



CITY OF NORTH POLE *Alaska*

REGULAR CITY COUNCIL MEETING Monday, April 4, 2011

Committee of the Whole – 6:30 p.m.
Regular City Council Meeting – 7:00 p.m.

COUNCIL MEMBERS

Bonnie Arnold	488-9246
Richard Holm	488-1776
Sharron Hunter	488-4282
Kevin McCarthy- <i>Dep. Mayor Pro Tem</i>	490-9039
Ronald Jones – <i>Alt. Dep Mayor Pro Tem</i>	488-3579
Thomas McGhee - <i>Mayor Pro Tem</i>	455-0010

MAYOR

Doug Isaacson 488-8584

CITY CLERK

Kathy Weber 488-8583

1. Call to Order/Roll Call
2. Pledge of Allegiance to the US Flag
3. Invocation
4. Approval of the Agenda
5. Approval of the Minutes
6. Communications from the Mayor
 - Presentation by Gene Therriault - Eva Creek Wind Farm
7. Council Member Questions of the Mayor
8. Communications from Department Heads, Borough Representative and the City Clerk
9. Ongoing Projects Report
10. Citizens Comments (Limited to Five (5) minutes per Citizen)

11. Old Business

12. New Business

- a) Approval of Step Increase for City Clerk MMC Designation
- b) Resolution 11-12, A Resolution Supporting A Bill To End Requirements That Employers Who Terminate Some Or All Participation In The Public Employees' Retirement System Of Alaska Pay Termination Costs, And Making The Changes Retroactive

13. Council Comments

14. Adjournment

The City of North Pole will provide an interpreter at City Council meetings for hearing impaired individuals. The City does require at least 48 hours notice to arrange for this service. All such requests are subject to the availability of an interpreter. All City Council meetings are recorded on CD. These CD's are available for listening or duplication at the City Clerk's Office during regular business hours, Monday through Friday, 8:00 a.m. to 5:00 p.m. or can be purchased for \$5.00 per CD. The City Clerk's Office is located in City Hall, 125 Snowman Lane, North Pole, Alaska.

**Committee of the Whole – 6:30 P.M.
Regular City Council Meeting – 7:00 P.M.**

A regular meeting of the North Pole City Council was held on Monday, March 21, 2011 in the Council Chambers of City Hall, 125 Snowman Lane, North Pole, Alaska.

CALL TO ORDER/ROLL CALL

Mayor Doug Isaacson called the regular City Council meeting of Monday, March 21, 2011 to order at 7:00 p.m.

There were present:

**Ms. Arnold
Mr. McGhee
Ms. Hunter
Mr. Jones
Mr. Holm
Mr. McCarthy
Mayor Isaacson**

Absent/Excused

Absent

Absent

PLEDGE OF ALLEGIANCE TO THE U.S. FLAG

Led by Mayor Isaacson

INVOCATION

Invocation was given by Councilman Thomas McGhee

APPROVAL OF AGENDA

Mr. McGhee moved to Approve the Agenda of March 21, 2011

Seconded by Mr. Jones

Discussion

None

Mr. McGhee moved to Amend the agenda to put the following items under consent agenda;

Old Business

- a) Ordinance 11-02, An Ordinance Of The City Of North Pole, Alaska Amending Title 5, Chapter 5.02.040, License-Fee**
- b) Ordinance 11-03, An Ordinance Of The City Of North Pole Establishing The 2011 Utility Capital Budget**
- c) Ordinance 11-04, An Ordinance Of The City Of North Pole, Alaska Amending Title 13, Chapter 28, Section .010, Lien Rights**

New Business

- a) Resolution 11-09, A Resolution Of The City Of North Pole Authorizing A Matching Contribution Of Twenty-Four Thousand Five Hundred Five Dollars And Fifty-Five Cents To The State Of Alaska Department Of Transportation And Public Facilities For The Fairbanks Metropolitan Area Transportation System Preventative Maintenance Surface Upgrades Project
- c) Resolution 11-11, A Resolution Of The City Of North Pole To Accept Ownership Of The Two Drinking Water Wells And Associated Water Mains, Pumps

Seconded by Mr. Jones

Discussion

None

On the Amendment

PASSED

YES –5 –Holm, Hunter, Jones, McGhee, Isaacson

NO – 0

Abstained- 0

On the Main Motion as Amended

PASSED

YES –5 –Holm, Hunter, Jones, McGhee, Isaacson

NO – 0

Abstained- 0

APPROVAL OF MINUTES

Mr. McGhee *moved to* Approve the Minutes of March 7, 2011

Seconded by Mr. Jones

Discussion

None

PASSED

YES – 5 - Holm, Hunter, Jones, McGhee, Isaacson

NO – 0–

Abstained- 0

COMMUNICATIONS FROM THE MAYOR

**Communication Highlights from the Mayor for the period ending March 16, 2011
ISSUES:**

- Update on Sewer Break: Director of City Services, Bill Butler will provide a more comprehensive report to Council. The basic facts are that a break occurred to the main at a location mid-way along North Pole High School Boulevard sometime on March 15 or 16. The North Pole Utilities crew, Bill Butler, and the various contractors are to be commended for a rapid and expert response as they were able to isolate and repair the break by 8 pm on March 16. No community health hazard was identified and no seepage occurred into the Tanana River or into the sloughs. Two residential properties were impacted by water on the lots but all residences in the vicinity are on city water, which continued to supply clean drinking water to all utility customers. State DEC officials were kept informed and City Clerk, Kathy Weber, informed the press throughout the process.
- Mikunda, Cottrell & Co Audit of City Finances: The audit of the city finances was conducted during the week of March 7. Led by Mollie Morrison, CPA, and Michelle Kiese, In-Charge Auditor, the audit encompassed all departments and discussions with the mayor, staff, and some finance committee members over the course of five days. While some items were identified, of the two weaknesses identified last year, at least one regarding journal entries, was successfully addressed. We'll have a detailed description of the audit probably within a month.
- Server Upgrade at City Hall: Due to crashes on the city hall's computer server and especially the negative effect that had on our accounting software, we have used North Pole Computers to upgrade our server's memory and storage capacity.
- Resolution 11-08 passed by the Council on March 7, has had extensive coverage throughout the state. The News Miner carried an article focusing on the need to amend the royalty oil fees for in-state refining in order to make our economy more competitive and affordable on March 17. The issue of oil taxation and making Alaska more competitive is being heard in the House Finance Committee even while I type these minutes. A "Make Alaska Competitive" Rally was held on Sunday afternoon, March 20, at the Carlson Center.
- Sister City Itadori, Japan Update: Our hearts go out to the citizens of Japan who have been hard hit by the earthquake, tsunami, and the after affects. Fortunately, our sister city of Itadori (Seki City, Gifu Prefecture) was not affected. According to our sources, they didn't even feel the earthquake. We are still planning to send a team of middle-to-high school students, chaperones, and interested business and government representatives from May 24-June 2. If you would like to explore the opportunity, please join us at the next meeting on Wednesday, March 23, 5:30 pm at North Pole High School.
- Census 2010 Data Update: Census data has been released showing that Alaska has had a 13% increase in population during the last decade, now up to 710,231. The Fairbanks North Star Borough is still the state's second most populous community with 97,581 people, with Anchorage being first with 291,826 people, and the Mat-Su Borough third with 88,995 people. North Pole appears to have lost population at 2,117, which is lower than the Census 2008 population estimate of 2,200, a number that the State Department of Labor reflected as our official population count in 2009. The decrease may affect our

Revenue Sharing from the State. I will be attending a seminar on March 25 to learn how better to interpret the data and how we might go about challenging the count. Janet Davison and Kathryn Dodge of the FNSB have been very helpful in helping make the data understandable.

What does the data mean for Alaska? One of the first consequences is a re-apportionment plan will be developed by a commission for Alaska within 30 days and adopted within 90 days. The plan will re-district the legislative boundaries within Alaska but does not give us another seat in Congress. To explore the data, go to <http://2010.census.gov> (see attached Redistricting Data, Alaska), <http://labor.alaska.gov/research/census/> or <http://co.fairbanks.ak.us/CommunityPlanning/CRC/>.

- Tanana Chiefs and Doyon Conventions: I joined Mayors Cleworth and Hopkins in addressing the Tanana Chiefs Annual Convention and the Doyon Convention. My challenge to them is that we work together as a united community to tackle the urgent issues of the day that affect us all; the message was well received.
- Dog Mushing an Interior Alaska Heritage. Dog mushing has been an important part of Interior Alaska's and North Pole's culture and economy for decades. The Alaska Dog Mushing Association (ADMA) has sponsored events in North Pole and Fairbanks, including this past week's Open North American, the grand daddy of all Alaska's dog sled races. The Mayor's Challenge was held on March 16 at the Jeff Studdart Race Grounds. First time racer, Mayor Cleworth, came in first, with veteran musher Curtis Erhart, with a time of 27:27.8 minutes, followed by a ringer for Mayor Hopkins, veteran racers Mike Cox (FNSB Director of Parks and Rec) and Sherry Johnson, with a time of 29:22:7, followed by Mayor Isaacson with veteran musher John Erhart, with a time of 29:33:3.
- FMATS Policy Committee met on March 16. Among the action items, the Committee approved an increase of \$317,000 for the North Pole Bike Trail project to be completed this summer. No additional match by the City will be required.
- Commissioner Update. The City of North Pole still needs two individuals to represent the city on the FNSB Planning Commission and the FNSB Recycling Commission. There is a lot of local interest in RECYCLING! If you are interested in either one of these positions, please contact Mayor Isaacson at 488-8584. Details of the commissions are online at www.fnsb.us.

FNSB ASSEMBLY MEETING:

There was no Assembly meeting during this period. The next Assembly meeting is March 24 at 6 pm.

MEDIA:

Mar 12 & 19, Mayor Isaacson was on KJNP (1170 AM, 100.3 FM) 8 – 9 a.m. "Over the Coffee Cup."

UPCOMING (see the February-March Mayor's Newsletter and above for other events, dates, and times)

- **Through March** : ICE ALASKA World Ice Art Championships begin at Phillips Field location.
- **Mar 22, 5-7:30 pm, North Pole Library Scoping Meeting at City Hall**
- **Mar 26, 4 pm**, Fund Raiser for NP Roller Girl who is battling breast cancer @ Badger Den, for more information call Terry Dukes 388-3067.
- **Mar 29, 6 pm**, Festival Committee meets at City Hall.
- **April 1, 11:30 am**, Senior Luncheon at Hotel North Pole. This event is by invitation only, but if you would like to assist, please contact Kathy Weber.
 - FMAT's newsletter was given to all council members.
 - North Pole Dog Sled Championships will be held this weekend.
 - The Mid Alaska Conference will be held at NPHS this year. The NPHS Boys Basketball team is going to state. They haven't been to state in 17 years.
 - NP Worship Center held the 2011 Polar Awards. NPFD was given an award and a \$500 Relief Fund check.
- **Presentation by Fairbanks Convention & Visitors Bureau by Dawn Murphy**

COMMUNICATIONS FROM DEPARTMENT HEADS, BOROUGH REPRESENTATIVE AND THE CITY CLERK

Accountant

Lisa Vaughn

- Auditors were here two weeks ago. The auditors have indicated that we have improved over last year.

Police Dept

Sgt. Nelson

- The staff has been in training for new software with report writing and ticket writing. Sgt. Nelson is with the 168th National Guard and has been pretty busy with training and getting ready for deployment. He will be deploying next year.

Fire Dept

Chief Lane

- Chief Lane stated that the NPFD responded to a bad accident a few hours ago. He urged everyone to drive safe, be careful, and slow down.
- St. Baldericks was on March 19th. The NPFD raised \$30,000 locally and over \$100,000 statewide. If you still want to donate there is still time.
- April 29th is the NPFD Recognition Awards night.
- Lt. Dave Daniell reported that no one in the fatality accident was wearing a seat belt, in-fact one of the vehicles had the seat belt buckled behind the driver's seat. He urged everyone to remember to buckle up.

- Lt. Daniell went to Seattle and climbed the Columbia Tower to raise money for Leukemia. Fire Fighter and people came from all over and raised over \$180,000 Leukemia Lymphoma.
- Open House is Saturday, May 14th from 10 -4 pm.

Director of City Services, Bill Butler

March 21, 2011 Council Report

Bill Butler

Director of City Services

Building Department

- No new building permits issued since last council meeting.

Public Works

- Following the major snowfall event Public Works did a follow up plowing to move accumulated snow and improve visibility at intersections and clean up roads
- *Completed an application for a skid steer loader to be used for pedestrian and bicycle path snow plowing and sweeping.*
 - *\$50,000 grant request that has no matching requirement*

Utility Department

- New drinking water well project did not have sufficient running time for me to recommend acceptance at this meeting
 - New wells and electronic controls are now supplying City with water.
 - DEC has granted interim approval to operate
 - Next 2 weeks will be a shakedown period to ensure wells are ready so that I can recommend acceptance at March 21 City Council meeting.
- Waste Water Treatment Plant Engineering and Design Project recommendation is before City Council this evening.
 - With Council's approval, I will submit recommended engineering firm to the two funders—US Department of Agriculture and DEC.
- Water Pump Replacement Project: EPA will be in North Pole the week of March 7 to audit project
- Presentation later this evening requesting City Council authorization to submit an application for an Alaska Clean Water Fund loan for \$1,416,500
- Ordinance before City Council to adopt a Capital Projects Fund budget for the Utility Department
- Ordinance before City Council to codify a collection process for delinquent utility accounts

After some trial and error we seem to have found a process that is reducing the number of delinquent accounts and collecting on accounts that become delinquent

- Executive session at tonight's meeting will update City Council on possible claim by a subcontractor from the Lift Station Phase 1 project.

- Someone opened a fire hydrant on the north lots of the Stillmeyer Estates Subdivision
- Fortunately, someone reported the vandalism.
- Have installed pad locks on the two fire hydrants in the subdivision
- Two years ago had two similar vandalism incidents that lead to Utility installing pad locks on the most isolated fire hydrants
- Considering if need to install pad locks on all city fire hydrants.

Borough Representative, Mayor Isaacson

- No meeting last week. The next scheduled meeting will be this Thursday, March 24th, 2011.

City Clerk, Kathy Weber

- The City has two new high school interns, Sarah O'Leary and Paige Poston. Sarah has already started with the city and she has show to be a wonderful asset to us. Paige will start on March 17th. Nanci Uptgraft still comes in and does volunteer work at the city. She is also very much appreciated.
- I have been busy with the AAMC and will attend my first out of state conference from March 21 – 25th. I will be attending the Washington Municipal Clerks Association Annual Conference where I'll be representing the State of Alaska and the City of North Pole.

ONGOING PROJECTS

Beatification Committee

Tom Ertle reported that they have a lot going on this year. They had a meeting with Buzz Otis and the proposed plan for the roundabouts. The committee has an issue and concern with the watering of the roundabouts. Mr Erle met with Jeff Jacobson at the FNSB. Stage 2 the beatification and the 4 H kids are going to help with this project.

CITIZENS COMMENTS – 5 Minutes

None

NEW BUSINESS

RESOLUTION 11-10, A RESOLUTION OF THE CITY OF NORTH POLE SUPPORTING LIQUEFIED NATURAL GAS TRUCKING AND GASLINE PROJECTS AS A WAY TO LOWER AND STABILIZE ENERGY COSTS FOR INTERIOR RESIDENTS

Mayor Isaacson updated council on the importance of trucking the liquefied gas to Fairbanks to help lower and stabilize energy costs for residents in the Interior. He said GVEA electric costs to the City of North Pole was approximately \$28,000 per month.

Citizens Comments

None

Mr. McGhee *moved to* **Introduce and Approved Resolution 11-10, A Resolution Of The City Of North Pole Supporting Liquefied Natural Gas Trucking And Gasline Projects As A Way To Lower And Stabilize Energy Costs For Interior Residents**
Council Comments

Seconded by Ms. Hunter

Discussion

Mr. Jones asked if the Mayor knew what the costs would be to bring pipes into the homes and prior to that if there would be storage tanks that residents could purchase so they could have the gas at their house.

Mayor Isaacson said there was information in the February packets that addressed that and he referred council back to that. He went on to explain the cost and where the facility would be built.

Ms. Hunter asked what the "Hot Zone" is?

Mayor Isaacson said that area designation by the FNSB that is most out of compliance with PM2.5 standards.

PASSED

YES –5 –Holm, Hunter, Jones, McGhee, Isaacson

NO – 0

Abstained- 0

COUNCIL COMMENTS

Ms. Hunter – No Comment

Mr. McGhee – reiterated how bad the roads are in the FNSB and is probably the worst he's seen in a long time. He enjoys teaching the kids how to drive in those conditions but it is still very dangerous. He attended the meeting with the auditors and they answered a lot of his questions and he will be notifying the Finance Committee to come up with some new ideas. Mr. McGhee urged everyone to be careful on the roads.

Mr. Holm – No comment

Mr. Jones – spoke on the Beautification Committee meeting and said there are some good ideas coming from Buzz Otis on the roundabouts and 5th Ave and all the good things and hard work the committee is doing. His next meeting with AML will be on April 7, 2011 and he will keep the council updated.

Mayor Isaacson – stated that the City has been very busy. There will be a festival committee meeting on March 29th. He urged the council to talk with legislators on the

\$2.9 million for the City of North Pole. He still may be travelling to Juneau for the last of the meetings to help push the City's need. He thanked Tricia for filling in tonight.

ADJOURNMENT

Mr. McGhee *moved to adjourn the meeting of March 21, 2011*

Seconded by Mr. Jones

No Objection

The regular meeting of March 21, 2011 adjourned at 8:23 p.m.

These minutes passed and approved by a duly constituted quorum of the North Pole City Council on Monday, March 21, 2011.

DOUGLAS W. ISAACSON, Mayor

ATTEST:

KATHRYN M. WEBER, MMC, City Clerk

North Pole Fire Department

Cordially invites you and a guest to our:

2011 Annual Appreciation Dinner

PLEASE JOIN US:
FRIDAY, APRIL 29, 2011
HOTEL NORTH POLE

GUEST SPEAKER: CHIEF JEFF JOHNSON, CHIEF
EXECUTIVE OFFICER OF OREGON'S TUALATIN VALLEY
FIRE AND RESCUE WITH A 32 YEAR FIRE SERVICE
CAREER

WELCOME COCKTAIL SESSION AT 6 PM
DINNER AT 7 PM
PROGRAM AT 8 PM
DRESS ATTIRE IS SEMI-FORMAL

IF YOU WOULD LIKE TO STAY OVERNIGHT:
ROOM RATES \$75/NIGHT+TAXES

PLEASE R.S.V.P. BY WEDNESDAY, APRIL 27, 2011

EMAIL: KMIDDLETON@NORTHPOLEFIRE.ORG

PHONE: 488-0444

Delivering Exceptional Customer Service in Emergency Services

***“THE GINSU PHENOMENON
PUTTING SERVICE BACK IN PUBLIC SERVICE”***

Keynote Speaker: Fire Chief Jeff Johnson

Date: Saturday, April 30, 2011

Place: North Pole High School

Time: 9 am to 1 pm

***This is a free public event inviting all emergency service
personnel.***

Hosted by: North Pole Fire Department

Sponsored By: SHUR-SALES & Marketing

Chief Jeff Johnson is the Chief Executive Officer for the Western Fire Chiefs Association, Past President of the International Association of Fire Chiefs and retired as Fire Chief and Chief Executive Officer of Oregon's Tualatin Valley Fire and Rescue following 32 year fire service career. Chief Johnson served as TVF&R's chief executive for over 15 years during which time the organization became recognized as one of the nation's premier fire and rescue service providers.

Chief Johnson is nationally known as an innovator and ambassador for excellence through customer service. Additionally, he advocates for cooperative initiatives and other business practices that achieve and demonstrate smart government while maximizing the value of service provided to the citizens'. He has authored two fire service books and is a featured guest lecturer across the nation.

Chief Johnson holds a Bachelor of Science Degree in Business and Associate Degrees in Fire Service and criminal Justice Administration. During his leisure time, Jeff enjoys spending time with his wife, Kay, and their two children. As an avid outdoorsman and student of Oregon History, Jeff enjoys camping, fishing and motorcycling in Oregon's back country.



Interior Alaska – The “Place” To Do Business

100 Cushman St., Suite 102 | Fairbanks, Alaska 99701-4665
ph (907) 452-1105 | fax (907) 456-6968 | www.FairbanksChamber.org

Introduced By: Natural Resources Committee & Transportation Committee
Date Introduced: March 21, 2011
Date Passed: March 28, 2011
Date Transmitted: March 29, 2011

RESOLUTION 11-0328

A RESOLUTION BY THE GREATER FAIRBANKS CHAMBER OF COMMERCE (GFCC) IN SUPPORT OF THE TRUCKING OF LIQUIFIED NATURAL GAS (LNG) TO THE INTERIOR OF ALASKA FROM THE NORTH SLOPE

WHEREAS, the residents of Interior Alaska and in the Fairbanks North Star Borough continue to be adversely impacted by the high cost of energy; and

WHEREAS, the Interior residents need a near-term (2-3 year) source of affordable and sustainable energy for their economic well-being; and

WHEREAS, the U.S. Environmental Protection Agency has declared portions of the FNSB to be a PM_{2.5} non-attainment area; and

WHEREAS, high fuel prices lead residents to use alternative sources of energy to heat their homes, exacerbating the existing PM_{2.5} air quality problems; and

WHEREAS, air quality compliance and high energy costs threaten local businesses and add high operational costs to local military installations; and

WHEREAS, for over 50 years our community has had energy projects “about to deliver” natural gas to the region; and

WHEREAS, Fairbanks Natural Gas (FNG) has brought natural gas to the Interior and has demonstrated that LNG can be trucked to the Interior areas; and

WHEREAS, a liquefied natural gas trucking project from the North Slope to the Interior is a credible energy project that will deliver sufficient natural gas and allow this community to convert to natural gas; and

WHEREAS, by providing natural gas at a price that encourages additional conversion, the community will realize significant savings from reductions in electric prices and in the costs of space heating; and

WHEREAS, public entities, as well as, private entities will also have significant savings in electric and space heating expenses; and

WHEREAS, Interior residents of outlying and rural areas will save money through conversion of natural gas to propane, a by-product of LNG production; and

INVESTORS

DIAMOND

BP Exploration
ConocoPhillips
ExxonMobil
Fairbanks Daily News-Miner
FMH & Denali Center
Flint Hills Resources Alaska

PLATINUM

Alyeska Pipeline Service Co.
Carlson Center
Doyon, Limited
Fred Meyer Stores
Golden Heart Utilities
Mt. McKinley Bank
Wells Fargo Bank Alaska

GOLD

Birchwood Homes
Denali State Bank
Design Alaska
Doyon Utilities LLC
First National Bank Alaska
GCI
Kinross-Fort Knox Mine
MAC Federal Credit Union
Northrim Bank
Sumitomo Metal Mining Pogo LLC
Usibelli Coal Mine

SILVER

ACS
Alaska Airlines
Alaska Railroad
Alaska USA
AT&T
Denali – The Alaska Gas Pipeline
Everts Air Cargo, Everts Air AK
Exclusive Paving/Univ. Redi-Mix
Fairbanks Natural Gas
Flowline Alaska
Fountainhead Development
General Teamsters Local 959
GVEA
Hale & Associates, Inc.
JL Properties, Inc.
Key Bank
Personnel Plus
Spirit of Alaska FCU
Tanana Valley Clinic
TDL Professional Staffing
The Boeing Co.
TOTE
WAL-MART Stores, Inc.
Yukon Title Company

WHEREAS, work has been done with nationally respected financial and engineering experts to develop a fundable business plan; and

WHEREAS, the cost of financing is critical to the economic viability of this project in reducing the cost of energy to Interior and rural residents and may need financial support from the Alaska State Legislature; and

WHEREAS, the Fairbanks Economic Development Corporation (FEDC) has provided initial funding to verify the viability to truck LNG to the Interior from the North Slope; and

NOW THEREFORE BE IT RESOLVED that the Board of Directors of the Greater Fairbanks Chamber of Commerce supports a trucking project of LNG from the North Slope to the Interior and a natural gas distribution project; and

THEREFORE BE IT FURTHER RESOLVED, that the Board of Directors of the Greater Fairbanks Chamber of Commerce supports the State of Alaska's financial support for a LNG delivery project to the Fairbanks area.

BE IT FURTHER RESOLVED that this resolution be distributed to:


Governor Sean Parnell, State of Alaska
Lieutenant Governor Mead Treadwell,
State of Alaska
Mike Nizich, Chief of Staff, Governor Parnell
Randy Ruaro, Deputy Chief of Staff,
Governor Parnell
Heather Brakes, Legislative Director,
Governor Parnell
Karen Rehfeld, OMB Director, State of Alaska
Alaska State Legislature
Commissioner Dan Sullivan, Alaska Department of
Natural Resources

Commissioner Marc Luiken, Alaska Department of
Transportation
Ted Leonard, Executive Director, AIDEA
Mayor Luke Hopkins, Fairbanks North Star Borough
Fairbanks North Star Borough Assembly
Mayor Jerry Cleworth, City of Fairbanks
Fairbanks City Council
Mayor Doug Isaacson, City of North Pole
North Pole City Council
General Membership of the Greater Fairbanks
Chamber of Commerce

GREATER FAIRBANKS CHAMBER OF COMMERCE



Richard Heieren
Board of Directors, Chair



Lisa Herbert
Executive Director



Paul Metz
Natural Resources Committee, Chair



Karl Gohlke
Transportation Committee, Co Chair



Tom George
Transportation Committee, Co Chair



City of North Pole Office of the Mayor

125 Snowman Lane • North Pole, AK 99705
Phone: 907-488-8584 • Fax: 907-488-3002

Date: March 31, 2011
To: North Pole City Council
Cc: Kathy Weber, MMC
From: Mayor Douglas W. Isaacson
RE: Request Approval for Step Increase

I request approval to grant Kathy Weber the 2 step pay increase for her attainment of the Master Municipal Clerk (MMC) designation in accordance to NPMC 2.36.470, F "Professional Development Step Salary Increases, Master Municipal Clerk."

As I replied to Sharon Cassler, MMC, International Institute of Municipal Clerks President, "Kathy's accomplishment is truly outstanding and she has used the education to become a very effective City Clerk. We are, indeed, immensely proud of Kathy's initiative and steadfast pursuit of excellence and professionalism, and for her service to the Council and City. She is an extraordinary individual and member of the leadership team of North Pole."

Thank you.

Doug Isaacson

From: Doug Isaacson **Sent:** Thu 3/31/2011 10:41 AM
To: Emily Maggard
Cc: bonnie.arnold@bannerhealth.com; nprxlab@hotmail.com; Sharon Hunter; ronaldjones@gci.net; arcticwolf@alaska.com; cherokeeider@acsalaska.net; Kathy Weber
Subject: RE: IIMC Congratulates Kathryn Weber, MMC
Attachments:

Dear Sharon,

Thank you for notifying me directly of Kathy's attainment of the prestigious Master Municipal Clerk designation. Kathy's accomplishment is truly outstanding and she has used the education to become a very effective City Clerk. We are, indeed, immensely proud of Kathy's initiative and steadfast pursuit of excellence and professionalism, and for her service to the Council and City. She is an extraordinary individual and member of the leadership team of North Pole.

Sincerely,

Douglas W. Isaacson, Mayor

City of North Pole
 125 Snowman Lane
 North Pole, Alaska 99705
 Ph: 907-488-8584
 Cell: 907-322-3133
 Fx: 907-488-3002
www.northpolealaska.com

North Pole, Alaska: "Where the Spirit of Christmas Lives Year Round"

From: Emily Maggard [mailto:emily@iimc.com]
Sent: Wed 3/30/2011 3:10 PM
To: Doug Isaacson
Subject: IIMC Congratulates Kathryn Weber, MMC



03/30/2011

Douglass Issacson
 Mayor
 Sent to email: mayor@northpolealaska.com

Dear Douglass Issacson,

Kathryn Weber, MMC of City of North Pole, has earned the designation of Master Municipal Clerk (MMC), which is awarded by the International Institute of Municipal Clerks (IIMC), Inc.

IIMC grants the MMC designation only to those municipal clerks who complete demanding education requirements; and who have a record of significant contributions to their local government, their community and state.

The International Institute of Municipal Clerks, founded in 1947, has 10,300 members throughout the United States, Canada and 15 other countries, and the mission of this global non-profit corporation is to enhance the education opportunities and professional development of its diverse membership.

In light of the speed and drastic nature of change these days, lifelong learning is not only desirable, it is necessary for all in local government to keep pace with growing demands and changing needs of the citizens we serve. Your City can take immense pride in Kathryn's educational accomplishments and achievement of this milestone.

On behalf of the IIMC Board of Directors, I am honored to endorse the conferring of MMC to Kathryn Weber, MMC of City of North Pole. We share your pride in this achievement and we applaud your support of the role Kathryn plays in your city.

Sincerely,

Sharon Cassler, MMC
IIMC President

Sent by: Emily Maggard
Verification Specialist
IIMC Education Department

125 Snowman Lane
North Pole, AK 99705
P: 907-488-8583
F: 907-488-3002
C: 907-388-2728
Email: Kathy@northpolealaska.com

**City of North Pole
Office of the City Clerk/HR Mgr**

Memo

To: Mayor Isaacson
From: Kathy Weber
CC: North Pole City Council
Date: 3/31/2011
Re: Step Increase

On March 25, 2011 I was notified by the International Institute of Municipal Clerks that I had fulfilled the requirements of the Master Municipal Clerk (MMC) Program and earned my MMC designation. I have attached the official letter to this memo. According to North Pole Municipal Code, 2.36.470 Pay, F. Professional development step salary increases, it states that when I attain my Master Municipal Clerk designation that I will receive a 2 step pay increase.

The Office of the City Clerk is committed to conducting the duties of the office in an ethical, friendly, and efficient manner to ensure an effective link between citizens, local governing officials, and other government agencies. We serve as election officials, legislative administrators, Records Managers, and Parliamentarians. These are just a few of the duties of the City Clerk.

The North Pole City Council has been very supportive of me over the past 10 years by allowing me to receive the education and training to achieve the highest status in my profession. You have also given your support as I lead the Alaska Association of Municipal Clerks this year and represent the State of Alaska and the City of North Pole as I travel throughout Region IX and to the International conference in Nashville, Tennessee. I look forward to having the AAMC and AML conference in Fairbanks this year and to be able to showcase the City of North Pole. I am working hard with my Executive Board, North Pole Chamber of Commerce and North Pole Economic Development to outshine any other past conference and bring a part of that to our economy.

Thank you for putting your faith and trust in me as I continue to move forward in my profession and serve the council and my community.

Kathy Weber

From: Emily Maggard [emily@iimc.com]
To: Kathy Weber
Cc:
Subject: Congratulations on your MMC Designation
Attachments:

Sent: Fri 3/25/2011 9:27 AM



International Institute of Municipal Clerks
Professionalism in Local Government

03/25/2011

Dear Kathryn Weber, CMC:

Congratulations! It is my pleasure to inform you that you have fulfilled all the requirements of the Master Municipal Clerk (MMC) Program of the International Institute of Municipal Clerks (IIMC) and have earned your MMC designation. Your certificate and your pin will be sent to you at a later date.

I extend my warmest congratulations to you and wish you all the best in your professional endeavors.

Emily Maggard
Verification Specialist
IIMC Education Department

2.36.470 Pay.

A. All City employees in the City service excluding the Mayor, contractual employees, casual employees and temporary employees shall be paid the monthly/hourly wage in accordance with the position classification title and date of hire or range, except that employees being promoted to positions of higher pay shall receive a start date adjustment that places them at the increased salary closest to their subsequent pay scale salary. Such adjustment shall be recorded in the employee's personnel file and shall be used throughout the employee's tenure of that position. Salaries of employees whose tenure exceeds the twenty-step pay plan shall receive a two percent annual salary increase.

B. Employees (excluding Fire Department personnel) working a regularly scheduled evening shift shall earn a pay differential hourly rate of \$0.25 (twenty-five cents) an hour for hours worked from 4:00 p.m. to 12:00 a.m.

C. Employees (excluding Fire Department personnel) working a regularly scheduled night shift shall earn a pay differential hourly rate of \$0.50 (fifty cents) an hour for hours worked from 12:00 a.m. to 8:00 a.m.

D. The City Council shall review periodically the pay scale to recommend cost of living increase adjustments as warranted and shall communicate back to the employees the outcome of the review.

E. Employees will advance to the next pay step on January 1st of each year, except for those new employees hired within the last quarter of the year. Employees hired within the last quarter of the year will not be eligible for their annual step salary increases until the next January following their one-year anniversary.

F. Professional development step salary increases. Employees may earn horizontal step increases for professional development as follows:

Accounts Receivable/Receptionist Clerk:

Clerk I	2 Steps
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Clerk II	2 Steps
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Clerk III	2 Steps
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City Accountant:

Certified Public Accountant (CPA)	2 Steps
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City Clerk:

Certified Municipal Clerk (CMC)	2 Steps
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Certificate in Human Resource Management	2 Steps
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Master Municipal Clerk (MMC)	2 Steps
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Dispatch/Evidence Technician:

Dispatch/Evidence Technician I	2 Steps
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Dispatch/Evidence Technician II	2 Steps
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Dispatch/Evidence Technician III	2 Steps
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Firefighter Personnel:

Meets requirements for rank advancement	2 Steps
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Firefighter Personnel (continued)

(Engineer, Lieutenant, Captain, Deputy Fire Chief)

Police Officer:

Police Officer I	2 Steps
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Police Officer II	2 Steps
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Police Officer III	2 Steps
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Public Works Assistant:

Public Works Assistant I	2 Steps
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Public Works Assistant II	2 Steps
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Utility Assistant:

Utility Assistant I	2 Steps
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Utility Operator I	2 Steps
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Utility Operator II	2 Steps
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Water Treatment Level III	1 Step
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Criteria for professional development will be developed by department heads coordinated with the Mayor and approved by the City Council. Current employees who meet the professional development criteria for advancement at the time of adoption of Ordinance 04-05 will be grandfathered in for longevity requirements. Initial placement in professional development track will not be cumulative and will result in two step advancements only. Police Sergeants are eligible for professional development advancement.

CITY OF NORTH POLE

RESOLUTION 11-12

A RESOLUTION SUPPORTING A BILL TO END REQUIREMENTS THAT EMPLOYERS WHO TERMINATE SOME OR ALL PARTICIPATION IN THE PUBLIC EMPLOYEES' RETIREMENT SYSTEM OF ALASKA PAY TERMINATION COSTS, AND MAKING THE CHANGES RETROACTIVE

WHEREAS, the Alaska State Legislature, in 2008 (SB 125), helped Alaska's PERS employers tremendously by adopting the flat statutory 22% rate of salary to help fund current costs and the unfunded liability of the PERS system, and

WHEREAS, our legislators, in crafting SB 125 struggled hard to come up with a fair and equitable solution to a problem that most of them did not create. Further, in crafting SB 125, legislators never envisioned, intended, nor did they want to create any inequitable financial damage to any PERS member employer, nor negatively interfere with the current or future delivery of any member's services or programs because of SB 125, which the termination studies law does do, and

WHEREAS, 2 AAC 35.235. Calculation of termination costs states: (a) An employer that proposes to terminate coverage of a department, group, or other classification of employees under AS 39.35.615 or 39.35.957, or terminate participation of the employer under AS 39.35.620 or 39.35.958, **must have a termination study completed by the plan actuary** to determine the actuarial cost to the employer for future benefits due employees whose coverage is terminated. And (b): **In addition** to the costs calculated in (a) ...**the employer** under AS 39.35.620 or 39.35.958, **is required to pay to the plan until the past service liability of the plan is extinguished an amount calculated by applying the current past service rate adopted by the board to salaries of the terminated employees** as required by AS 39.35.625 (a). This payment shall be made each payroll period or the employer may enter into a payment plan acceptable to the administrator for each fiscal year, and

WHEREAS, if a PERS employer reduces its employee count because it made a decision to alter or suspend one of its programs or services, per 2 AAC 35.235 PERS might send it three bills. The first bill will be for the cost of doing a termination study. The second bill will be what the study says you owe the System, due to the employee change(s) you made. The third bill, the big bill, is the one that will require the employer to pay the past service cost (PSC) on each position's salary PERS said needed to be opted out of PERS. The employer will be required to pay the PSC (currently 18.63%) on the salary(s) of the position(s) PERS said the employer needed to opt out, until the unfunded obligation is paid off, maybe 30 years from now. These three bills cumulatively can run from hundreds of thousands of dollars to several millions of dollars, and

WHEREAS, the underlying fear that certain employers would purposely act in a manner that jeopardized payment of the unfunded obligation, and thus shrink the salary base that pays off the unfunded obligations, has simply not happened. The total PERS salary base must be sustained

and have reasonable growth, which it has to the tune of about 19% since the 6/30/2008 last pay period floor was set, and

WHEREAS, the future financial stability of PERS employers, and their ability to efficiently and effectively manage the delivery of their programs and services, is being directly impacted and undermined by 2 AAC 35.235, and

WHEREAS, equitable and consistent application of the State's termination law does not seem to be occurring, nor likely can it ever occur given the uniqueness of all PERS employers' positions. A law like this that has such a material financial impact on PERS employers should at a minimum be able to be fairly, equitably, and consistently applied to all PERS employers, yet the Division of Retirement and Benefits has taken the position that the State, with half of the PERS salary base is exempt from termination studies and their financial impacts, and

WHEREAS, there is an inescapably inequitable impact to small PERS employers. This State law, or its application by PERS creates a clear and unconscionable inequitable impact on small PERS employers, versus larger PERS employers. Many smaller communities only have "one" employee for a program or service. If they lose a grant, or simply are faced with budget constraints and they have to cut a person, say a nurse in a school, they'd be required to have a termination study done, then pay all of the related costs because they actually cut a "function or a group," and

WHEREAS, termination studies negatively impact our decision, and our ability to accept grants because of the potential future liability. Grant funded positions may become subject to the termination studies, once the positions are terminated due to grant funding ending. Employers will find themselves paying the past service cost rate on former grant funded position salaries with other revenues. Essentially, if an employer accepts a grant it is possible, depending upon the circumstances, that once those grant funded positions are ended that employer will need to use other dollars to pay the PSC on those former grant funded salaries that the employer is no longer paying, and

WHEREAS, there are no offsets taken into account for salary increases in one area, for decreases in other areas. In other words, the ability for entities to adjust their programs and services to meet their constituent's needs is negatively impacted. If an employer needs to cut in Area A, and add in Area B, that employer could find itself paying the PSC rate times the salary(s) it is no longer paying in Area A because it shifted its employees to Area B where there is more need, whether driven by local need or a mandate, and

WHEREAS, over time, more and more resources will go toward paying for positions that no longer exist than go to the delivery of services such as fire protection, law enforcement, teaching, recreational services, landfill services, library services, flood control services, emergency response services, and the list goes on from here. Once you start shifting employee resources from one area of responsibility to another, you start a negative downward spiraling in your programs and services, and

WHEREAS, an employer will pay more toward the unfunded obligation every pay period on positions that no longer exist than they will for existing paid positions. This is true because the rate set by statute is capped at 22%. The 22% first covers the current normal cost rate then the difference is applied to the unfunded obligation. The current (FY '11) normal cost rate is 9.33%; therefore, an employer pays 11.67% times the working employee's salary toward the unfunded obligation. This same employer is required to pay 18.63% times the salary of an employee they are no longer paying toward the unfunded obligation. That employer is paying almost 7% more for positions that no longer exist because of the unfunded obligation than it pays on salary dollars for existing positions, and

WHEREAS, termination studies nullify the intent of SB 125 that employers pay the exact same rate. It is clear that one result of these termination studies is that different employers will in fact be paying different net rates, and therefore, there will not be a single uniform contribution rate for PERS employers. The adoption of SB 125 was based on the acknowledgement that we do not have a single-agent, multiple employer PERS system, but rather we have had a consolidated unequitable cost share system. The intent of SB 125 was that all employers would pay the same exact rate. That cannot happen when each employer pays a different termination cost amount, or pays none at all, and

WHEREAS, the Borough supports a sustainable salary base to pay off the PERS unfunded obligations, and

WHEREAS, the termination language in SB 125 was a solution to a problem that never materialized, and it's not needed. The negative consequences, the additional charges and the payments that result from the termination language, were never contemplated or intended by the legislature, and they are destructive, and

WHEREAS, A.S. 39.35.625, that requires termination studies, and any other similar statutes or regulations, should be repealed.

NOW, THEREFORE, BE IT RESOLVED that the North Pole City Council while supporting a sustainable salary base to pay off the PERS unfunded obligation, believe that AS 39.35.625 and any other similar statutes or regulations that require termination studies, should be repealed and supports adoption and passage of a bill removing termination study requirements from the law.

PASSED AND APPROVED by a duly constituted quorum of the North Pole City Council on the 4th day of April, 2011.

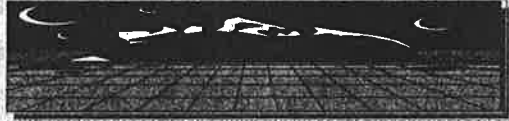
Douglas W. Isaacson, Mayor

ATTEST:

:

Kathryn M. Weber, MMC, City Clerk

PERS II, The Sequel: The "Rate"



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The PERS Analogy



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Imagine, your close friends, Todd and Sarah, were the last couple left in the restaurant that they had frequented for years, even decades. It was a special anniversary date; they had ordered drinks, appetizers, and then they had a terrific dinner. Following their main course, they had dessert and then a nice after-dinner drink. It was just a nice, slow, fabulous dinner, the kind that good memories are made of! While there, Todd and Sarah had several friends stop by and spend time at their table, a few even ate some of their appetizers. Finally, after the restaurant had cleared, their very attentive and long-known waiter brought them their bill.

Historically, as Todd knew the owner and trusted him, he would just hand over their credit card without looking at the bill, then simply sign for a total. This time though, because he and Sarah had been there so long and had ordered so many things, he thought he would look at the bill as he was thinking it might be a little higher than normal. Todd looked at it for a second. Then, looking puzzled, he showed it to Sarah. Todd and Sarah were now both puzzled, and slightly shocked because the bill they were looking at had no details of what they had ordered, or eaten. On a single line on their bill, for what the two of them had eaten, all it showed was: Dinner \$897.85!

Questioningly, Todd asked, "What about a breakdown of what we ordered?"...the waiter, a little taken aback, explains that the restaurant just allocated what everyone had ordered that night by the number of people that had either sat at, or stopped by, each and every table. He calmly explained that every table's bill was based upon time. Everyone's food and drinks that night were all added together, then allocated to each table based upon person-minutes spent at a table. The \$897.85 was their table's "allocated" liability, allocated bill! The waiter then said: "The allocated bill doesn't take into account the value of the food or drink served at any one table, it is just the total value of items served, allocated by person-minutes to each table. Your bill, for all of the person-minutes at your table, is \$897.85."

PERS: What We Were Told



PERS is a single-agent, multiple-employer system, i.e.,

- Assets are tracked separately,
- Liabilities are tracked separately,
- The individual employer “rate” billed and paid, is based upon an individual member’s management decisions, individual assets, and individual liabilities.

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Member employers were told, and believed that since 1961 (for 45 years), that our individual employer retirement accounts and activity were kept and tracked separately by the State, just like our own personal checking and saving accounts, and our lines of credit. We were told and led to believe that our deposits into the system were kept separate and tracked independently of other employers. We were told and led to believe that our individual employer liabilities were driven only by each employer’s individual management and hiring decisions, and not the cumulative impact of all employers combined.

Member employers were led to believe and trusted that the State was acting as though it were a large financial institution retirement fiduciary, that kept assets and liabilities segregated!

We believed that “our restaurant bills” were based upon what we ordered and consumed, and not on an allocation of what everyone had ordered, ate, and drank!

Assets *(added for clarity)*

- In order to calculate an employer's past service contribution rate, we assign retiree reserve assets to employers...
- The amount allocated to an employer does not represent contributions made by the employer
 - simply represents assets assigned.

Liabilities

- Annually calculated by employee
 - Allocated to individual employer
 - Based on pro rata service earned with employer
 - Does not take into account salary earned with employer

*Public Employees' Retirement System (PERS) Defined Benefit (DB) Plan,
Accounting Issues, Senate Finance March 14, 2007, Division of Retirement
and Benefits, Excerpts from Slides 13 & 21.*

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As can be seen from the above presentation extracts, given to Senate Finance titled "Accounting Issues," the State's Department of Retirement and Benefits confirmed to the Alaska Senate that what PERS I revealed is in-fact the way the PERS System has and does work!

The State left the model as it was written in law, as it is still written in law, and as it was understood by member employers. The State effectively left the single agent, multiple employer model in 1971, thirty five years ago!

Co-mingled assets "assigned" to individual member employers cannot be traced from year to year. Further, liabilities are allocated based upon service time, not compensation levels! In other words, anyone's time spent at a table will drive its bill, not what was actually ordered by that table.

Inexplicably, the resulting formula-driven rates derived from "assigned assets" and "allocated liabilities" are given credence by some and treated as valid and reliable calculations. Quite disturbingly, at the end of the 2007 legislative session, legislation was being modified that actually used these "rates" to base a decision on who was and was not deserving of State financial aid! What a travesty, in the face of the facts, that outcome could have been.

For PERS II, What's The Issue?

It's the rate!

It's the rate!

It's the rate!

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In PERS I we said: The basic problem is: The PERS system has become under-funded. Bottom-line, there is an unpaid bill.

In PERS I we said: **But, before we agree on what we should do, we need to understand what we are actually doing, now!** We now have enough information and historical documents to understand how the System has been operated, and how we got here!

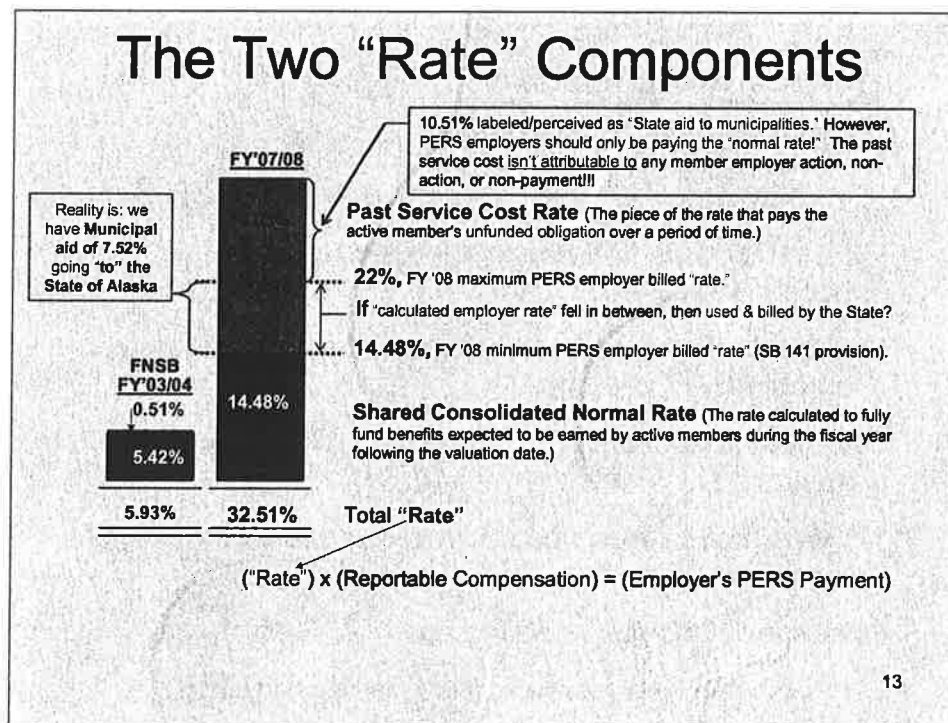
So, what is PERS II about? It's about the rate, it's about the rate, and it's about the RATE!

Must Knows About The "Rate"

1. What makes up the "rate"?
2. How is the "rate" calculated?
3. What caused the "rate" (the unfunded balance) to go up?
4. Has the quality of data that the "rate" is calculated from been questioned?
5. Should member employers have known that there was a problem with the "rate"?
6. Are individual employer "rates" reliable, or useable for anything?
7. Where does the comparative responsibility for the "rate" increase lay?
8. Issues of fairness, and the "rate".
9. What is AML's position on the "rate" and PERS?

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PERS II was researched and developed to answer, or address, these nine questions or issues. Items six and seven are significant and should be taken into consideration in further developing a fair and honorable PERS Shared Solution.



The "rate" an individual employer pays is comprised of two rate components, the normal rate and the past service cost rate. Had the normal rate been set properly in prior years, there would be no past service cost component, or, it would be an immaterial amount and we wouldn't be discussing PERS and/or TRS.

The Legislature, in May of 2007, set the minimum rate an employer would pay during FY '08 at 14.48%, and the maximum rate at 22%. What is amazing is that if the actuary calculated that an individual employer's formula-driven "rate" (using the inaccurate asset and liability numbers) fell in between the 14% and 22%, then that "calculated" rate is what those employers are being billed in FY '08! It is amazing that the "rate" some of our entities are being billed by the State are based on the inaccurate "assigned" asset and inaccurate "allocated" liability numbers.

What is worthy of note is that there are some that consider all amounts paid by the State, above the 22%, as State aid to municipalities. The fact is, if prior normal cost rates had been set properly (if the owner had set menu prices right in the past), there would be no past service cost rate component worthy of discussion.

The reality is, municipalities are providing aid to the State of Alaska for anything they pay above the normal cost rate, the 14.48%. Amounts now needed above the normal cost rate are a direct result of the State's failure to meet its duty to properly manage the PERS System.

The result to member employers, unknown future amounts above the normal cost rate creates financial uncertainty for employers, higher local taxes, and/or reduced local services.

Compare the “assigned” assets to the
“allocated” liabilities and transfer the difference.

*Public Employees' Retirement System (PERS)
Defined Benefit (DB) Plan, Accounting Issues, Senate
Finance March 14, 2007, Division of Retirement and
Benefits, Slide 18.*

*****Application & Implication To Individual Member Employers*****

(Individual Employer “Allocated” Liabilities) – (Individual Employer “Assigned” Assets)
= Individual Employer Unfunded Balance

And then:

(Individual Employer Unfunded Balance) x (Actuary's Amortization Factor) =
Individual Member Employer's “Rate”

All Tied Together!

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As this quote says, and as PERS I diagramed, our entities’ active asset accounts have money taken out of them after the State and Actuary compare our “assigned” assets with our “allocated” liabilities. Could you imagine a bank taking money out of your savings account to cover your checking account after it had “assigned” deposits to your checking account and had “allocated” to your checking account some pro-rata share of the bills it paid? The exact same thing happens with your PERS account!

More about these “assigned” assets and “allocated” liabilities is that after the actuary gets a spreadsheet from Retirement and Benefits, and after it has “assigned” some of the System’s assets to one of our entities, and after it has “allocated” some of the System’s liabilities to one of our entities, it calculates the difference between our entity’s “allocated” liabilities and our “assigned” assets to determine our entity’s “unfunded obligation.” The actuary then takes its estimate of the amount of salaries our entity will be paying over the next 25 years and then calculates our entity’s necessary past service cost (PSC) rate to pay off our “mathematically calculated unfunded balance.”

As you can see from the diagram, change either the asset number or the liability number, or both, and the unfunded number changes, which then changes the “rate”, our “rate.” This diagram says it all, our purported past service cost rate is not based upon actual assets or actual liabilities, but rather is based upon “assigned” and “allocated” assets and liabilities.

Even if the individual rates could be substantiated, many of us have tax caps and simply can’t legally raise revenues to cover the “rate” increases confronting us, even if the increases were defensible.

Specifically, and as an aside, my wife reminded me of something I said at the State Chamber of Commerce PERS presentation that she’s never forgotten. What I said was that, unlike the State, we generate revenues by taxing people’s homes, and if they don’t pay, we take their property. With increased rates comes increased taxes, with that comes increased delinquencies and increased foreclosures!

Based on your suggestions and a discussion with our actuary,...I have documented the following problems and recommendations regarding transfers and adjustments to the retirement reserve.

- The actuary for lack of better information, prorates the amount to be transferred among employers... The net change in reserve is allocated by employer as the balancing item.
- There are a couple of problems... The result can be, in essence, double transfers of employer contributions from some employers, while others are not paying their fair share. In some years, this can have a very detrimental effect on employers, especially the smaller ones.
- A timing problem also exists for employees who retire late in the fiscal year and are included in the actuarial process, but have not had a retirement reserve transfer made by June 30.
- ...the CRS team has agreed that the proration of the employer portion should be based on the total employee contributions made while the member worked for that employer divided by the total employee contributions. This also assumes that we would be able to extract total employee contributions by employer for each member for the entire history of that member.

Memorandum, State of Alaska, To: Retirement Systems Accounting Supervisor, Div. of Retirement and Benefits; From Accountant III, Div. of Retirement and Benefits; May 4, 1994, pages 1-4.

17

This extraction comes from a 1994 internal memo, 1994! After reading it you will note that it speaks directly to, and confirms, the very issues raised about what has happened to member employers. Note the comments about the Actuary, about double transfers, and about timing issues.

The fourth bullet is worthy of special note; it is saying that the State team that is converting the State's financial system thinks that the "allocation" of liabilities to our entities shouldn't be based on time with an employer, but based upon what an employer compensated that PERS member while in their employ, or as an elected official. Going back to the analogy, this is equivalent to the restaurant's waiters telling the owner that each table's bill should not be based upon person-minutes at a table, but on the cost of the items ordered at a table.

The rest of the fourth bullet essentially is the State's staff questioning the completeness and accuracy of the System's records. It is a deal breaker to just be using "assigned" assets and "allocated" liabilities, but can you believe that the numbers that are used as the basis for the "assigned" assets and for the "allocated" liabilities come from records that appear to be getting questioned, and clear back in 1994. How's your comfort with your entity's "rate" sitting right now?

1. What makes up the 'rate' ?
2. How is the "rate" calculated?
3. What caused the "rate" (the unfunded balance) to go up?
4. Has the quality of data that the "rate" is calculated from been questioned? '
5. Should member employers have known that there was a problem with the 'rate' ?
6. Are individual employer "rates" reliable, or useable for anything?
7. Where does the comparative responsibility for the 'rate' increase lay?
8. Issues of fairness, and the "rate".
9. What is AML's position on the 'rate' and PERS?

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So, how is the "rate" calculated? No matter how you dress it up, the rate is calculated with a mathematical formula that uses bad numbers coming in, resulting in bad "rates" coming out!

Let's look at what the research says did, and didn't, cause the "rate" to go up.

The primary reasons for the PERS and TRS unfunded liability include: rising health care costs, loss of investment income during a three-year bear market (2000-2002), inaccurate accounting for medical liabilities for PERS by former actuary (Mercer), changes in assumptions compared to actual experience, and a 5% cap on PERS contribution rates (2AAC 35.900).

*Department of Administration, Transition
Report, November 30, 2006, page 2.*

21

This November, 2006, DOA transition report to Governor Palin talks about health care and assumptions again.

This time when talking about investment losses it talks about the three-year bear market. As you can see, it is in blue font also.

Notice the middle comment: inaccurate accounting for medical liabilities by Mercer!

The last comment deals with the 5% cap, which would never have been an issue if the normal cost rates had been set properly in prior years by the State and the Actuary; in other words, had the menu prices been set properly by the owner.

... a # of areas merit your close scrutiny.

- Use of outdated mortality tables in determining funding levels.
- Underestimating the cost of changes in legislation in determining funding levels.
- Underestimating the future costs of medical expenses.
- Overestimating the salaries of employees, thus overestimating the funds flowing into the Trust Funds to pay for retiree expenses.

Testimony of Sam Trivette, President, Retired Public Employees of Alaska HOUSE WAYS AND MEANS COMMITTEE, JULY 14, 2005, page 1.

23

Here is another extract that comes from a letter from the President of the Retired Public Employees of Alaska. Use of outdated mortality tables means that retirees will receive more retirement checks than projected, and there will be additional healthcare benefit costs.

We see here, for the first time, a comment about the cost to PERS for changes past legislators have made. Medical coverage is of course again mentioned.

Another one of those items that can fall under the assumptions umbrella is the last bullet. If the actuary presumes salaries will be higher than they actually are, the result is that they also project higher than actual payments into the system from employers and employees. Of great importance is the fact that this shortfall in payments results in significantly less investment income. For every dollar of benefits paid, approximately 75 cents comes from investment earnings earned over decades.

It is worth commenting on what hasn't shown up, nor did it show up in any research. The missing bullet is that member employers, or employees, somehow contributed to the huge unfunded liability balance. Other than saying certain employers were limited to a 5% increase for a couple of years, member employers did nothing to create the unfunded liability! The essence of this statement goes for employees as well, employees that had no control of the payroll deductions that came out of their pay checks. Again, take note, the 5% increase limit wouldn't of even been an issue had prior normal cost rates been set properly.

...the 2004 Mercer report estimates are based on a health cost trend that assumes the combined Medical-Rx inflation rate will fall from approximately 10% in FY07 to 5% by FY14.

That assumption is made despite the fact that there is, to my knowledge, no credible evidence to suggest a substantial decline in Alaska or national health cost inflation, and the PERS/TRS medical cost inflation rate has averaged 10% since FY78!

From Richard J. Solie Ph.D., August 17, 2005, to B. Weyhrauch, Alaska State Legislature, Ways and Means Committee, page 2.

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In these extracts Dr. Solie talks specifically about Mercer's use of health care trends that make no practical or logical sense, trends which conflict with what the average increases have been since 1978.

Mercer projected that the average rate of inflation for health care was going to go down to 5%, though decades of actual history show that it averages 10%.

In order to minimize volatility in the contribution rate, the calculation of the average employer contribution rate has not included actual changes in the medical premiums.

State of Alaska Public Employees' Retirement System Funded Status Analysis, Conclusions and Recommendations, Actuarial Service Company, P.C. May 6, 2005, pages 2 and 4.

27

Look at this statement, made in May of 2005, by the Actuarial Service Company. This statement is from a State-hired vendor contracted to review actuarial work. Incredibly, the State is being told that the Actuary ignored, and didn't use, known actual numbers to calculate the "rate", because the "rate" would have been too volatile!

This goes back to what Dr. Solie and others have alluded to: the Actuary kept using outdated medical assumptions and estimates to set the normal cost rates, even when they had actual results which contradicted the estimates they were using.

- This actuarial forecast technique used to justify the 12% of payroll contribution is reasonable, **only if** the underlying assumptions are realistic.
- ...We're concerned about this process, which produces a projected decrease in almost every future year. In reviewing the prior five actuarial valuations, we saw that demographic experience by itself would have caused contributions to increase in every year for PERS and in every year but one for TRS.
- In costs (apart from gains or losses and assumption changes) have been *increasing* every year in the past, a projection showing costs *decreasing* in every year in the future is questionable.

Foster Higgins, State of Alaska, Actuarial Audit of the Public Employees' and Teachers' Retirement Systems, October, 1995, pages 22 and 23.

29

So, did the State and their actuary know earlier that the medical assumptions and estimates they were using needed further analysis, and changing? Look at the bulleted items from this October 1995 report, prepared by yet another State contractor, Foster Higgins.

The comments made by Foster Higgins in 1995 are quite clear. They, like others that have reported to the State, are saying that actual experience doesn't support the assumptions being used. Specifically: ... "costs have been increasing every year in the past, a projection showing costs decreasing in every year in the future is questionable."

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9. What is AML's position on the "rate" and PERS?

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So, what caused the "rate" (the unfunded balance) to go up?

Obvious answers include major errors made with regards to medical assumptions, and other assumptions such as which mortality tables to use. The identified errors clearly rest on the heads of the Actuary and the State. Further, the State was repeatedly advised by its own contractors that the assumptions used by its actuary were highly questionable.

Let it be repeated, research did not disclose anything that member employers, or employees, did that contributed to the unfunded liability.

What about the quality of data that rate calculations have been based on, how good has it been?

- The quality of actuarial valuation data and the participant records underlying that data is a matter of substantial concern.
- It is of critical importance that the Administration regularly be provided with the best possible information regarding the costs of the retirement systems which it supports.
- It is also of critical importance that costs of potential legislative changes to the systems be available on as accurate a basis as possible.
- This information can properly be provided only if complete and accurate machine-readable records of employee participation in the System are available.

Alaska Public Employees Retirement System, Actuarial Valuation as of December 31, 1971, Marsh & McLennan, Inc., page 9.

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Can we rely on what has been produced? Even if you agreed that “assigning” assets and “allocating” liabilities was okay, and then, even if you agreed with the methodology of how you were going to “assign” and “allocate” (or one of the many methodologies used by the State through the years), is the underlying data that was used to “assign” and “allocate” accurate and reliable?

Look at this statement about an Actuarial Valuation as of December 31, 1971, by Marsh & McLennan. “The quality of the actuarial valuation data and participants records underlying that data is a matter of substantial concern.”

The data and calculations being used today are based upon, and are derived from, a foundation of information that was called into question by the State’s contractor over three and a half decades ago!

This is to inform you of a significant change in the PERS retirement transfer calculation (Voucher 10). Effective July 1, 1994, the retirement transfer generated as a result of the addition or deletion of a retirement segment will no longer include the transfer of any employer contributions.

...this new method should help...increase the accuracy of accounting for employer assets.

Memorandum, State of Alaska, To: Accounting Section Staff, Thru: Retirement systems Accounting Supervisor, From: Accounting Supervisor, July 1, 1994, page 1.

35

This extract is from a July 1, 1994 internal Retirement and Benefits memo. It has two main points worthy of note.

First, and as we saw in PERS I, the State made significant changes (more than one time) in the way it made retirement transfers. These changes affected the "single-agent, multiple-employer" calculations, which affected every one of our entity's future "assigned" assets number, which affected the difference between our "assigned" asset and "allocated" liability number, which affected our purported individual entity's unfunded liability, which then drove our purported calculated individual employer past service cost rate.

Secondly, note the comment about this new method helping to increase the accuracy of accounting for employer's assets. How would you like your bank to send you a statement that they are changing some of their "methods," that these improved methods would help them be more accurate with your cash in their bank? What, in all honestly, would you do if you got a notice like that on your personal bank account, or even on your entity's bank account?

...increase the accuracy of accounting for employer assets.

How are you feeling about the records that are used to generate "your" entity's "rate"?

- A description of the benefits being valued and the actuarial methods and assumptions used should either be included in the individual report or referenced to the description in the System's report.
- A reconciliation of the assets and the underlying participant data for each employer should be maintained and disclosed.
- Documentation showing the development of the employer's individual contribution rate.

To Mr. Guy Bell, Director, DOA, From Mark O. Johnson, F.S.A., M.A.A.A., Consulting Actuary, Milliman, USA, August 14, 2003, page 3.

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Look at what is included in a Milliman USA August, 2003 report to the State.

What is clear is that our entities were not getting a description of methods or assumptions used.

What is clear is that our entities were not getting a reconciliation of assets from one year to the next. How could they send out balancing statements like you and I get from our bank for our checking and saving accounts?

Once an employer's assets were taken from their active account, and transferred to the retirement reserve account (the RRA), they were blended. It would have been painfully obvious, if we had been getting reconciliations from one year to the next, that the balances (we believed we should have had at each year-end) didn't tie to what we'd paid in to the System through the State.

The third bullet directly answers the question posed; documentation was never created nor sent that showed how an individual employer's "rate" was developed! Had the State followed the accounting requirements set out in the law, a reconciliation statement could have easily been sent.

Like Todd at the restaurant, we simply trusted, that our "single-agent multiple-employer" "rate" was correct!

State of Alaska
Division of Retirement & Benefits
Normal Cost rate and Actuarial Computed Rate from FY 1983 through FY 2006

Valuation report date June 30	Fiscal year of rate	Normal Cost rate PERS	Actuarial Computed Rate PERS	Normal Cost rate TRS	Actuarial Computed Rate TRS
1980	1983	11.46%	13.78%	11.05%	16.84%
1981	1984	12.03%	13.88%	13.51%	17.42%
1982	1985	11.36%	13.82%	13.84%	17.86%
1983	1986	11.82%	13.59%	13.13%	17.36%
1984	1987	12.31%	13.84%	13.81%	13.28%
1985	1988	11.13%	9.55%	11.82%	13.28%
1986	1989	10.20%	9.38%	9.36%	11.16%
1987	1990	9.23%	9.30%	8.14%	8.10%
1988	1991	10.37%	12.00%	11.80%	12.27%
1989	1992	12.00%	14.20%	13.28%	15.16%
1990	1993	12.83%	13.58%	14.07%	19.65%
1991	1994	10.18%	13.72%	9.08%	15.56%
1992	1995	10.90%	13.20%	8.57%	13.36%
1993	1996	11.29%	12.82%	9.06%	12.48%
1994	1997	10.38%	12.14%	9.70%	14.96%
1995	1998	10.81%	11.90%	10.10%	14.94%
1996	1999	9.83%	7.74%	8.97%	10.52%
1997	2000	9.88%	7.36%	9.21%	13.00%
1998	2001	8.87%	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%	14.78%	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.

This State-generated schedule has the PERS rate trends circled, the TRS rates talked about in Ms. Harbo's article are in the far right TRS column. The PERS and TRS "rate" setting trends are exactly the same!

In our letter of August 23, 2000 we provided you with estimated costs for a number of proposed changes to PERS and TRS. These changes were initiated by the fact that there are funding surpluses in both Systems as of June 30, 1999. *(Simply not true, the real liabilities were simply grossly understated!)*

At the August 30, 2000 Joint Board meeting these proposals were reviewed by the Boards and specific packages recommended by each Board. ...Now that the Boards have recommended specific packages of benefits, we can evaluate the combination of changes to get a better estimate of the effect to System costs and funded status.

In addition, we have recently completed an analysis of actuarial assumptions for both Systems. Should the Boards adopt our recommended assumption changes, the funded ratios of both Systems will be reduced.

While this possibility exists, evaluating the financial effect of surplus sharing is still applicable. As recent history with the Systems has shown, surpluses can accumulate in favorable market conditions in a relatively short period of time.

*From William M. Mercer, October 26, 2000,
To: Mr. Guy Bell, Director of Retirement and
Benefits, State of Alaska, page 1.*

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Here are extracts from Mercer's follow-up letter. Note the first sentence, and then the editorial comment in blue font. The PERS and TRS systems didn't have surpluses, they were not over funded; rather, the actuary was materially understating the System's liabilities for the reasons clearly documented a few slides back.

Not only did employers fail to receive any records of how "rates" were calculated, they also never received reconciliations of their assets. Yet, they were hearing from the actuary that both Systems had surplus assets!

Our entities trusted that the State was acting as a fiduciary, and was sending properly calculated bills from a "single-agent, multiple-employer" system. We trusted, we didn't question, and further, we heard there were surplus assets in PERS and TRS. Who knew, what member employer would have even thought there was anything to question?

In October, the Division reported to the Alaska Retirement Management Board that it believes its accounting practices for the retirement reserve account do not comply with statutory requirements.

Department of Administration Division of Retirement and Benefits — Governor's Transition Document, 2006, page 5.

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So, not only were member employers not told how their rates were calculated, they weren't told what assumptions or estimates were used, they weren't given reconciliations of their accounts, and they were told there was over funding in both Systems, and then we find out the State wasn't even following its own law in its accounting of the retirement Systems!

In the DOA transition report to Governor Palin, we are told: "accounting practices for the retirement reserve account do not comply with statutory requirements."

I ask, should member employers have reasonably expected that the State wouldn't have followed their own laws? Should member employers have known trouble was brewing with the Systems?

1. What makes up the "rate" ?
2. How is the "rate" calculated?
3. What caused the "rate" (the unfunded balance) to go up?
4. Has the quality of data that the "rate" is calculated from been questioned?
5. Should member employers have known that there was a problem with the "rate"?
6. Are individual employer "rates" reliable, or useable for anything?
7. Where does the comparative responsibility for the "rate" increase lay?
8. Issues of fairness, and the "rate".
9. What is AML's position on the "rate" and PERS?

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Should member employers have known that there was a problem with the "rate"? Based on the research, an objective and reasonable person would have to conclude, no.

Item six, which is one of the main issues this presentation tries to address, asks: Are individual employer "rates" reliable, or useable for anything, such as in legislation?

Benefit payments, plan expenses, and investment earnings should all be accounted for by employer in the retirement reserve; however, they are not.

Instead, annual retired life liabilities for each employer are calculated by the actuary and the ratio of employer liability to total liability is calculated for each employer. The balance of assets in the fund at fiscal year end is reported to the actuary (including expenses and earnings).

The actuary reallocates assets by employer based upon the employer's ratio of liabilities in the retirement reserve. The difference between liabilities and assets is then transferred from the employer's active asset account to the retirement reserve to achieve 100% funding.

This process clearly affects employer rates in the active asset account.

Department of Administration Division of Retirement and Benefits, Governor's Transition Document, 11/2006, page 5.

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Look at what was written by Retirement and Benefit staff in DOA's transition report to Governor Palin.

After reading the first bullet, I have to ask: Weren't we entitled, at a minimum, to think that the State of Alaska would follow its own laws, particularly when it is serving in a fiduciary role?

This report goes on to, again, reaffirm that assets are "assigned" to employers, and not tracked by, or to, an individual employer.

The last single line which is in red, and underlined says it all: The process used by the State and the actuary clearly affects rates in the active asset account. How much more plainly can it be said: the rates sent to our entities by the State are impacted by their "assigning" of assets and "allocating" of liabilities, and therefore, are essentially meaningless at an individual employer level.

How would you like to get a notice from your bank saying they have allocated some of the total bank-paid bills to you, which they paid using your checking account. Since it was short, they transferred money from your savings to cover the checks they wrote for the allocated bills. If your savings balance went to zero the bank just increased your 8.25% line of credit balance, and your future LOC payments as well. By the way, the bank won't tell you the method they used to allocate the bills to you, they won't account for the deposits you gave to them, and the bank won't send you a bank statement, won't send you a reconciliation.

Todd, Sarah, here is your dinner bill! Don't ask for the details.

Why are we here today?

- Contribution rates for PERS DB plan not supported by employer level accounting records.

*Public Employees' Retirement System (PERS)
Defined Benefit (DB) Plan, Accounting Issues, Senate Finance
March 14, 2007, Division of Retirement and Benefits, Slide 2.*

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If what you've seen so far hasn't been compelling enough to convince you that individual "rates" are useless, if what the ARM Board has basically concluded isn't compelling enough for you to be convinced that individual "rates" are useless, then how about this extract?

As part of their testimony to Senate Finance, Retirement and Benefits gave a presentation, on March 14, 2007, titled Accounting Issues. Look at what Retirement and Benefits said:

"Contribution rates for PERS DB plan not supported by employer level accounting records."

Said differently: Accounting records do not support employer level contribution rates.

Can there be a more compelling statement from a more informed and knowledgeable group of people that the "rates" calculated for our individual entities are not supported, can't be backed up, and therefore should not be used in, or for anything!

2. **The Board supports consideration of a settled upon allocation of liabilities between the State of Alaska and other participating employers and recognizes that the proper entity to allocate additional liabilities is the Alaska Legislature; and**

State of Alaska, Alaska Retirement Management Board Relating to a Cost-sharing multiple-employer plan for the Public Employees Retirement System's Defined Benefit Plan, Resolution 2007-04, dated February 9, 2007, page 2.

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Who wouldn't agree with the Board? Who doesn't agree that there should be an allocation of the unfunded liability? But based upon what criteria?

How about if we base the allocation of the unfunded liability upon the axiom: With authority comes responsibility, and the sibling to authority and responsibility is liability.

Let us then ask ourselves, and try to honestly answer the question: who had what authority, and therefore, who should step forward and accept responsibility for what? Let those answers drive the pro-rata allocation of the unfunded PERS liability.

With our analogy, the questions would be: Who ran the restaurant? Who set the prices on the menu? How much input or influence did Todd and Sarah have in running their friend's restaurant, and in setting their friend's menu prices? Then let these answers determine Todd and Sara's future PSC charges. (Remember, PSC in our analogy is the "prior servings charges," and not "past service costs.")

Who Had The Primary Role In The Current Circumstance?	State	Member Employers
11. Established the "shared consolidated (blended) normal cost" rate in 1977.	Y	N
12. Started allocating income to the RRA in 1984.	Y	N
13. Stopped transferring, in 1994, employer contributions to the RRA as employees retired.	Y	N
14. Controlled the timing of employee "appointment" to retirement and the subsequent employee account transfers to the RRA.	Y	N
15. Reallocated employer's & employees RRA contributed assets, based upon RRA liabilities.	Y	N
16. Determined employers' unfunded obligation, after reallocating employers' assets.	Y	N
17. Set employers' past service cost rates, based upon reallocated asset results.	Y	N
18. Since 7/1/1999 paid refunds from employee accounts, yet booked payments as though they were coming from the RRA.	Y	N
19. Since 7/1/1999 sent direct employee indebtedness payments to the RRA.	Y	N
20. Since 7/1/1999 shown voluntary refunds coming from the RRA, though paid from EE accounts.	Y	N
21. Paid State-set prior normal cost rates that were set lower than they should have been.	Y	Y

(The State refers to the Legislature, the PERS Administrator, the PERS Board, the ASPIB and the ARMB collectively.) 53

If the first ten items on the prior slide weren't enough to convince you of where the authority, and therefore the responsibility for the unfunded liability should lie, here are additional relevant issues. They deal with not only control, but issues of allocations, which we all now know directly affect our individual entity's "rate".

Take note of item 21, notice both columns have red Ys, for yes. What is true is that prior year's normal cost rates were set too low (I've even seen a \$232 million dollar figure, but with no details). Todd and Sara's prior dinners, at their friend's restaurant, were probably billed for less than they should've been. Our entities either collected less in local tax revenues than we would/could have, or, our entities used the revenues that would've gone to a larger PERS bill on other public services. There is no other real option.

Did our entities "benefit?" Did Todd and Sarah "benefit?" What happened could be phrased that way. It would also be proper to say our entities, through no fault or effort on our part, were allowed some financial options that we didn't realize we were given, or were taking. We didn't know. Todd and Sarah didn't know those extra school clothes, or the hockey camp they sent one of their children to maybe wouldn't have been possible. Do we go back now and tell them we want the money back that they spent on their children, along with the time value of that money at 8.25%?

Like Todd and Sarah, and the menu pricing issue that they did nothing to create, member employers, and their employees can't be pointed to and held accountable for any of this. PERS member employers had no authority, nor any responsibility, for anything that contributed to the unfunded liability.

1) Winners, Losers, Heroes; Time, and Other Such Titles!

Fairbanks North Star Borough	Contribution Rate Billed by the State	Contribution Rate Paid by FNSB	Excess Contribution Rate Paid	Covered Payroll	Excess Contribution	8.25% Interest Through 6/30/2007	Current Value of Excess Contributions (at 6/30/2007)
FY1994	0.00%	1.86%	1.86%	\$11,498,594	\$213,874	\$410,257	\$624,131
FY1995	0.00%	2.54%	2.54%	11,508,000	292,303	495,692	787,995
FY1996	0.00%	2.54%	2.54%	12,462,000	316,535	471,751	788,285
FY1997	0.56%	4.53%	3.97%	12,587,000	499,704	649,896	1,149,600
FY1998	0.00%	2.12%	2.12%	13,119,000	278,123	312,952	591,075
FNSB Total:					\$ 1,600,539	\$ 2,340,548	\$3,941,088
FNSBSD *							
FY1994					\$1,100,000	\$2,110,040	\$3,210,040
FY1995					945,016	1,602,571	2,547,587
FNSBSD Total:					\$ 2,045,016	\$ 3,712,611	\$ 5,757,627
Total Current Combined Value of Excess Contributions:					\$ 3,645,555	\$ 6,053,159	\$ 9,698,713

* FNSBSD had excess funding and applied flat amounts to their PERS account.

At the end of the last legislative session a list was generated showing who, according to the State, had used the State's PERS assistance money (or their own fund balance dollars) to reduce what they thought was their individual entity's purported unfunded balance. We all now know that this money, in the end, simply went into a big pot, the RRA.

Legislative language was brought forth to compensate those entities that had done this. Due to a short look-back period, neither the FNSB nor the FNSBSD were included on that list of entities labeled as "Heroes." Because it kind of started as a one-time compensation thing, the Borough kept silent about what the State's schedule didn't show: those amounts above the billed amounts that the FNSB and the School District had paid in to PERS in the past. Collectively, we'd put in almost \$4 million, and using the 8.25% rate of return, there is almost \$10 million in the System that wouldn't have been there. Others have said their entities also paid in extra when the State set "rates" at levels some felt were too low.

The point, let us all understand and accept that what has been, and might be, proposed to be done to be "fair" changes depending upon who generates the/a list, and what time frame gets used. What I can say is that the Borough knows exactly how much extra it and the School District put into the System in the past, but was willing to let it go because of the much bigger picture that it wants to stay focused on, which is helping and sharing in a global solution. We, the Borough, are not opposed to somehow squaring up with those that may have recently, and innocently, paid more into the System than they would now do, given their understanding of PERS. If that needs to be done, let it be a one-time appropriation, and let it have nothing to do with any "rates"!

2)The Defined Contribution Employee "Premium":

- 1) SB 141 created PERS Tier IV.
- 2) Post 6/30/06 all new employees are defined contribution (DC) employees.
- 3) The Non-police and fire employees have an approximate 10% employer rate.
- 4) Thus, PERS employers were expecting to pay a fixed, predictable, stable, and affordable rate on PERS Tier IV employees (every hired post 6/30/06).
- 5) SB 123 adopted in '07 set the DC rate to be the same as the DB 22% "rate".
- 6) Result, PERS member employers are paying a 12% benefit premium (the 22% DB rate minus the 10% DC rate) to help fund the DB unfunded obligation.
- 7) This premium (DB system surcharge) will continue to grow as every new Tier IV employee gets hired.
- 8) Non-PERS employers are not paying this premium to the State of Alaska!

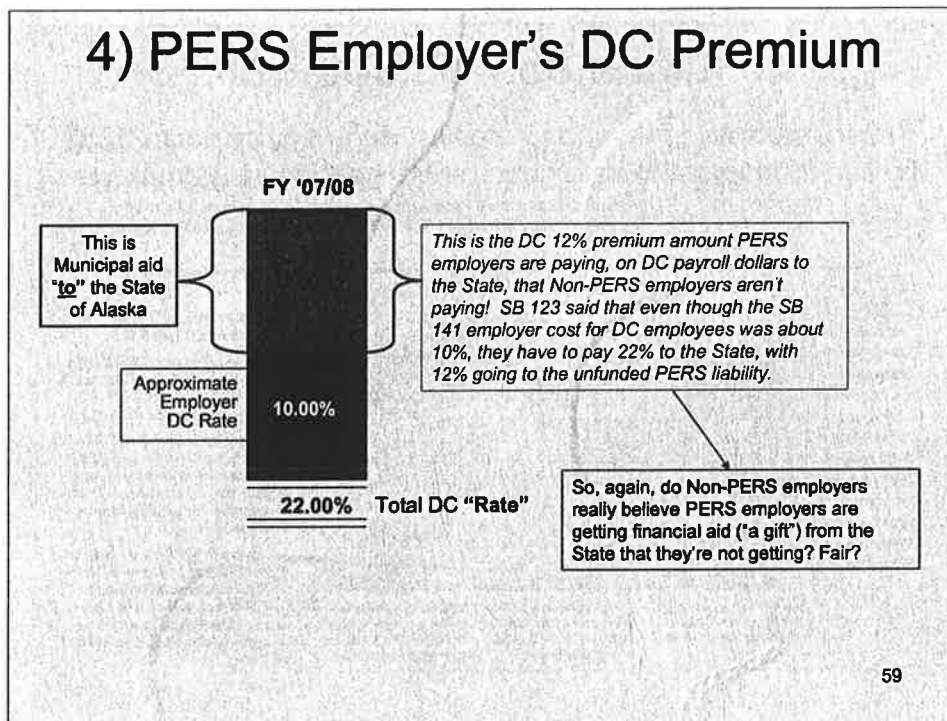
	DC Employee Salary Base Paying For DB Plan
June 2007 Salaries	\$109,199
x 12 Months	12
= Annualized Salaries	\$1,310,385
x 12% Rate Difference	12%
= Added DC Costs Into DB	\$157,246

FNSB "PERS
employer" premium:

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This slide lays out, in a step-by-step process, where the 12% premium defined contribution (DC) employee costs comes from and how the 12% additional PERS cost is a surcharge on PERS employers payrolls only. A surcharge that non-PERS employers aren't paying to fund a State-created debt, the State-created PERS obligation. The DB in step six stands for, and refers to, defined benefit employees (PERS Tiers I, II, and III).

4) PERS Employer's DC Premium



The last slide revealed the financial aid PERS member employers are paying to the State for their defined benefit employees, their Tiers I, II, & III employees. This slide reveals another slice of financial aid PERS member employers are paying to the State for their DC employees that non-PERS employers aren't having to pay.

Besides paying the 10% DC amount, member employers are also paying the difference between the 10% DC employer rate and up to 22%. Tier IV employers, such as the Borough, are not only paying 10% on their payroll as a required DC contribution, they're also paying an additional 12% of payroll to the State that is being used to pay down the PERS unfunded liability. Member employers expected, after SB 141, a 10% "rate" on new DC employees. What they got, in the current fiscal year, was a 22% "rate". This outcome would be like Todd and Sarah's niece (who had never been in the restaurant) calling the restaurant and asking the price for a large take-out Hawaiian pizza and being told it was \$10. She orders it. Sarah drives her to the restaurant. They both go in. She asks for the bill, it is \$22. She asks: Why \$22? She's told: "\$10 for the pizza itself, and \$12 as a prior servings charge. The waiter goes on, because you are related to, and came in with Sarah, and because she and Todd have eaten here for years, the prior menu pricing errors she is helping pay down means that orders of people she brings here (even if they are brand new to the restaurant) have a prior servings charge applied to their bill. Todd and Sarah pay the bill anyhow, not to worry."

To be clear and transparent on this issue, the Borough supported using the same rate for defined contribution (DC) employees as defined benefit (DB) employees because there was no good way to get around potential discriminatory hiring practices.

But, staying on point, when it comes to the issue of fairness and State aid to PERS employers versus non-PERS employers, it is very costly to be a PERS employer.

Keep in mind the truth and the reality that the overall effect of the "rate" set by the State isn't only going to impact member employers payrolls for their DB employees, the "rate" will also be applied to employers' DC employees payrolls.

1. What makes up the "rate"?
2. How is the "rate" calculated?
3. What caused the "rate" (the unfunded balance) to go up?
4. Has the quality of data that the "rate" is calculated from been questioned?
5. Should member employers have known that there was a problem with the "rate"?
6. Are individual employer "rates" reliable, or useable for anything?
7. Where does the comparative responsibility for the "rate" increase lay?
8. Issues of fairness, and the "rate".
9. What is AML's position on the "rate" and PERS?

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Given the dollars involved, issues of fairness can't help but be discussed when PERS legislation is being talked about. Let's just not delude ourselves into believing that anyone knows what anyone's "rate" really is, or ought to be. Which means, no one knows who is really being advantaged or disadvantaged, or even who has been advantaged or disadvantaged in prior years, in prior decades. Any answer depends on the time frame being used in an analysis. Let's not forget, *there are no individual entity numbers that anyone can hang their hat on.*

We all need to accept that the greater good for all is going to require that we don't, as individual member employers, push unreasonably hard for a particular position that we perceive as fair. *The ultimate truth is that none of us can base a position on anything solid if the calculated "rate" is part of our argument. Those that think they have low rates probably really don't, those that have been told their rates are high, probably really don't. What an entity's "rate" should be (if you could ever go back to 1971 and recalculate it, which can't be done) will for all times remain an unknown, that is just the way it is.*

Given what we learned in PERS I, given what we learned in PERS II, given that we understand the PERS analogy Todd and Sarah have brought us, what is AML's position on the "rate" and PERS?

AML: Concurs With Governor Palin's DOA Transition Team Findings!

- 1) The long held belief that PERS is a single agent multiple employer system has been determined not to be true.
- 2) Individual employer member liabilities are impacted by other member employer actions and employer assets are annually blended.
- 3) The annual reallocating of assets goes back potentially as far as 1971.
- 4) Accordingly, individual unfunded obligations cannot be assigned to individual employers!
- 5) Therefore, no individual employer's past service cost rate can be substantiated...

*Governor Palin 2006 DOA,
December 19, 2006, Transition
Team Report, page 1.*

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The AML concurs with these extracts from Governor Palin's DOA December, 2006 Transition Team Report. The points are quite clear, and self-explanatory.

PERS II (The Rate): The Summary!

Q: Is PERS a single-agent, multiple-employer system?

A: In name only!

Q: Are individual employer "rates" reliable, or useable for anything?

A: Absolutely, and undeniably, NO!

*Michael Lamb, CPA, CGFM
Chief Financial Officer
Fairbanks North Star Borough*

Q: Where does the comparative responsibility for the "rate" increase lay?

A: Clearly with the State and its actuary!

Q: Does a "Shared Solution" need predictability, stability, and affordability?

A: Yes!

Q: Given PERS's current condition, and clear history, what action is called for?

A: Governor Palin should insist that SB 125 be yanked off of the shelf; then the Legislature should clean up the "rates" related language, adopt SB 125, and timely forward it to Governor Palin for signature, making it law!

For the second question posed, just as anyone could proclaim that a woman is expecting if she is one month overdue, with twins; you can proclaim that the individual employer PERS "rates" are useless. What is undeniably true is this: whether it is physically obvious to the eye or not, either a woman is expecting or she isn't. There is no middle ground. Likewise, either individual entity's PERS "rates" are reliable and useable, or they are not, and they are not.

In PERS I, we said there is a big bar tab owing. Having a Shared Solution based upon predictability, stability, and affordability means that we can keep all PERS members standing at the bar helping pay the tab. If not, then the last one standing at the bar with the balance of the tab is the State. There is no upside to crafting a legislative solution that might effectively render any PERS member employer fiscally incapacitated.

In PERS II, Todd and Sarah's shock over how their friend has managed his restaurant is apparent, is understandable, and is disappointing to them. The owner is their long-time friend. The owner is like family to them. Because of their long history together, Todd and Sarah, like the owner's other close long-term customers, don't want to just get up and walk out on their friend, leaving him stuck alone with his restaurant's obligations. They feel this way even though the restaurant couldn't produce an itemized bill when asked. For Todd and Sarah, even with stressful circumstances, friends work to find some fair solution, they don't act badly towards each other.

But, Todd and Sarah are asking themselves, "What should we do?" They feel bad for the owner, but neither had any role, at all, in helping him manage his restaurant. Todd and Sarah do want to keep patronizing the restaurant in the future. They are even willing to pay something extra for their "past service costs", I mean, "prior servings charges," each time they eat at the restaurant to help the owner. They are just torn as to how much they should, and can, pay to help the owner. This is troubling for them because they also know the owner is a multi-millionaire, with many sources of income that they don't have. They know they live on basically a fixed income and still have their children to care for, and obligations they must meet. No matter how much they talk about it, or how they look at it, they keep coming back to the fact that the menu errors were their friend's doing, a friend who has infinitely more financial wherewithal than they will ever have. Additionally, they know by simply asking he could refinance his many mortgages to lower and smooth his future payments. *Todd looks to Sarah, and says: "Sarah, I want to be fair and honorable. But, how much extra do you really think we should have to pay to eat here in the future?"*

PERS III: The Termination Studies

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PERS Termination Studies

What Is The Issue?

PERS says: If you reduce your employee count because you made a decision to alter or suspend one of your programs or services, we just might send you three bills^{*}. It doesn't matter to us (PERS) why the reduction occurred, nor, does it matter that you are a small employer that could end up having to reduce your programs and services because you owe us hundreds of thousands of dollars, to millions of dollars.

One bill we (PERS) will send you will be for the cost of doing a termination study. The second bill will be what the study says you owe the System, due to the employee change(s) you made. The big bill we'll send you, number three, is the one that may require you to pay the past service cost (PSC) on each position we said you needed to opt out of PERS. Just to be clear, you will be required to pay the PSC (currently 18.63%) on the salary(s) we said you needed to opt out until the unfunded obligation goes away, maybe 30 years from now.

The future financial stability of PERS employers, and their ability to efficiently and effectively manage the delivery of their programs and services, is being directly impacted and undermined by how PERS interprets 2 AAC 35.235.

What Employers Are Subject To The Termination Study Regulation?

All PERS employers: the State, boroughs, cities, school districts, and the university system. There are no statutory exclusions for any PERS employer. We are all -- subject to the negative compounding effect that the 2 AAC 35.235 imposes.

^{*} 2 AAC 35.235. Calculation of termination costs: (a) An employer that proposes to terminate coverage of a department, group, or other classification of employees under AS 39.35.615 or 39.35.957, or terminate participation of the employer under AS 39.35.620 or 39.35.958, must have a termination study completed by the plan actuary to determine the actuarial cost to the employer for future benefits due employees whose coverage is terminated.
(b) In addition to the costs calculated in (a) ...the employer under AS 39.35.620 or 39.35.958, is required to pay to the plan until the past service liability of the plan is extinguished an amount calculated by applying the current past service rate adopted by the board to salaries of the terminated employees as required by AS 39.35.625 (a). This payment shall be made each payroll period or the employer may enter into a payment plan acceptable to the administrator for each fiscal year.

How Did SB 125 Address The Salary Base Shrinkage Concern?

PERS employers pay 22% on the total of their current combined DB and DC salaries, *Or, pay the greater of 22% times the payroll period that ended on 6/30/08.* This basically ***set the minimum contribution*** amount that a PERS employer would pay, once PERS converted to a consolidated system. ***This provision sets a future, per pay period, contribution floor for all PERS employers, and it was, and is, appropriate and fair. This provision deals with an employer's need to modify their programs!***

However, other language was added to deal with employers that might try to purposely reduce their benefit costs, and therefore, reduce their fair share contribution toward paying off the unfunded obligation.

What Are Some Termination Study Fact Pattern Examples?

City of Ketchikan:

Terminated Position(s): Eight employees of Gateway Center for Human Services.

Positions(s) Funding Source: Grants, patient fees, and sales taxes.

Reason for Termination(s): In addition to reduced federal and state grant funding, the City Council determined that it was no longer appropriate for the City of Ketchikan to operate a health care clinic. The mental health and substance abuse treatment services offered by Gateway Center for Human Services were not typical local government services and the City was ill equipped to deliver the services in a cost effective and efficient manner.

Termination Cost:

- 1) \$ 5,000 to Buck for the termination study,
- 2) 10,364 to the State for liability increase to the System
- 3) $\frac{2,235,421}{\$ 2,250,785} = (\$399,968/\text{yr}) \times (18.63\% \text{ PSC rate}) \times (30 \text{ years}) = \text{estimate}$

Observations:

The City Council was forced to alter its services as a direct result of reductions in critical grant funding, and the questioned appropriateness of the City continuing this program. The loss of grant funding levels has led to a potential \$2.3 million obligation. The City plans to divert resources, approximately \$74,514/year, from its Hospital Sales Tax Fund to make the annual past service cost payments, thus negatively impacting future hospital funding and possibly other paid positions.

What about communities that rely on law enforcement grants, domestic violence grants, fire fighting grants, Homeland Security grants, education grants, etc.? Will entities need to stop accepting critical grants out of fear that the grant will end sometime in the future, and then, they'll have to pay benefits on salaries they no longer get grant funding for?

Other Issues for the City of Craig:

Not as a consequence of, but, at about the same time that the City stopped operating the Clinic, the City of Craig's EMS Coordinator applied for a transfer from the EMS Department to the Police Department, to work as a dispatcher. The City Administrator is considering refilling the EMS Coordinator position with a part time employee, rather than a full-time employee. He asked PERS staff if this transition, in their view, might also trigger some sort of payment to the PERS system. PERS staff stated that it might, and said they would need to make a determination on the matter.

Ketchikan Gateway Borough:

Terminated Position(s): Single position, Borough Manager

Positions(s) Funding Source: General government funds

Reason for Termination(s): 34+ year PERS employee that wanted to draw retirement. The Assembly wanted to keep the manager, so it changed the position from employee to contracted.

Termination Cost:

- 1) \$ 2,500 to Buck for the termination study,
- 2) 12,392 to the State for liability increase to the System
- 3) $676,269 = (\$121,000/\text{yr}) \times (18.63\% \text{ PSC rate}) \times (30 \text{ years}) = \text{estimate}$
\$691,161

Observations: Here was a PERS employee that only worked for the KGB for less than three years of their over 34 years in the System. For a little over 27 years the person was employed by the State. The employee and the employee's employers paid into the System four years beyond when that employee had reached 30 years of employment, able to retire with full benefits. This also means the employee did not draw on the System for over four years that they could have, had they retired at 30 years. And yet, KGB still owed money to the System for this person. KGB didn't even have this person employed long enough to vest, yet, it could possibly have to pay \$700,000 into the System for this employee? It is interesting that although this person and the employers paid into the System for 34 years, KGB might have to pay into the System for another 30 years, and therefore the System will have received just under 65 years of contributions to fund this person's retirement! Something just does not seem right about this!!

City of Cordova:

Terminated Position(s): Police Chief

Positions(s) Funding Source: General Fund

Reason for Termination(s): Change in Police Chief with new proposed Chief wishing to retain current retirement status. Previous Chief was employed for two years. Proposed new Chief is a retired State Trooper.

Termination Cost:

- 1) \$?? to Buck for the termination study,
- 2) ?? to the State for liability increase to the System
- 3) $\frac{381,768}{\$68,307/\text{yr}} = (\$68,307/\text{yr}) \times (18.63\% \text{ PSC rate}) \times (30 \text{ years}) = \text{est.}$
\$ 381,767 + one-time cost to be determined to PERS

Observations: The termination costs are based on the wages of the last individual holding the position being removed from PERS. In the City of Cordova's case, this individual came from Louisiana, had approximately two years in the PERS system, was not vested, and moved back to Louisiana. The City began a search and determined that the best candidate for the position was a retired State Trooper. The City had no knowledge of the changes in PERS rules and proceeded to ask the State what needed to be done to remove the Chief position from PERS. The City was informed about the changes in the process that includes the termination study and liability payments. The City was unable to fund those amounts, the City is currently operating with an Interim Chief (Temporary employee) while hoping the Legislature will remove the termination study and liability during the 2011 legislative session.

2 AAC 35.235 says that an employer "... ***must have a termination study completed by the plan actuary to determine the actuarial cost to the employer for future benefits due employees whose coverage is terminated.***" In this case, there is absolutely no additional cost to the PERS System as a result of the Louisiana individual's termination, yet the City is being charged anyway.

The result of the new PERS rule is that a highly qualified Alaska State Trooper can go to work in any other state without impact to his/her Alaska retirement, and without impact to his/her non-Alaska employer. However, if the Trooper wants to work in Alaska they must give up their retirement while working in Alaska, or their Alaska employer must pay excessive costs to PERS for a study and liability expense. The consequence of this is that the most qualified employees are being driven out of Alaska if they want to continue to work.

salaries they aren't paying, and the other one doesn't get a bill. Both are not paying an equal \$50,000 into the PERS system!

Imagine now that the large employer cut five nurses and therefore, reduced by \$250,000 the salary used to pay down the unfunded obligation. The small employer impacted the System by \$50,000, the large employer by \$250,000. No termination study or past service costs for the large employer, the small employer, they're (excuse the language) screwed. Going back to consequence #1 just made above, does this seem like a fair and equitable application of the law, or the intent of the law? Obviously, no. But worse, there is clearly not a fair and equitable financial impact on these two different employers for taking the exact same action, for the exact same reason, with the exact same impact on the System? The little PERS employer gets financially punished for taking the same action as the larger employer!

3) Termination studies negatively impact our decision, and our ability to accept grants because of the potential future liability. Grant funded positions may become subject to the termination studies, once the positions are terminated due to grant funding ending. Employers will find themselves paying the past service cost rate on former grant funded position salaries with other revenues. Essentially, if you accept a grant it is possible, depending upon the circumstances, that once those grant funded positions are ended that you'll need to use other dollars to pay the PSC on those former grant funded salaries that you're no longer paying. This will force diverting dollars from the actual delivery of other necessary services and programs to paying benefits on grant salaries no longer being paid until the unfunded obligation is gone. This result clearly raises the question of whether or not an entity should accept any grants that might have new positions attached to them. Look at the City of Ketchikan set of facts. Shall we talk about public safety grants, shall we talk about Homeland Security grants, shall we talk about Emergency Medical Services grants, shall we talk about air quality grants, shall we talk about, say ARRA grant funded positions at our schools and the university system?

4) As administered, there are no offsets taken into account for salary increases in one area, for decreases in other areas. In other words, the ability for entities to adjust their programs and services to meet their constituent's needs is negatively impacted. If an employer needs to cut in Area A, and add in Area B, that employer could find itself paying the PSC rate times the salary(s) it is no longer paying in Area A because it shifted its employees to Area B where there is more need, whether driven by local need or a mandate. An employer could keep/maintain the exact same salary base, but, by

that different employers will in fact be paying different net rates, and therefore, there will not be a single uniform contribution rate for PERS employers. The adoption of SB 125 was based on the acknowledgement that we do not have a single-agent, multiple employer PERS system, but rather we have had a consolidated un-equitable cost share system. The intent of SB 125 was that all employers would pay the same exact rate. That cannot happen when each employer pays a different termination cost amount, or pays none at all.

8) Will “terminated” salaries pay a higher rate than that set in Statute? What happens to these “termination” payments when the PSC rate is greater than the 22% employer rate set out in Statute, which is projected to be the case for FY 2012?

Are There Things That We All Agree On?

Clearly, and absolutely, the answer is yes. We agree on most everything:

- We all agree that we want to see the unfunded obligation paid off.
- We all agree that the entire PERS salary base is needed to pay off the unfunded obligation, and that it must be sustained and have reasonable growth, which it has to the tune of about 19% since the floor was set.
- We all agree after looking at the history that PERS employers have been loyal to the System and have not made material and purposeful changes in the way they deliver their programs and services from employees to contracted persons.
- We all want and need predictable, affordable, and stable PERS rates.
- We all agree, given the PERS history, that PERS is a consolidated system, and we all need to share as fairly as is reasonably possible in paying off the unfunded obligation.
- We all agree that we want to effectively and efficiently as possible deliver our programs and services. But, we all want and need the ability to adjust our programs and services over time as deemed prudent and necessary, without adding the financial penalty that the termination studies thrust upon us.
- We all agree that the fear of a shrinking salary base has not materialized, and thus the termination studies are not needed.
- We all agree that our legislators, in struggling hard to come up with a fair and equitable solution to a problem that most of them didn't create; never envisioned, intended, nor wanted to see any inequitable financial damage nor any inequitable application of the termination studies law.

Appendix

2 AAC 35.235. Calculation of termination costs (Impacts DB & DC employees, not just DB EE's)

(a) **An employer that proposes to terminate coverage of a department, group, or other classification of employees** under [AS 39.35.615](#) or 39.35.957, or terminate participation of the employer under [AS 39.35.620](#) or 39.35.958, **must have a termination study completed by the plan actuary** to determine the actuarial cost to the employer for future benefits due employees whose coverage is terminated. **The employer shall pay the termination costs determined by the study** either in a lump sum or under a payment plan acceptable to the administrator. **The employer shall pay the cost of the study.**

(b) **In addition to the costs calculated in (a)** of this section, an employer that proposes to terminate coverage of a department, group, or other classification of employees under [AS 39.35.615](#) or 39.35.957, or termination of participation of **the employer** under [AS 39.35.620](#) or 39.35.958, **is required to pay to the plan until the past service liability of the plan is extinguished an amount calculated by applying the current past service rate adopted by the board to salaries of the terminated employees as required by [AS 39.35.625](#)** (a). This payment shall be made each payroll period or the employer may enter into a payment plan acceptable to the administrator for each fiscal year.

(c) Interest as provided under [AS 39.35.610](#) (a) is applied to the termination costs if an employer defaults in the payments under (a) or (b) of this section.

History: Eff. 1/13/2010, Register 193

Authority:

[AS 39.35.615](#) **Effect of termination by amendment of agreement (DB Plan)**

[AS 39.35.620](#) **Termination of participation (DB Plan)**

[AS 39.35.625](#) **Termination costs (DB Plan)**

(Note Extracted 39.35.625 Language: Termination costs not paid as prescribed by (a) of this section or in accordance with an approved payment plan may be collected by the administrator in accordance with [AS 39.35.610\(b\)](#).)

"INTENT. It is the intent of this Act to change the public employees' retirement system to a cost-sharing plan and provide for one integrated system of accounting for all employers. Under the integrated system, the public employees' retirement system defined benefit plan's unfunded liability will be shared among all employers, and each employer will pay a single, uniform contribution rate of 22 percent. ...

[AS 39.35.957](#) **Designation of eligible employees, agreement to contribute, and amendment of participation (DC Plan)**

[AS 39.35.958](#) **Termination of participation in the plan (DC Plan)**

Other Relevant Reference:

[AS 39.35.610.](#) Transmittal of contributions to administrator; claims against funds of an employer

(b) If contributions are not submitted within the prescribed time limit, the amount of contributions and interest due may be claimed by the administrator from any agency of the state or political subdivision that has in its possession funds of the employer or that is authorized to disburse funds to the employer that are not restricted by statute or appropriation to a specific purpose. ...

PERS III, Termination Study Issue Notes

Observations from the Friday 2-4-2011 teleconference with Michael Lamb, Larry Semmens, Kathy Lea, and Jim Puckett.

Summary:

1. Did not disagree with anything in the PERS III analysis, other than to say, in essence, that it leads readers to believe there's a termination study whenever an individual terminates employment.
2. The State is exempt from the termination studies. Termination statutory language doesn't apply to it because all State employees must be in PERS, unlike other PERS employers. The State is the "System", and doesn't have a participation agreement to amend.
3. R&B staff can order termination studies on PERS employers without a PERS employer's elected body adopting a resolution to amend its participation agreement.
4. R&B role is to work toward and communicate to the legislature that it is administering the PERS program in accordance with the law. The cause and effect of policy isn't really their concern, they aren't there to aid in fixing or affecting a legislative policy, only to comply with it and provide information requested as to impacts if changes are considered.
5. TRS termination studies aren't done because it is a completely different system, all teachers have to belong.
6. In FY '09, 44 PERS employers had a salary bases below the 6/30/08 base. In FY '10, 34 PERS employers had a salary base below the 6/30/08 floor. No comment on actions taken to comply with this provision of the statues.
7. Pat Shier is temporarily moved to be the acting director for Enterprise Technology Services.
8. Jim Puckett is acting in Pat's position.

Substantively Correct Brain Dump Of The Relevant Points From The Conversation:

R&B says that the State is exempt from the termination studies. The gist of their position is that the State is the retirement system, if you will. All of its employees must participate in the System, not the case with other PERS employers. The State does not have a participation agreement with itself, or for any of its employees, they by law must all be included. Since the State does not have a participation agreement, and because all of its employees must be in the System, it can't amend an agreement and therefore isn't covered by the termination studies. Essentially, none of its employee positions can exist, if you will, outside of the PERS System, and therefore, no employees could ever be terminated from the System, and therefore, it is exempt from the termination statutes and regulations. In "form" this position tracks, but this position completely misses the substantive basis and purpose for the termination studies in the first place; the preservation of the salary base that pays off the unfunded obligation. Though a dramatic example, but I think technically consistent with the State's position, if the State fired every employee and contracted every function out, they would not be liable for a termination study, given their interpretation of the letter of the law. R&B believes they are in-fact complying with and administering said statues and regulations properly and in accordance with the law. Form has completely overtaken substance.

R&B believes that there is no need or requirement for an elected body to formally adopt, by resolution, an amendment to a PERS Participation Agreement for them to order a termination study, and then collect on the results of the study. In short, even though the statute says that the elected body must pass a resolution to amend the agreement, they believe the contractual language in the participation agreements themselves give them the authority to order termination studies if they feel a termination study is warranted. Basically, they can act to initiate a termination study autonomously because of the language in the participation agreements, if they feel one is warranted. Action by the/a PERS employer's elected body, as called for in the statutes, ultimately **isn't** really required or necessary.

R&B believes that it's not their role to have an opinion on what the law(s) may be, but that there sole responsibility is to comply with what they believe the law is, or has been advised what the law is by the AG's Office. They conveyed that they don't think they have a role in fixing a law or a policy, only providing the information requested by policy makers as to potential cause and effect of a change to a legislative policy.

Larry's comments, dated 2/7/2011 sent by e-mail, on the above overview of points made in the call:

Hi Michael

Your summary looks good to me.

As we discussed on the phone there is one additional item that was discussed that could be included in the summary. Both 39.35.255 and .625 require the use of a June 30, 2008 floor. Section .255 applies to the employer as a whole. Section .625 applies to a terminated department, group or other classification of employees. If an employer terminates what the State defines as a department, group or other classification, the employer will be required to pay the past service rate on the salary of that group as of June 30, 2008.

Obviously what this does is prevent proper management of staffing a municipality. Note that it would also prevent the proper management of the State, except the State is allegedly exempt from this provision because section .625 does not apply to the State!

As part of staffing management a municipality may eliminate one or more positions due to program changes, budget issues, or any number of other reasons. If the State deems these employees to be a department, group or other classification, the municipality will find itself liable for the past service rate applied to the June 30, 2008 salary of the 'terminated group' even if the total current salary of the municipality exceeds the 2008 floor. The past service payment will continue until the unfunded liability is paid in full. Since the unfunded liability isn't going away any time soon, this will be a very large liability. Note also that the past service rate continues to grow and will be 22.48% in FY 12. So the municipality that has terminated a 'group' will be paying more PERS contribution on the terminated group than it was when the employees of that group were actually providing services to the public!

Thanks for your work on this Michael.


Larry Semmens

City of Soldotna • City Manager

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Memorandum

To: Mike Barnhill, Deputy Commissioner, DOA
From: Larry Semmens, Soldotna City Manager 
Date: February 11, 2011
Subject: Termination Study Impacts

You asked that I summarize my concerns regarding termination studies. My concerns are in the areas of equity, materiality, accuracy, and enforcement.

There is a much higher likelihood of the provisions of 39.35.625 applying to a small municipality than a large employer. Adjusting staffing levels for budgetary purposes can easily result in the termination of a group, department or other classification (group) in a small municipality. A large employer could eliminate many positions, thus having a material dollar impact on PERS contributions but not trigger the provisions of either .625 or .255 (2008 floor). Since small municipalities are often challenged fiscally, these provisions make it very difficult to effectively manage staffing levels. Staff costs are usually 75% or more of total budget making staffing the only area to effectively deal with revenue shortfall. Small municipalities are affected materially but the impact on the system is immaterial. Large employers that stay above the 2008 floor can make many position cuts without incurring the cost of either termination studies or past service cost on the salary of a group that has no continuing salary. Thus the termination provisions have minimal impact on the large employers. Shouldn't all employers be treated equally by application of the 2008 salary floor in section .255 rather than subjecting small employers to termination costs in section .625?

Regarding past service liability, when total payroll of an employer is up from 2008, one could argue that the PERS has not been negatively impacted by that employer eliminating a group. However DRB doesn't consider this. If the employers total payroll exceeds the 2008 floor they should be considered to have met the responsibility to pay the past service liability. I think the 2008 floor is the fairest way to deal with past service liability.

If .625 is brought into play there are many variables which have to be given consideration:

1. When a position is eliminated it doesn't always mean the person in the position was terminated from employment, furthermore, they could get a PERS position in the future which would negate the termination cost that was previously assessed. If a group of several employees is involved it would seem that those still employed would be exempt from the termination study and from past service cost payments. I think you refer to this as double counting. It will be very complicated to keep up with.
2. Paying the past service rate on the salary of a terminated group for the next 30 years could easily exceed any possible actual past service liability generated by the group. **If all of the group were Tier IV there would be almost no past service liability generated, but the employer is obligated to pay the**

past service liability generated, but the employer is obligated to pay the past service rate on the salary of the terminated group until the unfunded liability is paid off. This is not reasonable. Consider that if the employees affected were short term DB employees the past service liability would also be low. If Buck is calculating normal cost correctly any employee hired since Buck was employed should have little or no past service liability.

3. The methodology of Buck's calculation does not consider all relevant facts. The Ketchikan example is a good one. The subject was Tier I, 59 years old with 34 years in the system. My thought is the person is generating an actuarial surplus since he didn't retire at 30 years of service. Buck doesn't consider this in their calculation. Instead they ignore these facts and calculate the present value of the benefits which will be paid out 'early' based on the assumption that the subject is going to work well beyond age 55. Buck knows that only a fraction will continue to work beyond retirement age, but I don't think they apply any probability factor to their calculation of the termination cost. Instead they simply calculate the present value cost of the person retiring compared to what it would have cost at some point in the future. It would be interesting to query the data to find out how many Tier I's with 34 years keep on working to whatever age Buck assumed this person was going to be if he didn't retire when he did. Consider that every time someone retires at age 55, or at any age younger than Buck's assumed age, there is a hit to the system that Buck apparently has not considered. The conclusion to be drawn is that the total liability they are reporting is grossly understated. They calculated that the system took a hit of \$123,000 when the Ketchikan person retired. This is not reasonable for this set of facts and should be carefully considered in light of the liability estimates they have made.

Another big issue is that DRB believes the State is exempt from compliance with section .625 because the State doesn't have a participation agreement with PERS. This is a thin argument which is clearly not equitable to the other members of the plan. This means that the entity that has over half of the total payroll of the system and therefore over half of the past service liability that drives the past service cost rate, can eliminate departments, groups or other classifications without paying the costs. The impact of this is born by the other members of PERS. The thought that the State's actions only impact the State is not correct. When the State does not properly contribute to PERS according to the same rule every other employer has to follow, the system doesn't get the funds the actuary is anticipating and the result is higher rates for longer periods. All employers are going to participate in rectifying this. Note that the past service rate is going above 22% in FY 2012. I wonder how much of this is caused by the State not contributing according to the actuarial assumptions.

As I mentioned, I think the State is underfunding PERS with contract employees that do not meet the IRS test of independent contractors and by employing retired PERS members in long term temporary positions that would normally be filled with a PERS employee. The State does this because they have to in order to hire competent staff. Why shouldn't municipalities be allowed the same ability to manage?

I continue to argue against requiring a termination study, but if one is required all relevant facts need to be considered. Currently the methodology of the calculation is designed to deliver the highest possible termination cost.

I hope that you and your staff will recognize:

1. that .625 termination studies are making it difficult to manage staffing levels,
2. that application of the requirement discriminates against small municipalities even though their impact is immaterial, and
3. that enforcement is going to be costly and nearly impossible to do equitably.

With two auditors that have apparently only accomplished 12 field audits since 2003, it seems unlikely that the State is properly staffed to deal with the workload that this law imposes. Employers do not understand the requirements, do not consider the requirements or alternatives available to them when dealing with staffing changes, and consequently will often be out of compliance with the law.

In conclusion I reiterate that a simple requirement such as maintaining and enforcing the 2008 floor as the base salary amount on which PERS payments must be calculated will be equitable and easy to administer and enforce. Such a requirement will have minimal impact on the PERS compared to the cost of properly enforcing the current law.

Senator Paskvan's bill accomplishes this so I am in support of the bill.

If you have any questions of me I am available at your convenience.