

**ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON EDUCATION**

March 22, 2005

12:00 p.m.

MEMBERS PRESENT

Representative Mark Neuman, Chair
Representative Carl Gatto
Representative Bob Lynn
Representative Bill Thomas
Representative Peggy Wilson
Representative Les Gara

MEMBERS ABSENT

Representative Woodie Salmon

COMMITTEE CALENDAR

HOUSE BILL NO. 173

"An Act relating to school funding and adjusting the district cost factors; and providing for an effective date."

- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 173

SHORT TITLE: SCHOOL DISTRICT COST FACTORS

SPONSOR(S): RULES BY REQUEST OF LEG BUDGET & AUDIT

02/24/05	(H)	READ THE FIRST TIME - REFERRALS
02/24/05	(H)	EDU, FIN
03/15/05	(H)	EDU AT 11:00 AM CAPITOL 106
03/17/05	(H)	EDU AT 5:30 PM CAPITOL 106
03/17/05	(H)	-- Meeting Canceled --
03/22/05	(H)	EDU AT 11:00 AM CAPITOL 106

WITNESS REGISTER

REX SHATTUCK, Staff
to Representative Mark Neuman
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented HB 173 on behalf of Representative Neuman.

EDDY JEANS, Director
School Finance
Department of Education and Early Development
Juneau, Alaska
POSITION STATEMENT: Answered questions regarding HB 173.

BRADFORD TUCK
Institute of Social and Economic Research
University of Alaska
Anchorage, Alaska
POSITION STATEMENT: Answered questions regarding HB 173.

MATT BERMAN
Institute of Social and Economic Research
University of Alaska
Anchorage, Alaska
POSITION STATEMENT: Answered questions regarding HB 173.

ACTION NARRATIVE

CHAIR MARK NEUMAN called the House Special Committee on Education meeting to order at [12:00:55 PM](#). Representatives Gatto, Wilson, Neuman, and Lynn were present at the call to order. Representatives Gara and Thomas arrived as the meeting was in progress.

HB 173-SCHOOL DISTRICT COST FACTORS

CHAIR NEUMAN announced that the only order of business would be HOUSE BILL NO. 173, "An Act relating to school funding and adjusting the district cost factors; and providing for an effective date."

[12:01:38 PM](#)

REPRESENTATIVE WILSON moved to bring before the committee, HB 173, version 24-LS0644\A.

REPRESENTATIVE GATTO objected.

[12:02:55 PM](#)

REX SHATTUCK, Staff to Representative Mark Neuman, Alaska State Legislature, said Senate Bill 36, which passed in 1998, required the Department of Education and Early Development to submit updated district cost factors. To comply, the department

attempted to use existing cost-factor methods and the results were not supported by the data, he said. He said the McDowell Group determined that the methodology was not usable. The department recommended to the legislature that the cost factors remain unchanged, as adopted in AS14.17.460 in 1998, until the new cost models could be developed, he stated. Funds were added to the FY02 capital budget for the Legislative Budget and Audit Committee to contract for a new cost study. The American Institute for Research (AIR) was selected to develop the new district cost factors, he said.

MR. SHATTUCK stated that in January of 2003 AIR's report was released to a joint legislative hearing where concerns were expressed about the accuracy of its data. The institute responded to criticism of its report, he said, but offered no revisions. The Institute of Social and Economic Research (ISER) conducted a peer review that looked at the AIR study and found that some things were not adequately addressed in the report, including teacher turnover and estimation of energy costs. An updated report was submitted.

MR. SHATTUCK said a working group was formed with the directors of the finance and audit divisions, staff to the chairs of Legislative Budget and Audit, and Eddy Jeans to review and suggest format changes for the final report released on February 4, 2005. He said HB 173 would amend AS 14.17.460(a) to bring district cost factors in line with those published in the Institute of Social and Economic Research update.

[12:06:48 PM](#)

EDDY JEANS, Director of School Finance, Department of Education and Early Development, noted that Mr. Shattuck's testimony was accurate.

CHAIR NEUMAN asked Mr. Jeans if there are valid points on both sides of this issue.

[12:08:40 PM](#)

MR. JEANS said that the Department of Education and Early Development wasn't excited about the passing of Senate Bill 36, and he noted that "looking at one component of the foundation program in isolation of the entire program causes problems, and now you're all being faced with how to address that." The study done by AIR and submitted to the legislature, if implemented, "would actually save the state about \$4 million." School

districts and the Legislature expressed concerns about deficiencies in the AIR study. That is why the legislature commissioned the peer review by ISER, he said. The ISER report states that a significant piece of the model is teacher compensation, and that it underestimated the true differences between many school districts and Anchorage. The legislature commissioned a second study, he said, and the results of that study are HB 173. "To implement the results of that study would increase foundation approximately \$82 million," he said.

[12:11:03 PM](#)

CHAIR NEUMAN asked if all school districts except Anchorage would get money.

MR. JEANS stated that the legislature could adopt these cost differentials and not put any money into the foundation program. "If you do that, in essence, what the department would have to do is pro-rate the base student allocation." It would redistribute the existing resources, and the larger districts would have to pay for that redistribution, he said.

[12:12:27 PM](#)

REPRESENTATIVE THOMAS asked about the many years it took to get this data.

MR. JEANS said, "We've attempted to do it a number of times."

REPRESENTATIVE THOMAS said the delay agitates the problems for rural communities, and he suggested compensating them.

[12:14:26 PM](#)

REPRESENTATIVE GARA stated that his instincts say that the ISER report correctly states that the smaller schools have been under funded. He said the \$82 million would hold Anchorage harmless and then bring every other school ahead. Anchorage would stay at last year's budget, he speculated.

[12:15:22 PM](#)

MR. JEANS stated that he has a problem with the terminology of holding Anchorage harmless. To simply implement the cost differential changes would add \$82 million to the foundation program. "I don't see that as holding Anchorage harmless."

[12:16:07 PM](#)

REPRESENTATIVE GARA asked if Anchorage would receive the same amount of funds as it did last year if \$82 million are added to the program.

MR. JEANS stated that the Anchorage school district would not see an increase in budget based on the cost differential study, as long as enrollment stayed the same.

REPRESENTATIVE GARA said it would leave Anchorage in a \$20 million deficit if that happens.

CHAIR NEUMAN said it would not be fair to assume that Anchorage's cost have not increased from last year.

[12:18:24 PM](#)

REPRESENTATIVE WILSON stated that based on the two studies, the funding has not been fair to many school districts. It is realistic to help out Anchorage because most members "that are in this body" are from Anchorage. "But we have to fix this problem, because we are not being fair to some kids in this state."

[12:20:15 PM](#)

CHAIR NEUMAN said that no one knew how expensive heating oil would be and how that has affected schools.

REPRESENTATIVE GATTO stated that there was an instructional unit, and then SB 36 said the instructional unit was wrong, and then the AIR study said SB 36 was wrong, and now the ISER study says the AIR study is wrong. It is confusing, he said. The newest study always seems to criticize the previous study. "I walk into classrooms in big districts and I see 35 kids in a classroom. That's what I see, if it isn't 40. Then I walk into classrooms in rural districts and I see 12 kids. The ISER study is saying that we need to take money from the classrooms with 35 kids and redistribute it so that the classrooms with 12 kids get more of the money."

[12:22:55 PM](#)

BRADFORD TUCK, Institute of Social and Economic Research, University of Alaska, Anchorage, said there are two areas where recommendations were different from AIR's assessment: energy

costs and personnel compensation. He thinks that ISER has done a credible job in terms of assessing relative cost differences for teachers and administrators. He said ISER attempted to estimate what it would cost to obtain and retain teachers of comparable qualifications.

[12:27:30 PM](#)

REPRESENTATIVE GARA asked for the highest difference in pay between Anchorage and another school.

MR. TUCK said that the greatest differential would be 67 percent and that the Yupiit, North Slope, and Yukon Flats districts are in that ballpark.

[12:29:31 PM](#)

REPRESENTATIVE WILSON said that some contend that class size is the critical factor. But some schools have a mix of grades in one class, or they may have an extremely limited range of class offerings. Those are some of the things she would like to fix, but those data aren't used to help with decision-making.

MR. TUCK said that is a real problem, and he is not sure how the study dealt with "those micro-details." The study looked at teacher positions, but not with class size.

MATT BERMAN, Institute of Social and Economic Research, University of Alaska, Anchorage, said that Mr. Jeans noted the problems with looking at only one component of the foundation formula, without looking at the whole index.

[12:32:34 PM](#)

REPRESENTATIVE THOMAS said Senate Bill 36 was harmful to rural communities, and the makers of it intended it that way.

REPRESENTATIVE GATTO said it is difficult to impugn motives to people five years ago.

[HB 173 was held over.]

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Education meeting adjourned at [12:33:51 PM](#).