

HOUSE FINANCE COMMITTEE  
May 18, 2002  
10:01 A.M.

TAPE HFC SS 02 - 2, Side A

CALL TO ORDER

Co-Chair Williams called the House Finance Committee meeting to order at 10:01 A.M.

MEMBERS PRESENT

Representative Bill Williams, Co-Chair  
Representative Eldon Mulder, Co-Chair  
Representative Con Bunde, Vice-Chair  
Representative Eric Croft  
Representative Richard Foster  
Representative John Harris  
Representative Bill Hudson  
Representative Ken Lancaster  
Representative Carl Moses  
Representative Jim Whitaker

MEMBERS ABSENT

Representative John Davies

ALSO PRESENT

Representative Gary Stevens; Representative Brian Porter; Representative Ethan Berkowitz; Annalee McConnell, Director, Office of Management and Budget, Office of the Governor; Eddy Jeans, Manger, School Finance and Facilities Section, Department of Education and Early Development

SUMMARY

HB 2002 An Act relating to the issuance of general obligation bonds for the purpose of paying the cost of design, construction, and major maintenance of educational and museum facilities; and providing for an effective date.

CS HB 2002 (FIN) was reported out of Committee with a "do pass" recommendation and with a fiscal note by the House Finance Committee for the Department of Revenue.

HB 2003 An Act relating to municipal bond reimbursement for school construction; and providing for an effective date.

CS HB 2003 (FIN) was reported out of Committee with a "do pass" recommendation and with a new zero fiscal note by the House Finance Committee for the Department of Revenue.

#HB2002  
HOUSE BILL NO. 2002

An Act relating to the issuance of general obligation bonds for the purpose of paying the cost of design, construction, and major maintenance of educational and museum facilities; and providing for an effective date.

Co-Chair Mulder MOVED to ADOPT work draft version, #22-LS1811\C, Utermohle, 5/1/02, as the version of the legislation before the Committee. There being NO OBJECTION, it was adopted.

Co-Chair Mulder noted that the committee substitute would authorize a vote of the people on general obligation bonds issued by the State of Alaska for the construction of educational facilities.

The proposal totaling \$201,166,746 dollars would provide for eleven new schools, University of Alaska projects and a portion of a museum expansion in Anchorage.

- The new school projects funding includes \$134,462,746 for facilities in Tuluksak, Akiak, Akiachak, Scammon Bay, Teller, Hooper Bay, Circle, and Naukati. Major renovations will be financed at Sheldon Point, White Mountain and Arctic Village.
- The University of Alaska funding in the amount of \$61,704,000 would include projects on campuses in Fairbanks, Juneau, Homer, Valdez, Anchorage, Kenai, Sitka, Palmer, Kotzebue, Nome, Bethel, Dillingham, and Ketchikan.

Co-Chair Mulder advised that the bond question would be on the November 2002 ballot. If approved by the voters, projects could commence early in 2003.

Representative Croft asked how the legislation differed from the \$238 million dollar package previously passed from Committee.

Co-Chair Mulder reminded Representative Croft that no action had been taken on adopting that version.

Representative Croft asked how CS HB 2002 (FIN) differed from that version.

Co-Chair Mulder responded that #8 was the reconstruction, #9-#13 were the phase in, and #1-#80 were major maintenance.

Representative Croft stated that there was no major maintenance included in the proposed version.

Co-Chair Mulder commented that the intent was to pass the proposed version to the Senate as it is.

Representative Croft referenced the \$5 million dollars for the museums. He advised that the major difference was the maintenance funding.

Co-Chair Mulder pointed out that the University had not changed.

Representative Croft commented that the "package and linkage" concerns could be addressed in HB 2003.

ANNALEE MCCONNELL, DIRECTOR, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, commented that there was a handout for HB 2003, which indicates the Senate numbers. (Copy on File). One difference is that version, previously passed to the Senate, was slightly different regarding University funding.

Co-Chair Mulder interjected that the version before the Committee is the Senate Finance version.

Co-Chair Mulder MOVED to report CS HB 2002 (FIN) out of Committee with individual recommendations and with the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

CS HB 2002 (FIN) was reported out of Committee with a "do pass" recommendation and with a fiscal note by the House Finance Committee for the Department of Revenue.

#HB2003  
HOUSE BILL NO. 2003

An Act relating to municipal bond reimbursement for school construction; and providing for an effective date.

Co-Chair Mulder MOVED to ADOPT the working draft #22-LS1801\C, Ford, 5/17/02. There being NO OBJECTION, it was adopted.

ANNALEE MCCONNELL, DIRECTOR, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, requested that Mr. Jeans of the Department of Education & Early Development speak to the handout.

EDDY JEANS, MANGER, SCHOOL FINANCE AND FACILITIES SECTION, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, highlighted the handout. (Copy on File).

- Existing Debt Reimbursement
- Bonds already approved
  - Anchorage \$5.6
  - Juneau \$3.3
  - Fairbanks \$3.2

Representative Croft asked if that was the amount that the State would pay each year to the municipalities, who have borrowed to build schools.

Mr. Jeans responded that was the "condensed" version. The State reimburses and then they make their actual payments.

Representative Croft questioned if the State should expect to pay out in a range between \$80-\$100 million dollars a year over the next ten years.

Mr. Jeans clarified that the list across the top of the page is what is currently authorized, anticipating no change to the current statute. It would be \$56 million dollars in FY03, \$58 million in FY04, \$56 million in FY05, \$56 million in FY06, \$58 million in FY07, \$53 million in FY08, \$46 million in FY09, \$46 million in FY10, and \$45 million dollars in FY11.

Representative Croft noted that the State should anticipate paying between \$45-\$60 million dollars each year for the next ten years and that would be the urban portion.

Mr. Jeans agreed that was correct.

Co-Chair Mulder interjected that that the "extended" authorizations had been extended in exchange for giving cash to the rural schools.

Mr. Jeans explained that through those mechanisms, there were allocations for the rural schools.

Co-Chair Mulder emphasized that the legislation was not a "benefit" to the urban schools or the rural schools. The rural schools would be paid one time.

Representative Croft requested clarification of what is paid each year for the urban school debt reimbursement and the average of the last ten years paid to the rural schools.

Co-Chair Mulder pointed out that during the last ten years, over \$500 million dollars has been given to the rural schools and \$700 million dollars for the urban schools.

Mr. Jeans interjected that he did have a schedule which the Department prepared indicating FY94 through FY03. The average in that time period was approximately \$49 million grant funding dollars, which sometimes includes municipal school districts. Using the debt reimbursement program, the average is approximately \$87 million dollars annually.

Mr. Jeans pointed out that the debt reimbursement program operates like a home mortgage. What is authorized in the debt reimbursement is the principle amount of the project, however, what is actually reimbursed is the principle and interest at 70% over a 20-year period. Mr. Jeans emphasized that the two programs are very different.

Representative Hudson pointed out that historically, the State has authorized 98% of rural construction. Usually through the grant programs, it is about 70%, making the communities responsible for the additional 30%.

Mr. Jeans explained that through the grant program, there is a tiered scale for participating level shares. The Rural Education Attendance Area (REAA) paid 98% of their funding and received a 2% local match. The scale also goes down, based on municipality's property wealth per child. Some municipalities only contribute a 5% contribution. The difference between the two programs is that the debt reimbursement is a fixed amount, 70% State funding and 30% local funding, or whatever the ratio was at the time that the legislation was passed.

Representative Hudson commented that the system has been fair and balanced. In urban areas, the municipalities have had to be prepared to float the mechanism.

Co-Chair Mulder asked if only the urban areas were included in the existing debt reimbursement.

Mr. Jeans replied that the debt reimbursement program was established for municipalities that have bonding capacity.

Co-Chair Mulder interjected that the rural schools had been included in that.

Mr. Jeans clarified that he makes the distinction between municipal school districts and the REAA's. The Department of Education & Early Development has a clear definition of the role between urban versus rural.

Co-Chair Mulder argued that there are rural schools that are receiving debt reimbursement.

Ms. McConnell interjected that the opposite was also true and that there have been urban schools funded through grants.

Representative Croft inquired if there was a statement available of what HB 2003 would accomplish.

Co-Chair Mulder responded that there is no linkage in HB 2003 other than that debt reimbursement would not pass unless the general obligation (G.O.) bonds pass.

Representative Croft asked if the Kasalli case had been addressed in the proposed legislation.

Co-Chair Mulder replied that case had been addressed in HB 2002 with the G.O. bonds. That was the only linkage he was willing to consider.

Representative Croft asked if in the future, there would be some relationship between how much was built in the municipalities versus in the REAA's. He commented that it would not matter if it were 4 or 5 years, since there was no linkage. He asked what the other aspects of the bill were.

Co-Chair Mulder explained that the two major differences were:

- Allowing the organized boroughs to bond for public facilities for schools with the limited time of three years; and
- Allows areas to receive 70% reimbursement if they work with the Department of Education & Early Development list.

Mr. Jeans clarified that under HB 2003, the municipalities that have a population more than 1,000 would not be placed on the Department's list but the debt projects would still be under the Department's review if they want to get the 70% reimbursement. The legislation would provide that for municipalities with more than 1,000 resident population on the Department's Capital Improvement Project (CIP) list.

Co-Chair Mulder added that the legislation allows for a percentage of local contribution.

Mr. Jeans explained that in the rural areas, it amounts to 2% and in the smaller municipalities it would amount to 5%.

Co-Chair Mulder asked if during FY02, would any not be at 2%.

Mr. Jeans stated not on the current list.

Co-Chair Mulder pointed out that the urban areas would pay for 30%-40% of their contribution while and the rural schools would pay only 2%.

Ms. McConnell requested to outline benefits of the large districts and how they differ from the current system. Some of the larger districts have had difficulty with projects they are interested in. She provided examples of the Eagle River and Juneau Douglas High School. In those two places, the district would like to size their school for a "time out" into the future, knowing that their student population will be growing. However, the amount of the school projects will not fit with what is currently allowed within the statute. In those situations, the State pays the reimbursement on the portion that would be eligible through statute and the community is then free to pay the additional amount.

Ms. McConnell pointed out that the advantage is that they no longer would be placed on the priority list, and would then be eligible to receive reimbursement as a percentage of the entire project. She referenced Page 8, Line 28, under existing statute, \$77.8 million dollars authorized for existing projects and \$14.571 million dollars provided for school districts. The legislative process was intended to establish how much could be available.

She pointed out that Anchorage was provided \$78 million dollars worth of projects. When Anchorage went out for the bonds in April, they submitted under that provision; and now, Fairbanks will be going out to vote in October through a different provision. Given the date change listed on Page 8, Line 26, and in the event that Fairbanks does not receive voter approval, that district would like to receive an extension. At present time, each school district is allowed to go out for a certain amount of bond money and then the State provides for the debt reimbursement.

Co-Chair Mulder questioned how the Administration proposed to pay for the obligations associated with the rural schools.

Ms. McConnell replied that under the linkage proposal, it is assumed it could be addressed through cash or a certificate of participation (COP) mechanism.

Vice-Chair Bunde asked if there had been a statewide, per capita capital cost per student determination made.

Mr. Jeans advised that the Department had not yet done an analysis under that format.

Ms. McConnell requested an opportunity to explain the linkage concern. She noted that the issue had never been discussed on the House side.

Co-Chair Williams interrupted Ms. McConnell, pointing out that "linkage" was not included in the House version. He stated that it was his intent that the House Finance Committee creates a version as close to the original one passed from this Committee.

Ms. McConnell asked the place in which a discussion regarding the linkage concept could take place.

Co-Chair Williams advised that could occur on the Senate side through the Senate version. On the House Finance Committee side, there will be no discussion regarding how the linkage proposal operates.

Ms. McConnell voiced concern that there is confusion regarding linkage details. It is difficult to conduct important public policy discussions when there is no opportunity to ask questions about how a proposed system would operate.

Co-Chair Mulder argued that the House Finance Committee members understand the linkage issue. The handout will be discussed during the caucuses meetings.

Representative Hudson invited Ms. McConnell to submit written information regarding the linkage proposal. He acknowledged that he could use that information.

Co-Chair Mulder MOVED to report CS HB 2003 (FIN) out of Committee with individual recommendations and with the new fiscal note. Representative Croft OBJECTED.

Representative Croft commented that the fact that there could not be a linkage discussion in the House Finance Committee was very disturbing. What is occurring in HB 2003 would be giving all the flexibility to the urban/municipal areas. It would not confine them to the regulations of what the schools look like. "All of the room" has been given to the urban areas and only a "linkage" conditional effective date to one bond payment to the rural schools. Additionally, no mechanism has been established to fund rural schools in the on-going years. He claimed that the Committee was trading an overall reform that benefits urban Alaska for a one time, fairly big, chunk for rural Alaska.

Representative Croft stated that linkage is about fixing both systems, which is what HB 2003 needs. That action would exasperate the Kassali case.

Representative Croft claimed that in the case, when the judge noticed the two different systems, he criticized that there were two different ways of funding being done. Linking together the two different systems must happen and there must be some relationship between those two systems. It is much better to have two systems that recognize the difference with some linkage between the two.

Representative Croft stressed that the proposed bill is not close to the bill that was in Committee at the time of adjournment. The proposed bill is everything that an urban center would want and nothing for rural Alaska. When that is tied to a major construction package, it is a receipt for disaster. HB 2003 is not fixing the system, by rather placing a heavy rural bond structure on that system. He warned that the urban portion was being "masked" by the legislation.

Representative Croft addressed previous discussion regarding the various percentages. He stated that there is no base to provide such information. It is important to recognize that there should be sliding scale systems on how much a local area can pay. When funded as a unit and linked, it could be a fair system. The correct funding mechanism was left out of the proposed legislation.

Representative Croft stressed that HB 2003 would institutionalize the difference and "set in stone" the reason for the entire problem.

Representative Croft commented that he did not know what the intended negotiating stance would be. The proposed legislation will be a "major step backward". It does not structurally change the way that rural schools are funded.

Co-Chair Williams noted that everyone was not supportive of the negotiations and that it was his intent to get the bill where it was important to be.

Co-Chair Mulder noted that he did not care if there were bonds this year or not. He added that he would be just as happy if HB 2002 and HB 2003 did not go forward.

Co-Chair Mulder stated that he "took exception" to the point made by Representative Croft that HB 2003 was a "slap in the face" to the rural areas. He asked how could \$150 million dollars for construction in rural Alaska, be a slap in the face. He stated that the proposed system was a balanced approach and that it is a "sweetheart deal" for the rural areas. It will translate to between \$100-\$200 million dollars of projects for the urban areas.

Co-Chair Mulder added that there were no amendments to incorporate the linkage language. With no amendments, there

will be no discussion. The proposed bill is a fair and balanced approach.

A roll call vote was taken on the motion.

IN FAVOR: Bunde, Foster, Harris, Hudson, Lancaster,  
Whitaker, Mulder, Williams  
OPPOSED: Croft, Moses

Representative J. Davies was not present for the vote.

The MOTION PASSED (8-2).

CS HB 2003 (FIN) was reported out of Committee with a "do pass" recommendation and with a new zero fiscal note by the House Finance Committee for the Department of Revenue.

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ADJOURNMENT

The meeting was adjourned at 10:47 A.M.