

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON EDUCATION

February 19, 2004

12:20 p.m.

MEMBERS PRESENT

Representative Carl Gatto, Chair
Representative Paul Seaton, Vice Chair
Representative Dan Ogg
Representative Peggy Wilson
Representative Kelly Wolf
Representative Les Gara
Representative Mary Kapsner

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

HOUSE BILL NO. 471

"An Act relating to the funding of public education; and providing for an effective date."

- MOVED CSHB 471(EDU) OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

BILL: HB 471

SHORT TITLE: INCREASE AMT OF BASE STUDENT ALLOCATION

SPONSOR(S): EDUCATION

02/16/04	(H)	READ THE FIRST TIME - REFERRALS
02/16/04	(H)	EDU, HES, FIN
02/17/04	(H)	EDU AT 11:00 AM CAPITOL 124
02/17/04	(H)	Heard & Held
02/17/04	(H)	MINUTE(EDU)
02/19/04	(H)	EDU AT 11:00 AM CAPITOL 124

WITNESS REGISTER

DEBORAH POORE

Homer, Alaska

POSITION STATEMENT: Testified in support of HB 471.

DAVID JONES, Director

Finance Department
Kodiak Island Borough School District
Kodiak, Alaska
POSITION STATEMENT: Testified in support HB 471.

MIKE FORD
Juneau, Alaska
POSITION STATEMENT: Testified on HB 471.

KRISTEN ROMANOFF
Juneau, Alaska
POSITION STATEMENT: Testified in support of HB 471.

PETER BURCHELL
Wasilla, Alaska
POSITION STATEMENT: Testified on HB 471.

RON RUCKER, President
Classified Staff Association
Matanuska-Susitna Borough School District
Wasilla, Alaska
POSITION STATEMENT: Testified on HB 471.

KRIS MOORE
Valley Voices for Children
Wasilla, Alaska
POSITION STATEMENT: Testified on HB 471.

JENNIE HAMMOND
Nikiski, Alaska
POSITION STATEMENT: Testified on HB 471.

ACTION NARRATIVE

TAPE 04-11, SIDE A
Number 0001

CHAIR CARL GATTO called the House Special Committee on Education meeting to order at 12:20 p.m. All members were present at the call to order.

HB 471-INCREASE AMT OF BASE STUDENT ALLOCATION

[Contains discussion of HB 477]

CHAIR GATTO announced that the only order of business would be HOUSE BILL NO. 471, "An Act relating to the funding of public

education; and providing for an effective date." [In packets, not adopted but treated as the working document, was a proposed committee substitute (CS), Version 23-LS1645\H, Mischel, 2/18/04.]

Number 0121

REPRESENTATIVE GARA brought attention to Amendment 1, language taken from HB 477 that read [original punctuation provided but some formatting changed]:

Delete all language; insert the following:

*** Section 1.** AS 14.17.470 is amended to read:
Sec. 14.17.470. Base student allocation. The base student allocation is \$4,600. However, the department shall annually increase the base student allocation to the extent of increases during the second preceding calendar year in the Consumer Price Index for all urban consumers for the Anchorage Metropolitan Area compiled by the Bureau of Labor Statistics, United States Department of Labor. The index for January 2002 is the reference base index [\$4,169].

*** Sec. 2.** AS 14.17.470 is amended by adding a new subsection to read: (b) After an increase, if any, to the base student allocation under (a) of this section, the department shall annually increase the base student allocation by two percent. The increase under this subsection shall be used for either
(1) class-size reduction; or
(2) compliance with 20 U.S.C. 6301 - 7941 (No Child Left Behind Act of 2001).

*** Sec. 3.** AS 14.17.470(b) is repealed July 1, 2009.

*** Sec. 4.** This Act takes effect July 1, 2004.

REPRESENTATIVE GARA explained that Amendment 1 would convert this bill to HB 477, which he and Representative Kapsner sponsored. The change would result in an additional \$43 per student to the base student allocation over what HB 471 provides. The amendment would increase the fiscal note by \$8 million.

REPRESENTATIVE GARA told members the rationale is based on comments made by the school districts that HB 471 does a good job by preventing additional layoffs this year and is laudable, but does nothing to make up for all the layoffs last year. He

commented that funding has been going in the wrong direction for many years. The \$8-million increase in funding would begin to repair the damage school districts have suffered. The amendment would continue to correct the damage by providing that funding would continue to go up based on the Consumer Price Index [for the Anchorage Metropolitan Area] and a 2 percent annual increase until class sizes are reduced to an acceptable level.

Number 0220

CHAIR GATTO commented that the \$4,600 figure includes funding for the PERS/TRS [shortfall], which is not an issue addressed in the current bill. He told the members that inclusion of PERS/TRS funding complicates the issue significantly, which is the reason members agreed to break out the TRS/PERS funding from the [base student allocation]. He suggested the TRS/PERS issue may be taken care of on a statewide basis in the House Finance Committee; if not, maybe it's something the current committee will deal with separately. He reiterated that inclusion of the funding for the PERS/TRS [shortfall] is a wholly separate issue.

Number 0319

REPRESENTATIVE GARA moved to adopt Amendment 1 [text provided previously]. He said in response to Chair Gatto's comments that he believes it is much more appropriate to fund the PERS/TRS shortfall in the base student allocation because the same issue will come up each year. He said [he doesn't question the committee members support for education, but] believes there is extra will on the part of other legislators in funding education this year, because it is an election year. Another advantage of including this in the base student allocation is that it would increase the amount of money local school districts can contribute, he stated.

Number 0395

REPRESENTATIVE KAPSNER asked Chair Gatto to provide the committee with information regarding other vehicles available to address PERS/TRS.

CHAIR GATTO responded that a bill is being worked on that deals with the PERS/TRS [shortfall]. He said he believes the House Finance Committee is considering handling the issue on a statewide basis, and emphasized that the conversation is not yet over. He assured members that the issue will be addressed either in the House Finance Committee or in this committee.

REPRESENTATIVE KAPSNER told members she'll be voting in favor of Amendment 1 because it isn't known what will happen in the future. She voiced strong support for the \$4,600 figure.

Number 0496

REPRESENTATIVE WILSON stated that she is planning on introducing a bill in the House Health, Education and Social Services Standing Committee [which she chairs] that will address the PERS/TRS [shortfall] if it is not handled in the House Finance Committee.

Number 0535

REPRESENTATIVE OGG said he opposes Amendment 1. He explained that the subcommittee that brought HB 471 to the full committee has also worked on a vehicle to address the PERS/TRS [shortfall]. The two bills work together as companion bills. The subcommittee has examined the impact of running the PERS/TRS cost into the formula. He said some schools benefited and some suffered. He commented that the subcommittee was not willing to see some school suffer to a great extent, so it was decided that it could not be inserted in the formula. He told the members the responsible thing to do is run the PERS/TRS at cost so that each district [is reimbursed for the cost of the shortfall]. He said that was his reason for supporting two vehicles to address these issues. Amendment 1 would go against what the subcommittee recommended to the full committee, he added.

Number 0680

REPRESENTATIVE SEATON explained that the subcommittee found that by including the TRS/PERS in the foundation formula, some districts lost significant funding. For example, the North Slope Borough School District would lose [approximately] \$400,000 in equivalent payment, while the Kenai Peninsula School District would have gained \$220,000 above its PERS/TRS costs. This change would create dramatic cost shifting. He stated that he would vote against the amendment for those reasons.

REPRESENTATIVE KAPSNER told the members she appreciates the work the subcommittee did. She pointed out that another important component of Amendment 1 is that it addresses automatically inflation-proofing the [base student allocation]. She said she believes that in reviewing the actual dollars to schools, the

figure is a fraction of what it should be, especially in light of the No Child Left Behind Act and exit exams.

REPRESENTATIVE WILSON shared her belief that it is important to keep the funding [for the base student allocation and the PERS/TRS shortfall] in separate bills because she doesn't want to jeopardize funding for the base student allocation. She said she does not know what the House Finance Committee will do if the 2 percent annual increase is included in HB 471.

Number 0875

REPRESENTATIVE GARA clarified that [Amendment 1] would provide \$8 million more than a separate PERS/TRS bill and HB 471 put together. He agreed that if HB 471 rolled in PERS/TRS, then a small number of districts wouldn't receive enough money to cover their PERS/TRS shortfall. However, bringing the total base student allocation up to \$4,600 adds an extra \$8 million into the foundation formula, which gives every district in the state enough money to cover the TRS/PERS shortfall and extra money to cover teacher shortages. If any school district were to be short of funds to address the PERS/TRS shortfall, then an amendment could be made on the floor to account for that, he suggested.

Number 1012

CHAIR GATTO commented that the school districts that are at the base level of 1.0, such as Anchorage and Matanuska-Susitna school districts, would receive an adequate amount to cover the PERS/TRS [shortfall]. He pointed out that if the TRS/PERS funding were in the formula, school districts in remote areas would receive additional money beyond their need to cover PERS/TRS. He stated it is a fairness issue. Since the cost is exactly the same for each retiree across the state, it seems more appropriate to fund this as a statewide issue, rather than trying to have each district accountable for a portion when the formula allots funding to each district differently.

Number 1112

A roll call vote was taken. Representatives Gara and Kapsner voted in favor of Amendment 1. Representatives Ogg, Wilson, Wolf, Seaton, and Gatto voted against it. Therefore, Amendment 1 failed to be adopted by a vote of 2-5.

Number 1153

REPRESENTATIVE OGG moved to adopt Amendment 2, a technical amendment that would do the following:

On page 1, line 7, after the words "of each year,"
Insert "beginning July 1, 2005,"

On page 1, line 8
Delete "2005"
Insert "2004"

REPRESENTATIVE OGG explained that there may have been some miscommunication in the drafting process of the proposed CS.

CHAIR GATTO asked if there was any objection to adopting Amendment 2. There being no objection, it was so ordered.

Number 1208

DEBORAH POORE testified in support of HB 471. She stated, however, that she is concerned about the possibility of the funds being diluted as it goes through the [legislative] process. She warned that this funding level is not enough to provide schools with full funding. For ten years the schools in the Kenai Peninsula Borough School District have been robbing from their programs to try to keep the schools in operation. She said she believes it is important to regain the ground that has been lost. There needs to be stable, on going funding for public education in Alaska, she emphasized. Ms. Poore told the members that she [testified] a year ago that she would support the implementation of a state income tax to support public education.

Number 1278

DAVID JONES, Director, Finance Department, Kodiak Island Borough School District, testified on HB 471. He told the members that the increase in base student allocation enables the school district to maintain the programs in place for FY 04 for the coming year. It will not undo the losses from the previous year, but it is a welcome thought that the district will be able to maintain what it now has.

MR. JONES said the inflation-proofing provision in this bill will be a great help because each year the district faces increases in health insurance, workers' compensation insurance, and liability insurance increases. These increased costs are

cutting into the school district's budget so this [inflation proofing measure] is welcome. Mr. Jones said that each year the district has looked at the programs to decide what will be cut just to survive another year.

MR. JONES agreed that the TRS/PERS issue should be addressed in another bill. He reminded members that it is not a single-year issue, but one that will need to be addressed repeatedly. He closed by saying he is the father of three children in the school system and wants them and their friends to have the best education possible. He said he would be willing to pay an income tax or some other kind of tax to ensure that happens.

Number 1432

MIKE FORD testified that he is the parent of a second-grader in the Juneau School District. He applauded the committee's action by increasing funding for public education. He said he does not believe the committee has gone far enough. In Juneau, the increase will not bring the district to parity for the budget today. There is still a budget gap. He said the PERS/TRS [shortfall] will be a recurring problem, and it is significant. Mr. Ford urged the members to work on a solution that does not require them revisiting the issue year after year. Saying the classrooms in Juneau are very crowded, he urged the members to reduced the student-teacher ratio. He told the members that he would be willing to support a revenue measure to support these increases.

Number 1520

KRISTEN ROMANOFF testified in support of HB 471, noting that she has been volunteering weekly for the last three years. In her son's kindergarten class there were 28 children with one teacher and no aide. The pupil-teacher ratio is so high that it is impacting the education of all the children in the school system. This bill does not go far enough in educating students. While it is a step in the right direction, there needs to be increased funding. She said she believes the amendment that was proposed to bring education funding up to \$4,600 per student with the inclusion of PERS/TRS would have been a good beginning.

Number 1647

PETER BURCHELL, retired teacher, testified on HB 471. He said the proposed increase won't meet the needs of the Matanuska-Susitna Borough School District. He also expressed concern that

TRS/PERS is operating on a one-week basis. When no inflation-proofing is done and there is failure to plan ahead, then districts end up with what the valley is experiencing now. Mr. Burchell commented that Chair Gatto, as a former school board member, knows what the district has been cutting for nine years, and now it is a desperate situation. He asked members to please inflation-proof education funding and include PERS/TRS funding so it won't have to be revisited next year.

Number 1725

RON RUCKER, President, Classified Staff Association (CSA), Matanuska-Susitna Borough School District, testified on HB 471. He thanked members for all their work on this bill. He said since Tuesday's hearing he has had the opportunity to review the numbers discussed and wants to correct his statement. Mr. Rucker said contingent on the Matanuska-Susitna Borough's being able to fund education to the maximum amount, the district will be made whole for this year. It does not do anything to resolve past years problems, however. Mr. Rucker said that in one way it makes sense to handle the PERS/TRS issue separately, but it will be "a hammer over the head" of the districts if the legislature does not fund it in down years. He encouraged the committee to consider the \$4,600 figure again, so that it will give the districts some leeway.

Number 1792

CHAIR GATTO responded that Mr. Rucker knows that with an increase in the base student allocation, the local effort is allowed to increase. It is currently at the cap, he stated. Chair Gatto said he believes the increase would be approximately \$600,000. That should not even come close to solving the problems of the past seven to nine years, but it is a move in that direction.

MR. RUCKER concurred.

Number 1833

KRIS MOORE, Valley Voices for Children, testified in support of HB 471. She thanked the committee for their work. This increased funding will allow the schools to break even this year. She commented that there is a long way to go and she hopes the committee will continue to work on increased education for the future. Ms. Moore said she appreciates the amendment that changes the effective date to July 1, 2004, rather than

July 1, 2005. She closed by saying most of the people she talks with support income tax as a way of paying for education.

Number 1937

JENNIE HAMMOND testified on HB 471. She commented that the version of the bill in front of her would increase funding to \$4,422 and it does not say anything about PERS/TRS. She asked if that is correct.

REPRESENTATIVE GARA explained that [with Amendment 1] the \$4,600 figure includes the PERS/TRS problem, or if the PERS/TRS problem were dealt with separately, then the figure would be \$4,422. Representative Gara said he believes it is more important to roll the PERS/TRS into the foundation formula. That is the reason for the larger number.

Number 1995

MS. HAMMOND said while she supports addressing the PERS/TRS issue, an important benefit is that funding at the \$4,600 figure means the community can fund more at the cap. Another benefit is that the issue wouldn't have to come back to the legislature next year. She asked what the PERS/TRS bill number is.

CHAIR GATTO responded that there is no bill number available yet. A couple of options are being looked at. If the funding is done strictly as a education bill, then it will be a \$[35.7] million grant. If it is done as a statewide grant, it will be significantly higher. He stated that the issue will be rectified one way or another.

REPRESENTATIVE SEATON commented that the committee is still waiting for a determination from the Department of Education and Early Development on how the PERS/TRS funding can be structured so that PERS/TRS contributions given to the districts can be matched.

CHAIR GATTO reiterated Representative Wilson's earlier statement that this issue will be addressed in the House Health, Education and Social Services Standing Committee.

REPRESENTATIVE WILSON commented that Ms. Hammond is fortunate that the Kenai municipality funds the school system to the cap. Many communities around the state, including Anchorage, do not fund up to the cap, she said.

Number 2138

REPRESENTATIVE OGG moved to report CSHB 471, Version 23-LS1645\H, Mischel, 2/18/04, as amended, out of committee with individual recommendations and the accompanying fiscal notes.

REPRESENTATIVE OGG asked if the members would like the accompanying memorandum [addressing methods of funding] to be included with the bill.

CHAIR GATTO responded that he believes the memorandum could be included without adding it to the [motion].

Number 2174

REPRESENTATIVE GARA objected for purposes of discussion. He asked members to consider increasing the base student allocation by \$43 to address last year's losses. He added that he believes the bill that is going forward is very responsible and he appreciates working with the members on this. Representative Gara said he isn't going to put forth an amendment, but asked members to consider this change and leave aside the inflation-proofing issue that some are uncomfortable with.

REPRESENTATIVE GARA withdrew his objection.

Number 2233

CHAIR GATTO announced that without objection, CSHB 471(EDU) was reported out of the House Special Committee on Education.

Number 2259

REPRESENTATIVE OGG asked if the memorandum on funding should accompany HB 471. He explained that the letter says the committee assigned the issue to a subcommittee that held extensive hearings, and there was persuasive testimony that the education system could not sustain any further cuts. School districts from around the state said the increase necessary to hold districts "whole" was somewhere between \$380 and \$400. There was agreement to use the \$388 figure because that was the figure provided by the Anchorage School District. There were two bills considered. One bill was to fund the PERS/TRS [shortfall] of \$35,789,260. The intent was that this increase would be allowed to count for purposes of the local contribution funding caps, he said. He added that HB 471 funds \$42.5 million, increases the student formula by \$210, and codifies the

increase by July 1, [2004]. The cost of both bills is \$78,289,260.

REPRESENTATIVE OGG told members it was requested that if the House Special Committee on Education were to suggest monies that were not in the budget, then the committee should suggest sources for those monies. He explained that two sources were recommended. One is utilization of the Constitutional Budget Reserve excess from the FY 2004 appropriation, and the second is the excess earnings from the Earnings Reserve Account of the permanent fund. Representative Ogg noted that the committee wants it known that the University of Alaska also has an unanticipated need for PERS/TRS obligations. The memorandum also urges the House Finance Committee to fund that need.

Number 2414

REPRESENTATIVE WILSON commented that the university's PERS/TRS is set up different from [that in other parts of the state]. She explained that [with the shortfall], university employees must contribute, so the university does not have to pay back as much. She pointed out that with general government, the state must pay for all of the PERS/TRS [shortfall].

CHAIR GATTO told members the university asked for its TRS/PERS portion to be included in the House Special Committee on Education's bill. He commented that if the PERS/TRS issue is handled statewide, then this inclusion would not be necessary. If it does not, then this is something the committee should consider.

REPRESENTATIVE GARA told the members that the letter does not reflect his views and he will not sign on to it. He said he believes it is obvious that there is over \$100 million in the Constitutional Budget Reserve that the legislature and the governor intended to spend last year, which was not spent because of high oil prices. He commented that he agrees with that part of the letter. Representative Gara said he believes there are many options [for funding] and he hopes it will be debated on the House floor.

CHAIR GATTO asked if Representative Gara is debating the fiscal gap or the letter.

REPRESENTATIVE GARA responded that this letter is proposing to solve the fiscal gap with permanent fund earnings. He said he is not necessarily comfortable with that. Representative Gara

summarized that he believes the legislature will fail the public if every single fiscal proposal is not out on the House floor for open debate. He stated that he is not comfortable agreeing to only those that the [legislative] majority want.

Number 2567

REPRESENTATIVE KAPSNER said she believes it is interesting that this memorandum recommends using the excess earnings from the Earnings Reserve Account for the permanent fund, when people have testified today that a tax would be appropriate. She suggested more vague language or more inclusive [language] with all revenue-generating options, including a road tax.

Number 2607

REPRESENTATIVE SEATON pointed out that the memorandum suggests two sources of revenue that are available to the legislature right now. He said this is not a question of addressing another bill to establish a tax or to change a tax structure. These two revenue sources are two funds that are currently available to the legislature right now to fund an \$80-million increase in education funding. He told the members he believes this memorandum is appropriate. The letter does not suggest addressing revenue sources at another time. What is being examined is what can be used now to address the increase in funding. That is the reason for the language used in the memorandum.

Number 2668

CHAIR GATTO commented that a separate question might be where the money will come from in the future. [CSHB 471(EDU) was reported from committee.]

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Education meeting was adjourned at 1:05 p.m.