

HOUSE FINANCE COMMITTEE  
April 2, 2025  
1:37 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:37 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair  
Representative Andy Josephson, Co-Chair  
Representative Calvin Schrage, Co-Chair  
Representative Jamie Allard  
Representative Jeremy Bynum  
Representative Alyse Galvin  
Representative Sara Hannan  
Representative Nellie Unangiq Jimmie  
Representative DeLena Johnson  
Representative Will Stapp  
Representative Frank Tomaszewski

MEMBERS ABSENT

None

ALSO PRESENT

Kathy Lea, Director, Division of Retirement and Benefits, Department of Administration; Alexei Painter, Director, Legislative Finance Division; Representative Chuck Kopp; Representative Bill Elam; Representative Julie Coulombe; Representative Rebecca Himschoot.

PRESENT VIA TELECONFERENCE

David Kershner, Actuary, Arthur J. Gallagher and Company, South Carolina.

SUMMARY

PRESENTATION: TIERS & UNFUNDED LIABILITY

HB 53        APPROP: OPERATING BUDGET; CAP; SUPP

HB 53 was HEARD and HELD in committee for further consideration.

HB 55        APPROP: MENTAL HEALTH BUDGET

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

HB 78        RETIREMENT SYSTEMS; DEFINED BENEFIT OPT.

HB 78 was HEARD and HELD in committee for further consideration.

Co-Chair Foster reviewed the meeting agenda.

#hb78

HOUSE BILL NO. 78

"An Act relating to the Public Employees' Retirement System of Alaska and the teachers' retirement system; providing certain employees an opportunity to choose between the defined benefit and defined contribution plans of the Public Employees' Retirement System of Alaska and the teachers' retirement system; and providing for an effective date."

^PRESENTATION: TIERS & UNFUNDED LIABILITY

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AT EASE

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RECONVENED

Co-Chair Foster noted that the bill would be taken up first followed by the operating budget.

Co-Chair Josephson confirmed the committee would continue with the operating budget after HB 78.

1:39:30 PM

KATHY LEA, DIRECTOR, DIVISION OF RETIREMENT AND BENEFITS, DEPARTMENT OF ADMINISTRATION, introduced the PowerPoint presentation, "Defined Benefit Versus Defined Contribution

Comparison" dated April 12, 2025 (copy on file). She explained that the first 15 pages of the presentation were an overview of a presentation provided earlier in session. She would later turn the presentation over to actuary David Kershner to discuss unfunded liability.

Ms. Lea continued to slide 2 and highlighted the purpose of the Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) plans to attract and retain qualified personnel. She noted that the purpose of the plan for TRS was repealed in 2005; therefore, the language only currently applied to defined benefit (DB) participants. Slide 3 showed the chronology of the PERS and TRS systems including DB tiers and the defined contribution (DC) tier. She began with DB tiers and detailed that PERS was established in 1961, Tier 2 was established in 1986, Tier 3 in 1996. The DC tier was established in July of 2006. She detailed that TRS was established in 1945, Tier 2 was established in 1990, and the DC tier was established in July 2006.

MS. Lea continued to slide 4 and gave an overview of PERS Tier 1:

- Vesting 5 years of membership service
- Non-Occupation Disability and Death Benefits
- Occupational Disability and Death Benefits
- Early Retirement at age 50
- Normal Retirement at age 55
- At any age with 30 years of membership service
- At any age with 20 years of Peace Officer/Fire fighter service
- System paid medical at retirement
- Alaska Cost of Living Allowance (COLA) - eligible at retirement
- Post Retirement Pension Adjustment (PRPA)
  - o Automatic: Eligible at age 60 or 5 years of receiving benefits as of 7/1
  - o Ad Hoc: Eligible if there was a change in the Consumer Price Index (CPI) at time of retirement and current year July 1 (system must be 105% funded)

Ms. Lea elaborated that the automatic PRPA was instituted because it was prefunded. The ad hoc PRPA was not prefunded. She explained that the automatic PRPA was a

lesser benefit because an individual had to be age 60 or have five years as of July 1 of a given year; it paid 50 percent of the change in the CPI in Anchorage for members under the age of 65 and 75 percent of the change at the age of 75.

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Ms. Lea continued to slide 5 and provided an overview of PERS Tier 2:

- Vesting 5 years of membership service
- Non-Occupational Disability and Death Benefits
- Occupational Disability and Death Benefits
- Early Retirement at age 55
- Normal Retirement at age 60
- At any age with 30 years of membership service
- At any age with 20 years of Peace Officer/Fire Fighter service
- System paid medical at:
  - At age 60 with at least 5 years of credited service
  - 30 years of membership service
  - 25 years of Peace Officer/Fire Fighter Service
- Alaska Cost of Living Allowance (COLA) - eligible at age 65
- Post Retirement Pension Adjustment (PRPA)
  - Automatic: Eligible at age 60 or 5 years of receiving benefits as of 7/1
  - No Ad Hoc

Representative Bynum stated that when an individual went into retirement, they received a medical benefit. He asked if the same benefit continued once the individual hit Medicare eligibility. Alternatively, he wondered if the individual would go onto Medicare and have a supplemental [medical benefit].

Ms. Lea responded that the retirement health plan was primary until Medicare age and at Medicare age it became supplemental.

Ms. Lea continued to slide 6 and reviewed PERS Tier 3:

- Vesting 5 years of membership service

- Non-Occupational Disability and Death Benefits
- Occupational Disability and Death Benefits
- Early Retirement at age 55
- Normal Retirement at age 60
- At any age with 30 years of membership service
- At any age with 20 years of Peace Officer/Fire Fighter service
- System paid medical at:
  - At age 60 with at least 10 years of credited service;
  - 30 years of membership service; or
  - 25 years of Peace Officer/Fire Fighter Service
- Alaska Cost of Living Allowance (COLA) - eligible at age 65
- Post Retirement Pension Adjustment (PRPA)
  - Automatic: Eligible at age 60 or 5 years of receiving benefits as of 7/1

Ms. Lea elaborated that the change from the Tier 2 to the Tier 3 plan was to the medical benefit. Tier 3 required 10 years of membership service at age 60. The COLA and PRPA remained the same. She moved to PERS tier 4, DC plan:

- Vesting in employer contributions:
  - 25% with two years of service
  - 50% with three years of service
  - 75% with four years of service
  - 100% with five years of service
- Normal Retirement at:
  - Medicare eligibility (Age 65) with at least 10 years of membership service
  - any age with 30 years of membership service
  - any age with 25 years of Peace Officer/Fire Fighter service
- HRA eligible if meet the normal retirement eligibility
- No COLA or PRPA
- Occupational Disability and Death Benefits

Ms. Lea expounded that normal retirement [shown above] only referred to medical benefits in Tier 4. She relayed that because it was a DC account, a participant could liquidate their account within 60 days of termination. There was no true retirement event as there was in the DB plans. She elaborated on the HRA [Health Reimbursement Arrangement] and explained that if a retiree met the requirements for

medical eligibility, they could begin to draw from the HRA, which could be used for premium payments or spend down for copays or coinsurance.

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Representative Tomaszewski asked if the tiered step on the vesting applied to SBS [Supplemental Benefits System] enrollees as well.

Ms. Lea replied that SBS did not have a tiered vesting. She added that SBS participants were eligible for the 6.13 percent employer contribution immediately.

Representative Stapp asked if the Division of Retirement and Benefits (DRB) tracked the outflows of individual HRAs to see what individuals were spending the money on. He wondered if individuals used accounts primarily for premiums, deductibles and copays, or known medical expenses.

Ms. Lea responded that she did not have the statistics on hand but she could follow up with the information later that day.

Representative Stapp stated that typically if an individual bought health insurance under an HRA, there were questions that were specific to QSEHRAs [Qualified Small Employer HRA] because the premium tax calculations were deducted off HRA revenue. He remarked that it was something the state should be telling participants or working it out with them. He asked if Ms. Lea had any details.

Ms. Lea responded that she was not the health insurance expert in DRB and would follow up with the information.

Representative Bynum asked Ms. Lea to describe the difference between the HRA and medical plan under Tier 3 and what the typical value would be for an average retiree.

Ms. Lea responded that the samples later in the presentation gave an estimate of the average HRA at the time of eligibility. She stated that the medical plan was the same in all tiers; the differences arose in eligibility, who paid the premium, and how much they paid.

Representative Galvin remarked that recently there had been some Alaska Retirement Management Board (ARMB) recommendations on whether or not there was requirement to retire directly from the system. She asked Ms. Lea to provide some context on the decision.

Ms. Lea responded that ARMB's recommendations and resolutions were passed based on what the ARMB felt it needed to see and not in consultation with DRB. She relayed that DRB was currently neutral on the decisions. The current requirements to retire directly from the plan and to have been employed for at least 12 months prior was a direct result of the condition of the health plan funding in 2006. She noted that the health plan funding and the pension funds had been under water at the time. She explained there had been a run of people who had been working years before in the DB plans who had come back to work for the state when close to retirement age, some for as little as one day, in order to re-vest in order to access health insurance. She elaborated that the intent behind the provision was to prevent that sort of occurrence.

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Ms. Lea continued on slide 8 and detailed the PERS participation numbers. She detailed the DB population was dwindling, but there were still 368 Tier 1 members. There were 7,631 total active employees in the three DB tiers. The slide also showed employees who terminated with a balance and had retained their contributions in the plan who could come back to work for the state at a future date in order to draw retirement and benefits. Some of those individuals may have to come back to work for the state for a time in order to get vested. The slide showed the total benefit payments for each tier and the split between police/fire and all others.

Representative Hannan asked for clarification on the benefit payments in relation to the tiers. She asked if it was a dollar value.

Ms. Lea responded that the slide showed the number of people receiving benefits and not a dollar amount.

Representative Hannan stated her understanding that the slide indicated there were 368 actively working Tier 1

employees. She asked for verification that the slide also showed there were 20,829 retired people receiving Tier 1 benefits.

Ms. Lea responded affirmatively.

Ms. Lea continued on slide 9 showing the PERS employer normal cost by tier. She stated that DRB did not normally split out the cost by the DB tiers when calculating the overall amount needed to fund benefits in a given year. She explained that normal cost referred to the percentage of salary needed in order to fund benefits due for the coming year. She elaborated that if it was above or below the estimated amount, it reflected a gain or loss to the unfunded liability. For example, if DRB estimated it needed 34.31 percent for Tier 1 and it turned out only 30 percent was needed, it would result in a reduction to the unfunded liability. Alternatively, if DRB estimated it needed 34.31 percent and it actually needed 40 percent, it would result in an addition to the unfunded liability. The slide showed the different percentages needed, which was a direct reflection of the value of the benefit in each of the tiers.

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Ms. Lea continued to slide 10 and reviewed TRS Tier 1:

- Vesting 8 years of membership service
- Disability Benefits
- Non-Occupational and Death Benefits
- Early Retirement at age 50
- Normal Retirement at age 55
- System paid medical at retirement
- Alaska Cost of Living Allowance (COLA) - eligible at retirement
- Post Retirement Pension Adjustment (PRPA)
  - Automatic: Eligible at age 60 or 8 years of receiving benefits as of 7/1
  - Ad Hoc: Eligible if there was a change in the Consumer Price Index (CPI) at time of retirement and current year July 1 (system must be 105% funded)

Representative Tomaszewski asked at what point TRS opted out of or did not opt into SBS. He understood that Tier 4 teachers did not have SBS.

Ms. Lea explained that in 1955 Social Security extended benefits to government plans (TRS is a government plan) and plans had an opportunity to opt into Social Security or use the replacement plan. She elaborated that teachers across Alaska had voted to retain TRS as their retirement rather than go into Social Security. She noted it had remained that way ever since. She relayed that they could get into Social Security if they chose to do so. She stated her understanding that TRS employees could opt into Social Security on a school district by school district basis. She relayed that to be eligible for the current SBS system, an individual had to be eligible for Social Security. She explained that teachers could not currently enter SBS because they were not eligible for Social Security. She explained that SBS was the Social Security replacement program. She reiterated that teachers had chosen TRS as their Social Security replacement program and it was not possible to be in two at the same time.

Representative Tomaszewski asked how PERS employees were able to be in Social Security and SBS while TRS employees were not. He asked Ms. Lea how TRS members were able to vote themselves into the ability to be in Social Security.

Ms. Lea clarified that the State of Alaska as an employer did not chose to use PERS as their Social Security replacement program. She explained that they did participate in Social Security for a time. She explained that in 1980, they chose SBS as their Social Security replacement plan. She expounded that while PERS qualified to be a replacement plan, the state chose SBS instead. She noted there were PERS employers who had PERS as their Social Security replacement plan instead of SBS.

Representative Tomaszewski asked how a teacher could get into SBS.

Ms. Lea responded that it could happen by a referendum vote. She elaborated that if a school district wanted to come into Social Security, it would contact the state Social Security administrator within DRB to start the process to hold a referendum vote for entry into Social Security. She explained that it required the involvement of

the Social Security regional representative. She expounded that they would have to decide how to do the vote. For example, would it be an all or nothing arrangement or would existing employees be able to choose whether or not they wanted to be enrolled, but as soon as their position was vacated, the new employee must be enrolled in Social Security.

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Representative Allard asked if teachers opted out of Social Security and SBS in 1989.

Ms. Lea asked if Representative Allard was referring to the state and SBS.

Representative Allard thought the teachers opted against having Social Security and SBS in 1989.

Ms. Lea responded that teachers had made the decision in 1955 when Social Security expanded to government plans. She stated that 1989 was not ringing a bell as a seminal date for TRS.

Representative Allard thought it had something to do with SBS. She asked Ms. Lea to follow up with the information.

Representative Bynum stated his understanding that teachers had never opted out of Social Security, they had never opted in. He elaborated that SBS was a state plan that allowed opting into the plan in lieu of Social Security if eligible. He stated that the TRS program was not an alternative to Social Security, it was the retirement plan that did not have Social Security associated with it unless opting in. He clarified that teachers had the option currently to get together and opt into Social Security. He understood there were some issues with the federal windfall provision that created potential issues, but it was no longer in place. He expounded that if teachers opted into Social Security as individuals or by group, it would not mean they would lose their TRS benefit. He stated they would receive a Social Security benefit in addition to TRS. He asked if his statements were accurate.

Ms. Lea clarified that Social Security required a qualified plan: either Social Security or another qualified plan. She explained that TRS qualified as a Social Security

replacement plan. She confirmed that at the time the option to join Social Security was offered, teachers had not opted in. She agreed they had never opted out, they had not opted in.

Representative Bynum asked if teachers would lose TRS if they opted into Social Security.

Ms. Lea responded that teachers would not lose TRS.

Co-Chair Foster noted that Representative Bill Elam had joined the meeting.

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Representative Hannan stated her understanding that an individual teacher could not opt into Social Security. She believed it had to be a statewide referendum administered by the Social Security administrator. She noted that Ms. Lea had also stated that an individual employee could opt out if there was a vote in favor of joining; however, the subsequent employee would have to participate.

Ms. Lea explained that a statewide vote was not required; it could be done school district by school district, but the school district had to be the one to opt in because they had a contribution to pay.

Representative Hannan asked for information about the differences in the disability and death benefits in TRS Tiers 2 and 3.

Ms. Lea explained that the benefits offered for the occupational disability were the same under each of the tiers with the exception of who paid for the health insurance.

Representative Hannan stated that the occupational benefit applied to active employees who died. She asked if there was a difference between the tiers for non-occupational death during retirement.

Ms. Lea answered that there was no non-occupational death benefit in the DC tiers.

Representative Hannan stated her understanding that the disability and death benefit was only available in Tiers 1

and 2, while under the DC plan in Tier 3 there was no death benefit unless an employee died at their job.

Ms. Lea clarified that the cause of a person's death had to be occupational. She explained that if a person died at their job for another reason, it was not an occupational disability.

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Representative Johnson stated her understanding that for PERS employees, SBS was an add-on, and there was no Social Security replacement in Tier 4.

Ms. Lea clarified that there could be no Social Security, no SBS, and just PERS for an employer. The employer had the ability to choose what types of plans they wanted to make contributions to and offer to their employees. There were about 25 employers that only had PERS.

Representative Johnson understood that different municipalities could have different things. She asked about a state employee with PERS, SBS, and Social Security. She asked for verification that SBS was not the individual's Social Security replacement because they had Social Security.

Ms. Lea answered that state employees had SBS instead of Social Security while actively employed. She clarified that state employees did not contribute to Social Security while actively employed. She elaborated that if the individual had Social Security prior to working as a state employee they did not lose it.

Representative Johnson asked for verification in the case of teachers, TRS was the Social Security replacement. Teachers did not have SBS or Social Security. She provided a scenario where a school district wanted to have TRS and Social Security. She asked if they would have to go through the process of opting out of TRS. She wondered if they could opt into having TRS, SBS, and Social Security.

Ms. Lea provided a hypothetical scenario where a school district wanted to opt into Social Security. She explained that the school district could do so if it chose without having to make a declaration or change to its TRS. She

noted that they only needed to do so if they were not going to be in Social Security.

Representative Johnson provided a scenario where a school district decided to opt into Social Security and TRS would not act as its Social Security replacement. She asked if the district could continue in TRS and also have Social Security.

Ms. Lea answered affirmatively. She explained that teachers could not currently get into SBS; there would need to be statutory changes to allow them to do so. She relayed that they could opt into Social Security at any time. She added that with the elimination of the two penalties that Social Security leveled for employment with a non-Social Security employer, the option became more attractive.

Co-Chair Foster took an at ease to check on the schedule.

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AT EASE

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RECONVENED

Co-Chair Foster reviewed the timing of the meeting schedule.

Representative Bynum appreciated a previous question about death benefits. He stated his understanding that if a person in TRS Tier 3 opted into Social Security, the individual would receive a death benefit and potentially a disability benefit. Additionally, if the individual died, the retirement collected through the DC component would be transferable to whatever will they wanted. Whereas individuals in the Tiers 1 and 2 plans had the benefits tied to a DB plan. He asked if his understanding was accurate.

Ms. Lea responded affirmatively. The DB plans paid out a lifetime benefit to the survivor. Under the DC plans, the account could be split in any way.

Representative Bynum asked if the survivor benefit component was something individuals had to opt into. He understood it was an option under many retirement plans and when an individual took the option (e.g., under the Federal

Employees Retirement System (FERS) or IBEW) there was a reduced benefit during retirement. He asked if it was the same with PERS Tiers 1, 2, and 3 and TRS Tiers 1 and 2.

Ms. Lea replied that it was a statutory provision for occupational death. A DB survivor could choose to take a contribution account in lieu of a lifetime benefit, but they would lose all of the employer contributions.

Representative Allard stated her understanding that in a DC plan, an individual could leave their money to a spouse in the event of their death. She believed any remaining money could then go to the couple's children if the spouse also passed away.

Ms. Lea replied affirmatively and explained it was the case because "it's simply a money account."

Representative Allard stated her understanding that under a DB plan, if a person passed away, the benefits went to a spouse or next of kin; however, once the spouse passed away the money would not go to another beneficiary. She asked if her understanding was accurate.

Ms. Lea responded that the benefit could be left to a spouse or incapacitated child. When a retiree began receiving benefits - by statute they used their own contribution account first - they exhausted their account within 2.5 years, and the employer paid the cost of their benefits from then on. Generally, unless a person lived less than 2.5 years, there was nothing left in the contribution account to pass onto a non-spouse if the spouse was deceased.

Representative Allard clarified that she was speaking about DB plans. She asked if Ms. Lea was saying that under a DC plan, there may not be any money left within a couple of years of a person dying.

Ms. Lea explained that she was talking about DB plans.

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Representative Allard provided a hypothetical scenario where a person passed away and had \$900,000 left in their DB plan. She elaborated that the surviving spouse then passed away with \$500,000 remaining in the plan. She asked

what would happen to the remaining \$500,000 if the couple had no incapacitated child.

Ms. Lea answered that unless the retiree died soon after retirement, there would not be those kinds of funds in their account. She relayed that if there were any remaining contributions in the individual's account and the spouse was deceased, the funds would revert back to the trusts.

Representative Allard shared that she had a 70-year old friend whose parent had been a State of Alaska employee. She relayed that he had passed away and her friend had approximately \$1 million left from his defined contributions that she would be able to leave to a potential granddaughter. She remarked that people were living longer and life was expensive in Alaska. She considered the hypothetical scenario she provided about the DB retiree who passed away and the remaining funds went to their spouse. She asked if the remaining \$500,000 would go back to the state if the spouse passed away and there were no incapacitated children.

Ms. Lea responded that if there was any balance in the employee's account, it would go to the beneficiary. Any of the employer contributions set aside for the lifetime benefit would revert back to the fund.

Representative Allard reiterated her question.

Ms. Lea responded that if there was a balance under the DB plan - the employee and employer both made contributions to the DB plan and the two funds were kept totally separate - upon the employee's death, any benefits contributed by the employee would go to the surviving spouse. If the spouse passed away, the funds would go to the designated beneficiary.

Representative Allard remarked that if the beneficiary passed away, the funds were "done" and there was "no inheritance in it." She would take the questions offline.

Co-Chair Foster suggested that Ms. Lea hit the high points in the remainder of the presentation due to time limitations.

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Ms. Lea explained relayed that the committee had previously seen slides 1 through 14. She suggested moving to slide 15 and turning the presentation over to Mr. Kershner to discuss the unfunded liability.

DAVID KERSHNER, ACTUARY, ARTHUR J. GALLAGHER AND COMPANY, SOUTH CAROLINA (via teleconference), was an actuary from Gallagher. The firm provided actuarial valuation services for DRB and ARMB. He continued the presentation on slide 15 titled "Additional State Contributions - History." The slide showed the historical additional state contributions for PERS and TRS since 2006. He pointed out a one-time contribution made by the state in 2015 where \$1 billion went to PERS and \$1.7 billion went to the TRS pension trust and \$300 million went to the TRS healthcare trust. The PERS column reflected a significant drop in the amounts from 2021 to 2022 because SB 55 went into effect in 2022. He elaborated that under SB 55, the state as an employer no longer contributed only 22 percent, but the full actuarial rate based on the payroll of its employees. The additional state contribution only applied to the non-state employees within PERS starting in 2022. He noted approximately half of the total payroll for state and non-state employees.

Mr. Kershner continued to slide 16 showing the latest projections from September. The ARMB adopted \$79.8 million for PERS and just under \$139 million for TRS in FY 26. The numbers were based on the 2024 valuations. Assuming that assets earned the expected rate of 7.25 percent per year, in FY 27 the contribution to PERS was \$70.2 million and the contribution to TRS was \$147.1 million. The slide showed the numbers increasing through FY 39. He relayed that Gallagher would meet with ARMB in September 2025 for the adoption of the FY 27 amounts, which would reflect actual asset earnings between 6/30/24 and 6/30/25. Based on year to date returns, he expected the returns would likely not meet the 7.25 expected return, meaning the FY 27 [contribution] amounts would be higher than those shown on slide 16.

Mr. Kershner continued to slide 17 on FY 26 contribution rates. He noted that cost rates by tier shown by Ms. Lea reflected a percentage of compensation. The percentages on slide 17 were converted to a total plan basis. He explained that it included PERS DB and DC plans. He highlighted the PERS DB pension plan cost rate of 2.14 percent and explained that it was significantly lower than what was

seen earlier in the presentation because the rates on slide 17 were spread over a much larger payroll base including DC members. There were two differences between the preliminary and adopted rates for PERS and TRS. He pointed to the DB health plan normal cost and explained that the "preliminary" column represented the actuarial determined rates. He elaborated that ARMB had the flexibility (and had done so since 2023) not to contribute the health normal cost to the healthcare trust because the healthcare trust continued to be significantly over-funded. Additionally, the preliminary column reflected the funding methodology ARMB adopted starting in 2018. The adopted rates [shown on slide 17] reflected the more rapid acceleration of the amortization of the unfunded liability. For example, the DB pension plan past service cost rate under the "adopted" column was 19.29 percent compared to 18.63 percent in the preliminary column. He highlighted that the basic differences between the preliminary and adopted amounts was shown on the bottom of the slide in red. The ARMB's decisions saved the state about \$48 million between PERS and TRS for FY 26.

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Mr. Kershner continued to slide 18 and the contribution rates since 2008 for PERS and TRS (PERS was reflected in a graph on the top of the slide and TRS was reflected in a graph on the bottom). The actuarially determined contribution rate was shown in orange and the statutory employer rate was shown in blue. The statutory employer rate was 22 percent for PERS and 12.56 percent for TRS. The actuarial rate included the DB and DC rate combined because the statutory rate was a combined total rate for both plans.

Mr. Kershner continued to slide 19 titled "Investment Experience" showing how assets had performed in 2023 and 2024. He noted that 2024 columns were labeled "draft" because the final figures would not be adopted by ARMB until June. The actuarial rate assumed assets would earn 7.25 percent annually. In 2023, the market return was about 7.6 percent and in 2024 it was just under 9 percent. The actuarial rate of return (in the bottom row on the slide) applied smoothing to the assets to avoid fluctuating contribution levels because market values could go up or down from one month to the next or one year to the next. The smoothing rate recognized market gains and losses of 20

percent per year, so at the end of a five-year period the market gain or loss was fully recognized.

Mr. Kershner continued to slide 20 titled "Funded Status - Pension." The slide showed the last three years with PERS on the left and TRS on the right. The top row (line a) reflected the actuarial accrued liability showing the present value of future benefits attributable to service as of the date of the valuation. The second row (line b) was the actuarial smoothed value of assets, and the third row (line c) was the difference between the first two rows reflecting the unfunded liability. In 2024, the unfunded liability was just under \$5.5 billion for PERS and just under \$1.8 billion for TRS. The funded ratio was shown on line d representing the assets in line b divided by the liability in line a: PERS was about 68 percent and TRS was about 78 percent. There were similar numbers in the following three rows based on the market value of assets. The actual market value of assets in the PERS trust on 6/30/24 was \$11.555 billion and TRS was \$6.2 billion.

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Representative Bynum looked at the employer and actuarial rates on slide 18. He pointed to a 22 percent employer rate for PERS in 2026 and an actuarial rate of 28.33 percent. He asked for the differential on the numbers. He stated his understanding that the actuarial rate was the number needed to be able support the plan. He asked who paid the 6.33 percent differential for PERS. He asked who paid the TRS differential.

Mr. Kershner responded that the actuarial rate was based on the assumptions and funding methodology adopted by ARMB and was used to ensure the plans reached full funding over a reasonable period of time. The employer rate was the maximum rate employers paid per statute. The difference between the employer and actuarial rates was paid by the state via additional state contributions. He clarified that starting in FY 22, the state paid the full actuarial rate for PERS employees rather than just the 22 percent.

Representative Bynum stated that it also applied to TRS. He highlighted that the liability to the employer was 12.56 percent. He considered the 31.33 percent actuarial rate [for 2026] and the 12.56 percent employer rate. He asked if

the differential between the two numbers would be borne by the state.

Mr. Kershner responded affirmatively. He pointed to the bottom row on slide 17 [labeled "additional state contributions"] and noted the 18.77 percent [on the TRS side of the slide] reflected the excess the state would pay [for FY 26] because the employer would only pay 12.56 percent.

Representative Stapp looked at slide 20 and referenced a similar chart from 2005 presented in the Senate Finance Committee related to the PERS and TRS liabilities. He stated that in 2003, the accrued liability was \$16,397,252,000 and the actuarial asset value was \$11,439,566,000. The market value of the fund had been just under \$11 billion. Since that time, the state had made billions of additional contributions to the fund. He asked how it was possible that the accrued liability and valuation of the plan was nearly the same amount with all of the additional contributions.

Mr. Kershner responded that he could not provide every reason but one key reason to keep in mind was that the actuarial accrued liability depended on the assumptions used to measure the liability and in particular, the assumed rate of return on the assets. Over time, the expected return on asset assumption had been slowly dropping (becoming more conservative) because of future expected equity returns and bond yields. He explained that when the expected return assumption was lowered, liability rose because it meant the need for more assets on hand to pay the benefits. He highlighted that for every 100 basis point change in the return assumption (e.g., a change from 8 percent to 7 percent), the liability generally increased by roughly 12 percent. He noted that the presentation would show later on how assumption changes had impacted the liability. He relayed that the expected return was 8.25 percent through 2010, 8 percent from 2011 to 2017, 7.38 percent from 2018 to 2022, and 7.25 percent from 2022 to present. Assumptions also included things like mortality tables showing longer life expectancy at present when compared to 20 years back, which increased liabilities. There were a number of moving parts when comparing the past with the present. Additionally, there had not been as many tiers 20 years back as there were at present.

[2:41:44 PM](#)

Representative Stapp noted he had been 17 at the time [in 2005]. He looked at slide 15 and highlighted that the total state contribution made above the valuation of the fund was \$8.5 billion in PERS and TRS. He referenced Mr. Kershner's statement that 100 basis points was 1 percent. He considered what aging people mentioned by Mr. Kershner looked like. He thought it looked like \$8.5 billion in additional contributions. He looked at the exact same actuarial liability and valuation of the fund presented to the Senate Finance Committee the previous year. He wondered why projections were always wrong in the direction that cost the state \$8.5 billion in additional contributions.

Mr. Kershner responded that they were not always wrong, and he relayed that slides 28 and 29 would show what had contributed to changes in the unfunded liability in the past 10 years. He would answer the question further at that point in the presentation.

Representative Bynum referenced conversations about trying to use a fixed number. He pointed out that the plans were fixed and the only thing that changed was how much money continued to be poured in. He thought a conservative number would be 6.5 to 6 percent as opposed to 8 or 8.5 percent. He wondered why they did not take a conservative approach with a lower number as opposed to using higher numbers and not being able to catch up. He thought long-term expected returns should be about 5 to 6 percent instead of 7 or 8 percent.

Mr. Kershner responded that conservative was all relative. He agreed that 6 percent was more conservative than 7.25 percent and 7.25 percent was more conservative than 8.25 percent. There were a lot of moving parts. He believed the later slides would help explain how the unfunded liability changed and the sources for the changes over the past 10 years.

Co-Chair Foster took an at ease to consider the remaining meeting time.

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AT EASE

[2:46:29 PM](#)

RECONVENED

Co-Chair Foster asked Mr. Kershner to proceed.

Mr. Kershner continued on slide 21 titled "Funded Status - HealthCare." He pointed to the funded ratio based on the actuarial value of assets in line d had been well over 100 percent for the past several years. He explained it was the reason ARMB had decided against contributing the normal cost to the healthcare trust starting several years back. A large reason for the overfunding was because in 2018, DRB implemented the Employee Group Waiver Plan (EGWP). He elaborated that the plan received federal subsidies to help offset the payment of healthcare benefits to plan participants. The subsidies helped reduce the liability. He noted that DRB had also implemented some recent changes with the plan administrator that had increased efficiencies in the payment of claims, which had also brought down liabilities.

Mr. Kershner continued to slide 22 which was a graphical representation of the funded ratio for PERS pension and healthcare. The blue bars reflected pension and orange bars reflected healthcare. He pointed out that in 2006 the pension trust was about 80 percent funded, and the healthcare trust was slightly over 40 percent funded. He pointed to a large drop in the funded ratio for the pension trust in 2008 and 2009, largely because of the financial crisis where returns were low or negative. He noted the hit had a lingering impact. He highlighted that the funded ratio of the pension had increased from 2014 to 2015 because of the \$1 billion contribution. The subsequent years had seen a slow decreasing in the number followed by a slight increase. The funded ratio for the healthcare trust had been steadily rising over the past several years. He noted that EGWP was implemented in 2018 combined with favorable experience. He added that the liability that went into the funded ratio in 2006 was measured using much different assumptions than those used in 2024. The assumptions had a major impact on the unfunded liability.

Mr. Kershner continued to slide 23 showing a similar graphical representation for the TRS pension and healthcare. The pension was shown in green and healthcare was shown in orange. He noted that the slide showed the same basic pattern as slide 22 showed for PERS.

2:50:28 PM

Co-Chair Josephson stated that in 2015 the legislature moved from a level percent of payroll method to a level dollar method, which lowered the near-term contributions and eased the state's outlay, partly because of the state's own financial problems (unrelated to the history of defined benefits) related almost entirely to oil prices at the time. He asked for verification that the decision was impactful in terms of the state's ability to pay down liabilities.

Mr. Kershner responded affirmatively. He would address the topic in a couple of slides. He agreed that one of the main changes made in 2014 was changing the amortization from level dollar (akin to paying a fixed mortgage where every year a portion of principal and interest was paid down) to a level percentage of pay, which assumed payments toward the unfunded liability would increase as payroll was expected to increase. He explained that when comparing the pattern of payments of level dollar versus level percentage of pay, the level percentage of pay amounts were smaller in the earlier years (8 to 10 years) and much larger in later years. The change from level dollar to level percentage of pay impacted the pattern of paying down the unfunded liability by pushing more of the payment into the future years rather than the early years.

Co-Chair Foster recognized Representative Chuck Kopp in the audience.

Mr. Kershner continued to slide 24 titled "Unfunded Liability - Background." He noted the next several slides were intended to address committee members' questions provided prior to the hearing. The unfunded liability was the difference between the actuarial accrued liability and the actuarial smoothed value of assets. He detailed that because all of the calculations were based on assumptions made over the next 30 to 50 years, it was a given that assets may or may not earn the 7.25 percent and there would be fluctuations in the liabilities. He elaborated that every year the actuary assumed a certain percentage of active employees would retire at various ages and would live for a certain period of time based on life expectancies. The following year, the actuary received data showing what actually happened in that past year. He added there could also be contributions that were greater or less

than the actuarial determined contribution that could cause increases or decreases in the unfunded liability. There could also be changes in plan provisions, but none occurred in a number of years.

Mr. Kershner continued to slide 25 and continued to provide background on the unfunded liability. In order to analyze the asset and liability experience, the actuary compared the actual values of assets and liabilities with the expected value based on the previous year's valuation and assumptions. He noted that if the difference was favorable to the plan, it was an actuarial gain and if the difference was unfavorable, it was an actuarial loss. For example, if assets earned 8 percent and the assumed rate was 7.25 percent, it created an asset gain. Whereas if inflation was 5 percent and the assumed inflation rate was 2.5 percent, it meant the system would be paying out higher post-retirement pension adjustments (COLA benefits linked to CPI) and it would create a loss to the plan. There were a number of reasons why liabilities could be higher or lower than expected and the Gallagher valuation reports were posted on the DRB website with details. The contribution gains/losses were due to the two-year lag that was introduced in 2014. He noted there was also a significant contribution gain from the \$3 billion state contributions made in FY 15. Per statute, actuarial assumptions were reviewed and modified every four years. Assumptions could cause liabilities to increase or decrease, but there were generally net increases in liabilities as a result of assumption changes.

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Mr. Kershner continued to slide 26 titled "PERS/TRS Funding Methodology Established by Alaska Statute in 2014." The unfunded liability amortization method was changed from level dollar to level percent of pay. The amortization period was reset to a closed 25-year period. He explained that the plans were expected to be fully funded by 2039. The contribution rate setting process was changed to a two-year roll-forward, sometimes referred to as a two-year lag. He noted it led to the contribution gains/losses he referred to earlier. Additionally, the actuarial value of assets was reset to the market value of assets with a five-year smoothing implemented prospectively. A 20 percent market value corridor was eliminated. He expounded that the corridor meant the actuarial value could not exceed more

than 20 percent over market value or 120 percent or below 80 percent of market value.

Mr. Kershner continued to slide 27 titled "Pers/TRS Funding Methodology Modifications Adopted by ARMB in 2018." A 25-year layered amortization was implemented in 2018 to help mitigate contribution volatility. He explained that when there were large gains or losses in a given year, without layered amortization the gains/losses had to be funded over a much shorter period of time, which could cause greater volatility. He explained that the method meant there were multiple amortization layers amortized over separate periods of time. When layered amortization was implemented in 2018, the outstanding balance of the unfunded liability from the original period established in 2014 was maintained, which would still be funded by 2039. Going forward, each year's unexpected change in the unfunded liability was separately amortized over a 25-year period. The total amortization amount for each trust was the sum of all of the individual amortization amounts for all of the layers.

Representative Stapp asked for more information on layered amortization. He stated his understanding that the initial unfunded liability was amortized over a closed period. When there were gains or losses to the fund, the unfunded liability was re-amortized in order to smooth out the state's additional contribution to avoid volatile upswings and downswings.

Mr. Kershner responded affirmatively. He provided an extreme example to illustrate the difference between having layered amortization versus not having layered amortization. He explained a scenario where the state had continued with the original 25-year period implemented in 2014 where plans were to be fully funded by 2039. He provided a hypothetical scenario where in 2037 there was a significant drop in the asset markets that resulted in hundreds of millions of dollars in losses to the assets. He explained that without layering, the losses would have to be funded over the next two years because there would only be two years left in the original 25-year period. With layering, the significant losses would be funded over the next 25 years from that point forward. He stated that an extreme example could help appreciate the impact on volatility by introducing layering.

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Representative Stapp understood the methodology. He was concerned that there were still cash outflow liability payments to people. He stated that layering amortization made sense to avoid an unfunded mess in the last couple of years of the plan. He reasoned that the money would still be going out the door, meaning assets would have to be liquidated to pay. He asked what happened if the inflationary pressure was high and performance was low in a couple of years with the long term assets of the plan. He thought it would mean needing to "fire sale" the assets in order to make liability payments.

Mr. Kershner responded that liquidity is generally not an issue, but if there was a significant decline in assets, it would need to be funded to pay benefits promised to participants. He stated it meant contributions would need to be higher. He elaborated that the basic funding principle over the lifetime of a pension plan was that the money coming in via contributions and investment earnings had to equal the amount going out to pay benefits and trust expenses. As investment earnings went up or down, contributions went down or up to make up for excess asset returns or deficiencies. He stated it was a balancing act over time; as assets did better or worse, contributions needed to be adjusted to ensure there was sufficient funding to pay benefits.

Representative Stapp remarked that liquidating assets would impact the rate of return. He reasoned that payments had to be made because they represented a fixed liability. He wondered how badly the projected rate of return would be jeopardized if assets had to be liquidated to make payments.

Mr. Kershner responded that it would come down because there would be less of an ability to invest in long-term equities expected to generate higher returns. He explained that when there were short-term cash needs, it meant the need to invest in more short-term assets with lower earning potential. He expounded that assuming a lower expected return meant liability would increase significantly, which would substantially increase contributions.

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Mr. Kershner turned to slide 28 titled "Sources of PERS Pension Unfunded Liability Incr/(Decr) Since 2014." He noted that slide 29 showed the same information for TRS. The slides focused on the pension unfunded liability because the healthcare trusts were overfunded. He continued with slide 28 and pointed to column A showing market value gains/losses. A gain meant the trust earned more than the assumed return and a loss meant the trust earned less than the assumed return. In 2021, there was a \$2.1 billion gain on PERS pension assets resulting from a 31 to 32 percent return. The following year there was a loss of about \$1.6 billion. The total market value loss over the ten years shown on the slide [2015 to 2024] was \$435 million (\$435 million less than projected on a market value basis). The loss meant the need to make up for the loss either by excess returns in the future and/or higher contributions. Column B reflected the smoothed value (gain or loss on the actuarial value used to determine contributions). He noted the values were all off by one year because of the five-year recognition of gains and losses and they all crossed over from one year to the next. He highlighted that columns B through E totaled the net impact on the unfunded liability. The impact of the market loss was \$435 million over the ten-year period and \$447 million of losses in the actuarial/smoothed value.

Mr. Kershner moved to column C on slide 28. Column C showed the impact on liabilities due to experience of the plan (i.e., retirement rates, life expectancy rates, inflation rates). Over the ten years shown on the slide, there were just under \$250 million in reductions in liability because the plan experience had been favorable compared to actuarial assumptions. Column D reflected the contribution gain/loss. He pointed to the \$1 billion infusion into the PERS pension in 2015 compared to actuarial projections, resulting in a \$835 million contribution gain. Overall, \$636 million more had been contributed to reducing the unfunded liability. Column E showed assumption changes. He detailed that assumption changes were revised every four years. In 2018, the expected return on assets was lowered from 8 percent to 7.38 percent and updated mortality tables with longer life expectancies had been adopted. The PERS pension liability had increased by slightly over \$500 million just from the assumption changes in 2018. Four years later, there was another \$206 million increase in the unfunded liability due to assumption changes, partially due to further lowering the expected return assumption as well

as a number of other assumptions. Over the ten-year period, \$761 million was added to the unfunded liability due to the use of more conservative assumptions. The last column on the slide combined columns B through E and showed that the unfunded liability was \$325 million more than expected.

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Representative Stapp thought it looked like it was time for a reduction in assumption changes again. He wondered what the number would be. He was hoping maybe \$100 million. He remarked that it looked like some progress was being made.

Mr. Kershner agreed that Gallagher would start looking at the assumptions in 2026 for ARMB and new assumptions would be adopted in 2026. He relayed that it was too early to tell [what the number would be]. He elaborated that Gallagher may pull back some of its assumptions. For example, by not assuming salaries would grow as fast as the current assumption. He explained it would help offset some increases that may occur if the investment return assumption were to be lowered to something like 7 percent. He added that the discussions had not yet occurred. The review of the assumptions was required by statute.

Representative Stapp looked at the contribution gain/loss column on slide 28 and observed that it looked like the state was losing out the vast majority. He highlighted there had been annual losses from 2016 through 2020 and in 2024 (six out of ten years). He wondered if there was anything that could be done to do better than 60 percent on the gain/loss ratio.

Mr. Kershner responded that a margin could be added to the contribution calculation by adding something to liability to guard against adverse experience. He explained it would mean prefunding some future losses that may be incurred. There were a number of techniques that could be used, but without adding those types of margins, the patterns shown on slide 28 resulted. He explained that in 2014, when the two-year contribution lag was introduced, it meant the contribution rates for a particular year were based on the valuation done two to three years earlier. For example, the FY 26 contribution rates were based on the 2023 valuation. He remarked that things had changed between 2023 and 2026. The figures seen in column D from 2016 to 2024 were due to the two-year lag. The losses shown from 2016 to 2020 meant

that contribution rates had been rising steadily. By setting the contributions based on a lower rate that occurred three years earlier compared to the current rate, it gave rise to the contribution losses. The losses were followed by several years where there had been a decline in contribution rates, which helped create contribution gains.

Representative Stapp appreciated the in-depth answers. He asked what it looked like in terms of basis points. He considered Mr. Kershner's statement that 100 basis points was the equivalent of 1 percent. He wondered about a scenario where it was amortized over a decade and asked what it did to assumptions. He recognized that assumptions were not limited to the rate of return and included things like longer life expectancy and COLA adjustments. He asked what it looked like in a monetary number. He wondered if a 1 percent miss was the equivalent of \$500 million.

Mr. Kershner responded that for a \$1 million increase in unfunded liability funded over 25 years, the extra payment in the first year would be about \$64,000. Under level percentage of pay, the payment would be assumed to increase every year going forward by payroll growth. Similarly, if the unfunded liability went down by \$1 million, the first year's payment would be \$63,000 less.

Representative Stapp asked how to get out "from under this thing."

Mr. Kershner responded that actuaries were always focused on the long term, and they always saw the projected funded ratio slowly creeping up to reach 100 percent at the end of the amortization period. He stated that it was a valid outlook, but he compared it to a cruise ship moving towards a distant destination. He elaborated that the cruise ship did not make a one-time change, it turned gradually to get to where it needed to be over time. He explained it was the way actuarial funding of long-term obligations worked in order to avoid, to the degree possible, significant fluctuations from one year to the next. He stated it was a different environment currently than 10 to 20 years back in terms of expectations for the future. In the past, assumptions were that people would live much shorter lifetimes and that assets would earn significantly more. He stated that when comparing 20 years back to the present, too many factors had changed to pinpoint every reason. On a going forward basis, assuming assumptions were used to

measure liabilities that were reasonably expected to materialize over the future, the desired goal of 100 percent funding would be reached, but it was a slow process to get there.

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Mr. Kershner continued to slide 29 titled "Sources of TRS Pension Unfunded Liability Incr/(Decr) Since 2014." He pointed to the last column on the slide showing a net decrease in the unfunded liability by just under \$1.4 billion. He relayed that most of the total in column D [titled "Contribution (Gain)/Loss"] was due to the large \$1.7 billion contributed to the TRS pension in FY 15. He noted the other changes almost offset one another. He stated that TRS was in a much better funded spot than PERS. He explained that over the past couple of years, teacher salaries had not increased as rapidly as salaries for public employees, particularly police officers and firefighters. There had also been a significant number of delayed retirements because teachers had been continuing to work well into their 70s. He detailed that it meant liabilities were lower because they were deferring when they expected to begin payment of the benefits. The teachers' system had better experience over time on the liability side, primarily because of lower salary increases and delayed retirements. He noted that the asset experience was generally the same on a relative basis because PERS and TRS had the same asset allocation.

Mr. Kershner moved to slide 30, which showed the historical unfunded liability dollar amounts for PERS. He noted that the blue bars represented pension and orange bars represented healthcare. He highlighted that the blue bars were steadily rising beginning in 2006. He pointed out that it was comparable to the funded ratio graph earlier in the presentation. He explained that as the funded ratio decreased, the unfunded liabilities were going up. He noted that beginning in 2019 the orange bars were negative, meaning healthcare trusts were in a surplus position. The dollar amounts were shown at the bottom of the slide for each year.

Mr. Kershner moved to slide 31, which showed the same info for TRS with green bars representing pension and orange bars representing healthcare. The TRS unfunded liabilities were lower and the funded ratios were better.

Mr. Kershner continued to slide 32 titled "How are State Contributions Determined?" He relayed that actuaries had to consider several factors including the underlying costs of the benefits. He noted that more valuable benefits with a COLA feature were costlier. Another factor to consider was the total payroll and how the payroll was expected to grow (contribution rates were the underlying cost divided by payroll). He relayed that payroll also generated contributions. For example, PERS non-state employers contributed 22 percent of payroll. He explained that if payroll was not as high as expected in the future, there would be lower contributions from employers. He elaborated that a lower payroll figure meant the state's contribution rate went up. Other considerations included how much members, employers, and the state paid.

Mr. Kershner noted that member contributions were set by statute. Under the DB plan, peace officers and firefighters contributed 7.5 percent of pay. All other PERS members contributed 6.5 percent of pay and TRS members contributed 8.65 percent.

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Mr. Kershner explained that the member contribution rates did not fluctuate based on the funded status of the plan and would only change if statutes changed. He detailed that under PERS the non-state employers contributed 22 percent of payroll. Starting in FY 22, the state as an employer under PERS contributed the full actuarial rate based on the payroll of its employees. He noted that the payroll of the state's employees was just under 50 percent of the total PERS payroll. He detailed that TRS employers contributed 12.56 percent payroll as defined in statute.

Mr. Kershner continued to slide 33 and continued to address how state contributions were determined. He relayed that actuarially determined contributions consisted of two components including the normal cost (the cost of benefits expected to accrue in the upcoming year) and the past service cost (amortization of the unfunded liability). He explained that the DB normal cost was paid entirely by member contributions and a portion of employer contributions. The employers also contributed to DC costs (PERS Tier 4 and TRS Tier 3). The DC costs included occupational death and disability benefits, healthcare, the

DC contribution (5 percent for PERS and 7 percent for TRS), and HRA contribution (3 percent). He noted that there were no member contributions toward the DC costs. A portion of the employer contribution also went toward the DB past service cost. The amount was determined by taking the total contribution (22 percent of pay for PERS non-state employers, 12.56 percent for TRS, and the full actuarial rate for PERS state employers) and subtracting the portion paid for the DB normal cost and DC costs. The net balance went toward the DB past service cost. The DB past service cost not paid by the employers was paid by the state as additional contributions. He concluded the presentation.

Representative Bynum stated that the reason the issue was under discussion was to understand what the state's current retirement system looked like and what reform looked like. He provided a hypothetical scenario using a municipal employee under the PERS Tier 4 system where an employer was able to take all of the money it was obligated to pay for the employee (instead of paying the past liability for previous employees (under PERS Tiers 1 through 3)) and take the difference the employer received on behalf from the state and give it to the employee for retirement. He asked what percentage the employer would be able to give an employee in in their DC plan. He asked if pension reform would even be under discussion if the scenario was allowable.

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Mr. Kershner responded that it was impossible to answer the hypothetical question. He explained that in any pension reform, the first thing the actuary looked at was the underlying cost of the benefits. If the cost of the reform benefits increased, it would take more contributions to fund them, whether it came from members, employers, or the state. He explained that if the current funding structure remained in place, the extra cost would fall to the state because members and employers had fixed contribution levels. He detailed that it would depend on the type of reform, the associated cost of the reforms, and whether the amounts paid by members, employers, and the state were changing.

Representative Bynum looked at a PERS Tier 4 employee in 2025, which had a cost to the employer. Currently the employee paid 8 percent of their wage into their DC plan

and the employer contributed about 5 percent plus another 4.5 percent for healthcare and other health benefits. Additionally, the employer had to pay a past liability per employee for the previous DB plan at about 12.5 percent. He added that if the actuarial amount was over 22 percent, the state picked up the difference. He looked at a 2025 chart for PERS on slide 9. He asked for the differential between the 22 percent employer contribution and what the state had to pay in 2025.

Mr. Kershner answered that the percentages shown on slide 9 were the percentages of each individual pay. He directed members to slide 17 to look at how the percentages were funded.

Representative Bynum remarked that whether it was 2 percent to 5 percent of the on behalf payment, it would mean the employer would have between 12.5 and 17.5 percent for the employee benefit if they were not paying for the past liability. Currently, the municipal PERS Tier 4 employee did not receive that amount because of the past liability payment. He reasoned that if the state had the money available for the employer to pay the employee in the DC or some other retirement plan, there would not currently be a conversation about an \$8 billion, \$16 billion, or \$12 billion past service liability. He stated that it would mean the retirement program would be healthy and the employees would be taken care of. He added that at the end of the day it was about what kind of benefit was received, how much the plan cost, and who would pay for the plan. Under the current scenario, the current employer and the current employee were burdened because they were not able to take the benefit.

Co-Chair Foster noted that the committee was at the end of its time allotted for the bill during the meeting. The bill would be heard again the following day.

HB 78 was HEARD and HELD in committee for further consideration.

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AT EASE

[3:57:31 PM](#)  
RECONVENED

#hb53  
#hb55  
HOUSE BILL NO. 53

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs; capitalizing funds; amending appropriations; making supplemental appropriations; making reappropriations; making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund; and providing for an effective date."

HOUSE BILL NO. 55

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date."

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^AMENDMENTS

[3:57:40 PM](#)

Co-Chair Josephson relayed that the committee rolled amendments 94 through 96 to the bottom of the amendment process. He encouraged members to offer any remaining amendments they may have. He discussed his intent for the remainder of the meeting.

[4:00:11 PM](#)

AT EASE

[4:01:40 PM](#)

RECONVENED

Co-Chair Josephson asked if there were members who wanted to offer amendments.

Representative Stapp MOVED to ADOPT Amendment 42 (copy on file):

Agency: Corrections  
Appropriation: Administration and Support  
Allocation: Office of the Commissioner

Transaction Details

Title: Zero-Based Budgeting for Agency

Wordage Type: Intent

Linkage: Agency - Corrections

Wordage

It is the intent of the legislature that the Commissioner submit a report by December 20, 2025 to the Co-chairs of the Finance committees and to the Legislative Finance Division that encompasses a Zero-Based Budget. The report must include an analysis and justification for every position and expense.

Explanation

During difficult fiscal times, it is necessary for the Legislature to look at the entire budget, down to the minute details, in search of government efficiencies. Zero-Based budgeting, where a department must justify all expenses from zero, improves accountability and optimizes cost management. Recognizing that such a dramatic shift in how we prepare our budget within one year would cause significant issues, this language provides for the Department of Corrections to serve as a pilot for this style of budgeting.

Co-Chair Josephson OBJECTED for discussion.

Representative Stapp explained the amendment. The amendment included intent language that would direct the commissioner of the Department of Corrections (DOC) to submit a report by December 20, 2025, to the finance committees and the Legislative Finance Division (LFD) that encompassed a zero-based budget. The objective was to get a handle on general fund expenses. He stated it was getting very challenging to see discrepancies in how budgeting was done via baseline. He elaborated that requiring a department or RDU component to come before the finance committee or subcommittee to justify its expenses from zero would be helpful for legislature to understand where the money went and what it did. He asserted that zero-based budgeting improved accountability and optimized cost management. He recognized it was probably unrealistic to transition the entirety of the state's budget over to a zero-based process. He thought DOC was too large to attempt to make the change in a single year, but he thought the committee may be able to have a

discussion about finding an RDU component or another department for zero based budgeting.

Representative Hannan opposed the amendment. She believed that out of all the departments, DOC was least likely to be able to predict its costs. She stated that DOC was a downstream agency. She elaborated that if the department went to zero based budgeting at the beginning of the current year and started with no inmates and no programming, it would have to specify who it expected to get, in what condition, for how long, and what services the individuals needed. Hypothetically, the department could say it expected zero sex offenders, zero inmates in for lifetime sentences, and no inmates in need of kidney dialysis; however, instead they received medically complicated long-term inmates. Yet the department had only budgeted for short-term offenders with minimum security. She believed that due to the nature of DOC, it was the least probable to succeed at zero based budgeting. She thought the budgets would be very inaccurate.

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Representative Johnson thought it could be done. She acknowledged it would never be specific and 100 percent accurate. She stated that was not the point of the process, the point was to break out where the actual costs resided. She highlighted that the DOC budget was continually increasing and had large supplementals. She stressed that the legislature needed to get a handle on the reason costs were continuing to increase. She did not believe the increases were aligned with the number of inmates. She thought there was something else that appeared to be going on, which likely had to do with management. She believed an honest try to begin the process and provide the legislature with a report would be a good way to start to get a handle on the situation. She stated that the legislature had to do some management and oversight of the budget at some point. She supported the amendment.

Representative Bynum supported the amendment. He stated that after talking with the legislative finance team, he understood there were things that could be done in addition to zero-based budgeting to help the legislature get a better handle on what was occurring throughout departments and divisions. He highlighted his experience as a previous utility director and relayed that it was possible to use

zero-based budgeting with uncertainty. For example, there were times in a utility where it was not possible to predict the cost of diesel fuel, disasters, copper, shortfalls in labor, and more. He stated there were many challenges running a utility, just like there were challenges running DOC. He explained that it required quantifying the anticipated unknowns and budgeting around them. He furthered that it would mean a department would identify items to the legislature and accompanying assumptions used to come up with a budgetary number. He thought DOC had the ability to do the work. He added that the department should know what its costs were. He thought the exercise would be very helpful for all of the departments to undertake.

[4:08:27 PM](#)

Co-Chair Josephson asked Mr. Painter with the Legislative Finance Division (LFD) to join the committee. He thought DOC would start with the fact it had a given number of prisoners and there were laws about how many correctional officers were needed and collective bargaining agreements to honor. Additionally, DOC had to heat the prisons, feed inmates, and provide them with dental and medical care. He referred to the Cleary decision [from the Alaska Supreme Court] related to prisoners' rights. He thought that if a department went to the bottom of its budget, the budget would come right back up with many mandatory requirements.

ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION, answered that in a zero based exercise, a department would have to label its constraints. Some constraints included collective bargaining contracts and other statutory requirements. He remarked that they may end up in a similar place. He believed the intent of zero-based budgeting was that a department evaluate each expenditure and justify it to the legislature even if they already had reasons for things. He noted that it was a different way to look at budgets. He stated that Alaska generally had incremental budgeting for the operating budget, and the capital budget was essentially a zero-based budget. He was not certain the result would come to a different place, but it would be a different lens.

Co-Chair Josephson asked if Mr. Painter had seen similar intent language in the budget previously.

Mr. Painter replied that he could not think of an example of zero-based budgeting language in the budget in the past.

Representative Tomaszewski supported the amendment. He thought it was the legislature's fiduciary responsibility to understand what the departments were doing. He thought it was a great first step in the process. He believed it could and should be done. He thought the legislature should be looking into zero-based budgeting tactics for other agencies in the future.

[4:11:36 PM](#)

Representative Allard supported the amendment. She likened the intent language to a forced audit and thought it would provide true transparency. She thought all departments should use zero-based budgeting.

[4:11:52 PM](#)

Representative Galvin asked if the exercise would retire time or funds on the department's behalf. She wondered if departments would have to hire someone to help guide them through the process of compiling a report to provide to the legislature.

Mr. Painter answered that it would be up to the department to determine. He elaborated that departments had budget staff and the Office of Management and Budget (OMB) had staff. He did not know if that would be sufficient or if departments would need to contract out or shift resources.

Representative Johnson asked if Mr. Painter knew of other states doing zero based budgeting.

Mr. Painter responded that he was not familiar with what other states did. He relayed that the Alaska Mental Health Trust Authority (AMHTA) used zero-based budgeting. He elaborated that AMHTA's increments were all temporary and the agency did not have anything in the base budget.

Representative Johnson hoped zero-based budgeting was a good way for the legislature to figure out where the costs resided and to look at the budget in a different way. She asked Mr. Painter if he had other suggestions on a way to get to the numbers if zero-based budgeting was not the answer.

4:14:28 PM

Mr. Painter replied that there were a few other approaches, specifically related to DOC, which he was aware of due to a bill introduced the previous session in Florida. He explained that Florida's version of OMB and LFD conducted joint forecasts for some items including prison populations. He noted that there was not a lot of joint forecasting done in Alaska. Other states had varying degrees of the practice used in Florida. He noted there had been intent language in the DOC budget the previous year for DOC to work on projections cooperatively between the branches, but that did not really occur. He noted it could work, but due to turnover within DOC, it had been unable to do so in the past year.

Representative Johnson stated her understanding that Florida, Texas, and possibly one other state did zero-based budgeting. She remarked that the Texas budget had to be large. She highlighted that Alaska had a lot of vacancies and different things where the legislature did not know where the money was being spent. She pointed out that the DOC budget was high and continuing to grow. She supported the amendment in order for legislators to get their eyes on the budgets and to get a sense they were adhering to their constitutional responsibility.

Representative Bynum stated another valid reason to support the amendment was to ask the department to undertake the exercise and talk about what it was doing in its expenditures. The alternative was to offer amendments in committee to take large cuts to the department's budget and to hear from the department later about why it really needed the funds. For example, the budget for some of DOC's facilities had grown by nearly 30 percent since FY 21, despite the addition of no new personnel. He thought it begged the question about what was actually taking place within the department. He wanted to have a great relationship with the departments and did not want his support for the amendment to indicate otherwise. As appropriators, he believed legislators needed to have all of the information available. He did not have a good understanding of what the departments were actually doing with their budgets because of how the budgets were being passed from one year to the next. He compared it to a game of telephone. He clarified that he was not in favor of

doing zero-based budgeting annually because it was a heavy lift. He thought it should be done regularly or through performance audits, which had to be requested by the legislature.

[4:18:45 PM](#)

Representative Stapp provided wrap up on the amendment. He appreciated the comments by committee members. He relayed that several states including Georgia, Florida, and Texas used zero-based budgeting. He underscored that the Texas budget was \$321.3 billion. He was proposing a much smaller version. He remarked that legislators were frequently told by educators that the legislature had not made the same increases in the education budget, but the DOC budget continued to grow exponentially. He noted that one of the committee members mentioned the DOC budget had grown 30 percent in the past handful of years. He stated that if the expenses were justified, the legislature had to pay them. He did not know exactly why DOC's numbers continued to rise when the prison population went down. He noted that Representative Hannan had highlighted there were constitutional obligations and fixed costs associated with prisoners and he did not believe the legislature could spend any time on those items. He agreed the legislature needed to pay collective bargaining agreements to employees. He recognized there may be a valid reason for the expenses, but he wanted to know where the rest of the money was going because it did not all go to constitutional obligations.

Co-Chair Josephson MAINTAINED the OBJECTION.

A roll call vote was taken on the motion to adopt Amendment 42.

IN FAVOR: Stapp, Allard, Tomaszewski, Bynum, Johnson  
OPPOSED: Jimmie, Hannan, Galvin, Schrage, Foster, Josephson

The MOTION to adopt Amendment 42 FAILED (5/6).

[4:21:17 PM](#)

Representative Stapp MOVED to ADOPT Amendment 18 (copy on file):

Agency: Administration

Appropriation: Office of Information Tech  
Allocation: Chief Information Officer

Transaction Details

Title: Utilization of AI for Zero-Based Budgeting  
Wordage Type: Intent  
Linkage: Agency - Administration

Wordage

It is the intent of the legislature that the agency utilize Artificial Intelligence technology to assist with Zero-Based Budgeting principles.

Explanation

During difficult fiscal times, it is necessary for the Legislature to look at the entire budget, down to the minute details, in search of government efficiencies. Zero-Based budgeting, where a department must justify all expenses from zero, improves accountability and optimizes cost management.

Agency: Administration

Appropriation: Office of Information Tech

Allocation: Licensing/Infrastructure/Servers

Transaction Details

Title: Funding for Microsoft 365 Copilot AI Tools  
for State Employees Section: Section 1  
Type: Inc

Line Items (Amounts are in thousands)

Personal Services: 0.0  
Travel: 0.0  
Services: 732.7

Positions

Permanent Full-Time: 0  
Permanent Part-Time: 0  
Temporary: 0

Funding (Amounts are in thousands)

1004 Gen Fund 732.7

Explanation

Microsoft 365 Copilot provides AI assistance which greatly enhance the productivity and utilization of current Microsoft products. This amendment restores the funding that was disapproved in subcommittee.

Agency: Administration  
Appropriation: Office of Information Tech  
Allocation: Licensing/Infrastructure/Servers

Transaction Details

Title: Artificial Intelligence Projects  
Section: Section 1  
Type: IncOTI

Line Items (Amounts are in thousands)

Personal Services: 0.0  
Travel: 0.0  
Services: 360.0  
Commodities: 0.0  
Capital Outlay: 0.0  
Grants: 0.0  
Miscellaneous: 0.0  
Total: 360.0

Positions

Permanent Full-Time: 0  
Permanent Part-Time: 0  
Temporary: 0

Funding (Amounts are in thousands)

1004 Gen Fund 360.0

Explanation

The Department of Administration is seeking to build initial AI tools in an effort to reduce administrative waste by increasing productivity. This amendment aims to restore the funding that was disapproved in subcommittee.

Representative Hannan OBJECTED for discussion.

Representative Stapp explained that the amendment looked to utilize an artificial intelligence (AI) appropriation reduced by the subcommittee. The purpose was to start to achieve the ability to do a zero-based budget. He stated that in the previous amendment, the committee member from Juneau had asserted to the ability of the department to form the task. He stated it was a valid argument. He suggested that if the state was going to start utilizing AI for efficiencies in departments, allowing the AI tool to be utilized for the purpose of zero-based budgeting was a

worthy goal. He agreed that zero-based budgeting could be complicated and resource intensive. He thought it was a good use of AI Copilot.

Representative Bynum supported the amendment. He thought it was a valuable opportunity for the state to use AI as a tool. He knew many individuals in the technical world were deploying the technologies and creating tremendous improvements in productivity. He stated the tools were not meant to replace people, but they would allow state employees to maximize their time and bring information forward that may not have been readily available. He stated it was a tremendous opportunity to increase productivity and he strongly supported the amendment. He thought it would be money well spent. He believed the departments would be able to come back to the legislature to outline how it was beneficial.

[4:23:55 PM](#)

Representative Hannan stated that when she met with the Office of Information Technology (OIT) on the two AI components, the division's description did not include zero-based budgeting. She could wrap her head around the amendment if it was for OIT to attempt zero-based budgeting. She noted OIT had fairly predictable costs and employees. However, the department had requested the funds for a new product to pilot for a specific purpose related to payroll. She underscored that the amendment would fund the increment but directed the department to use it for zero-based budgeting. She had seen no analysis or argument from the department indicating it would use the AI product for zero-based budgeting.

Co-Chair Josephson shared that he met with Department of Administration (DOA) officials and there was no discussion of zero-based budgeting.

Co-Chair Schrage opposed the amendment. He recalled the requested increment was for about 2,000 licenses to deploy out to various employees throughout the state, but he did not hear much of a plan about what training would be provided and how the Copilot services would be utilized. He thought there had not been a lot of thought given to choosing the number 2,000. He had not heard substantial reasoning that justified the expense. He was not saying there was no value in using AI in the future, he thought it

could make employees more efficient and information more readily available. He had not heard of any connection to zero based budgeting from the department. He recalled there was a small pilot program planned for later in the spring and he wanted to wait for the results prior to investing more money.

Representative Stapp noted there was someone available from DOA who could answer the questions. He had shared Co-Chair Schrage's concerns when the item had moved out of subcommittee. He had subsequently talked to the department and had communicated he was looking at transitioning some of the budgetary process from a baseline budget to zero-based budgeting. He had asked the department if it could utilize the [AI] resources to not only improve employee efficiency, but to give a targeted purpose to do so. He asked if the department could address the members' questions.

Co-Chair Josephson noted that the individual was not currently in the room and he was inclined to go to a vote.

[4:27:31 PM](#)

Representative Hannan MAINTAINED the OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Johnson, Allard, Bynum, Tomaszewski, Stapp  
OPPOSED: Hannan, Jimmie, Galvin, Foster, Schrage, Josephson

The MOTION to adopt Amendment 18 FAILED (5/6).

Representative Bynum MOVED to ADOPT Amendment 17 (copy on file):

Agency: Administration  
Appropriation: Office of Information Tech  
Allocation: Licensing/Infrastructure/Servers

Transaction Details

Title: Add Funding for GA: Microsoft 365 Copilot AI  
Tools for State Employees  
Section: Section 1  
Type: Inc

Line Items (Amounts are in thousands)

Personal Services: 0.0  
Travel: 0.0  
Services: 365.0  
Commodities: 0.0  
Capital Outlay: 0.0  
Grants: 0.0  
Miscellaneous: 0.0  
Total: 365.0

Positions

Permanent Full-Time: 0  
Permanent Part-Time: 0  
Temporary: 0

Funding (Amounts are in thousands)

1004 Gen Fund 365.0

Explanation

Funding for approx 1000 AI CoPilot Licenses.

Representative Hannan OBJECTED for discussion.

Representative Bynum explained that the amendment pertained to the same technology [as in the previous amendment] applied in a different way. The amendment would enable DOA to use AI tools to fully integrate into the Microsoft Office suites. He stated it would be advantageous to the departments and would provide the ability to navigate Microsoft tools with ease and increased productivity. The amendment would add funding of \$365,000 and would provide productivity for 1,000 personnel. He emphasized that the tool would increase government efficiency. He knew people who were using the [AI Copilot] tool at work in the healthcare field. He shared that they were immediately able to use the tool to make meetings more productive and it had increased the capability for staff to communicate with colleagues. He considered discussions about how to deploy the program within state government. He highlighted the Department of Health where there were tremendous constraints on employees being able to provide services. He noted that the tool did not require years of training. He detailed that the individual he had spoken with had been using the product for two weeks and they were already putting it to tremendous use. He stated that much about learning the tool would be self-exploratory and he thought it would take some time to explore the use. He pointed out

that AI had not replaced him as an engineer or legislator, but it had made him more productive. He strongly supported deploying AI technology to increase efficiency in deploying resources more efficiently for citizens.

[4:31:31 PM](#)

Co-Chair Schrage generally agreed with many of the remarks made by Representative Bynum. He believed the tools could be very powerful, but he was concerned that new tools could come with new challenges, and he had personally used [AI] tools in the past and had seen errors and other mistakes made. He thought there needed to be a plan for how the tool would be rolled out and how employees would be trained in order to be aware of some of the problems that could occur. He pointed out that there had been issues in state government where AI tools were used and official documents had false references and other errors that never would have occurred if a human produced the document without the use of AI tools. He was not indicating the tools were not powerful, useful, and helpful, but he believed they needed to be applied with the proper training to avoid unintended consequences, especially when implemented in a department that he believed was already strained. He opposed the amendment.

Representative Bynum provided wrap up on the amendment. He understood that concerns voiced by Co-Chair Schrage could happen. He shared that in his experience using the technology, it was able to capture ideas, go through emails and documents, and bring the ideas into one space that he could read. He relayed that he checked any references included in the information for accuracy. He stressed that the tools had brought information to his attention that he would not have thought to look at, which had been a tremendous resource. He stated the tools saved substantial time. He agreed that if someone used the tool to do all of the work, it was a bad tool. He did not believe the change in technology took away the need for due diligence.

[4:34:12 PM](#)

AT EASE

[4:36:17 PM](#)

RECONVENED

A roll call vote was taken on the motion.

IN FAVOR: Bynum, Stapp, Johnson, Tomaszewski  
OPPOSED: Hannan, Jimmie, Allard, Galvin, Schrage, Foster,  
Josephson

The MOTION to adopt Amendment 17 FAILED (4/7).

[4:37:08 PM](#)

Representative Bynum remarked that he had [in a previous meeting] made a motion to rescind action on Amendment 14 (copy on file). However, after discussion with members, he did not believe it would have a positive result. He had many concerns about the unallocated cut and had previously made his concerns known. He had provided a solution to the co-chairs and he thought it was a way to get around the potential unconstitutional unallocated cut; however, he would not offer it because he did not believe he had the votes to pass it.

[4:38:10 PM](#)

Representative Bynum stated there had [previously] been substantial discussion about Amendment 49 (copy on file) that had been tabled [Amendment 49 would provide funding for the unfunded HB 230 (33rd Legislature), AS 14.20.225, providing \$5,000 to certified teachers and reimbursement for teachers pursuing initial certification or renewing certification]. He wondered whether Co-Chair Josephson or Representative Galvin planned to bring the amendment back before the committee.

Representative Galvin stated her intent to remove Amendment 49 from being tabled.

There being NO OBJECTION, it was so ordered.

Representative Galvin thought a conceptual amendment had previously been adopted to Amendment 49. She believed Representative Bynum had something he wanted to say.

[4:39:32 PM](#)

Representative Bynum shared that he had worked with LFD and Legislative Legal Services to come up with a conceptual amendment to address some of the previously expressed concerns from committee members. He MOVED to ADOPT

conceptual Amendment 2, 34-LS8001\A.8 (Marx, 4/2/25) (copy on file) to Amendment 49:

Page \_\_, following line \_\_:

Insert a new bill section to read:

"\*Sec.A. DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT. The sum of \$554,000 is appropriated from the general fund to the Department of Education and Early Development, education support and administrative services, student and school achievement, for teacher incentive payments and reimbursements for national board certification, as authorized by AS 14.20.225, as follows:

(1) the amount necessary to make all reimbursement payments authorized by AS 14.20.225(b);

(2) the remaining balance to make national board certification incentive payments authorized by AS 14.20.225(a), to be distributed on a first-come, first-served basis."

Representative Hannan OBJECTED for discussion.

Co-Chair Josephson recognized Representative Julie Coulombe in the committee room.

Representative Bynum requested an at ease.

[4:40:40 PM](#)

AT EASE

[4:43:00 PM](#)

RECONVENED

Co-Chair Josephson reviewed that Amendment 49 pertained to teacher incentive payments and reimbursements for national board certification. The legislature had passed a law the previous session as a way of commending and honoring the skill required to get the award. The committee had previously adopted an amendment [conceptual Amendment 1 (copy on file)] to reduce the amount of the grants from \$750,554 to \$554,000. The committee was currently hearing conceptual Amendment 2 to Amendment 49.

[4:43:54 PM](#)

Representative Bynum explained the conceptual amendment would move the money out of the numbers section into the

language section of the bill and clearly outlined how the money was to be spent. The money was first to reimburse actual expenses, with the remaining balance to be made available for national board certification incentive payments authorized by AS 14.20.225(a), to be distributed on a first-come, first-served basis.

Representative Galvin appreciated the maker of the amendment working hard to align with the statute. She highlighted that there may be changes necessary in the future if the number of teachers utilizing the grants was large. She described the individuals as the "black belt of teachers." She wanted to ensure they were encouraging individuals to become the highest and best teachers possible. She believed the amendment was good in making sure the legislature was being fiscally prudent. She especially appreciated the word "reimburse" because it helped to ensure it was not doing anything extra but meeting the needs of nationally board certified teachers. She supported the conceptual amendment.

Representative Hannan asked if moving the item from the numbers section would result in a one-time increment as opposed to a base increment. She noted the funding had previously been in the base under the original Amendment 49. She noted that the dollar amount in the amendment had been reduced because the number of teachers who would take advantage of the funding was unknown and it changed annually. She looked at the verbiage "to be distributed on a first-come, first-served basis" on line 11 of the conceptual amendment. She was concerned about a scenario where first 100 teachers received the funding, but there was not enough money to pay the 101st and 102nd applicants. She wondered if the individuals would be excluded. Alternatively, she wondered if the language meant that all applicants would be paid, but in the order they applied.

[4:47:32 PM](#)

Co-Chair Josephson asked to hear from Mr. Painter.

Mr. Painter responded that how the language was written was a policy call. He stated it could be written as an open-ended estimate for however many people came forward with reimbursements, which would enable anyone who applied to receive the funds. Alternatively, if the number was fixed at a certain amount, the department would need instruction

about what to do if the appropriated amount was not enough. He elaborated that with the language "first-come, first-served" the first people who applied would receive the full reimbursement and others would not. Alternatively, the funds could be prorated so everyone would have to come forward for reimbursement and the department would decide the number of people who received reimbursement and prorate the funding. He suggested that if the committee did not want to limit the funding, the appropriation would need to be open-ended to encompass however much it may cost. He remarked that it would be a very different policy call than limiting the appropriation at a certain sum.

Representative Galvin relayed that her office had done more research in the past couple of days to get an updated list of qualifying individuals. The updated information showed the number of individuals was currently 85 instead of 101. She believed the \$554,000 could accommodate the number of individuals for the year; however, the number may need to be adjusted if there were many more applicants in the future.

Co-Chair Josephson believed language amendments were revisited annually.

Representative Allard OBJECTED.

Representative Bynum provided wrap up on the amendment. There had been a concern that with the increment in the numbers section, the committee had been unable to specify how the funding would be deployed. The intention of the conceptual amendment was to ensure individuals who had spent money on the certification would be reimbursed. He explained if there was any money left over it went to the incentive payment. He elaborated that the number had been adjusted down by conceptual Amendment 1 and would assume to cover all eligible individuals. He underscored that he wanted to make sure the funding went to people who had actually spent money first. He noted that the amendment language was written in a way in order to have a defined specific amount.

A roll call vote was taken on the motion.

IN FAVOR: Jimmie, Johnson, Galvin, Stapp, Allard,  
Tomaszewski, Bynum, Hannan, Foster, Schrage, Josephson  
OPPOSED: None

The MOTION PASSED (11/0). There being NO further OBJECTION, conceptual Amendment 2 to Amendment 49 was ADOPTED.

[4:52:11 PM](#)

Representative Tomaszewski MOVED to ADOPT conceptual Amendment 3. He highlighted Amendment 47 by Co-Chair Schrage to remove \$400,000 in general funds for the Imagination Library. He suggested the funding could be used for paying for Amendment 49. The conceptual amendment would remove \$400,000 from the Imagination Library.

Co-Chair Josephson OBJECTED.

Representative Tomaszewski provided wrap up on the amendment. He recognized the importance of reading, but the state was in a budget crunch. He stated the funding could be used for many things in education funding.

[4:53:30 PM](#)

AT EASE

[4:56:34 PM](#)

RECONVENED

Representative Galvin addressed conceptual Amendment 3. She was concerned about displacing early learning funds in any way. The subcommittee had chosen to make an investment in early learning. She relayed that Alaska had the lowest investment in early learning in the nation. She stated the readiness of kindergarten children was about 30.7 percent. She detailed that when children arrived with 11 out of 13 of the skills they should have (e.g., vocabulary and understanding of how to work as a group), they were one or two years behind. She highlighted that 81 percent of parents were reading more to children because of the Imagination Library. The program was a tool for parents, especially for low income families.

Representative Galvin discussed the benefits of the Imagination Library. The program helped children to grow their vocabulary. One of the major ways for children to increase brain development was for parents to sit with them with a book. Over 140 communities in Alaska were serving families with books. She listed communities throughout the state that were benefiting from the program. The funding

sources included funding from communities, foundation funding, state, corporate, and other. She stressed that investing in the program meant K-12 money would go further. She emphasized that 70 percent of kindergarteners needed extra help to get up to speed. She discussed the overly large class sizes. There were not enough reading specialists in Alaska. She stated that things were happening that she did not support like pulling kids from recess and lunch to gain the skills. She stressed it was not fair to the children. The good work happening in communities was not enough. She highlighted things like expressive and receptive communication skills and cognitive awareness gained through reading. The kindergarten developmental profile looked at things like whether kids could sustain attention to tasks and persist facing challenges. She stressed that the time a child spent on a parent's lap was essential.

Representative Galvin discussed that members around the committee table likely bought books for their children, but there were many families in the state where a book sent to them by mail made all of the difference. She stressed that social workers successful with families showed up with extra gifts for the families. She stated it was how to develop a relationship with the families in order to tell them how to work with their kids. She noted that the average literacy rate in Alaska was 5th grade. She stressed the importance of loving time spent with children. Families were reminded there were other ways to interface with children when they received a book. She emphasized the cost spent on education. The books were about lifting children's spirits. She stated that Best Beginnings would like to expand to more families. There were other things that needed to be done in early learning. She provided examples. She emphasized the Imagination Library was a proven program.

[5:07:35 PM](#)

Representative Galvin continued her remarks. She stated that 14,981 kids were enrolled in the program. There were about 50,000 kids in the age range in Alaska. She emphasized that children who participated in the program had higher rates of kindergarten readiness. She provided a definition of readiness. The finding was consistent across student groups including English language learners, Native students, and economically disadvantaged students. She

relayed that in 2016, 30 percent of Imagination Library participants were Kindergarten ready compared to 25 percent of similar students who did not participate. She believed it mattered. She shared that teachers reported having to deal with multiple grade levels at a time and had overly large class sizes. She asked what was being done to the K-12 system. She stressed that kids were being started off on the wrong foot and the Imagination Library helped.

[5:10:52 PM](#)

Co-Chair Josephson remarked that several minutes earlier Representative Galvin had stated she wanted to make sure the committee's time was not wasted. He replied that she had not wasted one moment of his time.

Representative Jimmie acknowledged the remarks by Representative Galvin. She believed it was great what Representative Galvin was doing. She knew they were both mothers and grandmothers. She stated that reading was important and it was not fair to kids when they were not able to read at a good level. She referenced fighting for funding for the Base Student Allocation (BSA) and stated it was also not fair for students in her district who had schools that were not functional, had no running water, and broken windows. She shared that she had recently watched a video from the Yupik School District, and it was facing numerous challenges. She did not see it as the time to expand the [Imagination Library] program, but to find funds to improve school infrastructure. She stated that Representative Galvin's heart was in the right place, and she understood where she was coming from.

Representative Galvin replied that she would continue to support Representative Jimmie's schools.

Representative Jimmie stated that she could not support [the additional increment for Imagination Library] at the current time.

Co-Chair Josephson asked if there was any dispute the amendment reflected an increase of funding from the base.

Representative Allard believed Representative Tomaszewski's conceptual amendment would cut \$400,000 from the Imagination Library to use for Amendment 49.

Representative Tomaszewski agreed. He believed the funding for the Imagination Library increment had been added to the base in subcommittee. He explained that the conceptual amendment would not eliminate funding for the program, it would remove the increase adopted in subcommittee.

Representative Allard stated that Representative Galvin's remarks were a marathon speech. She had been leaning one way, but the remarks resulted in her going in a different direction. She stated the Dolly Parton Imagination Library was a nonprofit used in 70 Alaskan communities. She stated that because the state had magnificent libraries, she would vote against increasing the funds for the program. She remarked that everything she had read indicated that the program was available to every child. She did not want to "keep throwing bad money after bad." She stated that Alaska spent more money on education for its children than any other state. She supported conceptual Amendment 3.

5:15:03 PM

Co-Chair Schrage stated that it was a hard situation. He stated the conceptual amendment was essentially an amendment he had drafted but had not yet introduced. He had not offered the amendment yet because he felt the committee had made progress holding down its budget. He had shared privately with committee members that Amendment 49 gave him some concern, not because he did not believe in rewarding teachers who went after the certifications.

Co-Chair Schrage underscored there was limited money, and it was not possible to do all things. He stated that the conceptual amendment helped to make Amendment 49 more cost neutral. He stated it was not possible to do everything despite the value of so many of the things. He could not disagree with anything Representative Galvin said. He agreed on the importance of reading, but if he wanted to be able to adequately fund the K-12 education system and do things like provide bonuses for teachers to get certifications in order to be able to handle students in their classes, it was necessary to allocate the scarce resources the best he could and it involved making tough choices. He relayed there was \$320,000 in the base [for the Imagination Library] and the subcommittee had more than doubled the figure with an increment of \$400,000. He did not know it was the fiscal environment where the state could afford to double the funding, especially if the

committee was going to fund reimbursements for certifications. He stated it was a tough issue for him and his family was signed up for the Imagination Library. He did not want anyone to think he was dismissive of Representative Galvin's position and that he did not see the value in the program. The state had limited resources to allocate to all of the important things.

Co-Chair Schrage would support the amendment in order for the teachers to be able to get advanced training and be as prepared as possible to handle difficult class sizes. He remarked that teachers had students with many different levels of reading comprehension and readiness for school. He wanted to make sure teachers were prepared. He was confident many students would still receive Dolly Parton books in their early years. He supported the conceptual amendment in order to be able to support the underlying Amendment 49.

[5:18:33 PM](#)

Representative Johnson appreciated the Dolly Parton foundation and what Dolly Parton had done. She highlighted that the state put in \$325,000 for the program and the program provided matching funds. She stated that the amendment would not take away books from any child. She would support the conceptual amendment. She expressed her appreciation for the program and was glad it had been funded at the level currently in the base. She thought they were doing good work. She appreciated Representative Galvin's impassioned speech, but she clarified that the committee was not cutting out existing funds for the program, it was removing the addition that doubled the funding.

[5:20:02 PM](#)

Representative Bynum had not been sure how removing the funding would impact the [Imagination Library] program, but currently there were 20,000 participants in the program according to Dolly Parton's website. He wondered about the number of kids impacted and whether the program was being removed altogether. He understood they were not removing the program and the amendment would remove an increase. He did not know the accurate number of participants, but the Dolly Parton website listed Alaska's number at 20,000. He thought it sounded like a robust program in Alaska, and he

agreed with many of the other committee members' remarks. He would support the conceptual amendment.

Representative Tomaszewski provided wrap up on the amendment. He supported the Imagination Library, but he did not support doubling the increment in a year where the legislature was searching for money for important things like education, public safety, and all of the other departments. He thanked Representative Galvin for her impassioned speech on the positive aspects of the program. He believed the committee needed to use its fiduciary responsibility and use it wisely. He supported the amendment.

A roll call vote was taken on the motion to adopt conceptual Amendment 3 to Amendment 49.

IN FAVOR: Allard, Tomaszewski, Bynum, Johnson, Jimmie, Stapp, Schrage  
OPPOSED: Hannan, Galvin, Foster, Josephson

The MOTION PASSED (7/4). There being NO further OBJECTION, conceptual Amendment 3 to Amendment 49 was ADOPTED.

Co-Chair Josephson stated that the conceptual amendment effectively adopted Amendment 47 but would be treated as part of Amendment 49.

[5:23:13 PM](#)

Representative Galvin heard members' concerns about the budget and understood. She also understood that with the \$400,000 [added to the Imagination Library increment in subcommittee] she had been trying to reach an additional 10,000 kids out of the 50,000 total. She shared that there had been no inflationary increase for the program. She MOVED to ADOPT conceptual Amendment 4 that would remove \$200,000 from the Imagination Library instead of \$400,000 to go towards Amendment 49.

Representative Allard and Representative Stapp OBJECTED.

Co-Chair Josephson clarified there had been three previous conceptual amendments to Amendment 49. He stated that the conceptual amendment would add \$200,000 to the Imagination Library.

Representative Galvin highlighted that over the past couple of days the committee had been doing things like paying \$1.1 million for energy ratings that did not yet need to be paid in one area of the state. She stressed that the increment in the conceptual amendment was not for her district; it was for Alaska's children. The amendment would reduce the increment to \$200,000 to be sensitive to concerns around being fiscally responsible. She asked the committee to consider adding the increment with recognition there had been no inflationary additions. She noted inflationary additions had been added for most other departments and programs.

A roll call vote was taken on the motion.

IN FAVOR: Galvin, Hannan, Jimmie, Bynum, Schrage, Foster, Josephson

OPPOSED: Johnson, Stapp, Allard, Tomaszewski

The MOTION PASSED (7/4). There being NO further OBJECTION, conceptual Amendment 4 to Amendment 49 was ADOPTED.

[5:27:14 PM](#)

Co-Chair Josephson noted there had been a series of amendments adopted to Amendment 49.

Representative Johnson asked for an explanation of the amendment as amended.

Co-Chair Josephson explained that Amendment 49 was about a bill passed the previous session carried by Representative Rebecca Himschoot. He stated it was an unfunded law and the committee was trying to provide the funding. There was an amendment adopted to reduce the \$750,000 to \$554,000. Additionally, conceptual amendments had been adopted to decrease funding added for the Imagination Library by \$200,000. There was also an amendment by Representative Bynum that identified how the monies for the Representative Himschoot bill would be paid.

Representative Allard OBJECTED.

A roll call vote was taken on the motion.

IN FAVOR: Jimmie, Hannan, Stapp, Galvin, Bynum, Johnson, Tomaszewski, Foster, Schrage, Josephson

OPPOSED: Allard

The MOTION PASSED (10/1).

There being NO further OBJECTION, Amendment 49 was ADOPTED as amended.

[5:29:51 PM](#)

Co-Chair Josephson asked if there were other amendments from committee members.

Representative Stapp stated that he did not have any additional amendments. He noted that some items were tabled, but he did not feel the need to make a motion to remove items from table. He assumed the majority could un-table any items it may want to take up.

Representative Bynum MOVED to ADOPT Amendment 51 (copy on file):

Agency: Environmental Conservation  
Appropriation: Water  
Allocation: Water Quality Infrastructure

Transaction Details

Title: Add Funding for Clean Water Act Section 404  
Assumption  
Section: Section 1  
Type: Inc

Line Items (Amounts are in thousands)

Personal Services: 750.3  
Travel: 34.0  
Services: 625.8  
Commodities: 40.0  
Capital Outlay: 0.0  
Grants: 0.0  
Miscellaneous: 0.0  
Total: 1,450.1

Positions

Permanent Full-Time: 5  
Permanent Part-Time: 0  
Temporary: 0

Funding (Amounts are in thousands)

1004 Gen Fund 1,450.1

Explanation

Add Funding for the Dept of Environmental Conservation to assume the duties of permitting under section 404 of the clean water act from the Army Core of Engineers.

Representative Stapp OBJECTED.

Representative Bynum explained the amendment that would add \$1.450 million for the Department of Environmental Conservation (DEC) to assume the duties of permitting under section 404 of the Clean Water Act from the U.S. Army Corps of Engineers. He detailed that the particular section of the 404 Clean Water Act dealt with the dredging of areas like ports and harbors often necessary to get large ships into ports. The section also dealt with the filling of wetlands for the various reasons. He stated the issue was important to Alaska. He spoke to the need to ensure there was enforcement uniformity by the Army Corps of Engineers within Alaska. He highlighted that Alaska was very different than places like New Jersey, Texas, and other places in the U.S. where the Army Corps of Engineers had jurisdiction. He stated it was important because Alaska was made up of approximately 43.6 percent of wetlands, accounting for 63 percent of all the U.S. wetlands. One of the things that had been a theme was ensuring Alaska had some level of self-determination.

Representative Bynum remarked that the Army Corps of Engineers was an outstanding organization that he had been a member of in the past. He noted that when he had been a member there had been a joke that the word bureaucracy was invented by the Army Corps of Engineers. He noted it was not meant in a negative way. He thought it was an opportunity for Alaska to have self-determination over its permitting and fill for wetlands for construction. He asserted it was a major issue for his district and many regions around the state to have a bit of autonomy to better utilize the permitting process and do the work responsibly. He suggested that if Alaska was to take over the duties currently assigned to the Army Corps of Engineers, it would mean the state could adopt better regulations that were more tailored to Alaska, and it would be able to achieve better outcomes for things like housing development. He stressed that affordable housing was a very

important part of the overall economic need in Alaska. He stated that regulatory oversight from the federal government stifled the state's ability to do that.

[5:33:45 PM](#)

Representative Hannan opposed the amendment. She stated that every dime of the current cost associated with Alaska's 404 permitting was borne by the federal government. She stressed that the \$1.45 million would just be the beginning of a phased in approach that would take three years to reach a cost of \$6 million to \$8 million annually and require about 30 positions. She believed it was a ridiculous thing to add given the state's dire fiscal predicament and the fact that the scope of federal change was present. She noted that the Army Corps of Engineers who worked on Alaska's 404 permitting were Alaskans working in Alaska. She highlighted that no other state had successfully achieved any savings by implementing 404 permitting. She noted that most states had given primacy back to the federal government. She believed taking on a new duty with a large ticket price, which currently cost the state nothing, was fiscally irresponsible. He urged members to vote against the amendment.

[5:35:08 PM](#)

Representative Johnson supported the amendment. She stated that Alaska currently had an opportunity it had not had for a number of years. She stressed the state had been fighting and fighting the federal government. She emphasized that it gave the state the chance to potentially be in charge of its own destiny instead of using fiscal responsibility as an excuse. She had seen a lot of tantrum throwing and discussion about fiscal responsibility but she had not seen a whole lot of it based on actions by the committee. She emphatically supported the amendment for Alaska to have primacy and its own oversight. She believed it was tremendously important for the future of Alaska and its children. She underscored that having a job, home, and income was a way to make a better future for Alaska's children. She stressed that she "could not sit here and listen to this any longer." She supported the amendment and believed it was the right thing to do.

[5:36:37 PM](#)

Co-Chair Josephson did not think Representative Johnson had impugned anyone and he did not believe there had been any tantrums either.

Representative Stapp supported the amendment. He stated that most permits that were denied were related to wetlands. He believed the state should assume primacy over wetlands 404 permits, which would help develop all of the projects desired in Alaska, help deploy all of the Infrastructure Investment and Jobs Act (IIJA) money the state received, and help employ all the projects for Broadband Equity, Access, and Deployment (BEAD) grants. He noted that Florida's costs had increased because they tripled the number of permits issued. He believed the only way Alaska would survive was if it was able to grow its way out of the problem with resource development. He highlighted that everywhere the change had been implemented had seen increased development. He thought it was a very good thing. He supported increased development, which would result in more money in state coffers in order to pay for things. He pointed out the session was half over, and the legislature had not done anything substantive to try to move Alaska forward. He reiterated his support for the amendment.

Representative Tomaszewski supported the amendment. He remarked on the program's importance and thought it was necessary for legislators to think about what they wanted the state's future to look like. He asked if they wanted a federal government telling Alaska how to develop its resources. Alternatively, he wondered if they wanted to take Alaska's destiny in their own hands. He believed in the latter option. He believed the state needed to capitalize on tremendous opportunities coming in the future.

[5:38:49 PM](#)

Co-Chair Schrage would not disagree there may be some merit in the state taking over 404 primacy in the future. He recalled when the issue came before him the first time in the 32nd legislature. He could see some merit in having Alaskans manage their wetlands. However, his consistent question was about how the state would pay for it. He continued to receive 10-year plans from the governor showing the state continuing to run into the red. He thought the incentive to receive 404 primacy had decreased

given that the federal government paid everything for the work at present and there was a federal government in place that was much more supportive of resource development. He highlighted that the state's track record was not a good one when it came to the administration of services or any of its state duties. He heard complaints from the business industry and resource development industry when it came to the time it took for the state to permit things and to renew business licenses. He pointed out that basic state functions were currently under strain and he was not confident it would work out well for Alaska to take on more responsibility. He thought if the state took 404 primacy it could potentially result in worse performance when it came to permitting projects. He remained open to the idea but would not support it at present.

Co-Chair Josephson stated that the majority caucus was passionately opposed to the idea for fiscal and other reasons. He agreed with Co-Chair Schrage that the federal administration would do what it wanted with the Army Corps of Engineers. He believed the price tag exceeded \$10 million. He would vote in opposition to the amendment.

[5:41:55 PM](#)

Representative Bynum provided wrap up on the amendment. He stated that although the employees working with the Army Corps of Engineers in Alaska may be long-term Alaskans, it did not mean they were not operating under the rubric of "what is the Army Corps of Engineers." He had worked with the organization for 10 years and assured members the organization did not move swiftly on things like dredging, river operations, and dealing with wetland issues. He recognized the organization was thorough and provided a good product, but it was not swift. He remarked that it was problematic when trying to get things done.

Representative Bynum stressed that the state would pay for the expense with additional development in Alaska. He underscored that every day a project was delayed was a lost opportunity. He remarked that legislators talked about school issues, being able to buy groceries, and being able to heat homes. He stated that one of the major driving factors for doing those things in his communities was the cost of having a home. He stated that the ability to build housing would bring Coast Guard and National Oceanic and Atmospheric Administration (NOAA) families. He stressed

that in order to ensure utilities had employees and there were schoolteachers coming to Alaskan communities, it was necessary to make sure they had housing. He emphasized that hurrying the process meant communities would become more prosperous faster. He was not advocating for bypassing environmental standards or cutting corners, but he thought Alaskans could do the work better.

Representative Bynum was tired of seeing his communities suffer from the high cost of housing because they could not get permitting for wetlands. He pointed out that it was not possible to step off the road in Ketchikan or Wrangell without stepping in wetlands. He stressed that for housing and development in oil, gas, mining, and timber, the state needed access locally. He shared that when he was a utility employer, the company operated at about 65 percent of effective staffing. He shared that he would put out an advertisement for an engineer and they would come to town and look at the cost of housing and leave. He stated it was the same situation for schoolteachers looking to come to Alaska. The Coast Guard did not want to bring families to Ketchikan because of the cost of housing. He emphasized that all of the state's industries were impacted by the situation. He listed other issues facing the state such as lack of childcare and declining student enrollment.

Representative Bynum stressed that 404 primacy could mean flourishing industries, reduced cost in power, more affordable homes, and increased student enrollment. He argued that it all came down to the state's ability to develop on its own terms. He strongly supported the amendment.

A roll call vote was taken on the motion.

IN FAVOR: Tomaszewski, Bynum, Stapp, Johnson, Allard  
OPPOSED: Hannan, Jimmie, Galvin, Schrage, Foster, Josephson

The MOTION to adopt Amendment 51 FAILED (5/6).

[5:47:35 PM](#)

Representative Stapp MOVED to ADOPT Amendment 12 (copy on file):

Agency: Fund Transfers  
Appropriation: General Fund (Revenue)

Allocation: General Fund (Revenue)  
Transaction Details  
Title: 4.85% Draw from Earnings Reserve Account  
Section: Language  
Type: Lang

Line Items (Amounts are in thousands)

Personal Services: 0.0  
Travel: 0.0  
Services: 0.0  
Commodities: 0.0  
Capital Outlay: 0.0  
Grants: 0.0  
Miscellaneous: 0.0  
0.0

Positions

Permanent Full-Time: 0  
Permanent Part-Time: 0  
Temporary: 0

Funding (Amounts are in thousands)

Explanation

This amendment represents a 4.85% draw from the Percent of Market Value (POMV) from the earnings reserve account. The reduction is in the amount appropriated to the general fund.

Co-Chair Schrage OBJECTED for discussion.

Representative Stapp explained that the amendment would reduce the percent of market value (POMV) draw taken from the Permanent Fund Earnings Reserve Account (ERA). He detailed that the defined benefits bill [HB 78] had a five-year smoothing average in which Alaska Retirement Management Board (ARMB) was required to make a decision in the event the plan was unfunded. He elaborated that it would mean ARMB would either have to take away employee retirements or post-retirement pension adjustment (PRPA) payments, or increase contributions for existing employees in order to fund the liability. He explained that if the smoothing average was applied to the past five years of the POMV draw, the fund had performed less than 5 percent plus inflation. He asked whether the legislature would respond as if it expected ARMB to respond and take action or whether the legislature would take no action and continue

taking 5 percent from the fund despite lower returns in the past five years.

Representative Hannan opposed the amendment. She believed the amendment pertained to the next year's draw. She stated that if it was a bill addressing the POMV draw in the statute she would probably be in favor for the reasons Representative Stapp described. However, the change in the amendment would only go into the operating budget for one year and would not change the overall fiscal policy.

Representative Galvin agreed with statements made by Representative Hannan. She would like to have a conversation with the Department of Revenue. She thought the proposal was a very good idea and something the legislature should consider down the road with a bigger conversation.

[5:51:02 PM](#)

Co-Chair Josephson saw some fiscal wisdom in the amendment. He stated that experts talked about draws of 4.25 and 4.5 percent. Unfortunately, he could not consider reducing the draw from 5 percent.

Representative Stapp WITHDREW Amendment 12.

[5:51:31 PM](#)

Co-Chair Josephson RECESSED the meeting until 7:30 p.m. [Note: the meeting never reconvened.]

HB 53 was HEARD and HELD in committee for further consideration.

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

[5:52:08 PM](#)

RECESSED

#

ADJOURNMENT

The meeting was adjourned at 5:52 p.m.