

AK LEGISLATURE SPECIAL COMMITTEE FILES SCOMM 150 3257

PERS DB Plan

Assets - Liabilities = Surplus or (Unfunded Liability)



**Contributions +
Investment
Income**

- DB Employee
- DB Participating Employer



- Pension Benefits
 - Health Costs
- (both measured annually)*

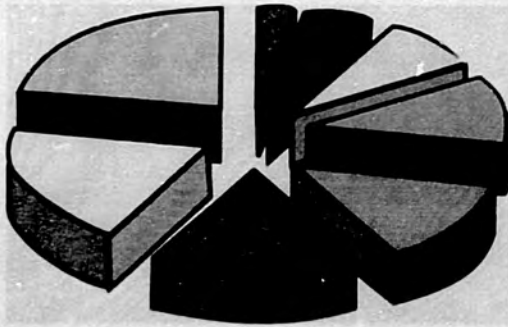


Employer responsible for
funding shortfall

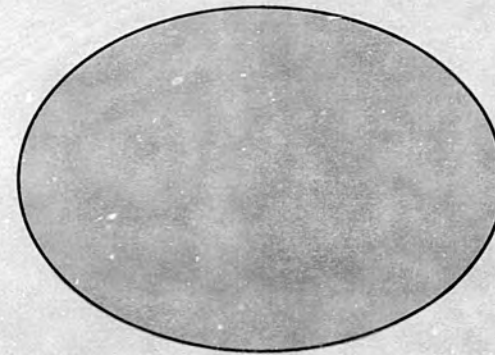


Assets

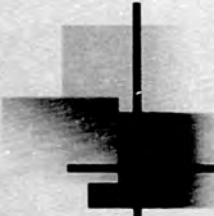
Employer contributions are accounted for in two separate buckets:



Active



Retirement
Reserve



Retiree Reserve Account

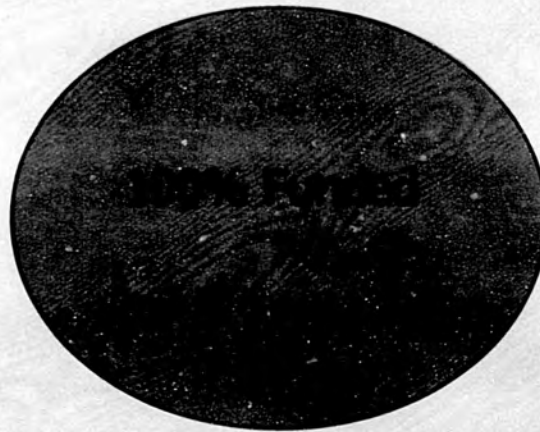
Funding Sources

- Share of the plan's net investment income
- Transfers from the active employer's asset accounts



Retiree Reserve Account

Retiree Reserve



Assets = Liabilities



Allocation Process

- Allocate retiree reserve account balance to employers to establish employer's retiree reserve account balance
 - based on the employer's pro rata share of retiree liabilities at year end
 - The amount allocated to an employer does not represent contributions made by the employer
 - simply represents assets assigned
 - Concerns have been raised about this practice - no accounting by individual employer.
 - Cost Share Model addresses these concerns.



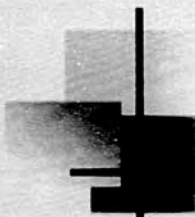
Allocation Example

Participating employer has the following assets and liabilities in the Plan at 6/30/04:

	<u>Assets</u>	<u>Liabilities</u>
Active	\$237,819	350,172
Allocated share of retiree reserve account	<u>-</u>	<u>-</u>
Total	\$237,819	350,172

Unfunded Liability is $\$350,172 - 237,819 = \$112,353$





Next Year – FY05

Sample employer has retired members. The employee contributions have been transferred to retiree reserve to pay benefits. Now the valuation process occurs.



Transfer

AS 39.35.100 states, “Upon retirement, the amount actuarially determined. . .to fully fund benefits. . .shall be transferred. . .from the employer contribution account into the retirement reserve account.”

- Transfer, from the employer’s active asset account, the balance needed to fully fund the employer’s retiree reserve asset account
 - Compare the assigned assets to the allocated liabilities and transfer the difference



Allocation

Employer retiree liabilities	\$ 453,428
Total retiree liabilities	<u>7,131,974,579</u>
% allocated to employer	.006358%
(453,428 / 7,131,974,579)	

Retiree reserve account balance	<u>6,194,055,956</u>
Assets assigned to employer	
(6,194,055,956 x .006358%)	\$ 393,883



Transfer

Per statute, the retiree reserve account is to be fully funded.

Employer retiree liabilities	\$ 453,428
Account balance allocated to employer	<u>393,883</u>
Amount transferred from employer active account	\$ 59,545



Effect of Allocation and Transfer

Participating employer has the following assets in the Plan at 6/30/05 after transfer to fully fund the retiree reserve account.

	<u>Assets</u>	<u>Liabilities</u>
Active (237,819+32,261-59,545)	\$ 210,535	18,107
Allocated share of retiree reserve account (393,883+59,545)	<u>453,428</u>	<u>453,428</u>
Total	\$ 663,963	471,535

■ Over funded by \$192,428.



Liabilities

- Annually calculated by employee
 - Allocated to individual employer
 - Based on pro rata service earned with employer
 - Does not take into account salary earned with employer
 - Concerns have been raised about this allocation process as well
 - Cost Share Model addresses these concerns.

Liability Allocation

Example 1

One employee worked for the City of A for 5 years earning 5 years of service credit. The employee is paid \$150,000 for the 5 year period.

Same employee worked for City of B for an additional 5 years. The employee was paid \$200,000 for the 5 year period.



Example (cont.)

Actuary calculates a \$800,000 liability for the member. This liability is allocated to employers as follows:

	<u>Salary Paid</u>	<u>Service Earned</u>	<u>% by employee</u>	<u>Liability Allocated</u>
City A	\$150,000	5 yrs	50%	\$400,000
City B	\$ 200,000	<u>5 yrs</u>	<u>50%</u>	<u>400,000</u>
Total		10 yrs	100%	\$800,000

The allocation of the liability is based on years of service as opposed to salary earned.



Liability Allocation

Example 2

One employee is a covered elected official for the City of X for 5 years earning 5 years of service credit. Is paid \$1,000 for attending meeting during these 5 years.

Same employee worked for City of Z for 5 years prior to serving as elected official. Was paid \$200,000 for the 5 year period.



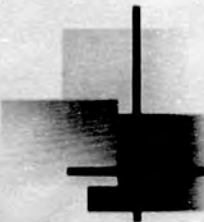
Example (cont.)

Actuary calculates a \$750,000 liability for the member. This liability is allocated to employers as follows:

	<u>Salary Paid</u>	<u>Service Earned</u>	<u>% by employee</u>	<u>Liability Allocated</u>
City X	\$ 1,000	5 yrs	50%	\$375,000
City Z	\$ 200,000	<u>5 yrs</u>	<u>50%</u>	<u>375,000</u>
Total		10 yrs	100%	\$750,000

Note: This extreme example applies to approximately 735 or 1.2% of all PERS members who have service in both categories shown above.



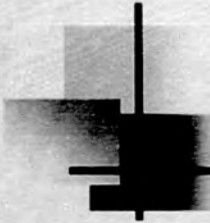


Impact on Contribution Rates

Concerns have been raised about both the assets and liabilities assigned to employers, individually, and collectively, and how they impact the employer's unfunded liability.

The Cost Share Model addresses these concerns.





Proposed Solution

- Cost share legislation
 - Administer the PERS DB plan like the TRS DB plan
 - State to assume 65% of unfunded liability at 6/30/2006 (estimated \$3.6B of \$5.5B total)
 - All employers share the cost (benefits, administration, and investment)
 - Simplify administration



Proposed Solution (cont.)

- Address the unfunded liability
 - If market conditions warrant, use pension obligation bonds as part of solution to reduce the unfunded liability.



Proposed Solution

- Cost Share Legislation – long range
 - Redesign the PERS DB plan – align with TRS
 - All employers share the cost/income of the Plan (benefits, administration, and investment)
 - One uniform, less volatile, contribution rate
- ARMB supports concept – Resolution 2007-04
- AML supports concept
- Administration of plan simplified
- Introduced by the Governor



HOUSE WAYS AND MEANS COMMITTEE QUESTIONS AND RESPONSES
HOUSE BILL 206
April 3, 2007

1. Q: The committee needs to know what does the "Hold Harmless" hold the employer harmless from the consolidated rate or the individual rate?

A: The "Hold Harmless" Covers the difference between the employer's individual 07 estimated contributions and the 08 cost-share estimated contributions. Employers are held harmless from the rate increase between 07 and 08.

2. Q: How long is the employer held harmless?

A: The hold harmless is for only the increase between 07 and 08 contributions

3. Q: Does the cost share exhibits include both DB and DCR contributions in the salaries?

A: The salaries used in the exhibits are all 2006 salaries, both DB and DCR. There was very little data available to split the two types of salaries since the DCR plan became effective mid year in 2006. The exhibits use all estimated salaries as if they were only DB salaries.

4. Q: Of the 160 PERS employers in PERS, what percentage have State funding that can be tapped into if needed?

A: The division does not have this information. OMB might be a better organization to answer this question.

5. Q: What employers moved their SB46 funding into their employer assets and paid at the required rate?

A: This listing is part of the Cost Share Exhibits, exhibit 7A.

State of Alaska
Division of Retirement and Benefits
Late Paying Employers

ER No.	Employer Name	Last Payroll End Date Processed	Months Past Due
171	BARROW, CITY OF	1/13/2007	2.6
232	BERING STRAITS CRSA	7/31/2006	8.1
270	BERING STRAITS RHA	1/27/2007	2.2
242	ELIM, CITY OF	1/21/2005	26.4
183	FORT YUKON, CITY OF	12/1/2006	4.0
192	GALENA, CITY OF	12/24/2006	3.3
237	KALTAG, CITY OF	11/30/2006	4.1
231	KIVALINA, CITY OF	4/30/2003	47.1
287	KOYUK, CITY OF	6/21/2006	9.4
241	NOORVIK, CITY OF	12/29/2006	3.1
256	SAINT GEORGE, CITY OF	9/18/2004	30.5
286	SELDOVIA, CITY OF	7/31/2006	8.1
291	SHAKTOOLIK, CITY OF	4/30/2005	23.1
206	THORNE BAY, CITY OF	10/14/2006	5.6
290	UPPER KALSKAG, CITY OF	6/30/2006	9.1

Non of the above employers have verbally refused to pay their contributions, they simply haven't submitted their payrolls along with the mandatory contributions due. The Division doesn't know the amount due until the employer submits the payroll. The last payroll received is as indicated above in the "Last Payroll End Date Processed" column.

Questions posed by Representative Seaton with answers from the Department of Administration

Distributed April 10, 2007

1. What is the percent of UAAL the State is accountable for when you add up School District, AFHC, University, etc all the liability that the state is morally liable for. Increases from 57% to what?

A: The percentage of UAAL the State is accountable for when adding up the State, University, AHFC, Special Education Service Agency, and all School Districts is in total equal to 78%.

2a. Can we see a chart outlining the present dollar value by community of individual community's UAAL that will not be the responsibility of the community because of cost share legislation.

A: 2a. Schedule 1.(a)** in the PERS Supplement to the Valuation as of June 30, 2005 contains the UAAL as of 6/30/05 and is found in the column titled "Unfunded Liability" The Supplement can be obtained on line at <http://www.state.ak.us/drb/pers/pdf/supplement.pdf>. Or by going to <http://www.state.ak.us/drb/pers/actuarial-valuation.shtml> and selecting June 30, 2005 Supplemental to the Actuarial Valuation Report. If the plan goes to a cost-share there will be no UAAL assigned to anyone employer.

2b. Also can we see the present dollar value by community that individual communities will be paying above and beyond their UAAL with cost share legislation? (without the inclusion of any hold harmless provisions).

A: 2b. There will be no individual UAAL for participating members if cost-share is implemented. However, the cost-share exhibits show those employer whose contributions will be higher in FY 08 when compared to FY07 by going to a cost-share, this is Exhibit 2(b). The exhibits also show those employers whose contributions will be higher in FY08 if cost-share is not implemented, this is Exhibit 2(a).

** This information is found on 1.2(a), which is attached.



**State of Alaska
Public Employees'
Retirement System**

Supplement to the Actuarial Valuation Report
As of June 30, 2005

Individual Employer Information for Fiscal Year 2008

buckconsultants 
an ACS company A C S

Submitted By:
Buck Consultants
1200 Seventeenth Street, Suite 1200
Denver, CO 80202

1.2(a) P.E.R.S. Contribution Rates for Fiscal Year 2008 – Active Employers

		Accrued Liability	Adjusted Assets ¹	Unfunded Liability	Covered Payroll	Consol. Normal Cost Rate	Past Service Rate	Total Rate
101	Alaska, State of	\$ 2,852,635,642	\$ 326,711,415	\$ 2,525,924,227	\$ 779,386,962	14.48%	21.06%	35.54%
102	Southwest Region School District	11,515,715	7,337,458	4,178,257	2,442,792	14.48%	11.13%	25.61%
103	Annette Island School District	2,560,165	2,764,651	-204,486	448,440	14.48%	-2.95%	11.53%
104	Bering Strait School District	24,168,673	16,763,862	7,404,811	6,735,064	14.48%	7.13%	21.61%
105	Chatham School District	3,765,789	1,539,903	2,225,886	370,502	14.48%	38.99%	53.47%
106	Alaska Municipal League	1,075,210	-198,080	1,273,290	306,367	14.48%	27.50%	41.98%
107	Valdez, City of	23,115,349	5,611,964	17,503,385	4,995,703	14.48%	22.66%	37.14%
108	Juneau Borough School District	39,048,701	13,232,608	25,816,093	9,465,485	14.48%	17.66%	32.14%
109	Matanuska-Susitna Borough ²	33,736,727	26,714,078	7,022,649	11,677,309	14.48%	13.80%	28.28%
110	Matanuska-Susitna Borough School District ²	79,877,677	12,628,169	67,249,508	23,050,201	14.48%	13.80%	28.28%
111	Anchorage School District	274,433,164	32,229,692	242,203,472	83,326,034	14.48%	18.79%	33.27%
112	Copper River School District	4,710,599	1,443,455	3,267,144	1,231,047	14.48%	17.10%	31.58%
113	University of Alaska ³	460,312,379	196,696,448	263,615,931	124,699,292	14.48%	13.75%	28.23%
115	Kenai, City of	18,273,644	1,356,347	16,917,297	4,911,844	14.48%	22.19%	36.67%

1.2(a) P.E.R.S. Contribution Rates for Fiscal Year 2008 – Active Employers (continued)

		Accrued Liability	Adjusted Assets ¹	Unfunded Liability	Covered Payroll	Consol. Normal Cost Rate	Past Service Rate	Total Rate
116	Fairbanks North Star Borough	\$ 75,658,625	\$ 45,162,235	\$ 30,496,390	\$ 17,972,466	14.48%	11.08%	25.56%
117	Fairbanks North Star Borough School District	99,331,416	32,846,210	66,485,206	27,422,816	14.48%	15.65%	30.13%
118	Denali Borough School District	4,750,215	2,331,259	2,418,956	785,886	14.48%	20.16%	34.64%
120	Sitka, City and Borough	25,910,869	-526,277	26,437,146	8,330,275	14.48%	20.52%	35.00%
121	Chugach School District	1,986,781	976,887	1,009,894	330,373	14.48%	19.73%	34.21%
122	Ketchikan Gateway Borough	12,323,080	4,147,266	8,175,814	4,219,339	14.48%	12.65%	27.13%
123	Soldotna, City of	10,188,340	4,570,719	5,617,621	2,645,255	14.48%	13.93%	28.41%
124	Iditarod Area School District	7,268,503	5,036,354	2,232,149	966,884	14.48%	15.35%	29.83%
125	Kuspuk School District	8,604,918	5,461,646	3,143,272	1,628,402	14.48%	12.53%	27.01%
126	Juneau, City & Borough of	105,163,327	22,241,655	82,921,672	26,910,067	14.48%	20.03%	34.51%
128	Kodiak, City of	20,464,144	-1,390,610	21,854,754	5,904,796	14.48%	23.86%	38.34%
129	Fairbanks, City of ⁴	45,805,207	-75,197,357	121,002,564	6,456,643	14.48%	121.43%	135.91%
131	Wasilla, City of	10,050,911	5,193,625	4,857,286	4,456,043	14.48%	7.04%	21.52%
132	Skagway, City of	4,000,718	1,993,101	2,007,617	1,688,173	14.48%	7.78%	22.26%
133	Sitka, Greater Borough School District	9,005,777	1,343,165	7,662,612	1,922,728	14.48%	25.73%	40.21%
134	Palmer, City of	10,954,084	2,335,324	8,618,760	2,738,204	14.48%	20.31%	34.79%

1.2(a) P.E.R.S. Contribution Rates for Fiscal Year 2008 – Active Employers (continued)

		Accrued Liability	Adjusted Assets ¹	Unfunded Liability	Covered Payroll	Consol. Normal Cost Rate	Past Service Rate	Total Rate
135	Wrangell, City of	\$ 9,618,636	\$ 206,557	\$ 9,412,079	\$ 2,569,873	14.48%	23.66%	38.14%
136	Bethel, City of	13,912,576	12,286,775	1,625,801	5,131,978	14.48%	2.10%	16.58%
137	Valdez School District	7,169,245	109,209	7,060,036	1,975,738	14.48%	22.92%	37.40%
138	Hoonah School District	2,995,581	256,084	2,739,497	827,378	14.48%	22.13%	36.61%
139	Nome, City of	8,475,726	2,396,419	6,079,307	2,560,514	14.48%	15.31%	29.79%
140	Kotzebue, City of	9,876,829	8,868,243	1,008,586	3,261,769	14.48%	1.79%	16.27%
141	Galena City School District	6,033,881	3,206,259	2,827,622	2,784,035	14.48%	6.59%	21.07%
143	Petersburg, City of	14,074,524	1,743,501	12,331,023	4,218,933	14.48%	19.05%	33.53%
144	Bristol Bay Borough	5,963,744	3,295,662	2,668,082	1,573,389	14.48%	10.98%	25.46%
145	North Slope Borough	151,354,593	118,589,517	32,765,076	35,314,808	14.48%	6.06%	20.54%
146	Wrangell School District	3,437,586	1,142,675	2,294,911	756,411	14.48%	19.49%	33.97%
148	Cordova, City of	7,877,473	-453,968	8,331,441	1,985,344	14.48%	26.98%	41.46%
149	Nome Public Schools	5,100,955	1,847,760	3,253,195	1,479,232	14.48%	14.37%	28.85%
151	King Cove, City of	2,510,363	1,275,039	1,235,324	932,802	14.48%	8.59%	23.07%
152	Alaska Housing Finance Corp. ⁶	58,011,234	36,015,241	21,995,993	16,479,292	14.48%	8.72%	23.20%
153	Lower Yukon School District	22,799,374	10,825,046	11,974,328	5,169,244	14.48%	14.89%	29.37%

1.2(a) P.E.R.S. Contribution Rates for Fiscal Year 2008 – Active Employers (continued)

		Accrued Liability	Adjusted Assets ¹	Unfunded Liability	Covered Payroll	Consol. Normal Cost Rate	Past Service Rate	Total Rate
154	Northwest Arctic School District	\$ 27,090,534	\$ 21,395,404	\$ 5,695,130	\$ 8,254,231	14.48%	4.39%	18.87%
155	Southeast Island School District	3,817,650	-260,113	4,077,763	681,742	14.48%	38.55%	53.03%
156	Pribilof Region School District	2,896,900	1,888,024	1,008,876	625,993	14.48%	10.61%	25.09%
157	Lower Kuskokwim School District	57,492,125	39,925,387	17,566,738	15,997,102	14.48%	7.09%	21.57%
158	Kodiak Island School District	20,954,390	7,597,571	13,356,819	4,552,315	14.48%	18.94%	33.42%
159	Yukon Flats School District	5,014,041	4,731,268	282,773	973,864	14.48%	1.94%	16.42%
160	Yukon Koyukuk School District	7,955,446	7,014,286	941,160	1,537,790	14.48%	3.93%	18.41%
161	North Slope Borough School District	35,525,252	18,777,739	16,747,513	10,132,446	14.48%	10.77%	25.25%
162	Aleutian Region School District ⁶	598,569	3,338,158	-2,739,589	114,895	14.48%	-14.48%	0.00%
163	Cordova Community Hospital	7,603,239	3,536,815	4,066,424	2,382,571	14.48%	11.01%	25.49%
164	Lake & Peninsula School District	7,850,318	3,455,310	4,395,008	1,727,691	14.48%	16.45%	30.93%
165	Sitka Community Hospital	14,509,055	6,052,350	8,456,705	4,252,357	14.48%	12.90%	27.38%
166	Tanana City School District	1,538,906	1,421,977	116,929	249,694	14.48%	3.33%	17.81%
167	Southeast Regional Resource Center	4,673,361	1,595,374	3,077,987	1,396,974	14.48%	14.13%	28.61%
168	Hydaburg City School District	899,379	789,854	109,525	92,981	14.48%	8.49%	22.97%
169	Tanana, City of	973,974	1,358,947	-384,973	162,800	14.48%	-14.48%	0.00%

1.2(a) P.E.R.S. Contribution Rates for Fiscal Year 2008 – Active Employers (continued)

		Accrued Liability	Adjusted Assets ¹	Unfunded Liability	Covered Payroll	Consol. Normal Cost Rate	Past Service Rate	Total Rate
170	North Pacific Fisheries Management Council	\$ 3,600,731	\$ 1,192,426	\$ 2,408,305	\$ 1,409,367	14.48%	11.09%	25.57%
171	Barrow, City of	3,685,058	3,232,336	452,722	1,342,839	14.48%	2.38%	16.86%
172	Saint Paul, City of	6,774,651	4,913,960	1,860,691	1,204,591	14.48%	9.89%	24.37%
173	Anchorage, Municipality of ⁷	472,288,627	86,124,982	386,163,645	141,184,017	14.48%	17.68%	32.16%
174	Kodiak Island Borough	12,265,746	4,082,194	8,183,552	2,132,321	14.48%	24.66%	39.14%
175	Nome Joint Utilities	2,349,644	1,588,891	760,753	791,095	14.48%	5.72%	20.20%
176	Sand Point, City of	3,028,875	1,689,507	1,339,368	780,444	14.48%	10.98%	25.46%
177	Ketchikan Gateway Borough School District	12,743,557	5,456,877	7,286,680	3,321,507	14.48%	14.22%	28.70%
178	Dillingham, City of	8,204,394	5,049,368	3,155,026	2,065,357	14.48%	10.04%	24.52%
179	Unalaska, City of	24,624,708	15,499,264	9,125,444	9,402,784	14.48%	6.33%	20.81%
180	Kenai Peninsula Borough	50,178,155	14,773,337	35,404,818	14,102,683	14.48%	16.36%	30.84%
181	Ketchikan, City of	29,175,956	-3,166,673	32,342,629	7,730,655	14.48%	27.20%	41.68%
182	Seward, City of	14,645,976	8,143,705	6,502,271	3,577,617	14.48%	11.93%	26.41%
183	Fort Yukon, City of	777,187	1,010,942	-233,755	304,252	14.48%	-4.90%	9.58%
184	Bristol Bay Borough School District	4,248,048	2,413,542	1,834,506	594,772	14.48%	20.27%	34.75%
185	Cordova Public School District	3,670,586	663,790	3,006,796	647,009	14.48%	30.26%	44.74%

1.2(a) P.E.R.S. Contribution Rates for Fiscal Year 2008 – Active Employers (continued)

		Accrued Liability	Adjusted Assets ¹	Unfunded Liability	Covered Payroll	Consol. Normal Cost Rate	Past Service Rate	Total Rate
186	Craig, City of	\$ 6,128,095	\$ 3,226,662	\$ 2,901,433	\$ 1,397,642	14.48%	13.70%	28.18%
187	Petersburg General Hospital	7,368,612	4,503,163	2,865,449	3,538,629	14.48%	5.11%	19.59%
189	Haines Borough *	7,241,464	2,299,577	4,941,887	1,542,978	14.48%	21.04%	35.52%
190	Kenai Peninsula Borough School District	55,517,316	10,205,482	45,311,834	13,270,063	14.48%	22.00%	36.48%
191	North Pole, City of	7,257,275	3,772,518	3,484,757	1,591,173	14.48%	14.42%	28.90%
192	Galena, City of	4,173,005	3,658,444	514,561	1,898,082	14.48%	1.67%	16.15%
193	Nenana, City of	1,301,893	748,921	552,972	186,493	14.48%	19.63%	34.11%
195	Yupit School District	1,830,181	1,038,902	791,279	1,867,098	14.48%	2.65%	17.13%
196	Nenana City Public School District	2,891,396	1,794,087	1,097,309	1,402,023	14.48%	5.09%	19.57%
198	Saxman, City of	1,041,049	252,556	788,493	79,344	14.48%	65.48%	79.96%
199	Hoonah, City of	1,919,499	996,747	922,752	649,616	14.48%	9.27%	23.75%
200	Pelican, City of	918,265	595,118	323,147	143,018	14.48%	14.37%	28.85%
202	Whittier, City of	1,616,780	752,979	863,801	1,110,322	14.48%	4.85%	19.33%
203	Anchorage, Municipal Parking Authority	3,928,142	2,098,011	1,830,131	1,124,200	14.48%	10.52%	25.00%
204	Craig City School District	3,220,332	1,614,022	1,606,310	708,147	14.48%	14.88%	29.36%
205	Dillingham City School District	5,024,449	3,322,520	1,701,929	1,204,503	14.48%	9.11%	23.59%

1.2(a) P.E.R.S. Contribution Rates for Fiscal Year 2003 – Active Employers (continued)

		Accrued Liability	Adjusted Assets ¹	Unfunded Liability	Covered Payroll	Consol. Normal Cost Rate	Past Service Rate	Total Rate
206	Thorne Bay, City of	\$ 848,707	\$ 624,852	\$ 223,855	\$ 247,446	14.48%	6.36%	20.84%
208	Akutan, City of	630,885	1,120,897	-490,012	224,588	14.48%	-13.35%	1.13%
209	Unalaska School District	2,886,518	1,739,778	1,146,740	844,229	14.48%	8.85%	23.33%
211	Kashunamiut School District	4,288,630	2,520,028	1,768,602	1,295,600	14.48%	8.81%	23.29%
215	Homer, City of	17,955,399	7,615,721	10,339,678	4,391,808	14.48%	15.34%	29.82%
218	Special Education Service Agency	1,425,616	1,030,346	395,270	334,387	14.48%	7.49%	21.97%
219	Bartlett Memorial Hospital	42,047,222	26,849,046	15,198,176	18,729,931	14.48%	5.27%	19.75%
220	Northwest Arctic Borough	2,385,248	1,968,813	416,435	990,648	14.48%	2.65%	17.13%
221	Saint Mary's School District	1,830,151	1,729,812	100,339	434,670	14.48%	1.60%	16.08%
222	Selawik, City of	3,597	55,420	-51,823	0	14.48%	0.00%	14.48%
223	Bristol Bay Housing Authority	2,343,650	1,898,267	445,383	1,299,439	14.48%	2.30%	16.78%
224	Copper River Basin Regional Housing Authority	1,174,201	959,994	214,207	646,317	14.48%	2.09%	16.57%
225	Skagway City School District	380,690	331,994	48,696	299,262	14.48%	1.66%	16.14%
227	Klawock, City of	1,716,500	1,676,773	39,727	604,152	14.48%	0.49%	14.97%
228	Petersburg Public School District	3,138,471	1,457,273	1,681,198	710,115	14.48%	15.22%	29.70%
230	Aleutians East Borough	1,837,218	1,366,019	471,199	735,314	14.48%	4.15%	18.63%

1.2(a) P.E.R.S. Contribution Rates for Fiscal Year 2008 – Active Employers (continued)

		Accrued Liability	Adjusted Assets ¹	Unfunded Liability	Covered Payroll	Consol. Normal Cost Rate	Past Service Rate	Total Rate
232	Bering Straits CRSA	\$ 18,107	\$ 210,535	\$ -192,428	\$ 35,104	14.48%	-14.48%	0.00%
235	Huslia, City of	543,464	242,430	301,034	105,786	14.48%	18.52%	33.00%
237	Kaltag, City of	249,297	74,828	174,469	0	14.48%	42.68%	57.16%
240	Haines Borough School District	2,300,606	1,019,729	1,280,877	562,248	14.48%	14.71%	29.19%
241	Noorvik, City of	375,087	329,446	45,641	289,501	14.48%	1.03%	15.51%
242	Elim, City of	305,230	45,009	260,221	106	14.48%	85.09%	99.57%
243	Atka, City of	336,877	107,290	229,587	105,620	14.48%	13.79%	28.27%
244	Aleutians East Borough School District	2,763,365	1,605,409	1,157,956	698,980	14.48%	11.15%	25.63%
245	Aleutians West CRSA	380,246	234,389	145,857	56,192	14.48%	17.14%	31.62%
246	Delta/Greely School District	3,136,374	713,021	2,423,353	1,062,846	14.48%	14.69%	29.17%
247	Lake & Peninsula Borough	1,735,518	556,919	1,178,599	391,884	14.48%	19.63%	34.11%
248	Yakutat, City of	1,221,868	422,203	799,665	674,660	14.48%	7.62%	22.10%
249	Unalakleet, City of	613,601	199,633	413,968	242,765	14.48%	10.92%	25.40%
251	Klawock City School District	2,269,354	1,114,317	1,155,037	509,344	14.48%	14.74%	29.22%
254	Mekoryuk, City of	6,910	-18,179	25,089	0	14.48%	4.22%	18.70%
255	Alaska Gateway School District	3,176,222	1,976,440	1,199,782	1,130,322	14.48%	6.93%	21.41%

1.2(a) P.E.R.S. Contribution Rates for Fiscal Year 2008 – Active Employers (continued)

		Accrued Liability	Adjusted Assets ¹	Unfunded Liability	Covered Payroll	Consol. Normal Cost Rate	Past Service Rate	Total Rate
256	St. George, City of	\$ 844,263	\$ 1,581,556	\$ -737,293	\$ 0	14.48%	0.00%	14.48%
257	Pelican School District	491,559	571,912	-80,353	136,434	14.48%	-3.39%	11.09%
258	Denali Borough	1,194,960	395,831	799,129	200,171	14.48%	27.16%	41.64%
259	Allakaket, City of	114,571	114,657	-86	0	14.48%	0.00%	14.48%
260	Kachemak, City of	133,226	-82,924	216,150	25,838	14.48%	53.77%	68.25%
262	Cook Inlet Housing Authority	4,708,070	3,656,548	1,051,522	3,823,093	14.48%	1.81%	16.29%
263	Interior Regional Housing Authority	2,356,112	2,063,517	292,595	1,215,583	14.48%	1.64%	16.12%
264	Yakutat City School District	693,999	547,804	146,195	306,216	14.48%	3.27%	17.75%
265	Kake City School District	1,122,202	548,613	573,589	316,753	14.48%	12.04%	26.52%
266	Quinhagak, City of	12,035	43,445	-31,410	17,860	14.48%	-10.99%	3.49%
267	Aleutian Housing Authority	1,135,610	760,394	375,216	775,987	14.48%	3.18%	17.66%
270	Bering Straits Regional Housing Authority	1,441,234	1,144,301	296,933	877,007	14.48%	2.27%	16.75%
271	Egegik, City of	98,285	16,952	81,333	43,388	14.48%	11.98%	26.46%
275	Ilisagvik College	6,865,895	6,109,860	756,035	4,028,414	14.48%	1.22%	15.70%
276	North Pacific Rim Housing Authority	1,568,069	1,223,736	344,333	1,077,528	14.48%	2.05%	16.53%
278	Saxman Seaport	155,861	62,482	93,379	62,200	14.48%	9.72%	24.20%

1.2(a) P.E.R.S. Contribution Rates for Fiscal Year 2008 – Active Employers (continued)

		Accrued Liability	Adjusted Assets ¹	Unfunded Liability	Covered Payroll	Consol. Normal Cost Rate	Past Service Rate	Total Rate
279	Tlingit-Haida Regional Housing Authority	\$ 3,587,175	\$ 2,140,824	\$ 1,446,351	\$ 2,156,273	14.48%	4.48%	18.96%
280	Toksook Bay, City of	44,017	16,748	27,269	0	14.48%	6.11%	20.59%
281	Baranof Island Housing Authority	425,223	390,252	34,971	470,340	14.48%	0.43%	14.91%
282	Delta Junction, City of	178,844	110,315	68,529	220,753	14.48%	1.97%	16.45%
283	Anderson, City of	24,762	271,542	-246,780	44,546	14.48%	-14.48%	0.00%
284	Inter-Island Ferry Authority	505,090	386,931	118,159	686,471	14.48%	1.05%	15.53%
285	Hooper Bay, City of	18,390	28,924	-10,534	57,480	14.48%	-0.92%	13.56%
286	Seldovia, City of	79,321	44,950	34,371	44,394	14.48%	5.10%	19.58%
287	Koyuk, City of	13,818	14,032	-214	29,377	14.48%	0.04%	14.52%
288	Northwest Inupiat Housing Authority	1,027,278	608,472	418,806	1,196,977	14.48%	2.26%	16.74%
290	Upper Kalskag, City of	12,524	12,773	-249	0	14.48%	0.00%	14.48%

1.2(a) P.E.R.S. Contribution Rates for Fiscal Year 2008 – Active Employers (continued)

	Accrued Liability	Adjusted Assets ¹	Unfunded Liability	Covered Payroll	Consol. Normal Cost Rate	Past Service Rate	Total Rate
291 Shaktolik, City of	9,130	7,580	1,550	60,785	14.48%	0.16%	14.64%
293 Tagiugmiullu Nunamiullu Housing Authority	301,206	232,399	68,807	1,440,100	14.48%	0.29%	14.77%
294 City of Mountain Village	<u>4,957</u>	<u>5,553</u>	<u>-596</u>	<u>37,456</u>	14.48%	-0.10%	14.38%
Subtotal	\$ 5,706,433,973	\$ 1,303,942,130	\$ 4,402,491,843	\$ 1,586,890,907			

¹ Adjusted assets shown include adjustment for excess assets in 1.2(b).

² The rates for Employers 109 and 110 have been calculated by aggregating liabilities, assets, and salaries for the two employers.

³ Employer 119 was combined under employer 113.

⁴ Employer 130 was combined under employer 129.

⁵ Employer 127 was combined under employer 152.

⁶ Employers 142 and 188 were combined under employer 162.

⁷ Employer 269 was combined under employer 173.

⁸ Employers 114 and 194 were combined under employer 189.

Rev Grunenburg

Questions for the Department of Administration concerning HB 206

1. Our understanding of the accounting problems is that the State cannot account for each individual employer and that the employer contribution rates being assigned have no real relationship to the costs attributable to the employer. Is that correct? If not, please explain.

DOA RESPONSE: The State can account for employer and employee contributions when moved from the "active employee" account to the "retiree reserve" account. The system has never been set up to continue to separate the funds once in the retiree reserve.

2. While it has been stated that there will be a hold harmless clause inserted into one of the bills that will constitute the comprehensive PERS solution, no specific proposal has been heard. What is the administration's proposal for hold harmless?

DOA RESPONSE: Commissioner Kreitzer has never testified that a hold harmless clause will be inserted into one of the bills. This is a financial exercise which will be incorporated into the Operating Budget (HB 95). She has provided the specific proposal: Due to the accounting issue above, the State would move to a cost-share system for PERS. This would create immediate inequities for some political subdivisions, and to "hold them harmless" to the rate they paid in FY 07, would cost \$82.0 million. That amount is already in the budget in rate relief. The State would also take on 65% of the unfunded liability (that would be \$3.5 billion of the known \$5.5 billion unfunded liability in PERS); the political subdivisions would pick up 35% or \$1.9 billion). The State is contemplating using pension obligation bonds (or some other means) to finance about \$1.7 billion of the debt it is taking on.

3. What system does the administration propose to compensate the heroes list when going to a joint contribution program?

DOA RESPONSE: The Governor's plan does not contemplate compensating those on the "heroes" list. Knowing that the Finance Committees are reviewing all funds going to local governments, we have merely pointed out that the lists exist and, where under the Governor's plan, a \$10.6 million GF savings could be redirected to those communities.

Employer

Percent of Past
Service Liability

Approximate Unfunded

		Liability
State	58%	3,209,144,423
University	6%	336,436,582
Political Subdivisions	23%	1,252,978,917
Other Employers	1%	43,992,105
School Districts	12%	677,081,143
Total	100%	5,500,000,000

4. Based upon the previous chart, the state effectively pays for all of the unfunded liabilities other than the municipalities' 23%. If we are reading Section 7 of HB 206 correctly, it seems as though the local governments would end up picking up more of the unfunded liability (35%) than they currently owe (23%). Can you please explain this apparent discrepancy?

DOA RESPONSE: Commissioner Kreitzer would say that the State is also taking on more of the liability. The proposal originally from the Alaska Municipal League was for the State to take on 85% of the unfunded liability, HB 179 is seeking 80% for the State. Our approach was meant to provide a way to pay down the unfunded liability and still allow for some portion of revenue sharing.

5. What is the municipal rate if the State pays 65% of the unfunded liability and no pension bonds are issued?

DOA RESPONSE: Buck Consultants advises the rate is 31.87%

6. How much can the municipalities afford to pay?

DOA RESPONSE: That is a question for the Alaska Municipal League.

7. A second approach is in the House budget. In that bill the municipalities will pick up a flat rate of 22%. Since the 22% rate is applied to the total employee wage base, which should only rise with inflation, the 22% rate is fairly stable over time. However, the 65:35 split is not stable since it is not based upon employee wages, but on the total dollar amount of the unfunded liability. As a result, under the approach in HB 206, when the unfunded liability increases, so do the municipalities' costs (and visa versa). If the assumption is that the municipalities can only pay a certain amount for the foreseeable future, having to pay increasing costs over the short term will lead to more problems and potential bankruptcies in some communities. Please explain the administration's reaction to the 22% flat rate proposal.

DOA RESPONSE: The 22% plan is also not a stable one for the State. The State is required to pick up all costs greater than 22% in perpetuity or until another Legislature changes the rules. It also doesn't take into account what the Alaska Retirement Management Board might do when the 2006 actuarial evaluation comes out. We are continuing to

meet with Legislative Fiscal Analyst David Teal and OMB to come to some compromise. We anticipate this to be a Finance Committee decision.

8. When dealing with a closed system, accounting rules require the use of a level dollar rate amortization over the 25 year period. According to the exhibits, this results in an average rate of 39% before the cost share system and POBs are included. However, since the defined contribution employees are included in the cost share plan, it is possible to use the actuarial amortization rate instead. Use of the actuarial rate amortization results in a 32% shared rate before the 65:35 (or 22%) share system and POBs are included. This is a savings to the State of \$125 million in FY 08. Since the overall amount of the unfunded liability is not less, this means that more money will have to be paid in the later years. The tipping point is in about 10 years.

With the State short of funds as early as FY 09, starting to pay is important, but many things can change between now and then and spending all of this money now is arguably unnecessary. Will the State use the actuarial amortization rate rather than the level rate in order to reduce the amount paid towards the unfunded liability in the short term?

DOA RESPONSE: Well, you've hit on the crux of the issue. Our point is to pay more now (particularly with a cash infusion to TRS) and save more later. Per Buck Consultants, for accounting purposes, you must use the level dollar amortization. For funding purposes, the Board has discretion on what rate is adopted so they may adopt the rate based on a level percent of pay amortization.

9. Further, the State proposal is to pay 100% of the unfunded liability over the 25 year amortization period. Many states use a lower target to consider themselves on track. The financial institutions recommended 80%. Oregon's goal was to be in the high 80% range and is now at 92%.

DOA RESPONSE: Our goal is not to pay 100% of the unfunded liability. We know that today it's at \$8.6 billion, but estimates from the Division put it around \$10.0 billion. We would be extinguishing 90% of the TRS debt if we were able to do a \$500.0 million cash infusion and use POB's to pay down the rest (\$2.0 billion); and we would be extinguishing 30% of the PERS debt with POB's. We are actually trying for 80% of PERS - but, again knowing that the liability is growing, we believe we are there and not at 100%.

By lowering the goal, the amount of funds needed over the next 25 years can be significantly reduced, though there are no exhibits that

show the amounts. Will the State lower its goal from 100% in order to reduce the amount to be paid over the 25 year period? Can you provide exhibits on the costs to the State and local governments in trying to reach 80%? 90%?

DOA RESPONSE: See above. If we are able to use our plan, it will save PERS & TRS \$4.0 billion (according to our actuary) over 25 years.

10. What is the impact of the TRS unfunded liability on the University of Alaska retirement program? Has it had unintended consequences? Does the administration have a plan to deal with this problem?

The University Optional Retirement Plan (ORP) initially set a matching contribution rate equal to the TRS employer rate. It became apparent that the rate was unsustainable when TRS rates began to rise. Last year, the University closed the ORP to new members and is offering a revised ORP with a set employer contribution rate to its new employees. The ORP is not administered by the Division of Retirement and Benefits. The University is dealing with this problem. More information can be obtained by contacting Mike Humphrey, Benefits Director, University of Alaska.

Mr. Chairman, Committee members: for the record, my name is Michael Lamb, I am the chief financial officer for the Fairbanks North Star Borough and I am a co-chair of the AML Revenue/Finance Subcommittee. Thank you for the opportunity to comment on HB 206. Given the very real press of time for legislative action this session, my comments today are going to be purposely direct, and I am going to be as transparent as I can. With that, my comments are as follows:

1. Credit needs to be given to the Department of Administration for its work on the PERS issues addressed in this bill, and I am happy to endorse that part of HB 206 that recognizes that legislative language needs to move forward such that our statutes reflect the reality that the State operates PERS as a consolidated blended system.
2. Section 5 contains language that essentially says one rate, which is the combined total of the normal and past service cost rates, should be applied to both DB and DC salaries. I concur with this provision, to do otherwise would at some point lead to discriminatory hiring practices.
3. Section 7, the 65/35 percent allocation of the unfunded liability is a significant disappointment. It is a disastrous proposition that sets future rates at levels that cannot be paid by school districts, the university system, cities, or by boroughs. I am particularly disappointed that the exhibits behind this proposition used labels such as winners, losers, and heroes! The Borough's position and the AML's position, and my position has been, and continues to be, that given how the system has been administered, and how one employer's actions affect another's liabilities and how assets have every year for decades been blended and then reallocated it is impossible to say what assets or liabilities any member entity has, and therefore, what their piece of the unfunded liability is, which drives their past service cost rates. Those who have been advantaged and disadvantaged, is not determinable, period. Quoting from a recent AML letter: Any legislation which leaves communities having to pay unaffordable rates for an unfunded liability which was not of our making, and which risks bankrupting communities, is not a concept we can accept. This 65/35 proposal is just that kind of legislation and instead of providing for future predictability, stability, or affordability, it is a call to fiscally incapacitate member employers in the future and can't be supported.
4. After rates get set at levels that can't be paid by member employers in this bill, we get to section 9, a poison pill provision that essentially says that even if a member employer has a legitimate reason not to make a payment, or maybe simply can not because they just don't have the money, the Administrator of the plan will simply go and take funds from any agency of the state or political subdivision that has in its possession funds of the employer that couldn't pay its bill. So, this bill sets rates that will cripple employers and then any life blood funding available can be summarily taken with no due process? I understand the Administration needs a tool to collect from employers that will not pay a legitimate bill. This is the wrong tool. This is instead a heavy handed tool that will only accelerate the bankrupting of employers, then who will be left to pick up their piece of the bar tab that they can no longer pay, in the end it'll be the State.
5. Sections 10 through 15 deals with terminations, scrutiny needs to be given to this language. First off it allows for unlimited termination cost charges, that can then be extracted from an employer using the section 9 language. Scrutiny also needs to be given to the section 15 language that says you only have 90 days after receipt of notice to decide if you want to add or terminate coverage of a department, group, or other classification of employees. First off, 90 days in a public process environment isn't even enough time to deal with an issue as significant as what is contemplated in this section. Secondly, who can predict what makes sense in the future? Why would we want to preclude future changes that may help the system? Though there will be an attrition factor, is it the intent of this language that all existing school board members, council members, or assembly members would have to stay in the system because they couldn't elect out because a 90 day period

was missed? This makes no sense. If the administration is trying to fix an abuse, then prevent the abuse, but don't preclude all changes, both good and bad.

If the consolidation and the DB/DC language from HB 206 could be used in conjunction with components of other PERS language in other bills, I think we would be getting very close to a shared solution that municipalities could live with and support. It is clear, and AML has consistently communicated, that its members firmly believe that an 85/15 splitting of the unfunded liability is about as fair as it is going to get. What is critical in this split is that they ended up, using the most current complete set of numbers available, with a rate that was affordable. Let me be clear, I am not saying it isn't a rate that hurts, but at least no member employer would go broke, and though different communities felt the State was responsible for an even higher percentage, the AML member employers agreed as a group to the rate that an 85/15 splitting of the unfunded liability generated, which was an 18.27% rate. It was always known and understood that the unfunded obligation would be going up, and accordingly, the 18.27% rate for FY '08 would likely go up in future years to 19 point something or 20 point something percentage, and then level off. It is I believe a number that everyone is equally unhappy about, but not so unhappy about that they'd seek relief from it. For the Borough, who had a 22 year average rate of 4.17%, this is a huge 400 to 500% increase, but one the Mayor and Assembly were willing to accept to avoid a confrontation with the State.

Mr. Chairman, members of the committee, I sought to be direct and transparent, and to offend no one today, and I most graciously apologize if I did. Many have worked hard on the legislation before this body today, and on the other PERS legislation not specifically discussed today, and I most respectfully acknowledge those efforts, and that work, and I say thank you. But at the end of the day, all of that work will have been for naught if even one member employer ends up fiscally incapacitated because we, and I mean collectively we, failed to get the final legislation right. For my part, I will have failed to have spoken the words necessary to convey not only the Borough's message, but other municipality's message to this body, and put simply, in the end: it's about the rate, it's about the rate, and it is about the rate. No one, and I mean no one, is better off if 28 terminated or inactive employers turns into 30, 35, 40, who knows what 28 could grow to. I therefore, respectfully, request that HB 206 be moved forward such that the components of 206 that are good, and supportable, can be made to work in conjunction with the good components of HB 179, the House Committee Substitute for HB 95/96, and HB 13.

Mr. Chair, committee members, thank you for the opportunity to speak today. If I can do anything to assist this body in bringing forth, and adopting, legislation wherein everyone is a little unhappy, but wherein all employers will stay fiscally viable and be able to continue to provide their programs and services, I stand ready to assist in any way I can. Thank you kindly for your time today, this concludes my comments.

Note: Shaded areas read during public testimony.

STATE OF ALASKA

DEPARTMENT OF ADMINISTRATION

DIVISION OF RETIREMENT AND BENEFITS

March 12, 2007

The Honorable Mike Chenault
Co-Chairman, Finance Sub-Committee
House of Representatives
State Capitol, Room 505
Juneau, Alaska 99801

Re: City of Fairbanks Unfunded Liability and
PERS Employers who made Additional Contributions

Dear Representative Chenault:

This letter is written in response to a request for background information on the unfunded liability for the City of Fairbanks (COF); and the PERS employers who made additional contributions to pay down their unfunded liabilities in FY06 and FY07 to date (see attached lists). In addition to the attached listings, the City of Soldotna (employer no. 123) made an additional contribution to the PERS of \$1 million on March 10, 2005 (FY05).

The City of Fairbanks joined PERS as employer No. 129 by execution of a participation agreement effective January 1, 1971. The COF has amended its participation agreement with PERS on multiple occasions for purposes of removing members. It is important to note that the actions taken by the COF to remove members does not reduce the accrued PERS liability that the COF is responsible for. However, it does cause the contribution rate to increase as the amount the COF is responsible for is being spread over a smaller payroll base.

As of the most recent actuarial valuation report (June 30, 2005), the COF has an unfunded liability of \$121,002,564. Identified below are several of the factors that have contributed to this unfunded liability:

- As noted above, the COF has amended its participation agreement multiple times between 1992 - 2001 and removed approximately 70 employees from PERS membership. Many of the employees were moved to pension systems with Local 302; International Brotherhood of Electrical Workers (IBEW 1547); and Teamsters Union Local No. 959 (IBEW).
- Employees of the Fairbanks Municipal Utility System (FMUS) were removed from the COF's participation agreement in FY 1999/2000.
- Currently 481 retirees who have earned service with the COF are drawing benefits and 171 of these retirees have earned service as an employee of the FMUS (COF owned utility).

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- There are currently only 98 active PERS members with COF, 106 members are deferred and/or deferred vested and 4 are receiving occupational disability benefits. Deferred vested means there will be future benefits paid to the member. Deferred (non-vested) indicates that the member has a right to the contributions they have made and may qualify for benefits if they return to employment and satisfy vesting or other criteria.
- The Division informed COF about the resultant impacts associated with decisions to remove employees from the PERS as COF remains responsible for the liability associated with members who have been removed.
- In 2003 the Division's actuary provided an updated report on the COF's unfunded liability (cost of obtaining the report paid by COF).
- In October of 2004, City of Fairbanks had 10 employees that returned under HB 242 retiree return provisions. Consequently, the COF was not contributing to the past service costs for this employee group from 10/2004 to 6/30/2005. As of the most recent report produced by the Division of Retirement and Benefits, the City of Fairbanks does not have any employees participating in HB 161, the retiree return program that replaced the program created by HB 242.
- In 2004 the COF requested the actuary conduct an additional study regarding the liability amount provided by the Division. In November 2004, the Division met with Mayor Thompson and City of Fairbanks staff along with the Division's actuary to review the unfunded liability report prepared by the actuary. This meeting took place in Fairbanks.
- City of Fairbanks granted prior service to their employees, which added unfunded liabilities and immediately increased the COF's contribution rate from the rate that would have resulted from joining the PERS and allowing employees to earn service prospectively.
- COF was impacted like all other participating employers when actuarial assumptions were significantly changed increasing FY05 contribution rates. For the most part, these changes were the result of increased health care costs, loss of investment income in the bear markets from FY01-03, and past assumptions that drifted from actual experience. COF continues to be impacted like all other participating employers due to contributions rates being lower than those recommended by the actuary.

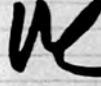
Noted below are the employer contribution rates from FY2004 through FY2008 for City of Fairbanks.

FY2004 - 20.67% capped rate adopted; 20.86% actuarially determined rate
FY2005 - 25.67% capped rate adopted; 74.30% actuarially determined rate
FY2006 - 30.67% capped rate adopted; 110.21% actuarially determined rate
FY2007 - 35.67% capped rate adopted; 124.66% actuarially determined rate
FY2008 - 184.95% Note: the capped rate is no longer applicable due to repeal of 2 AAC 35.900 so this rate is the actuarially determined rate adopted by the Alaska Retirement Management Board.

Co- Chairman Representative Chenault
House Finance Committee
March 12, 2007
Page 3

In closing, we appreciate the opportunity to provide this information, please let us know if you have any questions about this correspondence.

Sincerely,



Melanie Millhorn
Director

Enclosure(s)

cc: Annette Kreitzer, Commissioner, Department of Administration
Rachael Petro, Deputy Commissioner, Department of Administration
Charlene Morrison, Chief Financial Officer, Division of Retirement and Benefits

119	Unalakleet City of	220.115
120	Unalakleet City of	11.152
121	Unalakleet City of	10.412
122	Unalakleet City of	1.012
123	Unalakleet City of	1.012
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**State of Alaska
Public Employees' Retirement System**

**SB231 Employer Rate Relief Summary
for Fiscal Year 2007**

ER No.	Employer Name	Original Amount	Balance used to pay down unfunded liability
230	Aleutians East Borough	33,915	33,915
136	Bethel, City of	282,716	275,716
148	Cordova, City of	112,553	112,553
271	Egegik, City of	2,830	2,830
129	Fairbanks, City of	333,653	333,653
235	Huslia, City of	5,215	5,215
180	Kenai Peninsula Borough	702,515	702,515
181	Ketchikan, City of	400,460	400,460
174	Kodiak Island Borough	118,047	118,047
128	Kodiak, City of	314,368	314,368
134	Palmer, City of	154,333	154,333
143	Petersburg, City of	206,671	206,671
198	Saxman, City of	5,637	5,637
182	Seward, City of	166,026	166,026
123	Soldotna, City of	136,756	136,756

The following employers have not used their relief balances or requested it be used to pay down their unfunded liability. Any balance remaining at 6/30/07 will be used to pay down their unfunded liability. The Division last reminded employers of these balances and their options on 2/20/07.

208	Akutan, City of	16,941	-
259	Allakaket, City of	3,056	-
243	Atka, City of	4,628	-
171	Barrow, City of	47,355	-
258	Denali Borough	7,889	-
183	Fort Yukon, City of	24,209	-
192	Galena, City of	95,984	-
215	Homer, City of	248,456	-
199	Hoonah, City of	35,299	-
285	Hooper Bay, City of	1,576	-
260	Kachemak, City of	1,193	-
237	Kaitag, City of	870	-
122	Ketchikan Gateway Borough	214,696	-
151	King Cove, City of	50,001	-
227	Klawock, City of	31,917	-
287	Koyuk, City of	1,664	-
247	Lake and Peninsula Borough	19,656	-
236	Mountain Village, City of	1,786	-
193	Nenana, City of	12,244	-
241	Noorvik, City of	12,352	-
220	Northwest Arctic Borough	44,779	-
200	Pelican, City of	7,657	-
266	Quinhagak, City of	1,920	-
172	Saint Paul, City of	74,829	-
176	Sand Point, City of	38,396	-
286	Seidovia, City of	2,405	-
132	Skagway, City of	89,301	-
169	Tanana, City of	7,302	-
206	Thorne Bay, City of	10,435	-
249	Unalakleet, City of	11,157	-
179	Unalaska, City of	520,772	-

All other employers who received rate relief is using that relief to offset required contributions.

1 by sec. 1, ch. 4, FSSLA 2005, page 40, line 7, and allocated on page 40, line 10 (Legislative
2 Budget and Audit Committee, legislative finance - \$4,609,700) remaining after the
3 appropriations made in sec. 57(d) of this Act, that was directed by the Legislative Budget and
4 Audit Committee to the account in the legislative finance division for house finance is
5 reappropriated to the Legislative Budget and Audit Committee for house finance for the fiscal
6 year ending June 30, 2007.

7 (f) The unexpended and unobligated balance of the appropriation made in sec. 1, ch.
8 4, FSSLA 2005, page 40, line 7, and allocated on page 40, line 10 (Legislative Budget and
9 Audit Committee, legislative finance - \$4,609,700) remaining after the appropriations made in
10 sec. 57(d) of this Act and (d) and (e) of this section, is reappropriated to the Legislative
11 Budget and Audit Committee for the legislative finance division for the fiscal year ending
12 June 30, 2007.

13 * **Sec. 59. LEGISLATIVE OPERATING BUDGET.** (a) The unexpended and unobligated
14 balance of that portion of the appropriation made in sec. 1, ch. 4, FSSLA 2005, page 40, line
15 22 (legislative operating budget - \$7,468,500) remaining after the appropriations made in sec.
16 57(d) of this Act, that was directed to house operating expenses is reappropriated to the
17 legislative operating budget for house operating expenses for the fiscal year ending June 30,
18 2007.

19 (b) The unexpended and unobligated balance of that portion of the appropriation
20 made in sec. 1, ch. 4, FSSLA 2005, page 40, line 22 (legislative operating budget -
21 \$7,468,500) remaining after the appropriations made in sec. 57(d) of this Act, that was
22 directed to senate operating expenses is reappropriated to the legislative operating budget for
23 senate operating expenses for the fiscal year ending June 30, 2007.

24 * **Sec. 60. MUNICIPAL ENERGY ASSISTANCE AND RETIREMENT SYSTEM**
25 **FUNDING FOR INCREASED EMPLOYER COSTS FOR POLITICAL SUBDIVISIONS.**

26 (a) It is the intent of the legislature that, because of high oil prices, a portion of increased
27 state revenue be used to assist municipalities. That assistance will be made first by paying the
28 fiscal year 2007 estimated increase of municipal employer costs caused by increased
29 employer contribution rates to reduce the liability to the public employees' retirement system
30 of municipalities that are members of that system, and second, by grants to municipalities to
31 defray increased energy and other costs. The appropriations under (b) of this section reflect

estimates by the Department of Administration as of March 31, 2006, for the increased employer cost for the political subdivisions resulting from fiscal year 2007 employer contribution rate increases. The appropriations made by (b) of this section are intended to reduce those increased employer costs, based on current estimates, but might not fully eliminate the increased employer costs because of changes in political subdivision payroll amounts and other factors. The total amount to be appropriated under this section to a municipality is based on the population of the municipality, with a minimum amount of \$40,000 for each municipality. From the total amount for each municipality is deducted the appropriation under (b) of this section to the Department of Administration for deposit in that municipality's public employees' retirement system account to cover the estimated increased employer costs of that municipality, with the remaining amount, if any, being appropriated as a grant in (c) of this section. The appropriations made by this section are one-time appropriations and are not intended to recur for fiscal year 2008.

(b) The following amounts are appropriated from the general fund to the Department of Administration for deposit in the public employees' retirement system account of each of the following municipalities:

MUNICIPALITY	APPROPRIATION
Akutan, City of	\$ 16,941
Aleutians East Borough	33,915
Allakaket, City of	3,056
Anchorage, Municipality of	6,913,262
Anderson, City of	2,149
Atka, City of	4,628
Barrow, City of	47,355
Bethel, City of	282,716
Bristol Bay Borough	81,472
Cordova, City of	112,553
Craig, City of	74,603
Delta Junction, City of	13,507
Denali Borough	7,889
Dillingham, City of	110,426

1	Egegik, City of	2,830	1
2	Fairbanks North Star Borough	929,023	2
3	Fairbanks, City of	333,653	3
4	Fort Yukon, City of	24,209	4
5	Galena, City of	95,984	5
6	Haines Borough	85,814	6
7	Homer, City of	248,456	7
8	Hoonah, City of	35,299	8
9	Hooper Bay, City of	1,576	9
10	Huslia, City of	5,215	10
11	Juneau, City and Borough of	1,397,093	11
12	Kachemak, City of	1,193	12
13	Kaltag, City of	870	13
14	Kenai Peninsula Borough	702,515	14
15	Kenai, City of	235,223	15
16	Ketchikan Gateway Borough	214,696	16
17	Ketchikan, City of	400,460	17
18	King Cove, City of	50,001	18
19	Klawock, City of	31,917	19
20	Kodiak Island Borough	118,047	20
21	Kodiak, City of	314,368	21
22	Kotzebue, City of	169,920	22
23	Koyuk, City of	1,664	23
24	Lake and Peninsula Borough	19,656	24
25	Matanuska-Susitna Borough	583,491	25
26	Mekoryuk, City of	611	26
27	Mountain Village, City of	1,786	27
28	Nenana, City of	12,244	28
29	Nome, City of	123,946	29
30	Noorvik, City of	12,352	30
31	North Pole, City of	80,525	31

1	North Slope Borough	2,006,956	1
2	Northwest Arctic Borough	44,779	2
3	Palmer, City of	154,333	3
4	Pelican, City of	7,657	4
5	Petersburg, City of	206,671	5
6	Quinhagak, City of	1,920	6
7	Saint Paul, City of	74,829	7
8	Sand Point, City of	38,396	8
9	Saxman, City of	5,637	9
10	Seldovia, City of	2,405	10
11	Seward, City of	186,026	11
12	Sitka, City and Borough of	439,010	12
13	Skagway, City of	89,301	13
14	Soldotna, City of	136,756	14
15	Tanana, City of	7,302	15
16	Thorne Bay, City of	10,435	16
17	Toksook Bay, City of	583	17
18	Unalakleet, City of	11,157	18
19	Unalaska, City of	520,772	19
20	Valdez, City of	250,819	20
21	Wasilla, City of	228,380	21
22	Whittier, City of	49,904	22
23	Wrangell, City of	132,606	23
24	Yakutat, City and Borough of	36,178	24
25	(c) The following amounts are appropriated from the general fund to the Department		
26	of Commerce, Community, and Economic Development for payments as grants to the		
27	following municipalities for the purpose of defraying increased energy and other costs:		
28	MUNICIPALITY	APPROPRIATION	
29	Adak	\$ 40,000	
30	Akhiok	40,000	
31	Akiak	40,000	

State of Alaska Public Employees Retirement System Funding Schedule - FY 2005 Contributions				Balance used to pay down unfunded liability	
230	Aleutians East Borough	50,537		50,537	
144	Bristol Bay Borough	70,944		70,944	
282	Delta Junction, City of	3,419		3,419	
129	Fairbanks, City of	305,784		305,784	
260	Kachemak, City of	3,068		3,068	
181	Ketchikan, City of	415,937		415,937	
174	Kodiak Island Borough	113,667		113,667	
191	North Pole, City of	107,535		107,535	
143	Petersburg, City of	198,490		198,490	
182	Seward, City of	192,943		192,943	
169	Tanana, City of	11,285		11,285	
107	Valdez, City of	255,619		255,619	
				3,517,055	

In FY05, the City of Soldotna paid an additional contribution of \$1 million to PERS to pay down their unfunded liability. Payment was made on March 10, 2005.

1 Richardson Highway, highway passing lanes, 5,000,000
 2 Milepost 265 - 341
 3 Richardson Highway, Shaw Creek Bridge 2,500,000
 4 (d) Subject to sec. 62 of this Act and contingent on the signing of an agreement
 5 between the Municipality of Anchorage and the state for the Municipality of Anchorage to
 6 assume ownership and maintenance of the roads* specified in this subsection, the sum of
 7 \$16,500,000 is appropriated from the Alaska capital income fund to the Department of
 8 Commerce, Community, and Economic Development for payment as grants under
 9 AS 37.05.315 to the Municipality of Anchorage for the following projects in the following
 10 amounts:

11 PROJECT	11 AMOUNT
12 72nd Avenue, Spruce Street, Lore Road upgrade,	12 \$8,000,000
13 Lake Otis Parkway to Abbott Loop Road	
14 80th Avenue upgrade, Lake Otis Parkway to	14 4,000,000
15 Spruce Street	
16 100th Avenue reconstruction - Pointe Resolution	16 4,500,000
17 Drive to Victor Road	

18 * Sec. 59. RETIREMENT SYSTEM FUNDING FOR INCREASED EMPLOYER COSTS
 19 FOR POLITICAL SUBDIVISIONS. (a) The sum of \$18,426,923 is appropriated from the
 20 general fund to the Department of Administration to reduce the liability to the public
 21 employees' retirement system of political subdivisions that are members of that system, in
 22 order to reduce the increased employer costs resulting from fiscal year 2006 employer
 23 contribution rate increases. The Department of Administration shall allocate the
 24 appropriation to the public employees' retirement system account of each political subdivision
 25 based on the increased employer cost for that political subdivision resulting from fiscal year
 26 2006 employer contribution rate increases, as estimated by the Department of Administration
 27 as of September 29, 2004, and as set out in (b) of this section. The appropriation made by this
 28 subsection is intended to reduce these increased employer costs, based on current estimates,
 29 but may not fully eliminate the increased employer costs because of changes in political
 30 subdivision payroll amounts and other factors. The appropriation made by this subsection is a
 31 one-time appropriation and is not intended to recur for fiscal year 2007.

(b) For purposes of allocating the appropriation made by (a) of this section to the public employees' retirement system account of each member political subdivision, the increased employer costs of the political subdivisions are as follows:

POLITICAL SUBDIVISION	AMOUNT
Akutan, City of	\$ 14,932
Aleutians East Borough	50,537
Allakaket, City of	2,564
Anchorage, Municipality of	6,615,843
Anderson, City of	2,009
Angoon, City of	15,955
Atka, City of	3,708
Barrow, City of	53,772
Bethel, City of	235,324
Bristol Bay Borough	70,944
Cordova, City of	98,482
Craig, City of	94,438
Delta Junction, City of	3,419
Denali Borough	29,484
Dillingham, City of	122,152
Egegik, City of	5,075
Elim, City of	9,077
Fairbanks North Star Borough	867,894
Fairbanks, City of	305,784
Fort Yukon, City of	15,338
Galena, City of	68,486
Haines Borough	105,665
Homer, City of	245,743
Hoonah, City of	33,095
Hooper Bay, City of	30,735
Huslia, City of	4,785
Juneau, City and Borough of	1,351,743

1	Kachemak, City of	3,068
2	Kake, City of	15,138
3	Kaltag, City of	1,479
4	Kenai Peninsula Borough	625,569
5	Kenai, City of	278,462
6	Ketchikan Gateway Borough	206,307
7	Ketchikan, City of	415,937
8	King Cove, City of	53,681
9	Klawock, City of	42,542
10	Kodiak Island Borough	113,667
11	Kodiak, City of	293,700
12	Kotzebue, City of	162,767
13	Koyuk, City of	1,113
14	Lake and Peninsula Borough	32,811
15	Matanuska-Susitna Borough	496,101
16	Nenana, City of	19,388
17	Nome, City of	129,462
18	Noorvik, City of	18,250
19	North Pole, City of	107,535
20	North Slope Borough	2,458,409
21	Northwest Arctic Borough	36,340
22	Palmer, City of	132,967
23	Pelican, City of	6,559
24	Petersburg, City of	198,490
25	Quinhagak, City of	1,552
26	Ruby, City of	6,153
27	Saint George, City of	18,988
28	Saint Mary's, City of	15,895
29	Saint Paul, City of	70,881
30	Sand Point, City of	39,312
31	Saxman, City of	21,534

1	Selawik, City of	4,016
2	Seldovia, City of	4,997
3	Seward, City of	192,943
4	Sitka, City and Borough of	371,607
5	Skagway, City of	72,524
6	Soldotna, City of	139,473
7	Tanana, City of	11,285
8	Thorne Bay, City of	14,513
9	Toksook Bay, City of	881
10	Unalakleet, City of	13,698
11	Unalaska, City of	493,130
12	Valdez, City of	255,619
13	Wasilla, City of	173,593
14	Whittier, City of	48,977
15	Wrangell, City of	125,854
16	Yakutat, City and Borough of	22,773
17	Total	\$18,426,923

18 * Sec. 60. DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT MAJOR
 19 MAINTENANCE GRANTS. The sum of \$25,088,607 is appropriated from the general fund
 20 to the major maintenance grant fund (AS 14.11.007) for payment by the Department of
 21 Education and Early Development as grants to the following school districts for the following
 22 school projects in the following amounts:

23	PROJECT	AMOUNT
24	Alaska Gateway - Dot Lake	\$1,087,118
25	School Mechanical Upgrade	
26	(HD 6)	
27	Alaska Gateway - Mentasta	1,750,189
28	School Building Upgrades	
29	(HD 6)	
30	Aleutians East -	181,885
31	Districtwide Playground	

1	Selawik, City of	4,016
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3	Seward, City of	192,943
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5	Skagway, City of	72,524
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8	Thorne Bay, City of	14,513
9	Toksook Bay, City of	881
10	Unalakleet, City of	13,698
11	Unalaska, City of	493,130
12	Valdez, City of	255,619
13	Wasilla, City of	173,593
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30	Aleutians East -	181,885
31	Districtwide Playground	



CITY OF FAIRBANKS

Steve M. Thompson, Mayor

800 CUSHMAN STREET
FAIRBANKS, ALASKA 99701-4615

OFFICE: 907-459-6793

FAX: 907-459-6787

smthompson@ci.fairbanks.ak.us

April 3, 2007

Dear Rep. Kelly:

The City of Fairbanks has recently been singled out for criticism because of the impact the sale of the city utility had on the solvency of the PERS system.

Before the utility was sold, the city contacted the PERS system to identify the amount of the payment to ensure that Fairbanks Municipal Utility System (FMUS) was holding the system harmless from a negative impact. When the administrator responded, we were told that the impact of the FMUS sale would actually be a positive for Fairbanks by some \$16 million dollars. Our auditor confirmed that this estimate was correct.

The City has never missed a payment on the required employer contribution rate and has paid more than required for recent years. It wasn't until 2001 that we learned the City of Fairbanks didn't receive a \$16 million credit from the sale and in fact our account slid into underfunded status for reasons that are unrelated to the utility sale.

There have been some comments that the city placed some money in a permanent fund from the sale which should have gone to the PERS system. This is not true; after the City sold the utilities, the proceeds were placed in an endowment to provide earnings that replaces utility earnings. City permanent fund earnings are used to provide essential municipal services.

In addition to paying the required employer rates for all years, the City voluntarily increased its rate by 5% in both FYs '06 - '07; we are now paying 10% beyond what would have been mandated.

Sincerely,


Mayor Steve Thompson



25th Alaska State Legislature

House Special Committee on Ways & Means

Chair:

Rep. Mike Hawker
Capitol Room 502
465-4949

Vice-Chair:

Rep. Anna Fairclough
Capitol Room 411
465-3777

Members:

Rep. Bob Roses
Capitol Room 416
465-4939

Rep. Paul Seaton
Capitol Room 102
465-2689

Rep. Peggy Wilson
Capitol Room 403
465-3824

Rep. Sharon Cissna
Capitol Room 420
465-3875

Rep. Max Gruenberg
Capitol Room 110
465-4940

Committee Aide:

Juli Lucky
465-6587 direct

Letter of Intent for House Bill 206

Adopted April 11, 2007

The House Special Committee on Ways and Means moved House Bill 206 (HB 206) out of committee in order to allow the House Finance Committee to consider the cost-share provisions contained therein concurrently with other legislation regarding pension financing and payment of the unfunded accrued actuarial liability (UAAL).

HB 206 changes the defined benefit plan of the Public Employees' Retirement System of Alaska (PERS) to an employer cost-sharing program similar to the teachers' retirement system (TRS). The bill does not contain provisions to equalize allocation of the UAAL or recognize excess contributions already made in good faith by employers in order to reduce their UAAL and, consequently, their contribution rates. For some employers, passage of HB 206 could increase their required contribution rates and will provide a disincentive to remain in the PERS plan.

The proposal offered in HB 206 also does not provide long-term assurance of a fixed maximum annual contribution rate for employers.

While these issues and possible alternatives were discussed, the House Special Committee on Ways and Means decided to move the plan offered by the administration in HB 206 along with this expression of concern regarding that approach. Representative Paul Seaton presented one approach to address these concerns which has been forwarded to the House Finance Committee.

It is the recommendation of the committee that the House Finance Committee seek a solution that provides parity and assurance of contribution rates for employers.

A handwritten signature in black ink, appearing to read "Mike Hawker", written over a horizontal line.

Representative Mike Hawker
Chair, House Special Committee on Ways and Means

Hold Harmless

Possible amendment to HB 206

Employer and State Share of UAAL* with consolidated rate of 22%

System Wide Averages

Past service cost rate	18.03%
Normal Cost	14.48%
Difference between 22% & Normal cost (14.48%) Employer contribution towards PSC	7.52%
Difference between past service cost & 7.52 State contribution towards PSC	10.51%
Consolidated Rate	22%

- Employers share of the UAAL =
 $7.52/18.03 = .417$
41.7%
- States share of UAAL (additional to State's contribution as an employer)
 $10.51/18.03 = .583$
58.3%

*Unfunded Actuarial Accrued Liability

- UAAL* = 4.4b
- Under 22% consolidated rate cost share
 - Employers are responsible for 1.83b (.417 * 4.4)
 - State is responsible for outside of their responsibility as an employer 2.56b (.582 * 4.4)

*Unfunded Actuarial Accrued Liability

(All calculations are based on the Supplement to the Actuarial Valuation Report as of June 30, 2005, Individual Employer Information for FY08)