

ALASKA LEGISLATURE COMMITTEE FILES 1991-1992 8672  
7701 SENATE STATE AFFAIRS

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# Highlights

This report has been prepared by William M. Mercer, Incorporated to:

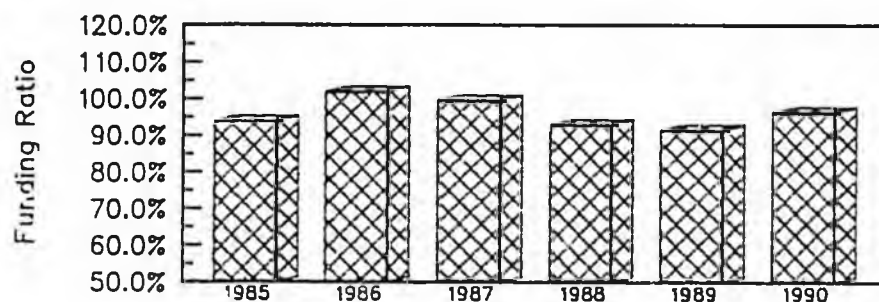
- (1) present the results of a valuation of the Alaska Public Employees' Retirement System as of June 30, 1990;
- (2) review experience under the plan for the year ended June 30, 1990;
- (3) determine the appropriate contribution rates for the State and for each political subdivision in the system;
- (4) provide reporting and disclosure information for financial statements, governmental agencies, and other interested parties.

The report is divided into two sections. Section 1 contains the results of the valuation. It includes the experience of the plan during the 1989-90 plan year, the current annual costs, and reporting and disclosure information.

Section 2 describes the basis of the valuation. It summarizes the plan provisions, provides information relating to the plan participants, and describes the funding methods and actuarial assumptions used in determining liabilities and costs.

The principle results are as follows:

	<u>1989</u>	<u>1990</u>
Funding Status as of June 30:		
(a) Valuation Assets*	\$ 2,348,423	\$ 2,677,486
(b) Accrued Liability*	2,563,268	2,753,518
(c) Funding Ratio, (a) / (b)	91.6%	97.2%



\* In thousands.

Employer Contribution Rates  
for Fiscal Year:

	<u>1992</u>	<u>1993</u>
(a) Consolidated Rate	12.00%	12.83%
(b) Average Past Service Rate	2.20%	.75%
(c) Average Total Contribution Rate	14.20%	13.58%

In preparing this valuation, we have employed generally accepted actuarial methods and assumptions, in conjunction with employee data provided to us by the plan sponsor and financial information provided by Coopers & Lybrand, to determine a sound value for the plan liabilities. We believe that this value and the method suggested for funding it are in full compliance with the Governmental Accounting Standards Board, the Internal Revenue Code, and all applicable regulations.

Respectfully submitted,

Brian R. McGee, FSA  
Principal

Peter L. Godfrey, FIA, ASA  
Consulting Actuary

BRM/PLG/JWJ/jls

April 11, 1991

## Analysis of the Valuation

As shown in the Highlights section of this report, the funding ratio as of June 30, 1990 has increased from 91.6% to 97.2%, a 5.6% increase. The average employer contribution rate has decreased from 14.20% of payroll to 13.58%, a reduction of 0.62%. The reasons for the change in the funded status and contribution rate are explained below.

### 1. Retiree Medical Insurance

During the year ended June 30, 1990, the System experienced an actuarial gain of \$96,813,000 due to the reduction in retiree medical premiums.

Because, in recent years, the adverse retiree medical premium experience was a major reason for the rapidly increasing employer contribution rate and the deteriorating funding ratio, it is certainly welcome news to be able to comment on a stabilization in retiree medical premiums.

The following table summarizes the monthly premium per benefit recipient since retiree medical benefits have been provided under PERS.

<u>Fiscal Year</u>	<u>Monthly Premium Per Retiree For Health Coverage</u>	<u>Annual Percentage Increase</u>	<u>Average Annual Increase Since 1978</u>
1977	\$ 34.75	--	--
1978	57.64	66%	--
1979	69.10	20%	20%
1980	64.70	- 6%	6%
1981	96.34	49%	19%
1982	96.34	0%	14%
1983	115.61	20%	15%
1984	156.07	35%	18%
1985	191.85	24%	19%
1986	168.25	-12%	14%
1987	165.00	- 2%	12%
1988	140.25	-15%	9%
1989	211.22	51%	13%
1990	252.83	20%	13%
1991	243.98	- 4%	12%
1992	243.98	--	11%

As you can see from the above table, the monthly retiree medical premium reduced to \$243.98 during the year from \$252.83, a decrease of 3.50%. The premium for the 1992 fiscal year remained unchanged.

As noted in last year's valuation report, the State has seen a dramatic shift to post-65 rates which have increased considerably faster than pre-65 rates. However, both rates reduced by 3.50% in FY91 and have remained unchanged for FY92, resulting in the first actuarial gain from medical benefits for the System since the June 30, 1987 valuation of the System.

The effect on the past service contribution rate of this reduction in retiree medical premiums was a reduction of 0.95% of payroll. The effect on the consolidated rate was a reduction of 0.47%, resulting in a reduction in the average total employer contribution rate due to medical benefits of 1.42% of payroll.

## 2. Investment Performance

The System once again experienced actuarial gains arising from the investment performance of the Trust assets. Although the return as measured by market values was lower this year than last year, the effect of the five-year smoothing was to increase the return as measured by valuation assets from last year. The approximate rate of return based on market values was 9.94% and the rate based on valuation assets was 11.87%. The resulting actuarial gain was \$68,112,000 which had the effect of reducing the average employer contribution rate by 0.67%.

## 3. Salary Increases

Salary increases during the year were less than anticipated in the valuation assumptions. Salary experience resulted in an actuarial gain of \$6,991,000 which generated a reduction in the average employer contribution rate of 0.07% of payroll.

## 4. Employee Data

Section 2.2 provides statistics on active and inactive participants. The number of active participants increased 3.7%, from 28,044 at June 30, 1989 to 29,086 at June 30, 1990. The average age of active participants increased from 40.17 to 40.37 and average credited service increased from 6.66 to 6.82 years.

The number of retirees and beneficiaries increased 5.7%, from 6,967 to 7,365, and their average age increased from 63.28 to 63.62. There was an 18.6% increase in the number of vested terminated participants from 2,314 to 2,745. Their average age reduced slightly from 42.97 to 42.96.

The overall effect of these participant data changes was an actuarial loss of \$7,216,000, resulting in an increase in the past service contribution rate of 0.07% of payroll. These demographic changes also had the effect of increasing the consolidated rate by 0.61%, resulting in an increase in the average total employer contribution rate of 0.68% of payroll.

### Retirement Incentive Program

The second Retirement Incentive Program has been available to University of Alaska participants since July 1, 1989 and to other participants since October 1, 1989. The number of new retirees increased from 370 at June 30, 1989 to 495 at June 30, 1990. Although the full effect of the R.I.P. may not be seen until next year's valuation, the R.I.P. was responsible in part for the increase in the number of new retirees.

As with the first R.I.P., the cost is being borne by employers based on the actuarial value of the extra benefits, calculated individually for each employee electing to retire under the program. This cost is being paid over a three-year period. If the assumptions underlying the calculated cost of the R.I.P. are met, the total cost to the System will be equal to the employers' payments.

### Summary

The following table summarizes the sources of change in the average employer contribution rate:

(1) Last year's average employer contribution rate . . . . .	14.20%
(2) Decrease in past service rate due to retiree medical insurance . . . . .	(0.95%)
(3) Decrease in consolidated rate due to retiree medical insurance . . . . .	(0.47%)
(4) Decrease due to investment performance . . . . .	(0.67%)
(5) Decrease due to salary increases . . . . .	(0.07%)
(6) Increase in past service rate due to demographic experience . . . . .	0.07%
(7) Increase in consolidated rate due to demographic experience . . . . .	0.61%
(8) Impact of all other factors . . . . .	0.86%
(9) Average employer contribution rate this year . . . . .	13.58%

In summary, the System enjoyed a good year with substantial actuarial gains arising from favorable investment performance and the reduction in medical premiums. These two factors were largely responsible for the increase in the System's funded status to 97.2% of accrued liabilities.

# Audit Report

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DEPARTMENT OF ADMINISTRATION  
1989 RETIREMENT INCENTIVE PROGRAM  
ESTIMATED SAVINGS REALIZED AND  
COSTS INCURRED BY PARTICIPATING  
EMPLOYERS

November 22, 1991

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Audit Control Number:

02-4404-91

Division of Legislative Audit  
P.O. Box W, Juneau, Alaska 99811-3300

# LEGISLATIVE BUDGET AND AUDIT COMMITTEE

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The committee is responsible for providing the legislature with audits of state government agencies. The programs and activities of state government now cost more than \$4 billion a year. As legislators and administrators try increasingly to allocate state revenues effectively and make government work more efficiently, they need information to evaluate the work of governmental agencies. The audit work performed by the Division of Legislative Audit helps provide that information.

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November 27, 1991

Members of the Legislative Budget  
and Audit Committee:

In accordance with the provisions of Title 24 of the Alaska Statutes, the attached report is submitted for your review.

A Report on the 1989  
Retirement Incentive Program  
Estimated Savings Realized and Costs Incurred  
By Participating Employers

November 22, 1991

Audit Control Number

02-4404-91

The audit reports on the estimated savings realized, and in some instances the costs incurred, by the public employers who participated in the 1989 Retirement Incentive Program (RIP). Estimated savings and costs are included for the State of Alaska, the University of Alaska, 35 school districts, 21 political subdivisions, and 7 other participating employers.

The audit was conducted in accordance with generally accepted government auditing standards. The schedule on page 8 summarizes the savings and costs for the 65 employers participating in the program. As shown on that schedule, we estimate the net statewide savings to be \$22.9 million. In our view, as discussed in the Report Conclusions and Auditor Comments section of the report, the program achieved both aspects of its established intent. A further statement of our audit approach is included in the Objectives, Scope, and Methodology section of this report.

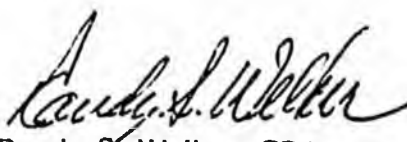
  
Randy S. Welker, CPA  
Legislative Auditor

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## OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with a Legislative Budget and Audit Committee special request and the provisions of Title 24 of the Alaska Statutes, we conducted a review of the 1989 Retirement Incentive Program (RIP).

### Objectives

Chapter 89, SLA 1989, as amended by Chapter 18, SLA 1990 implemented a retirement incentive program for all public employers whose employees are covered by either the Public Employees' Retirement System (PERS) or the Teachers' Retirement System (TRS). The primary objective of our review was to develop reasonable estimates of the savings realized or the costs incurred by the 65 employers which elected to participate in the program. A second objective of the review was to determine if RIP achieved the intent of the program as established by the legislature.

### Scope

All employers who participated in either or both the 1989 PERS and TRS retirement incentive programs were contacted on-site or by mail. Our review included all RIP participants who had actually retired as of September 15, 1991 from either the State of Alaska, University of Alaska, or one of the other participating school districts, political subdivisions, or other public employer organizations. The Division of Retirement and Benefits (DRB) estimated that approximately an additional 100 individuals retired under the program between our fieldwork cut-off date of September 15, and October 31, 1991, the last possible date that RIP participants could actually retire. With the exception of three participants that we included in the course of our on-site reviews in local communities, the savings/costs associated with these individuals are not included in this report.

### Methodology

Savings and costs contained in this report were developed from our review and analysis of the following information and documentation:

1. Records of RIP participants maintained by the Department of Administration, DRB.
2. Files pertaining to State of Alaska participants maintained by the Office of Management and Budget (OMB), and the personnel or administrative services sections for various state executive branch departments and agencies.

3. Instructions issued by OMB to executive branch departments and agencies regarding the assumptions, procedure, and method to be used to determine participant eligibility and calculate individual savings.
4. OMB's report of RIP savings for state agencies summarized by agency position control number.
5. Summaries prepared by participating public employers (26 school districts, 20 political subdivisions, and 7 other participating organizations) responding to our survey.
6. Summarized and detailed information prepared by the Alaska Court System and the University of Alaska regarding their RIP participants.

Based on our analysis of the information and documentation we adjusted estimates of the savings and costs for participating RIP employers. The adjustments were made, to the extent that it was practicable to calculate and quantify the costs involved, to more accurately estimate the savings realized or costs incurred by each participating employer.

## ORGANIZATION AND FUNCTION

The Department of Administration, Division of Retirement and Benefits (DRB) is responsible for administering the retirement and benefit programs for public employees. The two largest retirement systems administered by DRB are the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS).

In June 1989, Chapter 89, SLA 1989 (amended by Chapter 18, SLA 1990) reestablished an earlier retirement incentive program for employees participating in either PERS or TRS. The program, known as the Retirement Incentive Program (RIP), was established to reduce personal services costs to the State and other public employers who elected to participate in the program.

To be eligible for RIP, employees had to meet both the basic criteria established in the enabling statute in addition to any special criteria that their employer wanted to attach. The basic criteria required that the employee be vested in their retirement system. Further, after including the retirement incentive of three extra years of credited service they would have to have been eligible to meet the age or service eligibility requirements for normal retirement or early retirement.

Individuals covered by PERS must be at least 55 years old and have 5 years of service for normal retirement compared to TRS requirements of 55 and 8 years respectively. For early retirement, both PERS and TRS requires that individuals be 50 with either 5 (PERS) or 8 (TRS) years of service. For state employees additional eligibility criteria were developed by the Office of Management and Budget. These additional criteria are discussed further in the Background Information section of this report.

As of September 15, 1991, almost 1800 individuals had participated in the 1989 RIP. Additional funds were provided to administer RIP. DRB and the Division of Finance were authorized to hire temporary and part-time employees to process the increased number of retirement applications. Operational funding was provided through the assessment of administrative fees charged all participating employers. This funding allowed DRB to hire nine temporary positions in FY 89 and thirteen temporary positions in FY 90 and FY 91 to administer the program. The Division of Finance also received funding for two part-time positions in FY 90 and FY 91 to perform verifications of salary and years of service.

Factors typically involved in the calculation of RIP savings are illustrated by the following example:

An individual otherwise eligible for participating in RIP has an annual salary of \$40,000. The individual has fixed benefit costs of \$2,000 and other benefit costs that represent 10% of his salary. It is assumed that the employee would receive salary increases of 5% a year over the next two years, if he continued working. The employer contribution costs required to provide the three additional years of service under RIP is \$20,000. The projected costs of the RIP participant would be calculated as follows:

	Salary	Fixed Benefits	Other Benefits	Total Projected Costs
Year 1	\$40,000	\$2,000	\$4,000	\$ 46,000
Year 2 (Year 1 salary + 5%)	42,000	2,000	4,200	48,200
Year 3 (Year 2 salary + 5%)	44,100	2,000	4,410	50,510
Projected Salary and Benefit Costs of RIP Participant				\$144,710

If the replacement for the RIP participant is paid \$32,000 with the same assumptions, then the projected salary and benefit costs would be calculated as below:

	Salary	Fixed Benefits	Other Benefits	Total Projected Costs
Year 1	\$32,000	\$2,000	\$3,200	\$ 37,200
Year 2 (Year 1 salary + 5%)	33,600	2,000	3,360	38,960
Year 3 (Year 2 salary + 5%)	35,280	2,000	3,528	40,808
Projected Salary and Benefit Costs of the replacement employee				\$116,968

The difference of \$27,742 in the projected costs (\$144,710 - \$116,968) represents gross savings attributable to RIP. This total is reduced further by the \$20,000 employer's contribution costs and the \$140 administrative fee charged by the Division of Retirement Benefits.

In this situation, the net RIP savings are estimated as \$7,602. This savings is generated from the incremental difference between the projected salary and benefits of the RIP participant and the replacement (\$27,742), reduced by cost to the employer of providing the retirement incentive of the incentive (\$20,000 the employer must pay), and the administrative fee paid to the Division of Retirement and Benefits (\$140). If the RIP participant's position had been eliminated, the estimated savings to the employer would have jumped to \$124,568 (\$144,710 - \$20,000 - \$140).

*Example of how RIP Savings are estimated*

## BACKGROUND INFORMATION

The aim of the Retirement Incentive Program (RIP) was to allow participating public employers, most notably the State of Alaska, to reduce personal service costs while reducing the number of employees who would have to be laid off involuntarily. The program was made available to public employees covered by either the Public Employees' Retirement System (PERS) or the Teachers' Retirement System (TRS).

### OMB issued strict rules on savings which limited participation and maximized savings

After the passage of Chapter 89, SLA 1989 the Office of the Governor, Office of Management and Budget (OMB) issued detailed guidelines for state agencies to follow in implementing RIP. Under these OMB guidelines, employees wishing to participate in RIP had to meet two basic requirements in order to qualify:

1. Personal Eligibility - Basic requirements of age, length of service, and vested status in PERS or TRS had to be met.
2. Savings had to be demonstrated for each individual - Unlike the previous 1986 RIP program, OMB designated each individual as an "organizational unit." This meant that the savings in salary and benefits projected over a three year period between the RIP retiree and their replacement had to exceed the State's employer costs (see inset on opposite page) in order for the employee to participate.

OMB chose to define each employee as an organizational unit in order to maximize the cost savings, as required by the legislation. OMB felt that netting the savings generated by one employee's participation against the costs of another who did not generate a savings did not fully meet the legislative intent regarding savings. Other program implementation guidelines issued by OMB addressed what savings could be included in determining eligibility for state employees. For example:

1. Savings through the elimination of a position could be included - It was permissible to include savings realized for a RIP participant from the elimination of their position.
2. Savings from reclassification of positions could not be considered - OMB precluded agencies from including savings projected from reclassifying RIP participant positions to a lower pay scale. OMB felt that since savings determined program eligibility that such a rule was necessary. The rule avoided situations such as having to decide between two potential RIP participants in the same job class where only one position could be justified for reclassification.

3. Vacancy savings could not be considered - Savings generated from leaving a RIP participant's position open temporarily could not be considered in determining program eligibility. OMB felt that vacancy savings were temporary, generated by delay in refilling a position.
4. "Domino-effect" savings could not be considered - OMB did not allow any savings to be included that were realized through the replacement of a lower paid employee down the chain of an organization. As an example, assume the RIP participant retired from a range 20 position, and was replaced by an individual from a range 18 position, who in turn was replaced by a previous range 16 worker. The only savings that could be considered would be the difference in salary and benefits of the outgoing retiree and their replacement. Savings generated from the salary and benefit differences for both the old range 18 and the new one, plus the old range 16 and new entry level staff member, were not allowed to be included.
5. Savings from differences in leave accrual rates could not be counted - Neither sick leave nor leave accrual differences were allowed to be recognized as a source of savings for RIP participants, except to the extent these factors were reflected in benefit differential calculations.

Since demonstrated savings were necessary for program eligibility, and the OMB rules were rather narrow about what savings could be counted, many employees who met all other criteria were not eligible to participate. In many cases, a long term employee, working in a position that was going to continue after their retirement, could not generate enough projected savings over a three-year period for the State to recapture its associated RIP employer contribution costs for the individual.

#### 1990 legislation amended RIP program and provided for more participation

Chapter 18, SLA 1990 amended RIP in such a way as to increase the number of people who were eligible to participate. Under the legislation, employers could calculate savings over a five year period rather than three. It also allowed an employee to pay part of the State's employer costs if no savings were generated from their participation in RIP.

The legislation and the accompanying revised guidelines issued by OMB permitted an additional 192 state employees to participate in the program. Of these employees 78 still could not demonstrate a projected savings, even over a five-year period. However, as allowed by the amended legislation these individuals paid a total \$750,000 of the State's employer costs in order to participate.

Each employer could set their own eligibility requirements for RIP participation

Under Chapter 89 SLA 1989 the governing body of each political subdivision employer could choose if they wanted to participate in RIP. Outside of the general years of service and age criteria for the two retirement systems involved, each participating employer was permitted to develop their own rules and criteria for participation. Likewise, the University of Alaska was also permitted to establish its own rules and guidelines regarding RIP participation for its employees. Other participating employers who were not school districts or political subdivisions such as the National Education Association of Alaska and the Southeast Regional Resource Center were also allowed to develop additional internal criteria.

Most employers had more lenient organizational unit and other criteria than the State

With one notable exception (see inset at right), none of the employers that we interviewed during the review imposed as strict of requirements on program participation as did the State of Alaska. Once participation in the program was approved by the organization's governing body, most felt that it was only fair to allow every employee who met the basic eligibility criteria to participate.

As reflected on schedule 3 on page 10, three of the 19 school districts which had both PERS and TRS RIP participants, projected a net cost (over a three year period) for PERS retirees. Each of these districts could have defined their "organizational unit" more strictly (i.e. on an individual basis or allow only TRS members to participate) to increase projected savings.

However, each of these three employers defined the school district as a whole as the organizational unit, thus allowing everyone meeting the basic criteria to participate.

**CITY OF KETCHIKAN HAD  
STRICTEST RIP RULES, BUT MAY  
STILL NOT REALIZE FULL SAVINGS**

The City of Ketchikan had the strictest RIP participation criteria of any participating employer we interviewed. The city council voted to allow employees to participate only if they agreed to pay the city's share of costs involved in providing the retirement incentive.

Largely as a result of this requirement, only one individual elected to participate in the program. Under these terms, RIP should have not cost the city anything except for a relatively small administrative fee.

However, the savings for the city as shown on the table on the following page, does not reflect these savings. The \$5,400 of estimated savings reflects the fact that the City of Ketchikan did pay the employer costs for the RIP participant, but as of the date of this report has not received repayment from the retiree. We conservatively reduced our estimate of savings because the legal enforceability of the city's claim for repayment is currently disputed by the RIP participant.

Schedule 1 - Estimated Savings or (Costs) by Employer (Notes to Schedule on page 25 of report)

<u>Employer</u>	<u>Number of Retirees</u>	<u>Estimated Savings or (Costs) (Note 1)</u>	<u>Employer</u>	<u>Number of Retirees</u>	<u>Estimated Savings or (Costs)</u>
State of Alaska (Note 2)	739	\$ 6,033,100	Yukon/Koyukuk Schools	2	\$ 53,000
University of Alaska (Note 3)	145	4,317,800	Fairbanks North Star Borough (Note 16)	2	45,700
Anchorage School District (Note 4)	306	2,684,900	City of Palmer	3	46,600
Kenai Peninsula Borough Schools (Note 5)	72	1,988,800	Cordova City Schools	2	45,400
Fairbanks North Star Borough Schools (Note 6)	83	1,554,100	Kodiak Island Borough Schools	4	43,700
City of Fairbanks (Note 7)	22	776,700	Alaska State Housing Authority	4	42,700
North Slope Borough School District (Note 8)	42	517,500	Lower Yukon School District	5	38,600
Matanuska-Susitna Borough Schools (Note 9)	42	487,800	Unalaska City School District (Note 11)	3	37,500
North Slope Borough (Note 10)	12	469,600	Iditarod Area Schools (Note 11)	5	34,000
Ketchikan Gateway Borough Schools	23	443,000	Cordova Community Hospital	3	31,400
Lower Kuskokwim Schools (Note 11)	25	324,000	Alaska Gateway Schools	2	27,900
Matanuska-Susitna Borough (Note 12)	9	310,900	City of Kenai	3	27,700
Sitka School District	17	229,700	National Education Association	1	21,600
Kenai Peninsula Borough (Note 13)	6	224,900	City of Haines	1	17,300
Juneau Borough Schools	28	217,700	Bartlett Memorial Hospital	2	16,300
Dillingham City Schools	3	213,600	Nenana City Schools (Note 11)	1	15,400
City and Borough of Juneau	19	199,600	Skagway City School (Note 11)	1	15,400
Hoonah City Schools	2	151,200	Bristol Bay Borough Schools (Note 17)	1	14,600
Haines Borough School District	2	150,700	Nome City Schools	5	12,900
Bering Strait Schools (Note 11)	17	149,800	Southeast Regional Resource Center	2	12,300
Wrangell City Schools	9	124,500	Ketchikan Gateway Borough	1	11,300
City of Hoonah (Note 14)	2	118,000	City of Ketchikan (Note 18)	1	5,400
Southwest Region Schools (Note 11)	9	112,500	City of Kotzebue	1	3,000
Delta/Greely Schools (Note 11)	7	107,500	City of Valdez	2	2,600
City of Homer	5	102,100	City of Seward	2	800
Valdez City Schools	3	84,100	Craig City Schools	1	(12,800)
City of Kodiak (Note 15)	6	77,500	Bristol Bay Borough	1	(14,400)
Kuspuk Schools (Note 11)	7	64,700	Yakutat City School District	1	(16,900)
Chatham Schools	6	64,600	Kake City Schools	1	(29,700)
Southeast Island Schools	4	63,000	Yupit School District	2	(30,600)
Sitka Community Hospital	3	60,100	City and Borough of Sitka	7	(31,300)
City of Wrangell	9	58,900	Seward General Hospital	2	(44,800)
Kodiak Island Borough	4	55,300	<b>Total</b>	<b>1,764</b>	<b>\$22,984,800</b>

## REPORT CONCLUSIONS

As summarized by the schedule on the opposite page, the estimated savings for the 1989 Retirement Incentive Program (RIP) totalled \$22.9 million. The savings were generated mostly by the incremental difference in the salary and benefit costs between the typically higher paid RIP participant and their lower paid replacement rather than realized from an extensive elimination of positions left vacant.

The top five employers, with a total estimated savings of more than \$16.5 million accounted for 72% of the statewide total. The State of Alaska and the Anchorage School District had about the same average savings per participant. Both were among the highest three employers in savings essentially because of the large number of employees each had participating. Only one of ASD's 306 RIP participant positions was subsequently eliminated, whereas the State only benefitted from three eliminated positions in its RIP savings calculations.

### University savings came from elimination of positions and high salary differentials

The University of Alaska's average savings of almost \$30,000 for each RIP participant was the highest of any employer. The University benefitted from both the elimination of some positions, and from having the highest incremental difference in salary and benefits of any employer. Tenured full professors retiring under RIP typically had salary and benefit costs of more than \$90,000. By comparison, their replacements, if any, were most often instructors or assistant professors who had salary and benefit costs in the range of \$40,000 to \$50,000. As shown on Schedule 3 on the next page, the University averaged savings of more than \$35,000 for each RIP participant covered by the Teachers' Retirement System.

### For some employers savings were small or non-existent

Eleven of the sixty-five employers who elected to participate in the program had estimated savings of less than \$6,000. Seven of those eleven projected that they lost money from their participation in RIP. In these instances, replacement employees were paid at or near what the terminating employee received, generating little or no savings. Meanwhile, the employer still had the cost of their retirement contribution payments for the RIP participant's three credited years.

Five of these seven employers were school districts with a total of six participants. These districts are generally smaller in size and have trouble recruiting teachers. They have no or few positions to eliminate and must maintain even entry position salaries at a level necessary to attract teachers to their remote locales. Essentially, in these districts the RIP program is treated as part of a teacher's or administrator's total compensation. This was acknowledged by Craig City Schools which reported that their RIP participation was made part of a "departure" agreement between the local board and the outgoing superintendent.

Schedule 2 - Savings/Costs by Department

Department	Number of Retirees	Estimated Savings/Cost
Transportation and Public Facilities	197	1,616,200
Health and Social Services	77	561,600
Fish and Game	56	502,000
Education	41	467,500
Public Safety	54	422,800
Labor	51	393,700
Corrections	62	334,000
Commerce and Economic Development	21	332,500
Legislature	6	282,000
Administration	51	214,900
Natural Resources	31	206,000
Alaska Court System	19	190,300
Office of the Governor	15	159,800
Revenue	15	103,300
Environmental Conservation	16	87,700
Law	13	79,200
Military and Veterans Affairs	9	47,700
Community and Regional Affairs	5	31,900
<b>Total</b>	<b>739</b>	<b>\$5,033,100</b>

	TRS			PERS			TOTAL		
	Number of Retirees	Estimated Savings/Cost	Average Savings Per Participant	Number of Retirees	Estimated Savings/Cost	Average Savings Per Participant	Number of Retirees	Estimated Savings/Cost	Average Savings Per Participant
State of Alaska	18	\$ 276,900	\$15,383	721	\$5,756,200	\$7,984	739	\$ 6,033,100	\$ 8,164
University of Alaska	72	2,577,100	35,793	73	1,740,700	23,843	145	4,317,800	29,778
Anchorage School District	204	2,894,500	14,189	102	(209,600)	(2,055)	306	2,684,900	8,774
Kenai Peninsula Borough Schools	58	1,810,500	31,216	14	178,300	12,736	72	1,988,800	27,622
Fairbanks North Star Borough Schools	58	734,400	12,662	27	819,700	30,359	85	1,554,100	18,284
North Slope Borough School District	24	308,600	12,858	18	208,900	11,606	42	517,500	12,321
Matanuska-Susitna Borough Schools	26	287,700	11,065	16	200,100	12,506	42	487,800	11,614
Keetchikan Gateway Borough Schools	19	427,000	22,474	4	16,000	4,000	23	443,000	19,261
Lower Kuskokwim Schools	18	276,500	15,361	7	47,600	6,800	25	324,100	12,964
Juneau Borough Schools	27	196,700	7,285	1	21,000	21,000	28	217,700	7,773
Bering Strait Schools	4	61,400	13,350	13	88,400	6,800	17	149,800	8,812
Wrangell City Schools	5	35,600	7,120	4	88,900	22,225	9	124,500	13,833
Southwest Regina Schools	6	92,200	15,367	3	20,400	6,800	9	112,600	12,511
Kuspuk Schenls	2	30,700	15,350	5	34,000	6,800	7	64,700	9,243
Chatham Schools	5	64,700	12,940	1	(100)	(100)	6	64,600	10,767
Southeast Island Schools	3	49,600	16,533	1	13,300	13,300	4	62,900	15,725
Kodiak Island Borough Schools	2	33,900	19,950	2	3,800	1,900	4	43,700	10,925
Lower Yukon School District	3	64,400	22,133	2	(27,700)	(13,850)	5	38,700	7,740
Unalaska City School District	2	30,700	15,350	1	6,800	6,800	3	37,500	12,500
<b>Total</b>	<b>556</b>	<b>\$10,261,100</b>	<b>\$18,453</b>	<b>1,015</b>	<b>\$9,006,700</b>	<b>\$8,874</b>	<b>1,571</b>	<b>\$19,267,800</b>	<b>\$12,268</b>

Schedule 3 - Savings for Employers with Both TRS and PERS Retirees

The costs incurred by the City and Borough of Sitka (CBS) were attributed to a situation where the costs of replacement employees were higher than anticipated. It was reported to us that the Borough Assembly made the decision to participate in RIP based on projections of salary and benefits for replacement employees that subsequently proved to be inaccurate. When replacement employees were actually paid near or even above the outgoing RIP participant's salary then all projected savings were eliminated, turning the savings program into a cost for CBS.

1989 RIP legislative intent had two aspects

RIP's implementing legislation stated that the program was

*intended to realize sufficient economies to offset the cost of administration and benefits to state agencies and other employers resulting from the award of retirement credits and to result in a net reduction in personal services costs to the state or other employers during a period of declining revenues.*

This intent has two specific parts. The program was to pay for itself (*realize sufficient economies to offset the cost ...*) and was to provide for savings in personal services costs to the state (*a net reduction in ...*).

Overall, 1989 RIP did pay for itself

As discussed previously, most of the savings realized under the 1989 RIP were of an incremental nature. The assumptions, methodologies, and approach that we used to estimate savings could not practically consider all the variables that could have an affect on the actual savings realized. And as mentioned, seven of the employers appear not to have realized savings to offset the costs of their participation.

Despite these considerations, we are confident that the program achieved the first aspect of its established intent. In our view, on balance, the program *realized sufficient economies to offset the cost of administration and benefits* provided as an early retirement incentive. The incremental savings accumulated by the state agencies and other participating employers from RIP did, when considered for the organizations as a whole, exceed the cost to the employer for providing the additional three years of service.

RIP did generate a net reduction in personal service costs but budget impact is uncertain

We are also confident that state agencies realized a *net reduction in personal services costs*, or savings, through RIP. For the RIP participant positions (also known as PCNs for position control number in budgetary terms), where replacements were hired in at lower pay, there was a net reduction. State agencies spent, and will prospectively spend less for those specific PCNs in the first, second, and third years than they would have, had the RIP retiree remained as the incumbent.

Doubts are often expressed about the savings generated by RIP because they rarely, if at all, are reflected in state agency budget requests. Further, the incremental nature of most of the 1989 RIP savings contribute further to this lack of visibility in agency budgets. When savings are generated through the elimination of positions left vacant by RIP participants, then the budgetary impact is more clearly reflected in the fewer number of positions in the agencies' budget requests.

However, when savings are primarily due to the incremental difference between RIP participants' personal service costs and those of their replacements, identifying savings for legislative consideration is more difficult and subtle. Such savings get lost in a blend of budgetary incremental adjustments such as those generated by new union contracts, new positions for new programs, new positions for old programs, adjustments for vacancy and turnover, etc.

Accordingly, we believe the savings shown for the various state agencies in Schedule 2 on page 10 were realistic, and for the most part, have been or will be realized. However, we cannot reasonably estimate how much of these savings were reflected in agency budget requests or remained in year-end balances that lapsed back to the general fund, although we believe that, to some degree, both of these happen.

Savings and program recommendations discussed further in Auditor Comments

In the following Auditor Comments section we offer examples of how state agencies may be using RIP-generated savings, and discuss how the university is using savings for what they term "budget reallocation" and "budget reduction" purposes. We also suggest that the legislature provide for improved monitoring of RIP-generated savings, when considering any future RIPs.

## AUDITOR COMMENTS

As concluded in the previous section, we are confident that RIP generated a *net reduction in personal services costs* (as intended by its authorizing legislation). However, existence of these savings is met with some skepticism, because they do not appear to be reflected in state agency operating budgets. Often, agencies take advantage of the flexibility afforded from the reduction of personal services costs to reallocate and use the savings without legislative budgetary oversight. To the skeptics, and from a conservative budgetary viewpoint, to the extent this occurs, such reallocations do not represent savings, nor do they result in a *net reduction in personal services costs*.

### Four examples illustrate how RIP "savings" may have been used besides budget reduction

For example, consider the *net reduction in personal service costs* that may or may not be involved in the following situations:

1. RIP savings are used to hire temporary staff. With the RIP savings that an agency generates in its personal services budget, management decides to hire temporary workers to carry out a special project. The work was important, necessary to the agency's functioning, but until the flexibility provided by the RIP, the agency never had the available funding to accomplish the task.

Although RIP generated the savings used to hire the staff and pay the overtime, agency management has decided how those savings were used. In this instance, RIP generated a savings, but from a budgetary aspect, none would be reflected in a *net reduction in personal services costs*.

2. RIP savings are transferred to contractual budget category. With the savings generated by RIP an agency transfers authorizations from the personal services to the contractual services budget category. With this increased funding, the agency contracts for some or all of the services that had previously been performed by the RIP retiree.

Again, in this example RIP has provided savings. Through the use of a budgetary mechanism, even a *net reduction in personal services costs* has been achieved. However, as in the first example, it is agency management that is deciding how to reallocate RIP savings, and from a budget reduction viewpoint, no savings are realized despite the personal services cost reduction.

3. RIP savings allotted to other programs. One difficulty that both we and officials at the University of Alaska had with estimating RIP savings was the treatment of "budget reallocation" savings. University officials reported that RIP provided administrators

increased flexibility and was used in part, to reconfigure the instructional staff at various campuses in response to student demand (see inset at right).

For example, if an accounting professor retired under RIP, that position itself may be left vacant but the savings generated may be used for a myriad of other activities.

Again, RIP has generated savings, and to some extent, a *net reduction in personal services costs* was probably generated, but all was done outside the influence of legislative budget review. From the budgetary aspect, no savings were realized, because none were reflected in the university's budget request.

4. RIP participant's position is cut. When RIP generates savings through elimination of a position, without a budgetary monitoring system, even these more discrete savings can be temporary. For example, an agency eliminates a position from the budget left vacant by a RIP retiree. The agency has decided to either to absorb the RIP participant's workload with existing staff, discontinue the services provided by the retiree, or perhaps, as mentioned above, "contract-out" the tasks. Now, from a budgetary perspective, RIP savings are more readily realized, since agency budget requests are reduced to reflect the eliminated position.

However, two years later, perhaps under a different administration, management requests and obtains funding for a "new" position. The new position is needed to perform all or most of the tasks that were previously done by the RIP retiree. If funded, the legislature is reallocating, probably unknowingly, a portion of RIP's *net reduction in personal services costs*.

### **UNIVERSITY REALLOCATION INDICATES HOW RIP SAVINGS ARE USED**

One university campus wrote us describing what they did with more than \$170,000 in savings (projected over a three-year period) generated by one retiring professor.

*The position vacated by the [RIP participant] was an associate professor of Business Administration at the Sitka campus. The position was not filled in order to save money that could be reallocated for use in meeting the changing needs of the campus' constituency. Reallocation of funds saved by not filling this position made it possible to increase business program offerings in the consortium arrangement with Sheldon Jackson College, partially fund a faculty position in Computer Information Systems, add courses outside of the faculty member's expertise and eliminate courses no longer pertinent. The work of the position was accomplished through the hire of temporary faculty for teaching, and non-teaching duties were reassigned to another employee.*

All assumptions and projections of savings made by the university were reasonable and supportable, but in light of the narrative above, it is debatable about whether the projections could be considered "savings." Since we wanted to be conservative in developing our estimates of savings, we classified this particular situation as a "budget reallocation." In erring on the side of conservatism, we defined budget reallocations as not being savings.

Because we know more about the circumstances surrounding University retirees, we actually were more conservative in refining their cost estimates than we could be with state government retirees. We have limited insight into how State of Alaska savings may have been similarly reallocated.

### Legislature was concerned about RIP accountability

The legislature was concerned about the accountability of RIP savings. The program's implementing legislation required the Office of Management and Budget (OMB) to submit annual reports on RIP and its impact each January 15 from 1991 through 1994. The report was required to provide the

*information necessary for the legislature to evaluate the effectiveness of the program in achieving its objectives. The report should include information on the designated organizational units under the retirement incentive plans including the cost of the retirement incentive program per participant, the cost to the state, the cost to the employee, the annual budgeted amount by agency for the retirement incentive, and the projected or actual savings over the three-year period.*

The 1991 report, did contain the information specified in the legislation, and we used the report as a basis for developing the costs and savings included in this report. However, the costs and data specified and submitted does not provide necessary information regarding how the projected savings were utilized or how they affected the subsequent FY 92 budget.

### Either OMB or Legislative Finance should monitor future RIPs

In addition to the report information required by the 1989 RIP legislation, the legislature should consider directing either OMB or the Division of Legislative Finance to specifically monitor RIP-generated savings. The legislature should direct one of these agencies to account for savings generated by vacant positions and the incremental differences in salary and benefits for various state agency budget request units.

By breaking down and analyzing the budgetary impact of RIP retirees, these budget review agencies could develop an adjustment factor to be used in budget construction and review. Such a factor, similar to the adjustments currently made for personnel vacancy and turnover, could be used to reduce agency personal services budget requests. Such a factor would reflect the amortization of projected RIP savings over the same time period as that provided by additional credited service.

Further, any new positions that may be included in each agency's annual budget request should be scrutinized in the context of the duties and services formerly provided by RIP participants. In addition, OMB or the Division of Legislative Finance should review the use of temporary employees and agency overtime to determine if any significant increases could be attributable to RIP.

Improved monitoring would provide enhanced legislative oversight of savings

By implementing such an upfront, monitoring and control procedure, the legislature could provide greater assurance that RIP-generated savings are being used to reduce personal service costs. Further, such a procedure more clearly identifies the amount and impact of program savings. Legislative oversight of how the savings generated from RIP are used would be improved, and such ongoing monitoring would allow the legislature a decision-making role in how savings are to be reallocated.

1990 measure reduced emphasis on savings

In 1990 the legislature amended the 1989 RIP to allow employees to "make up the difference" if the State could not project a savings for their position. This amendment had the effect of eliminating any possibility for the State to realize a *net reduction in personal services costs* for those employees.

Otherwise eligible employees, for whom no savings could be projected over a five-year period, could now participate in RIP by paying off the State's projected costs. Accordingly, under the legislation the State just "broke even" on 78 additional participants, realizing no *net reduction in personal services costs* for those individuals.

From legislative committee minutes of the testimony and discussion of the amending legislation, the primary concern appeared to be one of equity. From testimony and discussion it seems the intent of the legislature was to allow all state employees that met the basic eligibility criteria an opportunity to participate in the program, regardless of the savings that might be generated from their particular situation.

**UNIVERSITY ALSO USE RIP SAVINGS TO RESPOND TO BUDGET REDUCTIONS**

University officials also reported that they used the large savings generated by RIP participants to meet across-the-board budget reductions.

In FY 90, because of cutbacks in general fund appropriations, the university directed all departments to cut their budget by 2.5%.

For the School of Fisheries and Ocean Science (SFOS), this represented a cut of more than \$100,000. An SFOS support engineer retired under RIP and was not replaced. Three year savings generated by the retirement were estimated to be more than \$180,000.

SFOS used a third of the three-year savings generated by their RIP participant (approximately \$64,000) to partially offset the impact of the across-the-board reduction. Such use of RIP-generated savings clearly meets both the mandate for RIP to generate a net reduction in personal services costs and satisfies the conservative budgetary perspective that all savings must necessarily involve a budget reduction.

RIP reduces personal services costs, central issue is who decides how savings are used

In summary, concerns about savings generated by RIP are often misdirected. RIP, if structured appropriately, does generate personal service cost savings. Skepticism of the program is not so much attributable to an absence of any real savings, but rather exists because the current budget review process does not adequately track and reflect economies generated. Only if there are major lay-offs and budget cutbacks, do savings generated by RIP become readily apparent in state agencies' budget requests.

This lack of a developed budget control process, limits the legislature in performing its oversight role. Decision making is transferred to agency administrators. They get to decide how to reallocate or use RIP savings, with no specific legislative inquiry or direction.

## EMPLOYER COMMENTS AND DISCUSSION

The opening section of the 1989 legislation that implemented RIP stated that

*since it may be necessary for state agencies and other employers who participate in the state retirement systems to reduce their personal services costs because of declining state revenue, reimplementing of the [1986] retirement incentive program encouraging employees to retire voluntarily, will reduce the hardship of layoffs.*

However, as it turned out, concerns about layoffs and declining revenues proved, for most employers, not to be a critical factor.

### Stable fiscal conditions and prior RIP may have reduced need for staff cut savings

As summarized in the Report Conclusions section, most savings generated by the 1989 RIP were due to the incremental difference in the personnel costs of retiring workers and their replacements. A comparatively small part of the savings on a statewide basis were due to the reduction in public employment. We surmise that savings generated by the elimination of positions were minimal because of two factors:

1. The fiscal situation was better. The fiscal situation faced by the State of Alaska, most local governments, and school districts proved not to be as adverse as had been anticipated when the merits of the 1989 RIP were being debated. As a result, there was not as much pressure or need to eliminate positions in order to meet demanding budget cutbacks.
2. The impact of the earlier RIP. If local governments and school districts had an excessive number of positions, their management likely took full advantage of the earlier 1986 RIP to reduce the number of employees. That RIP was implemented at a time when both the fiscal situation and prospects at all levels of government were more problematic. With the advent of the 1989 RIP, local governments and school districts were in a situation where all or most retirees necessarily had to be replaced.

### Three employers criticize RIP as causing "brain drain" and being a costly alternative

Three of the participating employers surveyed in the course of our review expressed two common complaints regarding RIP. One is the concern over the loss of experience, sometimes referred to as "brain drain." Another employer-expressed concern was that RIP is sometimes used "as an easy way out," and that other, less costly alternatives to reducing personnel costs were not being considered.

One respondent wrote that his local assembly was

*not thrilled with RIP. This notable lack of enthusiasm was due to the potential loss of long term employees -- the real loss to the organization of those years of experience*

Another local personnel officer observed that snow removal in his community had been adversely affected by the loss of experienced snowplow operators. Increased property damage to mailboxes, taking more time to clear streets and improper maintenance of equipment were all "hidden" costs of losing experienced employees to RIP.

Another local government participant responded that

*Any net savings identified in this study is an imaginary figure. There exist other alternatives to personnel cost reduction not being [considered]. My belief is that the most favorable outcome of a RIP is that it may be used as a tool to encourage selected employees to terminate employment when the government is unable or unwilling to achieve this result through intelligent and sound personnel management. It's an easy way out.*

Auditor discussion - The loss of experience and "brain drain" are concerns that have been expressed during legislative deliberations and consideration of RIP. In some situations, as discussed next in this section, the participating employer often welcomes the increased flexibility and new ideas brought in by new employees. But for some areas of service, such as operating heavy equipment, the loss of experience can be more telling.

The second criticism, we think neglects one of the other stated aspects and purposes of RIP. RIP was designed in part to mitigate the social hardship of layoffs. The legislature felt it was good public policy to have people in the community receiving retirement payments rather than having a like number receiving unemployment checks. Given these additional program aims, RIP cannot be judged strictly on a cost-benefit basis.

In our view, the legislature recognized that under RIP, it would cost money to reduce staff compared to achieving the same goal through lay-offs at little or no additional cost, but with greater negative social impact. The 1989 RIP, as it turned out, was implemented at a time when across-the-board layoffs and cutbacks proved not to be a widespread necessity. In these circumstances, the costliness of the program become more evident, and its social benefits were obscured.

### RIP provides increased administrative flexibility

Early retirement incentive programs have other benefits beyond costs savings. These programs can be used to achieve important non-financial goals such as increased managerial flexibility in restructuring operating procedures, in making promotions, and an increased ability to maintain a balance in the age and composition of the workforce (something that might not occur with seniority-based lay-offs).

The 1989 RIP did produce other benefits beyond the estimated cost savings. One school district in responding to our survey commented that

*RIP allows us more flexibility. We give our teachers tenure, RIP allowed us flexibility in our staffing. Also now a district can establish new directions for programs that was nearly impossible to pursue with long-entrenched faculty.*

Both the Anchorage School District (ASD) and the university reported that RIP provided administrators with increased staffing flexibility. Both the university and ASD grant tenure to their professors and teachers, respectively. One benefit of RIP was that it allowed the two organizations to replace tenured faculty with entry level instructors and teachers without tenure. As a result, it was easier to reassign and transfer instructors without having to consider the limitations and restrictions that are involved with the prerogatives of tenured staff.

### Fairbanks school board feels that repeated RIPs disrupts recruitment

In a September 1990 resolution (see inset on next page), the Fairbanks North Star Borough School Board expressed its concern over the need for, and the impact of, repeated RIPs. In adopting a resolution opposed to the creation of another RIP program the board felt that while the program assisted schools in responding to fiscal emergencies, that its repeated use when there was no crisis is disruptive to normal teacher turnover and harmful to recruitment.

As reflected by the resolution the board felt that teachers develop expectations that another RIP will eventually be offered. This expectation encourages employees who might normally retire to postpone doing so until the next RIP. The number of retirees then accumulate and when a RIP is offered, all leave the district collectively, causing havoc in teacher recruiting and a major loss of experienced personnel all at once.

Auditor discussion - The 1989 RIP program was designed to maximize "local control." The decision whether to participate is made at the local level, as is establishing the criteria for which employees may retire. To some extent, this local option flexibility has led to what some may consider are abuses of RIP. Rather than using the program to lessen the impact of layoffs and realize savings, some employers used RIP as a means to provide additional

**FNSBSD BOARD OPPOSES IMPLEMENTATION OF RIP  
WHEN NO FISCAL EMERGENCY EXISTS, CONCERNED  
ABOUT EFFECT OF TEACHER EXPECTATIONS**

1 September 1990 the Fairbanks school board adopted the following resolution opposing any new retirement incentive program.

WHEREAS, the State of Alaska passed an Early Retirement Incentive Plan in 198E to help school districts and other public agencies realize significant personnel cost reductions in response to a statewide fiscal emergency; and

WHEREAS, the State of Alaska passed another Early Retirement Incentive Plan in 1989, although there was not a fiscal emergency; and,

WHEREAS, this is creating the expectation that there will be another Retirement Incentive Plan program offered again in several years; and,

WHEREAS, this expectation works counter to the program's intent of encouraging people to retire, because of instead of the normal attrition rate, employees who might normally retire will postpone doing so until such time as another Retirement Incentive Program is offered; and,

WHEREAS, our district also has serious concerns about a teacher work shortage and fears it will become more and more difficult to replace our valuable and experienced work force; and

WHEREAS, our district does not wish to lose our experienced employees, but has decided it would not be fair to deny them access to a Retirement Incentive Plan once it is passed into law;

NOW, THEREFORE, BE IT RESOLVED that the Fairbanks North Star Borough Board of Education requests the Legislature and the Governor not enact any future legislation authorizing early retirement.

compensation and consideration. Under our reading of the 1989 legislation, such use of the program is permissible. RIP is a "take-it-or-leave-it" program in which employers can structure their participation in the program in any manner they wish within the broad confines of the program eligibility requirements.

"Speed-up" scenario is a drawback to RIP's goal to save employee money

The "speed-up" scenario has been generally recognized as a drawback to RIP. Providing incentives may speed up the retirement of individuals who would have retired in the near future with or without an added incentive. Under RIP, the employer must pay the added cost of providing the incentive even though the employee would have eventually retired anyway at no extra cost.

Two participants cite impact of the "speed-up" scenario in criticizing estimated savings

Some employers contacted during the course of the review pointed out that the savings estimated using our assumptions and approach tended to inflate totals. In their comments they cited the "speed-up" scenario as contributing to an overstatement of savings. One employer commented that under the formula we suggested be used to calculate savings or costs that

*Savings for our school district are based on a "bogus" assumption. What is not considered is when would have these individuals have normally retired if there had been no RIP. It is possible that the individuals would have retired anyway,[without the school district having to pay any additional RIP employer contribution costs.]*

Another district commented that *normal retirement would generate far greater savings for each district. The cost for RIP has to be budgeted for, while the "savings" are used for other purposes.*

Auditor discussion - Under the methodology used in this report, participants who would have normally retired would generate a certain amount of savings over the costs involved to provide the three additional years of service. Had they retired without RIP then there would have been no additional employer costs involved, and the district would have realized even more savings, either by eliminating the position or replacing the retiree with a lower paid replacement.

It is likely that some of the almost 1,800 RIP participants would probably have taken normal retirement, involving no additional contribution from their employer. We acknowledge that this normal retirement factor does overstate our savings estimate, but there was no practicable way for us to calculate its effect and adjust our estimates accordingly.

NOTES TO SCHEDULE 1

Note 1 - General Assumptions, Methodology, and Approach to Develop Estimates

Unless otherwise discussed in a specific note, the estimated savings or costs presented in Schedule 1 on page 8 were calculated using the following assumptions, methodology, and approach:

1. Savings and costs totals represent projections over a three year period.
2. For most participants, the calculations of estimated savings or costs reflect the projected costs of salaries and benefits for both the RIP retiree and their replacement. However, some employers used salaries only as a basis for their projections and estimates. In any event, for any one participant's calculation the same basis was used for both the retiree and the replacement employee.
3. In addition to the administrative costs involved with each RIP participant, the estimated savings/costs also reflect any administrative fees paid by the employer for individuals who were eligible for the program but did not participate.

Note 2 - State of Alaska

Savings presented for the State of Alaska represent a combination of projected savings. The total includes both:

1. Three year projected savings for individuals who qualified and participated in the initial RIP program.
2. Net savings projected over a five year period for individuals who participated under the amended RIP program. According to OMB records, 78 of the State of Alaska's 739 participants did not generate any savings, and accordingly do not contribute to the total savings of \$6,033,100. The table below summarizes savings estimates and the number of participants for both the 3-year and 5-year periods

	Participants	Savings
<b>3 YEAR PERIOD</b>	547	\$ 5,131,400
<b>5 YEAR PERIOD</b>	192	901,700
<b>TOTALS</b>	739	\$ 6,033,100

Note 3 - University of Alaska

We reduced the savings for the University of Alaska by more than \$ 4,900,000 from estimates developed by the University. The adjustments were made in an effort to make the totals more comparable with those developed by the State of Alaska for their RIP participants. The university originally calculated RIP savings of \$9,240,700.

A large portion of these savings total was attributable to extended vacancies in the RIP participant positions that were eventually filled. Further, the university noted that some of the "savings" were actually reallocated to other staff and programs rather than being used to offset budget reductions (see inset on page 14 for discussion of the university's budget reallocation process). We based our adjustments on salary, vacancy, and budgetary information provided to us by the university.

Note 4 - Anchorage School District (ASD)

In calculating savings estimates for TRS participants, ASD used the average, district-wide teacher and administrator salaries as a basis for the replacement employees' salary and benefit costs. Since a large segment of the replacement teachers were actually first year, newly hired teachers starting at or near the entry level pay scale, use of the district-wide average is conservative in that it would tend to understate the estimated savings.

ASD's estimated savings as listed in the schedule are based on three year projections. The district also projected savings for a five year period. ASD's five-year projected RIP savings breakdown as follows:

<u>Retirement System</u>	<u>Estimated Savings</u>
TRS Participants	\$ 6,578,000
PERS Participants	<u>528,000</u>
Total 5-year savings projections	\$ <u>7,106,000</u>

Both the 3-year savings listed in the schedule on page 8 and the 5-year savings summarized above, have been reduced to reflect almost \$673,000 that the district paid out as retirement incentives. Depending on when participants retired, they were eligible for payments of 2.5% to 5% of their salary and from \$50 to \$100 for each year of service as an incentive to participate in RIP.

Note 5 - Kenai Peninsula Borough Schools (KPBS)

Although KPBS had thirteen fewer participants than the Fairbanks North Star Borough Schools, the district had \$400,000 more in estimated savings. This difference was largely a result of KPBS not replacing some of their RIP participants, whereas Fairbanks filled all the teaching vacancies left by the participating employees.

Note 6 - Fairbanks North Star Borough School District (FNSBSD)

In estimating savings, FNSBSD used the average salary and benefit costs for all newly hired teachers for the first school year following the RIP period. For PERS participants, FNSBSD used the actual salary of the replacement employee as a basis for projecting the savings generated by the RIP participant.

Note 7 - City of Fairbanks

More than \$580,000 of the projected savings were generated from the city not replacing four individuals who participated in RIP. Thirteen of the twenty-two participants were from either the city's police or fire departments. At the time these 13 individuals retired, the city consolidated its police and fire protection functions into a single department of public safety. Many of these 13 retirees were high ranking officers, whose command and management functions were combined and restructured as part of the consolidation process.

This consolidation of command responsibilities made it difficult to determine which retiree was replaced by which promoted officer. Thus, it was not practicable to match these promoted individuals with the outgoing RIP retirees. However, the city is certain that available funding was used to recruit and hire entry level officers into the new public safety agency. Accordingly, they based their estimates of projected savings on the difference in salaries and benefits between the retiring officers and these entry level recruits.

Note 8 - North Slope Borough School District (NSBSD)

In calculating savings estimates for TRS participants, NSBSD used the average, district-wide teacher salary as a basis for calculating the replacement employees' salary and benefit costs. Since a large segment of the replacement teachers were actually first year, newly hired teachers starting at or near the entry level pay scale, use of the district-wide average is conservative in that would tend to understate the estimated savings.

Note 9 - Matanuska-Susitna Borough Schools (MSBS)

In calculating savings estimates for TRS participants, MSBS used the average, district-wide teacher salary as a basis for calculating the replacement employees' salary and benefit costs.

Since a large segment of the replacement teachers were actually first year, newly hired teachers starting at or near the entry level pay scale, use of the district-wide average is conservative in that it would tend to understate the estimated savings.

Note 10 - North Slope Borough (NSB)

For all but one of NSB's 12 RIP participants, estimated savings are based on three-year projections. The other individual's savings are estimated over a five-year period.

Note 11 - Calculated Estimates for Nine School Districts not responding to our survey

We developed the estimate of savings for nine school districts which did not respond to our survey. For these districts we calculated savings for their RIP participants using the average participant savings for all districts who did respond to our survey. Savings from districts calculated using this approach totalled to \$860,800 (3% of the total estimated savings statewide) for 75 RIP participants (4%). Districts for which savings were calculated using this approach were:

District	No. of TRS Retirees	Estimated Savings of TRS Retirees @ \$15,359/ea	No. of PERS Retirees	Estimated Savings of PERS Retirees @ \$6,798/ea	Total Calculated Savings for Schools (Rounded)
Lower Kuskokwim Schools	18	\$ 276,462	7	\$ 47,586	\$ 324,000
Bering Strait Schools	4	61,436	13	88,374	149,800
Southwest Region Schools	6	92,154	3	20,394	112,500
Delta/Greely Schools	7	107,513	0	-0-	107,500
Kuspuk Schools	2	30,718	5	33,990	64,700
Unalaska City School District	2	30,718	1	6,798	37,500
Iditarod Area Schools	0	-0-	5	33,990	34,000
Nenana City Schools	1	15,359	0	-0-	15,400
Skagway City School	1	15,359	0	-0-	15,400

Note 12 - Matanuska-Susitna Borough

For all but two of the borough's nine RIP participants, estimated savings are based on three-year projections. The other two individuals' savings are estimated over a five-year period.

Note 13 - Kenai Peninsula Borough

Almost \$200,000 of the borough's \$224,900 in estimated savings is attributable the elimination of one management position.

Note 14 - City of Hoonah

More than \$90,000 of the city's \$118,000 in estimated savings is attributable to the elimination of one position.

Note 15 - City of Kodiak

Estimated savings are based on a combination of three-year and five-year projections. Two of the RIP participants' savings are based on five-year projections.

Note 16 - Fairbanks North Star Borough

One of the individuals' estimated savings are based on a three-year projection while the other is based on a five-year projection.

Note 17 - Bristol Bay School District (BBSD)

The estimated projected savings for BBSD of \$14,600 reflect an additional cost of \$10,144 retirement bonus paid to the RIP participant. The bonus represented 21% of the participant's annual salary.

Note 18 - City of Ketchikan

As related on page 7 of the report, if the City of Ketchikan can collect from its one RIP participant, it will realize a projected estimated savings of \$20,200. However, as of the date of this report, the city has not collected the employer costs that it conditionally paid on behalf of the city's participant.



# Alaska State Legislature

SENATOR JIM DUNCAN

P. O. Box V JUNEAU, ALASKA 99811-3100

(907) 465-4766

COMMITTEES:

VICE CHAIR –  
FINANCE

VICE CHAIR –  
STATE AFFAIRS  
RULES

BUDGET & AUDIT  
ETHICS REFORM

## MEMORANDUM

**Date:** January 21, 1992

**TO:** Senator Pat Rodey, Chair  
Senate State Affairs Committee

**FROM:** Senator Jim Duncan

**SUBJECT:** SB 337, relating to retirement incentive programs for the public employees' retirement system and the teachers' retirement system.

Thank you for scheduling SB 337, reestablishing the Retirement Incentive Program, for a hearing on January 22. The basic configuration of the Retirement Incentive Program as proposed in SB 337 is substantially similar to previous offerings of the program.

A three year retirement credit will again be offered to qualified individuals to be applied in the following order;

1. to meet the age or service required for eligibility for normal retirement;
2. to meet the age required for early retirement;
3. to reduce the actuarial adjustment required for early retirement; and
4. as years of credited service for calculating retirement benefits.

To qualify, an employee must be within 3 years of early or normal retirement. The increased benefit will vary depending on each individual's length of service and their age. The personal services savings required by the program will again be calculated over a five year period.

The employee will be required to pay what they would have paid into the retirement system if they had continued to work for an additional three years. The employer's cost will be the difference between the employee's contribution and the full actuarial cost of the three year incentive. The full cost is calculated by the state's actuaries for each individual who is eligible for the program. This means that all cost incurred because the individual retires three years earlier is fully paid into the respective retirement system. Recent annual reports on both PERS and TRS report that the systems have been adequately compensated for RIP incurred costs.

The proposed window periods in SB 337 for the program will be as follows;

Employee Type	Application Period	Employee Must Retire on or Before
Teachers	June 30,1992-Dec. 31, 1992	August 1, 1993
University	" "	" "
State	Dec.31, 1992-June 30, 1993	February 1, 1994
Municipal	" "	" "

The Legislative Audit released in November 1991 reported that total savings of almost \$23 million were achieved by public employers through the use of the 1989-90 Retirement Incentive Program. The State of Alaska saved over \$6 million, with the largest savings accruing to the Department of Transportation and Public Facilities. The University saved \$4.3 million and school districts throughout the state saved almost \$9 million. The total number of participants was 1,764. This compares to 2,327 participants in the 1986-87 Retirement Incentive Program.

Savings for the original program amounted to over \$73 million. Much of the difference between the calculated savings between the 86-87 offering and the 89-90 program is accounted for by the auditor's conservative standards for determining savings and the high level of participation in the original program. For instance, the Legislative Audit stated that while the University had reported \$9.2 million in savings, but had reallocated \$4.9 million of the savings to expand programs. The audit figures therefore did not include the \$4.9 million.

Some changes were made between the 89-90 program and SB 337. Major changes are as follows:

1. PERS employees are allowed to claim military service to qualify for the Retirement Incentive Program. TRS employees have already been allowed to do so. (Page 3, line 25)
2. The one year prohibition against contracting for personal services is eliminated.
3. University of Alaska employees who have chosen the optional university retirement program are allowed to participate if they otherwise qualify under PERS or TRS. (Page 5, lines 5-10)
4. The Administrative Director of the Alaska Court System is allowed to participate if a savings is realized. (Page 5, line 28 - Page 7, line 7)

Your support for SB 337 will be appreciated.

Attachments

# DIVISION OF LEGAL SERVICES

## LEGISLATIVE AFFAIRS AGENCY STATE OF ALASKA

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

240 Main Street, Suite 500  
Juneau, Alaska 99801-2101

### MEMORANDUM

January 17, 1992

**SUBJECT:** Sectional Summary of SB 337 (Retirement Incentive Programs)

**TO:** Senator Jim Duncan

**FROM:** Teresa B. Cramer *TBC*  
Legislative Counsel

You have requested a sectional analysis of the above described bill.

As a preliminary matter, note that a sectional analysis or 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.

Because this bill sets up a time-limited program which is repealed July 1, 1994, it is not placed into the codified statutes. If the bill is enacted, it will be published in the Session Laws and also in the Temporary and Special Acts volume of the Alaska Statutes.

**Section 1** states the legislative purpose in adopting a retirement incentive program for public employers and employees.

**Section 2** establishes the general requirements for a retirement incentive program. Subsection (a) permits employers to designate organizational units of employees eligible to participate. Subsection (b) sets out criteria for the organization units. Subsection (c) limits which employees are eligible to participate to those who will be qualified to retire after receipt of the retirement incentive. Subsection (d) sets out requirements for the plan filed by the employer and requires the employer to agree to reimburse the retirement system for the extra costs incurred by the plan from participation by the employer's employees.

Subsection (e) sets out the formula for computing how much each member of the Teachers' Retirement System (TRS) who participates in the plan owes in order to receive the three-year credit. It is based on the annual contribution rate of 8.65% for members of TRS set out in AS 14.25.050. Subsection (f) sets out the formula for computing how much each member of the Public Employees' Retirement System

SECTIONAL

(PERS) who participates in the plan owes in order to receive the three-year credit. It is based on the annual contribution rates of 7.5% for peace officers who are members of PERS and 6.75% for other members of PERS set out in AS 39.35.160.

Subsection (g) provides that the retirement incentive is a credit of three years, to be used either to meet retirement eligibility requirements or, if those are met, to increase the amount of credited service a participant is entitled to when computing benefits. Subsection (h) limits the kinds of credited service that employees retiring under the retirement incentive plan may use when determining whether they are eligible to retire. Both TRS members and PERS members may use credit for military service when determining eligibility to retire. Note that the subsection does not limit the credited service that may be considered when computing the employee's benefits.

Subsection (i) permits employees to assume part of the employer's liability in order to become eligible to participate in a retirement incentive plan.

Section 3 authorizes the state to adopt a retirement incentive plan for its employees, to begin December 31, 1992, and ending June 30, 1993. Subsections (b) and (c) limit which employees may participate. Subsection (d) requires that participants be appointed to retirement on or before February 1, 1994.

Section 4 authorizes political subdivisions and public organizations which participate in PERS to adopt a retirement incentive plan for their employees, to begin December 31, 1992, and ending June 30, 1993. Subsection (b) requires that participants be appointed to retirement on or before February 1, 1994.

Section 5 authorizes the University of Alaska to adopt a retirement incentive plan for its employees, to begin June 30, 1992, and ending December 31, 1992. Subsection (b) requires that participants be appointed to retirement on or before August 1, 1993. Subsection (c) addresses participants in the Optional University Retirement Program.

Section 6 authorizes employers in TRS other than the state or the University of Alaska, which are covered in sections 3 and 5 above, to adopt a retirement incentive plan for their employees, to begin June 30, 1992, and ending December 31, 1992. Subsection (b) requires that participants be appointed to retirement on or before August 1, 1993.

Section 7 permits state employee participants to receive credit for certain employment with political subdivisions or public organizations who did not participate in PERS or TRS at the time of the employment for purposes of determining whether the participant satisfies the years of service requirements for retirement under TRS or PERS. The employment may not be counted when the amount of the participant's benefits are calculated.

**Section 8** permits the administrative director of the Alaska Court System who is a member of the Judicial Retirement System (JRS) to participate in a retirement incentive program. The section sets out provisions comparable to those that apply to members of the other retirement systems.

**Section 9** permits the Department of Administration to take certain actions if employers who are participating in the retirement incentive program become delinquent in the payments they owe the system for the increased benefits paid to their retirees under the program.

**Section 10** establishes an indebtedness owed by participants in the retirement incentive program who, after retirement, are reemployed in a position that is covered by PERS, TRS, or JRS.

**Section 11** directs state agencies to file with the Office of Management and Budget reports showing the expected effect of the program on the agency's personal services cost and operation. Subsection (b) directs CMB to document the net reduction in personal services costs for each agency in the governor's annual budget request. Subsection (c) directs OMB to report to the legislature on the retirement incentive program.

**Section 12** states that employees do not have a vested or contractual right to benefits under a retirement incentive program until an agreement is executed with the administrator of the retirement system. The legislature reserves the right to make changes to the program.

**Section 13** makes the definitions in TRS and PERS, as appropriate, applicable to the bill.

**Section 14** repeals sections 1 - 8 of the Act, which establish and authorize the retirement incentive programs, on July 1, 1994.

**Section 15** is an immediate effective date clause.

If I may be of further assistance, please advise.

TC:pl  
92-022.plm

8'0-8'1

RETIREMENT INCENTIVE PROGRAM  
STATUS REPORT  
February 27, 1989

Employer	Eligible By Age/Svc	Designated By Empl.	Retired
Governor's Office	30	5	5
Administration	229	174	101
Law	41	18	11
Revenue	55	29	23
Education - PERS	72	71	28
Education - TRS	38	36	19
Health & Social Svc.	335	304	150
Labor	147	138	54
Commerce	88	55	28
Military Affairs	29	6	4
Natural Resources	160	139	65
Fish & Game	160	143	78
Public Safety	193	182	101
Environmental Consv.	36	34	12
Corrections	154	139	38
Comm. & Regional Aff.	21	18	7
Transportation	854	809	355
Ombudsman	1	0	0
Legislative Affairs	53	20	13
Legislative Finance	2	0	0
Legislative Audit	5	3	3
Court System	98	0	0
Total State PERS	2762	2287	1076
Total State TRS	38	36	19
University of Ak - PERS	325	319	107
University of Ak - TRS	372	349	95
Geophysical Inst - PERS	27	27	7
Geophysical Inst - TRS	38	35	8
Total University - PERS	352	346	114
Total University - TRS	410	384	103
Total Poly - Subs PERS	2661	1272	412
Total Schl Dists TRS	1773	1668	603
Grand Total PERS	5775	3905	1602
Grand Total TRS	2221	2088	725
Overall Total	7996	5993	2327

R.I.P. SURVEY

DIVISION OF RETIREMENT AND BENEFITS  
 RETIREMENT INCENTIVE PROGRAM (RIP)  
 SUMMARY RESULTS OF POLITICAL SUBDIVISION SURVEY  
 March 14, 1989

EMPLOYER	NUMBER RETIREED	POS. REFILLED	COST OF POSITIONS FOR 5 YRS (\$1000's)	COST TO RE- FILL POS. (over 5 yrs (\$1000's)	RIP COST (\$1000's)	SAVINGS or (COST) FOR 5 YRS (\$1000's)
S.E. Resource center	3	0	800.0	0.0	83.0	717.0
Unalaska City School District	1	1	322.5	165.8	34.1	122.6
Copper River School District	11	10	2,854.7	1,904.9	279.3	670.5
Galena City School District	1	1	264.6	198.0	60.0	6.6
Petersburg Public Schools	2	2	437.5	338.6	55.1	43.8
Yukon Koyukuk School District	5	4	2,006.5	1,414.4	177.0	414.6
Alaska Gateway School District	4	4	1,055.5	745.0	180.8	129.7
Bristol Bay School District	1	1	273.8	186.7	50.3	36.8
Kodiak Island School District	17	16	4,487.7	3,380.0	579.9	527.8
Delta/Greely School District	2	2	700.9	644.0	96.4	(- 39.6)
Yukon Flats School District	5	4	Not Provided	Not Provided	128.5	Not Provided
L. Kuskokwim School District	31	26	7,535.6	4,637.6	677.2	2,220.8
North Slope School District	28	23	7,643.0	5,600.5	727.0	1,315.5
Dillingham City Schools	6	2	1,231.7	180.0	277.8	773.9
Craig City School District	1	1	277.2	210.1	21.8	45.2

RETIREMENT INCENTIVE PROGRAM (RIP)  
SUMMARY RESULTS OF POLITICAL SUBDIVISION SURVEY  
PAGE 2

EMPLOYER	NUMBER RETIREED	POS. REFILLED	COST OF POSITIONS FOR 5 YRS (\$1000's)	COST TO RE- FILL POS. (over 5 yrs (\$1000's)	RIP COST (\$1000's)	SAVINGS or (COST) FOR 5 YRS (\$1000's)
Wrangell Public School	2	2	455.5	330.6	43.7	81.2
Valdez City Schools	10	3	2,519.1	604.4	284.4	1,630.3
Adak Region School District	3	3	817.1	611.6	111.4	94.1
Fairbanks School District	71	71	17,998.0	13,592.1	1,826.8	2,579.1
Haines School District	5	1	1,529.6	384.8	131.3	1,013.5
Cordova Public Schools	1	1	185.3	112.4	19.3	53.6
Juneau School District	42	40	3,750.0	1,449.0	1,010.6	1,290.4
Lake and Penin. School District	2	2	675.0	600.0	53.6	21.4
Kenai Pen. School District	67	67	16,285.6	11,767.7	1,586.3	2,931.6
Southwest Regional School	4	4	666.5	527.7	91.0	47.8
Anchorage School District	373	368	81,249.1	59,225.1	8,580.7	13,473.2
Nenana City School District	7	7	1,611.1	1,209.2	173.7	228.2
Northwest Arct Bor Sch Dist	31	30	5,562.6	4,046.3	763.2	753.0
TOTAL SAVINGS						31,182.6

*Schools*

RETIREMENT INCENTIVE PROGRAM (RIP)  
SUMMARY RESULTS OF POLITICAL SUBDIVISION SURVEY  
PAGE 3

EMPLOYER	NUMBER RETIRED	POS. REFILLED	COST OF POSITIONS FOR 5 YRS (\$1000's)	COST TO RE- FILL POS. (over 5 yrs (\$1000's)	RIP COST (\$1000's)	SAVINGS or (COST) FOR 5 YRS (\$1000's)
City of Skagway	1	1	18.8	Not Provided	Not Provided	0.0
City of Wrangell	1	0	220.0	0.0	33.5	186.5
City of Palmer	4	3	1,024.1	715.3	101.0	207.8
City of Soldotna	2	1	482.8	212.7	47.8	222.3
City of Ketchikan	11	8	4,093.0	2,358.6	519.5	1,214.9
Kenai Peninsula Borough	14	7	3,234.0	2,270.4	324.2	639.4
City/Borough Juneau	13	9	3,574.1	2,134.8	298.9	1,140.4
City of Valdez	7	4	2,676.3	1,241.1	289.6	1,145.5
TOTAL SAVINGS						4,756.8
University PERS	113	76	26,052.1	15,308.0	2,455.3	8,288.8
University TRS	103	70	39,972.6	22,792.7	3,163.3	14,016.6
TOTAL SAVINGS						22,305.4



ALASKA ASSOCIATION OF ELEMENTARY SCHOOL PRINCIPALS  
ALASKA ASSOCIATION OF SECONDARY SCHOOL PRINCIPALS  
ALASKA ASSOCIATION OF SCHOOL ADMINISTRATORS

• ALASKA COUNCIL OF SCHOOL ADMINISTRATORS •  
326 Fourth St., Suite 408, Juneau, AK 99801-1101 (907) 586-9702 FAX (907) 586-5879

## Position Statement

### Senate Bill No. 337

The Alaska Council of School Administrators is in support of Senate Bill No. 337, "Relating to retirement incentive programs for the public employees'.

Because of the continued concerns for budget reductions, the state's long term revenue outlook, and the success of previous incentive programs, we feel the implementation of a retirement incentive program would again provide the necessary stimulus for those eligible to retire under this program to do so. And in the long term, it would produce a significant savings to the state and local school districts.

A.C.S.A. POSITION

S B

3 3 8

FISCAL NOTE

BILL NO. SB 338

STATE OF ALASKA  
1992 LEGISLATIVE SESSION

Revision Date: \_\_\_\_\_  
 Title: An act relating to credited service that PERS members receive for temporary service.  
 Sponsor: Duncan  
 Requestor: Senate State Affairs

Department Affected: Administration  
 BRU: Retirement and Benefits  
 Component: Retirement and Benefits  
 COMPONENT SERIAL NO. 64

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0
FUND SOURCE:						

FUNDING: (Thousands of dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER						
FUND SOURCE	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

POSITIONS

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

Estimate of current year impact: \$0

ANALYSIS: (attach a separate page if necessary.)

Since the full actuarial cost of this service is to be paid by the member, there is no anticipated measurable cost to Public Employees' Retirement System employers.

Prepared By: Gary Bader *Gary M. Bader* Phone: 465-4470  
 Division: Retirement and Benefits Date: January 23, 1992

Approved by Commissioner: Nancy Bear Usera *Nancy Bear Usera* Date: 1/27/92  
 Agency: Department of Administration

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB & Impacted Agency(ies).  
 Rev 11/91 Page 1 of 1

P.O. Box 533  
Kodiak, AK 99615  
September 23, 1991

Senator Jim Duncan  
Rm. 119, Capitol  
P.O. Box V  
Juneau, AK 99811

Dear Senator Duncan:

I am writing to you in an attempt to get legislation sponsored that would give State employees the option of crediting temporary service towards their retirement. We are interested in a bill that would have a zero cost impact on the State, where employees would have to pay into the retirement fund to claim temporary service or else receive a reduced retirement benefit to make up for unpaid temporary service.

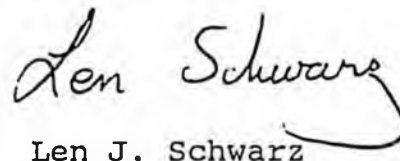
A group of Fish and Game employees attempted to get this type of legislation sponsored through our union (A.S.E.A.), but found the union unresponsive. The union was not opposed to this type of legislation, but a bill was never introduced due to a combination of being understaffed, disorganized and/or apathetic.

We circulated a petition throughout local Fish and Game offices asking A.S.E.A. to sponsor appropriate legislation, a copy of which is enclosed. This is not a complete list of interested people. However, eleven field offices were contacted, and 100 individuals signed the petition. The responses from Sitka, Dillingham and Nome were misplaced. )

I will keep this request short and ask if you are interested in sponsoring this type of legislation. I would like to discuss with you or one of your assistants any aspects of the history of temporary service or potential problems with this type of legislation if you are interested.

Thank you for your consideration.

Sincerely,



Len J. Schwarz

Enclosure

REPORT OF THE  
BLUE RIBBON COMMISSION ON THE  
STATE PERSONNEL ACT  
TO THE  
4TH ALASKA STATE LEGISLATURE  
FIRST SESSION

SENATOR BILL RAY  
Chairman

JUNEAU, ALASKA  
March 27, 1979

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permanent employees in the state personnel  
system

tion of a new program could be avoided if the legislature requested that departments present P402's for all positions created by a new program at the same time that the budget for the program was being considered.

### 3. Project Employees

It is difficult to plan for permanent positions in programs funded through federal grants whose receipt is not guaranteed from year to year. Program managers are not authorized to fill those positions until after funding is definite. This leads to the employment of temporaries in those positions. An alternative would be to create a new category for project employees. The employees would understand that their employment would be dependent upon continued receipt of funds for the project.

### 4. Benefits for Temporary Employment

✶ Of the benefits provided to permanent employees by the state, temporary employees in the classified service are entitled to receive only holiday pay and unemployment insurance. Temporaries are not eligible for court leave, administrative leave, personal leave, or retirement benefits. Even if a temporary employee is subsequently placed in a permanent position, he or she does not receive retroactive credit towards either retirement or, in most cases, seniority.

Temporary employment does not entitle employees to be placed on promotional registers. The state's merit system provides a policy favoring filling positions by promotions. This would appear in some cases to penalize temporary employees who may have

worked for a substantial period of time for the state.

If temporary employees did, in fact, work only for a short time in one position, then it might be inappropriate for the state to provide leave benefits. Temporaries would then be hired only where there were deadlines that could not otherwise be met, and if they were out on leave, the department would have to pay not only their salary, but also the salary of a second replacement temporary.

Because the state does not have to pay for as many fringe benefits to temporaries as it does for permanent employees, it is cheaper for departments to hire temporaries. Program managers may therefore leave permanent positions vacant and hire temporaries instead so as to be able to increase the staff available to work on a project. For the same reason, departments may use temporary employees instead of permanent seasonal employees for recurrent seasonal needs. Some departments have a substantial number of such employees and would probably need a supplemental appropriation to fund benefits if they made use of the permanent seasonal category.

The Local No. 71 collective bargaining agreement addresses the lack of benefits provided to temporary employees. Members who are working as temporaries receive a wage supplement of \$1.32 per hour for the first 120 days of work in a temporary position. After the 120 days, they shift from the entry level wage step into a higher level wage step, and they continue to receive the supplement.

##### 5. Vacant Permanent Positions

The legislature reviews the number of vacant PCN's when it

POSITION PAPER  
DEPARTMENT OF ADMINISTRATION

Contact: Gary Bader

Bill Number: SB 338

Phone #: 465-4470

Bill Title: An act relating to credited service that Pers members can claim for temporary service.

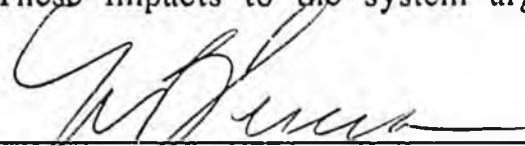
This bill would allow a member to claim their temporary service as either "credited" service which only increases their actual benefit amount, or "membership" service which enables the member to reach minimum requirements to qualify for a benefit, in addition to increasing the benefit.

This proposal would establish a new type of service. The Public Employees' Retirement System (PERS) presently recognizes only service earned through employment in a covered position for which contributions are made at the time that the service is earned or other service for work performed outside of the system for which the members can claim and pay for at their discretion. Currently, vesting thresholds, age based retirement thresholds, or service based retirement thresholds, are met by the age of the member or the number of years that the member worked in a permanent position covered under the system.

This bill would impact all employees eligible for "30 and out" and "20 and out" retirements who may have worked as temporaries. The proposed legislation enables the granting of an employee benefit retroactively without any apparent benefit to the participating employer.

From a broader public policy perspective, the issue is whether we want to provide incentives to move people through the system as fast as possible. The purpose of a retirement system is still to "attract and retain" quality employees to public service, while providing for economic long term security for the employees and the state. Encouraging a system that reduces these benefits is not quality service to Alaskans.

These impacts to the system argue against granting this additional option.

  
\_\_\_\_\_  
Nancy Bear Usera  
Commissioner

2-4-92  
\_\_\_\_\_  
Date

TESTIMONY OF  
ALASKA PUBLIC EMPLOYEES ASSOCIATION/AFT, AFL-CIO  
ALASKA STATE EMPLOYEES ASSOCIATION/AFSCME LOCAL 52, AFL-CIO  
INLAND BOATMEN'S UNION OF THE PACIFIC, ALASKA REGION, AFL-CIO  
PUBLIC EMPLOYEES LOCAL 71, AFL-CIO  
ALASKA STATE AFL-CIO  
ON SENATE BILL 338  
BEFORE THE SENATE STATE AFFAIRS COMMITTEE  
FEBRUARY 14, 1992

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE:

WE WOULD LIKE TO BEGIN BY THANKING CHAIRMAN RODEY FOR ALLOWING US TO PRESENT THIS TESTIMONY IN SUPPORT OF SENATE BILL 338, PROVIDING PUBLIC EMPLOYEE RETIRMENT SYSTEM CREDIT FOR THOSE STATE EMPLOYEES WHO WERE FORMERLY CLASSED AS "TEMPORARY" EMPLOYEES.

WE WOULD ALSO LIKE TO THANK THE BILL'S SPONSOR, SEN. JIM DUNCAN, FOR INTRODUCING THIS BILL ON BEHALF OF THE STATE'S WORKING MEN AND WOMEN.

FROM OUR COLLECTIVE PERSPECTIVE, SENATE BILL 338 SEEKS TO CORRECT AN INEQUITY BY ALLOWING THOSE STATE AND LEGISLATIVE EMPLOYEES WHO HAVE WORKED AS TEMPORARY EMPLOYEES TO GAIN RETIREMENT CREDIT FOR THEIR TIME AS "TEMPORARIES." THE BILL REQUIRES THE EMPLOYEE TO BEAR THE FULL ACTUARIAL COST OF "BUYING" BACK INTO THE PUBLIC EMPLOYEES RETIREMENT SYSTEM, THEREBY REMOVING THE FINANCIAL BURDEN FROM THE STATE.

TO PUT OUR SUPPORT FOR S.B. 338 IN PERSPECTIVE, A BRIEF HISTORY IS NECESSARY.

UNTIL THE EARLY 1980s, THE EMPLOYEES NOW CLASSED BY THE STATE AS "SEASONALS" WERE CLASSED AS "TEMPORARIES." PRIOR TO THE CHANGE IN NOMENCLATURE, TEMPORARY EMPLOYEES RECEIVED MINIMAL MEDICAL BENEFITS, NO SICK LEAVE, NO ANNUAL LEAVE, AND NO CREDIT TOWARDS RETIREMENT.

WHEN THE "SEASONAL" CLASSIFICATION REPLACED THE "TEMPORARY" CLASSIFICATION, SEASONAL EMPLOYEES WERE GUARANTEED ALL BENEFITS OF PERMANENT EMPLOYEES, INCLUDING SERVICE CREDIT TOWARD EVENTUAL

RETIREMENT.

AT THE SAME TIME, THE STATE ALLOWED THE OLD TEMPORARY EMPLOYEES TO PURCHASE THEIR TEMPORARY TIME TOWARD CALCULATION OF THEIR RETIREMENT BENEFITS, HOWEVER, THE STATE DID NOT ALLOW THIS TIME TO BE CREDITED TOWARD YEARS OF SERVICE.

THIS IS THE INEQUITY REMEDIED BY SENATE BILL 338. TEMPORARY AND SEASONAL EMPLOYEES FULFILLED THE SAME ROLES FOR THE STATE, BUT THE NEW CLASS "SEASONAL" WAS SOMEHOW DEEMED SUPERIOR TO THE OLD "TEMPORARY" CLASS, EVEN THOSE THESE WERE THE SAME PEOPLE DOING THE SAME JOB.

WE ARE AWARE THAT THE ADMINISTRATION'S SPOKESMAN FOR THIS BILL CLAIMED THERE WAS NO INEQUITY AND THAT THE BUY-BACK PROVISIONS WOULD BE TOO EXPENSIVE FOR AN EMPLOYEE TO PARTICIPATE. WE HAVE POINTED OUT THE INEQUITY AND, AS FOR THE COST TO THE EMPLOYEE, SURELY THAT DECISION IS THE EMPLOYEE'S, NOT THE ADMINISTRATION'S.

FOR ALL OF THESE REASONS, WE STRONGLY URGE YOU TO SUPPORT SENATE BILL 338 AND ASK THAT YOU GIVE IT A "DO PASS" RECOMMENDATION.

THANKS VERY MUCH FOR TAKING THE TIME TO CONSIDER OUR POSITION ON THIS VERY FINE PIECE OF LEGISLATION.



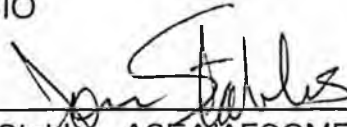
Bruce Ludwig, APEA/AFT, AFL-CIO



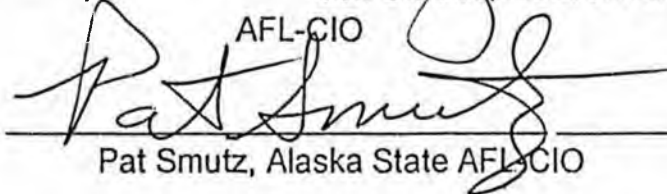
Ed Flanagan, Public Employees Local 71, AFL-CIO



Frank Price, IBUP, Alaska, AFL-CIO



Jon Stables, ASEA/AFSCME Local 52, AFL-CIO



Pat Smutz, Alaska State AFL-CIO



# Alaska State Legislature

Please enter into the record my testimony to the Senate State Affairs  
committee name

committee on SB 338, dated 2-14-92  
bill/subject

This would help most ALL OF US IN  
Forestry AND other STATE JOBS where the  
MAJORITY OF THE WORK FORCE IS SEASONAL  
workers. AS YOU KNOW SEASONAL WORKERS  
TAKE 10-15 year's TO reach retirement AND  
DO to the long hours AND harsh nature OF  
these work most OF them NEVER reach retirement.  
AND ANYTHING that will speed up the process  
is A big plus FOR ALL STATE employees.

Signed: [Signature]  
Testifier

Forestry / ASFA  
Representing (Optional)

PO Box 60 Delta Tel. AK. 99737  
Address

895-4170  
Phone No.

Alan C. Havens (State of Alaska work history)  
 P.O. Box 2383  
 Palmer, Alaska 99645

Employment Dates	Department	Position	Status
05/26/66-08/31/66	ADF&G	Protection Aide I	TE/FT
05/25/67-08/15/67	ADF&G	Protection Asst I	TE/FT
05/16/68-10/04/68	ADF&G	Protection Asst I	TE/FT
06/12/69-09/19/69	ADF&G	Protection Asst I	TE/FT
05/01/70-09/11/70	ADF&G	Protection Asst I	TE/FT
04/14/71-09/08/71	ADF&G	Protection Asst I	TE/FT
05/12/72-11/02/72	ADF&G	F&G Technician III	TE/FT
05/25/73-08/17/73	ADF&G	F&G Technician III	TE/FT
06/24/74-09/16/74	ADF&G	F&G Technician III	TE/FT
05/27/75-09/03/75	ADF&G	F&G Technician III	TE/FT
05/03/76-12/31/76	ADF&G	Fishery Biologist I	TE/FT
04/01/77-07/27/77	ADF&G	Fishery Biologist I	TE/FT
08/01/77-04/16/78	ADF&G	Fishery Biologist I	PE/FT
04/17/78-04/30/81	ADF&G	Fishery Biologist II	PE/FT
05/01/81- Present	ADF&G	Fishery Biologist III	PE/FT

TEMPORARY TIME:  
 No Service credit, no  
 benefits, yet doing  
 same work as

PERMANENT EMPLOYMENT:  
 Service credit, all  
 benefits.

During the years of full-time temporary service with the Department of Fish and Game I worked in the field, took the same risks, and often had the same responsibilities as permanent full-time employees:

- 1) without the presence of a permanent Protection Officer I wrote citations for Alaska hunting, sport fishing, and/or commercial fishing violations on the Alaska Peninsula, Kodiak, Kenai Peninsula, and in southeastern Alaska;
- 2) in Kenai, during the absence of the permanent Protection Officer, I represented the State of Alaska (in court) versus individuals that had been issued notices of violation, read the citing officer's written statement, and recommended fines to the presiding magistrate;
- 3) in 1968 I took over as the Department of Fish and Game Protection Division deputized peace officer representative in Hoonah for 1 month after the permanent officer resigned; and
- 4) perhaps most important, I and other temporary employees were often the only representatives of the State of Alaska with which thousands of visitors to Alaska had any verbal contact for getting directions to fishing and hunting areas, learning regulations, and just general conversation about Alaska and its history.

2/5/92 Testimony to Senate State Affairs Committee  
 Submitted in support of SB 338



# Alaska State Legislature

SENATOR JIM DUNCAN

P. O. Box V JUNEAU, ALASKA 99811-3100

(907) 465-4766

COMMITTEES:

VICE CHAIR –  
FINANCE

VICE CHAIR –  
STATE AFFAIRS  
RULES

BUDGET & AUDIT  
ETHICS REFORM

DATE: January 24, 1992

TO: Senator Pat Rodey, Chair  
Senate State Affairs Committee

FROM:  Senator Jim Duncan

SUBJECT: Senate Bill 338, an Act relating to credited service that vested members of the public employees' retirement system receive for temporary service and to credited service for temporary service for the legislature.

Thank you for scheduling a hearing for SB 338, relating to credited service that vested members of the public employees' retirement system receive for temporary service and to credited service for temporary service for the legislature.

Senate Bill 338 will allow employees with unclaimed temporary service time to choose whether to claim their past service for retirement credit for the purposes of calculating benefits only, or towards twenty or thirty and out retirement when appropriate. Presently, such service can only be used towards calculation of benefits, not as years of service credit for normal retirement. The employee will be required to pay the full actuarial cost of the option they choose.

This bill will also allow individuals with service as a temporary legislative employee to claim that service at any time, provided the individual pays the full actuarial cost of the credited service claimed. Present law requires that such service has been claimed prior to July 1, 1980.

I urge your support for this legislation.

Attachments

SPONSOR SUMMARY

# STATE OF ALASKA

## DEPARTMENT OF ADMINISTRATION

OFFICE OF THE COMMISSIONER

SB 338

WALTER J. HICKEL, GOVERNOR

P.O. BOX C  
JUNEAU, ALASKA 99811-0200  
PHONE: (907) 465-2200  
FAX: (907) 465-2135

January 22, 1992

The Honorable Jim Duncan  
Alaska State Legislature  
State Capitol  
Juneau, AK 99811

Dear Senator Duncan:

In your letter of December 3 to Gary Bader, you asked for comments on a draft bill which would allow a member to claim their temporary service as either "credited" service which only increases their actual benefit amount, or "membership" service which enables the member to reach minimum requirements to qualify for a benefit, in addition to increasing the benefit.

This proposal would establish a new type of service. The Public Employees' Retirement System (PERS) presently recognizes only service earned through employment in a covered position for which contributions are made at the time that the service is earned or other service for work performed outside of the system for which the members can claim and pay for at their discretion. Currently, vesting thresholds, age based retirement thresholds, or service based retirement thresholds, are met by either the age of the member or the number of years that the member worked in a permanent position covered under the system.

This bill would impact all employees eligible for "30 and out" and "20 and out" retirements who may have worked as temporaries. The proposed legislation enables the granting of an employee benefit retroactively without any apparent benefit to the participating employer.

Although employees would be required to pay the full actuarial cost of their additional service, this legislation would generate other administrative costs that would have to be borne by other participants and employers. There would be additional computer programming costs to record the service selection and identify the two different types of service. There will be additional complexity added to the system which will likely lead to additional appeals, etc.

USERA to DUNCAN  
SB-338 Commentary

Senator Duncan

-2-

January 22, 1992

From a broader public policy perspective, the issue is whether we want to provide incentives to move people through the system as fast as possible. The purpose of a retirement system is still to "attract and retain" quality employees to public service, while providing for economic long term security for the employees and the state. Encouraging a system that reduces these benefits is not quality service to Alaskans.

Accordingly, I believe the additional dollar costs and impacts to the system argue against granting this additional option.

Sincerely,



Nancy Bear Usera  
Commissioner

NBU/drz

cc: Paul Fuhs  
Legislative Liaison  
Office of the Governor

Gary M. Bader  
Director  
Division of Retirement and Benefits

*Sorry for the  
delay in responding -  
We're working on our  
tracking system*

*N.*

S B

362

**CS FOR SENATE BILL NO. 362 (STATE AFFAIRS)  
IN THE LEGISLATURE OF THE STATE OF ALASKA  
SEVENTEENTH LEGISLATURE - SECOND SESSION**

**BY THE SENATE STATE AFFAIRS COMMITTEE**

**Offered:  
Referred:**

**Sponsor(s): SENATOR CRAFT**

**A BILL**

**FOR AN ACT ENTITLED**

**1 "An Act relating to permanent fund dividend applications; and providing for an effective  
2 date."**

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

**4 \* Section 1. AS 43.23 is amended by adding a new section to read:**

**5           Sec. 43.23.016. VOTER REGISTRATION. The commissioner shall include voter  
6 registration forms prepared under AS 15.07.070(b) with permanent fund dividend applications.**

**7 \* Sec. 2. This Act takes effect January 1, 1993.**

STATE OF ALASKA  
1992 LEGISLATIVE SESSION

BILL NO. SB 362

Revision Date: \_\_\_\_\_  
Title: An Act relating to qualifica-  
tions for permanent fund dividends  
Sponsor: Craft  
Requestor: Senate State Affairs

Agency Affected: Revenue  
BRU: Permanent Fund Dividend Division  
Components: Permanent Fund Dividend  
Division  
COMPONENT SERIAL NO. 9 8 1

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
OPERATING						
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL	16.0	16.0	16.0	16.0	16.0	16.0
SUPPLIES						
EQUIPMENT						
LANDS & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	16.0	16.0	16.0	16.0	16.0	16.0
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER (INTERAGENCY)	16.0	16.0	16.0	16.0	16.0	16.0
TOTAL	16.0	16.0	16.0	16.0	16.0	16.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year impact: None.

ANALYSIS: See attached.

Prepared By: Thomas C. Williams Phone: 465-2323  
Division: Permanent Fund Dividend Division Date: February 10, 1992

Approved by Commissioner: David [Signature] Date: 2/10/92  
Agency: Revenue

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

ALASKA DEPARTMENT OF REVENUE  
PERMANENT FUND DIVIDEND DIVISION

SB 362 ANALYSIS

As of February 10, 1992

This fiscal note is based on the following assumptions.

1. The intent of this legislation is to have the Department of Revenue provide a voter's registration form in each application booklet or to make them available at the Dividend Information Offices.
2. The Division of Elections will prepare a two page insertion for the 1993 and subsequent year Permanent Fund Dividend application booklets that would have two prepaid postage postcard registration forms. The insertion will be a color distinct from the Permanent Fund Dividend application form.
3. The postcard form will instruct registrants to mail the forms directly to the Division of Elections. Consequently, the vast majority of registrants will return their registration form to the Division of Elections instead of returning it to the Department of Revenue with their permanent fund dividend applications.
4. The cost of printing voter registration forms, inserting two additional pages in the application booklet and transferring voter registration forms to and from the Department of Revenue will be born by the Division of Elections, not the Department of Revenue.
5. Because of the uniqueness of voter registrations, the Department does not object to the enclosure of this form in the Permanent Fund Dividend booklet. However, the Department would oppose the enclosure of any other non-Permanent Fund Dividend related forms.

Contractual Services

Post Office Distribution	285,000	
Out of State, Community and Dividend Information Office Distribution	<u>45,000</u>	
Total Booklets	<u>330,000</u>	
2 additional pages		\$16.0
Additional postage		<u>-0-</u>
<u>Total Contractual Services</u>		<u>\$16.0</u>

# ALASKA STATE LEGISLATURE

119 North Cushman, #201  
Fairbanks, Alaska 99701  
(907) 452-4882  
Fax: 452-3254



Room 125, State Capitol  
Juneau, Alaska 99801-1182  
(907) 465-3834  
Fax: 586-6246

**Shirley Craft**  
*Alaska State Senator*

To: Senator Pat Rodey, Chair  
Senate State Affairs Committee

From: Senator Shirley Craft *Shirley*

Date: February 6, 1992

Re: SB 362; An act relating to the permanent fund dividend applications.

I would appreciate your scheduling this legislation for a hearing in the State Affairs Committee.

The purpose of this legislation is extremely simple. The number of registered voters eligible to vote in the 1990 election was 300,569. This number has dropped to 287,569, as of January 2, 1992. While it might be a concern with some members of the Senate that the application for the Permanent Fund Dividend be kept pure, I believe that the state is facing a crisis in voter apathy. The Permanent Fund Division received 359,450 applications as of the end of December of 1991. Considering the requirements for eligibility for the Permanent Fund are more stringent than those to vote, there are over 71,000 possible eligible voters who, for one reason or another, are not registered. For this state to sit back and idly watch the number of registered voters dwindle without attempting to turn this trend around is untenable. I believe that implementation of this legislation will provide yet another valuable avenue of access to the state's voting process.

Please do not hesitate in contacting Tom Brice of my staff at x3834 for more information.

Thank you.

SPONSOR STATEMENT

# STATE OF ALASKA

## OFFICE OF THE GOVERNOR

DIVISION OF ELECTIONS  
P.O. BOX AF  
JUNEAU, ALASKA 99811-0105  
PHONE (907) 465-4611

February 5, 1992

Senator Shirley Craft  
P.O. Box V  
Juneau, Alaska 99811

Dear Senator Craft:

The Division of Elections would like to express our support of Senate Bill 362, "An act relating to permanent fund dividend applications; and providing for an effective date."

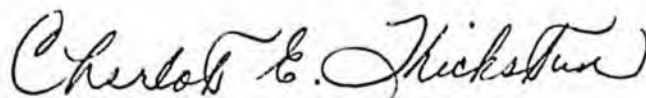
The inclusion of a voter registration form in the Permanent Fund Dividend application will provide Alaskans with an opportunity to easily access the voter registration process. It will help those wishing to register for the first time, those who have moved and need to inform the Division of their change in address, and it will remind all Alaskans of their commitment to vote.

We have worked with the Permanent Fund Division on various projects and have formed a good working relationship. As recently as early January we spoke with Tom Williams, Director of the Permanent Fund Dividend Division and considered the possibility of including a voter registration form with the 1992 Permanent Fund applications.

Unfortunately, due to fiscal constraints resulting from Reapportionment costs for which we have not been reimbursed, we can not implement a program of this nature before 1994. While we are excited about this legislation and look forward to working with the Permanent Fund Dividend Division, the only way we can implement this program by January 1, 1993 is if there are funds appropriated with the bill to account for the costs.

Senator Craft, the Division of Elections supports your efforts to include voter registration forms in the Permanent Fund Dividend Application. If you have further questions, or if I can be of assistance in any way, please don't hesitate to call.

Sincerely,



Charlot E. Thickstun  
Director



JOHN B. COGHILL  
LIEUTENANT GOVERNOR

STATE OF ALASKA

P. O. BOX AA

JUNEAU 99811-0111

(907) 465-3520

February 5, 1992

Senator Shirley Craft  
P.O. Box V  
Juneau, Alaska 99811

Dear Senator ~~Craft~~ *Shirley*

I would like to express my support for SB 362, "An act relating to permanent fund dividend applications; and providing for an effective date."

I have always been a strong advocate for encouraging Alaskans to exercise their right to vote, and I regard this legislation as a significant attempt at increasing voter registration and awareness.

While I support your legislation, I have one concern. It is extremely important to me that Alaskans do not have the impression that receipt of the Permanent Fund Dividend is contingent on one's voter registration. It is my belief that registering to vote is a right and a privilege. I know that is not your intent Senator, but I feel I should let you know my position. I am sure the necessary steps can be taken to prevent any misunderstandings on the part of Dividend application recipients.

Additionally, I would suggest that the Legislature appropriate the necessary funds to make this project a reality for the January 1, 1993 effective date. In the years that follow the Division of Elections will be able to budget for this project, but in order to meet this effective date they will have to rely on a legislative appropriation. I wholeheartedly endorse the investment in increasing access to voter registration, and encourage the Legislature to fund this project.

Senator Craft, I hope that your colleagues in the Legislature will join me in enthusiastically supporting this endeavor.

Sincerely,

John B. "Jack" Coghill  
Lieutenant Governor

S B

3 7 5

## REPORT CONCLUSIONS

As discussed in the Background Information section, penalties involving an individual's guide license may be imposed by the courts prior to any sanction imposed by the Big Game Commercial Services Board (BGCSB). When this happens, the board's disciplinary action essentially ratifies the decision of the courts. Because of differing circumstances involved with each case, the penalties imposed by the courts for similar offenses may vary. Such differences, while within the latitude granted the courts in imposing sentences, often makes BGCSB appear inconsistent in the actions it takes against licensees. Aside from these apparent differing sanctions, we found that, with one exception (see inset below) BGCSB has been consistent in the penalties and sanctions it has imposed on various license holders.

### Results of Review

Since December 1989, BGCSB has taken 17 licensing sanction actions. Of those actions, two have gone completely through the administrative hearing process. In both instances the board adopted the hearing officer decisions unanimously.

In five of the eleven actions where licenses were revoked or suspended, the penalty imposed was directed by the courts as a condition of sentencing. In two instances the courts made recommendations regarding license sanctions, but the board chose to impose a more severe penalty. In the four remaining cases, the courts made no recommendation, but the board either suspended or revoked the license.

---

### **ONE INSTANCE WHERE BGCSB ACTED INCONSISTENTLY**

Two guides both pled no contest to charges of unlawful possession or transportation of game. In both their cases, the courts recommended probation for two years. For one guide, BGCSB followed the court's recommendation. No action was taken against his license but he was put on a two-year probation period.

In contrast, the other guide was prohibited from obtaining a license for three years (his license had expired after the violation) and was placed on probation for two years if he obtained a new license when again eligible.

We found no documented evidence why these two apparently similar situations were treated differently.

---

### Stipulated agreements contained different sanctions

Two assistant guides were both convicted of failure to salvage game. In both cases the court required each individual be denied licensure for two years. Subsequent to this court action the board reached stipulated agreements with both individuals. The board suspended one guide's license for 3½ years as part of her stipulation. The other guide, by contrast, received a 4 year suspension as part of his stipulation agreement.

## FINDINGS AND RECOMMENDATIONS

### Recommendation No. 1

The Division of Fish and Wildlife Protection (FWP) should emphasize and strictly enforce its policies prohibiting participation in the guiding industry.

In December 1984, then Department of Public Safety Commissioner Sundberg issued a policy prohibiting outside employment as guides for all departmental personnel. In a January 1985 memorandum he wrote in response to a FWP officer, he discussed the reasoning behind the policy. Commissioner Sundberg wrote the officer, who had asked that the policy be reconsidered, that

*. . . I am convinced that a conflict of interest exists between guiding and enforcement. . . .*

*Also, the probability of risk to the officer's career and of embarrassing this agency is increased if we allow our personnel to become engaged in this activity. Public perception can be as harmful as an actual occurrence. A complaint, even if unfounded, could cost the Department thousands of dollars to investigate and create unfavorable publicity. . . .*

*Your request for reconsideration for outside employment as a guide is denied.*

Supervisors did not support, and even contradicted, policy

Since 1984, the department's policy has not always been consistently enforced. In the past, supervisory management did not believe that guiding was necessarily a conflict with enforcement. Accordingly, there appears to have been little effort to enforce the policy, and it has been reported that supervisors actually encouraged officers to work in the guiding industry.

Although one officer in particular was widely known to work as an assistant guide, his evaluations did not reflect any concerns over this activity and the individual was even promoted from sergeant to lieutenant during this period.

The clearest reflection of this past attitude on the part of supervisory management can be found in the department's response to the 1988 ombudsman investigation (see discussion in inset on the next page). In response to the ombudsman's report involving an officer's guiding activities, the department stated that the individual had not violated departmental policy because he did not receive compensation. In defending this rather narrow perspective involving the interpretation of the policy, the department wrote that:

policy was designed to avoid and was a source of embarrassment to DPS.

The tone and emphasis of this position represented a different attitude, that is consistent with the intent and philosophy behind the department's original policy. The department should reevaluate the current policy within the context of the Executive Branch Ethics Act, and clearly communicate both the letter and spirit of the prohibition on guiding to all affected personnel.

#### Recommendation No. 2

DPS should conduct an internal review regarding the basis and procedures involved in developing undercover law enforcement actions on guiding and game violations.

According to the director of FWP, most game law violations are detected and prosecuted through the use of undercover police operations. Our review of disciplinary actions taken against guides by the Big Game Commercial Services Board, tend to confirm this observation. Seven of the ten disciplinary actions reviewed used undercover operations to make the original arrest. The director acknowledged that there is a great deal of discretion allowed over who to "target" for an undercover operation. The officer most prominently involved working as an assistant guide was in the position to influence and use his discretion over who would and would not be subject to an undercover operation.

At a minimum, these circumstances give the appearance that this individual could suppress information regarding the activities of licensed guides with which he was associated, while at the same time making decisions to target others who were competitors of his guide associates. We believe it is important that FWP satisfy the guiding public that undercover operations are appropriately directed and are carried out on the basis of sufficient and reliable criteria.

---

### COMPENSATION A KEY PART OF THE STATUTE'S DEFINITION OF GUIDING

It late 1988 it was DPS' position that the officer involved in allegations of guiding did not violate departmental policy because he did not receive compensation. If the officer did not receive compensation, it appears that he may have misled the Division of Occupational Licensing.

On application forms filed with that agency, the officer attested that he was indeed acting as an assistant guide, and submitted written documentation that he guided hunters under the supervision of a licensed guide. The officer also testified in court that he was not paid as an assistant guide.

AS 08.54.240 (3) defines guiding as:

accompanying or directing a hunter in the field, personally or through an assistant, for compensation, while the hunter or the person accompanying or directing the hunter spots, stalks, pursues, tracks, kills, or attempts to kill big game. . .

Under this definition, if the officer did not receive compensation, then it appears that representations made to the Division of Occupational Licensing were inaccurate.

As discussed in the Auditor's Comment section of this report, BGCSB should scrutinize any assistant guiding experience claimed by this individual, in the context of the statutory definition, if in the future he should apply for licensure as a guide.

---

# **CORRECTION**

**THIS DOCUMENT  
HAS BEEN REPHOTOGRAPHED  
TO ASSURE LEGIBILITY**

## FINDINGS AND RECOMMENDATIONS

### Recommendation No. 1

The Division of Fish and Wildlife Protection (FWP) should emphasize and strictly enforce its policies prohibiting participation in the guiding industry.

In December 1984, then Department of Public Safety Commissioner Sundberg issued a policy prohibiting outside employment as guides for all departmental personnel. In a January 1985 memorandum he wrote in response to a FWP officer, he discussed the reasoning behind the policy. Commissioner Sundberg wrote the officer, who had asked that the policy be reconsidered, that

*. . . I am convinced that a conflict of interest exists between guiding and enforcement. . . .*

*Also, the probability of risk to the officer's career and of embarrassing this agency is increased if we allow our personnel to become engaged in this activity. Public perception can be as harmful as an actual occurrence. A complaint, even if unfounded, could cost the Department thousands of dollars to investigate and create unfavorable publicity. . . .*

*Your request for reconsideration for outside employment as a guide is denied.*

### Supervisors did not support, and even contradicted, policy

Since 1984, the department's policy has not always been consistently enforced. In the past, supervisory management did not believe that guiding was necessarily a conflict with enforcement. Accordingly, there appears to have been little effort to enforce the policy, and it has been reported that supervisors actually encouraged officers to work in the guiding industry.

Although one officer in particular was widely known to work as an assistant guide, his evaluations did not reflect any concerns over this activity and the individual was even promoted from sergeant to lieutenant during this period.

The clearest reflection of this past attitude on the part of supervisory management can be found in the department's response to the 1988 ombudsman investigation (see discussion in inset on the next page). In response to the ombudsman's report involving an officer's guiding activities, the department stated that the individual had not violated departmental policy because he did not receive compensation. In defending this rather narrow perspective involving the interpretation of the policy, the department wrote that:

*[Guiding] is not incompatible or in conflict with the proper discharge of official duties. We have assigned other members of this division to assistant guiding activities in a guide's camp to increase their knowledge of, and familiarity with, guiding operations. It actually makes them better in their enforcement work. . . .*

*In the case at hand [the department does not] think that there has been a violation so [we] have not passed the complaint on to any other authority. Furthermore we have gone beyond what I think is strictly required and prohibited the activity in question just to avoid the appearance of conflict.*

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## FWP OFFICER CONTINUED TO GUIDE DESPITE DENIAL

The officer who was denied continued outside employment as a guide by Commissioner Sundberg, continued his guiding activities. According to records filed with the Division of Occupational Licensing, the officer guided during 1985, 1986, and 1987. His file included recommendations from hunters he accompanied in the field and evidence that he intended to apply for, and take, the guide licensing examination to be certified as a guide.

### 1988 Ombudsman Investigation

In September 1988, the Ombudsman investigated a complaint alleging that the officer involved had violated both departmental policy and Executive Branch Ethics Act prohibitions against outside employment that present a conflict of interest with official duties. In a December 1988 finding the ombudsman made a determination that the complaints lodged against the officer were partially justified.

In our view, these statements are not consistent with the intent of the original policy. Such a position by a middle-management DPS official is indicative of a past lax attitude by departmental supervisors regarding the policy. By failing to be sure both the spirit as well as the letter of the policy was enforced, the department allowed its investigatory methods and approaches to be called into question. Since its response to the ombudsman in December 1988, the department is beginning to recognize these past practices and attitudes as a problem.

### Department recognizes importance of policy

By November 1990, DPS was taking compliance of the policy much more seriously. The department emphatically reprimanded an officer regarding his unpaid guiding activities. While acknowledging that unpaid assistant guiding may comply with the letter of the policy, the department clearly felt that the activities violated its spirit.

Additionally, DPS acknowledged that the requirements of the Executive Branch Ethics Act of 1986 made it clear that no employee may work in a situation that presents a conflict of interest, irrespective of whether or not they are paid for the work. The department acknowledged that the guiding activities caused the very accusations and allegations that the

policy was designed to avoid and was a source of embarrassment to DPS.

The tone and emphasis of this position represented a different attitude, that is consistent with the intent and philosophy behind the department's original policy. The department should reevaluate the current policy within the context of the Executive Branch Ethics Act, and clearly communicate both the letter and spirit of the prohibition on guiding to all affected personnel.

#### Recommendation No. 2

DPS should conduct an internal review regarding the basis and procedures involved in developing undercover law enforcement actions on guiding and game violations.

According to the director of FWP, most game law violations are detected and prosecuted through the use of undercover police operations. Our review of disciplinary actions taken against guides by the Big Game Commercial Services Board, tend to confirm this observation. Seven of the ten disciplinary actions reviewed used undercover operations to make the original arrest. The director acknowledged that there is a great deal of discretion allowed over who to "target" for an undercover operation. The officer most prominently involved working as an assistant guide was in the position to influence and use his discretion over who would and would not be subject to an undercover operation.

At a minimum, these circumstances give the appearance that this individual could suppress information regarding the activities of licensed guides with which he was associated, while at the same time making decisions to target others who were competitors of his guide associates. We believe it is important that FWP satisfy the guiding public that undercover operations are appropriately directed and are carried out on the basis of sufficient and reliable criteria.

---

### COMPENSATION A KEY PART OF THE STATUTE'S DEFINITION OF GUIDING

It late 1988 it was DPS' position that the officer involved in allegations of guiding did not violate departmental policy because he did not receive compensation. If the officer did not receive compensation, it appears that he may have misled the Division of Occupational Licensing.

On application forms filed with that agency, the officer attested that he was indeed acting as an assistant guide, and submitted written documentation that he guided hunters under the supervision of a licensed guide. The officer also testified in court that he was not paid as an assistant guide.

AS 08.54.240 (3) defines guiding as:

accompanying or directing a hunter in the field, personally or through an assistant, for compensation, while the hunter or the person accompanying or directing the hunter spots, stalks, pursues, tracks, kills, or attempts to kill big game. . .

Under this definition, if the officer did not receive compensation, then it appears that representations made to the Division of Occupational Licensing were inaccurate.

As discussed in the Auditor's Comment section of this report, BGCSB should scrutinize any assistant guiding experience claimed by this individual, in the context of the statutory definition, if in the future he should apply for licensure as a guide.

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## AUDITOR'S COMMENTS

Former Commissioner Sundberg warned in 1985 about the dangers of allowing Department of Public Safety personnel to participate in the guiding industry. As cited in Recommendation No. 1, his concerns over embarrassment to the agency, negative public perceptions, and the cost of investigating and dealing with even unfounded complaints all proved to be prophetic.

### BGCSB should scrutinize any future guide application

As observed by the Ombudsman, (see inset on the opposite page) the real possible incentive or compensation for the FWP officer-assistant guide, is in the future at the time of his retirement or separation from an FWP.

In our view, the Big Game Commercial Services Board (BGCSB), may offer the best opportunity to provide some equitable, objective resolution of the situation. The board can do this by carefully scrutinizing any assistant guiding experience accumulated while an individual served as an FWP officer.

As discussed in the inset on page 15, accompanying individuals on a guided hunt is not necessarily guiding. The statute requires that an individual receive compensation for guiding a hunter in order for the experience to be relevant to the licensing process. An FWP officer has submitted an application for licensure as a guide, (an application that subsequently has been withdrawn) with documentation substantiating his assistant guiding activities. However, if he was unpaid, as he testified to in court, BGCSB should carefully consider whether or not this experience meets the statutory definition of guiding.

Such scrutiny would nullify any advantage or "indirect" compensation that the FWP officer gained by acting as an assistant guide. Leaving aside the legal discussion of whether uncompensated assistant guiding is qualifying experience in the strictest sense of the law, such scrutiny and consideration would enhance the integrity of the regulatory process.

BGCSB relies in large part on the efforts of FWP to effectively meet its statutory mandate. Any flaw in the integrity of that enforcement effort, either real or perceived, reflects to some degree on the board. By carefully scrutinizing the circumstances and documentation supporting any former FWP officer's application for a guiding license, the board can enhance the integrity of the investigatory efforts of both FWP and itself.

## OMBUDSMAN DISCUSSES POSSIBILITY OF FUTURE BENEFIT

In response to the complainant who initiated his agency's 1988 investigation, the Ombudsman replied that

*You allege that the real conflict in [the FWP officer's] work as an assistant guide will not be realized until he retires. You assert upon retirement, [the officer] can and will reactivate his assistant guide time (allegedly acquired improperly while he was employed by the division as a fish and wildlife protection officer) and apply it toward his application for a master guide license.*

*It is altogether possible that this may happen. It is also possible that it will never happen. We can only know for certain what [the officer] will do when he retires when that time comes. I cannot and will not make a guess about [the officer's] future behavior. I cannot hold a case open for years, waiting for a potential conflict of interest to emerge in the form of [the officer's] application for a master guide license.*

*If, and when, [the officer] does apply for the master guide license, the use of his assistant guide time will be a factual issue. With your keen interest in [the officer's] activities, it is reasonable to expect you to submit testimony to the [BGCSB] if that event occurs in the future. Today, it is a speculative issue....*

*With the transmission of this letter, I am closing the complaint. You are free to file a new complaint if and when [the officer] reactivates his assistant guide time in an application for a master guide license. You may also file a written complaint under the auspices of the Executive Ethics Act if you wish to press that issue further.*

The Ombudsman's response suggests that the only avenue to resolve the complainant's issues lies in how the licensing board will view the "experience" of the FWP officer, if and when he attempts to use it in applying for his guide license.

## ISSUES NEEDING FURTHER STUDY

Department of Public Safety (DPS), Fish and Wildlife Protection (FWP) officers have testified in court that decisions regarding investigations and development of possible undercover operations often have been developed from "tips" received through a program known as the Wildlife Safeguard Program.

The Wildlife Safeguard Program encourages the public to phone a toll-free "800" number and report any observations or information they may have about possible game law violations. If these tips are used in the successful prosecution of an individual, then rewards are paid to the hotline informants. The program is run by a private nonprofit organization, and does not receive any direct state funding. DPS does provide support services to the organization such as answering the hotline, selling fund-raising posters, and arranging for the organization to raffle off a hunting permit to raise funds.

As discussed in Recommendation No. 2 in the Findings and Recommendations section, we suggest that DPS reevaluate the criteria it uses to develop undercover operations. In addition, we suggest that the Legislative Budget and Audit Committee may want to consider reviewing the information received over the Wildlife Safeguard hotline and determine if it is being used in a consistent, objective, and unbiased manner.

The conflict of interest discussed at length in this report may be reflected not only in what cases and reported violators that FWP have elected to pursue, but also in the tips and information that may have been ignored. If the agency has received numerous complaints regarding possible violations by a professional guide, the fact that no investigatory action was taken may be significant.

### Controls over reward payments may also be possible area of concern

Although state funds are not being directly used, FWP protection officers have, in the past, been involved in passing rewards to informants. Reportedly the rewards are paid in cash, and have been as much as \$2,000. Payouts of these amounts in cash, with the involvement of state employees, provides another possible area or issue that may warrant further study or review.

WALTER J. HICKEL, GOVERNOR

**DEPARTMENT OF PUBLIC SAFETY**

OFFICE OF THE COMMISSIONER

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LEGISLATIVE AUDIT

December 5, 1991

Mr. Randy S. Welker  
Legislative Auditor  
Alaska State Legislature  
P. O. Box W  
Juneau, AK 99811

Dear Mr. Welker:

Re: Audit No. 08-4402-91

I am writing in response to your letter and preliminary audit report of October 28, 1991. Thank you for the opportunity to review and comment on the preliminary report, and for your courtesy in allowing us an extension of time. My comments are as follows:

Recommendation No. 1: "The Division of Fish and Wildlife Protection (FWP) should emphasize and strictly enforce its policies prohibiting participation in the guiding industry."

I agree, and we are doing just that. Under the Executive Branch Ethics Act, all requests for outside employment (paid or unpaid) must be submitted to and approved by me. I assure you that I will not approve any requests for involvement in the guiding industry while I am Commissioner. F&WP personnel are well aware of this.

Recommendation No. 2: "DPS should conduct an internal review regarding the basis and procedures involved in developing undercover law enforcement actions on guiding and game violations."

I agree, and we are doing this. The FWP Director and his staff are drafting a policy statement for my review. I anticipate that a final policy will be in place by early next year. For your information, since being appointed Commissioner I have reestablished an Office of Planning and Research within the Department. My staff are reviewing all existing DPS policies and procedures and suggesting revisions for my consideration.

Mr. Randy S. Welker  
December 5, 1991  
Page 2

On page 15 of your report, in the first paragraph under Recommendation No. 2, I suggest the following changes to the present language: "According to the director of FWP, [most game law violations] most serious guiding violations are detected and prosecuted through the use of undercover police operations." I believe this is a more accurate summary of Col. Jordan's comments, in the context in which they were made. Also: "At one time, the officer most prominently involved working as an assistant guide..." This additional language would make it clear that the situation being described is not the current one, but refers to the past.

Other comments: On page 15 of your preliminary report there is a colored block of text which discusses your office's interpretation of the statutory definition of "guiding" as it relates to licensure requirements. I asked the Alaska Department of Law to review the relevant language, and found that they do not agree with your legal interpretation. In light of this, I do not agree with your conclusion that "if the officer did not receive compensation, then it appears that representations made to the Division of Occupational Licensing were inaccurate." I have attached a copy of the memorandum which we received from the Department of Law on this issue.

On page 19 of your report, you suggest that the Legislative Budget and Audit Committee may want to consider reviewing the information received over the Wildlife Safeguard hotline. We certainly have no objection to such a review, and we are confident that information received over the hotline is being handled appropriately, with no bias or special interests involved.

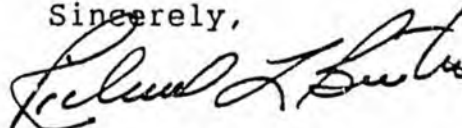
Regarding your comments on controls over reward payments, we would welcome suggestions about the best way to get rewards to informants, while still protecting confidentiality. As you undoubtedly know, no rewards are paid out unless authorized by the Safeguard Boards, which are made up entirely of volunteer private citizens. Contrary to the impression left by your report, the majority of rewards are paid by check. If the informant insists upon anonymity, however, obviously a check cannot be issued. On those occasions when cash must be used, Wildlife Safeguard considers using commissioned officers to deliver it as the safest procedure. The one \$2,000 payment to which you refer was delivered personally to the informant

Mr. Randy S. Welker  
December 5, 1991  
Page 3

by the Director of FWP. If you can think of a safer or more reliable way to handle these payouts to sources who wish to remain anonymous, please let us know.

Thanks again for the opportunity to comment on your preliminary report. I would be glad to discuss my responses with you further, if you would like.

Sincerely,

A handwritten signature in cursive script, appearing to read "Richard L. Burton".

Richard L. Burton  
Commissioner

Attachment

**DEPARTMENT OF COMMERCE &  
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OFFICE OF THE COMMISSIONER

November 21, 1991

**RECEIVED**  
NOV 21 1991

Mr. Randy Welker  
Legislative Auditor  
Legislative Budget and Audit Committee  
Division of Legislative Audit  
P.O. Box W  
Juneau, AK 99811

LEGISLATIVE AUDIT

Dear Mr. Welker:

Thank you for the opportunity to review the preliminary audit report regarding consistency of disciplinary penalties of the Big Game Commercial Services Board.

The department concurs with Recommendation No. 1, The Division of Fish and Wildlife Protection (FWP) should emphasize and strictly enforce its policies prohibiting participation in the guiding industry. We believe a state policy should go a step further and include Division of Occupational Licensing staff involved in licensing and investigations of guide-outfitters, as well as Department of Fish and Game employees/biologists who are involved in game management/harvest decisions. During the time period of Commissioner Sundberg's policy on prohibiting outside employment as a guide for FWP employees, the Division of Occupational Licensing requested its employees who were, at the time, licensed as assistant guides, but not employed or associated with any guides, to voluntarily not renew their assistant licenses. This request was made on the basis of possible public perception of impropriety rather than actual complaints. Most recently, it has been brought to our attention that the activities of the Department of Fish and Game employee(s) who are licensed guides and conducting guiding activities may be causing some concern within the guiding industry and public. We believe that employees should be allowed to place their licenses in a suspended status for reactivation at the same level when they leave employment in the job which creates the conflict.

Mr. Randy Welker

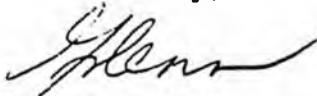
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November 21, 1991

With regard to Recommendation No 2, DPS should conduct an internal review regarding the basis and procedures involved in developing undercover law enforcement actions on guiding and game violations. the department agrees that there should be a system in place which ensures some degree of uniformity and consistency in developing undercover operations.

Again, thank you for this opportunity to comment.

Sincerely,



Glenn A. Olds  
Commissioner

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