."

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Mr. Painter addressed slide 22, "Retention Rate by Employer Type, PERS Non-P/F - FY03-06 (DB) only."

Co-Chair Stedman discussed housekeeping.

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ADJOURNMENT

[10:04:28 AM](#)

The meeting was adjourned at 10:04 a.m.