

MINUTES
SENATE FINANCE COMMITTEE
April 20, 2001
1:08 PM

TAPES

SFC-01 # 81, Side A

CALL TO ORDER

Co-Chair Pete Kelly reconvened the meeting at approximately 1:08 PM.

PRESENT

Senator Dave Donley, Co-Chair
Senator Pete Kelly, Co-Chair
Senator Jerry Ward, Vice Chair
Senator Loren Leman
Senator Lyda Green
Senator Gary Wilken
Senator Alan Austerman
Senator Lyman Hoffman
Senator Donald Olson

Also Attending: EDDY JEANS, Manager, School Finance and Facilities Section, Education Support Services, Department of Education and Early Development.

SUMMARY INFORMATION

SB 174-EDUCATION FUNDING

The Committee considered five amendments and adopted four. The Committee heard from the Department of Education and Early Development and the bill reported from Committee.

[This meeting had been recessed to the call of the chair. Minutes for the earlier portion of the meeting are recorded separately.]

#SB 174

SENATE BILL NO. 174

"An Act relating to education funding; and providing for an

effective date."

This was the second hearing for this bill in the Senate Finance Committee.

Amendment #1: This amendment inserts a new bill section on page 2, following line 17 to read as follows.

Sec. 3. AS 14.17.510 is amended by adding a new subsection to read:

(c) Notwithstanding AS 14.17.410(b)(2)(A) and the other provisions of this section, if the assessed value in a city or borough school district determined under (a) of this section increases from the base year, only 50 percent of the increase in assessed value may be included in determining the assessed value in a city or borough school district under (a) of this section. The limitation on the increase in assessed value in this subsection applies only to a determination of assessed value for purposes of calculating the required contribution of a city or borough school district under AS 14.17.410(b)(2)(A) and 14.17.490(b). In this subsection, the base year is 2000.

Senator Wilken moved for adoption.

Senator Hoffman objected for discussion.

Senator Wilken spoke to the amendment, saying that the current education foundation funding formula is calculated using student population multiplied by student dollar, which equals the "basic need" and from that amount, the required local contribution is subtracted. He defined local contribution as the amount each community in organized areas of the state is required to contribute before qualifying for state funding. He stated the local contribution is the equivalent of four mils of the "full and true assessed value" of the property contained within the boundary of the organized community.

Senator Wilken detailed how, under current statute, each increase in assessed value is passed along to property owners as an increase in the amount of property tax due for the local education contribution. He explained that this amendment provides that the state splits the cost of increases in assessed property value with the property taxpayer so that instead of paying four mils toward the local education contribution, the property owner only pays two mils on any assessment increases. He characterized this amendment as a property tax relief for "all of organized Alaska."

Senator Wilken opined this amendment, "recognizes the fact that the state and the communities are in a joint effort to make this a better place to live and to do that through having a better education system."

Senator Hoffman referred to the amendment's accompanying worksheet, "Impact of Senate Bill 174 Amendment by Senator Wilken" and asked why some of the required local increases are shown as a negative, when the amendment sponsor stated, "everyone was benefiting."

Senator Wilken replied this is a function of the increase or decrease in assessed value. He noted that if the assessed value decreases in an organized community, there is no "increased need because the assessed value hasn't gone up."

Senator Hoffman asked for clarification that the communities showing negative figures have decreased assessed values.

Senator Wilken affirmed and pointed out that the figures are "relatively correct" in their application to this amendment.

Senator Wilken noted that of the predicted \$8 million increase in revenue for the state resulting from increased assessed values, the property taxpayers would only have to contribute \$4 million.

Co-Chair Kelly emphasized that under this amendment, "no community has to end up paying more" and that communities qualifying for the provision would "qualify to pay less." He added that the current four-mil equivalent would apply to any community with a decreased assessed value.

Senator Hoffman asked if the estimated increase to the state general fund is \$3.7 million.

Senator Wilken affirmed. He added that the figures provided are based on Department of Education and Early Development projections for FY 02.

Co-Chair Kelly was uncertain whether this amendment provides increased funding to the general fund.

Senator Leman explained it results in an increased liability to the general fund.

Senator Austerman asked if this amendment was an incentive for communities to raise assessed values.

Senator Wilken replied that assessed value is based on a number of

factors. If the local economy is healthy, he said, assessed value should increase on a regular basis. He surmised that if assessed values continually decrease there are several incentives to improve the economy.

Co-Chair Kelly added that assessed value is established by law or local ordinance and would be difficult to manipulate. He suggested that a community would need to ensure current recordings of assessed values.

Senator Wilken agreed and stressed it is a function of law and that organized communities in Alaska have an established assessor process.

Senator Hoffman asked the reasoning for this amendment.

Senator Wilken responded that because of the recently failed ballot proposal to limit the mil rate to ten mils, the public is clamoring for tax relief and this amendment provides some. He continued that the legislature works to make the state more successful, which is measured in assessed value, but then the successes are passed along to the community in the form of higher taxes. He saw this amendment as a partnership between the state and local municipalities to improve assessed values.

Senator Austerman commented that a number of communities in Southeastern Alaska show no increases in assessed values. He attributed this to the state of the timber industry.

A roll call was taken on the motion.

IN FAVOR: Senator Lemman, Senator Ward, Senator Wilken, Senator Austerman, Senator Green, Co-Chair Donley and Co-Chair Kelly

OPPOSED: Senator Olson and Senator Hoffman

The motion PASSED (7-2)

The amendment was ADOPTED.

Senator Wilken directed members' attention to material to be distributed that was supplied by the Mat-Su Borough school district along with a chart showing the full and true value change in Anchorage, Fairbanks, Juneau, Kenai, Mat-Su and the statewide. [Copies on file.]

Amendment #2: This amendment changes the average daily membership (ADM) in Section 3(2) from 400 to 425. The amended language reads

as follows.

(2) a community with an ADM of at least 101, but not more than 400 [750], shall be counted as

(A) one elementary school, which includes those students in grades kindergarten through six [6]; and

(B) one secondary school, which includes students in grades seven [7] through 12;

New Text Underlined [DELETED TEXT BRACKETED]

Co-Chair Donley moved for adoption.

The amendment was ADOPTED without objection or discussion.

AT EASE 1:18 PM / 1:21 PM

Amendment #3: This conceptual amendment inserts new language in Section 1 (b)(2) on page 2 following line 14 to read, "subsection (B) is limited to districts in which the per student assessed value is not less than \$2,000,000."

Co-Chair Donley explained this would limit the effect of the increase to 100 percent of a district's basic need to only those communities that currently have a per pupil assessed value of over \$2 million.

Senator Hoffman stressed, "This is a pretty monumental change affecting all school districts in the state," and requested a representative from the Department of Education and Early Development address the amendment.

AT EASE 1:22 PM / 1:26 PM

Senator Hoffman gave a scenario of a school burning down and asked if this amendment would "hamstring" the rebuilding of that school if it were in a district that exceeds the \$2 million assessment amount. He wanted to know if the school district would be unable to issue new bonds to cover construction costs.

EDDY JEANS, Manager, School Finance and Facilities Section, Education Support Services, Department of Education and Early Development, testified that because he had no notice this bill and its amendments would be considered at this time, he was unprepared to speak on the matter.

Mr. Jeans then corrected his response to a different hypothetical situation Co-Chair Kelly raised at an earlier hearing for this bill

regarding the perception that the Fairbanks school district receives less state aid than it otherwise would receive if the North Slope Borough (NSB) was required to contribute the equivalent of four mils toward its local education. He stated that the only way the Fairbanks North Star Borough (FNSB) would receive more money is with an increase in base student allocation under the foundation funding formula. Therefore, he said, NSB receiving funds under the foundation funding formula does not alter the amount of funds the FNSB receives.

Co-Chair Kelly stated that the witness would not be required to testify on matters without the opportunity to prepare.

Senator Hoffman asked if the department supports the bill in its current version.

Mr. Jeans reiterated that the department is on the record in opposition to the bill.

Co-Chair Donley restated the conceptual amendment and moved for adoption.

Senator Hoffman objected and asked why the sponsor deemed this amendment necessary.

Co-Chair Donley responded it is fair to require a community with wealth to pay more toward its local education in an amount closer to that currently required of those communities subject to the four-mil property tax contribution. He stressed, "I think it's self evident," and noted that this amendment adds a "third factor" to the existing four-mil equivalency and the 45 percent factor, which this bill increases to 100 percent. He stated that this amendment "would recognize that those communities who haven't gone that much in debt, would not be subject to the 100 percent change, but those communities that have chosen to go farther in debt would be." He surmised this is "based on an assessment of their local wealth and their ability to pay and the fact that even with that they're still not going to be paying the four mils that many other communities are in fact paying, and in fact some communities are paying more than four mils, a lot more than four mils."

Senator Hoffman spoke to his objection saying it is primarily targeting one school district, which is the NSB district. He emphasized that the Alaska Association of School Boards is on record in opposition of the "targeting" of any one school district.

Senator Wilken opined that "it deserves to be said, we derive our monies to fuel the K-12 formula across the state on assessed

value." He listed the per-student asset base in the NSB as \$5.5 to \$6 million. He compared this to the statewide average of \$400,000 per student. He remarked, "I don't target the North Slope, I target the inequity and inequality of that asset base being able to support a certain level of K-12." He continued, "Because of the law that's in place, they're required on their asset base to fund it at half of the people that I represent." He stressed that this is the issue this amendment "speaks to", pointing out that if a district has an asset base 30 times that of the remainder of the state, "I don't think it's unfair to ask that you pay for your education."

Senator Olson understood the reasoning behind the argument but stressed that the NSB has funded some "very expensive programs" that are normally funded by the state in other communities. He surmised that since the NSB plays an active part in funding such items as public health, including local hospitals, clinics and water and sewer projects, to add the education requirements, "is almost like strapping another burden" onto the NSB. He predicted that removing almost \$10 million from the school district would "cause a fair amount of disruption of the services for the students." He noted that this coupled with the decreased oil production would "have a very detrimental effect on the people of the district that I represent."

Co-Chair Donley corrected his earlier statements regarding bonding indebtedness, saying he intended to speak to assessed value.

Senator Hoffman addressed Senator Wilken's comments regarding "letting them pay their fair share" pointing out that Amendment #1, sponsored by Senator Wilken, mainly benefited Anchorage at \$1.8 million and Fairbanks at \$554,000. Senator Hoffman calculated that 64 percent of the \$3.7 million benefited those two communities. It seemed to him that "somebody is being targeted" and "somebody is being a major benefactor."

A roll call was taken on the motion.

IN FAVOR: Senator Ward, Senator Wilken, Senator Austerman, Senator Green, Senator Leman, Co-Chair Donley and Co-Chair Kelly

OPPOSED: Senator Hoffman and Senator Olson

The motion PASSED (7-2)

The amendment was ADOPTED.

Amendment #4: This conceptual amendment gives the co-chairs authority to change the title of the committee substitute.

Co-Chair Donley explained this amendment gives the co-chairs, "the latitude to construct a title that more accurately reflects the content of the new committee substitute."

Senator Hoffman objected saying that due to the importance of the matter, any title changes should come before the entire Committee.

Senator Olson made a motion to delete Section 1 from the committee substitute.

[This motion was out of order as there was a motion already on the table.]

AT EASE 1:40 PM / 1:42 PM

Co-Chair Donley restated that the amendment is to give the co-chairs the flexibility to draft a title that reflects the contents of the bill in more detail. He stated that this may or may not be possible in the given timeframe.

Senator Hoffman spoke to his objection emphasizing that the title to any legislation is "crucial" in how it is drafted. Therefore, he urged the Committee to "act responsibly" and review any changes to the bill title as a unit.

A roll call was taken on the motion.

IN FAVOR: Senator Wilken, Senator Austerman, Senator Green, Senator Leman, Senator Ward, Co-Chair Donley and Co-Chair Kelly.

OPPOSED: Senator Hoffman and Senator Olson

The motion PASSED (7-2)

The amendment was ADOPTED.

Amendment #5: This amendment deletes Section 1 from the bill.

Senator Olson moved for adoption.

Co-Chair Kelly objected.

Senator Olson remarked that the exit exam activities have shown the need for more education assistance rather than less in the NSB school district. He asserted that reducing funding would have "a further negative effect" in the education of the students and their performance on the exit exams. He did not judge it fair to take

away from one school district for the benefit of another.

Senator Wilken clarified, "It doesn't come from the school district. The monies come from the borough and appropriated to the school district." Therefore, he stressed there is no direct relationship between this bill and the school districts.

A roll call was taken on the motion.

IN FAVOR: Senator Austerman, Senator Hoffman and Senator Olson

OPPOSED: Senator Green, Senator Leman, Senator Ward, Senator Wilken
Co-Chair Donley and Co-Chair Kelly

The motion FAILED (3-6)

The amendment FAILED to be adopted.

Co-Chair Donley offered a motion to report from Committee, SB 174, as amended with a new Department of Education and Early Development fiscal note for \$1,600,800.

Senator Hoffman made a motion to table the bill.

Senator Ward called for the question.

A roll call was taken on the motion to table the bill.

IN FAVOR: Senator Olson and Senator Hoffman

OPPOSED: Senator Ward, Senator Wilken, Senator Austerman, Senator Green, Senator Leman, Co-Chair Donley and Co-Chair Kelly

The motion FAILED (2-7)

The committee substitute FAILED to be tabled.

A roll call was taken on the motion to report the bill from Committee.

IN FAVOR: Senator Green, Senator Leman, Senator Ward, Senator Wilken, Senator Austerman, Co-Chair Donley and Co-Chair Kelly

OPPOSED: Senator Hoffman and Senator Olson

The motion PASSED (7-2)

The amended bill MOVED from Committee.

[Note: The bill was not transmitted to the Senate Secretary at this time. The Committee later rescinded its action to move the bill, adopted Amendment #6, and reported the bill from Committee. See minutes of April 24, 2001 for complete account.]

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ADJOURNMENT

Co-Chair Pete Kelly adjourned the meeting at 01:48 PM.