ALASKA LEGISLATURE

HOUSE and SENATE FINANCE COMMITTEE FILES, 2005-2006 2928

Change Record Detail With Description

Department of Transportation/Public Facilities

Scenario: FY2006 Supplemental Energy - Governor (5037)
Component: Anchorage Airport Field and Equipment Maintenance (2
RDU: Ted Stevens Anchorage International Airport (435)
Title: Increased energy costs for utilities and equipment fuel
Brief Description:

Decision: None
Category: None
Subcategory: None

New GF Revenue:
New Other Revenue:
Short Title:

	Trans Type	Totals	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants & Benefits	Misc./Debt Service	Positions PFT	Positions PPT	Positions NP
	Suppl	186.6	0.0	0.0	108.5	78.1	0.0	0.0	0.0	0	0	0
1027 Int Airprt		186.6										

Fuel, natural gas/propane and electricity costs are projected to continue to increase. Cost increases based upon current November pricing at 20% above FY05 actuals.

	FY05 Actual	FY06 % Increase	FY06 Supplemental Request
Equip Fuel	$390,692	20%	$78,138
Electricity	$491,841	20%	$98,368
Nat Gas/Prop	$50,378	20%	$10,075

Total Request: $186,581

	Totals	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants & Benefits	Misc./Debt Service	PFT	PPT	NP
Totals	**186.6**	**0.0**	**0.0**	**108.5**	**78.1**	**0.0**	**0.0**	**0.0**	**0**	**0**	**0**

Sec. 4(b)(4)(6)

Change Record Detail With Description

Department of Transportation/Public Facilities

Scenario: FY2006 Supplemental Energy - Governor (5037)	**Decision:** None		
Component: Marine Vessel Operations (2604)	**Category:** None	**New GF Revenue:**	
RDU: Marine Highway System (334)	**Subcategory:** None	**New Other Revenue:**	
Title: Increased fuel cost and usage increase		**Short Title:**	

Brief Description:

	Trans Type	Totals	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants & Benefits	Misc./Debt Service	Positions PFT	PPT	NP
	Suppl	14,774.8	0.0	0.0	0.0	14,774.8	0.0	0.0	0.0	0	0	0

1004 Gen Fund 14,774.8

The Alaska Marine Highway System (AMHS) is anticipating a $14,774.8 fuel supplemental need due to increased fuel costs and increased fuel usage. The approved FY06 budget was based on approximately 10.7 million gallons of fuel at $1.425 per gallon. The Marine Highway System is projecting to use approximately 13,251,000 gallons of fuel due to increased ferry usage. The estimated delivered fuel price for FY06 is $2.26 per gallon.

The FY06 operating plan provides ferry service to many coastal communities that lack links to the main road system. Additionally, the plan improves the mobility of people and goods while enhancing the marketing potential of AMHS.

Revised fuel usage is: 13,250,800 gallons
Budgeted: 10,647,000 gallons
Increase: 2,603,800 gallons
$2.26/gallon = $5,884,588

Budgeted: $1.425/gallon
Revised AMHS Estimate: $2.260/gallon
Increased Cost: $0.835/gallon x 10,647,000 gallons = $8,8[illegible] 245

Usage increase $5,884,588
Cost increase + $8,890,245
FY06 Increase: $14,774,833

Totals	14,774.8	0.0	0.0	0.0	14,774.8	0.0	0.0	0.0	0	0	0

Sec. 4(c)(4)

University

Change Record Detail With Description

University of Alaska

Scenario: FY2006 Supplemental Energy - Governor (5037)
Component: Anchorage Campus (753)
RDU: University of Alaska Anchorage (235)
Title: Fuel and Utility Increases
Brief Description: FY06 Energy Costs Increases

Decision: None
Category: None
Subcategory: None

New GF Revenue:
New Other Revenue:
Short Title: FY06 Energy Costs Increase

	Trans Type	Totals	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants & Benefits	Misc./Debt Service	Positions PFT	PPT	NP
	Suppl	719.4	0.0	0.0	719.4	0.0	0.0	0.0	0.0	0	0	0
1004 Gen Fund 719.4												

Most campuses are experiencing substantial increases in electric, diesel fuel, natural gas and propane fuel costs. UA's campuses range from using municipal power and utility systems to having a university-owned power plant, which is coal and fuel oil dependent but requires back up from public utility systems. In FY05, the university reallocated funds from services to cover nearly $2 million in utility increases for which no additional resources were provided. In FY06, all earned non-general funds have been committed to anticipated and budgeted cost increases.

Funds are requested at the following allocations:

Anchorage Campus - 719.4
Kenai Penninsula College - 77.4
Kodiak College - 29.3
Mat-Su College - 49.5
Prince Wm Sound CC - 93.7
Fairbanks Campus - 1,487.7
Bristol Bay Campus - 14.0
Chukchi Campus - 6.0
Interior Campus - 17.3
Kuskokwim Campus - 116.4
Northwest Campus - 16.0
Tanana Valley Campus - 10.4
Juneau Campus - 203.6
Ketchikan Campus - 24.4
Sitka Campus - 16.4
Total -- 2,881.5

	Totals	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants & Benefits	Misc./Debt Service	PFT	PPT	NP
Totals	719.4	0.0	0.0	719.4	0.0	0.0	0.0	0.0	0	0	0

Sec 4(7)(A)

Change Record Detail With Description

University of Alaska

Scenario: FY2006 Supplemental Energy - Governor (5037)
Component: Kenai Peninsula College (756)
RDU: University of Alaska Anchorage (235)
Title: Fuel and Utility Increases
Brief Description: FY06 Energy Costs Increases

Decision: None
Category: None
Subcategory: None

New GF Revenue:
New Other Revenue:
Short Title: FY06 Energy Costs Increases

Trans Type	Totals	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants & Benefits	Misc./Debt Service	Positions PFT	Positions PPT	Positions NP
Suppl	77.4	0.0	0.0	77.4	0.0	0.0	0.0	0.0	0	0	0

1004 Gen Fund 77.4

Most campuses are experiencing substantial increases in electric, diesel fuel, natural gas and propane fuel costs. UA's campuses range from using municipal power and utility systems to having a university-owned power plant, which is coal and fuel oil dependent but requires back up from public utility systems. In FY05, the university reallocated funds from services to cover nearly $2 million in utility increases for which no additional resources were provided. In FY06, all earned non-general funds have been committed to anticipated and budgeted cost increases.

Funds are requested at the following allocations:

Anchorage Campus - 719.4
Kenai Penninsula College - 77.4
Kodiak College - 29.3
Mat-Su College - 49.5
Prince Wm Sound CC - 93.7
Fairbanks Campus - 1,487.7
Bristol Bay Campus - 14.0
Chukchi Campus - 6.0
Interior Campus - 17.3
Kuskokwim Campus - 116.4
Northwest Campus - 16.0
Tanana Valley Campus - 10.4
Juneau Campus - 203.6
Ketchikan Campus - 24.4
Sitka Campus - 16.4
Total -- 2,881.5

	Totals	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants & Benefits	Misc./Debt Service	PFT	PPT	NP
Totals	77.4	0.0	0.0	77.4	0.0	0.0	0.0	0.0	0	0	0

Sec. 4(7)(B)

Change Record Detail With Description

University of Alaska

Scenario: FY2006 Supplemental Energy - Governor (5037)
Component: Kodiak College (757)
RDU: University of Alaska Anchorage (235)
Title: Fuel and Utility Increases
Brief Description: FY06 Energy Costs Increases

Decision: None
Category: None
Subcategory: None

New GF Revenue:
New Other Revenue:
Short Title: FY06 Energy Costs Increases

	Trans Type	Totals	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants & Benefits	Misc./Debt Service	Positions PFT	Positions PPT	Positions NP
	Suppl	29.3	0.0	0.0	29.3	0.0	0.0	0.0	0.0	0	0	0

1004 Gen Fund 29.3

Most campuses are experiencing substantial increases in electric, diesel fuel, natural gas and propane fuel costs. UA's campuses range from using municipal power and utility systems to having a university-owned power plant, which is coal and fuel oil dependent but requires back up from public utility systems. In FY05, the university reallocated funds from services to cover nearly $2 million in utility increases for which no additional resources were provided. In FY06, all earned non-general funds have been committed to anticipated and budgeted cost increases.

Funds are requested at the following allocations:

Anchorage Campus - 719.4
Kenai Penninsula College - 77.4
Kodiak College - 29.3
Mat-Su College - 49.5
Prince Wm Sound CC - 93.7
Fairbanks Campus - 1,487.7
Bristol Bay Campus - 14.0
Chukchi Campus - 6.0
Interior Campus - 17.3
Kuskokwim Campus - 116.4
Northwest Campus - 16.0
Tanana Valley Campus - 10.4
Juneau Campus - 203.6
Ketchikan Campus - 24.4
Sitka Campus - 16.4
Total -- 2,881.5

	Totals	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants & Benefits	Misc./Debt Service	PFT	PPT	NP
Totals	29.3	0.0	0.0	29.3	0.0	0.0	0.0	0.0	0	0	0

Sec. 4(7)(c)

Change Record Detail With Description

University of Alaska

Scenario: FY2006 Supplemental Energy - Governor (5037)
Component: Matanuska-Susitna College (758)
RDU: University of Alaska Anchorage (235)
Title: Fuel and Utility Increases
Brief Description: FY06 Energy Costs Increases

Decision: None
Category: None
Subcategory: None

New GF Revenue:
New Other Revenue:
Short Title: FY06 Energy Costs Increases

Trans Type	Totals	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants & Benefits	Misc./Debt Service	Positions PFT	Positions PPT	Positions NP
Suppl	49.5	0.0	0.0	49.5	0.0	0.0	0.0	0.0	0	0	0

1004 Gen Fund 49.5

Most campuses are experiencing substantial increases in electric, diesel fuel, natural gas and propane fuel costs. UA's campuses range from using municipal power and utility systems to having a university-owned power plant, which is coal and fuel oil dependent but requires back up from public utility systems. In FY05, the university reallocated funds from services to cover nearly $2 million in utility increases for which no additional resources were provided. In FY06, all earned non-general funds have been committed to anticipated and budgeted cost increases.

Funds are requested at the following allocations:

Anchorage Campus - 719.4
Kenai Penninsula College - 77.4
Kodiak College - 29.3
Mat-Su College - 49.5
Prince Wm Sound CC - 93.7
Fairbanks Campus - 1,487.7
Bristol Bay Campus - 14.0
Chukchi Campus - 6.0
Interior Campus - 17.3
Kuskokwim Campus - 116.4
Northwest Campus - 16.0
Tanana Valley Campus - 10.4
Juneau Campus - 203.6
Ketchikan Campus - 24.4
Sitka Campus - 16.4
Total -- 2,881.5

	Totals	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants & Benefits	Misc./Debt Service	PFT	PPT	NP
Totals	**49.5**	**0.0**	**0.0**	**49.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0**	**0**	**0**

Sec. 4(7)(b)

State of Alaska
Office of Management & Budget

1-11-2006 11:11 am

Change Record Detail With Description

University of Alaska

Scenario: FY2006 Supplemental Energy - Governor (5037)
Component: Prince William Sound Community College (759)
RDU: University of Alaska Anchorage (235)
Title: Fuel and Utility Increases
Brief Description: FY06 Energy Costs Increases

Decision: None
Category: None
Subcategory: None

New GF Revenue:
New Other Revenue:
Short Title: FY06 Energy Costs Increases

	Trans Type	Totals	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants & Benefits	Misc./Debt Service	Positions PFT	PPT	NP
	Suppl	93.7	0.0	0.0	93.7	0.0	0.0	0.0	0.0	0	0	0
1004 Gen Fund	93.7											

Most campuses are experiencing substantial increases in electric, diesel fuel, natural gas and propane fuel costs. UA's campuses range from using municipal power and utility systems to having a university-owned power plant, which is coal and fuel oil dependent but requires back up from public utility systems. In FY05, the university reallocated funds from services to cover nearly $2 million in utility increases for which no additional resources were provided. In FY06, all earned non-general funds have been committed to anticipated and budgeted cost increases.

Funds are requested at the following allocations:

Anchorage Campus - 719.4
Kenai Penninsula College - 77.4
Kodiak College - 29.3
Mat-Su College - 49.5
Prince Wm Sound CC - 93.7
Fairbanks Campus - 1,487.7
Bristol Bay Campus - 14.0
Chukchi Campus - 6.0
Interior Campus - 17.3
Kuskokwim Campus - 116.4
Northwest Campus - 16.0
Tanana Valley Campus - 10.4
Juneau Campus - 203.6
Ketchikan Campus - 24.4
Sitka Campus - 16.4
Total -- 2,881.5

	Totals	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants & Benefits	Misc./Debt Service	PFT	PPT	NP
Totals	93.7	0.0	0.0	93.7	0.0	0.0	0.0	0.0	0	0	0

Sec. 4(7)(E)

Change Record Detail With Description

University of Alaska

Scenario: FY2006 Supplemental Energy - Governor (5037)
Component: Bristol Bay Campus (1417)
RDU: University of Alaska Fairbanks (236)
Title: Fuel and Utility Increases
Brief Description: FY06 Energy Costs Increases

Decision: None
Category: None
Subcategory: None

New GF Revenue:
New Other Revenue:
Short Title: FY06 Energy Costs Increases

Trans Type	Totals	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants & Benefits	Misc./Debt Service	Positions PFT	PPT	NP
Suppl	14.0	0.0	0.0	14.0	0.0	0.0	0.0	0.0	0	0	0

1004 Gen Fund 14.0

Most campuses are experiencing substantial increases in electric, diesel fuel, natural gas and propane fuel costs. UA's campuses range from using municipal power and utility systems to having a university-owned power plant, which is coal and fuel oil dependent but requires back up from public utility systems. In FY05, the university reallocated funds from services to cover nearly $2 million in utility increases for which no additional resources were provided. In FY06, all earned non-general funds have been committed to anticipated and budgeted cost increases.

Funds are requested at the following allocations:

Anchorage Campus - 719.4
Kenai Penninsula College - 77.4
Kodiak College - 29.3
Mat-Su College - 49.5
Prince Wm Sound CC - 93.7
Fairbanks Campus - 1,487.7
Bristol Bay Campus - 14.0
Chukchi Campus - 6.0
Interior Campus - 17.3
Kuskokwim Campus - 116.4
Northwest Campus - 16.0
Tanana Valley Campus - 10.4
Juneau Campus - 203.6
Ketchikan Campus - 24.4
Sitka Campus - 16.4
Total -- 2,881.5

	Totals	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants & Benefits	Misc./Debt Service	PFT	PPT	NP
Totals	14.0	0.0	0.0	14.0	0.0	0.0	0.0	0.0	0	0	0

Sec. 4(n)(F)

Change Record Detail With Description

University of Alaska

Scenario: FY2006 Supplemental Energy - Governor (5037)
Component: Chukchi Campus (744)
RDU: University of Alaska Fairbanks (236)
Title: Fuel and Utility Increases
Brief Description: FY06 Energy Costs Increases

Decision: None
Category: None
Subcategory: None

New GF Revenue:
New Other Revenue:
Short Title: FY06 Energy Costs Increases

	Trans Type	Totals	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants & Benefits	Misc./Debt Service	Positions PFT	Positions PPT	Positions NP
	Suppl	6.0	0.0	0.0	6.0	0.0	0.0	0.0	0.0	0	0	0

1004 Gen Fund 6.0

Most campuses are experiencing substantial increases in electric, diesel fuel, natural gas and propane fuel costs. UA's campuses range from using municipal power and utility systems to having a university-owned power plant, which is coal and fuel oil dependent but requires back up from public utility systems. In FY05, the university reallocated funds from services to cover nearly $2 million in utility increases for which no additional resources were provided. In FY06, all earned non-general funds have been committed to anticipated and budgeted cost increases.

Funds are requested at the following allocations:

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Kenai Penninsula College - 77.4
Kodiak College - 29.3
Mat-Su College - 49.5
Prince Wm Sound CC - 93.7
Fairbanks Campus - 1,487.7
Bristol Bay Campus - 14.0
Chukchi Campus - 6.0
Interior Campus - 17.3
Kuskokwim Campus - 116.4
Northwest Campus - 16.0
Tanana Valley Campus - 10.4
Juneau Campus - 203.6
Ketchikan Campus - 24.4
Sitka Campus - 16.4
Total -- 2,881.5

	Totals	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants & Benefits	Misc./Debt Service	PFT	PPT	NP
Totals	6.0	0.0	0.0	6.0	0.0	0.0	0.0	0.0	0	0	0

Sec. 4(7)(6)

Change Record Detail With Description

University of Alaska

Scenario: FY2006 Supplemental Energy - Governor (5037)
Component: Fairbanks Campus (741)
RDU: University of Alaska Fairbanks (236)
Title: Fuel and Utility Increases
Brief Description: FY06 Energy Costs Increases

Decision: None
Category: None
Subcategory: None

New GF Revenue:
New Other Revenue:
Short Title: FY06 Energy Costs Increases

Trans Type	Totals	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants & Benefits	Misc./Debt Service	Positions PFT	Positions PPT	Positions NP
Suppl	1,487.7	0.0	0.0	1,487.7	0.0	0.0	0.0	0.0	0	0	0

1004 Gen Fund 1,487.7

Most campuses are experiencing substantial increases in electric, diesel fuel, natural gas and propane fuel costs. UA's campuses range from using municipal power and utility systems to having a university-owned power plant, which is coal and fuel oil dependent but requires back up from public utility systems. In FY05, the university reallocated funds from services to cover nearly $2 million in utility increases for which no additional resources were provided. In FY06, all earned non-general funds have been committed to anticipated and budgeted cost increases.

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Kodiak College - 29.3
Mat-Su College - 49.5
Prince Wm Sound CC - 93.7
Fairbanks Campus - 1,487.7
Bristol Bay Campus - 14.0
Chukchi Campus - 6.0
Interior Campus - 17.3
Kuskokwim Campus - 116.4
Northwest Campus - 16.0
Tanana Valley Campus - 10.4
Juneau Campus - 203.6
Ketchikan Campus - 24.4
Sitka Campus - 16.4
Total -- 2,881.5

	Totals	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants & Benefits	Misc./Debt Service	PFT	PPT	NP
Totals	1,487.7	0.0	0.0	1,487.7	0.0	0.0	0.0	0.0	0	0	0

Sec. 4(7)(H)

Change Record Detail With Description

University of Alaska

Scenario: FY2006 Supplemental Energy - Governor (5037)
Component: Interior-Aleutians Campus (1418)
RDU: University of Alaska Fairbanks (236)
Title: Fuel and Utility Increases
Brief Description: FY06 Energy Costs Increases

Decision: None
Category: None
Subcategory: None

New GF Revenue:
New Other Revenue:
Short Title: FY06 Energy Costs Increases

	Trans Type	Totals	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants & Benefits	Misc./Debt Service	Positions PFT	PPT	NP
	Suppl	17.3	0.0	0.0	17.3	0.0	0.0	0.0	0.0	0	0	0
1004 Gen Fund		17.3										

Most campuses are experiencing substantial increases in electric, diesel fuel, natural gas and propane fuel costs. UA's campuses range from using municipal power and utility systems to having a university-owned power plant, which is coal and fuel oil dependent but requires back up from public utility systems. In FY05, the university reallocated funds from services to cover nearly $2 million in utility increases for which no additional resources were provided. In FY06, all earned non-general funds have been committed to anticipated and budgeted cost increases.

Funds are requested at the following allocations:

Anchorage Campus - 719.4
Kenai Penninsula College - 77.4
Kodiak College - 29.3
Mat-Su College - 49.5
Prince Wm Sound CC - 93.7
Fairbanks Campus - 1,487.7
Bristol Bay Campus - 14.0
Chukchi Campus - 6.0
Interior Campus - 17.3
Kuskokwim Campus - 116.4
Northwest Campus - 16.0
Tanana Valley Campus - 10.4
Juneau Campus - 203.6
Ketchikan Campus - 24.4
Sitka Campus - 16.4
Total -- 2,881.5

	Totals	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants & Benefits	Misc./Debt Service	PFT	PPT	NP
Totals	17.3	0.0	0.0	17.3	0.0	0.0	0.0	0.0	0	0	0

Sec. 4(7)(I)

Change Record Detail With Description

University of Alaska

Scenario: FY2006 Supplemental Energy - Governor (5037)
Component: Kuskokwim Campus (746)
RDU: University of Alaska Fairbanks (236)
Title: Fuel and Utility Increases
Brief Description: FY06 Energy Costs Increases

Decision: None
Category: None
Subcategory: None

New GF Revenue:
New Other Revenue:
Short Title: FY06 Energy Costs Increases

Trans Type	Totals	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants & Benefits	Misc./Debt Service	Positions PFT	PPT	NP
Suppl	116.4	0.0	0.0	116.4	0.0	0.0	0.0	0.0	0	0	0

1004 Gen Fund 116.4

Most campuses are experiencing substantial increases in electric, diesel fuel, natural gas and propane fuel costs. UA's campuses range from using municipal power and utility systems to having a university-owned power plant, which is coal and fuel oil dependent but requires back up from public utility systems. In FY05, the university reallocated funds from services to cover nearly $2 million in utility increases for which no additional resources were provided. In FY06, all earned non-general funds have been committed to anticipated and budgeted cost increases.

Funds are requested at the following allocations:

Anchorage Campus - 719.4
Kenai Penninsula College - 77.4
Kodiak College - 29.3
Mat-Su College - 49.5
Prince Wm Sound CC - 93.7
Fairbanks Campus - 1,487.7
Bristol Bay Campus - 14.0
Chukchi Campus - 6.0
Interior Campus - 17.3
Kuskokwim Campus - 116.4
Northwest Campus - 16.0
Tanana Valley Campus - 10.4
Juneau Campus - 203.6
Ketchikan Campus - 24.4
Sitka Campus - 16.4
Total -- 2,881.5

	Totals	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants & Benefits	Misc./Debt Service	PFT	PPT	NP
Totals	116.4	0.0	0.0	116.4	0.0	0.0	0.0	0.0	0	0	0

Sec. 4(7)(5)

Change Record Detail With Description

University of Alaska

Scenario: FY2006 Supplemental Energy - Governor (5037)
Component: Northwest Campus (747)
RDU: University of Alaska Fairbanks (236)
Title: Fuel and Utility Increases
Brief Description: FY06 Energy Costs Increases

Decision: None
Category: None
Subcategory: None

New GF Revenue:
New Other Revenue:
Short Title: FY06 Energy Costs Increase:

	Trans Type	Totals	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants & Benefits	Misc./Debt Service	Positions PFT	PPT	NP
	Suppl	16.0	0.0	0.0	16.0	0.0	0.0	0.0	0.0	0	0	0
1004 Gen Fund 16.0												

Most campuses are experiencing substantial increases in electric, diesel fuel, natural gas and propane fuel costs. UA's campuses range from using municipal power and utility systems to having a university-owned power plant, which is coal and fuel oil dependent but requires back up from public utility systems. In FY05, the university reallocated funds from services to cover nearly $2 million in utility increases for which no additional resources were provided. In FY06, all earned non-general funds have been committed to anticipated and budgeted cost increases.

Funds are requested at the following allocations:

Anchorage Campus - 719.4
Kenai Penninsula College - 77.4
Kodiak College - 29.3
Mat-Su College - 49.5
Prince Wm Sound CC - 93.7
Fairbanks Campus - 1,487.7
Bristol Bay Campus - 14.0
Chukchi Campus - 6.0
Interior Campus - 17.3
Kuskokwim Campus - 116.4
Northwest Campus - 16.0
Tanana Valley Campus - 10.4
Juneau Campus - 203.6
Ketchikan Campus - 24.4
Sitka Campus - 16.4
Total -- 2,881.5

	Totals	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants & Benefits	Misc./Debt Service	PFT	PPT	NP
Totals	16.0	0.0	0.0	16.0	0.0	0.0	0.0	0.0	0	0	0

Sec. 4(7)(K)

Change Record Detail With Description

University of Alaska

Scenario: FY2006 Supplemental Energy - Governor (5037)
Component: Tanana Valley Campus (2027)
RDU: University of Alaska Fairbanks (236)
Title: Fuel and Utility Increases
Brief Description: FY06 Energy Costs Increases

Decision: None
Category: None
Subcategory: None

New GF Revenue:
New Other Revenue:
Short Title: FY06 Energy Costs Increases

Trans Type	Totals	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants & Benefits	Misc./Debt Service	Positions PFT	Positions PPT	Positions NP
Suppl	10.4	0.0	0.0	10.4	0.0	0.0	0.0	0.0	0	0	0

1004 Gen Fund 10.4

Most campuses are experiencing substantial increases in electric, diesel fuel, natural gas and propane fuel costs. UA's campuses range from using municipal power and utility systems to having a university-owned power plant, which is coal and fuel oil dependent but requires back up from public utility systems. In FY05, the university reallocated funds from services to cover nearly $2 million in utility increases for which no additional resources were provided. In FY06, all earned non-general funds have been committed to anticipated and budgeted cost increases.

Funds are requested at the following allocations:

Anchorage Campus - 719.4
Kenai Penninsula College - 77.4
Kodiak College - 29.3
Mat-Su College - 49.5
Prince Wm Sound CC - 93.7
Fairbanks Campus - 1,487.7
Bristol Bay Campus - 14.0
Chukchi Campus - 6.0
Interior Campus - 17.3
Kuskokwim Campus - 116.4
Northwest Campus - 16.0
Tanana Valley Campus - 10.4
Juneau Campus - 203.6
Ketchikan Campus - 24.4
Sitka Campus - 16.4
Total -- 2,881.5

	Totals	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants & Benefits	Misc./Debt Service	PFT	PPT	NP
Totals	10.4	0.0	0.0	10.4	0.0	0.0	0.0	0.0	0	0	0

Sec. 4(7)(L)

Change Record Detail With Description

University of Alaska

Scenario: FY2006 Supplemental Energy - Governor (5037)
Component: Juneau Campus (762)
RDU: University of Alaska Southeast (237)
Title: Fuel and Utility Increases
Brief Description: FY06 Energy Costs Increases

Decision: None
Category: None
Subcategory: None

New GF Revenue:
New Other Revenue:
Short Title: FY06 Energy Costs Increases

	Trans Type	Totals	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants & Benefits	Misc./Debt Service	Positions PFT	PPT	NP
	Suppl	203.6	0.0	0.0	203.6	0.0	0.0	0.0	0.0	0	0	0

1004 Gen Fund 203.6

Most campuses are experiencing substantial increases in electric, diesel fuel, natural gas and propane fuel costs. UA's campuses range from using municipal power and utility systems to having a university-owned power plant, which is coal and fuel oil dependent but requires back up from public utility systems. In FY05, the university reallocated funds from services to cover nearly $2 million in utility increases for which no additional resources were provided. In FY06, all earned non-general funds have been committed to anticipated and budgeted cost increases.

Funds are requested at the following allocations:

Anchorage Campus - 719.4
Kenai Penninsula College - 77.4
Kodiak College - 29.3
Mat-Su College - 49.5
Prince Wm Sound CC - 93.7
Fairbanks Campus - 1,487.7
Bristol Bay Campus - 14.0
Chukchi Campus - 6.0
Interior Campus - 17.3
Kuskokwim Campus - 116.4
Northwest Campus - 16.0
Tanana Valley Campus - 10.4
Juneau Campus - 203.6
Ketchikan Campus - 24.4
Sitka Campus - 16.4
Total -- 2,881.5

	Totals	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants & Benefits	Misc./Debt Service	PFT	PPT	NP
Totals	203.6	0.0	0.0	203.6	0.0	0.0	0.0	0.0	0	0	0

SEC. 4(7)(M)

Change Record Detail With Description

University of Alaska

Scenario: FY2006 Supplemental Energy - Governor (5037)
Component: Ketchikan Campus (765)
RDU: University of Alaska Southeast (237)
Title: Fuel and Utility Increases
Brief Description: FY06 Energy Costs Increases

Decision: None
Category: None
Subcategory: None

New GF Revenue:
New Other Revenue:
Short Title: FY06 Energy Costs Increases

	Trans Type	Totals	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants & Benefits	Misc./Debt Service	Positions PFT	PPT	NP
	Suppl	24.4	0.0	0.0	24.4	0.0	0.0	0.0	0.0	0	0	0
1004 Gen Fund	24.4											

Most campuses are experiencing substantial increases in electric, diesel fuel, natural gas and propane fuel costs. UA's campuses range from using municipal power and utility systems to having a university-owned power plant, which is coal and fuel oil dependent but requires back up from public utility systems. In FY05, the university reallocated funds from services to cover nearly $2 million in utility increases for which no additional resources were provided. In FY06, all earned non-general funds have been committed to anticipated and budgeted cost increases.

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Northwest Campus - 16.0
Tanana Valley Campus - 10.4
Juneau Campus - 203.6
Ketchikan Campus - 24.4
Sitka Campus - 16.4
Total -- 2,881.5

	Totals	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants & Benefits	Misc./Debt Service	PFT	PPT	NP
Totals	24.4	0.0	0.0	24.4	0.0	0.0	0.0	0.0	0	0	0

Sec. 4(7)(u)

State of Alaska
Office of Management & Budget

1-11-2006 11:08 am

Change Record Detail With Description

University of Alaska

Scenario: FY2006 Supplemental Energy - Governor (5037)	Decision: None		
Component: Sitka Campus (764)	Category: None	New GF Revenue:	
RDU: University of Alaska Southeast (237)	Subcategory: None	New Other Revenue:	
Title: Fuel and Utility Increases		Short Title: FY06 Energy Costs Increases	
Brief Description: FY06 Energy Costs Increases			

	Trans Type	Totals	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants & Benefits	Misc./Debt Service	Positions PFT	PPT	NP
	Suppl	16.4	0.0	0.0	16.4	0.0	0.0	0.0	0.0	0	0	0
1004 Gen Fund 16.4												
Totals		16.4	0.0	0.0	16.4	0.0	0.0	0.0	0.0	0	0	0

Most campuses are experiencing substantial increases in electric, diesel fuel, natural gas and propane fuel costs. UA's campuses range from using municipal power and utility systems to having a university-owned power plant, which is coal and fuel oil dependent but requires back up from public utility systems. In FY05, the university reallocated funds from services to cover nearly $2 million in utility increases for which no additional resources were provided. In FY06, all earned non-general funds have been committed to anticipated and budgeted cost increases.

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Bristol Bay Campus - 14.0
Chukchi Campus - 6.0
Interior Campus - 17.3
Kuskokwim Campus - 116.4
Northwest Campus - 16.0
Tanana Valley Campus - 10.4
Juneau Campus - 203.6
Ketchikan Campus - 24.4
Sitka Campus - 16.4
Total -- 2,881.5

Sec. 4(7)(6)

Court System

Change Record Detail With Description

Alaska Court System

Scenario: FY2006 Supplemental Energy - Governor (5037)
Component: Trial Courts (768)
RDU: Alaska Court System (244)
Title: Assistance for Increased Fuel/Electricity Costs
Brief Description:

Decision: None
Category: None
Subcategory: None

New GF Revenue:
New Other Revenue:
Short Title:

	Trans Type	Totals	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants & Benefits	Misc./Debt Service	Positions PFT	PPT	NP
	Suppl	87.1	0.0	0.0	87.1	0.0	0.0	0.0	0.0	0	0	0

1004 Gen Fund 87.1

Due to increased fuel costs, utility rates are projected to significantly increase over FY05 amounts. Efforts to reduce consumption and improve building energy efficiencies have been successful, but do not generate enough savings to offset the soaring costs. The court estimates it will need an additional $87,100 to address increased utility costs. Diverting funds from on-going maintenance activities to cover the cost of increased utilities will cause these critical maintenance activities to be deferred The court already faces the challenge of funding deferred maintenance that accumulated in prior years.

Projected cost increases are as follows:

Golden Valley Electric (Fairbanks): 2-3 cents/KWH effective in January 2006; GVEA may request another increase after first quarter CY06. (an expected $30,000 increase for FY06 based on consumption estimates for the rest of FY06)

Fairbanks steam heat: 18.5% increase for the '05/'06 winter ($13,000 increase).

Enstar Natural gas: 15-25% for winter '05/'06. ($28,700 increase for FY06).

Water and sewer increases vary but are from 12-14.89% ($2,800 increase for FY06)

Municipal Light & Power (Anchorage): 1.6-2% increase effective January 2006. ($8,000 increase for FY06).

Matanuska Electric: another increase effective March 2006 ($4,600 increase for FY06).

	Totals	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants & Benefits	Misc./Debt Service	PFT	PPT	NP
Totals	87.1	0.0	0.0	87.1	0.0	0.0	0.0	0.0	0	0	0

Sec. 4(8)

Change Record Detail With Description

Dept of Commerce,Community,& Economic Development

Scenario: FY2006 Supplemental Energy - Governor (5037)
Component: Alaska Energy Authority Technical Assistance (2601)
RDU: Alaska Energy Authority (453)
Title: Bulk Fuel System Upgrades and Assistance
Brief Description:

Decision: None
Category: None
Subcategory: None

New GF Revenue:
New Other Revenue:
Short Title:

	Trans Type	Totals	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants & Benefits	Misc./Debt Service	Positions PFT	PPT	NP
	Suppl	300.0	0.0	0.0	300.0	0.0	0.0	0.0	0.0	0	0	0
1004 Gen Fund	300.0											

This supplemental request will provide bulk fuel tank farm operator assistance and the assessment and retrofit of small fuel tanks in accordance with the Rural Energy Action Council's recommendations. The tanks include day tanks inside institutional and utility buildings such as schools, powerhouses, and water plants, as well as residential fuel storage tanks. The assessments consist of specific reports for each institutional and utility building and a written summary of tank conditions on a community-wide basis for the residential tanks. As a result of this work, fuel tank leaks will be avoided, health and safety issues will be addressed and regulatory compliance will be improved.

	Totals	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants & Benefits	Misc./Debt Service	PFT	PPT	NP
Totals	300.0	0.0	0.0	300.0	0.0	0.0	0.0	0.0	0	0	0

Sec. 5

State of Alaska
Office of Management & Budget

1-10-2006 3:20 pm

Change Record Detail With Description

Office of the Governor

Scenario: FY2006 Supplemental Energy - Governor (5037)
Component: Executive Office (6)
RDU: Executive Operations (2)
Title: Gas Pipeline
Brief Description:

Decision: None
Category: None
Subcategory: None

New GF Revenue:
New Other Revenue:
Short Title:

	Trans Type	Totals	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants & Benefits	Misc./Debt Service	Positions PFT	PPT	NP
	Suppl	1,000.0	0.0	0.0	1,000.0	0.0	0.0	0.0	0.0	0	0	0
1004 Gen Fund 1,000.0												
Totals		1,000.0	0.0	0.0	1,000.0	0.0	0.0	0.0	0.0	0	0	0

Continue the efforts related to the development of the gas pipeline and bringing North Slope gas to market. Lapse date of June 30, 2007.

Sec. 6(a)

Change Record Detail With Description

Department of Law

Scenario: LAW FY2006 Supplemental Energy-Governor (5153)
Component: Oil, Gas and Mining (2091)
RDU: Civil Division (35)
Title: Gas Pipeline and Other Oil & Gas Projects
Brief Description: FY06 & FY07 Gas Line Negotiations

Decision: None
Category: None
Subcategory: None

New GF Revenue:
New Other Revenue:
Short Title:

	Trans Type	Totals	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants & Benefits	Misc./Debt Service	Positions PFT	PPT	NP
	Suppl	5,400.0	0.0	0.0	5,400.0	0.0	0.0	0.0	0.0	0	0	0
1004 Gen Fund		5,400.0										

FY 2006 Supplemental request of $5,400,000 for work related to the state gas pipeline and to bringing North Slope natural gas to market, and other oil & gas projects, for fiscal years ending June 30, 2006, and June 30, 2007.

Estimated allocation as to fiscal year:
FY06 - $3,900,000
FY07 - $1,500,000

The Department of Law's Oil, Gas & Mining section continues to play a major role in the State's top priority project related to the construction of a gas pipeline and bringing natural gas to market. A number of contracts with outside counsel and experts are underway and will continue to be needed as negotiations continue. Associated activities crucial for the Alaska pipeline project include:

- Review and advise on constituional considerations for financing alternatives
- Work with Department of Revenue on preparing the fiscal interest finding
- Defending the Agreement in court
- Preparing conforming legislation
- Negotiating the provisions of the Limited Liability Company (LLC) which will participate in and own the State's interest
- Negotiating and preparing the agreements associated with operation and construction of the gasline and gas balances

In addition the Department of Law has a two other major projects underway that will continue to require outside counsel and experts beyond the funding included in our base operating budget. We anticipate the Exxon Royalty Reopener will go to trial in either FY 06 or FY 07 and we continue to prepare for a four to five week hearing before the Federal Energy Regulation Committee (FERC) considering (in part) the state's and Anadarko's challenges to the TransAlaska Pipeline Service (TAPS) 2005 FERC tarriff.

	Totals	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants & Benefits	Misc./Debt Service	PFT	PPT	NP
Totals	5,400.0	0.0	0.0	5,400.0	0.0	0.0	0.0	0.0	0	0	0

Sec. 6(b)

Sec. 7

2006 Arctic Winter Games Host Society **FY2006 Request:** **$500,000**
Reference No: **42004**

AP/AL: Appropriation
Category: Development
Location: Kenai Areawide
House District: Kenai Areawide
Estimated Project Dates: 03/01/2006 - 06/30/2006

Project Type: Planning
Recipient: 2006 Arctic Winter Games Host Society
Contact: Michael Black
Contact Phone: (907)269-4578

Brief Summary and Statement of Need:
This funding will provide a grant to the 2006 Arctic Winter Games Host Society to support the Arctic Winter Games scheduled for March 5-12, 2006.

Funding:	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	Total
Gen Fund	$500,000						$500,000
Total:	$500,000	$0	$0	$0	$0	$0	$500,000

☐ State Match Required ☑ One-Time Project ☐ Phased - new ☐ Phased - underway ☐ On-Going
0% = Minimum State Match % Required ☐ Amendment ☐ Mental Health Bill

Operating & Maintenance Costs:

	Amount	Staff
Project Development:	0	0
Ongoing Operating:	0	0
One-Time Startup:	0	
Totals:	0	0

Additional Information / Prior Funding History:

Project Description/Justification:
This supplemental request will provide a grant to the 2006 Arctic Winter Games Host Society to support the Arctic Winter Games scheduled for March 5-12, 2006. 1,900 youth athletes and cultural performers from seven nations will come to the Kenai Peninsula to participate in the 19th Biennial Arctic Winter Games. Nearly 3,000 volunteers and 6,000 to 8,000 spectators will also participate in this statewide event.

The total cost of this event is projected to be $5.3 million. The remaining funding will be provided by federal, state, borough and private sources.

Sec 8

Ketchikan: Shipyard Improvements

FY2006 Request: $9,000,000
Reference No: 41753

AP/AL: Allocation
Project Type: Construction
Category: Transportation
Location: Ketchikan
Contact: John MacKinnon
House District: Ketchikan
Contact Phone: (907)465-6973
Estimated Project Dates: 03/01/2006 - 12/31/2007
Appropriation: Congressional Earmarks

Brief Summary and Statement of Need:

Improvements to the Alaska Ship and Drydock facilities - construction of new 2,500-ton ship lift and land level ship transfer system. This project contributes to the Department's Mission by reducing injuries, fatalities and property damage and by improving the mobility of people and goods.

Funding:	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	Total
Fed Rcpts	$9,000,000	$33,500,000					$42,500,000
Total:	$9,000,000	$33,500,000	$0	$0	$0	$0	$42,500,000

- [x] State Match Required
- [ ] One-Time Project
- [x] Phased - new
- [ ] Phased - underway
- [ ] On-Going

9% = Minimum State Match % Required

- [ ] Amendment
- [ ] Mental Health Bill

Operating & Maintenance Costs:

	Amount	Staff
Project Development:	0	0
Ongoing Operating:	0	0
One-Time Startup:	0	
Totals:	0	0

Additional Information / Prior Funding History:

None. SAFETEA-LU Earmark.

Project Description/Justification:

Dredging, marine civil and site civil work required to install a marine floating dry dock; add a vessel transfer and land level berth; ship production; and administrative office facilities. Utilities relocation to include rights-of-way and possible lot line adjustments.

In August 2005, the shipyard operator signed an agreement with the Office of Naval Research (ONR) to design and construct a $30.0 million, high speed, beachable Expeditionary Craft (E-Craft) that is scheduled for launch in early to mid 2007.

On December 20, 2005, the Alaska Industrial Development and Export Authority (AIDEA), owners of the shipyard, published an invitation for bids to fabricate a new 2,500-ton ship lift. The new ship lift and land level ship transfer system must be in service to launch the E-Craft.

In order to perform the required civil work and other listed improvements to accommodate the second ship lift, AIDEA needs to advertise for construction bids by March 2006. Waiting to obtain legislative authority in the capital budget during the upcoming session means delaying bid advertisement until possibly July 2006. Failure to install and have the floating dry dock in service by August 2007 could result in certain committed costs incurred by the state to be declared non-reimbursable and other federal funds earmarked for improvements to the shipyard to be returned to the U.S. Treasury. Also, failure to present a funding plan and schedule to ONR showing that the new dry dock and land level ship transfer system will be in service in time for the launch could result in withdrawal of the proposed agreement to construct the E-Craft at the Alaska Shipyard.

Power Cost Equalization Funding and Pro Rata Levels

HB 369 and SB 232

	FY 2006 (requested supp)	FY 2006	FY 2005	FY 2004	FY 2003	FY 2002
Appropriation	5,817.9	18,700.0	15,700.0	15,700.0	15,700.0	15,700.0
Required Average Pro Rata Level	99% (estimated)[1]	75% (estimated)[2]	72%	82%	86%	86%
Participating Utilities			86	85	89	90
Residential Customers			26,059	25,747	25,713	25,495
Community Facilities			1,821	1,768	1,776	1,746
Population Served			79,178	78,166	79,229	79,555
Communities Served			183	181	185	187

Funding Source						
PCE Endowment Fund		11,068.0	13,200.0 [3]	7,943.0	12,800.0	7,062.0
General Fund	5,459.9	2,500.0	2,200.0			3,701.8
NPR-A		5,132.0		7,111.0		
Commercial Fishing Loan Fund					2,123.0	
AIDEA Dividend						2,500.0
RDIF sale proceeds						652.2
PCE Rural Electric Capitalization Fund available balance	358.0		300.0	646.0	777.0	1,784.0

[1] $6,379.1 supplemental is needed to pay at 100% (current estimate 1/27/06)

[2] Without the supplemental, FY 2006 AEA pro rated payments at 81% for four months, 78% for four months, and anticipates 66% for the balance of the fiscal year.

[3] The FY 2005 endowment amount includes $2.2 million appropriated in FY 2004

Prepared by Alaska Energy Authority 1/27/06

BULK FUEL BRIDGE PROGRAM NARRATIVE

EXECUTIVE SUMMARY

Rural Alaskan communities are highly dependant on petroleum products for their sustainability. The remote locations for many of Alaska's small communities requires that:

1. electricity be generated through diesel fuel generators;
2. goods and services be transported by barge and plane;
3. heating of homes and community facilities be with diesel and # 2 heating fuel; and,
4. essential subsistence activities depend upon gasoline and diesel fuel.

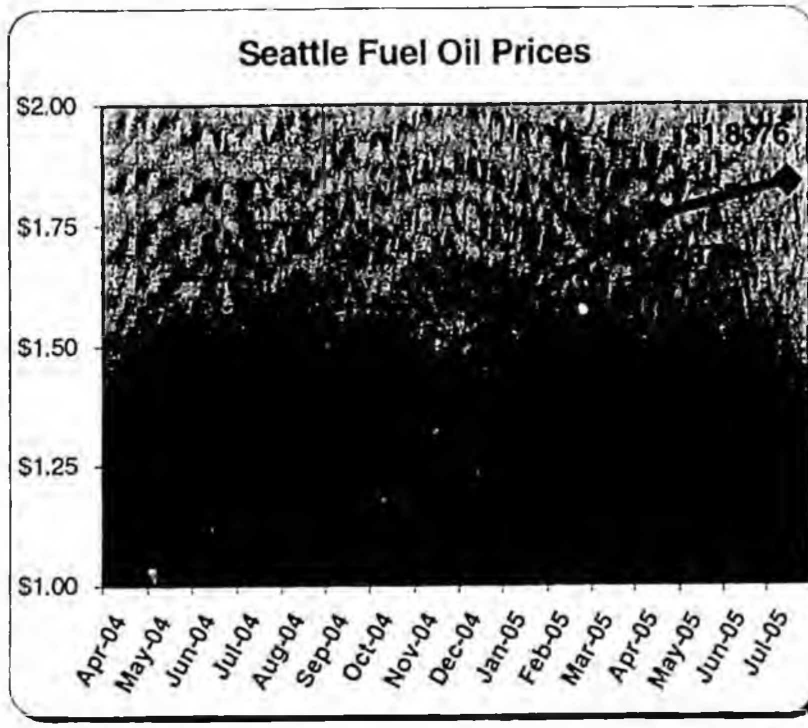
To purchase fuel at any reasonable price, communities depend upon barging winter fuel supplies by the end of summer. Communities failing to obtain funds sufficient to buy the winter supply results in flying fuel to the community in the middle of winter. This would require that they pay an additional surcharge for air transport of fuel. The sustainability of communities would be further diminished as the cash poor households struggle to pay for even higher costs for heating fuel, electricity and community services such as water and sewer service.

The State has recognized the challenges of affordable energy for quite some time. The Power Cost Equalization Program attempts to normalize the costs of electricity. The Alaska Energy Authority operates a Revolving Fuel Loan for rural communities. USDA/RUS has provided important funding to this program in the past. This year the State of Alaska contributed through Small Municipal Energy Assistance Program $6.45 million to cities of less than 2500 population to address these high costs of energy. This helped many communities. However, it has not resolved all the problems.

In 2004, the State of Alaska developed a Bulk Fuel Bridge Program. It was designed to help communities that were unable to purchase fuel for the 2004/2005-winter season, due to major financial problems. The Denali Commission assisted by granting the Division of Community Advocacy $500,000. The State of Alaska has contributed almost $411,000 in either cash or in-kind services to the program. The intent of the program was to assist communities with purchase and delivery of fuel used for heating and electrical generation. These communities could not find other means of funding their fuel purchases and were in danger of starting the winter without adequate supplies to last through the winter. With the last barge deliveries fast approaching, the Division of Community Advocacy, the Denali Commission, and the Governor's office were able to assist twelve communities to get fuel delivered.

We anticipate that this year will prove more challenging for these same communities. The communities that participated last year in the Bulk Fuel Bridge Program were assured access to funds they repaid to the Bridge Program fund. Of the seventeen grants made to these twelve communities, six have been repaid the funds - on or ahead of schedule, four are expected to have completed repayment by the end of August, six are grants made after the barge season and are current and one grant has not be repaid. This success is due to aggressive management of the program, strong support for administrative training in the villages and a desire on the part of the communities to correct the deficiencies in their financial administration. However, because of the rapid increase in fuel prices these repaid funds will be insufficient to secure the same amount of fuel as ordered last year.

The price of petroleum products has skyrocketed over the past 18 months. In the past twelve months alone the price of fuel has increased as much as 48% in Seattle. The majority of the bulk fuel for rural Alaska is shipped from Seattle. This dramatic increase means that the Bulk Fuel Bridge Program will be unable to assist any communities not already in the program and will be able to provide only about 60%-70% of the fuel needs for those communities in the program.



The State is requesting funding from the USDA Rural Utility Services to help our Bulk Fuel Bridge Program cope with these increased costs. The approach used successfully last year of combined State and Federal funding is invited. USDA's participation will make the program even more collaborative and capable of meeting the current needs of the most at risk communities.

We are currently estimating a $350,000 shortfall in funding for our existing clients, assuming they have static demand for fuel. **Amount requested is $350,000.**

Key Contact Information:

Mike Black
Director
Phone: 907-269-4580
Fax: 907-269-4539
E-Mail: Michael_Black@commerce.state.ak.us

Athena J Logan
Special Projects Coordinator
907-269-4580
907-269-4539
Athena_Logan@commerce.state.ak.us

Address: Department of Commerce, Community and Economic Development
Division of Community Advocacy
550 W. 7th Ave. Suite 1770
Anchorage, Alaska 99501

APPLICANT ELIGIBILITY

Alaska became a State is 1959 and has had numerous financial assistance relationships with the Federal Government that are based on our legal authority.

HFIN

FILE

Alaska Retirement Management Board

PRESENTATION TO HOUSE FINANCE COMMITTEE

HB 375

April 24, 2006

Larry Semmens, Chair Report Committee
Gary Bader, Chief Investment Officer

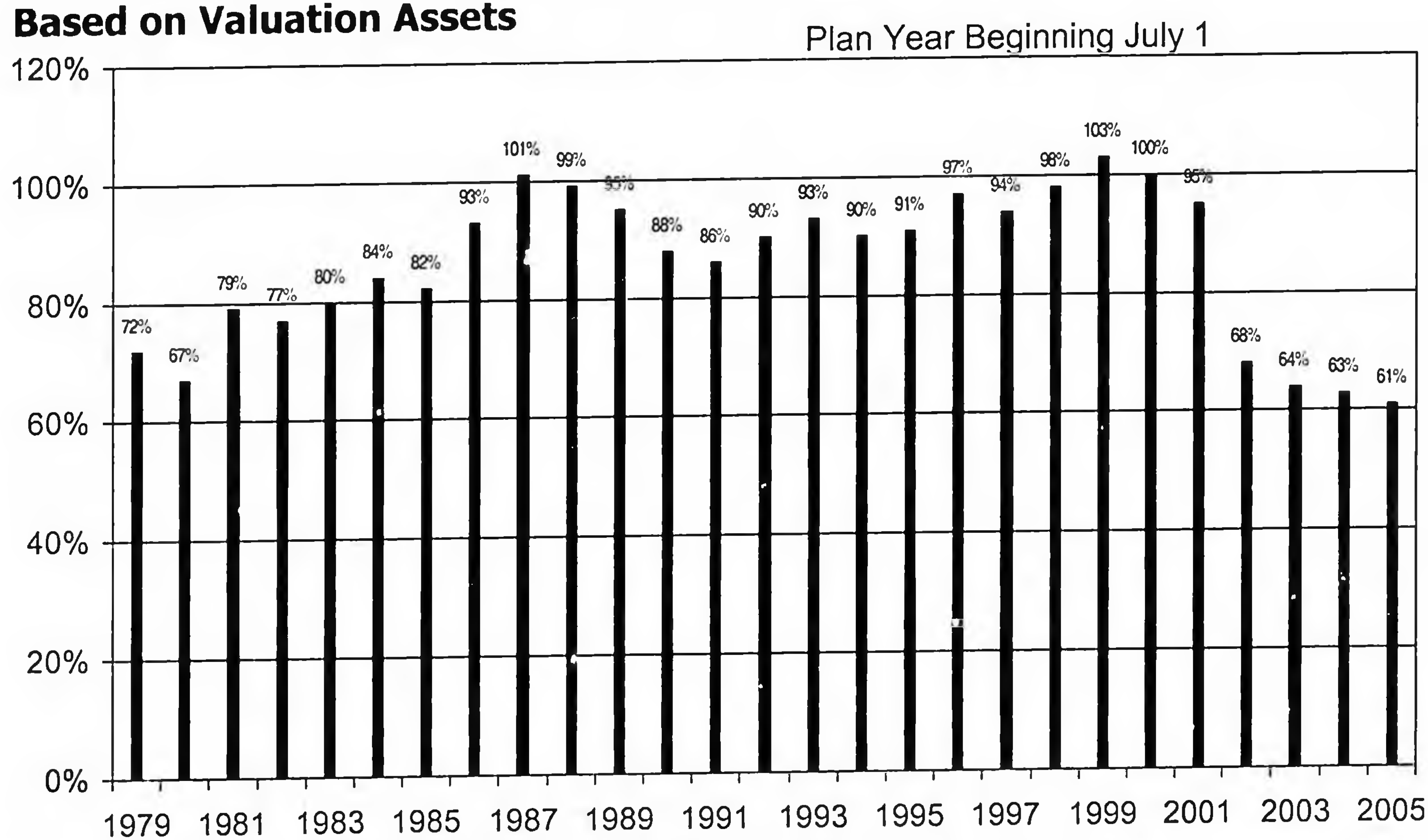
Teachers' Retirement System
Pension and Postemployment Healthcare

Actuarial Contribution Under Projected Unit Credit Method
($ in millions)

Funding	July 1, 2004	July 1, 2005
1. Actuarial Accrued Liability	$ 6,123	$ 6,499
2. Actuarial Value of Assets	3,845	3,959
3. Unfunded Actuarial Accrued Liability	$ 2,278	$ 2,540
4. Funded Ratio	62.8%	60.9%
5. Annual Actuarial Contribution		
– Normal Cost	$ 117	$ 119
– Amortization of Unfunded (25) Years	146	166
– Total Contribution	$ 263	$ 285
– % of Pay	50.46%	50.83%
6. Member Contribution		
– Amount	$ 45	$ 49
– % of Pay	8.68%	8.69%
7. Employer Required Contribution		
– Amount	$ 218	$ 236
– % of Pay	41.78%	42.14%

Source: Buckconsultants, March 23-24 Report to ARMB and House Ways and Means Committee

TRS Funding Ratio History
Pension and Postemployment Healthcare
Based on Valuation Assets



Source: Buckconsultants, March 23-24 Report to ARMB and House Ways and Means Committee

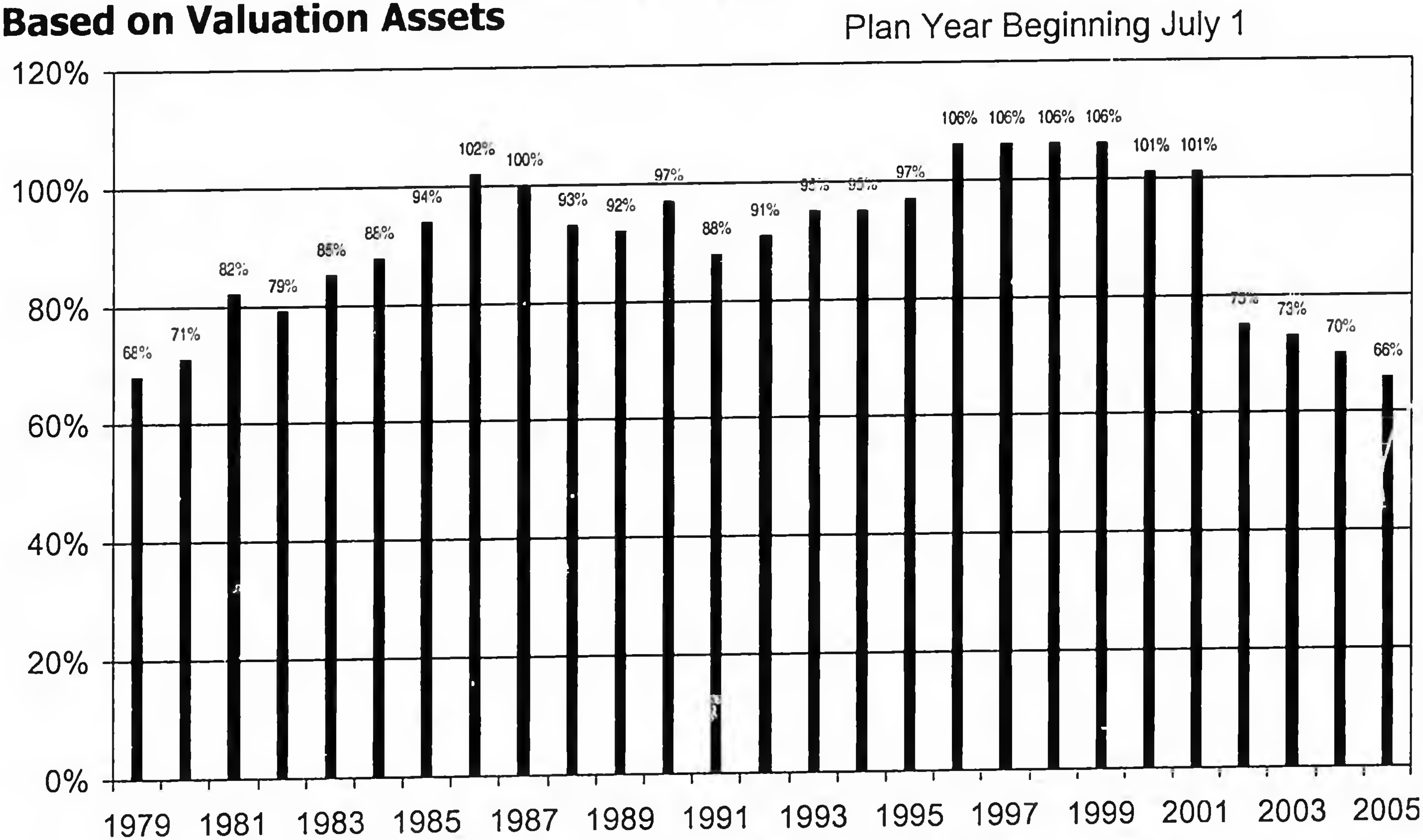
Public Employees' Retirement System
Police/Fire and Others Combined
Pension and Postemployment Healthcare

Actuarial Contribution Under Projected Unit Credit Method
($ in millions)

Funding	July 1, 2004	July 1, 2005
1. Actuarial Accrued Liability	$ 11,444	$ 12,845
2. Actuarial Value of Assets	8,030	8,443
3. Unfunded Actuarial Accrued Liability	$ 3,414	$ 4,402
4. Funded Ratio	70.2%	65.7%
5. Annual Actuarial Contribution		
– Normal Cost	$ 296	$ 338
– Amortization of Unfunded (25) Years	219	285
– Total Contribution	$ 515	$ 623
– % of Pay	35.00%	39.27%
6. Member Contribution		
– Amount	$ 100	$ 109
– % of Pay	6.81%	6.84%
7. Employer Required Contribution		
– Amount	$ 415	$ 514
– % of Pay	28.19%	32.43%

Source: Buckconsultants, March 23-24 Report to ARMB and House Ways and Means Committee

PERS Funding Ratio History
Pension and Postemployment Healthcare
Based on Valuation Assets



Source: Buckconsultants, March 23-24 Report to ARMB and House Ways and Means Committee

Conclusions and Comments

- Increased employer contribution rates required for PERS and TRS

	PERS	TRS
– 2004	28.19%	41.78%
– 2005	32.43%	42.14%
– Change	+4.24%	+0.36%

- Funded ratios declined over last year

	PERS	TRS
– 2004	70.2%	62.8%
– 2005	65.7%	60.9%
– Change	(4.5%)	(1.9%)

Source: Buckconsultants, March 23-24 Report to ARMB and House Ways and Means Committee

Extend Amortization Period

Teachers' Retirement System

Employer Supplemental Contributions, as of June 30, 2005

($ in thousands)

Amortization Period (years)	Employer Contribution Rate	Normal Cost Rate	Average Member Contribution Rate	Past Service Rate	Supplemental Contribution Rate	Supplemental Contributions
25	16%	21.25%	8.69%	29.58%	26.14%	$146,655
30	16%	21.25%	8.69%	26.27%	22.83%	$128,085
35	16%	21.25%	8.69%	24.06%	20.62%	$115,686
40	16%	21.25%	8.69%	22.51%	19.07%	$106,990
25	21%	21.25%	8.69%	29.58%	21.14%	$118,603
30	21%	21.25%	8.69%	26.27%	17.83%	$100,033
35	21%	21.25%	8.69%	24.06%	15.62%	$87,634
40	21%	21.25%	8.69%	22.51%	14.07%	$78,938
25	26%	21.25%	8.69%	29.58%	16.14%	$90,552
30	26%	21.25%	8.69%	26.27%	12.83%	$71,981
35	26%	21.25%	8.69%	24.06%	10.62%	$59,582
40	26%	21.25%	8.69%	22.51%	9.07%	$50,886

Total Salaries: $561,038

Source: Buckconsultants

Extend Amortization Period

Public Employees' Retirement System

Employer Supplemental Contributions, as of June 30, 2005

($ in thousands)

Amortization Period (years)	Employer Contribution Rate	Normal Cost Rate	Average Member Contribution Rate	Past Service Rate	Supplemental Contribution Rate	Supplemental Contributions
25	16%	21.32%	6.84%	17.95%	16.43%	$260,726
30	16%	21.32%	6.84%	15.98%	14.46%	$229,464
35	16%	21.32%	6.84%	14.66%	13.14%	$208,517
40	16%	21.32%	6.84%	13.73%	12.21%	$193,759
25	21%	21.32%	6.84%	17.95%	11.43%	$181,382
30	21%	21.32%	6.84%	15.98%	9.46%	$150,120
35	21%	21.32%	6.84%	14.66%	8.14%	$129,173
40	21%	21.32%	6.84%	13.73%	7.21%	$114,415
25	26%	21.32%	6.84%	17.95%	6.43%	$102,037
30	26%	21.32%	6.84%	15.98%	4.46%	$70,775
35	26%	21.32%	6.84%	14.66%	3.14%	$49,828
40	26%	21.32%	6.84%	13.73%	2.21%	$35,070

Total Salaries: $1,586,891

Source: Buckconsultants

Calculating the Past Service Cost Rate

(1)	Accrued Liability	$ 5,835,609
(2)	Valuation Assets	$ 3,752,285
(3)	Total Unfunded Liability, (1) – (2)	$ 2,083,324
(4)	Expected Unfunded Liability	$ 1,749,948
(5)	(Gain)/Loss, (3) – (4)	$ 333,376
(6)	Amortization Factor (25 years)	16.246963
(7)	(Gain)/Loss Amortization, (5) ÷ (6)	$ 20,519
(8)	Pre-Existing Past Service Cost Amortizations	$ 110,359
(9)	Total Amortization Payments, (7) + (8)	$ 130,878
(10)	Total Salaries	$532,630
(11)	Past Service Rate, (9) ÷ (10)	24.57%

Source: State of Alaska Teachers' Retirement System as of June 30, 2003, Mercer Human Resource Consulting

Allocation for TRS Employers

- Creates a past service liability account.
- Requires an annual appropriation.
- Payments to TRS employers, other than the State and University of Alaska are based on 85% of the past service cost rate 3 years prior.
- Payments are pro-rated if less money appropriated than needed.
- Unexpended funds lapse at the end of the fiscal year.

Allocation for PERS Employers

- Creates a past service liability account.
- Requires an annual appropriation.
- Payments would be made to municipalities, school districts, and REAA employers, other than the State and University of Alaska and would be based on the lesser of:
  - The past service rate and covered payroll of the employer three years earlier less 5%.
  - The average of the past service cost rates of all PERS employers three years earlier times the employer's covered payroll three years earlier.
- Provides a 50% incentive three years later for covered employers to prepay their unfunded liability.
  - Would reward municipalities that are paying full rate in FY 06 on top of the 5% assistance provided by the legislature.
  - Could be used to leverage the sale of pension obligation bonds.
  - Could be used by municipalities with large cash balances to transfer 50% of the liability to the state.
- Payments are pro-rated if less money appropriated than needed.
- Unexpended funds lapse at the end of the fiscal year.

HB 375 Past Service Calculations

Employer	Employer Covered Payroll 3 years Earlier	Employer Past Services Rate 3 years Earlier	Employer Past Service Rate 3 years Earlier less 5%	Average Past Service Rate of All Employers 3 years Earlier	Lower of Actual less 5% or Average	Computation on Rate	Cost to State
A	138,265,234	15.54%	10.54%	14.87%	10.54%	10.54%	14,573,156
B	6,673,054	111.34%	106.34%	14.87%	14.87%	14.87%	992,283
C	6,673,054	19.87%	14.87%	14.87%	14.87%	14.87%	992,283

Solution Goals

- Full Funding within 30 years
- Not cause severe disruption in public service
- State should participate in solution
- Accelerated contributions from employers should be rewarded
- State support should be equitable
- Should minimize supplanting Federal and other non-general fund costs

'IOUSE COMMITTEE REPO "

(11)
Date Referred to Committee: February 21, 2006

FURTHER REFERRALS:

Date of Committee Action: 4|26|06

The FINANCE Committee considered: HB 375

HOUSE BILL NO. 375 RETIREMENT BENEFIT LIABILITY ACCT/PF

"An Act relating to the retirement benefit liability account and appropriations from that account; relating to deposits of certain income earned on money received as a result of State v. Amerada Hess, et al., 1JU-77-847 Civ. (Superior Court, First Judicial District); and providing for an effective date."

Recommends it be replaced with [ ] HCS *or* [✓] CS for HB 375 (FIN)

For Senate Bills with new title: [ ] Technical Title [ ] New Title: HCR_______ [ ] Same Title [ ] New Title

[ ] attach amendments
[ ] add new referral to ____________Committee
[ ] Letter of Intent___________Committee

List of Abbrev for Depts.:
ADM
CED
COR
CRT
EED
DEC
DFG
GOV
HSS
LEG
LAW
LWF
MVA
DNR
DPS
REV
DOT
UA

***NEW* FISCAL NOTES**
*Assigned by Chief Clerk's Office

List by Dept(s):	*FN#	Fiscal	Indet.	Zero
Rev				✓
ADM				✓

***PREVIOUS* FISCAL NOTES**

List by Dept(s):	FN#	Fiscal	Indet.	Zero

Signing with recommendations	Printed Last Name	DP	DNP	NR	AM
[signature]	Hawker				✗
Bruce Weyhrauch	WEYHRAUCH	X			
[signature]	Holm	X			
[signature]	Kelly	X			
[signature]	FOSTER	X			
Carl E. Moses	MOSES			X	
[signature]	Joule				X
Chair:					
Chair: Mike Chenault	Chenault			X	

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number:
Bill Version: CS HB375 (Fin)
() Publish Date: 4/21/2006

Revision Date/Time (Note if correction):
Dept. Affected: Revenue
Title: TRS & PERS past service liability accounts
RDU
Component: Treasury & Alaska Retirement Management Board
Sponsor: Hse Special Committee on Ways and Means
Requester
Component No. 121

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )						

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
Bond Proceeds						
Bond Bank Investment Earnings						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2006) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2007 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*

This bill establishes 2 accounts into which annual appropriations could be made, and amounts would be distributed by the department each year to 2 distinct groups of employers. The department would pay each TRS employer, other than the state and the University, the amount the employer is expected to pay that fiscal year toward its past service liability. However the amount paid to each employer is based upon a formula looking back 3 years. Similarly, municipal and school district PERS employers would be paid for their annual past service liability payment using a different formula. The department would manage the accounts, make distributions and adopt regulations. Account earnings and money not needed for appropriation as provided by the formulae would be deposited in the general fund annually.

Prepared by: Tom Boutin Phone 465-3669
Division Treasury Date/Time 4/25/06 12:00 PM
Tom Boutin Date 4/25/2006
Agency Revenue

(Revised 9/7/2005 OMB)

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number:
Bill Version: CSHB 375 (FIN)
() Publish Date:

Revision Date/Time (Note if correction): 4-25-06/10:00 a.m.
Title: An Act establishing the TRS and PERS past service liability accounts in the Department of Revenue....
Sponsor: House Special Committee on Ways and Means
Requester: House Finance Committee

Dept. Affected: Administration
RDU: Centralized Administrative Services
Component: Retirement and Benefits
Component No. 64

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )						

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1029 PERS Retirement	0.0	0.0	0.0	0.0	0.0	0.0
1034 Teachers Retirement	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2006) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2007 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*

HB 375 establishes two new accounts in the Department of Revenue, the TRS Past Service Cost Liability Account and the PERS Past Service Cost Liability Account. Each of these accounts provides a formula for payments to participating TRS and PERS employers to assist with eliminating the employers' unfunded liabilities, subject to appropriations to the accounts.

This bill has no fiscal impact on the Division of Retirement and Benefits.

Prepared by: Melanie Millhorn, Director
Division: Retirement and Benefits
Phone: 465-4408
Date/Time: 4/25/06 10:00 a.m.

Approved by: Mike Tibbles, Deputy Commissioner
Agency: Department of Administration
Date: 4/25/2006

adopted 4/26

24-LS1467\L

AMENDMENT 2 Weyhrauch

TO: CSHB 375( ), Draft Version L

1. Page 3, line 13 following "and"

2 Delete "the lesser of

(1) the average past service cost rate of all employers in the system during the fiscal year that precedes the distribution fiscal year and under (c) of this section by three fiscal years; or

(2) the employer's pas service cost rate, less 5 percent, during the fiscal year that precedes the distribution fiscal year under (c) of this section by three fiscal years."

1. Page 3, line 13, following "and"

2. Insert "85% of the employer's past service cost rate during the fiscal year that precedes the distribution fiscal year under (c) of this section by three fiscal years."

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

M E M O R A N D U M

April 27, 2006

SUBJECT: Sectional Summary of CSHB 375(FIN), an Act relating to establishment of accounts for elimination of retirement past service cost liability. (Work Order No. 24-LS1467\S)

TO: Representative Bruce Weyhrauch
Attn: Jacqueline Tupuo

FROM: Dan Wayne DCW
Legislative Counsel

You have requested a sectional summary of the above-described bill.

As a preliminary matter, note that a sectional summary of a bill should not be considered an authoritative interpretation of the bill and the bill itself is the best statement of its contents. If you would like an interpretation of the bill as it may apply to a particular set of circumstances, please advise.

Section 1.

Teachers' Retirement System of Alaska (TRS).

Sec. 37.10.200(a) establishes in the Department of Revenue the teachers' retirement system (TRS) past service cost liability account consisting of appropriations made by the legislature, provides for management of the account according to the requirements of AS 37.10.071, and provides for development and adoption of any necessary regulations.[1]

Sec. 37.10.200(b) provides for reversion to the general fund at the end of each year the annual income from account investments plus the unspent portion of money appropriated for the year.

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[1] AS 37.10.071 is a statute prescribing how investments shall be made by the fiduciary of a state account or a fiduciary's designee; how the account's fiduciary shall exercise investment, custodial, or depository powers or duties; potential liability of the account's fiduciary; and the state's indemnification, in certain circumstances, of the account's fiduciary. In the draft bill the fiduciary means the commissioner of revenue and, if there is one, the commissioner's designee.

Sec. 37.10.200(c) provides for payment from the account each year, to each TRS employer other than the State of Alaska, the sum the employer is expected to pay the State of Alaska that year toward eliminating the employer's portion of the TRS past service cost liability.

Sec. 37.10.200(d) describes the calculation used to determine the annual amount that shall be paid by the account to a TRS employer. The calculation differs than the one used in the corresponding subsection of the bill's PERS liability repayment account.

Sec. 37.10.200(e) says that if money in the account that is available for the required payments to TRS employers is not sufficient to pay every employer the amount calculated under the preceding subsection (d), then the payment to each employer is decreased by a pro rata share.

Sec. 37.10.200(f) requires that any overpayment received from the account by a TRS employer be immediately returned by the TRS employer to the account.

Public Employees' Retirement System of Alaska (PERS).

Sec. 37.10.202(a) establishes in the Department of Revenue the public employees' retirement system (PERS) past service cost liability account consisting of appropriations made by the legislature, and provides for management of the account according to the requirements of AS 37.10.071, and development and adoption of any necessary regulations.

Sec. 37.10.202(b) provides for reversion to the general fund at the end of each year the annual income from account investments plus the unspent portion of money appropriated for the year.

Sec. 37.10.202(c) provides for payment from the account each year, to each PERS employer other than the State of Alaska, the sum the employer is expected to pay the State of Alaska that year toward eliminating the employer's portion of the PERS past service cost liability.

Sec. 37.10.202(d) describes the calculation used to determine the annual amount that shall be paid by the account to a PERS employer. The calculation differs from the one used in the corresponding subsection of the bill's TRS liability repayment account.

Sec. 37.10.202(e) creates a future incentive for PERS employers to pay off their share of PERS past service cost liability more quickly, by rewarding an employer that pays, or has in the past paid, more for a fiscal year than the amount required of the employer for PERS past service cost liability payment in that year. It also rewards PERS employers that have already, in certain years pre-dating the effective date of the bill, paid more than the amount they were required to pay.[2]

Sec. 37.10.202(f) says that if the money in the account available for the required payments to PERS employers is not sufficient to pay every employer the amount calculated in subsection (d), then the payment to each employer is decreased by a pro rata share.

Sec. 37.10.202(g) requires that any overpayment received from the account by a PERS employer be immediately returned by the PERS employer to the account.

Sec. 37.10.204. Definitions. This section defines the terms "average past service cost rate" and "past service cost rate" as they are used in all sections of the bill.

<u>Section 2</u> provides for a July 1, 2006, effective date.

DCW:med
06-343.med

Enclosure

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[2] There is no similar provision in the TRS account created in this bill.

THE
FOLLOWING
DOCUMENT(S)
ARE
POOR
ORIGINAL
COPIES

adopted 4/24

24-LS1467\L
Wayne
4/21/06

CS FOR HOUSE BILL NO. 375( )

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FOURTH LEGISLATURE - SECOND SESSION

BY

Offered:
Referred:

Sponsor(s): HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

A BILL

FOR AN ACT ENTITLED

"An Act establishing the teachers' retirement system past service cost liability account in the Department of Revenue; establishing the public employees' retirement system past service cost liability account in the Department of Revenue; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* **Section 1.** AS 37.10 is amended by adding new sections to read:

Article 4A. Teachers' and Public Employees' Retirement System Past Service Cost Liability Accounts.

Sec. 37.10.200. Teachers' retirement system past service cost liability account. (a) There is established in the Department of Revenue the teachers' retirement system past service cost liability account, consisting of appropriations to the account. The commissioner of revenue shall develop and adopt regulations necessary to accomplish the requirements of this section and shall manage the account according to the requirements of AS 37.10.071.

(b) At the end of each fiscal year, after all distributions under (c) of this section are completed, money appropriated for use in that fiscal year reverts to the general fund and all income earned on the money shall be paid to the general fund.

(c) During each fiscal year, the commissioner of revenue shall distribute from the account established in (a) of this section, to each employer other than the state that is a member of the Teachers' Retirement System of Alaska, a payment in the amount the commissioner of revenue anticipates the employer will pay to the state for that fiscal year toward eliminating the employer's past service cost liability to the Teachers' Retirement System of Alaska.

(d) A payment to an employer under (c) of this section must be based on 85 percent of the payroll on which employer contributions to the Teachers' Retirement System of Alaska were required and that the employer reported to the Department of Administration for the fiscal year preceding by three fiscal years the fiscal year for which a distribution is made under this section, and the past service cost rate of the system for the fiscal year preceding by three fiscal years the fiscal year for which a distribution is made under this section.

(e) For any fiscal year that the money available for distribution from the account is insufficient to pay every eligible employer the amount due under this section, the amount distributed in that fiscal year to every eligible employer shall be decreased pro rata.

(f) An employer who receives an overpayment in excess of a distribution authorized by this section or in excess of the employer's past service cost liability shall immediately return the overpayment to the commissioner of revenue, who shall cause it to be returned to the account.

Sec. 37.10.202. Public employees' retirement system past service cost liability account. (a) There is established in the Department of Revenue the public employees' retirement system past service cost liability account, consisting of appropriations to the account. The commissioner of revenue shall develop and adopt regulations necessary to accomplish the requirements of this section and shall manage the account according to the requirements of AS 37.10.071.

(b) At the end of each fiscal year, after all distributions under (c) and (d) of this section are completed, money appropriated for use in that fiscal year reverts to the general fund and all income earned on the money shall be paid to the general fund.

(c) During each fiscal year, the commissioner of revenue shall distribute from the account established in (a) of this section, to each municipal employer or school district employer member of the Public Employees' Retirement System of Alaska, a payment in the amount the commissioner of revenue anticipates the employer will pay to the state for that fiscal year toward eliminating the employer's past service cost liability to the Public Employees' Retirement System of Alaska.

(d) A payment to an employer under (c) of this section must be based on the payroll on which employer contributions to the Public Employees' Retirement System of Alaska were required and that the employer reported to the Department of Administration for the fiscal year preceding by three fiscal years the fiscal year for which a distribution is made under (c) of this section and the lesser of

(1) the average past service cost rate of all employers in the system during the fiscal year that precedes the distribution fiscal year under (c) of this section by three fiscal years; or

(2) the employer's past service cost rate, less 5 percent, during the fiscal year that precedes the distribution fiscal year under (c) of this section by three fiscal years.

(e) In addition to the distribution under (c) of this section, an employer that paid to the Public Employees' Retirement System of Alaska in excess of the amount the employer was required to pay for the fiscal year preceding by three fiscal years the fiscal year that a distribution is made under this section shall receive, in unrestricted funds, an incentive distribution from the account in an amount equal to 50 percent of the excess.

(f) For any fiscal year that the money available for distribution from the account is insufficient to pay every eligible employer the amount due under this section, the amount distributed in that fiscal year to every eligible employer shall be decreased pro rata.

(g) An employer who receives an overpayment in excess of a distribution or incentive distribution authorized by this section shall immediately return the overpayment to the commissioner of revenue, who shall cause it to be returned to the account.

Sec. 37.10.204. Definitions. In AS 37.10.200 - AS 37.10.204,

(1) "average past service cost rate" means the average of the past service cost rate of all employers as reported by the state's actuary for the fiscal year preceding by three fiscal years the fiscal year for which a distribution is made under AS 37.10.200 or AS 37.10.202;

(2) "past service cost rate" means the annual payment required to eliminate an employer's unfunded liability over the amortization period, divided by the payroll for which employer contributions are required and that is reported by the employer to the Department of Administration for the fiscal year preceding by three fiscal years the fiscal year that a distribution is made under AS 37.10.200 or AS 37.10.202.

* **Sec. 2.** This Act takes effect July 1, 2006.

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number: 2
Bill Version: CSHB 375(W&M)
(H) Publish Date: 2/8/06

Revision Date/Time (Note if correction):
Title: An Act relating to establishment of a retirement benefit liability acct; relating to Amerada Hess income
Sponsor: House Ways and Means
Requester:

Dept. Affected: Revenue
RDU: Taxation and Treasury
Component: Treasury Division
Component No.

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services						
Travel						
Contractual	0.0	0.0	0.0	0.0	0.0	0.0
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )						

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Estimate of any current year (FY2006) cost: 0.0
Mark this box (X) if funding for this bill is included in the Governor's FY 2007 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*

HB374 creates a new account in the Department of Revenue, Treasury Division, called the retirement benefit liability account. Subject to appropriation, it also directs one half of the income of the Amerada Hess earnings to this new account. APFC estimates the annual earnings at $27.6 million dollars: 50% of the earnings would be $13.8 million.

This fiscal note assumes the funds would stay in the retirement benefit liability account for one quarter and would be transferred to each political subdivision, including regional education attendance areas, participating in teachers' retirement system or public employees retirement system. The total amount available for transfer in FY2007 and in subsequent years would be $13,912,125. In order to avoid administrative costs of processing the transfers, the Department of Revenue would work with

Prepared by: Susan M. Taylor, Comptroller — Phone 907-465-2352
Division: Treasury — Date/Time 1/19/2006, 4:00 pm
Approved by: Tom Boutin, Deputy Commissioner — Date 1/19/2006
Agency: Department of Revenue

(Revised 9/7/2005 OMB)

FISCAL NOTE #2

STATE OF ALASKA
2006 LEGISLATIVE SESSION

BILL NO. CSHB 375(W&M)

ANALYSIS CONTINUATION

the Department of Education and Early Development and Department of Commerce, Community and Economic Development for efficiencies in transferring the funds to the pension system participants according to their normal schedule of payments to political subdivisions, including regional educational attendance areas, participating in the pension systems.

withdrew 4/24

24-LS1467\L.1
Wayne
4/24/06

AMENDMENT 1

OFFERED IN THE HOUSE BY REPRESENTATIVE WEYHRAUCH

TO: CSHB 375( ), Draft Version "L"

Page 3, line 25, following "excess":

Insert "or $3,300,000, whichever is less."

ALASKA STATE LEGISLATURE

REPRESENTATIVE BRUCE WEYHRAUCH

ALASKA
STATE CAPITOL
JUNEAU, ALASKA
99801-1182

(907) 465-3744
FAX (907) 465-2273

Sponsor Statement for House Bill 375

Alaska needs to solve the problem of a projected long-range, multibillion-dollar shortfall in the state-administered retirement funds. The shortfall is estimated at $6.9 billion to pay benefits to former and current employees already enrolled in Tier 1 through Tier 3. As with any debt, there's no time better than the present to set up a payment plan and start whittling down the amount owed.

House Bill 375 establishes the Public Employees' Retirement System Past Service Retirement Liability Account and the Teachers' Retirement System Past Service Retirement Liability Account in the Department of Revenue. This legislation provides for a method to calculate a specific annual amount to be included in the Governor's budget. HB375 also provides incentives for employers to pay down their unfunded liability. This bill anticipates that the ARMB would set the employer contribution rate at the actuarially required rate, a funding plan patterned after the school debt reimbursement program. Appropriations would begin in FY2008 and then be ongoing for PERS and TRS employers.

House Bill 375 sets up a plan for the state, cities, boroughs and school districts to share the cost of making the retirement funds whole and provides some longer-term certainty as they plan their budgets.

ALASKA STATE LEGISLATURE

REPRESENTATIVE BRUCE WEYHRAUCH

ALASKA
STATE CAPITOL
JUNEAU, ALASKA
99801-1182

(907) 465-3744
FAX (907) 465-2273

Sponsor Statement
HB 375

"An Act relating to the retirement benefit liability account and appropriations from that account; and providing for an effective date."

HB 375 establishes the Retirement Benefit Liability Account in the Department of Revenue.

Money in the Retirement Benefit Liability Account may be used for payment of the employer contributions to past service liabilities of the public employees' retirement system and teachers' retirement system for state and political subdivisions of the state, including regional educations attendance areas. Income that is earned on the money in the account will be appropriated back into the account.

ALASKA RETIREMENT MANAGEMENT BOARD

FINAL
REPORT TO LEGISLATURE

April 14, 2006

Table of Contents

I. Introduction

As required by Senate Bill 141, the Alaska Retirement Management Board submitted its Report to the Legislature on January 20, 2006. At that time, the board provided the legislature with preliminary assessments, but noted that without updated actuarial data, it did not have information on which to base long-term recommendations. The board received a draft valuation report from the state actuary at its March meeting, and now offers this report transmitting the board's updated assessments and short and long term recommendations.

Senate Bill 141 charged the board with responsibility to report its findings and recommendations on the following five items:

1. the board's preliminary assessment of the financial health of all public employees' retirement plans and all teachers' retirement plans;

2. an assessment of the actuarial services purchased by the board;

3. recommendations for additional legislative or administrative policy to improve the financial health of the retirement plans;

4. short-term and long-term recommendations for addressing the unfunded liability of the retirement plans; and

5. recommendations for legislative procedures regarding fiscal notes for new legislation affecting the retirement plans.

The board's goal is to identify cost saving and funding strategies to fully fund the retirement obligations to our public employees with a minimal impact on the services to the residents of Alaska. This report contains the assessments and recommendations to achieve that goal. Sections I, II, and III update the information and analysis provided on January 20^{th}, and a new Section IV outlining the board's recommended legislative action completes this report.

II. Report

A. Senate Bill 141 Report Requirements

1. Preliminary Assessment of the financial health of all public employees' retirement plans and all teachers' retirement plans

The system's actuary (Buck Consultants) presented a report to the board at its March meeting that reviewed the previous actuary's 2004 actuarial valuation and provided the 2005 actuarial valuation results for the public employees' retirement system and the teachers' retirement system. The funding ratios and unfunded liabilities of each system are as follows:

(a) Public Employees Retirement System (PERS) as of June 30, 2005. The PERS defined benefit plan funding ratio (valuation assets to liabilities) declined to 65.7% from 70.2%, and the plan's unfunded liability increased from $3.4 to $4.4 billion.

The average actuarially determined contribution rate for the PERS defined benefit plan was 32.43%, up from 28.19%. Valuation data is used to set contribution rates in the future. Therefore, June 30, 2005 valuation data is used to set contribution rates for fiscal year 2008. The board will set the FY08 contribution rate at its September meeting. In October, the board set the fiscal year 2007 contribution rate at 21.77%, a 5 point increase in the rate for the prior fiscal year. This was communicated to employers prior to the formation of the board. The five point increase followed a previously adopted regulation to limit increases in the contribution rate from year to year to five percentage points.

(b) Teachers' Retirement System (TRS) as of June 30, 2005. The TRS defined benefit plan funding ratio declined to 60.9% from 62.8% and the plan's unfunded liability increased from $2.3 billion to $2.5 billion.

The actuarially determined contribution rate for the TRS defined benefit plan was 42.14%, up from 41.78%. Valuation data is used to set contribution rates in the future. Therefore, June 30, 2005 valuation data is used to set contribution rates for fiscal year 2008. The board will set the FY08 contribution rate at its September meeting. In October, the board set the fiscal year 2007 contribution rate at 26.00%, a 5 point increase in the rate for the prior fiscal year, as communicated to employers prior to the formation of the board.

(c) Judicial Retirement System (JRS) as of June 30, 2004. The JRS defined benefit plan funding ratio was 88.01% and the plan had an unfunded liability of $9.6 million. This system was not updated in the 2005 Valuation Report from the actuary.

The actuarially determined contribution rate for the JRS defined benefit plan was 37.37%. Valuation data is used to set contribution rates in the future. Therefore, June 30, 2004 valuation data is used to set contribution rates for fiscal years 2007 and 2008 (valuations are done every other year for this plan). The Commissioner of Administration set the fiscal years 2007 and 2008 contribution rates at 37.37%.

(d) National Guard and Naval Militia System (NGNMRS) as of June 30, 2004. The NGNMRS defined benefit plan funding ratio was 67.8% and the plan had an unfunded liability of $6.4 million. This system was not updated in the 2005 Valuation Report from the actuary.

The actuarially determined contribution amount for the NGNMRS defined benefit plan was $1,737,406. Valuation data is used to set contribution amounts for future years. Therefore, June 30, 2004 valuation data is used to set contribution amounts for fiscal years 2007 and 2008 (valuations are done every other year for this plan). The board set the fiscal years 2007 and 2008 contribution amount at $1,737,406 for each year.

2. *Assessment of the actuarial services purchased by the board*

In November 2005 the division, on behalf of the board, procured the services of Buck Consultants as the actuary for the State of Alaska Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), Judicial Retirement System (JRS) and the National Guard and Naval Militia Retirement System (NGNMRS). Buck replaces Mercer Human Resource Consulting, which had been the division's actuarial consultant for over 25 years.

Buck Consultants initially replicated the 2004 valuation prepared by Mercer in order to validate the assumptions used in preparing the 2004 Actuarial Report. The replication shows that Buck's results matched the Mercer results closely for TRS, but that Mercer understated the healthcare benefits in the PERS valuation. Other differences in both systems were a "wash." The employer contribution rate for TRS would have essentially been the same, but the PERS employer contribution rate would have been 30.37% instead of 28.19%.

Buck Consultants will next conduct an experience analysis - a periodic study of assumptions in relation to past and expected future experience - to determine whether the assumptions continue to be valid or if changes should be made. The study will cover fiscal years 2002 to 2005. This study will be presented to the board at its September meeting. Assumption changes approved by the board will be incorporated into the next valuation (June 30, 2006).

Senate Bill 141 required the board to procure a second actuary to annually review health cost assumptions prepared by the state's actuary and, not less than every four years, review plan assumptions prepared by the state's actuary. The board has contracted with Gabriel Roeder Smith & Company (GRS) to review and certify the assumptions used by the state actuary. GRS is currently reviewing the assumptions underpinning the 2005 Actuarial Valuation prepared by Buck Consultants, and will also review the assumptions in the experience analysis when available in June.

Through this process, the board is confident that the statutory requirements for actuarial services are met and the best practices are established in carrying out the board's fiduciary obligations for the state's retirement systems.

3. *Recommendations for additional legislative or administrative policy to improve the financial health of the retirement plans*

The board reiterates and updates the two recommendations presented in the previous report as follows:

(a) No enhancements to benefits to the PERS or TRS defined benefit plans for at least two years. Previously, the board recommended a one-year moratorium on benefit enhancements until it received updated actuarial information. Given that the funding ratio for the systems has declined further, and the long-term recommendations in this report, if enacted, will take some time to impact the unfunded liability, this moratorium should be extended. An exception to this recommendation would be if there was convincing evidence that passage of proposed legislation will result in an improvement in the financial condition of the fund.

(b) Index the beneficiary health deductible in the new defined contribution plan to increase commensurate to increases in the cost of living. Health care costs represent a substantial component in the under funding of the defined benefit plans. Even though beneficiaries will be responsible for a larger proportion of their health care cost under the new plan, health costs will continue to be a significant cost item in the new plan. Given that the Alaska Constitution provides that retirement benefits cannot be diminished, it is important that the benefit that is available to a member at retirement is the same as what was intended when the member was hired. The board recommends that the administrator issue a health plan booklet for the new plans that indexes all relevant stipulated dollar amounts to the Anchorage CPI. The Division of Retirement & Benefits is working closely with the health plan consultant at Buck Consultants to accomplish this objective.

4. *Short-term and long-term recommendations for addressing the unfunded liability of the retirement plans*

The board deferred long term recommendations until updated actuarial assumptions were completed. The board heard a preliminary report from the state actuary in March, but the additional experience analysis report and certification by the second actuary will not be presented until the fall. The board will not receive detailed actuarial data for each employer until June, but believes that it is in the best interest of the retirement systems to address the under funding of the systems with a short-term recommendation for the FY07 budget process, and a long term plan formulated to be in place for the FY08 budget cycle. These recommendations are set forth in Section IV of this report. The board reiterates its support for the following short-term and long-term recommendations presented in its previous report:

(a) Short-Term Recommendations:

(1) Create new health plan for new hires after June 30, 2006. It is the board's recommendation that the Division of Retirement & Benefits work closely with Buck Consultants and its health specialists to create a new retiree health plan for new hires with benefits comparable to what retirees have today, but with benefits indexed appropriately to ensure that dollar defined coverage does not become too expensive for beneficiaries to sustain and that the plan liabilities do not increase at an unsustainable rate. While this will not impact the unfunded liability of the prior defined benefit plans, this is intended to avoid a future unfunded liability in the new defined contribution plan.

(2) Implement a preferred provider program in communities where possible. Preferred provider programs save money for the beneficiary and for the plan. It is the understanding of the board that the state active employee and retiree health plan have a preferred provider program, which is compulsory for active employees and voluntary for retirees. While the absence of multiple providers in many of our communities will limit widespread implementation, the board believes preferred provider programs should be implemented to the extent possible.

(3) Continue to aggressively promote the use of generic drugs. It is the understanding of the board that the administrator, prior boards, retiree groups and health plan administrators have promoted the use of generic drugs and that the program has been successful. Estimates are that for every one percent of generic drug use, the plan saves $1 million. Given that medical cost represents a large component of the unfunded liability and that the use of prescription drugs is increasing, it is the view of the board that the administrator and the board explore additional ways to promote the use of generic drugs.

(4) Implement other cost containment initiatives. The board has established a number of committees to investigate how to make the retirement plans operate more efficiently. Among the items the committees are likely to consider are: hospital and doctor preferred provider organizations, enhanced member outreach, paying for hospice care reimbursement, substitution of over the counter drugs for prescription drugs, formulary programs, education of members, education of physicians, and negotiated drug prices. Because the committees are just beginning their work, the board will endeavor to implement other cost containment initiatives as they become known.

(5) Establish procedures for the periodic review of the eligibility of retiree dependents.

The Division of Retirement and Benefits completed the first eligibility verification project for all retirees covered under the AlaskaCare Plan. Dependents include spouses and children up to age 23 if they are enrolled full-time at an accredited educational or technical institution. Retirees provided documentation that supports dependent eligibility. The estimated savings is approximately $16 million annually.

The retiree health plan is a qualified plan in accordance with Section 401 (h) of the tax code. Medical benefits for retirees, spouses and dependents as defined by the Internal Revenue Code, are tax-free. Eligibility audits are conducted on health plans for two reasons: (1) ensure compliance with federal tax laws and (2) to reduce claims costs to the health plan. The board encourages the division to maintain plan compliance with the Internal Revenue Code through eligibility verification audits and in order to manage health care costs by establishing a review process to be conducted at regular intervals in the future.

(b) *Long-Term Recommendations:*

(1) Consider extending the pay-off period for the liabilities. Currently the calculations for employer contribution rates are based on a payment schedule of 25 years. A shorter payoff of the liability is desirable, but not mandatory. Given that projections indicate employer contribution rates as high as 50% of payroll, it may be in the best interest of the citizens of Alaska to assure that funds are available to meet the obligations to public employees, but also to pay for them at a sustainable level. A longer payback period may reduce the employer rate such that impacts on services are minimized. The board has requested the actuary to provide actuarial calculations of various amortization schedules.

(2) Request contributions to systems. Buck Consultants has reported to the board that the combined unfunded liability of the PERS and TRS has grown to $6.9 billion. Since the state is expected to have a large budget surplus this year, the board recommends that the legislature make substantial contributions to the systems in order to increase the funded status and dampen the impact increased contribution rates will have on employers across the state in FY2007 and into the future. The board also recommends the legislature pass legislation that will promote annual budgeting of funds to address the past service liability.

(3) Adopt a funding strategy that will set a limit on the rate of employer contributions. This strategy will be linked to the first two strategies. It is recommended that full funding be provided annually. This recommendation is intended to be applied in combination with the strategy to extend the payoff period similar to a home mortgage. The board intends to explore combinations of employer contribution rates and payoff periods.

(4) Additional Actuarial Data. The board received the preliminary 2005 valuation data at its March meeting, and is expecting an additional report on the experience analysis that the consultant is currently undertaking. Evaluation of the assumptions and any recommendations for changes in assumptions will be reviewed by the board at its September meeting.

(5) Pension Obligation Bonds. The board received information on pension obligation bonds as a potential tool to assist employers in reducing exposure to unfunded accrued actuarial liabilities. The board will continue to assess the fiscal, practical and legal issues regarding issuance of such bonds by or for the benefit of public employers.

5. Recommendations for legislative procedures regarding fiscal notes for new legislation affecting the retirement plans

Alaska statutes provide guidance for preparation of fiscal notes for bills and resolutions introduced in the legislature. AS 24.08.035 relates to all bills and resolutions introduced in the legislature and has applicability to retirement legislation. AS 24.08.036 relates specifically to bills affecting the state retirement systems.

> AS 24.08.036. *Fiscal notes on bills affecting state retirement systems.* Before a bill which would have an effect on the retirement systems of the state is reported to the rules committee, there shall be attached to the bill an analysis of the long-term and short-term costs to the state if the bill is adopted, as well as the impact of the bill on the actuarial soundness of the fund. The analysis is in addition to the fiscal note requirements of AS 24.08.035.

In many cases, the Division of Retirement and Benefits must use the division's actuary in order to provide fiscal notes on bills that would affect the retirement systems. The division's actuary requires time and resources in order to prepare a fiscal analysis on various bills. In order to comply with AS 24.08.036 and the time lines found in AS 24.08.035, the board recommends that bills affecting the retirement system be submitted as early in the legislative session as possible. This will allow the actuary the necessary time to prepare a comprehensive analysis, the Alaska Retirement Management Board the opportunity to review and make recommendations on proposals, the municipalities time to review the impact of proposals and the legislature more time to hold public hearings.

In addition, the board recommends that fiscal note legislation include the following:

a) if a bill provides for enhanced benefits, cost estimates should include a high and low case scenario based upon the percentage of members electing to take advantage of the enhanced benefits;

b) the dollar amount of the unfunded liability increase or decrease if the proposal was enacted, as well as the percent change in employer and/or employee contributions;

c) identification of revenue sources to cover ongoing costs to the system;

d) information on unfunded liability, and that any excess accrued liability over the assets of the plan constitutes annual payments for 25 years in order to amortize the unfunded liability;

e) certification that the costs and revenues have been developed in accordance with generally accepted actuarial principles; and

f) any fiscal impact to individual employers.

B. Other Senate Bill 141 Requirements

1. Defined Contribution Plan

The defined contribution plan becomes mandatory to all new entrants as of July 1, 2006. It is a plan in which employer and employee contributions are accumulated in individual accounts and invested by the members for the exclusive benefit of the members. Contribution provisions are established by State law and may be amended only by the State Legislature. The plan also includes some defined benefit features, such as occupational death and disability benefits. It also includes provisions for a retiree medical program and individual health reimbursement arrangement (HRA) accounts.

The Alaska Retirement Management Board is the fiduciary for the defined contribution plan and is responsible for selecting investment options and investment managers. The investment options for the defined contribution plan were selected to provide broad exposure to the risk/return spectrum and to allow for diversification across several asset classes. Generally, higher potential return investments have a higher degree of risk as measured by volatility of returns.

The investment managers went through a rigorous hiring process and are high quality firms with significant institutional business. All firms are either investment advisors registered with the Securities and Exchange Commission or bank/trust companies. All investment options and managers will be monitored on an ongoing basis by the board, investment staff, and consultants.

The following table provides information with respect to the investment options for the defined contribution plan and is arranged from highest potential risk and return to lowest.

Higher Risk / Higher Return

INVESTMENT OPTION	OBJECTIVE	1 INVESTMENT TYPE 2 MANAGEMENT STYLE 3 MANAGER
Brandes Institutional International Equity Fund	To provide long-term capital appreciation. The Fund invests principally in common and preferred stocks of foreign companies and securities that are convertible into such common stocks.	1 International Stocks 2 Actively managed 3 Brandes Investment Partners, L.P.
T. Rowe Price Small-Cap Stock Trust	To achieve long-term capital growth by investing primarily in stocks of companies in the Russell 2000 Index, a widely used benchmark for small-cap stock performance.	1 Smaller company common stocks 2 Actively managed 3 T. Rowe Price Associates, Inc.
Citizens Core Growth Fund	To achieve long-term capital appreciation while investing in companies that are managed in a socially responsible manner.	1 The fund invests in the companies that make up the Citizens Index, a proprietary index designed to serve as a benchmark for socially responsible investing. The Citizens Index TM consists of approximately 300 primarily large-cap companies. 2 Actively managed 3 Citizens Advisers
S&P 500 Stock Index Fund	To provide income and capital appreciation matching the total return of the Standard & Poor's 500 Composite Stock Price Index.	1 All 500 of the equity securities in the S&P 500 Index, in proportion to the size of each as measured by its total market value. 2 Passively managed 3 State Street Global Advisors
Alaska Target 2025	To provide a diversified mix of stocks, bonds, and cash for long-term investors with a higher tolerance for risk. The fund is designed to gradually invest more conservatively, with an emphasis on capital preservation, as the year 2025 approaches.	1 Large- & Small-Cap stocks, international stocks, government & corporate bonds, mortgages, and money market instruments. 2 Combination of Enhanced Index (Passive), Structured-Active, and Actively Managed Portfolios. 3 T. Rowe Price Associates, Inc.
Global Balanced Fund	To achieve balanced long-term growth of capital, current income, and conservation of principal through investments in stocks and fixed-income securities.	1 Stocks of large and small companies and corporate & government bonds based around the world 2 Actively managed 3 Capital Guardian Trust Company
Alaska Long-Term Balanced Fund	To provide a balanced and diversified mix of stocks, bonds, federally guaranteed mortgages, and money market instruments for investors with an average risk tolerance.	1 Stocks of large & small U.S. & established international companies, investment-grade U.S. bonds, federally guaranteed mortgages, and money market instruments 2 Combination of Enhanced Index (Passive), Structured-Active, and Actively Managed Portfolios 3 T. Rowe Price Associates, Inc.
Alaska Balanced Fund	To provide a balanced and diversified mix of stocks, bonds, federally guaranteed mortgages, and money market instruments for investors with a low to average risk tolerance.	1 Stocks of large & small U.S. & established international companies, investment-grade U.S. bonds, federally guaranteed mortgages, and money market instruments 2 Combination of Enhanced Index (Passive), Structured-Active, and Actively Managed Portfolios 3 T. Rowe Price Associates, Inc.
Government Corporate Bond Fund	To meet or exceed the return of the Lehman Brothers Government/Credit Bond Index	1 Investment-grade fixed income securities represented in the Lehman Brothers Government/Credit Bond Index 2 Actively managed 3 State Street Global Advisors
Short-Term Interest Fund	To preserve principal, offer current income, and provide liquidity.	1 Cash equivalent instruments with maturities less than one year including commercial paper, banker's acceptance, certificates of deposit, obligations of the United States Government and its agencies, and repurchase agreements collateralize by US Treasury instruments 2 Actively managed 3 T. Rowe Price Associates, Inc.

Lower Risk / Lower Return

2. *Health Reimbursement Arrangement Plan*

Senate Bill 141 establishes the Health Reimbursement Arrangement Plan to allow medical care reimbursement from individual savings accounts of eligible persons. Employers shall contribute an amount equal to three percent (3%) of the employer's average annual employee compensation to the plan.

AS 37.10.220(a)(6) provides in part that the board shall establish the rate to annually credit interest to each member's account in the health reimbursement arrangement plan under AS 39.30.300 – 39.30.495. It also provides that the rate shall be adopted on the basis of the probable effective rate of interest on a long-term basis, and the rate may be changed from time to time.

The interest rate will be credited annually. It is not imperative that the board establish the crediting rate for the health reimbursement arrangement until June of 2007. In order to ensure that assets in the health reimbursement arrangement plan are equal to or greater than the sum of the individual accounts, the board will have to take into consideration the fact that plan assets will start the year at zero and grow with each contribution over the course of a year. Accordingly, the first year crediting rate is likely to be one-half of what the board would consider to be a reasonable crediting rate once the fund is mature.

3. *Office of Administrative Appeals*

The Office of Administrative Appeals is charged with hearing appeals by members of PERS and TRS. Appeals were formerly heard by either the Public Employees' Retirement Board or the Teachers' Retirement Board.

III. Alaska Retirement Management Board

A. Trustee Appointment

Senate Bill 141 established the Alaska Retirement Management Board consisting of nine trustees: the commissioner of administration and commissioner of revenue; two trustees from the general public who are not members or beneficiaries of the retirement system; one trustee employed as a finance officer for a political subdivision in either the public employees' retirement system (PERS) or the teachers' retirement system (TRS); two trustees who are members of PERS; and two trustees who are members of TRS.

Trustees must meet eligibility requirements for an Alaska permanent fund dividend and be professionally credentialed or have recognized competence in investment management, finance, banking, economics, accounting, pension administration, or actuarial analysis.

In early October, Governor Murkowski made the following trustee appointments: Gail Schubert and Martin Pihl (public members), Lawrence Semmens (finance officer), Samuel Trivette and Michael Williams (PERS members), and Gayle Harbo and John (Bob) Roses (TRS members). Commissioner of Administration Scott Nordstrand and Commissioner of Revenue William Corbus are ex officio members. John (Bob) Roses resigned his seat in March; he is a candidate for statewide office, and statute prohibits holding a seat while seeking statewide elective office.

B. Board Organization and Structure

Policies and Contracts. At the initial meeting of the Alaska Retirement Management Board October 11, 2005, the trustees adopted Resolution 2005-01, accepting fiduciary responsibility for the funds of the retirement systems and on an interim basis subject to further review, the securities lending, custody, asset allocation, investment policies and contracts for external money managers and consultants of the Alaska State Pension Investment Board.

Committees. Committees are established to monitor ongoing investment programs, and also provide governance, compliance and problem solving. Committees of the board, generally comprised of three to five trustees, provide an opportunity for in depth and detailed oversight in fulfilling the responsibilities assigned to the trustees as fiduciaries of the funds. Committees take no action on behalf of the board; the committee role is to advise and recommend. Ad Hoc or temporary committees are sometimes named to facilitate a manager search or to complete a time-sensitive project. Committee meetings are open to the public and board members may attend any committee meeting in person or by teleconference.

Investment Advisory Council. Senate Bill 141 provides that the board may appoint an Investment Advisory Council comprised of at least three but no more than five members. At the initial board meeting, the trustees approved by motion the staff recommendation that the Investment Advisory Council be maintained, and that the contracts with the three current members, Dr. Jerrold Mitchell, Timothy M. O'Brien, and Dr. William Jennings, be continued.

IV. Legislative Action

The board acknowledges that it is late in the legislative session for consideration of additional appropriation legislation, and appreciates the endeavors of legislators, committees and staff to address the unfunded liability. However, it is in the best interest of the retirement systems for the legislature to address the under funding of the systems in both the fiscal year 2007 and 2008 budget process, or the unfunded liability will very likely grow larger. The board offers the following recommendations, listed by priority for action by the legislature. These recommendations, both short- and long-term, address employer concerns with escalating contribution rates and the growing actuarial shortfall of the retirement systems.

A. Priority 1: Establish Past Service Retirement Liability Accounts

This funding plan is patterned after the school debt reimbursement program (AS14.11.100), with annual appropriations from FY2008 going forward for PERS and TRS employers. This proposed legislation for the PERS and TRS funds is the board's first priority and consideration during this legislative session is requested so that funding can be included in the FY08 budget cycle. The particulars for each fund are set forth below, with proposed legislation attached as appendices.

1. *The Public Employees' Retirement System Past Service Retirement Liability Account*

- Establishes the Public Employees' Retirement System Past Service Retirement Liability Account in the Department of Revenue
- Provides for a method to calculate a specific annual amount to be included in the Governor's budget.
- Is applicable to political subdivision and school district employer members of PERS
- Provides incentives for employers to pay down their unfunded liability
- Anticipates that the ARMB would set the employer contribution rate at the actuarially required rate

The calculated amount to distribute shall be based on the total eligible payroll reported to the department of administration by the employer during the fiscal year three years earlier and either the average past service cost rate of all employers in the system during the fiscal year three years earlier, or the employer's past service cost rate during the fiscal year three years earlier, less 5%, whichever is lower.

In order to provide incentives to employers to pay down their unfunded liability the amount shall be increased by 50% of the amount an employer paid to the system during the fiscal year three years earlier that was in excess of what the employer was required to pay to the system.

See Appendix 1 – Proposed Legislation
Public Employees' Retirement System Past Service Retirement Liability Account

2. *The Teachers' Retirement System Past Service Retirement Liability Account*

- Establishes the Teachers' Retirement System Past Service Retirement Liability Account in the Department of Revenue
- Provides for a method to calculate a specific annual amount to be included in the Governor's budget.
- Is applicable to TRS employers
- Anticipates that the ARMB would set the employer contribution rate at the actuarially required rate

The calculated amount to distribute shall be based on 85% of the total eligible payroll reported to the department by the employer during the fiscal year three years earlier and the past service cost rate of the system during the fiscal year three years earlier of the teachers' retirement system.

See Appendix 2 – Proposed Legislation
Teachers' Retirement System Past Service Retirement Liability Account

B. Priority 2: Appropriation for Increased Political Subdivision Employer Costs

In 2005 the legislature, through Senate Bill 46, provided funding for the increase in fiscal year 2006 contribution rates that political subdivisions were required to pay. Although it is late in the current legislative session for proposing additional appropriation legislation, without state aid, most political subdivisions will absorb a 10% increase in rates. The board recommends that the state fund one-half of the approximate $37.2 million increase, or $18.6 million. This would have the state and municipalities sharing 50/50 of the increasing PERS costs. This recommendation does not impact the actuarial shortfall because total contributions are less than the actuarially required contributions.

See Appendix 3 – Proposed Legislation
Appropriation for Increased Municipal Employer Costs

C. Priority 3: Legislative Appropriation to Fund Actuarially Required Contribution

According to projections for FY07, to fully fund the retirement systems the actuarially required contribution is $461 million for PERS, and $261 million for TRS. The projected actual contribution for PERS using the adjusted employer rates is $351 million, a difference of $110 million. The projected actual contribution for TRS is $163