

SB

128

STATE OF ALASKA 1987 LEGISLATIVE SESSION  
FISCAL NOTE

Bill Version: SB 128  
Publish Date: \_\_\_\_\_

REQUEST \_\_\_\_\_

Revision Date: \_\_\_\_\_  
Title: An Act Relating to State Employees  
Sponsor: Binkley  
Requestor: Senate Labor and Commerce Committee

Agency Affected: A11  
BRU: A11  
Components: A11

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
<b>OPERATING</b>						
PERSONAL SERVICES	0	(27,519.9)	(27,251.0)	(26,713.3)	(25,637.8)	(23,486.8)
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
<b>TOTAL OPERATING</b>	0	(27,519.9)	(27,251.0)	(26,713.3)	(25,637.8)	(23,486.8)
<b>CAPITAL</b>	0	0	0	0	0	0
<b>REVENUE</b>	0	(27,519.9)	(27,251.0)	(26,713.3)	(25,637.8)	(23,486.8)

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
<b>TOTAL</b>	0	(27,519.9)	(27,251.0)	(26,713.3)	(25,637.8)	(23,486.8)

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: Attach a separate page if necessary

See attached.

Prepared By: Diana DeSimone *[Signature]*  
Division: Personnel

Phone: 465-4430  
Date: 2/24/87

Approved by Commissioner: Garrey Peska *[Signature]*  
Agency: Department of Administration

Date: 2/25/87

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FISCAL NOTE ANALYSIS CONTINUATION  
SB 128

The fiscal note analysis for SB 128 deals with cost savings related to 1) changes in the geographic differential; 2) awarding merit pay increases for only outstanding employees; 3) establishing a 40-hour work week and 4) contracting services.

1. Geographic Differentials. Effective January 1, 1987, the geographic differentials paid to employees in the General Government, Supervisory and Confidential bargaining units were changed as the result of a 1985 geographic differential study conducted by the State and a subsequent arbitration decision. In implementing the new differentials, in areas where the differential went down, employees' salaries were frozen. This fiscal note assumes that in those same areas, employees' salaries would not be frozen for all affected bargaining units. It also assumes no change in the number of employees affected and no change to the current salary schedule for subsequent fiscal years.

Employees in General Government, Supervisory, Confidential and Public Safety Employees Association Bargaining Units, and Partially Exempt Service:

<u>Pay Differential</u>	<u>Monthly Savings</u>	<u>Monthly Cost</u>	<u>Total</u>
\$ 0	\$(122,230)		\$(122,230)
117	(438,586)		(414,155)
147	( 1,629)		( 1,629)
264	( 6,664)		( 6,664)
323	(20,092)		(20,092)
469	( 405)	727	258
587	( 1,868)		( 1,868)
792	( 2,077)	\$ 1,389	( 688)
880	( 6,282)		( 6,282)
997	( 4,519)	2,471	( 2,048)
1,115	( 163)	15,990	15,827
1,232	( 893)	11,188	10,295
(389)	( 585)	<u>468</u>	<u>( 117)</u>
		Net Differential	\$(549,393)
		( 549,393) Monthly	
		x 12	
		<u>\$(6,592,716)</u> Annual Savings	

(NOTE: Figures reflect changes to current expenditures.)

Employees in Labor, Trades and Crafts Bargaining Unit:

<u>Pay Differential</u>	<u>Annual Savings</u>	<u>Annual Cost</u>
\$ 0	\$ ( 322,877)	\$
117	( 890,834)	
147	( 6,673)	
264		5,417
323	( 86,163)	
469		4,802
587	( 13,268)	
792		103,725
880		130,130
997		58,659
1,115		81,728
1,232		545,545
(389)	( 9,336)	
	<u>\$(1,329,151)</u>	<u>\$930,006</u>

Net Difference: \$(399,145)

(NOTE: Figures reflect difference between total subsistence paid in calendar year 1986 and proposed legislation.)

2. Limiting Merit Pay Increases to Outstanding Employees. This part of the fiscal note is based on two assumptions:

- An estimate of 5% of State employees rated outstanding each year currently.
- A substantial increase in the number of outstanding ratings given in each subsequent fiscal year. We assume the percentage will double with each year.

It is estimated that merit increases currently account for \$5,377,450 per year.

<u>Fiscal Year</u>	<u>Percentage of Outstandings</u>	<u>Amount</u>	<u>Cost Avoidance</u>
1988	5	\$ 268,873	\$5,108,577
1989	10	537,745	4,839,705
1990	20	1,075,490	4,301,960
1991	40	2,150,980	3,226,470
1992	80	4,301,960	1,075,490

3. Establishment of a 40-hour work week.

The numbers used in this section of the fiscal note are based on a January 1987 report from the Division of Finance which reports 12,027 executive branch employees on the payroll as of this date.

The monthly overtime report issued by the Division of Finance shows 42,279 overtime hours worked during January 1987. The figures used on this fiscal note assumes the number of employees and overtime hours worked will remain constant.

The figures also take into account two other factors:

- An estimated 1,000 employees already work a 40-hour work week thus reducing the amount of hours of overtime that could be saved per year.
- Most employees who work the overtime are institutional and construction type employees who cannot avoid the overtime. We therefore estimate that only 30% of the current overtime hours could actually be reduced.

<u>Total Employees</u>	<u>Increase in Hours per Employee</u>	<u>Increase in Hours per Year</u>	<u>Estimated Actual Increase in Hours</u>
12,027	130	1,563,510	1,433,510
<u>Total OT Hours</u>	<u>OT Cost</u>	<u>Actual Hours Saved</u>	<u>Actual Savings</u>
507,348*	\$12,592,044**	152,204.4	\$(3,777,613)

\* Based on 42,279 OT hours for January 1987.

\*\* Based on cost of \$1,049,337 OT for January 1987.

4. Contracting Out. This fiscal note is based on experience with the Local 71 contract, which currently has the most restrictive language concerning contracting out.

Experience in communities of less than 2,500 where Local 71 subcontracting has occurred without restrictions, shows 30% to 50% reductions in total personal services costs to the State.

Personal services cost budgeted for FY 88 for the LTC bargaining unit equals \$72,761.3 thousand.

This fiscal note assumes that 40% of work currently performed in this bargaining unit can be contracted. This assumption is made for demonstration purposes and has no supporting background.

If 30% to 50% can be saved on Local 71 work that is contracted, total savings in Local 71 personal services costs could vary between \$8,731.7 thousand and \$14,532.3 thousand for FY 88. Application of a 40% savings, or \$11,641.8, is used for the purposes of this fiscal note. The savings is assumed to be constant over subsequent fiscal years.

POSITION PAPER  
SB 128

Senate Bill 128 makes three major changes concerning State employees: 1) it changes the manner in which geographic differentials are provided (including geographic differentials for judges and justices); 2) it statutorily limits the criteria for award of a performance incentive increase, and 3) it creates a statutory 40-hour work week. The Bill also amends the Public Employment Relations Act to restrict the State and a collective bargaining representative to the terms of the Bill concerning these three items and for contracting for services. The Department of Administration requests consideration of the following comments.

Geographic differentials. The geographic differential is currently paid as a percentage or number of steps above the basic salary schedule. Section 7 of the proposed legislation would pay geographic differentials as a fixed dollar amount as an addition to the basic salary. This change in methodology of payment, because of the requirements for overtime calculation imposed by the Federal Fair Labor Standards Act (FLSA), would require an individual calculation of the hourly rate each time overtime hours are worked. Under the FLSA, overtime must be calculated on the hourly rate of compensation. The hourly rate is derived by dividing the amount paid by the total hours worked each week. If the geographic differential is paid as a separate amount rather than a figure added to the base monthly salary, the hourly rate would vary each week based on the number of hours in a month.

We suggest that proposed geographic differential amounts be added to all steps in the basic salary. If this were done, the formula in 2 AAC 07.390, which provides a method for calculation of the hourly rate that does not change monthly, could be applied for overtime calculations.

For example, February has four equal work weeks. Assume: employee earns \$10.00 per hour plus \$117 geographic differential per month. The differential would be worth in additional \$.73 per hour if no overtime is worked in a work week ( $\$117 \div 4 \text{ weeks} = \$29.25 \div 40 \text{ hours} = \$.73 \text{ per hour}$ ). If more than 40 hours are worked in a workweek, the hourly rate of the geographic differential changes for that workweek. These calculations would need to be prepared manually and would require a separate payroll document for each employee each pay period.

	<u>Hours Worked</u>		<u>Hourly Rate</u>
Week 1	= 40		\$10.00
		+	<u>.73</u>
			\$10.73 hourly rate
Week 2	= 42		\$10.00
		+	<u>.70</u>
			\$10.70 hourly rate

Week 3	=	41		\$10.00			
			+	<u>.71</u>			
				\$10.71		hourly rate	
Week 4	=	45		\$10.00			
			+	<u>.65</u>			
				\$10.65		hourly rate	

If on the other hand, the geographic differential were added to the employee's base salary, the hourly rate for this employee would remain constant. A one-time programming change would accommodate the changed payrate. No additional individual calculations or documents would be required.

\$10.00 per hour x 40 hours							
per week x 52 weeks	=				\$20,800		
			+	\$117 x 12 =	<u>1,404</u>		
					22,204		
					÷	<u>*2,080</u>	hours in a
							year
					=	\$ 10.68	hourly rate

\* 2080 = 40 hours per week x 52 weeks

Performance Incentives. Under the current performance evaluation system there are five possible overall performance ratings: unacceptable, low acceptable, mid-acceptable, high acceptable and outstanding. There are currently two criteria applied for determining whether an employee is awarded a performance incentive increase. The employee must have received an overall performance rating of acceptable or better and the employee must have demonstrated satisfactory service of a progressively greater value to the State. The proposed legislation would limit the award of a performance incentive increase only to those employees rated outstanding. The vast majority of employees currently receive overall performance ratings of mid or high acceptable. We estimate that less than 5% of State employees are currently rated outstanding. Performance incentives are awarded generally for mid acceptable or higher ratings. (Although under the first criteria for awarding performance incentive increases it is possible to receive one for low acceptable performance, the second criteria, "satisfactory service of a progressively greater value" makes this an unlikely occurrence.)

This performance evaluation system is consistent the theoretical basis for the State's pay plan, which is founded in the classic approach to public pay policy. Pay plans which provide for periodic increases for good employees have long been popular, especially for public employers. The classical approach to public pay policy is that the public employer should be neither a leader nor a follower. A new employee would be hired below the average pay, but not at the lowest pay, for the kind of work as paid by the "competition." A good employee could progress to pay above the average pay, but not at the highest pay, for the kind of work as paid by the competition.

In reality, if the award of a performance incentive increase were limited to those rated outstanding, we speculate that the percentage of employees being

rated "outstanding" would substantially increase in future fiscal years as supervisors sought a means to provide a monetary incentive for good employees. This will particularly be the case if there is no general increase to the salary schedule. Section 6, as proposed, also appears to impact the ability to promote an employee to a higher paying position based on good performance in a lower range position. We recommend insertion of the words "in a given range" after the word "salary" on page 3, line 22.

Forty-hour work week. The language in Section 8 of the Bill establishing a 40-hour week, as written, appears to preclude the use of part-time employees. Second, the inclusion of specific times--"12:01 a.m. Sunday to 11:59 p.m. Saturday"--within the definition impacts current flexibility to establish alternative workweeks such as the current 12-hour shifts; week on, week off arrangements at certain correctional institutions; and the week on, week off arrangement currently in effect on the Dalton Highway. These alternative workweeks allow arrangement of schedules to minimize overtime cost and accommodate shift work.

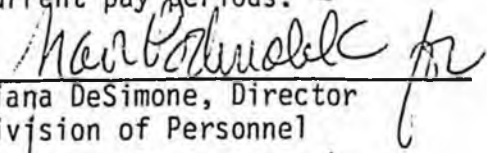
We recommend the following language for Section 8 of the Bill to allow continuation of our current flexibility.

WORK WEEK. The normal work week for full-time State employees who are not members of a collective bargaining unit under the Public Employment Relations Act (AS 23.40) consists of 40 hours in work status.

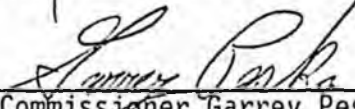
Amendments to Public Employment Relations Act. The proposed amendment to AS 23.40.210 would ensure that any collective bargaining agreement incorporate the three major changes discussed above. The fourth provision under the proposed amendment would prohibit an agreement from limiting the state's ability to contract for services if contracting out would be more cost effective than having State employees perform the services. The proposed prohibition would have a real impact on only one current collective bargaining agreement, that with the Public Employees Local 71 covering Labor, Trades and Crafts Unit employees. The Local 71 agreement currently requires a contractor or subcontractor to pay Local 71 wages plus an additional hourly "in lieu of benefits" amount. This requirement effectively limits the cost effectiveness of contracting services performed by that bargaining units employees.

Other agreements either have no provisions concerning contracting out or provide that contracting out of services can occur if it is shown to be more cost effective, an intent similar to the proposed legislation.

Finally, the Department of Administration requests that the effective dates in Section 10 and 11 be changed from July 1, to July 16 to coincide with the current pay periods.

  
Diana DeSimone, Director  
Division of Personnel

2-24-87  
Date

  
Commissioner Garrey Peska  
Department of Administration

2/25/87  
Date



ALASKA COURT SYSTEM  
Fiscal Analysis - SB 128

Geographic Pay Differential

This legislation provides fixed-amount-geographic pay differentials in contrast to present percentage-base differentials. The new pay differentials are based on the application of area cost-of-living indices to an annual salary amount of \$35,200. The pay differentials range from zero to \$1,232 per month. Fixed-amount differentials favor lower pay range employees. The \$1,232 amount provides lower pay employees with geographic differentials of up to 76% above base pay. Higher pay range employees receive differentials of less than 20% above base pay.

Presently, 261 court employees receive a geographic pay differential. The legislation will reduce the number of employees receiving differentials to 197. This legislation will increase pay for 82 employees and reduce pay for 179 employees. Pay increases range from under \$100 to over \$11,000 per year. Pay reductions range from under \$200 to nearly \$10,600 per year. This legislation primarily affects employees in Fairbanks and judges, presently receiving geographic differentials.

The legislation will reduce permanent position gross salaries (\$54,432) and overtime (\$9,000) by \$63,432 per year. The cost of supplemental (SBS) and variable benefits for permanent positions will increase \$11,533 per year. Non-permanent position salaries and benefits will decrease by \$623 per year. The net savings from this legislation is \$52,522 per year. Please refer to the attached financial summary.

The increase in benefit costs is due to the increase in pay for lower range employees. Lower-range employees are under the annual SBS limit and thus, pay increase translates into higher SBS costs. The pay increase for lower-range employees also results in higher variable benefit costs. Reductions in pay for higher-range employees do not reduce SBS costs because the salaries are above the SBS limit.

40 Hour Work Week

This legislation changes the work week to 40 hours from the present 37.5 hours. One-half hour will be added to the standard workday. It is estimated that \$9,000 of overtime pay costs will be saved annually. It is not anticipated the change will reduce staffing requirements. Professional and judicial staff generally work in excess of 40 hours per week. The additional half-hour per day will not affect this group. It is anticipated clerical staff will use the additional time to reduce caseload backlog.

ALASKA COURT SYSTEM

Summary of Fiscal Impact of SB 128

Category	Trial Courts			Appellate Courts			Net Change (Savings) Cost
	Current	SB 128	Difference	Current	SB 128	Difference	
<b>Permanent Positions:</b>							
<b>Salaries-</b>							
Full-time gross salaries	\$16,608,800	\$16,573,464	(\$35,136)	\$2,043,884	\$2,022,744	(\$21,120)	(\$56,258)
Part-time gross salaries	360,351	352,175	1,824	10,716	10,716	0	1,824
Overtime	27,000	18,000	(9,000)	0	0	0	(9,000)
<b>Total</b>	<b>18,996,951</b>	<b>18,943,639</b>	<b>[42,312]</b>	<b>2,054,580</b>	<b>2,033,460</b>	<b>[21,120]</b>	<b>[63,432]</b>
<b>Benefits-</b>							
Supplemental benefit system	982,806	980,941	8,135	112,282	111,581	[881]	7,454
Variable benefits	4,812,924	4,919,080	8,136	782,565	780,508	[2,057]	4,079
Health insurance	1,601,444	1,601,444	0	168,714	168,714	0	0
<b>Total</b>	<b>7,497,174</b>	<b>7,511,465</b>	<b>14,271</b>	<b>1,043,541</b>	<b>1,040,803</b>	<b>[2,738]</b>	<b>11,533</b>
<b>Non-Permanent Positions:</b>							
Salary & benefits	0	0	0	145,932	145,909	[823]	[823]
<b>Total salaries and benefits</b>	<b>\$24,493,125</b>	<b>\$24,455,084</b>	<b>[\$28,041]</b>	<b>\$3,244,053</b>	<b>\$3,219,572</b>	<b>[\$24,481]</b>	<b>[\$52,522]</b>



# NEA-ALASKA

AFFILIATED WITH THE NATIONAL EDUCATION ASSOCIATION

## ANCHORAGE REGIONAL OFFICE

1411 W. 33RD AVENUE  
ANCHORAGE, ALASKA 99503  
(907) 274-0536

## JUNEAU OFFICE

105 MUNICIPAL WAY, SUITE 302  
JUNEAU, ALASKA 99801  
(907) 586-3090

## FAIRBANKS REGIONAL OFFICE

2118 CUSHMAN STREET  
FAIRBANKS, ALASKA 99701  
(907) 456-4435

March 3, 1987

TC: Senator Tim Kelly; Chair  
Members; Senate Labor and Commerce Committee

RE: Senate Bill Number 128; "An act relating to state employees; and providing for an effective date."

As it pertains to the restrictions and restraint on the collective bargaining process under the Public Employees Relations Act, NEA-Alaska opposes this legislation and encourages that the Committee not pass this bill in its present form.

The PERA has a long history of effectively serving the interests of both the State, various political subdivisions, and their respective employees on matters and procedures attendant to the collective bargaining process.

The changes which are proposed in this legislation on page 3, lines 3-16, are all matters which should be dealt with by the parties in the collective bargaining process.

To legislate these issues is to compromise the policy of the State as it has been articulated in AS 23.40.070.

In recent years the record shows that employees have been positively responsive to the specific needs of the State when they have had to respond to those needs through the collective bargaining process. The PERA, in its present form absent the changes proposed in SB 128, best serves the interests of everyone.

Thank you for your consideration.

Respectfully submitted:

Robert Manners  
Executive Secretary

M1:02

POSITION PAPER

SB 128

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			\$10.73 hourly rate
Week 2	= 42		\$10.00
		+	<u>.70</u>
			\$10.70 hourly rate

STEVE COWPER  
GOVERNOR



STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

March 4, 1987

The Honorable Tim Kelly, Chair  
Senate Labor and Commerce  
Committee

The Honorable Dave Donley, Chair  
House Labor and Commerce  
Committee

The Honorable John Binkley  
Alaska State Legislature  
P.O. Box V  
Juneau, AK 99811

Dear Sirs:

RE: SB 128 by Senator Binkley pertaining to State Employees

The timing and content of SB 128 dictate that this Administration oppose such legislation. Governor Cowper and this Administration categorically support the collective bargaining process. SB 128 essentially takes the "bargaining" out of the collective bargaining.

This bill attempts to control the very items which are at the heart of collective bargaining: wages, hours, and conditions. Presently six public employee bargaining units are at the table negotiating their respective contracts with the state. This Administration is bargaining in good faith and seeks to reach agreements which are in the best interest of Alaska's very capable public workforce and in full recognition of the state's severe long-term economic circumstances. SB 128 does not contribute in a positive way to these very critical negotiations. This Administration would be willing to consider reasonable changes to the collective bargaining act which would improve the efficiency of the negotiating process. However, that is not the intent of SB 128 and this Administration cannot support this bill.

Sincerely,

A handwritten signature in cursive script that reads "Pete Jeans".

Pete Jeans  
Chief of Staff



**POLARIS DATA SYSTEMS**  
Division of Polaris Business Systems

POST OFFICE BOX 80175

FAIRBANKS, ALASKA 99708

February 23, 1987

The Honorable Tim Kelly, Chairman  
Senate Labor and Commerce Committee  
Alaska State Senate  
Pouch V  
Juneau, AK 99811

M

Dear Senator Kelly;

Last week I performed an analysis of the impact of Senate Bill 128 on the economy of the Fairbanks area. The results shocked me, which prompts me to write. A copy of a synopsis is enclosed.

The Fairbanks economy is fragile and can ill afford further downward pressures. While savings to the state through reduced Fairbanks geographic differential pay (less than \$6.1 million) would be a drop in the bucket in an operating budget of hundreds of millions of dollars, the negative impact on the Fairbanks economy would be substantial. The direct economic loss to Fairbanks would be the equivalent of 2.5% jump in the unemployment rate. Taking into account the turnover of State payroll dollars in the economy, this would snowball to an estimated 10.6% reduction in Fairbanks payrolls through losses in the private sector. The result would likely be a full-blown depression.

An article by Scott Hawkins and Louise Brown in the February, 1987 issue of Alaska Business Monthly (p.9) concluded that the proper role of state government in these difficult times is to sustain the state's economy until the private sector is able to generate new jobs and take up the slack. Senate Bill 128 would have exactly the opposite effect and would instead tend to reduce the number of jobs in the private sector. I would anticipate, in addition, increases in foreclosure and bankruptcy rates as a result of passage of SB128.

My business, and other Fairbanks businesses, cannot afford further reductions in State payrolls in our community. I strongly urge you to kill this unwise piece of legislation in committee.

Sincerely,

R. E. Thalmann  
Managing Principal

RT/ms  
Encl.

IMPACT OF PROPOSED GEOGRAPHIC DIFFERENTIAL REDUCTIONS UNDER SB128

Analysis of the proposed reduction in State payrolls due to new geographic differential provisions in Senate Bill 128 indicates that the impact on the Fairbanks economy would be catastrophic.

ASSUMPTIONS:

1. Per October 1986 data from the Community Research Center, Fairbanks North Star Borough, average State employee salary is equivalent to a Range 17, Step E (APEA GGU 1984-86 contract, 7/15/86 schedule).
2. Existing Geographic Differential steps (4) subtracted from average yield a BASE salary equivalent to a Range 17, Step A (\$2,895).
3. Wage reduction is the difference between a Range 17, Step E (\$3,336) and a Range 17, Step A plus the \$117 geographic differential proposed under Senate Bill 128.
4. Estimated total economic losses to Fairbanks use an economic multiplier (turnover factor) of four, which is conservative.

OCTOBER 1986		ANNUALIZED	AVERAGE	TOTAL	ANNUAL	ANNUAL
TOTAL	TOTAL	TOTAL	EMPLOYEE	MONTHLY	LOSS TO	LOSS TO
EMPLOYED	WAGES	WAGES	MONTHLY	WAGE	FAIRBANKS	FAIRBANKS
			WAGE	REDUCTION	ECONOMY	ECONOMY
			REDUCTION	REDUCTION	(DIRECT)	(ESTIMATED)
1564	\$5,264,622	\$63,175,464	\$324	\$506,736	\$6,080,832	\$24,323,328

Total annual wages for the Fairbanks North Star Borough including extrapolated military wages are projected at \$ 230,089,598 and the impact of State payroll reductions, with the economic multiplier (turnover), is thus estimated at 10.5712% of the total Fairbanks economy. Direct losses in State payrolls represents 2.6428% of total wages in the Fairbanks economy, equivalent to an additional 2.5% unemployment in economic terms.

Fairbanks already suffers from one of the highest unemployment rates in Alaska. The result of the equivalent of a further 2 1/2% increase in unemployment, even discounting the loss of additional jobs due to reductions in State employee spending, would be disastrous.

In Alaska's present economic condition, State government is the largest driving force toward either survival or deterioration of the present recession into a full-blown depression. Failure of State government to support and sustain the economy of Alaskan communities will result in a disaster for small businesses, and will cause a further increase in the number of mortgage foreclosures and bankruptcies.

Data source: Fairbanks North Star Borough Community Research Center.

Analysis copyright (c)1987, Polaris Data Systems, division of Polaris Business Systems, Fairbanks, Alaska 99708.