

ALMA MATER, 2007-2008

11637 HOURS

STATE AFFAIRS



Proposed Medical Program

Key Features

Key features of post-retirement medical program

- ⇒ Members must retire directly from the System to be eligible
- ⇒ System sponsored health plan with varying levels of subsidy or cost to members
- ⇒ Early retirees get "access only" prior to normal retirement eligibility
- ⇒ Defined dollar benefit from normal retirement to Medicare eligibility (currently age 65)
- ⇒ Defined health benefit after Medicare eligibility, similar to the current program with the following key exceptions:
 - Method of coordination with Medicare
 - Retired members will share in the cost through premium contributions

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Proposed Medical Program

System Sponsored Health Care Plan

- ⇒ System sponsored health plan available to all eligible retirees, but with varying levels of subsidy
- ⇒ Basic plan design elements

	Current Plan	Alternative Plan
Medical		
▪ Coordination with Medicare	Total Allowable	Maintenance of Benefits
▪ Deductible	\$150/person, \$450/family	\$250/person, \$750/family
▪ Out of Pocket	\$800	\$2,500
▪ Outpatient Surgery Co-insurance	100%	80%
Prescription Drug		
▪ Retail	90 day supply	30 day supply
- Generic	\$4	\$5
- Brand Formulary	\$8	\$15
- Brand Non-Formulary	\$8	\$30
▪ Mail Order	90 day supply	90 day supply
- Generic	\$0	\$5
- Brand Formulary	\$0	\$15
- Brand Non-Formulary	\$0	\$30
Dental, Vision, Audio	No Change	

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Proposed Medical Program

Eligibility

- ⇒ Normal retirement eligibility for medical benefits will be defined as the earlier of
 - (1) age 60 with 10 years of service
 - (2) 25 years of service (30 years for PERS "others" retirees).
- ⇒ Disabled participants will be eligible
- ⇒ Terminated vested participants are not eligible. A member must retire directly from active service in order to receive coverage

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Proposed Medical Program

Early Retirement

- ⇒ Early retirees who have not reached normal retirement eligibility
 - Receive "access only" plan
 - Will not be eligible for subsidized retiree health plan costs
 - Pay 100% of the pre-Medicare eligible (currently pre-age 65) per member per year (PMPY) claim costs
- ⇒ Dependent spouses of early retirees will pay 100% of the appropriate pre-Medicare or Medicare eligible PMPY claim cost

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Proposed Medical Program

Normal Retirement to Medicare Eligibility

- ⇒ Members who retire directly from the Systems will be eligible for a "defined dollar" benefit upon reaching eligibility for normal retirement
- ⇒ Fixed dollar subsidy toward system sponsored health coverage
- ⇒ Access to system sponsored retiree medical plan as outlined above
- ⇒ Subsidy amount is based on length of service
- ⇒ Subsidy amount indexed each year by healthcare inflation up to a maximum of 5 percent (with a "catch-up" provision based on years when healthcare inflation is less than 5%)

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Proposed Medical Program

Normal Retirement to Medicare Eligibility

- ⇒ Upon becoming eligible for Medicare, such members will become eligible for the "defined health" benefit
- ⇒ Pre-Medicare dependent spouse is eligible for the same subsidy as retiree
- ⇒ Medicare eligible dependent spouse is eligible for the Medicare eligible benefit level, with contribution percentage based on retiree length of service

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Proposed Medical Program

Normal Retirement to Medicare Eligibility

⇒ Apply percentages to the applicable subsidy base to arrive at the appropriate subsidy amount.

⇒ Defined Dollar Subsidy Base Annual PMPY for fiscal year 2004:

Pre Medicare \$5,962*

⇒ Subsidy Percentage

Service (yrs)	Subsidy %
10-14	30%
15-19	45%
20-24	60%
25-29	75%
30+	90%

⇒ Member contributions are determined by subtracting the annual subsidy amount from the annual claims cost for a given year.

⇒ *Equivalent to FY2004 pre-Medicare projected claim cost.
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Proposed Medical Program

After Medicare Eligibility

⇒ Defined health benefit similar to current program

⇒ Retirees who were previously eligible for 100% subsidy of retiree health plan costs will now participate in the premium cost.

⇒ Contributions are per covered individual

⇒ Pre-Medicare dependent spouses are eligible to receive a defined dollar subsidy with percentage based on retiree length of service

⇒ Medicare eligible dependent spouses are eligible to receive the same defined health benefits as the retiree and pay the same contributions

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Proposed Medical Program After Medicare Eligibility

⇒ Contribution Base = MPY for fiscal year 2004:

Medicare Eligible \$2,667

⇒ Contribution Percentage

Service (yrs)	Contribution %
10-14	30%
15-19	25%
20-24	20%
25-29	15%
30+	10%

⇒ Apply percentages to the contribution base to arrive at the applicable contribution amount

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With Reimbursement Amounts (HRAs)

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Health Reimbursement Accounts Overview

- ⇒ Arrangement that:
 - Is solely employer paid
 - Reimburses employees for medical expenses
 - Provides reimbursements up to a maximum dollar amount for a defined coverage period
- ⇒ Unused funds are carried forward to the next coverage period
- ⇒ Usually, but not required to be, associated with high-deductible health plans or consumer directed health plans
- ⇒ Includes aspects of FSAs
- ⇒ Also known as
 - Health Reimbursement Arrangements
 - Defined contribution health care plans

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Health Reimbursement Accounts Overview

Funding

- ⇒ Employer only
- ⇒ Employer sets own limits
- ⇒ Notional or funded accounts
 - general assets
 - VEBA
 - other trusts

Eligibility

- ⇒ Current and former employees (including retired employees), spouses and dependents
- ⇒ COBRA participants
- ⇒ Dependent medical expenses on death of employee

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Health Reimbursement Accounts Overview

Benefits

- ⇒ Reimbursements for medical expenses as defined in IRC section 213(d)
- ⇒ No IRS limit on reimbursements
- ⇒ Employee responsible for substantiating expenses
- ⇒ Cannot use for over-the-counter drugs
- ⇒ Can be used for after tax insurance premium payments (LTC is gray area)
- ⇒ Cannot have any right to receive cash benefit
- ⇒ Can be used with FSA, but special rules apply

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Health Reimbursement Accounts Overview

Plan design

- ⇒ Plan sponsor dictates plan design
 - Contribution amount
 - Covered expenses
 - Termination provisions

Tax Treatment

- ⇒ Requirements for exclusion from employee/retiree income:
 - Employer funding only – no employee contributions
 - Only reimbursed for qualified medical expenses
- ⇒ Subject to non-discrimination rules under IRS code section 105(h)

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Health Reimbursement Accounts

Comparison of tax advantaged health care accounts

Account requirements	Funds must be held in trust or custodial account	No requirement; often unfunded	No requirement; often unfunded
Qualifying expenses	Miscellaneous IRC 213(d) expenses, qualified health premium reimbursements*	Miscellaneous IRC 213(d) expenses, unlimited premium reimbursements, subject to plan design	Miscellaneous IRC 213(d) expenses, no health premium reimbursements
Non-qualified withdrawals	Yes, but taxable, plus 10% penalty. No penalty after age 58, disability, or death (no penalty or tax after death if HSA goes to spouse)	Not allowed	Not allowed
Rollover of unused funds	Unused funds roll over indefinitely	Allowed, although employer can establish limits	Not allowed
Nonforfeitable	Yes and fully portable, can take to new employer	No, but COBRA rights apply	No, but limited COBRA rights apply

*COBRA long-term care insurance and premiums for account holders at least 65 or receiving unemployment compensation.

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Health Reimbursement Accounts

Comparison of tax advantaged health care accounts

Eligibility	Individuals (employees) with high deductible plan (HDHP)	Employees whose employers make available	Employees whose employers make available
Health insurance requirement	Qualified high deductible health plan required	None, although employer typically requires high deductible coverage	None
Contributions - Source	Employer, employee, or both	Employer only	Employer, employee or both
Taxability of employee contributions	Tax-free	Employee contribution not allowed	Tax-free
Taxability of employer contributions	Tax-free to employee; tax deductible to employer	Tax-free to employee; tax deductible to employer	Tax-free to employee; tax deductible to employer
Annual contribution limit (employee+employer)	Lesser of 100% of deductible or fixed amount (established by law)	None legally required, employer sets its contribution amounts	None legally required, employer sets employee contribution limits

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Health Reimbursement Accounts Projection scenarios

- ⇒ Illustrate the HRA fund value at retirement, the total costs expected to be borne by the retiree during the pre-Medicare period of retirement and the retiree's expected net cost after HRA reimbursements
- ⇒ Four scenarios
 - Early hire, 1.0% funding - hire at 25, retire at 55
 - Early hire, 1.5% funding - hire at 25, retire at 55
 - Late hire, 1.0% funding - hire at 40, retire at 60
 - Late hire, 1.5% funding - hire at 40, retire at 60
- ⇒ Key assumptions
 - Hire date of 7/1/2004
 - Normal retirement at 25 years or age 60
 - Funded as percent of average salary for group
 - Average salary for group of \$35,000
 - Wage inflation 4.0%

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Health Reimbursement Accounts Projection scenarios

- ⇒ Key assumptions (continued)
 - HRA accumulation rate 8.25%
 - Early retirement access-only plan as described in the proposed medical program
 - Normal retirement to Medicare eligibility defined dollar subsidy as described in the proposed medical program
 - Benefit costs increase at proposed valuation trend
 - Retirees transition to defined health benefit plan at Medicare eligibility
- ⇒ Other assumptions
 - Participant retires from system and is receiving system-sponsored benefits
 - Demographic composition of future pre-Medicare retiree group remains constant
 - No spend down of HRA during active benefit period

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Health Reimbursement Accounts Projection scenarios

	Gross Retiree Cost	HRA at Retirement	Net Retiree Cost
Early Hire, 1.0%	\$153,721	\$64,622	\$72,348
Early Hire, 1.5%	\$153,721	\$96,933	\$12,714
Late Hire, 1.0%	\$ 68,993	\$23,052	\$44,543
Late Hire, 1.5%	\$ 68,993	\$34,579	\$30,580

- ⇒ Gross retiree cost is the total medical premium cost expected to be paid by the retiree less any System-sponsored subsidy. Does not include retiree cost sharing via plan design elements such as deductibles and coinsurance.
- ⇒ HRA at retirement is the beginning fund balance at the year of retirement.
- ⇒ Net retiree cost is the gross retiree cost less expected reimbursements from the HRA. HRA balance continues to earn interest after medical expenses are reimbursed each year.

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Proposed Alternatives Alternative 1 – Normal Cost Rates

- ⇒ "Normal cost" rates for Alternative 1 are expected to be as follows:

	Normal Cost Rates	
	TRS	PERS
Medical normal cost rate	3.75% (9.07%)	3.5% (8.68%)
Defined benefit normal cost rate	5.0% (13.90%)	4.5% (11.37%)
Defined contribution rate	8.5% (N/A)	7.0% (N/A)
HRA contribution rate	1.5% (N/A)	1.0% (N/A)
Gross normal cost rate	18.75% (22.97%)	16.0% (20.05%)
Member contribution rate	(10.0)% (8.69%)	(8.0)% (6.81%)
Employer normal cost rate	8.75% (14.28%)	8.0% (13.24%)

- [Normal cost rates for the current program (all tiers) are shown in parentheses for comparative purposes.

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Proposed Alternatives

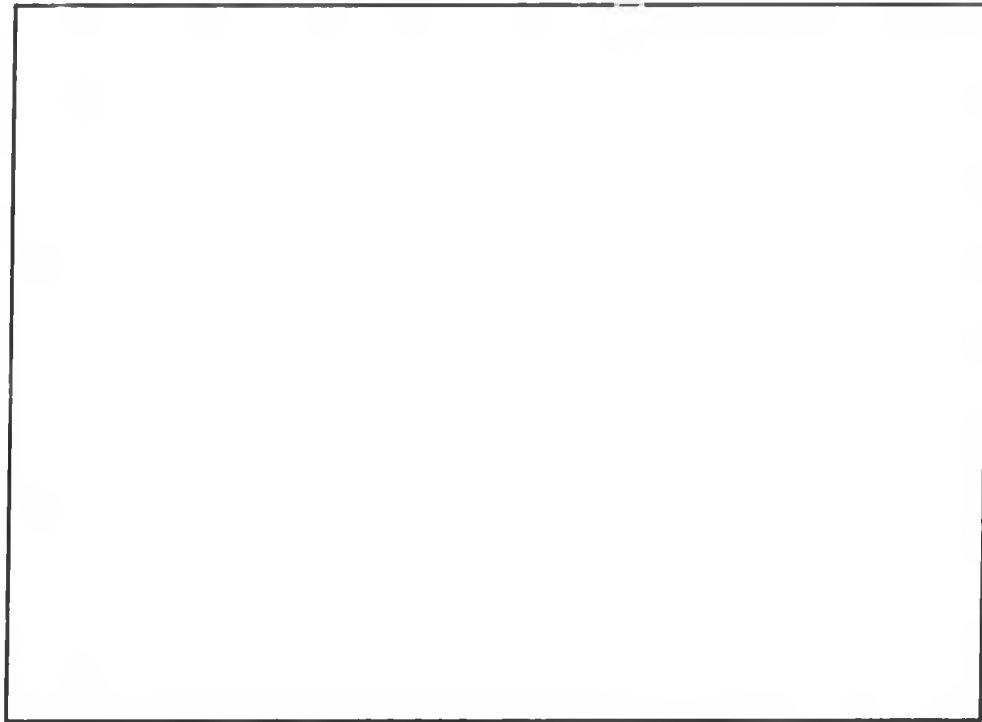
Alternative 2 – Normal Cost Rates

⇒ "Normal cost" rates for Alternative 2 are expected to be as follows:

	Normal Cost Rates	
	TRS	PERS
Medical normal cost rate	3.75%	3.5%
Defined contribution rate	13.5%	11.5%
HRA contribution rate	1.5%	1.0%
Gross normal cost rate	18.75%	16.0%
Member contribution rate	(10.0)%	(8.0)%
Employer normal cost rate	8.75%	8.0%

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State of Alaska

Division of Retirement & Benefits

Normal Cost rate and Actuarial Computed Rate from FY 1983 through FY 2006

<u>Valuation Report date June 30</u>	<u>Fiscal year of rate</u>	<u>Normal Cost rate PERS</u>	<u>Actuarial Computed Rate PERS</u>	<u>Normal Cost rate TRS</u>	<u>Actuarial Computed Rate TRS</u>
1980	1983	11.46%	13.78%	11.95%	16.84%
1981	1984	12.03%	13.68%	13.51%	17.42%
1982	1985	11.36%	13.62%	13.64%	17.96%
1983	1986	11.82%	13.59%	13.13%	17.36%
1984	1987	12.31%	13.84%	13.91%	13.28%
1985	1988	11.13%	9.55%	11.62%	13.28%
1986	1989	10.20%	9.38%	9.36%	11.16%
1987	1990	9.23%	9.30%	9.14%	8.19%
1988	1991	10.37%	12.00%	11.86%	12.27%
1989	1992	12.00%	14.20%	13.26%	15.16%
1990	1993	12.83%	13.58%	14.07%	19.65%
1991	1994	10.18%	13.72%	9.05%	15.59%
1992	1995	10.90%	13.70%	8.57%	13.36%
1993	1996	11.29%	12.82%	9.06%	12.48%
1994	1997	10.36%	12.14%	9.70%	14.96%
1995	1998	10.61%	11.90%	10.10%	14.94%
1996	1999	9.85%	7.74%	8.97%	10.52%
1997	2000	9.89%	7.36%	9.21%	13.00%
1998	2001	8.67%	7.03%	8.99%	10.55%
1999	2002	8.07%	6.56%	8.88%	7.09%
2000	2003	10.07%	6.12%	9.40%	8.29%
2001	2004	9.53%	6.77%	10.36%	14.44%
2002	2005	13.31%	24.91%	14.76%	35.57%
2003	2006	13.24%	25.63%	14.28%	38.85%

Normal Cost Rate: present value of benefits, which are expected to be credited with respect to service during the year beginning on the valuation date.

Actuarial Computed Rate: after comparing plan assets and liabilities, an actuarial rate is computed that would fully fund the retirement systems over 25 years. There are two components: the normal cost rate and the past service rate necessary to pay any unfunded liability. Both rates account for differences between actual experience versus anticipated results, changes in actuarial assumptions and / or methods, changes in statutory provisions, and the difference between the rate actually adopted by the Boards for a particular year versus the computed rate.

State of Alaska

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Actuarial Computed Rate: after comparing plan assets and liabilities, an actuarial rate is computed that would fund the retirement systems over 25 years. There are two components: the normal cost rate and the past service necessary to pay any unfunded liability. Both rates account for differences between actual experience versus anticipated results, changes in actuarial assumptions and / or methods, changes in statutory provisions and the difference between the rate actually adopted by the Boards for a particular year versus the computed rate.

1.5(c) Actuarial Projections – Effect of Economic Scenarios

Key Assumptions

- All assumptions and methods are the same as Section 1.5(a) except

Results are shown only under the 1% population growth scenario

The actuarially calculated contribution rate is adopted in each year beginning in FY06, but rate cannot increase by more than 5% per year.

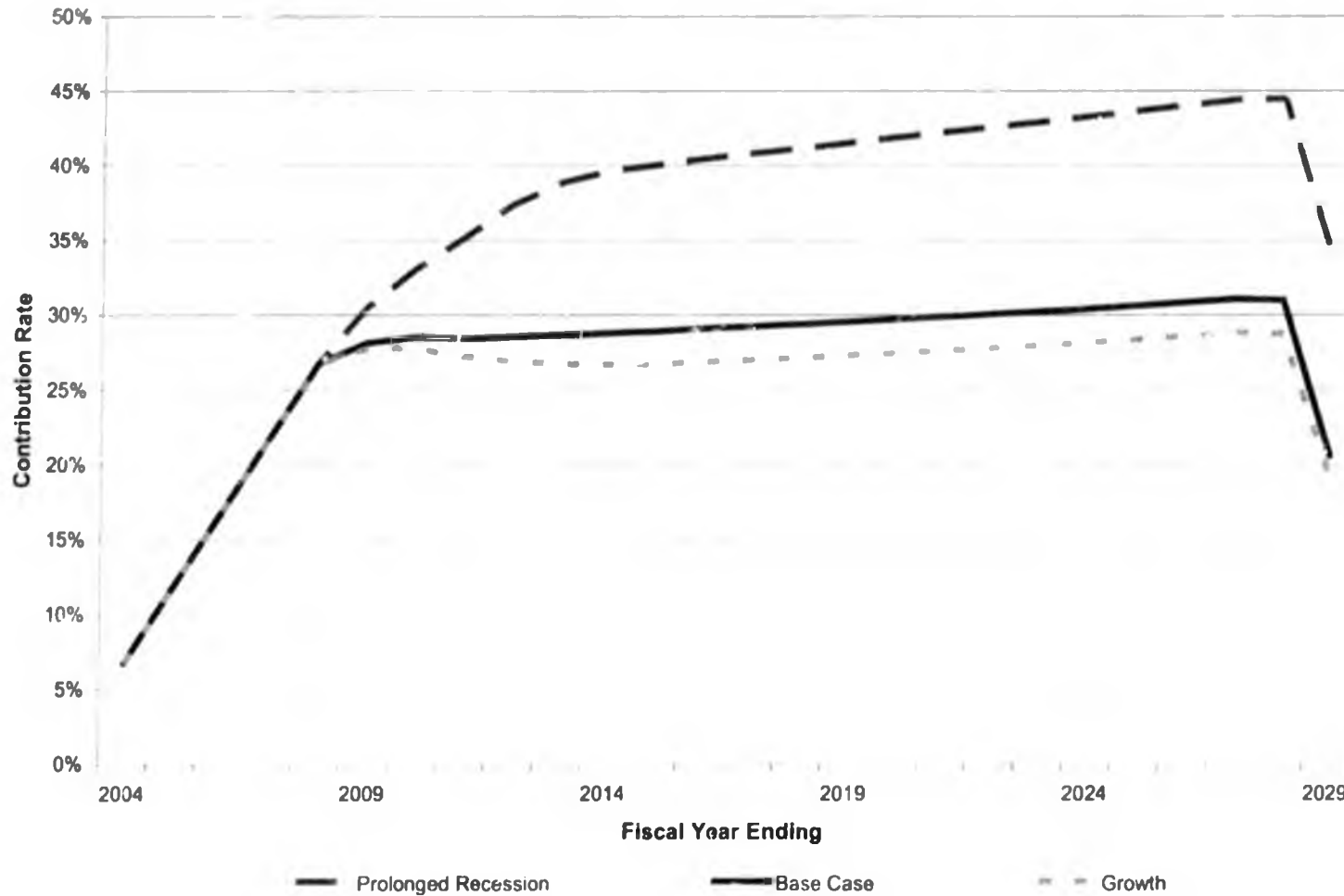
Investment returns are assumed as follows:

Total Portfolio Investment Return Under Each Scenario

Year Ending June 30	Base Case	Growth	Prolonged Recession
2004	15.08%	15.08%	15.08%
2005	8.25%	10.00%	-3.50%
2006	8.25%	10.00%	-3.50%
2007	8.25%	9.50%	2.10%
2008	8.25%	9.00%	7.75%
2009	8.25%	8.25%	7.75%
2010	8.25%	8.25%	7.75%
2011	8.25%	8.25%	7.75%
2012	8.25%	8.25%	7.75%
2013	8.25%	8.25%	7.75%
2014	8.25%	8.25%	7.75%
2015	8.25%	8.25%	7.75%
2016	8.25%	8.25%	7.75%
2017	8.25%	8.25%	7.75%
2018	8.25%	8.25%	7.75%
2019	8.25%	8.25%	7.75%
2020	8.25%	8.25%	7.75%
2021	8.25%	8.25%	7.75%
2022	8.25%	8.25%	7.75%
2023	8.25%	8.25%	7.75%
2024	8.25%	8.25%	7.75%
2025	8.25%	8.25%	7.75%
2026	8.25%	8.25%	7.75%
2027	8.25%	8.25%	7.75%
2028	8.25%	8.25%	7.75%
2029	8.25%	8.25%	7.75%

1.5(c) Actuarial Projections – Effect of Economic Scenarios (continued)

Contribution Rate



1.5(c) Actuarial Projections – Effect of Economic Scenarios

Key Assumptions

- All assumptions and methods are the same as Section 1.5(a) except:

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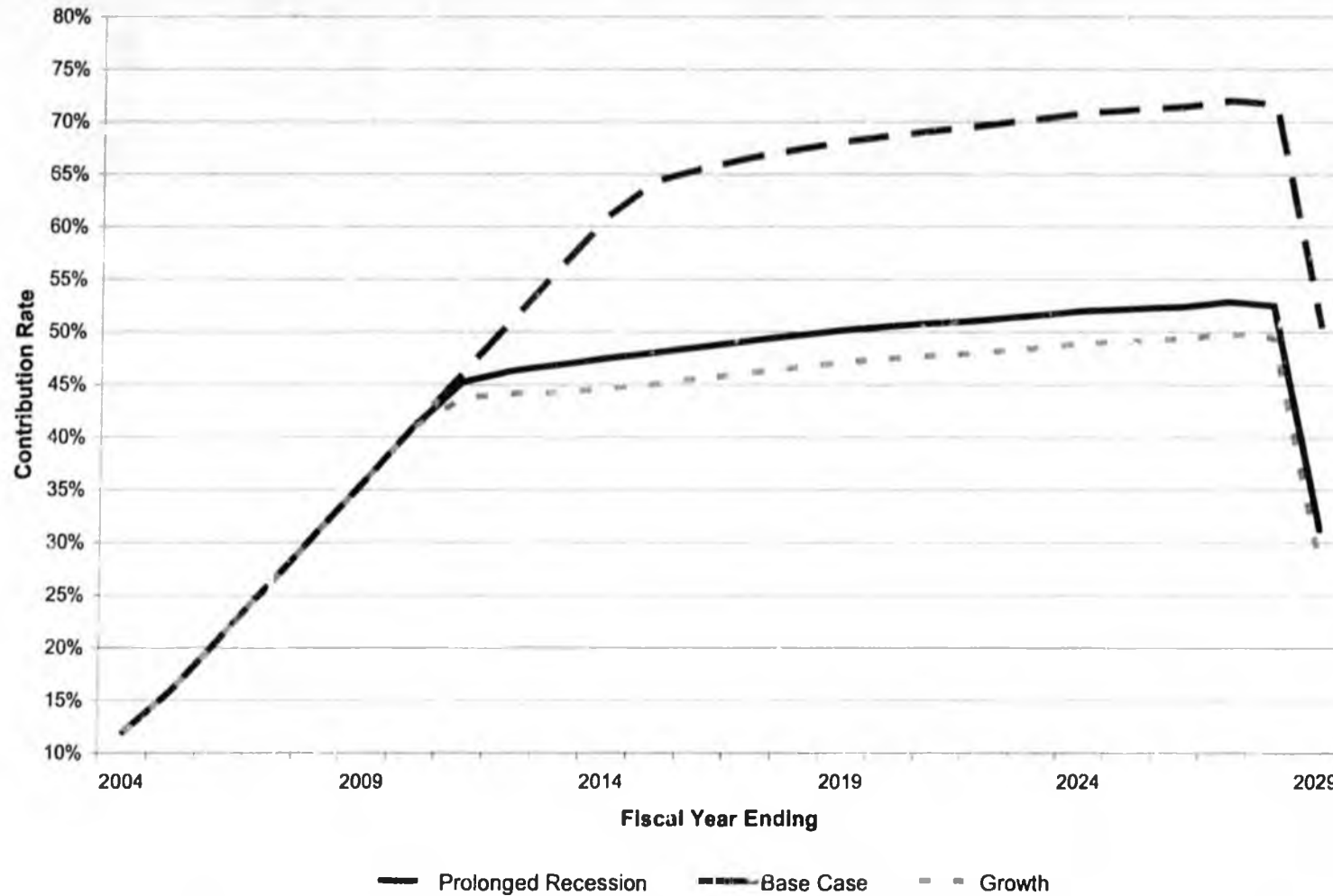
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2012	8.25%	8.25%	7.75%
2013	8.25%	8.25%	7.75%
2014	8.25%	8.25%	7.75%
2015	8.25%	8.25%	7.75%
2016	8.25%	8.25%	7.75%
2017	8.25%	8.25%	7.75%
2018	8.25%	8.25%	7.75%
2019	8.25%	8.25%	7.75%
2020	8.25%	8.25%	7.75%
2021	8.25%	8.25%	7.75%
2022	8.25%	8.25%	7.75%
2023	8.25%	8.25%	7.75%
2024	8.25%	8.25%	7.75%
2025	8.25%	8.25%	7.75%
2026	8.25%	8.25%	7.75%
2027	8.25%	8.25%	7.75%
2028	8.25%	8.25%	7.75%
2029	8.25%	8.25%	7.75%

1.5(c) Actuarial Projections – Effect of Economic Scenarios (continued)

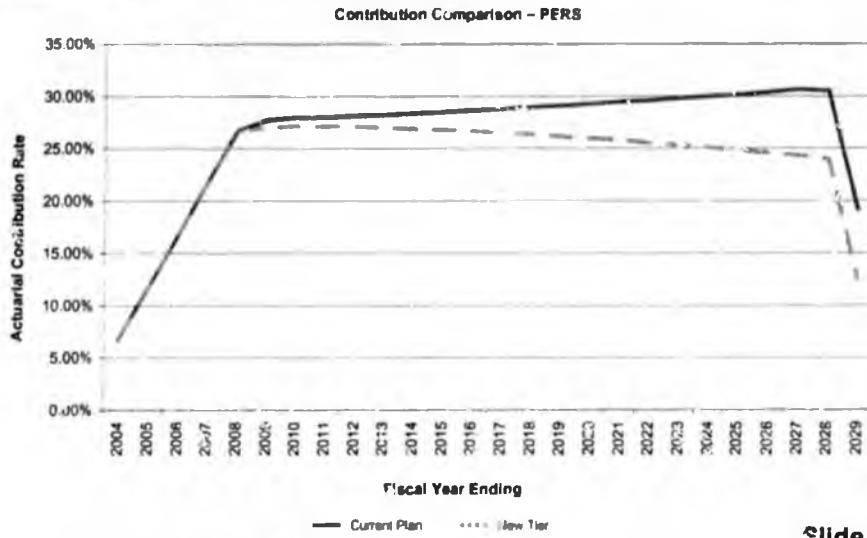
Contribution Rate





Proposed Alternatives

Cost Projections - PERS

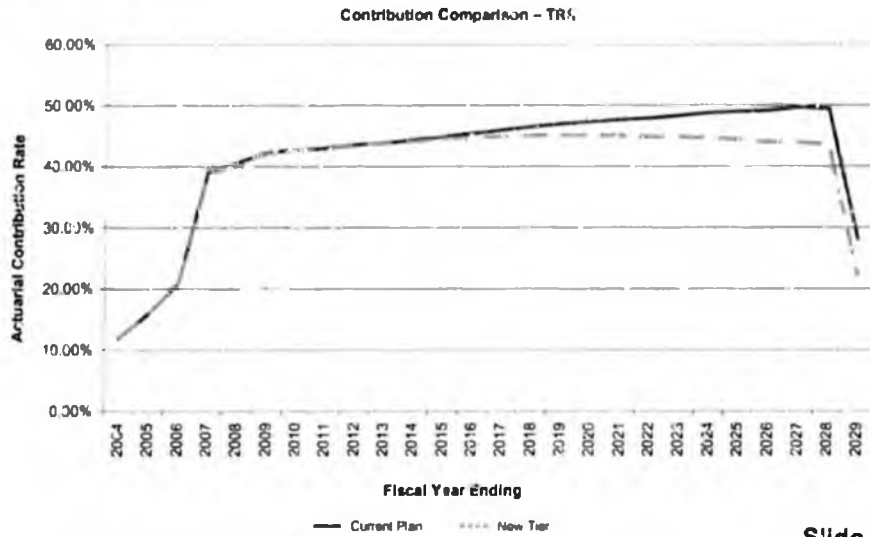


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Proposed Alternatives

Cost Projections - TRS



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**PUBLIC EMPLOYEES' RETIREMENT SYSTEM
TEACHERS' RETIREMENT SYSTEM
SENATE FINANCE BRIEFING ON PROPOSALS FOR NEW TIERS**

Attached are two spreadsheets comparing the specific benefit differences in the existing and proposed Tiers for PERS and TRS. Outlined below is a summary of the major benefit changes and a cost comparison.

PERS / TRS

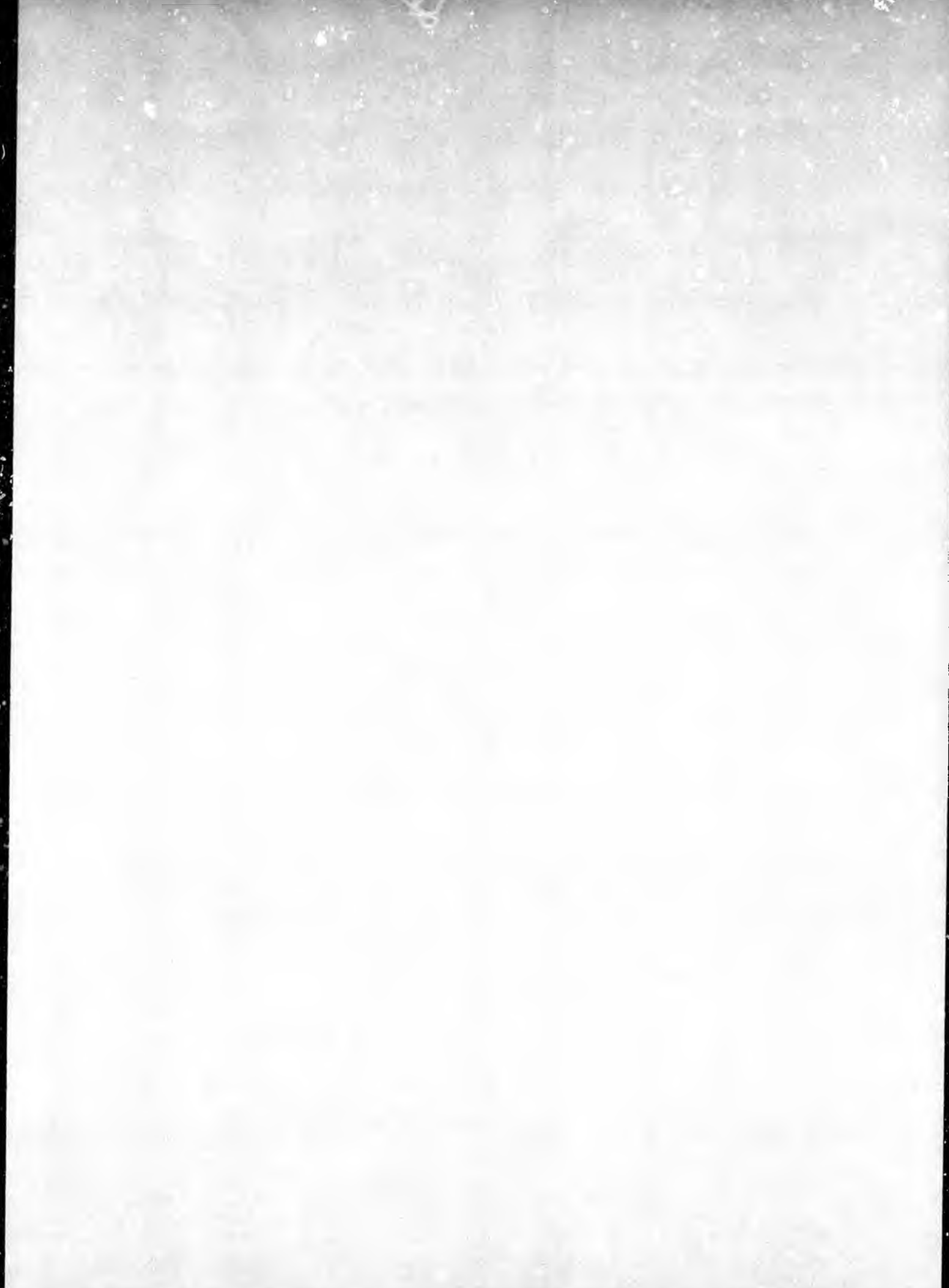
	Current PERS Tier III / TRS Tier II DB Plan	Alternative 1 DB/DC Plan	Alternative 2 DC Plan
PERS Employee Contribution Rate	6.75% or 7.5 Police/Fire	8% all members 8.5% Police/Fire 11.0% School District	8% all members 8.5% Police/Fire 11.0% School District
TRS Employee Contribution Rate	8.65%	10%	10%
Retirement Age	60 normal - 55 early 30 years "all others" 20 Police/Fire 20 Teachers	Same Same 25 Police/Fire members 25 Teachers	Any age
PERS Benefit Formula/Contribution Rate	2% up to 2.5% DB	1% DB; 8% DC (8% includes HRA)	12.5% DC (12.5% includes HRA)
TRS Benefit Formula/Contribution Rate	2% up to 2.5% DB	1% DB; 10% DC (10% includes HRA)	15% DC (15% includes HRA)
Medical	<ul style="list-style-type: none"> • Do not have to retire directly from system to be service or age eligible for medical coverage. • Must have 10 years of service. Minimal cost share. 	<ul style="list-style-type: none"> • Must retire directly from system to be eligible. • Must have 10 years of service. • Member pays more through "cost share" design elements. 	Same as Alternative 1
Normal Cost Rate - PERS (does not include unfunded liability portion)	13.24% - Current Normal Cost Rate	8% reduces normal cost rate by 40%	8% reduces normal cost rate by 40%
Normal Cost Rate - TRS (does not include unfunded liability portion)	14.28% - Current Normal Cost Rate	8.75% - this reduces normal cost rate by 39%	8.75% - this reduces normal cost rate by 39%
Future exposure and volatility to loss in investment earnings and increasing medical costs.	Employer bears all the risk.	Employer continues to have risk in two areas: (1) 1% DB component and (2) medical inflation component	Minimal Exposure to employer in one area only: (1) medical inflation w/capped %.

Alaska Division of Retirement and Benefits
Public Employees' Retirement System (PERS) Plan Comparison Chart
 Rev. January 15, 2005

Tier I Established on or after 7/1/86	Tier II Established on or after 7/1/86	Tier III Established on or after 7/1/86	Tier IV Proposed - Alternative 1 DB/DC Plan Entered on or after 7/1/2006	Tier IV - Alternative 2 Plan DC Plan Entered on or after 7/1/2006
Employee Pre-tax Contribution: 6.75% beginning 1/1/87—all others 7.5% beginning 1/1/87—police and fire 9.6% beginning 7/1/99—school district	Employee Pre-tax Contribution: 6.75% beginning 1/1/87—all others 7.5% beginning 1/1/87—police and fire 9.6% beginning 7/1/99—school district	Employee Pre-tax Contribution: 6.75% beginning 1/1/87—all others 7.5% beginning 1/1/87—police and fire 9.6% beginning 7/1/99—school district	Employee Pre-tax Contribution: 8% all members beginning 7/1/2006 8.5% beginning 7/1/2006 – police and fire 11.0% beginning 7/1/2006 School District	Employee Pre-tax Contribution: 8% all members beginning 7/1/2006 8.5% beginning 7/1/2006 – police and fire 11.0% beginning 7/1/2006 School District
Members vest with 5 years of service	Members vest with 5 years of service	Members vest with 5 years of service	Members vest with 5 years of service	100% Vested upon enrollment
<ul style="list-style-type: none"> Normal retirement age is 55 Early retirement age is 50 Police/Fire members can retire at any age after 20 years of police/fire service All other members can retire at any age after 30 years of membership service 	<ul style="list-style-type: none"> Normal retirement age is 60 Early retirement at age 55 Police/fire members can retire at any age after 20 years of police/fire service "All other" members can retire at any age after 30 years of membership service 	<ul style="list-style-type: none"> Normal retirement age is 60 Early retirement at age 55 Police/fire members can retire at any age after 20 years of police/fire service "All other" members can retire at any age after 30 years of membership service 	<ul style="list-style-type: none"> Normal retirement age is 60 Early retirement at age 55 Police/fire members can retire at any age after 25 years of police/fire service "All other" members can retire at any age after 30 years of membership service 	<ul style="list-style-type: none"> Can leave employment at any age and take account balance with them, leave account balance in plan or rollover to another qualified plan.
<ul style="list-style-type: none"> 2% defined benefit formula for first 10 years and all years of service prior to July 1, 1986 2.25% for the next 10 years, 2.5% per year thereafter (average of the high three consecutive years' salary) Police/Fire - 2% benefit formula for first 10 years and 2.5% for all years after 10 	<ul style="list-style-type: none"> 2% defined benefit formula for first 10 years 2.25% for the next 10 years, and 2.5% per year thereafter. Benefit calculation is determined on the average of the high three consecutive years' salary Police/Fire - 2% benefit formula for first 10 years and 2.5% for all years after 10 	<ul style="list-style-type: none"> 2% defined benefit formula for first 10 years 2.25% for the next 10 years, and 2.5% per year thereafter (benefit calculation is average of the high five consecutive years' salary) Police/Fire - 2% benefit formula for first 10 years and 2.5% for all years after 10 (benefit calculation is three consecutive years regardless of tier (effective 2002)) 	<ul style="list-style-type: none"> 1% defined benefit formula 8.7% defined contribution rate A portion of the defined contribution rate may be allocated to an account to provide for medical expenditures (HRA) Benefit calculation is computed on indexed career average 	<ul style="list-style-type: none"> 12.5% defined contribution rate A portion of the defined contribution rate may be allocated to an account to provide for medical expenditures (HRA)
<ul style="list-style-type: none"> Medical coverage is provided to all benefit recipients and their eligible dependents. The retiree medical plan premium is paid by the retirement system. 	<ul style="list-style-type: none"> Medical coverage is provided to disabled, regardless of age and benefit recipients over age 60 or <ul style="list-style-type: none"> police/fire members with 25 years of police/fire service all other members with 30 years of membership service and their eligible dependents. The retirement system pays the retiree medical plan premium. Retirees and survivors under age 60 must pay the full premium cost if they want coverage. 	<ul style="list-style-type: none"> Medical same as Tier II Except, employees must accrue a minimum of 10 years of credited service to have system-paid coverage at age 60 Employees with less than 10 years must pay the full premium as long as they wish to continue medical coverage 	<ul style="list-style-type: none"> Medical Employees must retire directly from the system to be eligible and Accrue a minimum of 10 years of credited service Early retirees get "access only" prior to normal retirement age - must pay premium HRA contribution Defined dollar benefit from normal retirement to age 65 Defined health benefit after age 65 (cost share based on length of service) 	<ul style="list-style-type: none"> Medical Employees must retire directly from the system to be eligible and Accrue a minimum of 10 years of credited service Early retirees get "access only" prior to normal retirement age - must pay premium HRA contribution Defined dollar benefit from normal retirement to age 65 Defined health benefit after age 65 (cost share based on length of service)
<ul style="list-style-type: none"> The automatic PRPA legislation in 1986 applied to all members regardless of hire date 	<ul style="list-style-type: none"> Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 5 years 	<ul style="list-style-type: none"> Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 5 years 	<ul style="list-style-type: none"> Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 5 years 	<ul style="list-style-type: none"> None
<ul style="list-style-type: none"> Alaska Cost-of-Living Allowance of 10% of base benefit is payable to benefit recipients who remain domiciled in Alaska after retirement. 	<ul style="list-style-type: none"> Alaska Cost-of-Living Allowance of 10% of base benefit is payable to benefit recipients 65 or older or disability benefit recipients regardless of age who remain domiciled in Alaska after retirement. 	<ul style="list-style-type: none"> Alaska Cost-of-Living Allowance is payable to benefit recipients 65 or older or disability benefit recipients regardless of age who remain domiciled in Alaska after retirement. The allowance is \$50 or 10% of the base benefit, whichever is greater. 	<ul style="list-style-type: none"> None 	<ul style="list-style-type: none"> None

Alaska Division of Retirement and Benefits
Teachers' Retirement System (TRS) Plan Comparison Chart
 Rev. January 15, 2005

Tier I 7/1/55 - 6/30/80	Tier II Entered on or after 7/1/90	Tier III Proposed Alternative 1 - DB/DC Plan Entered on or after 7/1/2005	Tier III Proposed Alternative 2 - DC Plan Entered on or after 7/1/2005
Employee Pre-tax Contribution: 8.65% beginning 1/1/91	Employee Pre-tax Contribution: 8.65% beginning 1/1/91	Employee Pre-tax Contribution: 10% beginning 7/1/2005	Employee Pre-tax Contribution: 10% beginning 7/1/2005
Members vest with 8 years of service.	Members vest with 8 years of service.	Members vest with 8 years of service.	100% Vested at time of enrollment
<ul style="list-style-type: none"> • Normal retirement age is 55 • Early retirement at age 50 • Teachers can retire at any age after 20 years of membership service. 	<ul style="list-style-type: none"> • Normal retirement age is 60 • Early retirement at age 55 • Teachers can retire at any age after 20 years 	<ul style="list-style-type: none"> • Normal retirement age is 60 • Early retirement at age 55 • Teachers can retire at any age after 25 years 	<ul style="list-style-type: none"> • Can leave employment at any age and take account balance with them, leave account balance in plan or rollover to another qualified plan.
<ul style="list-style-type: none"> • 2% defined benefits formula for the first 20 years and all years of service prior to July 1, 1990 • 2.5% thereafter. Benefit calculation is determined on the average of the high three contract salaries. 	<ul style="list-style-type: none"> • 2% defined benefit formula for the first 20 years • 2.5% thereafter. Benefit calculation is determined on the average of the high three contract salaries. 	<ul style="list-style-type: none"> • 1% defined benefit formula all years of service • 10% defined contribution rate • A portion of the defined contribution rate may be allocated to an account to provide for medical expenditures (HRA). • Benefit calculation is computed on indexed career average 	<ul style="list-style-type: none"> • 15.0% defined contribution rate • A portion of the defined contribution rate may be allocated to an account to provide for medical expenditures (HRA).
<ul style="list-style-type: none"> • Medical coverage is provided to all benefit recipients and their eligible dependents. 	<ul style="list-style-type: none"> • Medical premiums are paid for all disabilities regardless of age and • Retirees and survivors over age 60 and for retirees with at least 25 years of service including eligible dependents. • Retirees and survivors under age 60, with less than 25 years of membership service must pay the full premium cost if they want coverage. 	<p>Medical</p> <ul style="list-style-type: none"> • Employees must retire directly from the system to be eligible and • Accrue a minimum of 10 years of credited service* • Early retirees get "access only" prior to normal retirement age - must pay premium • HRA contribution • Defined dollar benefit from normal retirement to age 65 • Defined health benefit after age 65 (cost share based on length of service) 	<p>Medical</p> <ul style="list-style-type: none"> • Employees must retire directly from the system to be eligible. • Accrue a minimum of 10 years of credited service* • Early retirees get "access only" prior to normal retirement age - must pay premium • HRA contribution • Defined dollar benefit from normal retirement to age 65 • Defined health benefit after age 65 (cost share based on length of service)
<ul style="list-style-type: none"> • Automatic PRPA legislated in 1990 applied to all members regardless of hire date. 	<ul style="list-style-type: none"> • Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 8 years. 	<ul style="list-style-type: none"> • Automatic PRPA adjustments to disabled members, retirees 60 and over, and those who have received benefits for 8 years. 	None
<ul style="list-style-type: none"> • Alaska Cost-of-Living Allowance is payable to benefit recipients who remain domiciled in Alaska after retirement. The allowance is 10% of the base benefit. 	<ul style="list-style-type: none"> • Alaska Cost-of-Living Allowance is payable to benefit recipients 65 or older or disability benefit recipients regardless of age who remain domiciled in Alaska after retirement. The allowance is 10% of the base benefit. 	None	None





Employer Survey - PERS

Key

The following pages illustrate the responses to the employer survey sent to all PERS employers. In total, 89 employers responded. PERS represents employers of various sizes. As a way to show the five largest employers' responses (of those who responded), we have included the letters A - E on the charts to represent how they answered. The employers have been assigned the following letters:

Employer	# Active Employees	Code Letter
State of Alaska	15,259	A
Anchorage SD	2,496	B
Anchorage, Municipality of	2,351	C
Fairbanks North Star Borough SD	790	D
North Slope Borough	788	E

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Employer Survey - PERS

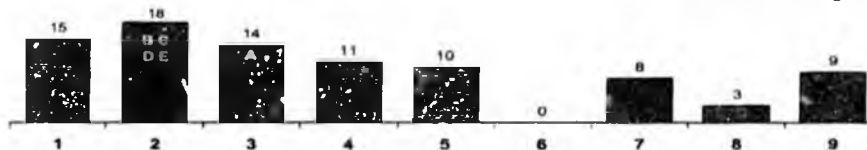
1. Long-Service Employees

Importance



Plan should favor long-service employees

Plan should not distinguish on account of length of service



Key Comments

- Retirement plans should favor long-service employees
- With over 150 employers in PERS, portability between employers is a real factor. If that can be achieved without penalizing long time PERS covered employees, there is not problem.
- One of our problems is that baby-boomer "glut" of long service employees. While they should be compensated for their time, there seems to be a shortage of professional people entering state/municipal public service.

Key Implications

- Rewarding long-service employees supports career employment.
- Uniform allocation can be an important attraction tool, but allows dollars to "walk out the door" when short-service employees leave the System.

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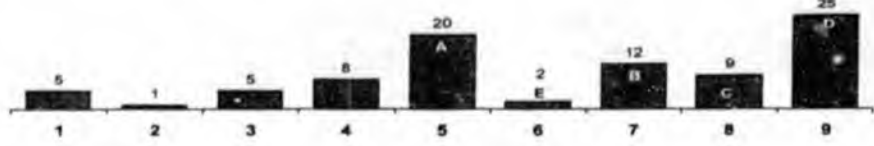
Employer Survey – PERS

2. Older Employees



Plan should favor older employees

Plan should not distinguish on account of age



Key Comments

- ⇒ Length of service should be more important than age in determining retirement benefits.
- ⇒ Inflation and decreases in salary raises are historical in Alaska. Young need to see opportunity in this state.

Key Implications

- ⇒ Rewarding older employees supports career employment.
- ⇒ Uniform allocation can be an important attraction tool, but allows dollars to "walk out the door" when younger members leave the System.

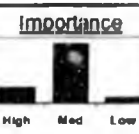
Mercer Human Resource Consulting

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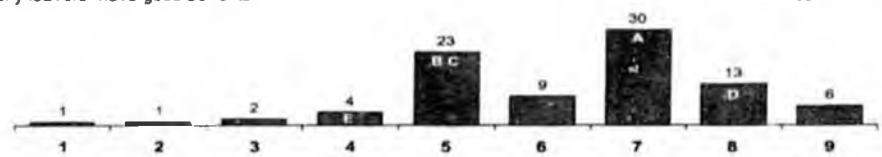
Employer Survey – PERS

3. Benefits Build Up



Benefits should build up quickly, so "early leavers" have good benefits

Benefits should build up slowly, so "early leavers" have little



Key Comments

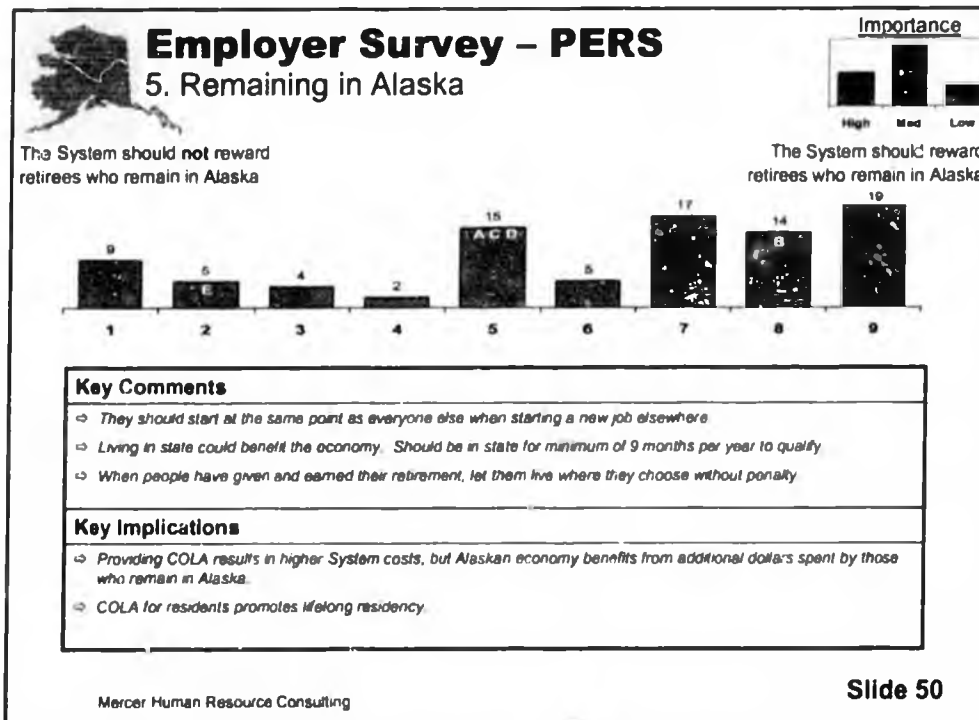
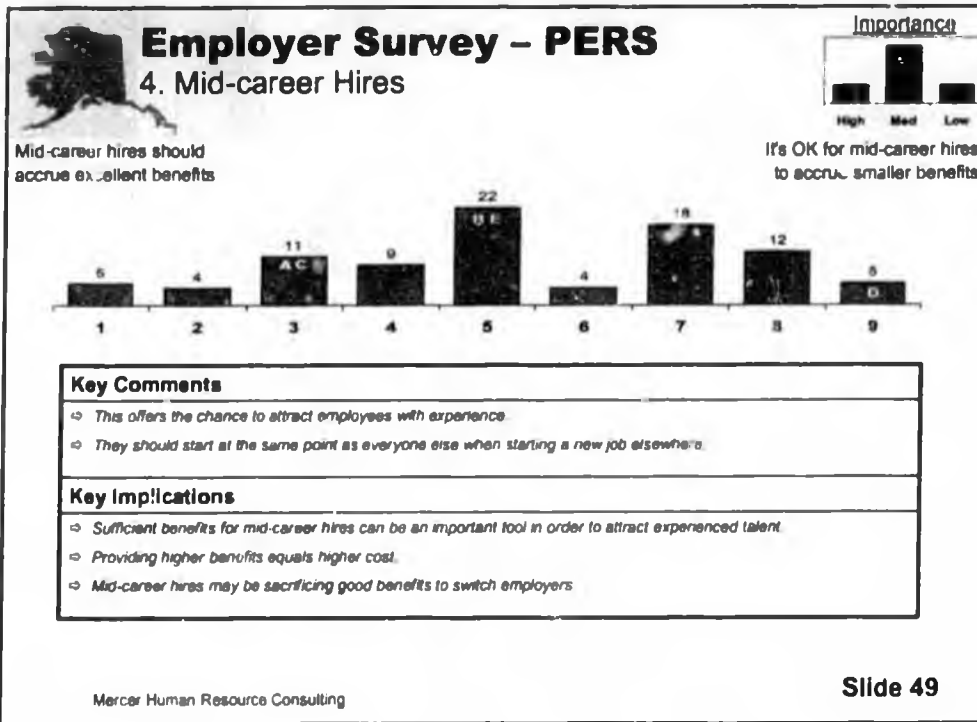
- ⇒ Benefits should accrue at a constant rate rather than increase after so many years of service.
- ⇒ It should not pay to leave system as soon as vested
- ⇒ All employees are important. Early leavers should accrue good benefits

Key Implications

- ⇒ Does not affect career employees who stay until retirement
- ⇒ Uniform allocation can be an important attraction tool, but allows dollars to "walk out the door" when younger members leave the System.

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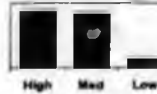




Employer Survey – PERS

6. Med Coverage to Term. Vested Members

Importance



The System should provide medical coverage to terminated vested members

The System should not provide medical coverage to terminated vested members



Key Comments

- ⇒ This area needs to be reviewed and modified to help control costs. It may be necessary to qualify for benefits or look at providing a flat dollar amount for benefits with the retiree paying the difference.
- ⇒ Perhaps the medical benefit could increase for those who retire from active service/decrease for those terminated vested members.
- ⇒ Helps with recruitment. Many come to Alaska to get vested - we need to encourage this trend.

Key Implications

- ⇒ Opportunity for cost savings exists by cutting back medical benefits for terminated vested members.
- ⇒ By eliminating, employers would lose out on a recruiting tool.

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Employer Survey – PERS

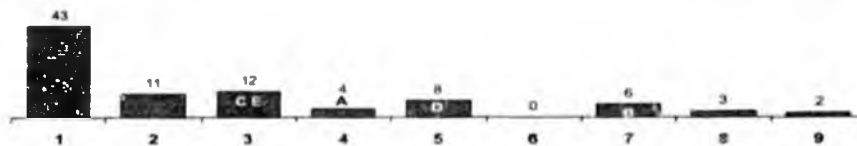
7. Medical Coverage

Importance



The retirement program should provide medical coverage

The program should not provide medical coverage



Key Comments

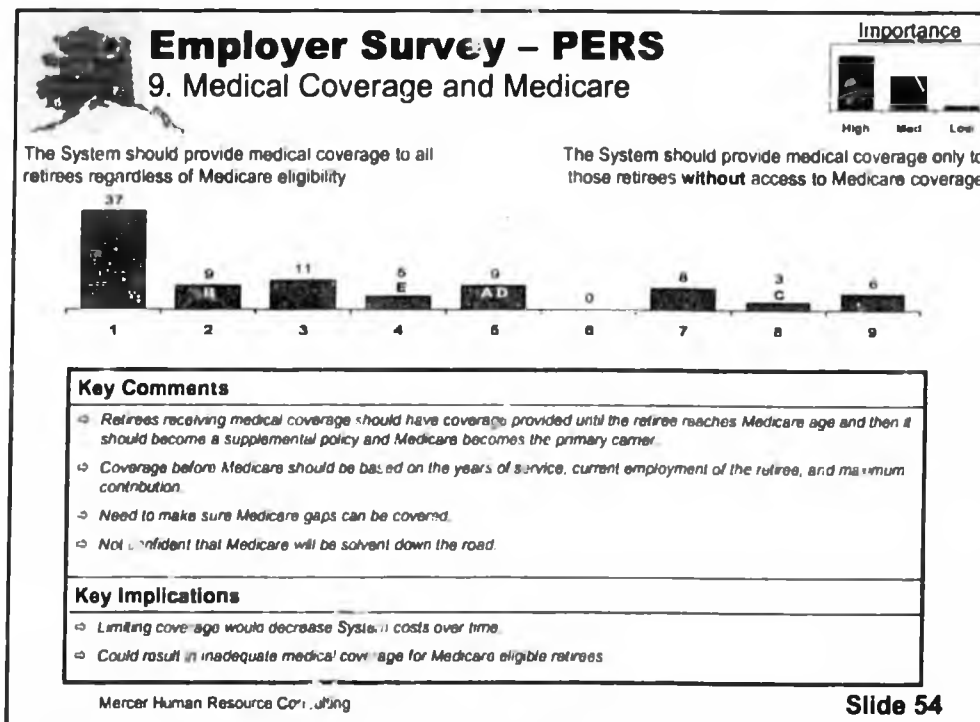
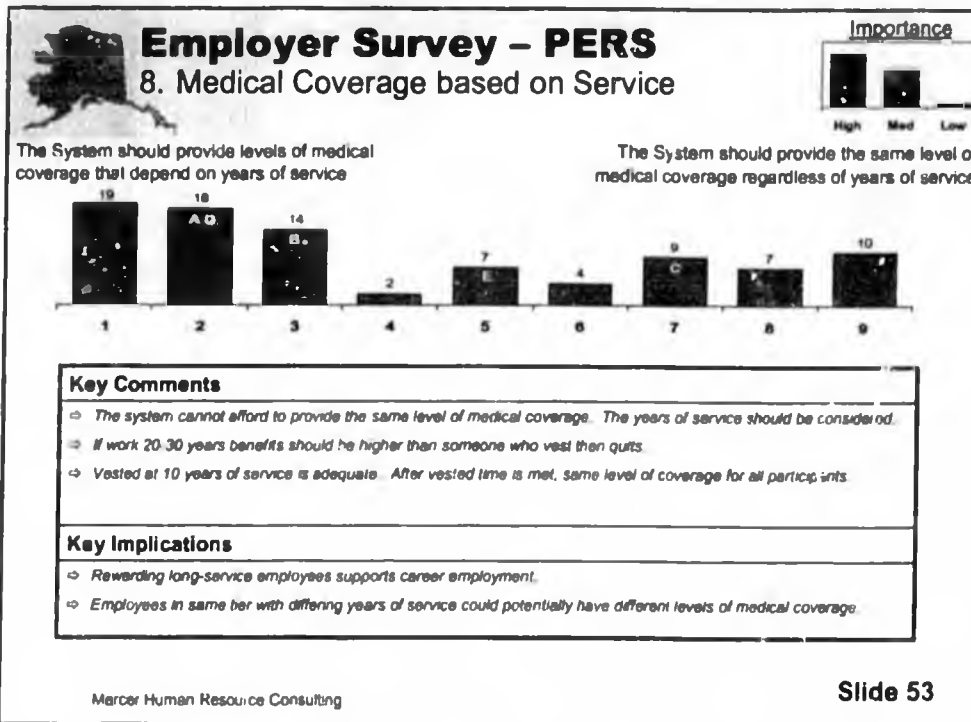
- ⇒ Biggest selling point in recruiting - medical.
- ⇒ Coverage important, but retirees could pay a share, perhaps based on years of services.
- ⇒ A must!

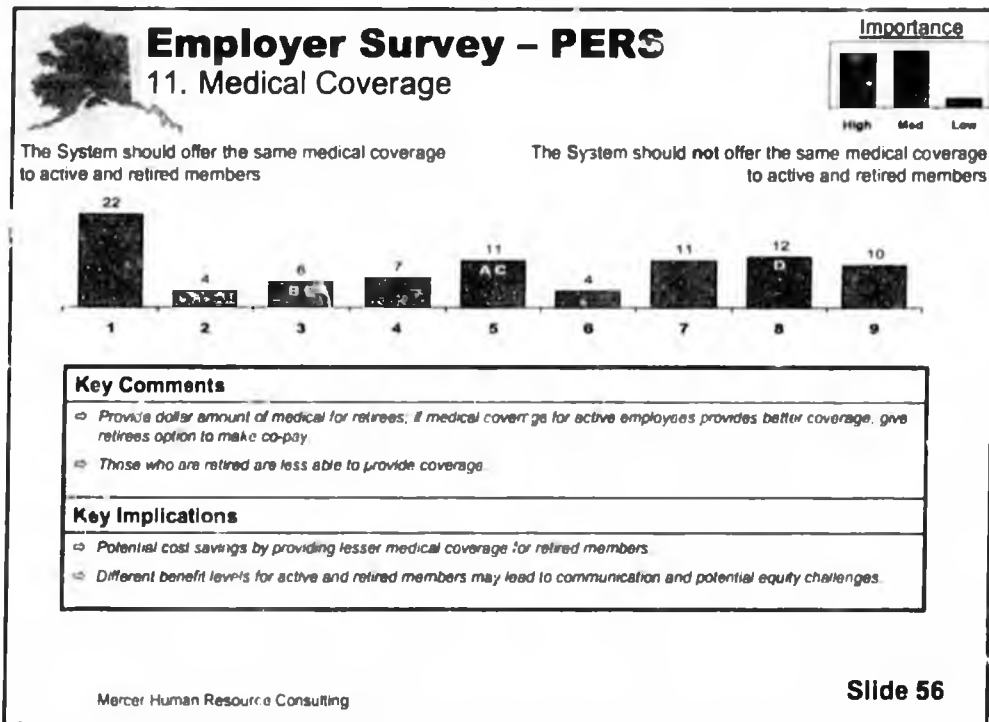
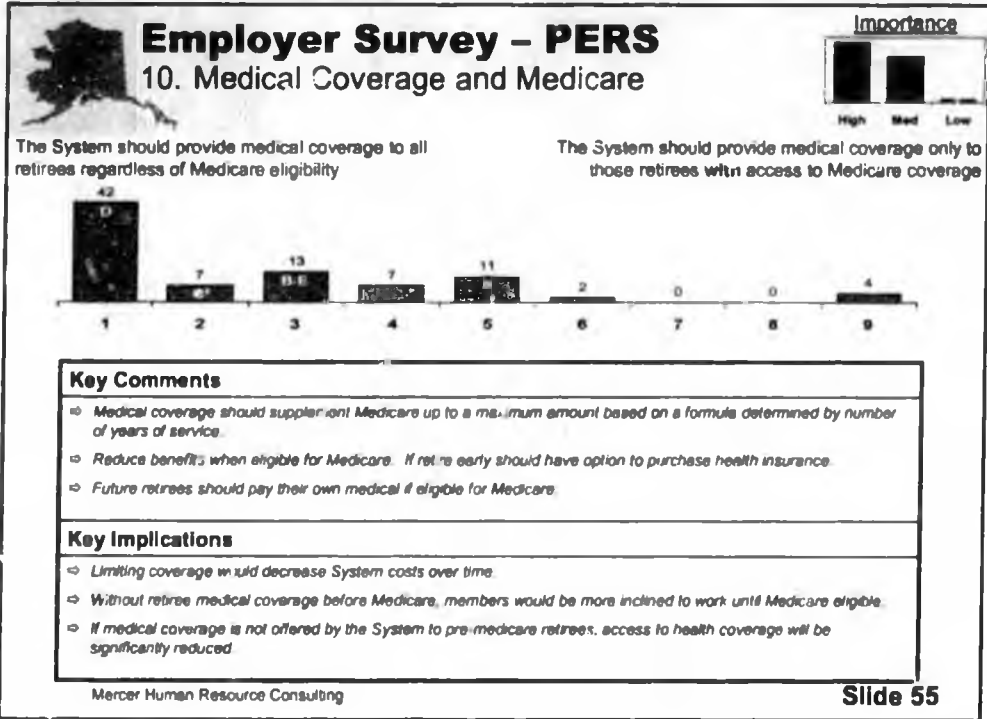
Key Implications

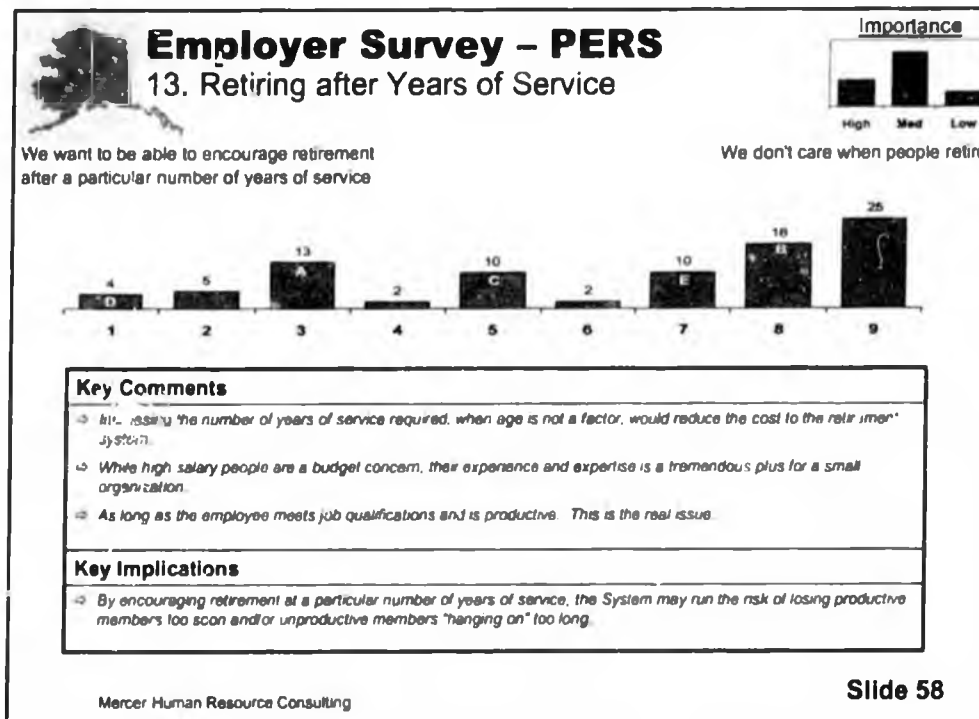
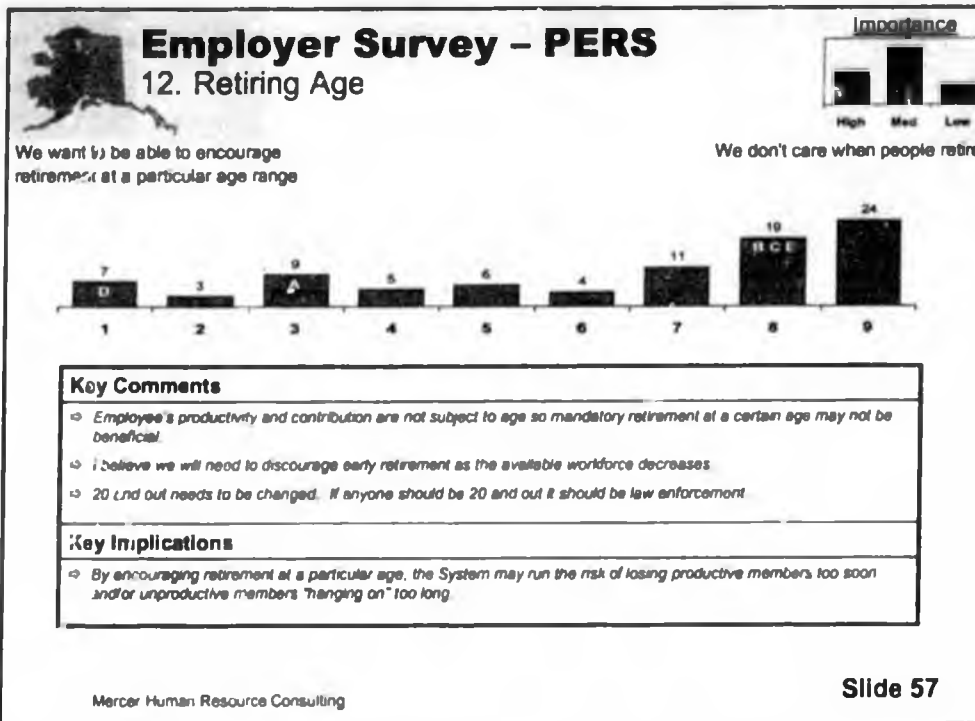
- ⇒ Elimination of medical coverage would lower System costs significantly over time.
- ⇒ Eliminating medical coverage would drastically change current design and hinder attraction and retention of employees as well as possibly providing insufficient overall retirement benefits to meet retirees' needs.

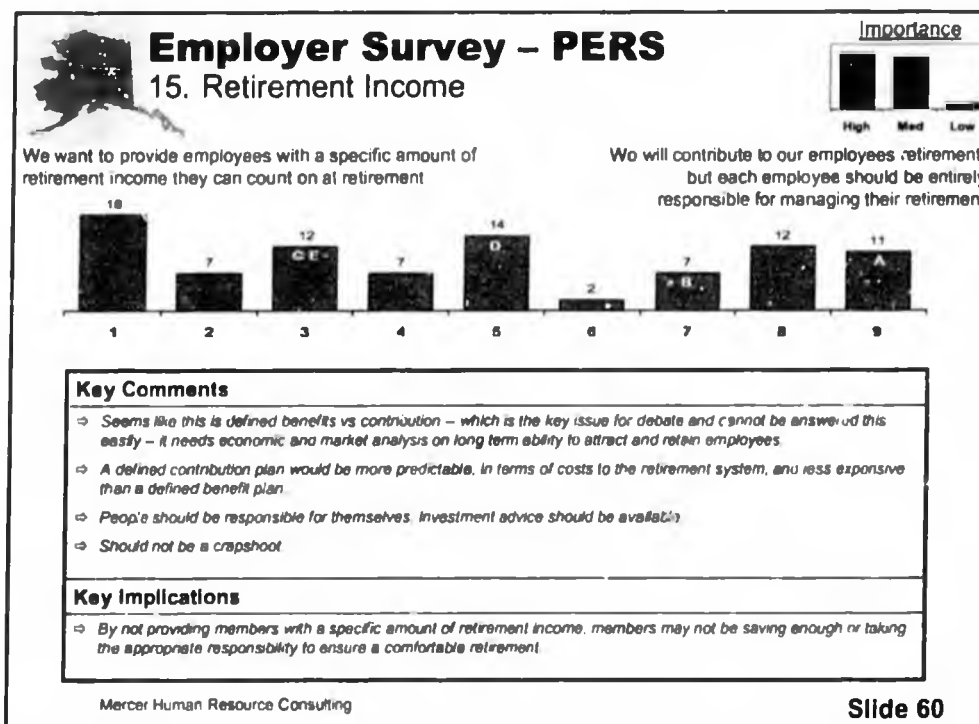
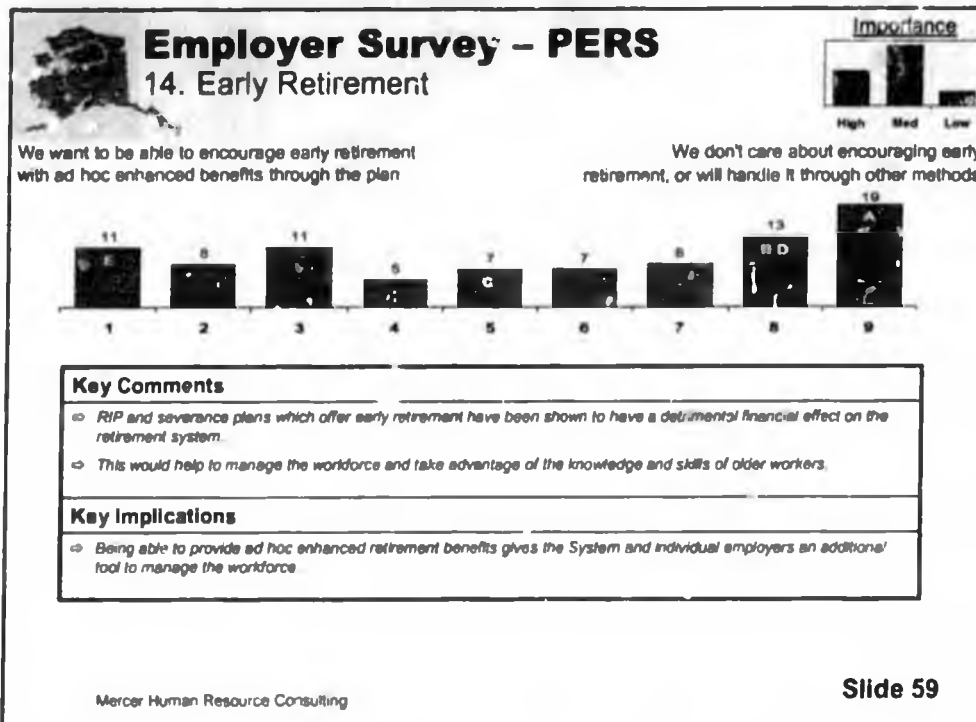
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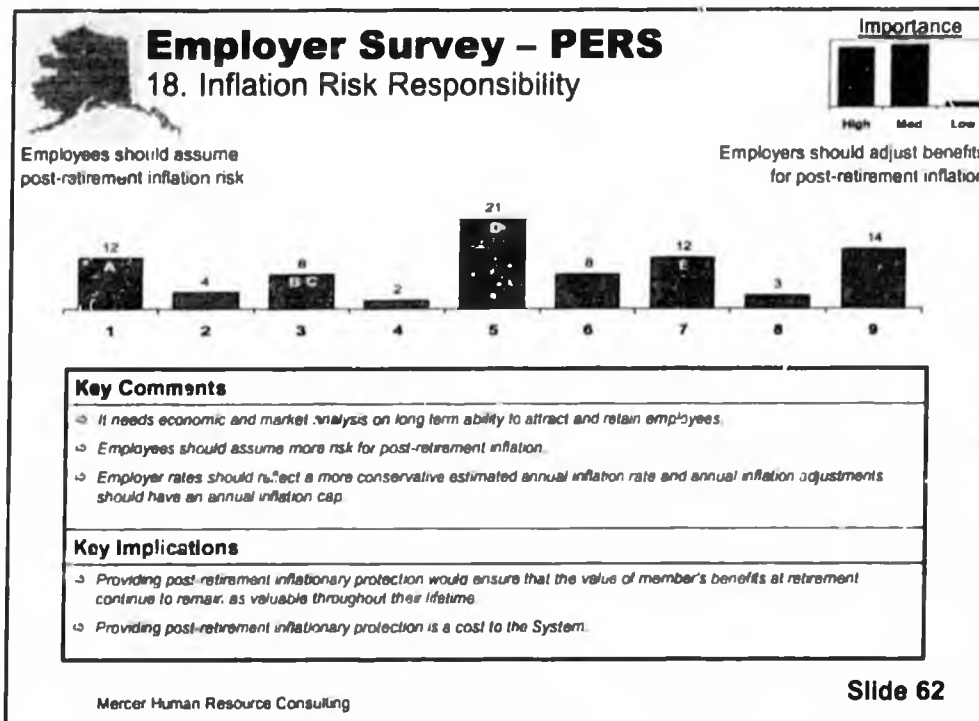
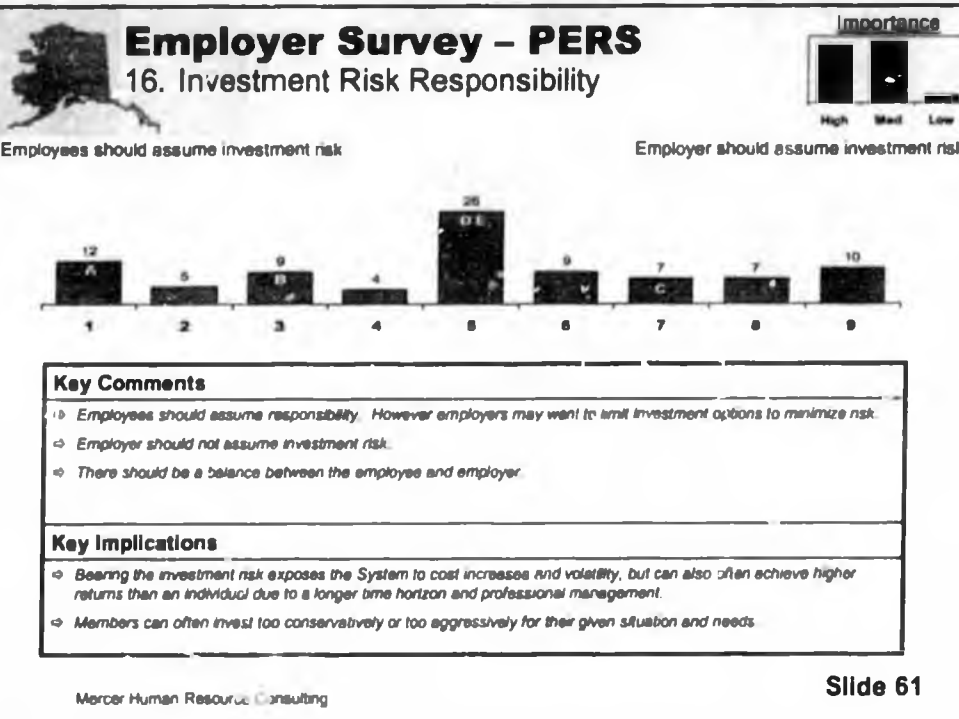
Slide 52













Employer Survey – PERS

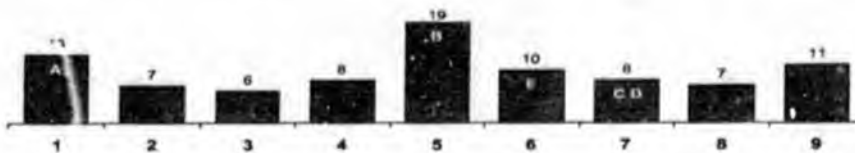
19. Longevity Risk Responsibility

Importance



Employees should assume longevity risk

Employers should assume longevity risk



Key Comments

- ⇒ Employers can no longer afford to assume all future cost increases.
- ⇒ Why should an Alaska employer become the lifetime guarantor (and lifetime risk taker) for all employees?
- ⇒ Employers can assume this risk better.
- ⇒ It should be the employees obligation to assume some risk.

Key Implications

- ⇒ Providing longevity protection is a cost to the System.
- ⇒ By assuming the longevity risk, the System could predict and manage it more accurately for the entire group than any employee could do individually.

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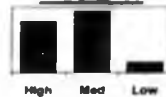
Slide 63



Employer Survey – PERS

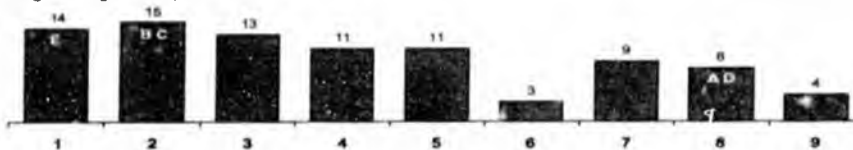
20. Savings

Importance



The retirement program should heavily encourage savings in the plan

The program should permit but not push savings



Key Comments

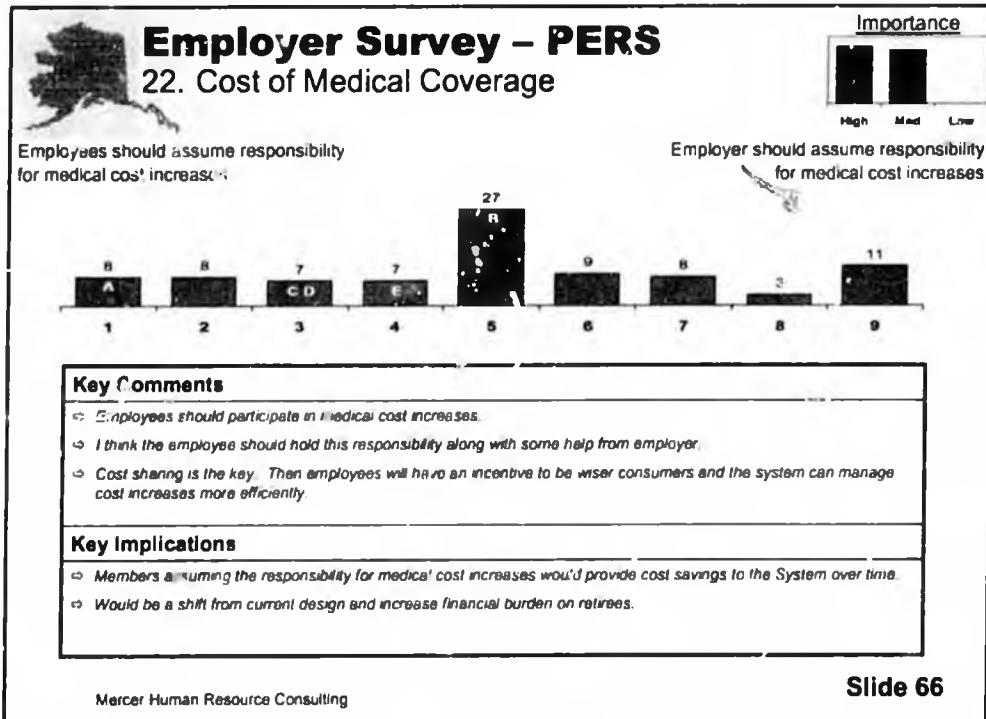
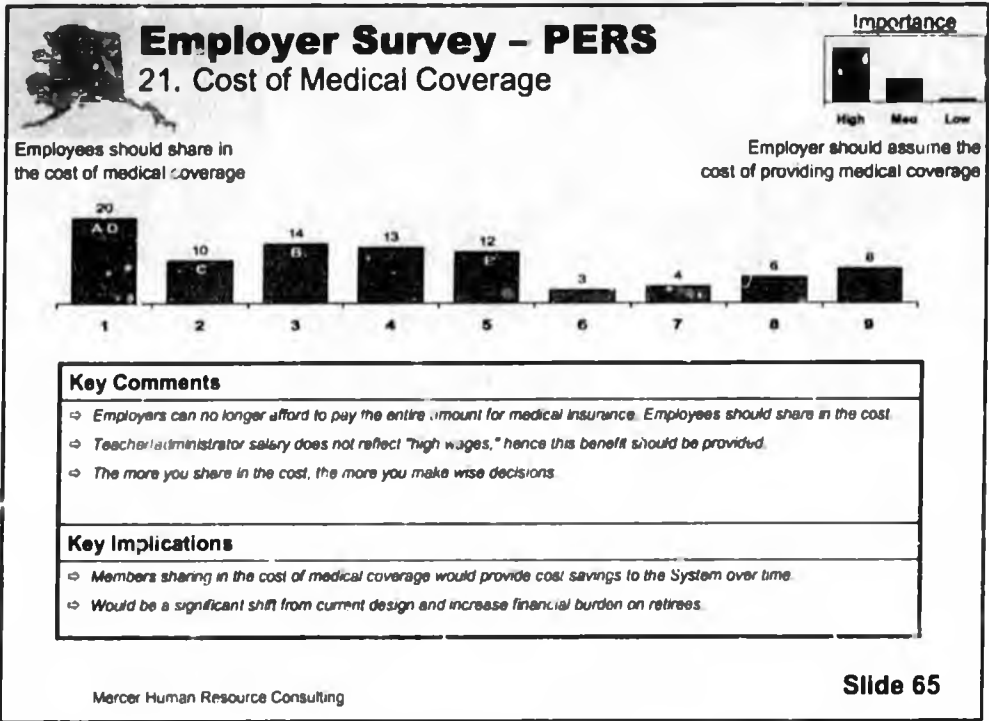
- ⇒ There are lots of other options - 401(K)'s, IRA's and 457 plans. But at least one should be heavily pushed to employee.
- ⇒ Employees need to assume more responsibility for their retirement! Programs should be structured to educate and encourage employees to save for retirement.
- ⇒ Employees should be allowed to contribute and enhance their retirement security.

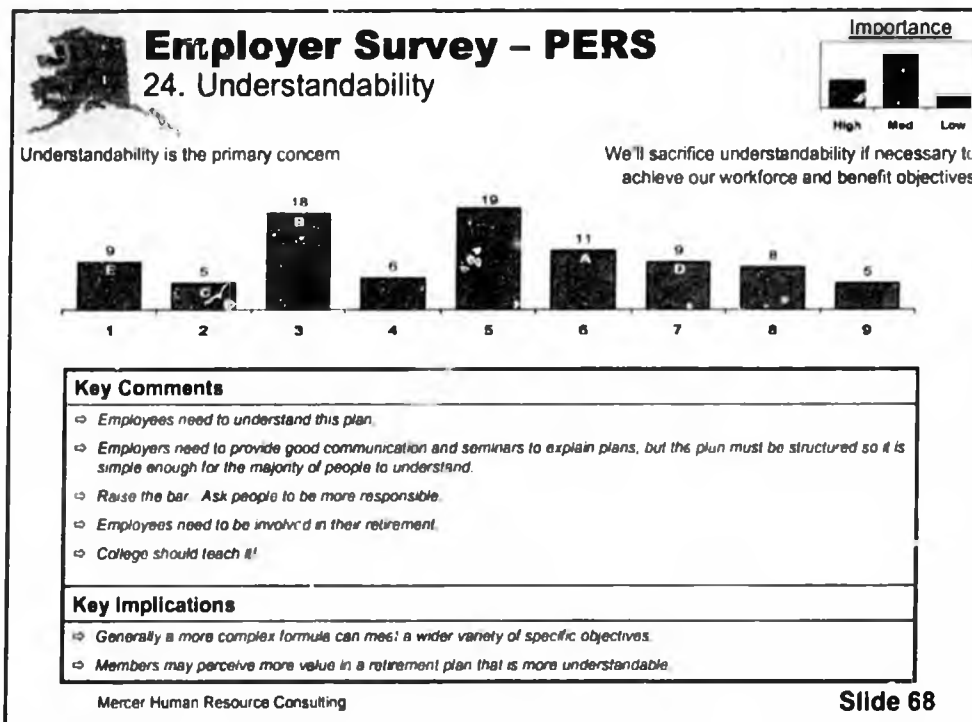
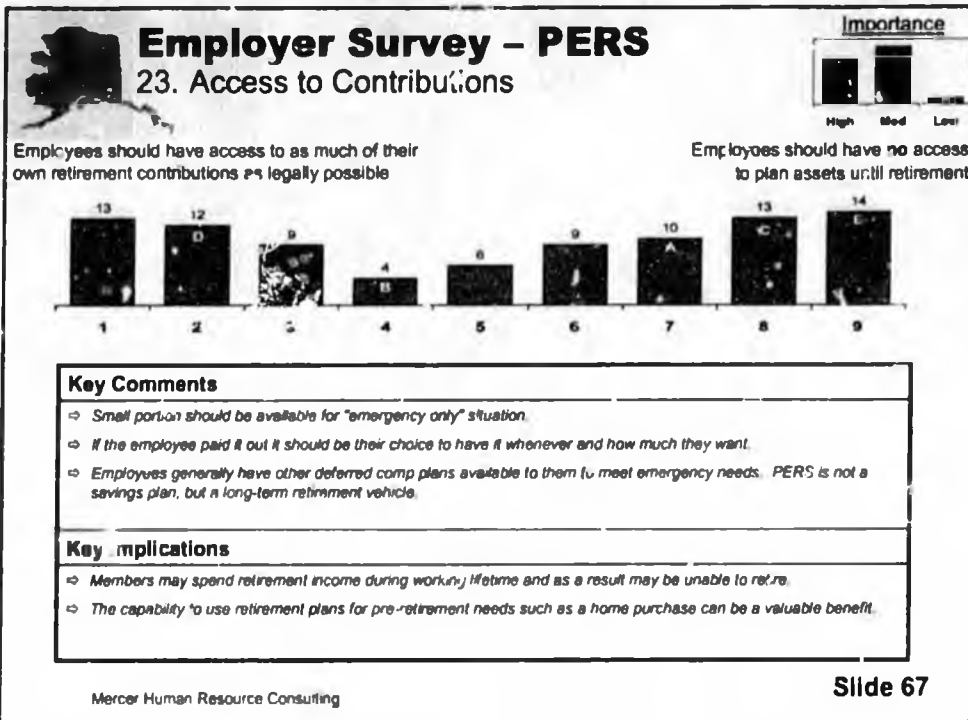
Key Implications

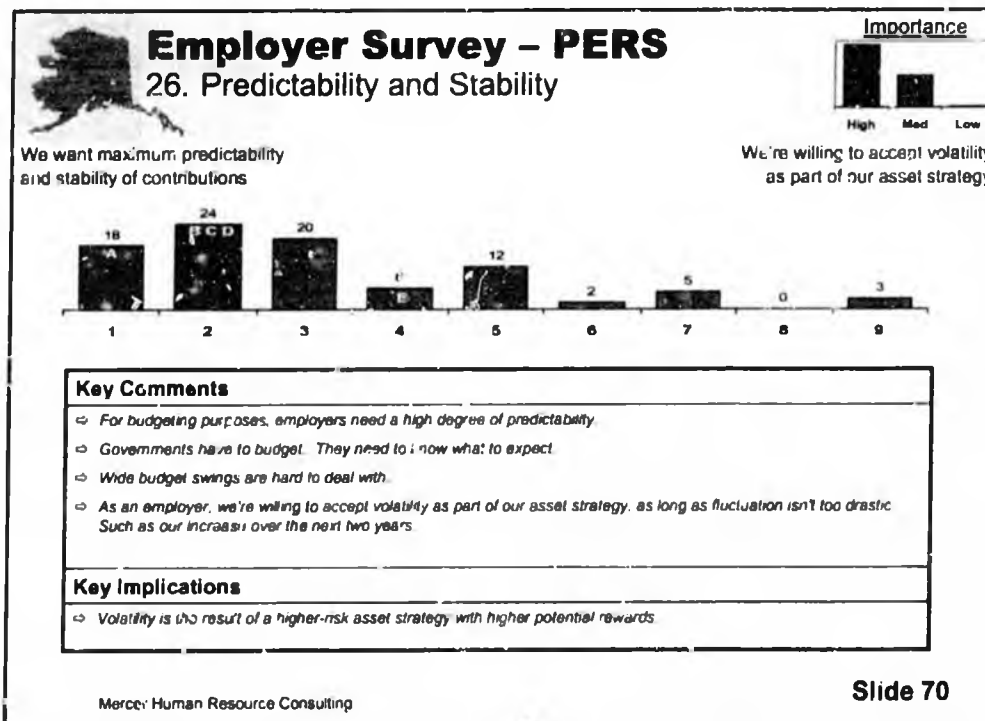
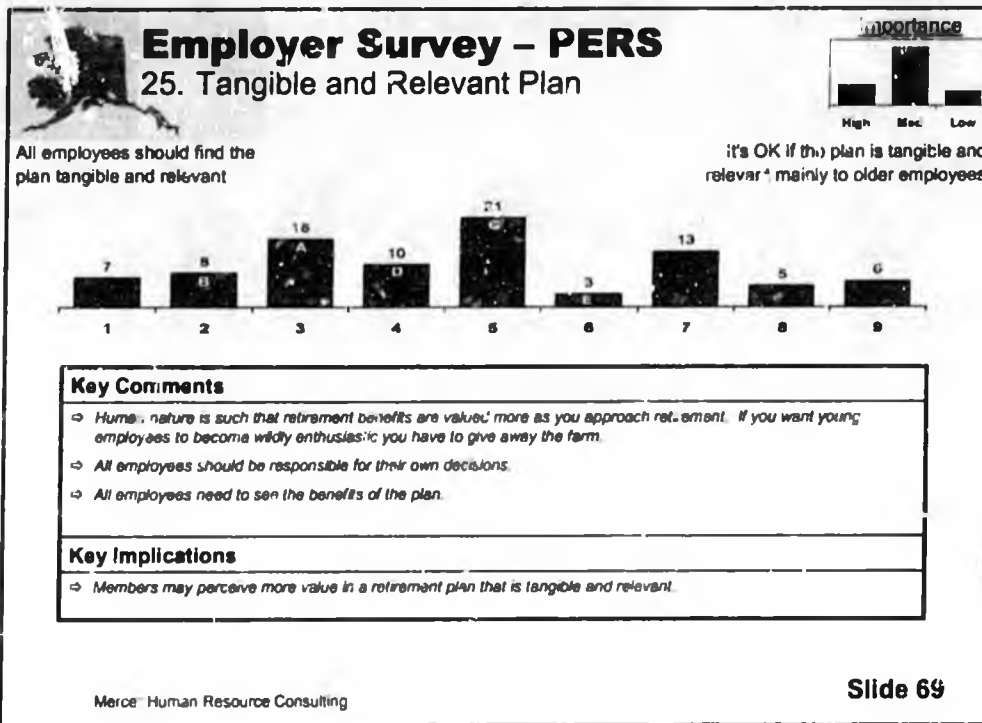
- ⇒ Without strongly encouraging members to contribute to their retirement, many will not have adequate funds to retire comfortably.

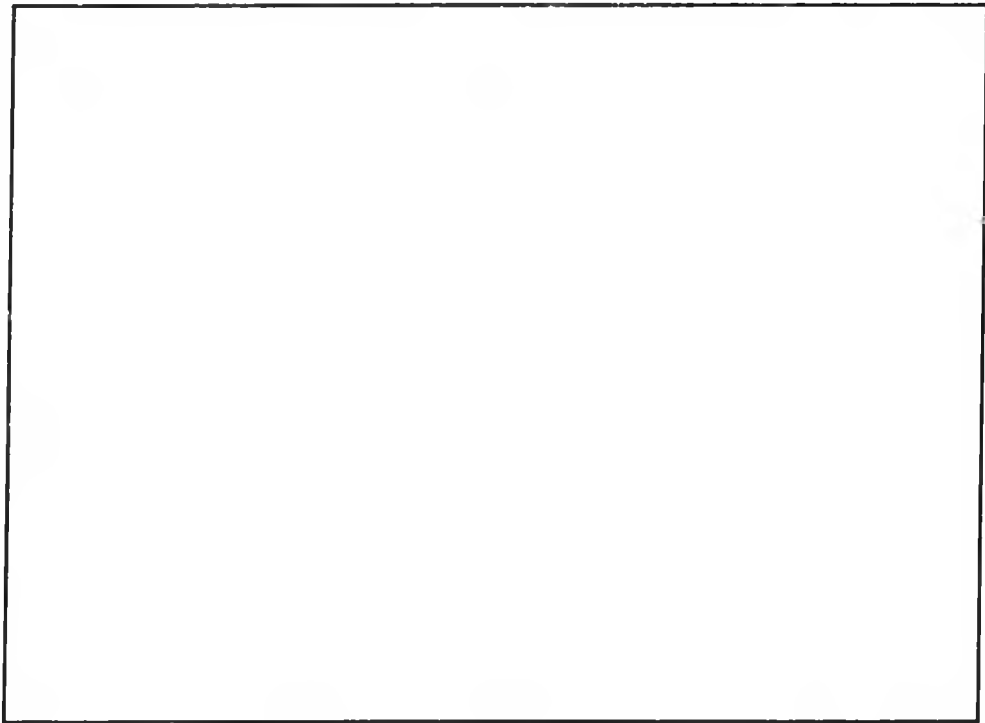
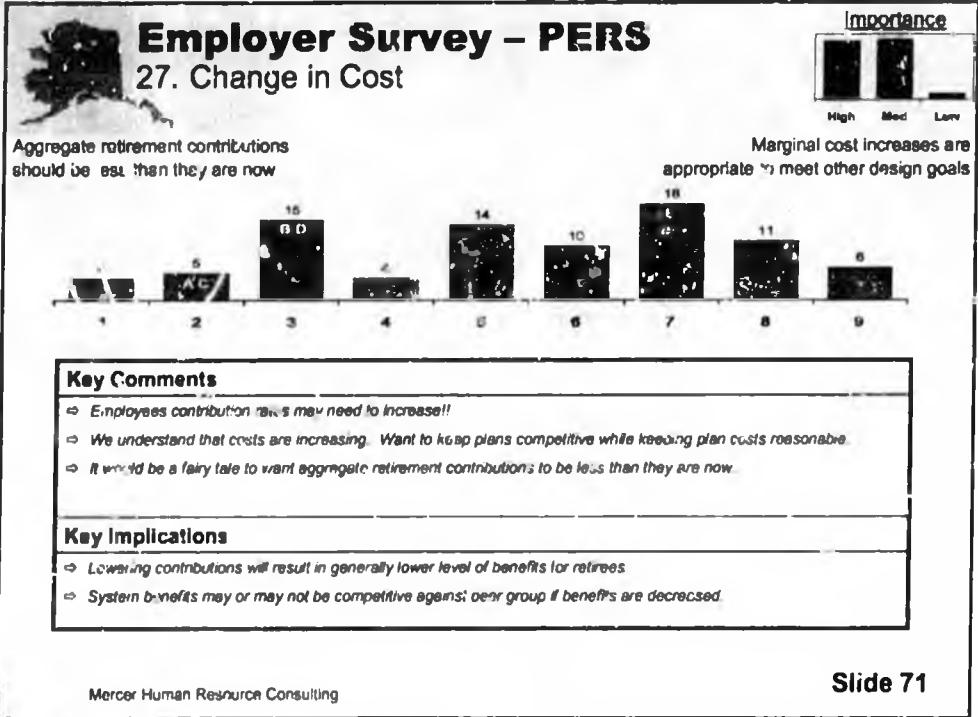
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Employer Survey - TRS

Key

The following pages illustrate the responses to the employer survey sent to all TRS employers. In total, 36 employers responded. TRS represents employers of various sizes. As a way to show the five largest employers' responses (of those who responded), we have included the letters A - E on the charts to represent how they answered. The employers have been assigned the following letters:

<u>Employer</u>	<u># Active Employees</u>	<u>Code Letter</u>
Anchorage SD	3,464	A
Fairbanks North Star Borough SD	988	B
Matanuska-Susitna Borough SD	936	C
Kenai Peninsula Borough SD	723	D
Juneau Bureau SD	372	E

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Employer Survey - TRS

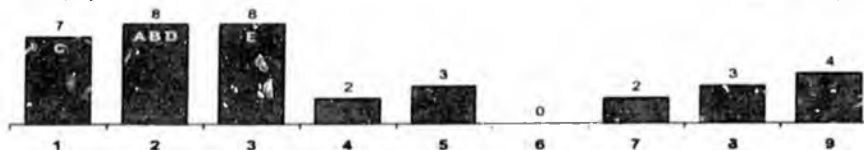
1. Long-Service Employees

Importance



Plan should favor long-service employees

Plan should not distinguish on account of length of service



Key Comments

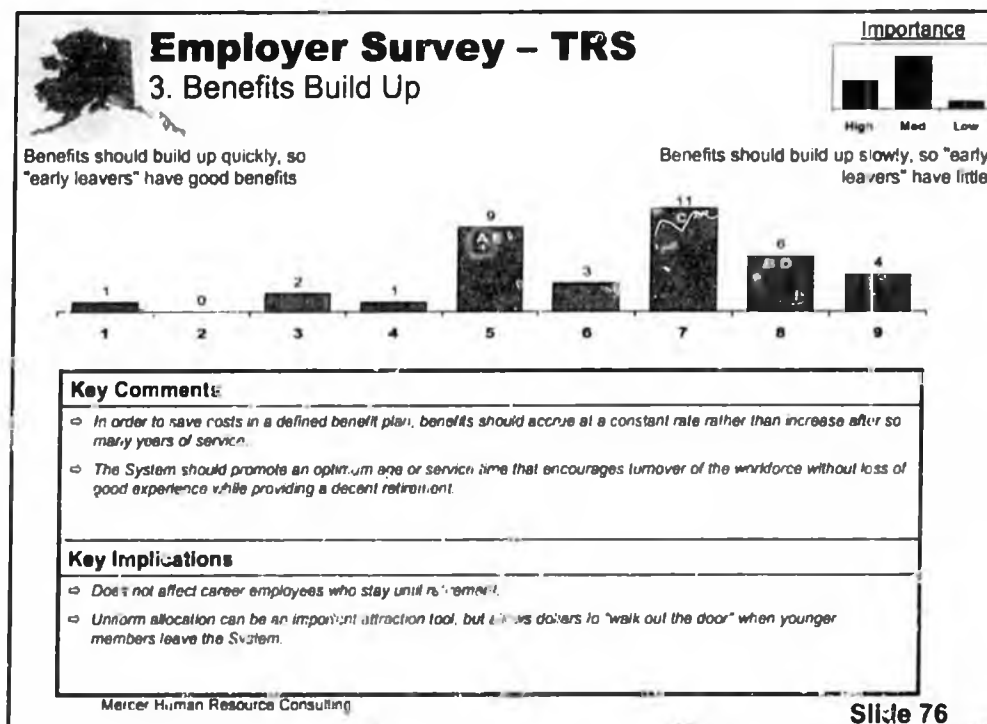
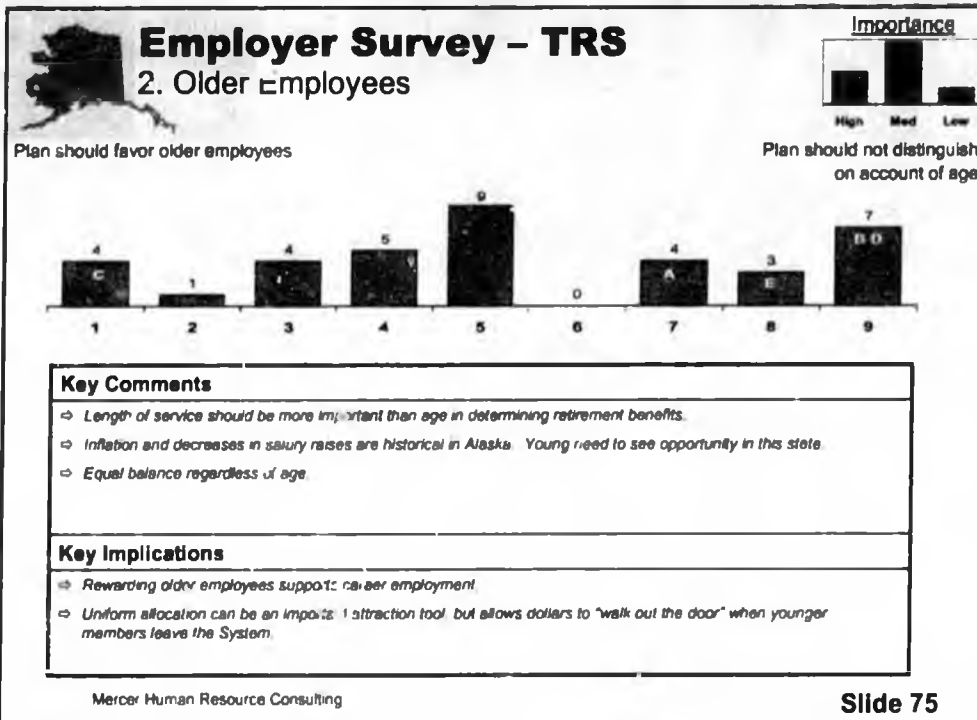
- ⇒ Incentives to reduce teacher turnover always help.
- ⇒ Anything that keeps employees, saves time in recruitment, hiring, and training.
- ⇒ Retaining quality employees is far more important. Employees for hire consider immediate compensation, not retirement. Veteran employees deserve rewards.

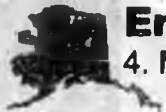
Key Implications

- ⇒ Rewarding long-service employees supports career employment.
- ⇒ Uniform allocation can be an important attraction tool, but allows dollars to "walk out the door" when short-service employees leave the System.

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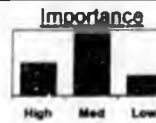




Employer Survey - TRS

4. Mid-career Hires

Mid-career hires should accrue excellent benefits



It's OK for mid-career hires to accrue smaller benefits



Key Comments

- ⇒ This offers the chance to attract employees with experience
- ⇒ Teachers/administrators need an infusion of mid-career change people. We need their experiences and insight in educating our kids. We need to not penalize them in retirement planning
- ⇒ Mid-career employees probably have other benefits.

Key Implications

- ⇒ Sufficient benefits for mid-career hires can be an important tool in order to attract experienced talent.
- ⇒ Providing higher benefits equals higher cost
- ⇒ Mid-career hires may be sacrificing good efforts to switch employers.

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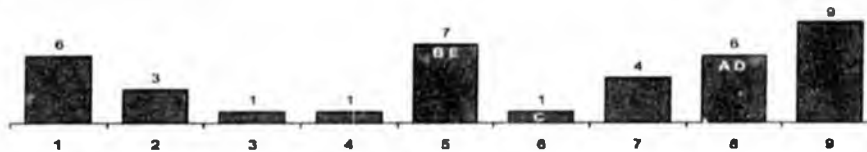
Employer Survey - TRS

5. Remaining in Alaska

The System should **not** reward retirees who remain in Alaska



The System should reward retirees who remain in Alaska



Key Comments

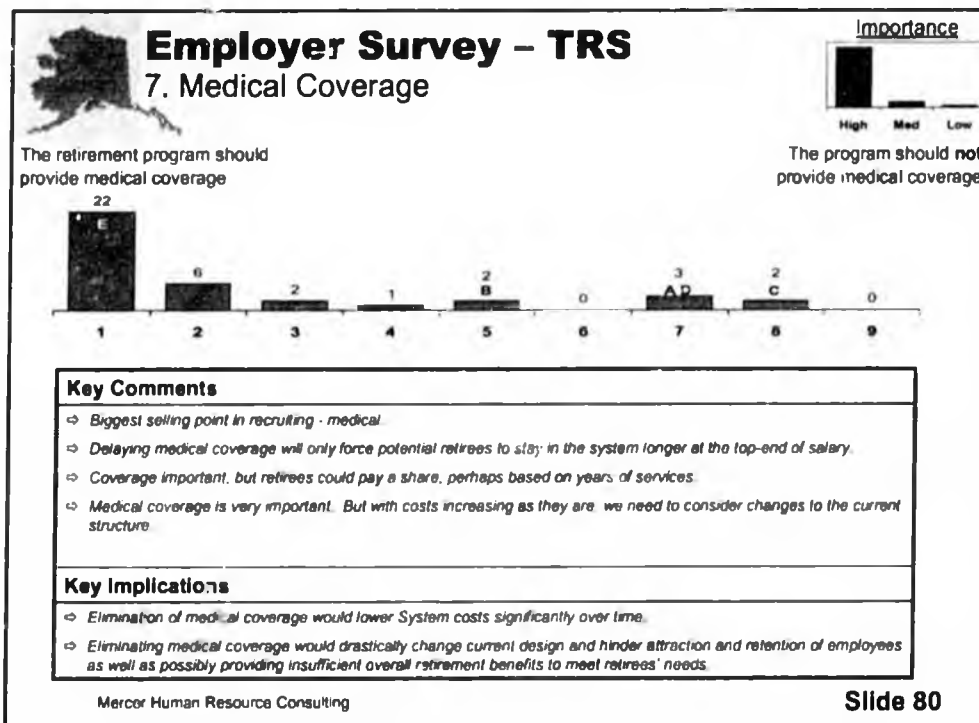
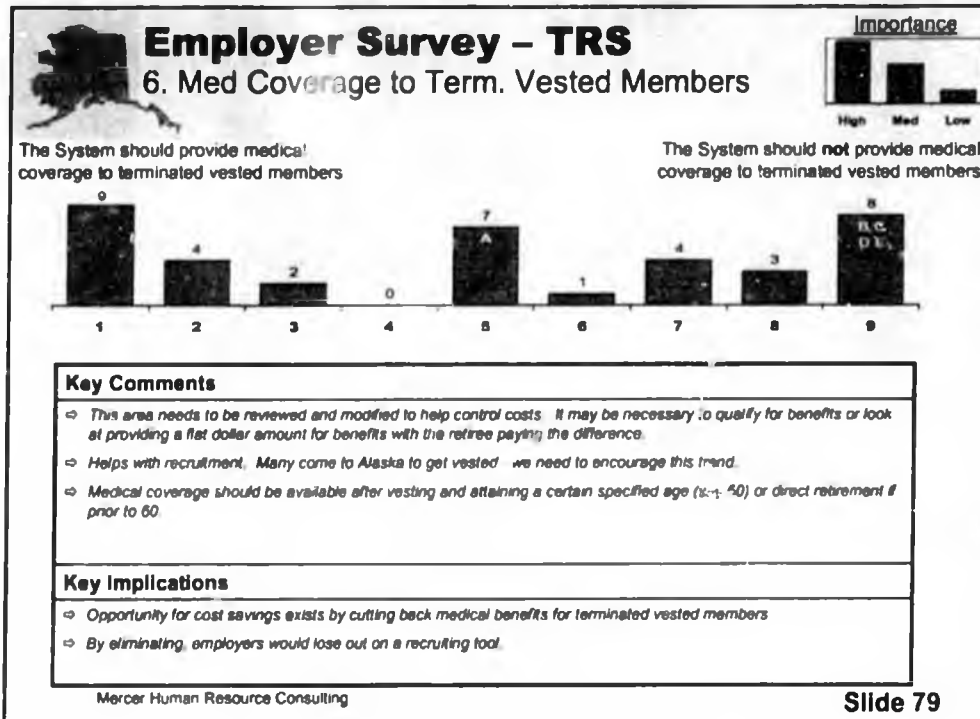
- ⇒ Retirees should be encouraged to stay in Alaska.
- ⇒ When people have given and earned their retirement, let them live where they choose without penalty
- ⇒ Alaska needs to promote lifelong state citizenship.
- ⇒ Spend money where they want. The employee has earned it

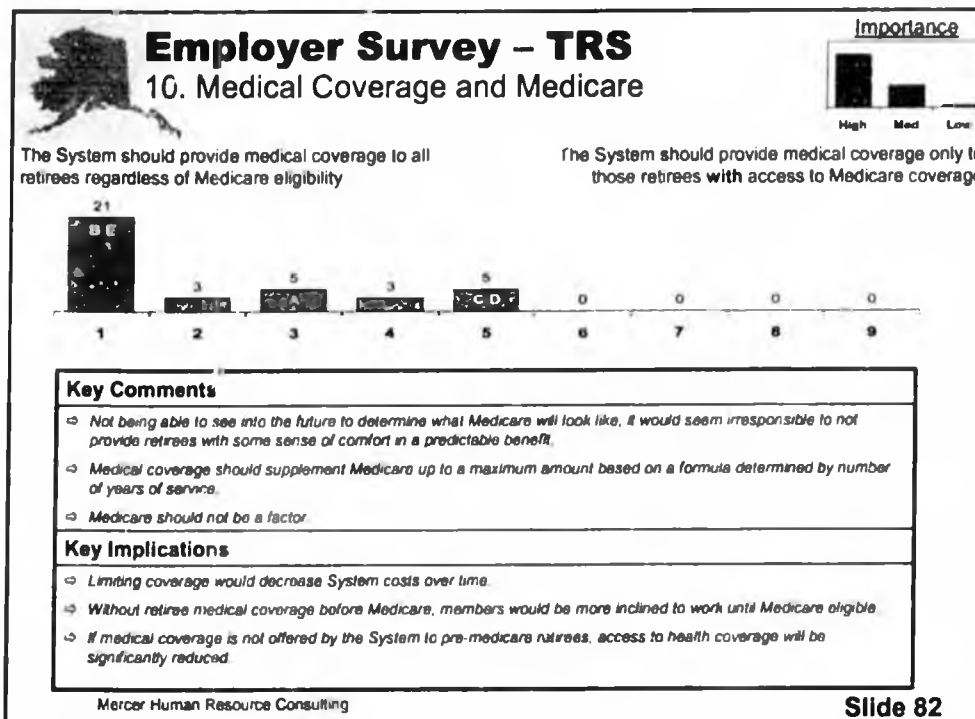
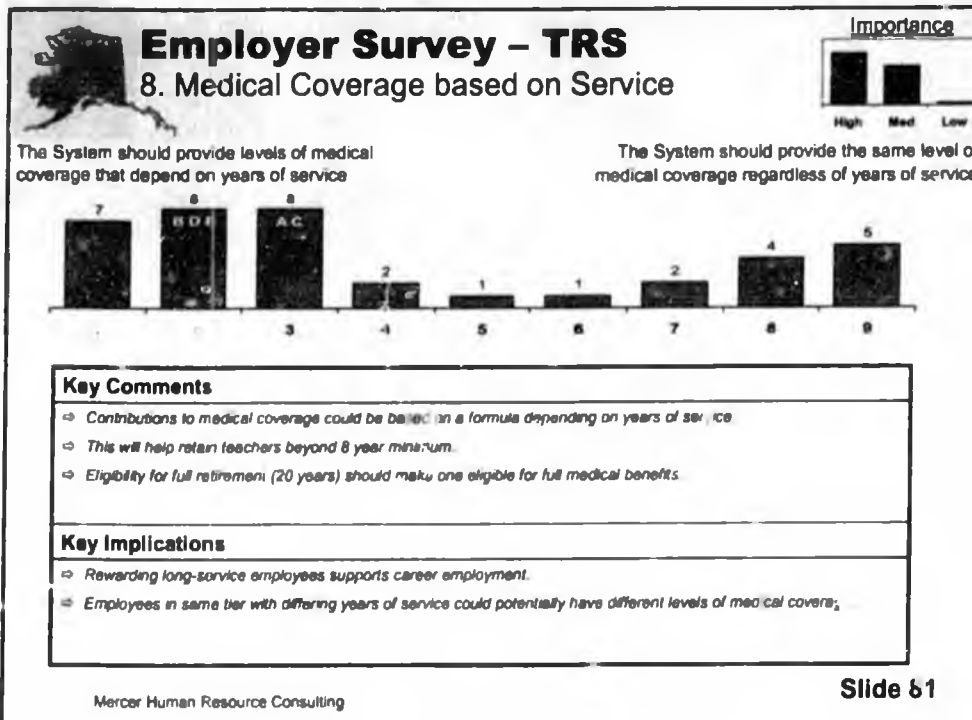
Key Implications

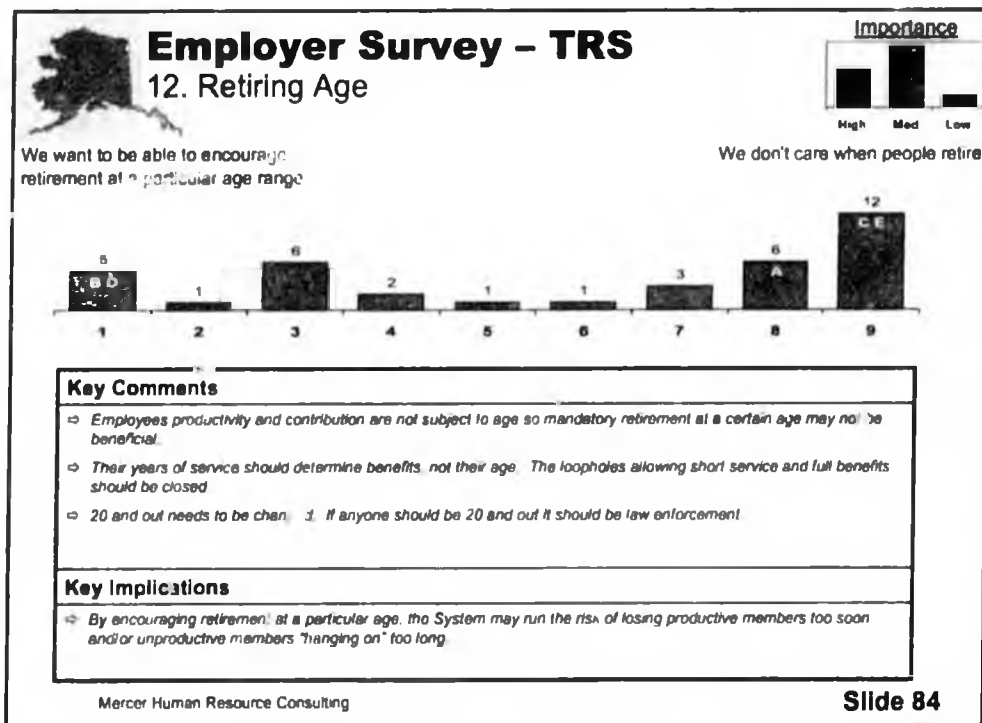
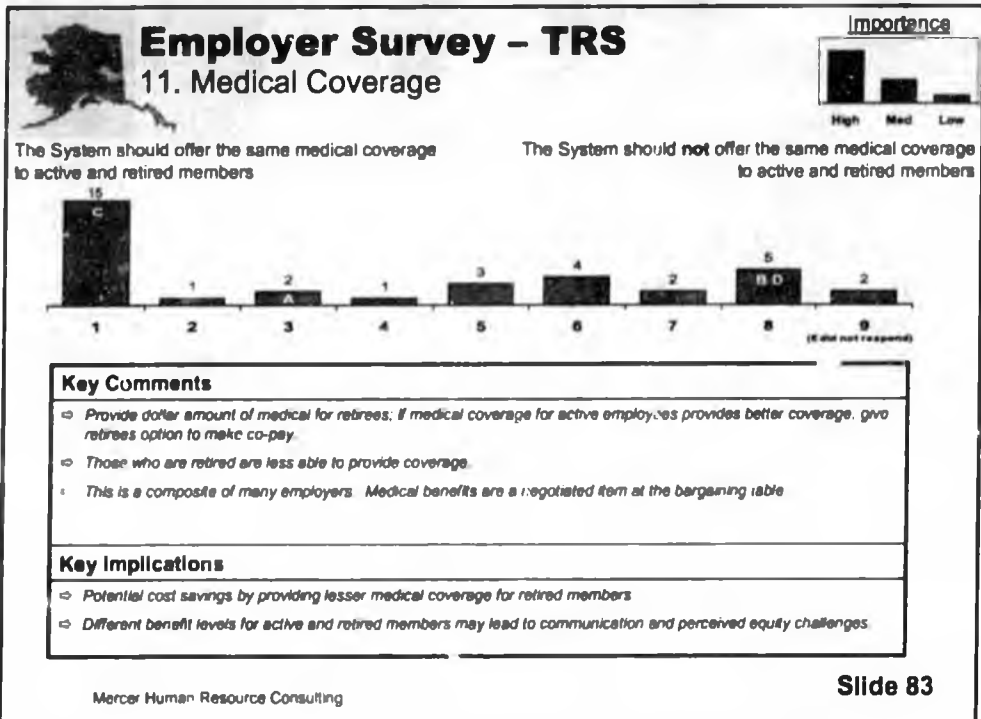
- ⇒ Providing COLA results in higher System costs, but Alaskan economy benefits from additional dollars spent by those who remain in Alaska.
- ⇒ COLA for residents promotes lifelong residency.

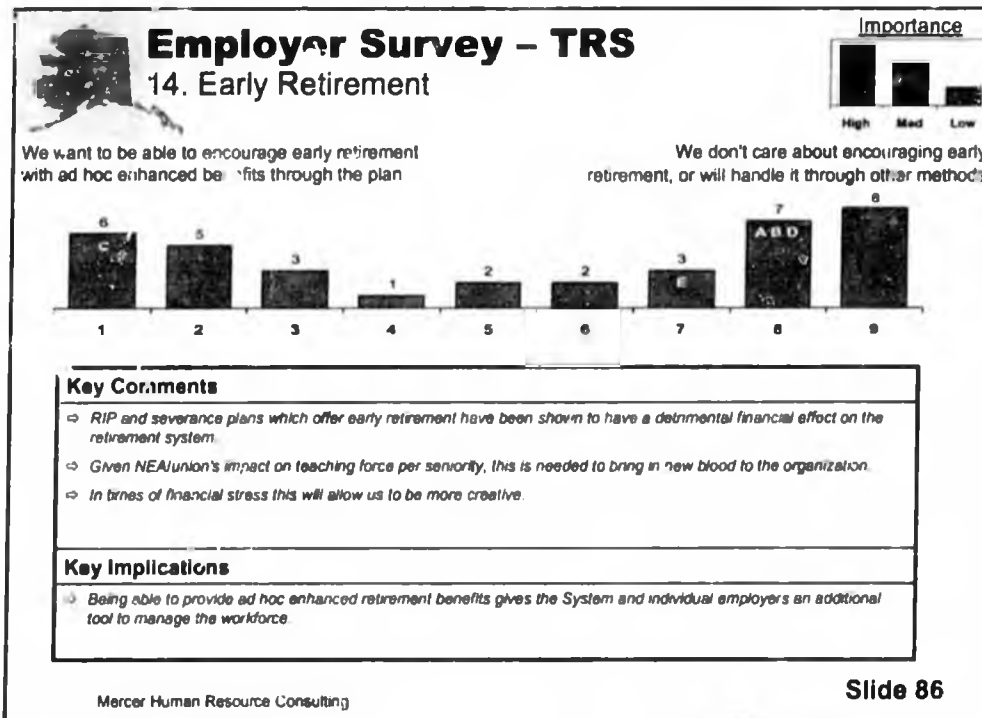
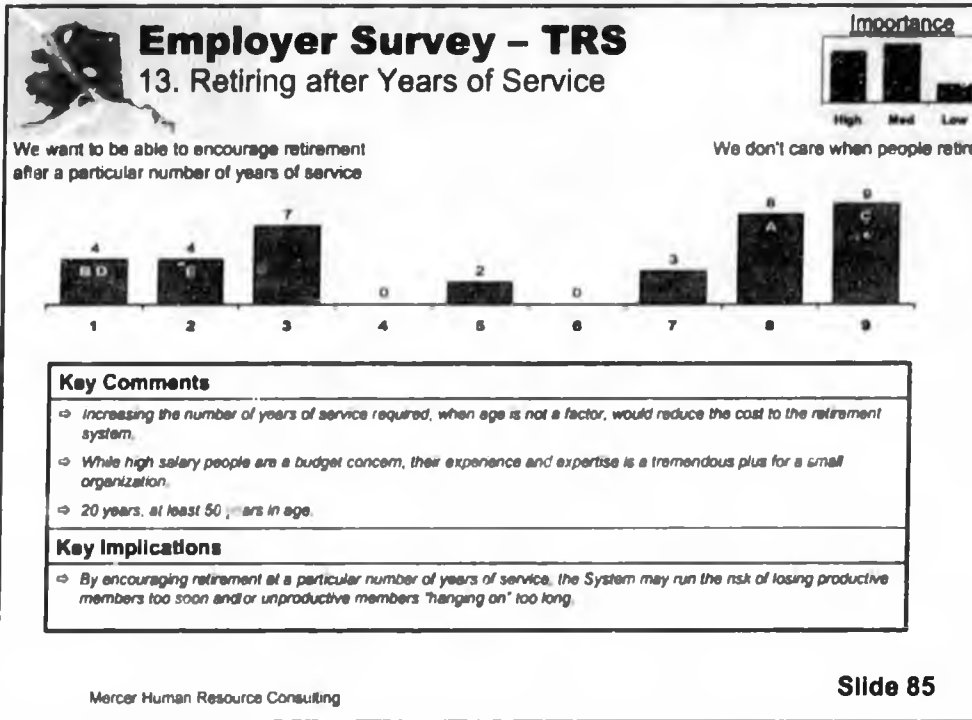
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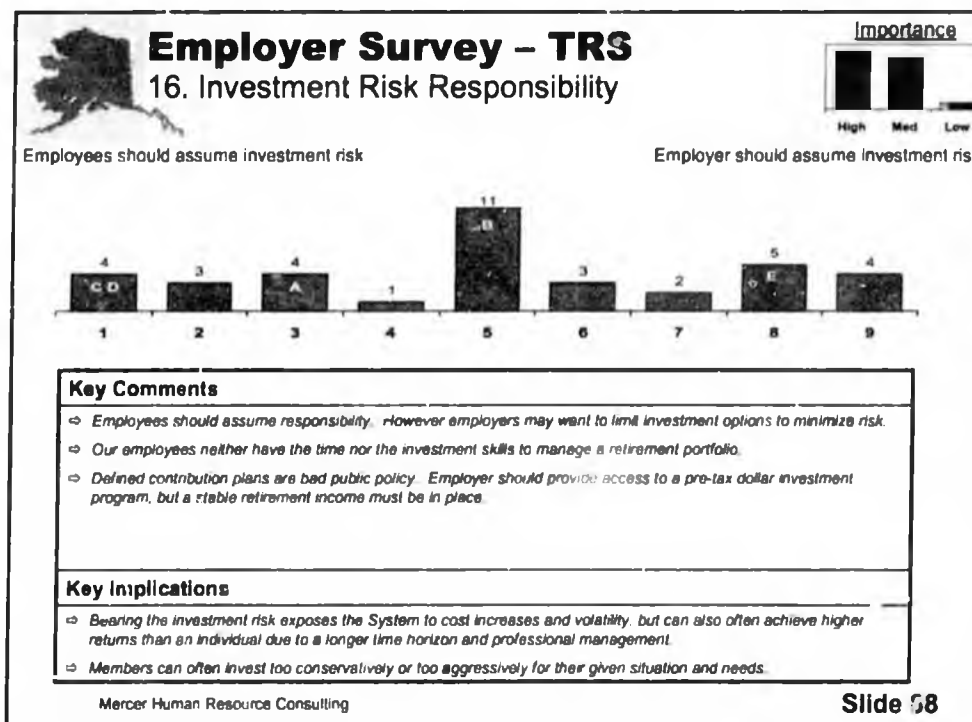
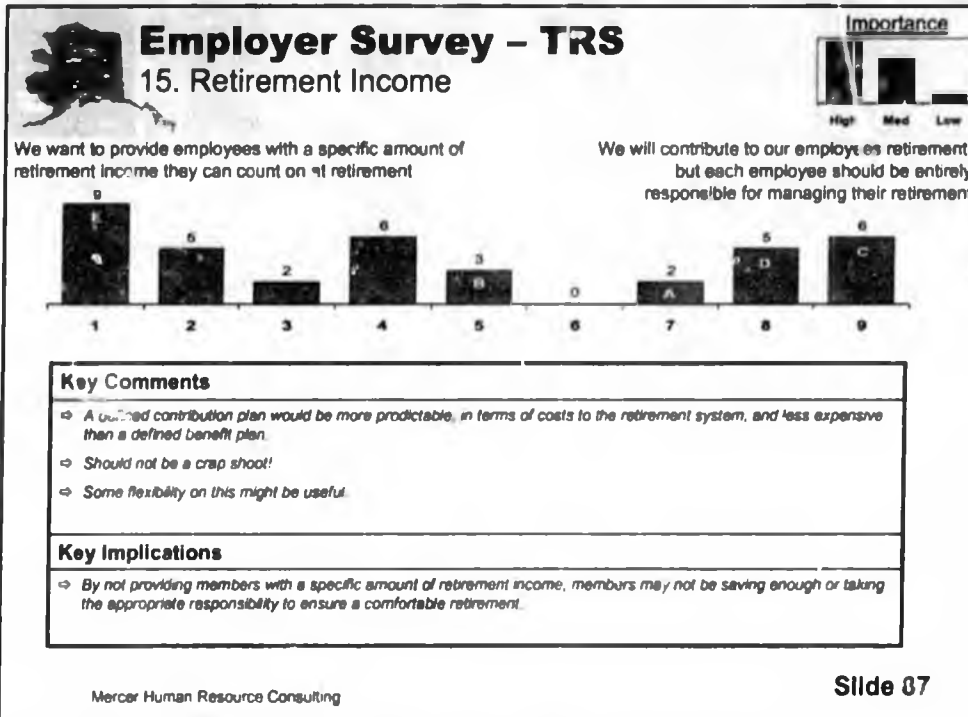
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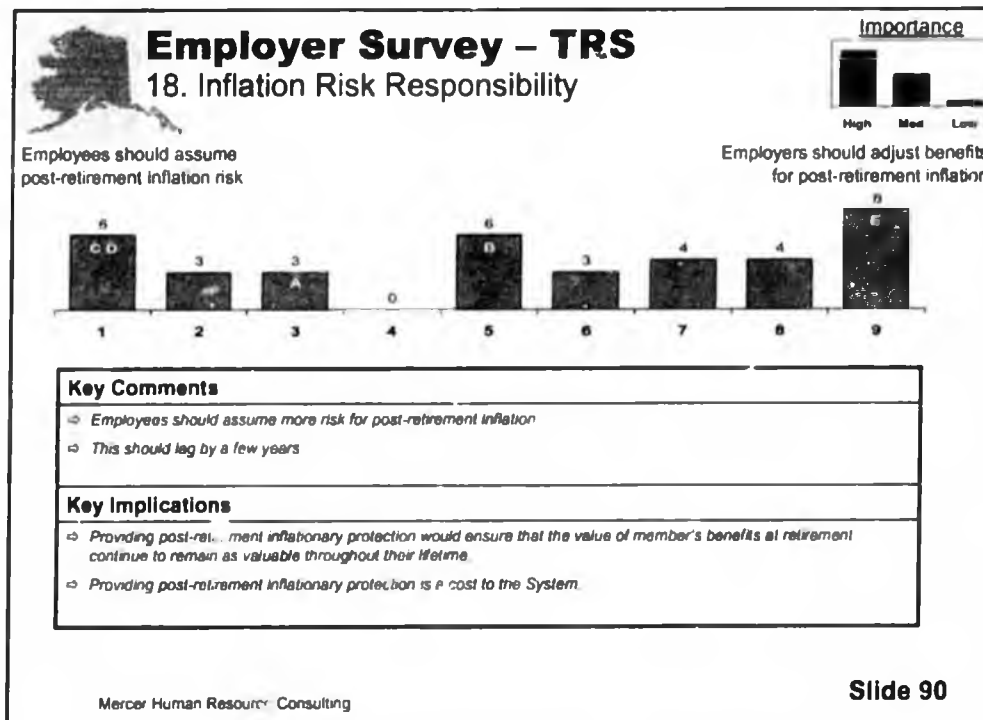
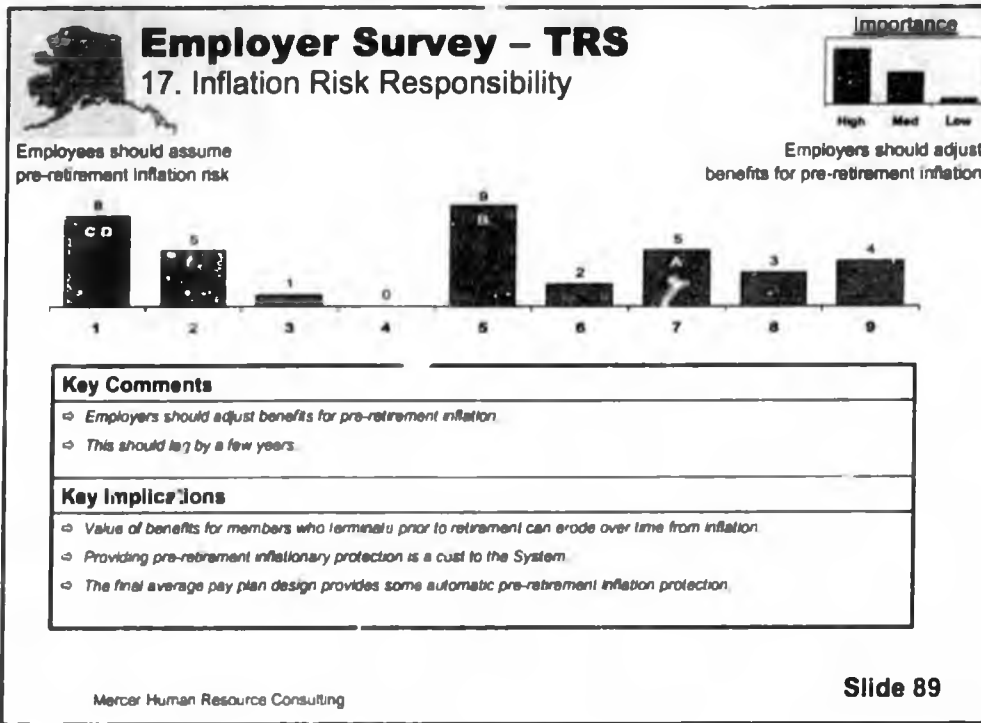


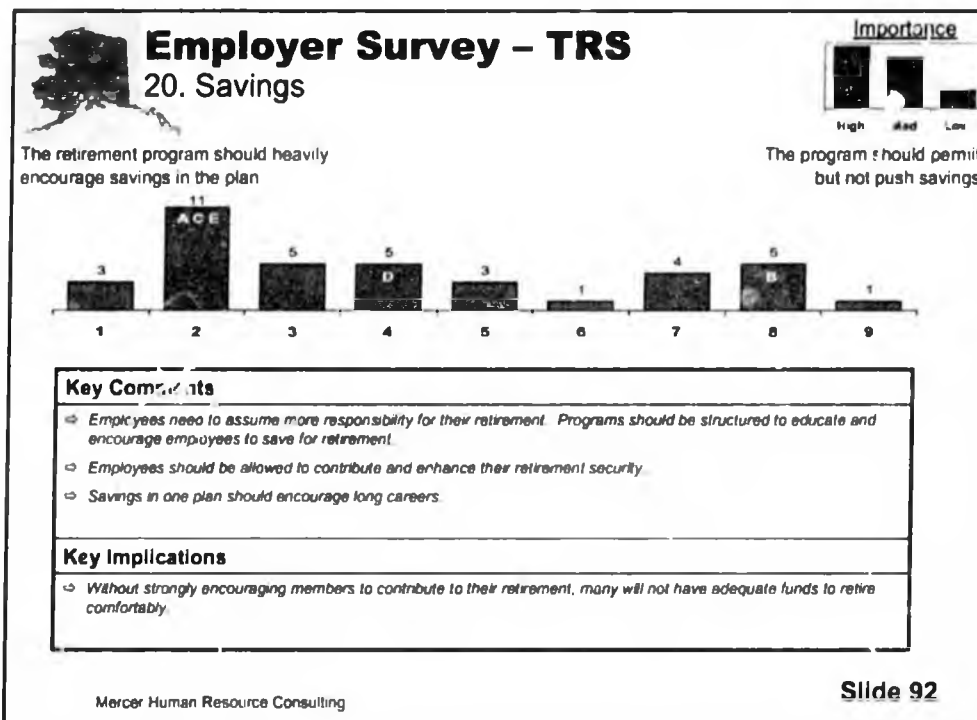
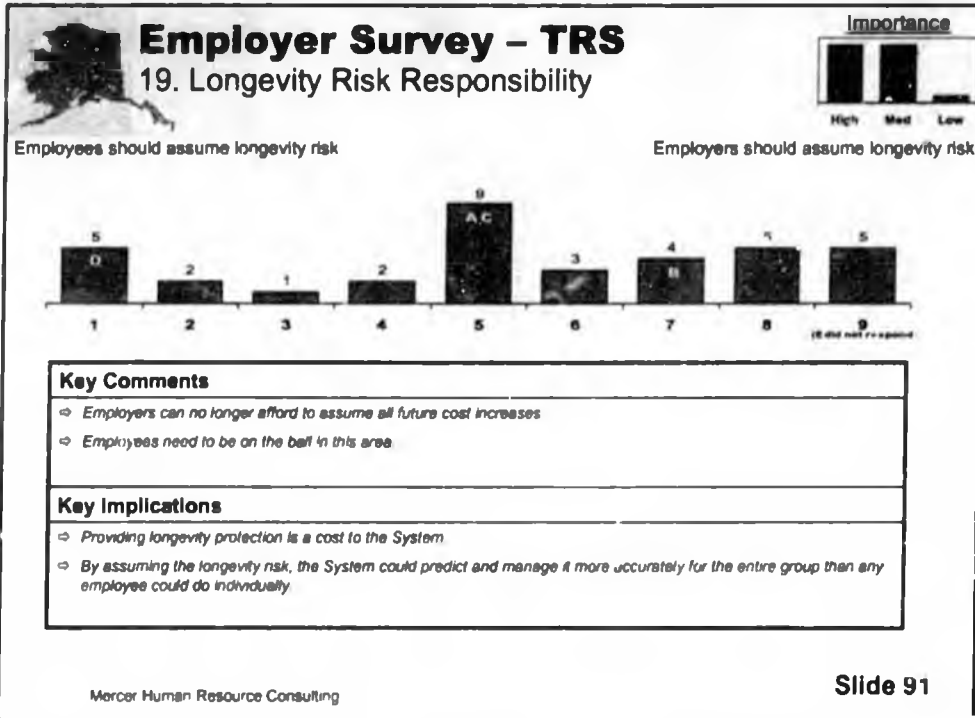














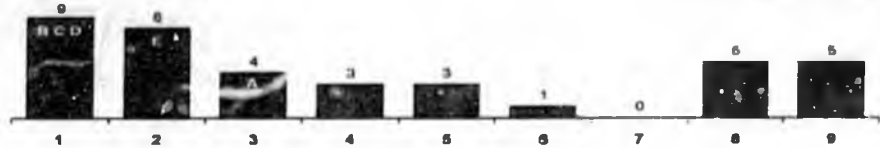
Employer Survey - TRS

21. Cost of Medical Coverage



Employees should share in the cost of medical coverage

Employer should assume the cost of providing medical coverage



Key Comments

- ⇒ Employers can no longer afford to pay the entire amount for medical insurance. Employees should share in the cost.
- ⇒ Teacher/administrator salary does not reflect "high wages," hence this benefit should be provided.
- ⇒ Employees share in the cost of medical coverage and retirement benefits through their active career contributions. They also contribute via co-pays, deductibles and Medicare Part B premiums.

Key Implications

- ⇒ Members sharing in the cost of medical coverage would provide cost savings to the System over time.
- ⇒ Would be a significant shift from current design and increase financial burden on retirees.

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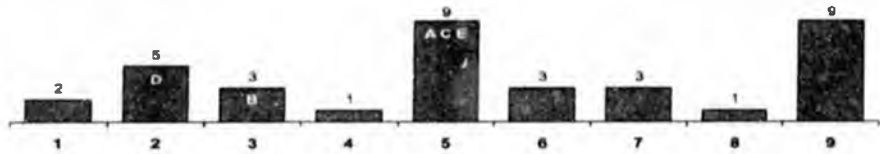
Employer Survey - TRS

22. Cost of Medical Coverage



Employees should assume responsibility for medical cost increases

Employer should assume responsibility for medical cost increases



Key Comments

- ⇒ The retirement system should be responsible for the management of the medical coverage while the retiree should be responsible for cost increases.
- ⇒ Both should assume cost responsibilities. It's not either or.

Key Implications

- ⇒ Members assuming the responsibility for medical cost increases would provide cost savings to the System over time.
- ⇒ Would be a shift from current design and increase financial burden on retirees.

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Employer Survey - TRS

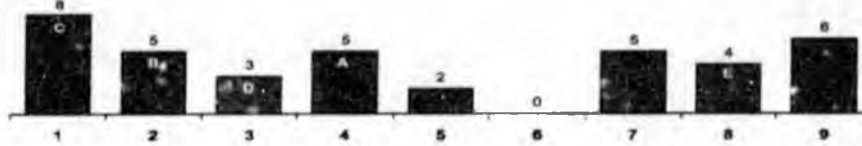
23. Access to Contributions

Importance



Employees should have access to as much of their own retirement contributions as legally possible

Employees should have no access to plan assets until retirement



Key Comments

- ⇒ Small portion should be available for "emergency only" situation
- ⇒ Access should certainly be very limited.
- ⇒ Only with benefit of understanding the consequences.

Key Implications

- ⇒ Members may spend retirement income during working lifetime and as a result may be unable to retire.
- ⇒ The capability to use retirement plans for pre-retirement needs such as a home purchase can be a valuable benefit.

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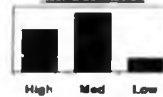
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Employer Survey - TRS

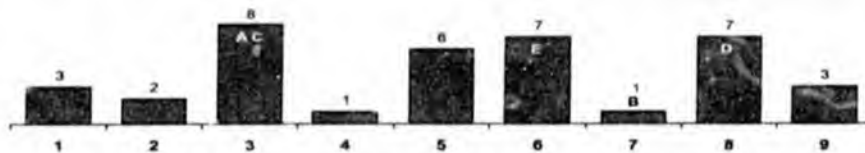
24. Understandability

Importance



Understandability is the primary concern

We'll sacrifice understandability if necessary to achieve our workforce and benefit objectives



Key Comments

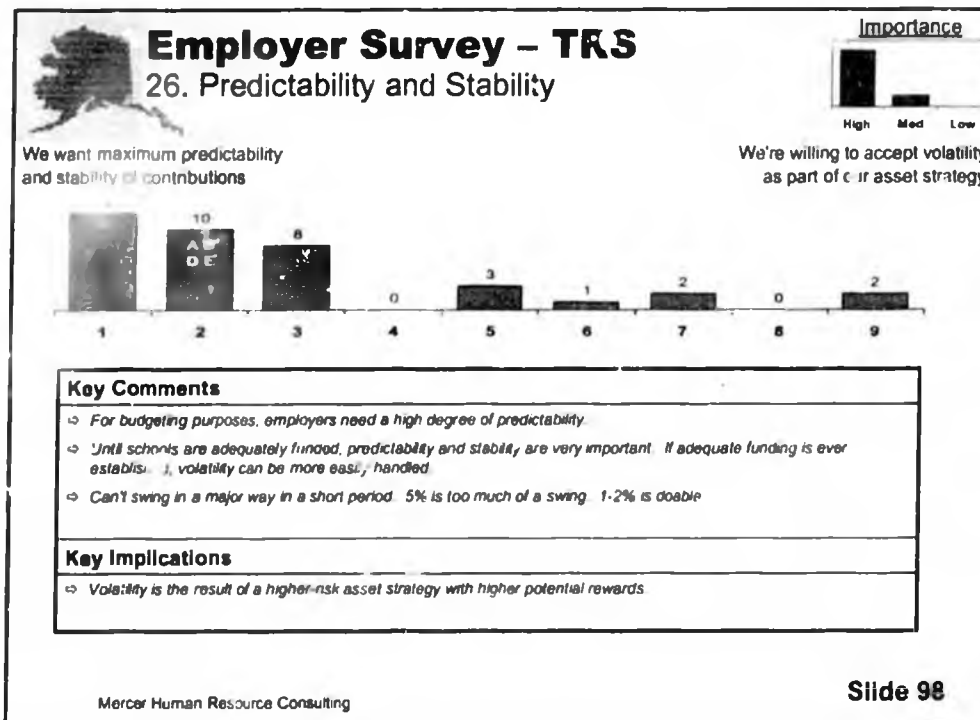
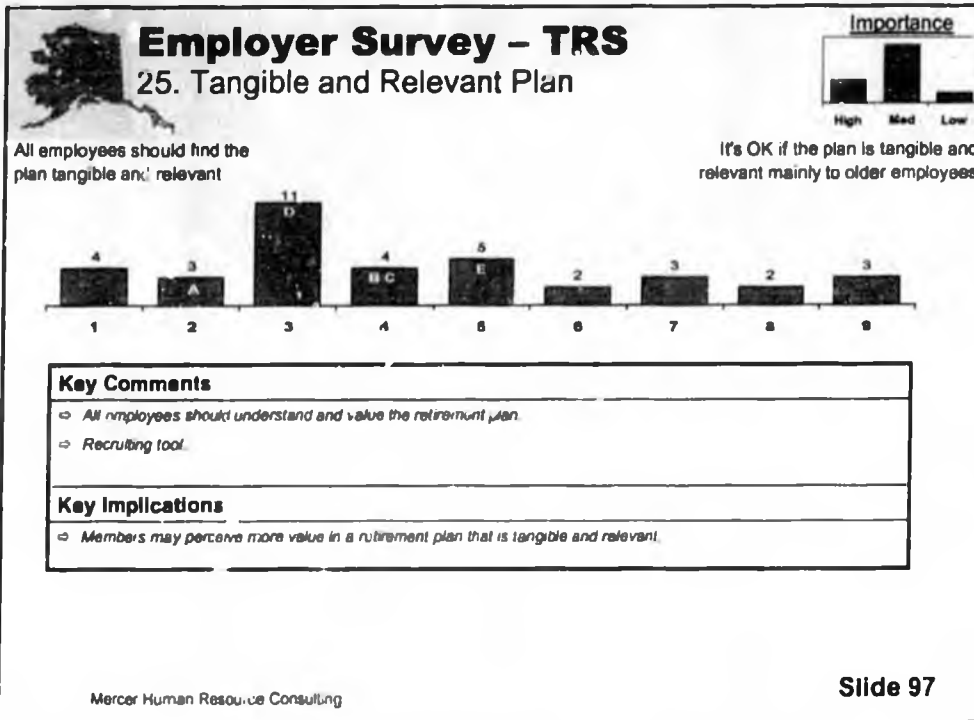
- ⇒ Employers need to provide good communication and seminars to explain plans, but the plan must be structured so it is simple enough for the majority of people to understand.
- ⇒ Let individuals who want complexity and flexibility do so on their own apart from this.
- ⇒ It is their responsibility to understand it
- ⇒ College should teach it!

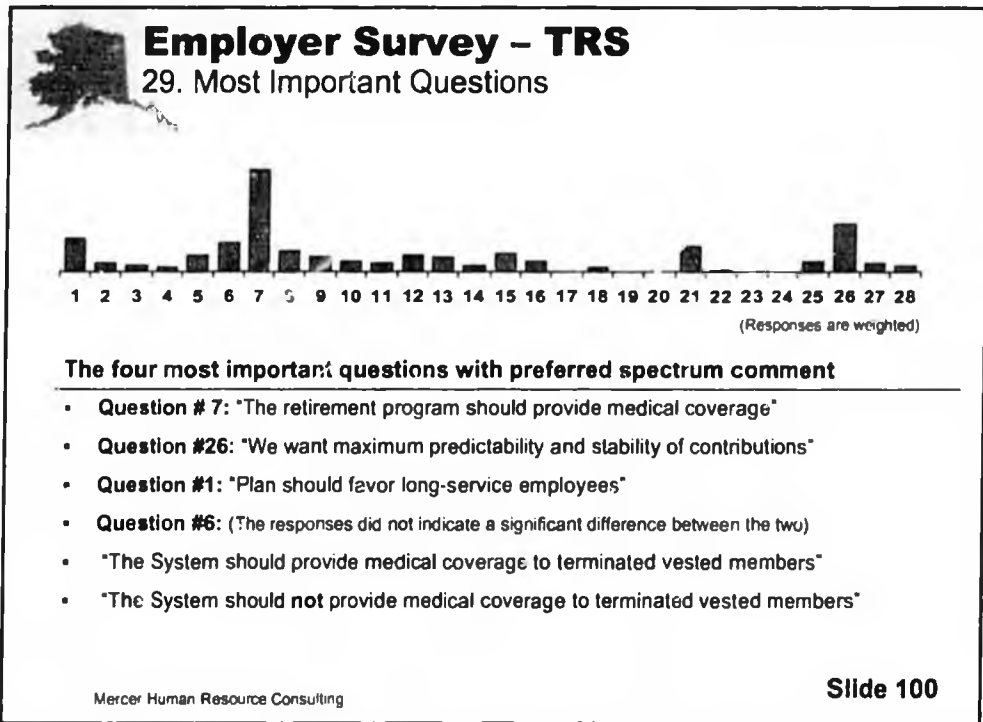
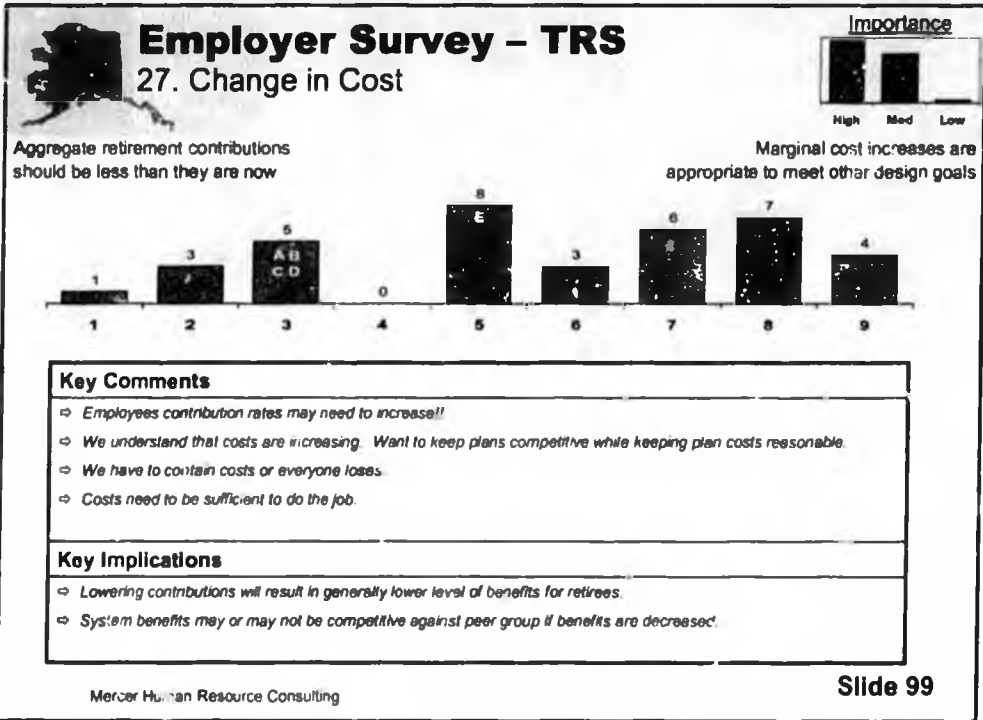
Key Implications

- ⇒ Generally a more complex formula can meet a wider variety of specific objectives.
- ⇒ Members may perceive more value in a retirement plan that is more understandable.

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**OVERVIEW
VILLAGE
SAFE
WATER
PROGRAM,
2/2/06**

STATE OF ALASKA

DEPT. OF ENVIRONMENTAL CONSERVATION

DIVISION OF WATER
DIRECTOR'S OFFICE

FRANK H. MURKOWSKI, GOVERNOR

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March 3, 2006

The Honorable Paul Seaton
Chair, House State Affairs Committee
House of Representatives
Alaska State Capitol, Room 102
Juneau, AK 99801-1182

RE: Questions from the House State Affairs Committee

Dear Representative Seaton:

Thank you for the opportunity to provide a Village Safe Water (VSW) Program overview to the House State Affairs Committee in early February. I apologize for my delay in getting back to the Committee. Committee members asked a couple questions, paraphrased below, that we offered to respond to in writing.

The Legislative Budget and Audit Committee completed a January 9, 2004 audit of selected projects in the Village Safe Water Program. One audit finding was excessive wages for "on-site managers", or what DEC calls Project Superintendents. The audit included a recommendation to pay such workers a salary rather than an hourly wage. What has DEC done to control Project Superintendent wages?

State labor laws require that Project Superintendents receive an hourly wage, rather than a salary. They are entitled to hourly pay for each hour worked. Additionally, State law entitles workers who spend more than 20% of their weekly hours performing "hands on" types of work to overtime pay for hours worked in excess of eight in a workday or 40 in a workweek. All Project Superintendents meet this standard, and are therefore eligible for overtime pay.

The Department has resolved this audit issue by putting new policies into effect two years ago. In March of 2004, three new program procedures (enclosed) were established dealing with compensation for Project Superintendents, construction crew work schedules, and nepotism to help guard against another instance of the compensation situation revealed by the audit. Wage rates, per diem rates, and hours per workweek are all limited by these policies, and nepotism is prohibited.

In addition to Project Superintendents, other program staff including engineers, accountants, and administrative staff are included in payroll processing to help ensure compliance with these new policies. A review conducted after last construction season also verified compliance.

The January 9, 2004 audit recommended that the Village Safe Water program be transferred to the Department of Transportation. Why hasn't that transfer occurred?

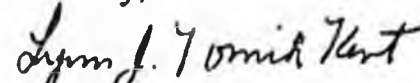
As mentioned in my oral testimony, the Department has resolved the audit issues that may have lead to this recommendation by the auditors.

The Department responded to this issue in a letter to Legislative Budget and Audit on February 5, 2004, sharing the Department's position that the VSW program would be better served in DEC rather than in the Department of Transportation. It is my understanding that at that time, the Department believed that such a move would be detrimental to program management and efficiency since the VSW program operates side-by-side with DEC's other financial and technical assistance programs such as the Municipal Water, Sewer and Solid Waste Matching Grant program, the operations assistance program, and the two low-interest loan programs. The programs share staff, a management and administrative support structure, and the same objectives and technical focus. VSW also works closely with the drinking water and wastewater regulatory programs at DEC to ensure that constructed facilities will meet the regulatory requirements.

In addition, the Department of Transportation responded to the recommendation in a letter dated December 4, 2003 to Legislative Budget and Audit, stating that the focus of the programs in Department of Transportation is competitive public works construction projects rather than the VSW program of grants to communities. It was the Department of Transportation's belief that these two very different programs would not easily lend themselves to consolidation within the Department of Transportation.

Please let me know if the committee has any additional questions regarding the Village Safe Water Program.

Sincerely,


Lynn J. Tomich Kent
Director

Enclosure: Policies and Procedures – Superintendent Compensation Policy
Policies and Procedures – Project Labor Oversight
Policies and Procedures – Nepotism on Force Account Projects

Superintendent Compensation

STATE OF ALASKA DEPARTMENT OF ENVIRONMENTAL CONSERVATION POLICIES AND PROCEDURES MANUAL	P&P Title: Superintendent Compensation Policy
	Effective: March 24, 2004
Issued By: Dan Easton, Director <i>Dan Easton</i> Division of Water	Department Contact is: Facilities Program Manager

PURPOSE:

To establish a policy which defines the maximum allowable wages, hours, and per diem for superintendents working on force account projects managed by the Village Safe Water program. This policy applies to all VSW force account projects where the project superintendent is an employee of the grantee.

BACKGROUND:

The Village Safe Water (VSW) program authorizes grantees to construct projects using their own labor and equipment. The option of constructing projects by force account is left to the grantee and typically requires the community to hire an on-site superintendent. VSW must give prior approval to all employment contracts between grantees and superintendents. VSW assists grantees in ensuring fair and equitable compensation for superintendents while safeguarding project funds from excesses in employment agreements. Since public funds are used to pay superintendents, it is necessary to establish certain cost controls relevant to superintendent employment contracts.

ANALYSIS:

This policy contains several cost containment components. In order to set reasonable cost controls, the department reviewed similar controls and operating procedures adopted by other agencies and organizations. To determine the maximum allowable VSW superintendent wage rate, a review was conducted of the Department of Transportation and Public Facilities (DOTPF) and the Alaska Native Tribal Health Consortium (ANTHC) wage rates for construction superintendents and Davis Bacon wages for comparable positions. The department concluded that a maximum pay rate of \$48.50 is comparable to these other pay rates. In order to determine the maximum allowable lodging and meal rates for superintendents, the rates defined in the Alaska State Administrative Manual and State/Union contracts were examined and comparable rates adopted. The maximum allowable hours that may be worked by superintendents was derived by balancing cost and safety concerns with short construction season realities. This restriction is similar to that employed by DOTPF.

POLICY:

- The maximum wage rate allowed for VSW project superintendents is \$48.50 per hour (including benefits, if any) for up to 40 hours a week. Any work performed beyond a 40 hour work week will be considered overtime and will be payable at time and a half.
- Any cost of benefits beyond workman's compensation, social security, and unemployment insurance must be deducted from the maximum wage rate described above.
- The maximum hours a superintendent may work is 72 hours a week during construction periods and 40 hours a week during non-construction periods. This limit is cumulative and applies whether the superintendent is managing one or more projects.
- On-site lodging expenses (cost of staying in the grantee community), if any, are limited to actual costs.
- On-site meal allowances (cost of food while staying in the grantee community), if any, may not exceed \$30.00 per day.
- Off-site lodging expenses (cost of staying in a location away from the grantee community for short term project related work), if any, are limited to actual costs.
- Off-site meal allowances (cost of food while staying in a location away from the grantee community for short term project related work), if any, may not exceed \$42.00 per day.
- In instances when the grantee provides meals and/or lodging, the Superintendent is not entitled to per diem or allowance for the meals and/or lodging.

IMPLEMENTATION:

This policy will be reviewed periodically to determine the need for updates. This policy shall apply to all superintendent employment contracts on projects managed by VSW. It shall be implemented upon its effective date.

Any contracts currently in existence that contain cost provisions that exceed those defined in this policy shall be renegotiated to within the limits of this policy within 60 days of the effective date of this directive.

Exceptions to this policy will only be allowed with the prior written approval of the Division Director.

The policy is not intended to prescribe wage rates, lodging costs, or meal allowances. It is only intended to set an upper limit on these costs. Actual wage rates should be commensurate with the experience of the superintendent and the complexity of the project. The maximum pay rate should only be given to highly experienced superintendents working on highly complex projects.

PROCESS:

- When filling out a VSW Grant Offer Request Form for construction projects which will use a force account labor force and where the grantee will hire an on-site superintendent/foreman, VSW engineers will indicate that a special grant condition applies.
- Upon receipt of a Grant Offer Request Form which indicates this special grant condition is applicable, the grants administrator will ensure the following grant condition is contained in the Grant Offer and a copy of this field directive is attached to the Grant Offer: *The grantee agrees to comply with the established VSW Field Directive - Superintendent Compensation (copy attached).*
- The VSW project engineer will remind grantees that are about to negotiate employment agreements with superintendents about the cost control requirements established by this field directive.
- Prior to approving an employment agreement between a grantee and an on-site superintendent, the VSW project engineer will ensure that provisions contained in the agreement are within the limits established under this directive.
- If a superintendent employment agreement does not conform to this directive, the VSW engineer will notify the grantee of the unallowable costs.

Grant Agreements and Superintendent Contracts Signed Prior to the Effective Date of this Directive:

- Grant agreements that (1) were signed prior to the effective date of this directive and (2) are for force account projects employing a superintendent will be amended to contain the following condition: *The grantee agrees to comply with the established VSW Field Directive - Superintendent Compensation (copy attached).*
- Superintendent employment agreements that (1) are in effect on the date of this directive and (2) are not in compliance with this directive must be renegotiated to conform to the policies contained in this directive before the 2004 construction season begins. The VSW project engineer will notify the grantee and the superintendent of this requirement.

Project Labor Oversight

STATE OF ALASKA DEPARTMENT OF ENVIRONMENTAL CONSERVATION POLICIES AND PROCEDURES MANUAL	P&P Title: Project Labor Oversight
	Effective: March 31, 2004
Issued By: <i>Dan Easton</i> Dan Easton, Director Division of Water	Department Contact is: Facilities Program Manager

PURPOSE:

To define the Village Safe Water (VSW) program's policy regarding oversight of project labor and overtime on VSW force account projects. This policy applies to all VSW force account projects where the project superintendent is an employee of the grantee.

BACKGROUND:

VSW engineers are responsible for ensuring that hours worked by construction crews and superintendents on force account projects are within established limits and are commensurate with project size and complexity. At the onset of a force account project, standard working hours will be established for the construction crew and superintendent. VSW engineers will monitor and manage project labor costs and overtime charges by reviewing Daily Project Status Reports and bi-weekly Summary Time Reports prepared by the project superintendent. This directive re-emphasizes several current VSW force account oversight practices and further defines procedures for monitoring project labor costs.

POLICY:

All project labor costs will be managed and monitored by VSW engineers to ensure that overtime hours worked by superintendents and construction crews are consistent with labor forecasts established at the onset of a project based upon project size and complexity.

IMPLEMENTATION:

- When filling out a VSW Grant Offer Request Form for construction projects which will use a force account labor force and where the grantee will hire an on-site superintendent, the VSW engineer will indicate that a special grant condition applies.
- Upon receipt of a Grant Offer Request Form which indicates this special grant condition is applicable, the grants administrator will ensure the following grant condition is contained in the Grant Offer: *"The grantee agrees to abide by the limits established for working hours in conformance with the VSW field directive for Project Labor Oversight."*

- Prior to construction, the VSW engineer will coordinate with the project superintendent to establish labor forecasts consistent with the size and complexity of the project. Special attention will be given to crew size and the number of overtime hours to be worked by the construction crew and superintendent. Labor forecasts may not exceed 60 hours per week for the construction crew and 72 hours per week for superintendents during construction periods and 40 hours a week during non-construction periods (see also VSW Field Directive- Superintendent Compensation).
- If the project superintendent anticipates the need to deviate from established labor forecasts, he/she must contact the VSW project engineer for prior approval. In an emergency situation where the VSW engineer can not be contacted and it is necessary to deviate from established labor forecasts, the project superintendent must leave messages for the VSW engineer via phone, fax and/or email on the course of action being taken. The project superintendent must document the event and coordinate with the VSW engineer at the earliest possible time thereafter.
- The project superintendent will submit Project Status Reports on a daily basis and Summary Time Reports at the end of each pay period to the VSW project engineer. The Summary Time Reports must include daily and weekly summaries of the construction crew and superintendent that worked on the project and the number of overtime hours worked by the construction crew and superintendent.
- The VSW engineer will review Summary Time Reports at the end of each pay period to ensure the project is adhering to VSW approved labor forecasts.
- If a Summary Time Report deviates from labor forecasts, the VSW engineer will promptly contact the project superintendent to determine the reason for such inconsistencies and take corrective action as necessary. Corrective action can take the form of a written notification and warning to potential dismissal of the project superintendent for violation of this field directive.

EXCEPTIONS:

Significant planned deviations to this policy will only be allowed with the prior written approval of the Division Director.

Nepotism Policy on Force Account Projects

STATE OF ALASKA DEPARTMENT OF ENVIRONMENTAL CONSERVATION POLICIES AND PROCEDURES MANUAL	P&P Title: Nepotism on Force Account Projects
	Effective: March 24, 2004
Issued By: <i>Dan Easton</i> Dan Easton, Director Division of Water	Department Contact is: Facilities Program Manager

PURPOSE:

To define the Village Safe Water (VSW) program's policy regarding the hiring and/or supervising of relatives on VSW force account projects. This policy applies to all VSW force account projects.

BACKGROUND:

Communities often construct VSW projects using force account methods. This may include the community hiring a superintendent to manage on-site work and the community hiring their own labor force. Currently there is no policy in place regarding nepotism on VSW force account projects. Although there has only been one documented case of nepotism in the history of the VSW program, a policy is needed to prevent potential occurrences of nepotism in the future.

POLICY:

It is the policy of the VSW program to eliminate actual or potential conflicts of interest, favoritism, and/or weaknesses in internal controls caused by the employment of related persons. Grantees and superintendents on projects managed by VSW may not cause to be hired nor supervise any individual on the VSW project that is related by blood or marriage, within and including the first degree of kindred (husband, wife, son, daughter, father, mother, sister, brother).

IMPLEMENTATION:

- When filling out a VSW Grant Offer Request Form for construction projects which will use a force account labor force and/or where the grantee will hire an on-site superintendent, VSW engineers will indicate that a special grant condition relating to nepotism applies.
- Upon receipt of a Grant Offer Request Form which indicates this special grant condition is applicable, the grants administrator will ensure that the following condition is contained in the Grant Offer and a copy of this field directive is attached to the Grant Offer: *"The grantee agrees to comply with the established VSW Field Directive - Nepotism on Force Account Projects (copy attached)."*
- VSW engineers will ensure all superintendent employee contracts contain the following clause: *"the superintendent may not hire nor supervise any relative on the VSW project that is related by blood or marriage, within and including the first degree of kindred (husband, wife, son, daughter, father, mother, sister, brother)."*

LOWELL POINT COMMUNITY COUNCIL

February 2, 2006

Representative Paul Seaton
345 W. Sterling Hwy, Suite 102B
Homer, AK 99603
907-465-3472 facsimile

PO Box 709
Seward, AK 99664
Phone: 907-362-3701
Fax: 907-224-3388

Subject: House Concurrent Resolution 28

Dear Paul Seaton,

Since we were not given the opportunity to speak again during the teleconference this morning, there are a few items that we, the Lowell Point Community Council, would like to clarify about our Village Safe Water project. There was some misinformation given out this morning.

It became obvious this morning that our community has gotten caught in the middle of many changes that are happening with the Village Safe Water program. Our community has sought the VSW grant to help with some serious health issues that are in our community. We applied for the grant for five years before we were finally approved by the legislature in 2004. Since then we have made no progress towards construction and now VSW is making us use a portion of our construction grant to fund further feasibility studies because of new rules in 2005. We have had a feasibility study done that was funded by and approved by the VSW Program, the Governor and the legislature.

Lowell Point is a unique oceanfront community that is on the road system and close to a small town, Seward. We have many year round homes that are both owner-occupied and rentals, an apartment building with 11 units and some vacation homes. We also have a State Park, a resort area that is very busy in the summer, a fire department, and several other businesses including lodges, bed and breakfasts and a boatyard/marine construction business. We have huge numbers of visitors in the summer and we maintain a good size population during the winter. The AKDOT has listed Lowell Point Road as the second most traveled road in the Seward area, second only to the main highway into town. We also have the City of Seward's waste water treatment lagoon in our community, though we currently cannot hook into it.

It would seem that we should be able to simply drive water wells and install septic systems to prevent any health hazards at Lowell Point but it is not this simple. Our community water source is an unconfined aquifer that allows mixing with the ocean and the groundwater. This unconfined aquifer leaves us very vulnerable to any kind of groundwater contamination.

- a. Due to saltwater intrusion, a large portion of the community cannot get freshwater despite the depth of their water wells. These residents use rainwater catchment systems or haul water for their homes. The homes that can get fresh water from their wells are vulnerable to any groundwater contamination in the area.
- b. The water table at Lowell Point is very high so septic systems are very expensive to install. While there are a few very nice homes on Lowell Point there are many more small homes that cannot afford to install septic systems and they are using outhouses or honey bucket systems for their septic needs. This waste is filtering directly into our aquifer and there is a very large potential for health hazards.
- c. The existing Seward Wastewater Treatment Plant is another past and potential future health hazard. In 1986 the lining of the lagoon was torn and leaked a large amount of its contents into our groundwater and our aquifer. Several wells on Lowell Point were found to be contaminated after this incident. This kind of incident could happen again.

- d. Water samples taken during the feasibility study by engineers and VSW indicated elevated and high levels of nitrates where the unconfined aquifer drains out at low tide. In addition, large algae blooms have been seen many times in these same areas.
- e. Lowell Point has a State Park area that has summertime caretakers and outdoor bathrooms. These bathrooms are used by many thousands of visitors in the summer and winter and are potential contaminators of our aquifer.
- f. There is a resort area on Lowell Point that brings hundreds of people to Lowell Point each day during the summer. There are tent and RV camping sites that are full all summer long. These sites can have from 250-400 campers in them at any time. There is a public restroom area that is potentially significantly contaminating the groundwater.

This morning the VSW referred to the cost per home of the system as being around \$95,000 per home for the sewer system and \$200,000 per home for the sewer and water systems. This calculation was based on their determination of there being only 30 year round homes on Lowell Point. We disagree with this determination for several reasons.

- a. VSW has sent out four different surveys to the Community Council and the property owners to come to this determination. These surveys are not standard surveys and each time we are asked for similar information just phrased in different ways. The first two surveys were sent to the LPCC to list which properties were lived in year round. Our calculations came up with over 50 homes that were lived in year round. Then the VSW has sent out two different surveys to the actual property owners asking them to specify which days they were absent in the past three years from their property. The survey is so difficult and detailed that many people have not filled them out and have therefore been excluded. The rules that the VSW is using to determine year round resident are extremely strict and we would challenge anyone to pass their "resident" test. Despite their claims that they are working with us, we feel that they are going out of their way to stop our project with their new "rules."
- b. The VSW will not consider homes as year round homes unless they are lived in by the property owner or have had the same renter in the house for at least three years. There are quite a few homes on Lowell Point that are rented out year round or in the winter. These homes are not considered even though they have people living in them year round.
- c. There is an 11 unit apartment building that houses many people year round. These apartment units are not considered since they are rentals. This building is one of the most significant users of water and producers of waste in the area. The apartment building is owned by a nearby fish processing plant and they often also have a temporary bunkhouse on site during the summer to house their employees.
- d. The VSW is not including businesses in their evaluation, which is valid since the Village Safe Water project does not fund businesses. However, they should take into consideration that most, if not all, of these businesses would pay to hook into the system when it is built. Plus most of these businesses either rent out the premises in the winter or they have a temporary residence on site for employees.
- e. There are currently three new homes that are being built in the area and there is a large demand for more housing in the area. There is a huge potential for future homes to be built here and these future residents will significantly worsen the public safety issues if there is no public sewer system in the area.
- f. Lowell Point does have some seasonal aspects. There are over 62 cabins or homes in the area. The fact that not all of these homes are lived in year round should not be the main concern. Our concern and I believe the concern of the Village Safe Water program is to eliminate current or potential health hazards in Alaska. During the summer all of the buildings are occupied and there are huge numbers of other visitors. This is when we have actual and potential health and safety hazards. Just because some of the houses or buildings may not have someone in them year round does not eliminate the increased potential of having a huge health and safety problem while everyone is here during the summer.

We do not believe that this kind of cost per unit has been evaluated in all of the areas that have been funded by Village Safe Water. We would guess that many of the communities in remote areas with 25 people in them have cost significantly more per household than ours.

We have somehow gotten caught in the middle of some regulation changes at VSW. Our project has been studied, recommended and approved for funding. Due to the regulation changes that happened after our grant was approved, our project has been stopped and we have to start over with the feasibility study. We do not think that this is right.

We sincerely hope that you can see how important our Village Safe Water project is for our community. There are many residents that cannot get fresh water in their homes and we are extremely vulnerable to many different health hazards year round and especially during the summer.

Please call with any questions or suggestions for getting our project back on track. Thank you for your time.

Sincerely,



Jim McCracken

President

Lowell Point Community Council

Cc. Representative James Elkins
Representative Berta Gardner
Representative Carl Gatto
Representative Max Gruenberg Jr.
Representative Bob Lynn
Representative Jay Ramras

200 communities

Sustainability

2005 fiscal year
completed



- 1) Sustainability
Consistent review guidelines signed
- 2) local capacity
- 3) business plan
- 4)

Access to existing facilities

Occupancy of homes - 30 homes
capital cost

Project Accounting
↑ internal controls

New federal OS requirements

Legislative Intent

Included in SFY 2006 Capital Budget for Village Safe Water Program

It is the intent of the Legislature:

- I. That the Department of Environmental Conservation (DEC) will establish guidelines for deciding whether proposed project costs are reasonable and whether proposed projects are sustainable; ensure that projects are limited to systems that are reasonable and sustainable; and exercise final decision authority as to project costs and the types and extent of projects to be constructed.
- II. That DEC will exercise project accounting control by assigning accounting personnel specifically to program accounting functions and by developing an account reporting system that is capable of providing up-to-date accounting information to engineers and managers.
- III. That DEC will encourage development of local ordinances that enhance the establishment and collection of user fees which are adequate to pay for the sustained operation of facilities constructed by the program.
- IV. That DEC will work with the Regulatory Commission of Alaska to encourage local management of projects constructed by the program in compliance with standards established by the Commission.

History of Rural Utility Business Advisor (RUBA) program History of Use and Development of Capacity Indicators

The RUBA program began using indicators of community capacity in 1991 when the RUBA program began working with the Dept. of Environmental Conservation, Village Safe Water (VSW) Program. At that time, VSW provided funding to the RUBA Program to assist in developing management capacity in select communities. The indicators were at that time primarily used as a method for the program to report progress of effort back to VSW.

As the program grew, the indicators went through several variations. By 1998 when the program funding was changed from a RSA with DEC to a direct grant from EPA, the indicators underwent substantial revision. At this time, the indicators were being primarily used as a communication tool with the community and to prioritize technical assistance. The indicators took the form of a report card where each indicator was given a "Inadequate", "Meets Minimum Requirements", or "Exceeds Minimum Requirements". They continued to be used to report status of communities to agencies including the EPA.

In April of 2002 the reporting format was substantially changed to the system that is now in use. The indicators were grouped into two categories - Essential Indicators and Sustainable Indicators. *Essential Indicators* were those issues that through the programs experience working with rural utilities were identified as being critical for the utility to continue to function in the short term (6-18 months). *Sustainable Indicators* were those issues that if not addressed would likely create a financial or managerial strain on the utility and cause substantial problems in the long term (1-5 years).

In July of 2004 the Village Safe Water program began requiring as a special grant condition that entities receiving a capital construction grant request that a management assessment be completed and that the utility meet all the *essential* capacity indicators.

In April of 2006 there were two additional essential capacity indicators added to the assessment.

- The utility is current paying all water/wastewater electric bills.
- The utility has on hand a year's adequate fuel supply or it has a financial plan to purchase an adequate supply.

These were added in response to several instances that occurred in the winter of 2004-2005 that threatened rural piped systems. These indicators would assure that these two issues would be examined and not be missed in the assessment.

Capacity Indicators Currently Used by the Rural Utility Business Advisor (RUBA) Program

Utility Finance Indicators

Essential Indicators

- | Yes | No | |
|--------------------------|--------------------------|--|
| <input type="checkbox"/> | <input type="checkbox"/> | All revenue and expenses for the utility are listed in the utility budget. |
| <input type="checkbox"/> | <input type="checkbox"/> | The utility has adopted a balanced realistic budget. |
| <input type="checkbox"/> | <input type="checkbox"/> | Monthly financial reports are prepared and submitted to the policy making body. |
| <input type="checkbox"/> | <input type="checkbox"/> | The utility is current paying all water/wastewater electric bills. |
| <input type="checkbox"/> | <input type="checkbox"/> | The utility has on hand a year's adequate fuel supply or it has a financial plan to purchase an adequate supply. |
| <input type="checkbox"/> | <input type="checkbox"/> | The utility is receiving revenues (user fees or other sources) sufficient to cover operating expenses. |

Sustainable Indicators

- | | | |
|--------------------------|--------------------------|---|
| <input type="checkbox"/> | <input type="checkbox"/> | The utility is receiving revenues (user fees or other sources) sufficient to cover operating expenses and Repair & Replacement (R&R) costs. |
| <input type="checkbox"/> | <input type="checkbox"/> | YTD revenues are at a level equal to or above those budgeted. |
| <input type="checkbox"/> | <input type="checkbox"/> | YTD expenditures are at a level equal to or below those budgeted. |
| <input type="checkbox"/> | <input type="checkbox"/> | A monthly manager's report is prepared. |
| <input type="checkbox"/> | <input type="checkbox"/> | Budget amendments are completed and adopted as necessary. |

Accounting Systems Indicators

Essential Indicators

- | Yes | No | |
|--------------------------|--------------------------|---|
| <input type="checkbox"/> | <input type="checkbox"/> | The utility has adopted a collection policy and actively follows it. |
| <input type="checkbox"/> | <input type="checkbox"/> | The utility bills customers on a regular basis. |
| <input type="checkbox"/> | <input type="checkbox"/> | An accounts receivable system is in place which tracks customers and reports past due accounts and amounts. |
| <input type="checkbox"/> | <input type="checkbox"/> | An accounts payable system is in place. |
| <input type="checkbox"/> | <input type="checkbox"/> | The payroll system correctly calculates payroll and keeps records. |
| <input type="checkbox"/> | <input type="checkbox"/> | A cash receipt system is in place that records incoming money and what it was for. |
| <input type="checkbox"/> | <input type="checkbox"/> | The utility has a cash disbursement system that records how money was spent. |

Sustainable Indicators

- | | | |
|--------------------------|--------------------------|---|
| <input type="checkbox"/> | <input type="checkbox"/> | A chart of accounts is used that identifies categories in a reasonable, usable manner. |
| <input type="checkbox"/> | <input type="checkbox"/> | Monthly bank reconciliations have been completed for all utility accounts. |
| <input type="checkbox"/> | <input type="checkbox"/> | The utility has a purchasing system that requires approval prior to purchase, and the approval process compares proposed purchases to budgeted amounts. |

Payroll Tax Indicators

Essential Indicators

- | Yes | No | NA | |
|--------------------------|--------------------------|--------------------------|--|
| <input type="checkbox"/> | <input type="checkbox"/> | | The utility has a system to accurately calculate, track, and report payroll tax liabilities. |
| <input type="checkbox"/> | <input type="checkbox"/> | | The utility is current on filing federal and state tax reports. |
| <input type="checkbox"/> | <input type="checkbox"/> | | The utility is current on making federal and state tax deposits. |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | If there are any past tax liabilities, a repayment agreement has been signed and repayments are current. |

Personnel System Indicators

Essential Indicators

- | | | |
|--------------------------|--------------------------|---|
| Yes | No | |
| <input type="checkbox"/> | <input type="checkbox"/> | The utility has a posted workers compensation insurance policy in effect. |
-

Sustainable Indicators

- | | | |
|--------------------------|--------------------------|---|
| <input type="checkbox"/> | <input type="checkbox"/> | The utility has adopted and uses a Personnel Policy, which has been reviewed by an attorney, AML, or DCCED for topics and language. |
| <input type="checkbox"/> | <input type="checkbox"/> | The utility has adequate written job descriptions for all positions. |
| <input type="checkbox"/> | <input type="checkbox"/> | The utility has adopted and follows a written personnel evaluation process that ties the job description to the evaluation. |
| <input type="checkbox"/> | <input type="checkbox"/> | The utility has an adequate written hiring process. |
| <input type="checkbox"/> | <input type="checkbox"/> | The utility has personnel folders on every employee that contain at least: 1-9, Job Application and Letter of Acceptance. |
| <input type="checkbox"/> | <input type="checkbox"/> | The utility has a probationary period for new hires that includes orientation, job-training/oversight, and evaluations. |
| <input type="checkbox"/> | <input type="checkbox"/> | The utility provides training opportunities to staff as needed and available. |

Organizational Management Indicators

Essential Indicators

- | | | |
|--------------------------|--------------------------|--|
| Yes | No | |
| <input type="checkbox"/> | <input type="checkbox"/> | The entity that owns the utility is known and the entity that will operate the utility is set. |
| <input type="checkbox"/> | <input type="checkbox"/> | The policy making body is active in policy making of the utility. |
| <input type="checkbox"/> | <input type="checkbox"/> | The policy making body enforces utility policy. |
| <input type="checkbox"/> | <input type="checkbox"/> | The utility has an adequately trained manager. |
| <input type="checkbox"/> | <input type="checkbox"/> | The utility has an adequately trained bookkeeper. |
| <input type="checkbox"/> | <input type="checkbox"/> | The utility has an adequately trained operator(s). |
| <input type="checkbox"/> | <input type="checkbox"/> | The utility has adopted the necessary ordinances (or rules and regulations) necessary to give it the authority to operate. |
-

Sustainable Indicators

- | | | |
|--------------------------|--------------------------|--|
| <input type="checkbox"/> | <input type="checkbox"/> | The utility has adopted an organizational chart that reflects the current structure. |
| <input type="checkbox"/> | <input type="checkbox"/> | The policy making body meets as required. |
| <input type="checkbox"/> | <input type="checkbox"/> | The utility complies with the open meeting act for all meetings. |

Operation of Utility Indicators

Essential Indicators

- | | | |
|--------------------------|--------------------------|---|
| Yes | No | |
| <input type="checkbox"/> | <input type="checkbox"/> | The utility operator(s) are actively working towards necessary certification. |
| <input type="checkbox"/> | <input type="checkbox"/> | The utility has a preventative maintenance plan developed for the existing sanitation facilities. |
-

Sustainable Indicators

- | | | |
|--------------------------|--------------------------|---|
| <input type="checkbox"/> | <input type="checkbox"/> | The manager receives a monthly O&M report from the utility operator and routinely "spot checks" the facilities to see that the maintenance items are being completed. |
| <input type="checkbox"/> | <input type="checkbox"/> | The utility has a safety manual and holds safety meetings. |
| <input type="checkbox"/> | <input type="checkbox"/> | Utility facilities have not suffered any major problems/outages due to management issues that are still unresolved. |
| <input type="checkbox"/> | <input type="checkbox"/> | The utility is operating at the level of service that was proposed. |
| <input type="checkbox"/> | <input type="checkbox"/> | The operator provides status reports to the manager on a routine basis. |
| <input type="checkbox"/> | <input type="checkbox"/> | The utility has completed and distributed its <u>Consumer Confidence Report</u> (CCR). |
| <input type="checkbox"/> | <input type="checkbox"/> | The utility meets all required regulations (is not on the <u>Significant Non-Compliance</u> (SNC) list). |
| <input type="checkbox"/> | <input type="checkbox"/> | The utility maintains an inventory control list. |
| <input type="checkbox"/> | <input type="checkbox"/> | The utility maintains a critical spare parts list. |



Frank H. Murkowski
GOVERNOR

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

January 28, 2005

ADMINISTRATIVE ORDER NO. 224

I, Frank H. Murkowski, Governor of the State of Alaska, under the authority of art. III, secs. 1 and 24, of the Alaska Constitution, order all departments of the executive branch, under the direction of the Office of the Governor, to ensure that certain future capital projects funded by the State of Alaska meet, to the extent consistent with federal and state law, the State of Alaska's sustainability standards as outlined in this Order.

BACKGROUND AND PURPOSE

The purpose of this Administrative Order is to provide a framework for cooperation that enhances collaboration between the State of Alaska and the Denali Commission by providing a common definition of sustainability. Infrastructure needs in Alaska, especially in rural areas, are enormous compared to available funding. As a result, it is imperative that every dollar investment be done in a way that will maximize the sustainable long-term benefits to Alaskans.

The Denali Commission Act of 1998, as amended (Division C, Title III, P.L. 105-277), states that the purposes of the Denali Commission are to:

1. deliver the services of the federal government in the most cost-effective manner practicable by reducing administrative and overhead costs;
2. provide job training and other economic development services in rural communities, particularly distressed communities; and
3. promote rural development and provide power generation and transmission facilities.

The program areas of the Denali Commission to which the state's collaboration will apply are:

- Energy projects
- Health facilities
- Solid waste projects
- Training
- Washeterias
- Multi-use facilities
- Solid Waste projects

- Elder and teacher housing
- Domestic violence facilities
- Economic development

The Denali Commission Act recognizes that these purposes can only be accomplished through a collaborative, coordinated effort by the State of Alaska and federal agencies. To this end, the federal and state co-chairs, State of Alaska department commissioners, and the University of Alaska president signed a Memorandum of Understanding (MOU) dated July 2003 with the Denali Commission and various federal agencies that conduct business in the State of Alaska. The MOU outlines points of understanding that facilitate the collaboration and coordination necessary for achievement of the purposes of the Denali Commission and related missions of agencies who are parties to that MOU.

The points of understanding outlined in the MOU include recognition of the following:

1. Sustainability
Minimizing life cycle costs when investing in public infrastructure projects is an essential "first step" in achieving sustainability.
2. Regional Strategies
Systematic planning and coordination on a local, regional, and statewide basis are necessary to achieve the most effective results from investments in infrastructure, economic development, and training.
 - a. Community Plans

A single community strategic plan should be sufficient to identify and establish the priorities of each rural community.
 - b. Sharing Information

The power of sharing information increases efficiencies and decreases duplication of services by state and federal agencies.
 - c. Economic Development

Sound economic development facilitates growth of self-sufficient communities, and the coordination of activities will stimulate economic growth.
 - d. Workforce Development (Vocational and Technical Training)

Workforce development is a critical component to building sustainable public infrastructure and self-sufficient communities in Alaska.

Guidelines To Achieve Sustainability

This Administrative Order incorporates a sustainability policy and guidelines that further align State of Alaska infrastructure planning and funding for those capital projects that fall within the Denali Commission's program areas.

In executing this Administrative Order, all departments of the executive branch under the direction of the Office of the Governor shall use the following definition of sustainability and the investment guidelines in this Order to guide the funding of state capital investments that fall within the Denali Commission's program areas.

Sustainability, by definition, includes all costs associated with management, operation and maintenance, renewal, and replacement (after the design life has been achieved) necessary to maintain an acceptable level of service.

- Users Support Costs

The high cost of infrastructure in some areas of Alaska may make it infeasible for the total cost to be borne by local users. However, to the extent possible, user rates and fees should be assessed to cover all costs necessary to maintain sustainability.

- Lowest Cost Possible

All practical steps should be taken to reduce the cost of sustainable infrastructure. This includes simplification of projects; standardization of infrastructure; combining utilities; regionalization of utility management structures; bulk purchase of fuel; and; training and development of management personnel.

- Business Plan Required

A sound business plan must be in place for each project. Sound business planning is key to ensuring that infrastructure projects will be operated and maintained. A business plan shall include demonstration of how all costs necessary to assure a sustainable project or level of service will be achieved.

INVESTMENT GUIDELINES

All departments of the executive branch under the direction of the Office of the Governor shall consider all available information regarding each of the factors outlined below, and any other relevant information, in making investment decisions. In cases in which sustainability of an investment is questionable, the State of Alaska, either directly or through its partners, will work with project proponents in an effort to find workable solutions to ensure that a project is sustainable.

To this end, it is incumbent that requestors provide relevant information that may not otherwise be available and to actively develop workable solutions. Solutions may involve a smaller-scale project, mobile facilities, and multi-community or regional management approaches. If no workable sustainable solution is apparent, the State of Alaska or its

partners may suggest alternative means to access critical services.

The following guidelines should be followed when considering funding a capital project with State of Alaska funding:

- Local governments to assume responsibility

Existence of a state-chartered government increases the probability that basic infrastructure and services funded by the State of Alaska will be sustained over the long term. The State of Alaska recognizes that other regional organizations share both responsibility and capacity to contribute to sustainability. A project's consistency with a regionally approved plan will be a strong factor in support of a project.

- Good faith

The long-term sustainability of State of Alaska investments is highly dependent on the good faith of the investment recipient. In evaluating potential investment, priority will be given to recipients that have historically demonstrated good faith in making and keeping financial commitments. Previous demonstrations of bad faith, particularly with previous state or federal investments, or failure to pay taxes, may preclude additional investments.

- Proximity and access to existing services and facilities

In determining the need for a new facility, a careful evaluation of existing access to services or facilities must be presented. Where the needs of two or more communities in close proximity to one another can be adequately and more cost-effectively served by a single facility, that option would be selected over separate facilities for each community.

- Renovation a priority over new construction

Renovation or expansion of existing facilities will be favored over new construction when it can adequately meet community needs at significantly lower life-cycle costs.

- Infrastructure sized to meet needs

Infrastructure will be sized to meet needs that can reasonably be projected over the design life of the project. If population is increasing, appropriate excess capacity will be provided to accommodate growth. Decreasing population may result in a smaller facility than the current population would dictate.

- Affordability

Project evaluation will include the project proponent's capacity to afford the life-cycle costs associated with sustaining proposed services and facilities.

- Unit cost

Unit cost of construction varies widely across the state for a number of reasons, including the technology employed and design utilized. High unit costs tend to work counter to project sustainability. Some of the variables impacting unit cost (such as project location and soil conditions) are not controllable, but many others are. Every reasonable effort will be made to control unit costs by working with investment recipients to ensure that the most appropriate technology and designs are applied.

- Absence of imminent environmental threat

New facilities will be protected against imminent environmental threats, such as flooding and erosion, consistent with Administrative Order No. 175.

- Needs of existing communities have priority

Priority will be given to the infrastructure needs of existing communities before consideration of proposals to create new communities, unless there is a congressionally directed relocation of an existing community.

This Order takes effect immediately.

DATED at Juneau, Alaska, this 28th day of January, 2005.

/s/Frank H. Murkowski
Governor

WWW.GOV.STATE.AK.US

Administrative Orders 201-present | Contact the Governor | Webmaster | State of Alaska

MEMORANDUM

State of Alaska

Department of Environmental Conservation
Office of the Commissioner

TO: James F. Clark
Chief of Staff
Office of the Governor

DATE: April 26, 2004

FILE NO: G:\COMM\WP\2004\VSW Audit Clark.doc

PHONE NO: 465-5065

FROM: 
Ernesta Ballard
Commissioner

SUBJECT: Village Safe Water Audit

I appreciate your patience concerning the Legislative Budget & Audit report on DEC's Village Safe Water program (VSW). While the audit's quality is poor, we addressed it seriously and have learned several lessons. The following is information on our response to the audit.

First, though imperfect, the VSW administrative structure is fundamentally sound. In the past, it was not uncommon for the State to make direct grants to communities where a check was issued and the State had no further involvement. The VSW program makes grants to communities, but the grants are co-managed by DEC and communities, with bookkeeping provided by a private CPA firm. This system keeps track of the funds and ensures that they are used for intended purposes. It involves the community as owner, but the State retains essential controls regarding the grant purpose.

Second, the audit revealed a few issues warranting corrective action. Here is what we have done and are doing to improve management:

- We have moved the program manager position from Juneau to Anchorage to place it closer to the engineers and the day-to-day operations. This involved laying off the previous Juneau-based program manager (who found a job with DOT/PF). Recruitment for the Anchorage-based position is nearly complete.
- We are in the process of reclassifying a position to add contracting support. Some of the problems identified by the audit stem from having the engineers prepare their own contracts for construction services. This new position will provide the engineers with the contracting help they need according to the audit and our own observations. That position will be established in the next few months.
- We have effected three new program procedures dealing with nepotism, compensation for project superintendents, and construction crew work schedules to help guard against a repeat of the \$200,000+ compensation situation revealed by the audit.

Last, an essential point overlooked by the audit is the VSW's relationship to its surrounding programs. The VSW operates side-by-side with DEC's other financial assistance programs, such as

STATE OF ALASKA

DEPT. OF ENVIRONMENTAL CONSERVATION
OFFICE OF THE COMMISSIONER

FRANK H. MURKOWSKI, GOVERNOR
410 Willoughby Ave., Ste 303
Juneau, AK 99801-1795
PHONE: (907) 465-5065
FAX: (907) 465-5070
<http://www.state.ak.us/dec/>

June 23, 2004

The Honorable Ralph Samuels, Chair
Legislative Budget and Audit Committee
716 W. 4th Avenue
Anchorage, Alaska 99501-2133

Dear Representative Samuels:

In your February 26, 2004 letter you requested that prior to the end of the fiscal year, I provide members of the Legislative Budget and Audit Committee (LB&A) with an update on the Department of Environmental Conservation's (DEC) progress in implementing commitments we made in our response to a LB&A audit entitled "Department of Environmental Conservation, Village Safe Water (VSW), Selected Projects." Our commitments are highlighted in italics below and are followed by a brief description of our progress.

"The audit revealed that the VSW program continues to have serious problems with 1099 and I-9 form procedures. Some of the problem stems from confusion over whether responsibility lies with the VSW engineer or the CPA firm. This situation will be corrected through a combination of employee training and amending the CPA firm contract before the next construction season (by May 1 of this year)."

VSW staff received training regarding required Internal Revenue Service (IRS) and U.S. Immigration and Naturalization Service (INS) forms and procedures on June 8, 2004. Refresher training will be provided annually. The VSW contract for accounting and bookkeeping services was amended to clarify IRS and INS reporting responsibilities on May 20, 2004.

"In two, and perhaps three cases, the program did not exhibit sufficient control over superintendent compensation (including salary, travel and housing arrangements). While paying superintendents a salary is not the answer, the program clearly needs to establish better limits on superintendent compensation."

DEC completed new guidance is being prepared and will be in effect before the construction season (by May 1 of this year)." New guidance establishing limits on superintendent compensation and allowable overtime with an effective date of March 24, 2004 (see enclosure A). In addition, new guidance regarding oversight of project labor and overtime on VSW force account projects was completed with an effective date of March 31, 2004 (see enclosure B).

"The audit accurately revealed a single incident of nepotism that should not have been tolerated. A new policy is being prepared and will be in effect before the construction season (by May 1 of this

CORRECTION

THE FOLLOWING DOCUMENT(S)
HAVE BEEN REFILMED TO
ASSURE LEGIBILITY OR PAGINATION



Central Microfilm Services
Department of Education & Early Development
State of Alaska

MEMORANDUM

State of Alaska

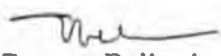
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The Honorable James F. Clark

2

April 26, 2004

the Municipal Water, Sewer and Solid Waste Matching Grant program and our two low-interest loan programs. The four programs share staff, a management and administrative support structure, and the same objectives and technical focus. The Village Safe Water program is most efficiently located in DEC. There is no need to relocate the program to DOT/PF.

Please let me know if you would like further detail.

STATE OF ALASKA

DEPT. OF ENVIRONMENTAL CONSERVATION
OFFICE OF THE COMMISSIONER

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