

HB

47

<TARGET><BILL>HB 47</BILL><SUBJECT>HB
47</SUBJECT><COMM>HCRA30</COMM></TARGET>

Alaska House of Representatives

Rep. Neal Foster, Co-Chair
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During the Legislative Session
Alaska State Capitol, Room 434
Juneau, Alaska 99801

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House Finance Co-Chair

SPONSOR STATEMENT HB 47 - PERS CONTRIBUTIONS BY MUNICIPALITIES

HB 47 seeks to correct an unintended consequence of the PERS "salary floor" established in SB 125 of the 25th Legislature.

SB 125 changed the PERS system from a multiple employer plan to a cost share plan. It transferred the individual liability of the 160 PERS employers and consolidated it so that all the employers share in that liability.

SB 125 also created what is commonly referred to as the 2008 salary floor. This requires employer's contribute 22% of annual salaries or 22% of FY08 salaries, whichever is greater. The floor was instituted to ensure that the system could not be "gamed" by discouraging employers from replacing PERS employees with contract hires to reduce their base contribution to the system.

Some municipalities have found themselves under the 2008 floor through no fault of their own. A large change in population results in a reduced tax base, which affects the services a city can provide. As that financial reality drives a city to downsize, current law exacerbates this problem by keeping their PERS contribution at the 2008 level. This bill targets the communities whose population has dropped by more than 25% since the previous census.

HB 47 will address this issue in two ways:

1. Establish a new floor of FY 2012 for communities whose population decreased by more than 25% between 2000 and 2010.
2. Allows the PERS administrator to negotiate penalty interest rates on delinquent payments.

HB 47 does not intend to repeat the "2008 floor" debate but to correct one of the unintended consequences caused by the arbitrary line that debate created.

I urge your support of this legislation.

Fiscal Note

State of Alaska
2017 Legislative Session

Bill Version: HB 47
Fiscal Note Number: _____
() Publish Date: _____

Identifier: HB047-DOA-DRB-02-24-17
Title: MUNICIPAL PERS CONTRIBUTIONS/INTEREST
Sponsor: FOSTER
Requester: (H) Community & Regional Affairs

Department: Department of Administration
Appropriation: Centralized Administrative Services
Allocation: Retirement and Benefits
OMB Component Number: 64

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2018 Appropriation Requested	Included in Governor's FY2018 Request	Out-Year Cost Estimates				
			FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
OPERATING EXPENDITURES	FY 2018	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Personal Services	***		***	***	***	***	***
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	***	0.0	***	***	***	***	***

Fund Source (Operating Only)

None							
Total	***	0.0	***	***	***	***	***

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Estimated SUPPLEMENTAL (FY2017) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2018) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

Not applicable; initial version.

Prepared By: Ajai Desai, Director
Division: Division of Retirement and Benefits
Approved By: Sheldon Fisher
Agency: Department of Administration

Phone: (907)465-4471
Date: 02/24/2017 02:14 PM
Date: 02/24/17

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2017 LEGISLATIVE SESSION

BILL NO. HB 47

Analysis

This bill modifies the 2008 salary floor set out in AS 39.35.255 on which the Public Employees' Retirement System (PERS) employer contributions are based for PERS municipalities that have sustained more than a 25% decrease in population between 2000 and 2010.

The bill applies to five (5) PERS employers: Anderson, Atka, Galena, Pelican, and St. George.

The bill creates a new subsection in AS 39.35.004 that allows the PERS Plan Administrator to determine the interest rate charged on delinquent payments to the PERS. It only applies to municipalities that meet the population decline described above.

The bill also adds AS 39.35.610(c) that if an employer who has suffered a decrease of more than 25% in population is late in transferring payrolls and funds, the Plan Administrator may assess an interest rate less than that required in section (a), which is one and one-half of the Plan's actuarial rate of return, or currently 8%.

Principal amounts owed by the City of Galena (the difference between the salary floor and actual payroll amounts times 22% for each fiscal year) are still due for fiscal years 2009 to 2016, if this bill passes, since this bill takes effect immediately. The Division would set the City of Galena's salary floor from 2008 to the 2012 amount, since it is lower. The City of Pelican would also have the 2008 salary floor replaced by its 2012 salary amount. At this time, there is no impact to the remaining three cities, unless there is a change in their reported salaries for 2012 based on audit work performed by the Division.

This note is indeterminate as an actuarial analysis would need to be completed in order to determine the impact of reducing the salary floor for these employers, and the related financial impact it would have on the additional state contributions under AS 39.35.280, which all other things being equal, would represent an increased cost.

Sec. 39.35.255. Contributions by employers.

(a) Each employer shall contribute to the system every payroll period an amount calculated by applying a rate of 22 percent of the greater of the total of all base salaries

(1) paid by the employer to employees who are active members of the system, including any adjustments to contributions required by AS 39.35.520; or

(2) paid by the employer to employees who were active members of the system during the corresponding payroll period for the fiscal year ending June 30, 2008.

(b) The administrator shall allocate contributions received for full payment of

(1) the actuarially determined employer normal cost for the plan; and

(2) all contributions required by AS 39.30.370 and AS 39.35.750 for the fiscal year.

(c) If, after allocation of contributions under (b) of this section, a portion of the employer contributions remains, the administrator shall apply that remaining portion toward payment of the past service liability of the plan.

(d) Notwithstanding (a) of this section, the annual employer contribution rate may not be less than the rate sufficient to allow payment of the employer normal cost and the employer contributions required under AS 39.30.370 and AS 39.35.750.

(e) An employer of a retired member rehired under AS 39.35.150 shall include that member's base salary when calculating the contribution amount established in (a) of this section.

(f) All or a portion of the employer's share of any accrued actuarial liability to the plan may be prepaid in a lump sum. The commissioner may, by regulation, establish a minimum amount for the lump sum payment of a portion. The commissioner shall charge to the employer appropriate and reasonable costs to the plan attributable to a lump sum payment that are not greater than administrative costs applied to other employer contributions. If a lump sum payment is made, the payment shall be accounted for separately in accordance with regulations adopted by the commissioner. The regulations must provide for crediting to each lump sum payment account all earnings and losses received from investment of that payment. The lump sum payment shall be used solely to offset contributions under this section required of the employer that made the payment or on whose behalf the payment was made, taking into account earnings and losses from its investment. A lump sum payment made by or on behalf of an employer under this subsection, together with all earnings and losses from investment of that payment, may not be considered in calculating that employer's share of any discretionary payment authorized by the state that benefits multiple employers.

(g) If all or a portion of the employer's share of any accrued actuarial liability to the plan is prepaid in a lump sum under (f) of this section, the administrator shall calculate a revised employer contribution rate for that employer in recognition of that prepayment not more than 30 days following the prepayment.

(h) In this section, "normal cost" means the cost of providing the benefits expected to be credited, with respect to service, to all active members of the plan during the year beginning after the last valuation date.

History -

(Sec. 11 ch 13 SLA 2008)

Revisors Notes -

Subsections (f) and (g) were enacted as AS 39.35.270(d) and (e) in sec. 12, ch. 35, SLA 2008 and renumbered in 2008, at which time an internal reference in subsection (g) was conformed and the subsection enacted as (f) was relettered as (h).

Effective Date Notes -

Section 27, ch. 13, SLA 2008 makes this section effective July 1, 2008.

Sec. 39.35.610. Transmittal of contributions to administrator; claims against funds of an employer.

(a) The contributions of an employer and the contributions of its employees shall be transmitted to the administrator as soon as practicable after the close of the payroll period for which the contributions are made. If an employer is delinquent in transferring the contributions for more than 15 days, interest shall be assessed on the outstanding contributions at one and one-half times the most recent actuarially determined rate of earnings for the retirement plan from the date that the contributions were originally due.

(b) If contributions are not submitted within the prescribed time limit, the amount of contributions and interest due may be claimed by the administrator from any agency of the state or political subdivision that has in its possession funds of the employer or that is authorized to disburse funds to the employer that are not restricted by statute or appropriation to a specific purpose. The amount claimed shall be certified by the administrator as sufficient to pay the contributions and interest due from the employer. The agency shall submit the amount claimed, or the amount of funds of the employer subject to the administrator's claim that are in the agency's possession, whichever is less, to the administrator for deposit in the retirement fund and the Alaska retiree health care trust.

History -

(Sec. 44 f ch 143 SLA 1960; am Sec. 28 ch 1 SLA 1974; am Sec. 53 ch 128 SLA 1977; am Sec. 72 ch 20 SLA 2007; am Sec. 15 ch 13 SLA 2008)

Revisors Notes -

Under sec. 144, ch. 9, FSSLA 2005, "plan" was substituted for "system" in this section.

Amendment Notes -

The 2007 amendment, effective June 7, 2007, added subsection (b).

The 2008 amendment, effective July 1, 2008, substituted "agency shall submit the amount claimed, or the amount of funds of the employer subject to the administrator's claim that are in the agency's possession, whichever is less" for "amount claimed shall be submitted" in the last sentence of subsection (b).

David Scott

From: Puckett, Jim P (DOA) <jim.puckett@alaska.gov>
Sent: Sunday, March 10, 2013 3:05 PM
To: David Scott
Cc: Thayer, Curtis W (DOA); Barnhill, Michael A (DOA); Mills, Andy J (DOA); Lea, Kathleen S (DOA)
Subject: SB48

Mr. Scott,

The following communities have lost 25% or more of their population between 2000 and 2010: Galena, Pelican, Atka, Anderson, and St. George. The cities of Anderson and St. George do not currently have any active PERS eligible positions.

Let me know if you need anything else.

Jim Puckett
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Alaska Division of Retirement & Benefits
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From: David Scott <David.Scott@akleg.gov>
Date: March 8, 2013, 3:47:41 PM MST
To: "curtis.thayer@alaska.gov" <curtis.thayer@alaska.gov>
Cc: "mike.barnhill@alaska.gov" <mike.barnhill@alaska.gov>
Subject: Fwd: SB 48 Scheduling Memo

Hi fellas:

SB 48 will be heard on Tuesday. Can we get a list of those communities that will be affected? Namely, those communities that have lost 25% between 2000-2010.

Thanks.

David Scott
Office of Sen. Donny Olson

Sent from my iPhone.
Please excuse any typos.