

HOUSE FINANCE COMMITTEE  
May 06, 2003  
3:02 P.M.

TAPE HFC 03 - 79, Side A  
TAPE HFC 03 - 79, Side B

CALL TO ORDER

Vice-Chair Meyer called the House Finance Committee meeting to order at 3:02 P.M.

MEMBERS PRESENT

Representative John Harris, Co-Chair  
Representative Kevin Meyer, Vice-Chair  
Representative Mike Chenault  
Representative Eric Croft  
Representative Richard Foster  
Representative Mike Hawker  
Representative Carl Moses  
Representative Bill Stoltze  
Representative Jim Whitaker

MEMBERS ABSENT

Representative Bill Williams, Co-Chair  
Representative Reggie Joule

ALSO PRESENT

Representative Carl Gatto; Barbara Bitney, Staff,  
Representative Bill Stoltze; Eddy Jeans, Manager, School  
Finance and Facilities Section, Department of Education and  
Early Development; Mary Francis, Executive Director, School  
Administrators Association; Bruce Johnson, Executive  
Director, Association of Alaska School Boards, Juneau

PRESENT VIA TELECONFERENCE

Sandy Gillespie, Alaska State Arts Council, Anchorage; Steve  
Kalmes, Director of Transportation, Anchorage School  
District, Anchorage

SUMMARY

HB 215 An Act repealing statutes that relate to art works  
in public buildings and facilities and that  
require a set percentage of construction costs to  
be spent on art.

CS HB 215 (STA) was reported out of Committee with  
a "do pass" recommendation and with zero fiscal

note #1 by Department of Transportation & Public Facilities.

HB 259 An Act relating to public school transportation, and to the minimum wages for school bus drivers; and providing for an effective date.

HB 259 was HEARD and HELD in Committee for further consideration.

#HB215

HOUSE BILL NO. 215

An Act repealing statutes that relate to art works in public buildings and facilities and that require a set percentage of construction costs to be spent on art.

BARBAR BITNEY, STAFF, REPRESENTATIVE BILL STOLTZE, stated that Alaska's "Percent for Art" program originated in 1975 with the requirement that a percent of State capital expenditures for public buildings and facilities be set aside to acquire works of art for display in those facilities (Alaska Statute 35.27).

She noted that it was the sponsor's intent in introducing HB 215 to address the fiscal aspect of the program; the original version repealed the percent for art program. The committee substitute would provide 1% for art from the first \$10 million of the total construction costs and would then reduce it to smaller percentage thereafter. Additionally, the 1% would only apply to State funding sources such as the general fund or the general obligation bonds.

Ms. Bitney continued, at this time, a mechanism for maintenance does not exist. The bill would set aside 5% of the percent for art, placing it into the Art in Public Places Fund to insure works of art can be maintained in good condition. The Alaska State Council on the Arts (ASCA) would receive requests for maintenance, facilitate coordination of the repairs, and maintain a database of all artwork that is owned by the State.

Furthermore, annual reporting to ASCA would be required by those agencies subject to the 1% for art. Required reporting would provide:

- The amount of State funding for the project, the percent set aside for art;
- The total cost of art, the title, artist, etc.

ASCA would have the information for monitoring works of art and the annual amount allocated to the Percent for Art

Program through new construction. Annually, ASCA would prepare a report to the Legislative Budget and Audit Committee (LBA). The legislation strengthens the preference for State artists.

Ms. Bitney noted that the House State Affairs Committee removed the long-standing reduced percentage for rural schools that allowed for a lesser percentage to compensate for the significantly higher construction costs for rural schools.

SANDY GILLESPIE, (TESTIFIED VIA TELECONFERENCE), ALASKA STATE ARTS COUNCIL, ANCHORAGE, offered to answer questions of the Committee. She noted that the Alaska State Arts Council was supportive of the bill.

Representative Foster MOVED to report CS HB 215 (STA) out of Committee with individual recommendations and with the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

CS HB 215 (STA) was reported out of Committee with a "do pass" recommendation and with a zero fiscal note #1 by the Department of Transportation & Public Facilities.

#HB259

HOUSE BILL NO. 259

An Act relating to public school transportation, and to the minimum wages for school bus drivers; and providing for an effective date.

REPRESENTATIVE CARL GATTO commented that the bill would improve the existing method of funding pupil transportation allowing each district to spend any savings in the classrooms while limiting the "runaway costs" which have been associated with pupil transportation.

He noted that appropriations under the bill would be determined by dividing the FY03 pupil transportation allocation by the FY03 enrollment. That would create a per pupil transportation amount for each district. The per pupil cost of transportation would then be set in statute and used as a multiplier to the Average Daily Maintenance (ADM), less correspondence, in future years to determine transportation entitlement. The formula would guarantee an amount of money specifically connected to the ADM count already required for Foundation Formula Funding.

Representative Gatto stated that this method of reimbursing school districts does two things:

- It allows for more realistic, appropriate and predictable annual appropriations for each district; and
- It would eliminate the "cost plus" reimbursements, which have resulted in the 136% increase in the program's expense since 1990. By connecting transportation costs to enrollment and fixing the State's appropriation to the FY03 level, it would create an incentive for school districts to become more efficient, allowing them to place any savings associated with transportation contracts back into the classroom.

Representative Stoltze asked if the legislation had the support of the Administration. Representative Gatto responded that he had been working with the Administration for half of the session to address these concerns.

Representative Stoltze asked if the Administration was "pushing" the bill. Representative Gatto reiterated that he had been working with his staff person Cody Rice and Eddy Jeans from the Department of Education & Early Development on the legislation.

Representative Croft asked what would happen to districts spending less than \$1200 dollars. Representative Gatto explained that the \$1200 dollar number was a cut off. If there was a difference, it would be "flattened out" and no one would receive more than \$1200 dollars.

Representative Croft maintained that districts would freeze at their per pupil enrollment. He asked how to account for the argument that some districts were being good and efficient, even though they had a cost-plus system to keep the costs as low as possible, by freezing inequities into it. Representative Gatto agreed that there would be some that would be more efficient than others. Most districts are currently struggling to get the most they can from student transportation, yet the State was very responsible in indicating that they would have to account for the contracts received. There has been no benefit to any district doing that. Under the proposed formula, if savings can be found, then the districts can keep them. Each district would be responsible for working out the needs of their community. Once they understand that any savings they make will not disappear, they can better address their community needs for student transportation.

Representative Croft asked why Representative Gatto had not used the FY04 projection rather than the FY03 costs. Representative Gatto referred that question to Mr. Jeans from the Department. Representative Croft inquired which districts were over the \$1200 dollar mark.

Vice-Chair Meyer asked how the ADM formula would handle the special need and handicap students. Representative Gatto responded that in FY03, those students were counted and received additional money from the State. If the State knew that the Special Ed ration would remain the same, there would be no problem. However, the State does not know if that number will change. In FY03, it was fixed at a specific ratio and they will continue to be handled similarly until the adjustments are made.

Vice-Chair Meyer commented that Anchorage and/or Fairbanks might be penalized if they had an increase of special needs children. Representative Gatto responded that each student would generate additional funds. The amount of money generated includes a ratio of Special Ed and the non-Special Ed students. If the ratio stays the same, the district would receive the increase.

Vice-Chair Meyer pointed out that a handicapped student would take more funds than a non-handicapped student. Representative Gatto agreed, pointing out that in FY03 they did. The number was frozen at that level.

Vice-Chair Meyer inquired if the Anchorage or Fairbanks school districts had indicated their support for the legislation. Representative Gatto noted that in conversations with the Anchorage School District, the director stated that the district would prefer to keep the existing arrangement, however he understood that the Governor would be changing the existing arrangement. The Governor indicated that he wanted to reduce student transportation by a specific amount. The other option would be to keep the existing system with knowledge that there will be cuts down the road and that would be a gamble and next year, the program could be cut or restored. The House subcommittee placed the funds back in but the Senate did not.

Representative Hawker referenced the fiscal note that indicates a one-time general fund expenditure in FY04 for \$10 million dollars. He asked if there would be financial consequences of the legislation beyond FY04. Representative Gatto referred that question to Mr. Jeans.

EDDY JEANS, MANAGER, SCHOOL FINANCE AND FACILITIES SECTION, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, testified that the legislation does propose a change from the current program. At this time, the State defines in regulation what are reimbursable expenses for the transportation program. Since 1990, the pupil transportation costs have increased by 136%. It was \$25 million in 1990 and the estimated FY04 budget is over \$58 million dollars. The Department believes

that part of that is coming from the flaws within the system itself and the definition of reimbursable expenses.

In the contracts, inflationary costs are built in for the adjustments. Mr. Jeans noted that the Department has worked closely with the school districts in trying to contain some of the costs of the transportation program. He noted that was what the Department had done with the four school districts that overspent, which set the stage for some competitiveness in that field. In the future, it is hoped that any new providers in the State will help to keep costs down.

Mr. Jeans noted that school districts could charge fees to help keep the costs down, however, at this time, there is no incentive to do that. He understood that the school districts are trying to do a good job. The inherent flaw with the system is that contractors know that the State will reimburse them and any increases are passed on to the State of Alaska.

Mr. Jeans spoke to the reimbursable costs. The State currently reimburses for students that live beyond 1.5 miles. He suggested that school districts should look at that and make changes to the policy. Those discussions would be better left at the local level. School district should also look at are the frequency of stops. There are places that the school districts can look to for cost reductions.

Mr. Jeans noted that the Administration has been working closely with Representative Gatto in developing the legislation. He noted that they had heard the testimony by the Anchorage School District regarding the special needs students. The Department has requested information regarding that concern and that these concerns could be addressed.

Mr. Jeans stated that the reason that the legislation is tied to the ADM is because that information is verifiable as provided by the school district. Every student in the State has a unique identifier, which is verifiable data that can be used for the grant program versus rider-ship. He noted that rider-ship is self-recorded. The ADM system is currently in place and provides the needed data.

The Department will be able to divide the special needs component and the costs associated with that. By doing that, it could address some of Anchorage's concerns, however, that still would not provide for the 100% funding requested.

Mr. Jeans described what happens under the current system if a program is prorated. When prorated and the district

reduces services, then the local share is reduced by a less percentage. The additional savings that they would be able to incur are then distributed throughout the State. Through the proposed grant program, if efficiencies are identified, then that money stays in that district.

Representative Croft asked the number of intensive need students statewide. Mr. Jeans replied that are about 1700 intensive need students. In 1999, there were approximately 1400.

Representative Croft inquired if those were the same students defined in federal law. Mr. Jeans replied that these are the severely multi-handicapped students that are typically transported with a Special Ed bus that has a wheel chair lift and an aid on the bus. They are the extremely high cost students. That does not include the slightly special need students. Those students are included in the 20% block funding.

Representative Croft asked how much more expensive are those students to transport. Mr. Jeans did not know the amount. It would depend on the configuration of the Special Ed route. The only way to address the Anchorage concern would be to take all the Special Ed routes and use the intensive count as the factor for determining the student allocation.

Representative Croft asked if the costs were segregated. Mr. Jeans advised that he was in the process of collecting that information from Anchorage.

Vice-Chair Meyer asked if the Department would be willing to adjust the fiscal note once they receive that information from Anchorage. Mr. Jeans replied that the fiscal note would remain at the \$53 million dollars and instead the Department would modify the grant program. The Special Ed costs would be split from the regular costs. There would then be two numbers for each district, special needs and regular routes.

Mr. Jeans noted that there were five districts that exceeded the \$1200 dollar amount. They are as follows:

*	Alaska Gateway	-	\$1464
*	Bristol Bay	-	\$1322
*	Copper River	-	\$1300
*	Delta Greely	-	\$1351
*	Southeast Island	-	\$1234

Representative Hawker asked about the fiscal note indication of a one time \$10 million increment for FY04. He asked if it would have a zero fiscal effect in FY05. Mr. Jeans explained that the \$10.7 million dollar increase is a one-time increase to implement the program over the Governor's

current year budget. There will be adjustments in the Department's budget in the out-years based on changes in the student population.

Representative Hawker asked if it would be build into the FY05 budget. Mr. Jeans replied that was correct. Representative Hawker questioned if the Department would add in any changes to the ADM factors. Mr. Jeans agreed. Representative Hawker thought that indicating a zero fiscal note for FY05-FY09 was inappropriate, as the bill would be providing a permanent and consistent \$10 million dollar increase in funding for that program.

Mr. Jeans explained that under the current reimbursable program, the districts have indicated that the projected entitlement will be \$59 million dollars in FY04. In the Governor's budget, there is \$43 million dollars allocated. The fiscal note reflects the \$10 million dollar increase in order to implement the program in year one. The Department assumed that they would come forward with a request to fund a new program at the appropriate level in the FY05 budget process.

Representative Hawker asked if a new program was anticipated in FY05 and if the bill would sunset after FY04. Mr. Jeans stated that he did not mean to imply a new program but rather, this program. If the legislation is passed, then the increase change over FY04 would be either an increase or decrease based on a change in student population.

Representative Hawker thought that it would be more appropriate to show a \$10 million dollar increase across the board with a note indicating it would be subject to changes made in the ADM. Mr. Jeans clarified that under the current program, the school districts entitlement would be \$59 million dollars and that is not being reflected in the Governor's budget. He recommended a funding level of \$43 million dollars.

In response to a query by Representative Hawker, Mr. Jeans said that the entitlement estimated by the school districts is \$59 million dollars. The level of funding is dependant upon what the Governor puts forward and what the Legislature appropriates.

Representative Hawker thought that the fiscal effect would be more appropriately indicated as indeterminate. Mr. Jeans stated that the fiscal note could be amended to reflect that.

Co-Chair Harris noted that \$10.7 million was set out and referred to in the fiscal note for FY 04. He stated that in the House Finance budget, \$11 million dollars had been allocated above the Governor's recommendation. Mr. Jeans

corrected that the amount that the House funded was the \$53.9 million dollars. The per pupil number will be determined at the end of school year 2003, based on actual expenses. The Department did use the \$53 million dollar number in the analysis to prepare for the fiscal note.

Co-Chair Harris asked if the numbers for FY 05-09 would use the same amount, multiplied by per pupil. He inquired if there was a way to adjust the per pupil number if the costs increased. Mr. Jeans stated that the Legislature would have to adjust that number through statute.

Co-Chair Harris observed that there are no provisions that would deal with select areas statewide. Those areas have more difficult transportation needs and challenging roadway terrain. Mr. Jeans replied that there would not be in this proposal. The Department already takes into consideration those types of situations. The bill does not address that.

Representative Whitaker referenced the note and asked if the Administration intended to fund this program only one time. Mr. Jeans advised that the intention with the fiscal note was to show that with the program, the estimated dollar amount in FY 04 would be at \$53.9 million dollar level. During the out-years, the Department would ask for funding based upon the change in the student population.

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MARY FRANCIS, EXECUTIVE DIRECTOR, SCHOOL ADMINISTRATORS ASSOCIATION, testified that the school districts would prefer full funding for pupil transportation. Every dollar that is short funded in student transportation is a dollar that will have to be absorbed by the districts. That would mean a cut to another part of their program. If the alternative is the grant program versus a 20% reduction on FY03 dollars, the districts would prefer the grant program.

Representative Hawker asked if the "alternative" would become a permanent entitlement. Ms. Francis understood that was true. Representative Hawker wondered if there was a commitment to some long-term stream of incremental costs that now are subject to appropriation.

STEVE KALMES, (TESTIFIED VIA TELECONFERENCE), DIRECTOR OF TRANSPORTATION, ANCHORAGE SCHOOL DISTRICT, ANCHORAGE, addressed the reason that there are increased costs in pupil transportation. There has been increased requirements and increased enrollment. The district runs safer buses than they did ten years ago. These buses are larger and require more fuel. Because a commercial drivers license has been added to the requirement, there must be background checks on

the employees, drug and alcohol tests, increased staff and bus driver trainings, and special education attendants to meet the needs for students with disabilities. Wages have also increased, as has the cost of fuel, parts, and supplies. Costs increase.

Mr. Kalmes continued, the district saves money through better route strategies, control start times and developing a three tier routing schedule. The only savings that could be found are reductions in service. Today, the district runs 44 fewer buses than it did in 1984.

Mr. Kalmes listed some concerns with HB 259. Because of increased costs, the districts will have to cut as many as 10-15 routes before breaking even. Additionally, there is the Special Education issue. He noted that 37% of the routes transport 5% of the population. He acknowledged that they are concerned with the impact to the 95% of students. Costs continue to increase and also there are contracts in affect until 2006, which were negotiated in good faith. He predicted that budget shortfalls would translate to reductions in service. Mr. Kalmes urged consideration of the FY04 base rather than FY03.

The issue is complex. School buses are the safest form of student transportation. When funds for transportation are reduced and the districts have to fund programs out of existing dollars, routes will be cut. He spoke to increasing the distance students would have to walk. In the case of the Anchorage areas, students would be required to cross major thoroughfares and walk along major arterials. Mr. Kalmes offered to answer questions of the Committee.

Vice-Chair Meyer inquired if 5% of the special needs students made up 75% of the costs. Mr. Kalmes responded that 37% of the buses are used on handicap routes and those buses transport 5% of the children. There is a requirement to provide service for handicapped children.

Representative Croft asked if it amounted to 63% of the expense for 5% of the students. Mr. Kalmes replied that 37% of the busses are used for the handicapped population, which amounts to 45% of the cost.

Vice-Chair Meyer requested a faxed copy of the costs.

Representative Hawker asked if the Anchorage School District supported the bill. Mr. Kalmes responded that the Board had not taken an official position on the bill. He noted that the district would not like to see money taken from this component and would prefer to receive continued full funding for student transportation.

Representative Hawker asked if the bill implies a continued entitlement grant program. Mr. Kalmes understood that there would be additional dollars for additional students, however, the fiscal note indication of zero in the out-years causes concern.

BRUCE JOHNSON, EXECUTIVE DIRECTOR, ASSOCIATION OF ALASKA SCHOOL BOARDS, JUNEAU, acknowledged the work done by Representative Gatto. He recognized that this would be a major policy shift in how student transportation is going to be funded. There are at least four major issues, two of which have to do with the opportunities in creating major efficiencies. He pointed out that if your district falls within one of those five that are now capped, they will take a huge cut before they are able to talk about any saving for further purposes.

The Association's is trying to determine if there can be a beneficial fix. Parents of multiple handicapped children tend to gravitate to the larger communities because of the types of service that their children require. He encouraged that door be "kept open" in determining a manageable solution with the available dollars.

Vice-Chair Meyer stated that HB 259 would be HELD in Committee for further consideration.

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#### ADJOURNMENT

The meeting was adjourned at 4:06 P.M.