

SB

31

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31</SUBJECT><COMM></COMM></TARGET>



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Administration

SHELDON FISHER, COMMISSIONER

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January 23, 2017

The Honorable Mike Dunleavy, Chair
Senate State Affairs Committee
State Capitol Building, Room 205
Juneau, AK 99801

Dear Senator Dunleavy:

The Department of Administration (DOA) respectfully requests that SB 31, "No State Employee Pay Increase for Two Years" be considered for a scheduled hearing in the Senate State Affairs Committee.

This bill would prohibit general pay increases, merit step increases, and pay increments for partially exempt, exempt and other nonunion employees in the Executive and Legislative branches and UA. This bill would give the Governor authority to waive any portion of his salary.

We greatly appreciate your consideration of this important piece of legislation. If you need additional information, please contact Leslie Ridle, Deputy Commissioner for the Department of Administration at (907) 465-2200.

Sincerely,

A handwritten signature in blue ink, appearing to read "S. Fisher".

Sheldon Fisher, Commissioner

CC: Darwin Peterson, Legislative Director, Office of the Governor

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Governor Bill Walker
STATE OF ALASKA

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January 19, 2017

The Honorable Pete Kelly
President of the Senate
Alaska State Legislature
State Capitol, Room 111
Juneau, AK 99801-1182

Dear President Kelly:

Under the authority of Article III, Section 18, of the Alaska Constitution, I am transmitting a bill relating to pay for nonunion state employees, public officials, and legislators.

The bill would freeze salaries by prohibiting the payment of general salary increases and eliminating the payment of merit step increases and pay increments, between July 1, 2017, and June 30, 2019, for partially exempt, exempt, and other nonunion employees in the Executive Branch, Legislative Branch, and employees of the University of Alaska. Additionally, the bill would give the Governor the authority to waive any portion of the Governor's salary during the period July 1, 2017, through July 1, 2019. The bill would not apply to persons who are members of a collective bargaining unit established under AS 23.40.070 - 23.40.260 (Public Employment Relations Act).

This two-year freeze in employee pay will allow time for the State to responsibly address the serious budget deficit.

I urge your prompt and favorable action on this measure.

Sincerely,

A handwritten signature in blue ink that reads "Bill Walker".

Bill Walker
Governor

Enclosure



SB 31 Sectional Analysis

Section 1 Outlines intent of bill is to reduce state's expenditures.

Section 2 of the bill amends AS 39.25.140, AS 39.25.150 and AS 39.27.011 by disallowing for merit increases and pay increments for classified and partially exempt employees in the executive branch who are not covered by a collective bargaining agreement during the period of July 1, 2017 and June 30, 2019.

Section 3 of the bill disallows general salary increases, merit steps, pay increments, bonus or comparable salary increases for employees in the exempt service under AS 39.25.110 (9), persons employed in a professional capacity to make a temporary or special inquiry, study or examination as authorized by the governor, (11) the officers and employees of the following boards, commissions, or authorities; Alaska Permanent Fund Corporation; Alaska Industrial Development and Export Authority; Alaska Commercial Fisheries Entry Commission; Alaska Commission on Postsecondary Education; Alaska Aerospace Corporation; Alaska Gasline Development Corporation and subsidiaries of the Alaska Gasline Development Corporation, (12) the executive secretary and legal counsel of the Alaska Municipal Bond Bank Authority, (13) the state medical examiner, deputy medical examiner, and assistant medical examiners appointed under AS 12.65.015 and pharmacists and physicians licensed to practice in this state and employed by the Department of Health and Social Services or by the Department of Corrections, (14) petroleum engineers and petroleum geologists employed in a professional capacity by the Department of Natural Resources and by the Alaska Oil and Gas Conservation Commission, (17) officers and employees of the state who reside in foreign countries, (18) employees of the Alaska Seafood Marketing Institute, (20) employees of the Office of the Governor and the office of the lieutenant governor, including the staff of the governor's mansion, (26) investment officers in the Department of Revenue, (30) a person employed as an actuary or assistant actuary by the division of insurance in the Department of Commerce, Community, and Economic Development, (34) the chief executive officer and employees of the Alaska Mental Health Trust Authority employed under AS 47.30.026 (b), (35) the assistant adjutant general for space and missile defense appointed under AS 26.05.185, (36) the victims' advocate established under AS 24.65.010 and the advocate's staff, (37) employees of the Alaska mental health trust land unit established under AS 44.37.050, (38) the executive director of the Council on Domestic Violence and Sexual Assault established under AS 18.66.011, (39) the executive director and employees of the Knik Arm Bridge and Toll Authority under AS 19.75.051 and 19.75.061, (40) the chair of the Workers' Compensation Appeals Commission (AS 23.30.007), (41) the Alaska Gasline Inducement Act coordinator appointed under AS 43.90.250, (42) oil and gas audit masters employed in a professional

capacity by the Department of Revenue and the Department of Natural Resources to collect oil and gas revenue by developing policy, conducting studies, drafting proposed regulations, enforcing regulations, and directing audits by oil and gas revenue auditors, (43) the in-state gasoline project coordinator appointed under AS 38.34.010, during the period of July 1, 2017 and June 30, 2019.

Section 4 of the bill prevents the State Officers Compensation Commission from increasing the salary of the Governor, Lieutenant Governor, Department Heads and members of the legislature through operation of AS 39.23.500-39.23.599.

Section 5 of the bill disallows general salary increases, merit steps, pay increments, bonus or comparable salary increases for permanent and temporary employees of the legislative branch of the state government, including employees of the house and senate receiving compensation under AS 24.10.210, the employees of the office of victims' rights and victims' advocate, and the employees of the office of the ombudsman and the ombudsman, who are not covered by a collective bargaining agreement during the period of July 1, 2017 and June 30, 2019.

Section 6 of the bill disallows general salary increases, merit steps, pay increments, bonus or comparable salary increases for employees of the University of Alaska who are not covered by a collective bargaining agreement during the period of July 1, 2017 and June 30, 2019.

Section 7 of the bill amends Provides that merit increases can be awarded on the merit anniversary date of the employee between July 1, 2019 and June 30, 2020 and accounts for time worked before July 1, 2017 to count toward the next merit step. Also provides that the merit increase may not be awarded retroactively.

Section 8 of the bill Provides that pay increments can be awarded on the merit anniversary date of the employee between July 1, 2019 and June 30, 2020 and accounts for time worked before July 1, 2017 to count toward the next pay increment. Also provides that the pay increment may not be awarded retroactively.

Section 9 of the bill states that this act does not apply to individual employment contracts entered into before July 1, 2017.

Section 10 of the bill provides transition language to allow for the personnel board to adopt any necessary regulation changes.

Section 11 of the bill provides that any necessary regulation changes can be adopted immediately.

Section 12 of the bill provides an effective date of July 1, 2017.

Fiscal Note

State of Alaska
2017 Legislative Session

Bill Version:	SB 31
Fiscal Note Number:	1
(S) Publish Date:	1/20/2017

Identifier: OOG-OMB-01-05-17
 Title: NO ST. EMPLOYEE PAY INCREASE FOR 2 YRS
 Sponsor: RLS BY REQUEST OF THE GOVERNOR
 Requester: Governor

Department: Various (for Fiscal Notes only)
 Appropriation: Various
 Allocation: Executive Branch
 OMB Component Number: 0

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	(451.6)	(1,817.9)	(1,896.1)				
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	(451.6)	(1,817.9)	(1,896.1)	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

1002 Fed Rcpts (Fed)	(131.7)	(39.0)	(183.2)				
1003 G/F Match (UGF)		(5.4)	(15.9)				
1004 Gen Fund (UGF)	(49.9)	(975.3)	(744.4)				
1005 GF/Prgm (DGF)	(0.1)	(31.2)	(16.4)				
1007 I/A Rcpts (Other)	(0.2)	(380.9)	(370.0)				
1178 temp code (UGF)	(269.7)	(386.1)	(566.2)				
Total	(451.6)	(1,817.9)	(1,896.1)	0.0	0.0	0.0	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?
 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: Colleen O'Sullivan, Chief Budget Analyst
 Division: Office of Management and Budget
 Approved By: Pat Pitney, Director
 Agency: Office of Management and Budget

Phone: (907)465-4681
 Date: 01/12/2017 05:00 PM
 Date: 01/12/17

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2017 LEGISLATIVE SESSION

Analysis

This fiscal note estimates the potential savings from freezing executive branch employee salaries for two years (FY2018-FY2019).

This hypothetical estimate recognizes that no funding currently exists in agency budgets to pay for merit and pay increment increases. Historically, the cost of merit and pay increment steps was assumed to be offset by the savings due to turnover – positions hired at lower salaries offsetting the merit and pay increment increases of retained employees. Otherwise reductions had to be found in other areas of the budget. Agencies with few employees and/or low turnover have had a greater challenge paying for these unfunded salary increases from their existing budget.

If exempt and partially exempt salaries are frozen, it is assumed the savings that would have been needed to pay for advancing merit steps/pay increments could be retained and the budget reduced. However, given significant budget reductions in recent years, and the fact that actual turnover and actual spending reductions an agency is able to achieve may not directly match the estimated cost of the avoided salary increases, there is a risk that some agencies will not be able to achieve the proposed budget reductions.

The following methodology was used:

1. Increases for exempt and partially exempt positions eligible for merit and pay increment steps were calculated and compared to the current base. Two increases were identified: a) costs of FY2017 increases incurred for 12 months in FY2018 (versus less months at the higher merit step in FY2017). These costs are unavoidable in FY2018 despite a statute change but are used as the estimated avoided cost increase for the second merit step in FY2019. b) Costs of new increases that would have been paid in FY2018. Positions in merit steps were considered separately than those in pay increments.

2. Positions of certain corporations, such as Alaska Housing Finance Corporation and Alaska Permanent Fund Corporation, and positions that appeared to be outside of the "normal" salary rules (Commissioners and positions that have had no pay increases for a number of years) were excluded from the calculation in #1 above. Agencies provided the estimated savings for the positions outside of "normal" salary schedule.

The estimated savings that may be realized is \$4,165.6 over two fiscal years for the executive branch. Estimates for the Alaska Permanent Fund Corporation, the University, and the Legislative and Judicial Branches are not included in this fiscal note. The University is not included because the Board of Regents already implemented similar actions, so no additional savings would be realized from the University for this bill.

Total savings are not realized in one year because individuals in pay increments receive a salary increase every other year. In addition, individuals in merit steps receive increases at various times during the fiscal year. It takes two years to get the full savings because merit steps increases don't happen on July 1, but on an employee's hire date. Additional savings in fiscal years beyond FY2019 are anticipated because salaries will be lower in those years than if the temporary freeze was not implemented, however that amount is indeterminate.

The FY2018 Governor's budget includes an initial estimate in the branch-wide component of \$1,817.9. This updated estimate of \$2,205.5 includes entities where data was not yet available at the time of the initial estimate. This estimate may be reflected in each component's budget versus in a statewide component at the legislature's discretion.

In addition to the \$2,205.5 reduction for the merit and pay increment freeze, a \$64.0 reduction in general funds in FY2018 is included for a one-third salary reduction for the Governor of Alaska. The total FY2018 reduction is \$2,269.5.

ALASKA STATE LEGISLATURE

600 East Railroad Ave., Ste 1
Wasilla, Alaska 99654
(907) 376-3370



State Capitol
Juneau, Alaska 99801
(907) 465-6600

Mike Dunleavy
Senator

AGENDA

Senate State Affairs Committee

March 14th, 2017

Welcome: Senator Mike Dunleavy

Confirmation Hearings:

Adam Schwemley – APOC

Robert Clift – APOC

Bryce Johnson – Alaska Police Standards Council

SB 31: No State Employee Pay Increase for 2 Years
Rules by Request of the Governor

Next Meeting: Thursday, March 16th at 3:30pm

Confirmation Hearings:

Luis Nieves- Alaska Police Standards Council

Ronda Wallace- Alaska Police Standards Council

HB 3: National Guard Leave/Reemployment Rights

Salary Freeze for Nonunion Employees



Presented by

Deputy Commissioner Leslie Ridle
Director Kate Sheehan

What Does the Bill Do?

- Addresses pay increases in the form of:
 - Cost of Living Allowance (COLA)
 - Merit increases (3.5% every year for five years)
 - Pay increments (3.25% every other year)
 - Bonuses
- Allows the Governor to reduce his salary
- Effective July 1, 2017 – June 30, 2019

Understanding Exempt and Partially Exempt

Exempt

- Can only be exempt through statute (AS 39.25.110)
- Exempt from Personnel Act and statutory pay plan
- Examples: Governor's Office, Legislative staff

Partially Exempt

- Through statute or Personnel Board
- Subject to Personnel Act and statutory pay plan
- Examples: Deputy Commissioners, Directors

Who Does the Bill Include?

- (1) Employees not covered under a collective bargaining agreement in the executive branch, including: employees of boards, commissions, authorities, and executive officers;
- (2) Employees in the legislative branch;
- (3) Employees not covered under a collective bargaining agreement of the University of Alaska;
- (4) The governor, lieutenant governor, department heads, and legislators.

Why is the Bill Needed?

This legislation was introduced as part of the Administration's ongoing efforts to lead by example to:

- Reduce state expenditures
- Address serious budget shortfalls

Estimated Savings

Employees Affected

This bill will affect approximately 5,000 state employees in the executive and legislative branches.

This represents 23% of the state employees in the executive and legislative branches.

Savings

The Office of Management & Budget estimates the following savings in the executive branch:

FY 18 = \$2.3 million (\$1 million UGF)

FY 19 = \$1.9 million (\$.8 million UGF)

Total = \$4.2 million (\$1.8 million UGF)

Questions?

For more information on Department of Administration services, priorities, or other issues, please contact:

Minta Montalbo, Legislative Liaison

minta.Montalbo@Alaska.gov

465-2200

Appendix

Personnel Act

Alaska Statute 39.25.150 et seq.

Under the Personnel Act the State is required to create a classification and pay plan which:

- Grouping together of all positions into classes on the basis of duties and responsibilities
- Is based on the position classification plan, and "**reflect the principle of like pay for like work...**"

Merit Principle

Article XII, sec. 6 of the Alaska Constitution – "The legislature shall establish a system under which the merit principle will govern the employment of persons by the State."

Merit principle of employment includes recruitment and advancement of employees based on skill and knowledge; salary program based on nature of work performed; attaining permanent status based on adequacy of performance

Not the same as "Merit" used in "Merit Steps"