

Municipal Impact Statement on SB 81

Overview

SB 81 proposes a significant shift in the funding structure of the Public Employees' Retirement System (PERS) by removing the 22% cap on employer contributions and requiring local governments to cover the full actuarial rate. This change would increase financial obligations for municipalities, boroughs, and other public entities participating in the system, with widespread implications for budgets, service delivery, and workforce stability.

Impact on Local Governments

1. Increased Financial Burden

- Local governments would experience substantial cost increases as they absorb the full actuarial contribution rate. Currently, the 22% cap helps stabilize employer contributions, with the State covering the remaining unfunded liability. Removing this cap exposes municipalities to fluctuating and likely higher rates, which continue to increase.
- Many local governments, particularly those with constrained revenue bases, may struggle to cover these costs without additional state assistance or new revenue sources.

2. Budgetary Constraints and Service Reductions

- The increased pension costs would divert funding from core municipal services, including public safety, education, transportation, and infrastructure maintenance.
- Smaller or revenue-limited municipalities may be forced to cut services, reduce staffing, or delay capital investments to meet these new obligations.

3. Workforce Challenges

- A higher PERS contribution requirement may lead municipalities to reconsider hiring plans, freeze positions, or reduce workforce levels to balance budgets.
- Some local governments may struggle to compete with private-sector wages and benefits, exacerbating hiring and retention challenges in essential fields such as law enforcement, emergency services, and public administration.

4. Potential for Tax Increases or Service Fees

- To offset rising pension costs, municipalities may consider raising property taxes, sales taxes, or implementing new service fees.
- Many communities, particularly in rural areas, face economic constraints that limit their ability to generate new revenue without impacting residents and businesses.

5. Impacts on Intergovernmental Partnerships

- The bill could strain relationships between the State and local governments, particularly if no additional financial assistance or transition mechanisms are provided. Municipalities rely on a degree of cost-sharing to sustain public employee benefits, and this change would shift a significant burden onto local entities.

Recommendations

To mitigate negative consequences for municipalities, the following options should be considered:

- State Assistance or Phase-In Approach: A gradual transition to the full actuarial rate rather than an immediate cost shift would allow municipalities to plan and adjust budgets accordingly.
- Revenue Offsets or Relief Mechanisms: The State could explore revenue-sharing measures, increased state aid, or grant programs to help municipalities manage higher pension costs.
- Evaluation of PERS Reform: Consideration of broader pension reform that balances cost sustainability while maintaining competitive benefits for public employees.

Conclusion

SB 81 represents a fundamental change to Alaska's public pension funding structure, with substantial fiscal consequences for local governments. Without state support or alternative funding mechanisms, municipalities may be forced to reduce services, increase local taxes, or restructure their workforce to accommodate rising pension liabilities. A phased or balanced approach should be explored to prevent unintended economic and operational hardships for local governments across the state.