

HOUSE FINANCE COMMITTEE
April 7, 2006
1:42 P.M.

CALL TO ORDER

Co-Chair Meyer called the House Finance Committee meeting to order at [1:42:36 PM](#).

MEMBERS PRESENT

Representative Mike Chenault, Co-Chair
Representative Kevin Meyer, Co-Chair
Representative Bill Stoltze, Vice-Chair
Representative Richard Foster
Representative Mike Hawker
Representative Reggie Joule
Representative Mike Kelly
Representative Beth Kerttula
Representative Carl Moses
Representative Bruce Weyhrauch

MEMBERS ABSENT

Representative Jim Holm

ALSO PRESENT

Speaker John Harris; Eddy Jeans, Director, Education Support Services, Department of Education and Early Development; Mike Palowski, Staff, Representative Kevin Meyer; Ian Fisk, Staff, Representative Bill Thomas; Paul Lisankie, Director, Division of Workers' Compensation, Department of Labor & Workforce Development; Margo Warring, Juneau School Board; Andy Story, Juneau School Board; Julie Morris, Juneau School Board; Stephanie Allison, Glacier Valley School District, Juneau; John Ringstad, Fairbanks School District, Fairbanks; Mary Francis, Executive Director, Alaska Council of School Administrators; Mary Hakala, Alaska Kids Count Network, Juneau; Cindy Spanyers, Alaska Public Employees Association (APEA), Juneau

PRESENT VIA TELECONFERENCE

Deborah Germano, Borough Assembly, Homer; Bill Bjork, President, National Education Association (NEA)-Alaska, Anchorage; Harlon Harmon, North West Arctic Borough School District; Sarah Welton, President, Mat-Su School Board; Rob Wells, Mat-Su School Board; Doug Johnson, Valdez City School Board; Susan Sciabbarrasi, Superintendent, Wrangell Public School District

SUMMARY

HB 51 An Act relating to permitting employers in the same trade to form joint insurance arrangements for self-insured workers' compensation coverage.

CS HB 51 (FIN) was reported out of Committee with a "no" recommendation and with a new zero note by the Department of Labor & Workforce Development and indeterminate note #1 by the Department of Commerce, Community & Economic Development.

HB 362 An Act increasing the base student allocation used in the formula for state financing of public education; and providing for an effective date.

HB 362 was HEARD & HELD in Committee for further consideration.

HB 403 An Act relating to registration and operation of neighborhood electric vehicles.

CS HB 403 (FIN) was reported out of Committee with "individual" recommendations and with zero note #1 by the Department of Public Safety and fiscal note #2 by the Department of Administration.

[1:43:23 PM](#)

#HB403

HOUSE BILL NO. 403

An Act relating to registration and operation of neighborhood electric vehicles.

Co-Chair Chenault MOVED to ADOPT work draft #24-LS1229\L, Mischel/Luckhaupt, 3/31/06, as the version of the bill before the Committee. There being NO OBJECTION, it was adopted.

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IAN FISK, STAFF, REPRESENTATIVE BILL THOMAS, explained the changes, which eliminates Section 1, and language was added to Page 3, Lines 9-11, specifying that the low-speed vehicle cannot be operated within a municipality unless that municipality has adopted an ordinance allowing it. The Division of Motor Vehicles (DMV) for those changes noted support.

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Representative Hawker thanked Representative Thomas for the legislation.

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Representative Hawker MOVED to REPORT HB CS 403 (FIN) out of Committee with individual recommendations and with the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

CS HB 403 (FIN) was reported out of Committee with "individual" recommendations and with zero note #1 by the Department of Public Safety and fiscal note #2 by the Department of Administration.

#HB362
[1:47:49 PM](#)

HOUSE BILL NO. 362

An Act increasing the base student allocation used in the formula for state financing of public education; and providing for an effective date.

EDDY JEANS, DIRECTOR, EDUCATION SUPPORT SERVICES, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, explained that HB 362 would raise the Base Student Allocation (BSA) for students attending public schools K-12 beginning in FY07. Under the bill, the BSA would increase from \$4,919 to \$5,352, approximately an 8.8% increase over last year. It would be the fourth increase since 2003, when the allocation was at \$4,010; all four increases amount to a 33% increase.

Mr. Jeans continued, the bill is an important effort to finance K-12 public education at a level, to meet the increased costs of the school districts. The increase adds approximately \$90 million dollars to education.

Mr. Jeans explained the funding break down:

- \$40 million dollars for Public Employees Retirement System (PERS) and Teacher's Retirement System (TRS) increases;
- \$30 million dollars for increased fuel costs; and
- \$20 million dollars to help school districts meet adequate yearly progress.

Mr. Jeans advised that the \$20 million dollars was included as a discussion starting point.

Representative Hawker mentioned the unpredictability of energy costs and asked if direct reimbursement had been considered. Mr. Jeans explained that the Department does not control how costs are incurred. Allocating funds through the program makes it discretionary; it up to the local school boards to determine how to allocate those revenues.

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Representative Hawker stated that school funding must be addressed more innovatively.

Vice Chair Stoltze commented that the Mat-Su school district had hired "efficiency experts", who pointed out habit forming activities of the personnel to help minimize costs. Mr. Jeans replied that most districts had considered such ideas from various perspectives and he mentioned the Fairbanks and Kodiak school district's reduction of energy costs.

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PUBLIC TESTIMONY

MARGO WARRING, JUNEAU SCHOOL DISTRICT testified on HB 262 and spoke on behalf of the Juneau Board of Education in support of an increase to the BSA. The current proposed BSA is \$5,352 dollars, which unfortunately for Juneau means a \$2 million dollar cut to the current budget. The recommended BSA is in the amount of \$5,552 dollars, an increase of \$200 additional dollars.

Ms. Warring underscored the importance of education in the world. The largest communities in the world, India and China, are growing because of their greater funding of the education infrastructure. The United States (U.S.) now rates as #17th in the world for education achievement levels. There are enormous disparities between Asian and American high schools and achievement levels. The number #1 factor in success is not class size but the quality of education. It is important that each state commit to education to attract highly qualified teachers.

The U.S. average for teacher's salaries was 31.5% during the 1990-2000. During that same time, Alaska teacher's salary only grew 10.9%, last amongst all state. The percentage of the Alaska State budget that goes to K-12 education is now the lowest in the Nation.

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ANDY STORY, JUNEAU SCHOOL DISTRICT, thanked the public assembly for funding to the cap for education in Juneau. Even that continued support has not been enough to maintain levels of adequate help for the schools. Increased expenditures exceed the increased revenue for the coming year. HB 362 proposes \$2 million dollars in cuts to the Juneau school budget next year if more revenue is not invested for education. The Alaska Association of School

Boards (AASB) distributed a handout indicating the BSA increase needed for services and costs.

Ms. Story reiterated that the recommended increase should be \$200 dollars more per pupil and that salary increases proposed for the staff are modest.

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JULIE MORRIS, JUNEAU SCHOOL BOARD, noted that the school board had participated in a task force during the summer, which looked at cost factors. She recommended adjusting those cost factors over the top of what the Governor has proposed. Currently Juneau received a .005-cent (1/2 penny more than Anchorage); however, a recent study recommended an adjustment of 14.5%. She maintained that implementing half that amount could restore a maintenance level of funding.

Ms. Morris pointed out that many other school districts face the same challenges with the erosion of purchasing power from the BSA due to cost differentials. The schools are hurting. Of the \$90 million dollars proposed by the Governor, nearly half will go into the Public Employees Retirement System (PERS) and Teacher's Retirement System (TRS).

Co-Chair Meyer interjected, it was not his intent to move the bill from committee at this time. The bill would be held.

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STEPHANIE ALLISON, GLACIER VALLEY SCHOOL DISTRICT, JUNEAU, voiced concern that the BSA is not sufficient to educate our children. With the proposed cuts, in her son's class, it would mean the loss of a minimum of one teacher with class sizes increasing. The loss of an elementary teacher is serious and means that teachers spend more time managing and less time teaching. The current proposal means that a teacher would average 25 elementary students per class. She worried about funding and how it affect student's struggle to succeed.

Ms. Allison pointed out that Alaska fails to fund their schools adequately, which means that Alaska fails to realize that their most valuable asset is their children. The current BSA holds the Juneau School District short by \$2 million dollars. She noted that children are holding fund-raisers to fund their art programs.

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JOHN RINGSTAD, FAIRBANKS SCHOOL DISTRICT, FAIRBANKS, commented that Fairbanks supports the proposed legislation.

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MARY FRANCIS, EXECUTIVE DIRECTOR, ALASKA COUNCIL OF SCHOOL ADMINISTRATORS, JUNEAU, addressed school funding. At the time that the Governor's proposal was presented, most school administrators statewide did not have the opportunity to determine the impact. There are short falls everywhere in the State, while attempting to sustain programs. She pointed out the many years of flat funding for schools. Ms. Francis urged consideration of a larger BSA.

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MARY HAKALA, ALASKA KIDS COUNT NETWORK, JUNEAU, spoke of the concerns parents everywhere in the State have. Education is a massive subject and difficult to address. She spoke to the future potential of Alaska, which rests with the youth of the State.

The gas line will sustain the State economically but it is the youth that will sustain Alaska into the future. She urged no more cuts to school program and requested:

- No more cuts to what is left;
- Allow for improvements, and that
- Local control works.

Ms. Hakala emphasized that the cuts are real and deep. She pointed out that property taxes are high. The State cannot expect the communities to continue fully funding education. Approximately, \$150 million extra dollars are needed to keep schools whole. The State cannot sustain those costs. The Federal government is changing their Cost-of-Living-Allowance (COLA) in Alaska. Right now, Alaska ranks as the #44th State in funding of school education in the Nation. Ms. Hakala commented that with Alaska's wealth, the State should rank in the top ten and urged that the Legislature make the necessary resources available.

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CINDY SPANYERS, ALASKA PUBLIC EMPLOYEES ASSOCIATION (APEA), JUNEAU, stated that the parents of the State are counting on legislators to maintain programs that are now in place. She mentioned the number of children in her child's elementary school and addressed parental involvement. The Juneau School District has given many hours to improve the numbers. She urged that funding be increased.

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DEBORAH GERMANO, (TESTIFIED VIA TELECONFERENCE), BOROUGH ASSEMBLY, HOMER, voiced concern for the direction that education is moving in the State. The numbers proposed by the Governor are not enough and that the Homer School District is seriously "hurting".

Ms. Germano addressed direct funding of fuel costs. Currently, almost \$1 million dollars per year in operating money is going to support transportation. She urged that the increase be assessed, relating to how it affects each of the districts for transportation, health insurance, & salary costs. She requested at least \$1.5 million extra dollars funding allocation. She reiterated that Homer is currently a "bare-bones" operation.

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BILL BJORK, (TESTIFIED VIA TELECONFERENCE), PRESIDENT, NATIONAL EDUCATION ASSOCIATION (NEA)-ALASKA, ANCHORAGE, stated that their organization represents the 13,000 teachers and support staff statewide. He stressed that schools need help and addressed the Governor's request. Mr. Bjork worried that funding discussions are coming up too late in session to adequately address needs. Schools are making decisions about the upcoming year at this time and the proposed amounts are being spread too thin. He pointed out the number of lay-offs that will occur with shortfalls to Juneau and Anchorage.

Mr. Bjork noted that K-12 schools are suffering from the high costs of energy. Schools are feeling the crunch of all those costs. He believes there is a better way to fund schools. Costs need to be determined to meet the standards of the State, which should not be "difficult or political".

Mr. Bjork urged that education be looked at as the #1 resource investment. It will pay dividends for the future of Alaska. NEAA is recommending a base allocation of \$5,611 per student, an increase of \$145 million dollars over the Governor's recommendation. The Kenai School District is a "poster child" for the negative impact of current funding of the schools - a school district that has cut everything and now must cut 70 more teachers.

Mr. Bjork stressed that Alaska can do better, emphasizing that the State is counting on the Legislature to more wisely address education.

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HARLON HARMON, (TESTIFIED VIA TELECONFERENCE), NORTH WEST ARCTIC BOROUGH SCHOOL DISTRICT, testified on an additional BSA level increase. He worried about the undetermined costs associated with medical and insurance. He stressed that

inflationary items cannot be covered with the \$20 million dollars. He encouraged consideration above the proposed amount. The primary concern rests with meeting mandates for increased quality, which comes with a price tag. He encouraged the Committee to make an appropriate investment for education.

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SARAH WELTON, (TESTIFIED VIA TELECONFERENCE), PRESIDENT, MAT-SU SCHOOL BOARD, stated that the Mat-Su district is the fastest growing area in the State and that increases to costs for doing business are rising. The district requests an increase above the \$90 million dollars recommended by the Governor. She explained that the price tag proposed by the Governor translates to a cut of 80 teachers in that district with a growth in population.

Ms. Welton urged greater funding for the Alaska schools.

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ROB WELLS, (TESTIFIED VIA TELECONFERENCE), MAT-SU SCHOOL BOARD, commented on the difficulty that the Mat-Su School District is experiencing from the increased costs of running those schools. He highlighted the increases experienced by the Mat-Su School district:

- \$4.4 million for the TRS
- Over \$4.1 million in contract increases
- Over \$2.5 million in health insurance
- \$1.8 million in new staff costs
- \$800 thousand to open a new elementary school
- \$750 thousand in fixed costs
- Over \$1 million in special education costs

Mr. Wells mentioned the tax cap adopted by the Assembly last year. He recommended that Municipal Assistance and Revenue Sharing be reinstated to help the local school districts. He hoped to see the Institute of Social and Economic Research (ISER) study resolution this year.

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DOUG JOHNSON, (TESTIFIED VIA TELECONFERENCE), VALDEZ CITY SCHOOL BOARD, VALDEZ, spoke to the lay-offs that the Valdez School District will experience with the increase as proposed by the Governor. Valdez has always had the support of their City for additional educational support. He emphasized needs resulting from the high PERS/TRS costs and the eroding floor resulting from passage of SB 36. As of March 31, 2006, their district was \$56 thousand above the

budgeted fuel amount. He estimated that they would be \$700 thousand dollars short in the next school year, which will require more teacher layoffs.

Mr. Johnson observed that the City of Valdez has funded the school district to the cap. He spoke in support of additional funding regardless of what it takes.

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SUSAN SCIABBARRASI, (TESTIFIED VIA TELECONFERENCE), SUPERINTENDENT, WRANGELL PUBLIC SCHOOL DISTRICT, WRANGELL, testified in support of HB 362. She acknowledged the Governor's proposed funding increase, but observed that school districts still have to make huge cuts with Kenai, Valdez and Wrangell, hardest hit. The BSA should adequately be funded with consideration of the area cost differential.

Ms. Sciabbarrasi pointed out that Anchorage is used as the base for the area cost differential. In order to meet equity, the district cost factors must be considered. She stressed that with the proposed increase, districts are experiencing cost deficits up to 90%. She urged that the \$91.2 million dollar increase be accepted and fully funding for new district cost factors.

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Co-Chair Chenault stated his intention was to submit an amendment addressing the area cost differential. He observed the effects of the cost differential on school districts. He argued that the cost of keeping students in school is less than the social cost if they drop out.

Co-Chair Chenault indicated that it was not his intent to hurt any school district in the State. The intent is to make a fair and equitable system for the State of Alaska. Adjustments have not been made yet, instead funding has been added to the base, which increases the gap between those with increased costs. He noted that his amendment would make increases according to 25% of the ISER study. He expressed his willingness to continue working on a proposal, but maintained that equity must be addressed.

Co-Chair Chenault proposed 25% to the cost factors, which is still short of what it will take to fix his district. He maintained that forward motion must occur. The cost differentials help all districts in the State. He did not support additional funding to the base, without an increase to the differentials.

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Co-Chair Meyer observed the difficulties in addressing the base allocation. He acknowledged the need, but stressed that the largest school district [Anchorage] would not benefit.

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Representative Kelly asked if a cap had been considered. Co-Chair Chenault stated that he was willing to look at a cap, but reiterated the need for addressing the differentials. He stated if a study occurs, it must have specific requests for that information.

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Representative Kelly referenced areas difficult to recruit teachers. Co-Chair Chenault explained he is looking to fund fuel, PERS and TRS costs inside and outside of the formula. There will be winners and losers under most options. He observed that Kenai is currently funded to the cap, reiterating that most inequity results from cost differentials, which have not been changed since 1998.

HB 362 was HELD in Committee for further consideration.

#HB51

[3:01:27 PM](#)

HOUSE BILL NO. 51

An Act relating to permitting employers in the same trade to form joint insurance arrangements for self-insured workers' compensation coverage.

Co-Chair Meyer MOVED to ADOPT Amendment #1. Representative Kelly OBJECTED.

MIKE PALOWSKI, STAFF, REPRESENTATIVE KEVIN MEYER, explained that Amendment #1 on Page 2, Line 11, clarifies the joint liability language. The amendment adds "and the solvency of the association of self-insured employers". The amendment clarifies the member's obligations and the solvency of the association.

Representative Kelly WITHDREW his OBJECTION. There being NO further OBJECTION, Amendment #1 was adopted.

Co-Chair Meyer MOVED to ADOPT Amendment #2. Representative Kelly OBJECTED.

Mr. Palowski explained that Amendment #2, Page 5, Line 27, addresses concerns with assessment. The amendment inserts "of not less than \$300,000 in the aggregate and not less than \$10,000", in order to qualify for a certificate of

self-insurance. He acknowledged that it would push some smaller companies from being able to join some associations. The sponsoring groups testified in favor of the legislation including that language.

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Representative Weyhrauch pointed out that addition of that language would drive him out of business. He questioned the deletion of all material on Page 5. He suggested alternative language to Line 28: "Or an amount necessary to maintain solvency with the association". That language could provide the Department the discretion to determine the appropriateness of the floor. He noted that he did support the first part of the amendment.

Mr. Pawlowski agreed that the change could work well for the language of the bill and was consistent with the intent.

Representative Weyhrauch MOVED to AMEND Amendment #2, deleting Lines 5 & 6 of the amendment and then on Page 5, Line 28, add "or" before "in". There being NO OBJECTION, Amendment #2 was amended.

Representative Kelly WITHDREW his OBJECTION to Amendment #2. There being NO further OBJECTION, amended Amendment #2 was adopted.

[3:09:11 PM](#)

Co-Chair Meyer MOVED to ADOPT Amendment #3. Vice Chair Stoltze OBJECTED.

Mr. Pawlowski stated that Amendment #3 relates to single self-insurance. Page 2, Line 1, deletes \$5 million dollars and inserts \$10 million dollars; Page 6, Line 9, deletes \$5 million dollars and inserts \$10 million dollars; Page 6, Line 11, deletes \$5 million dollars and inserts \$10 million dollars. The changes reflect the testimony received from the Department of Labor & Workforce Development.

Vice Chair Stoltze WITHDREW his OBJECTION.

Representative Kelly asked the new number. Mr. Pawlowski did not know. There being NO further OBJECTION, Amendment #3 was adopted.

[3:10:45 PM](#)

Co-Chair Meyer MOVED to ADOPT Amendment #4. Vice Chair Stoltze OBJECTED.

Mr. Pawlowski explained the change to Page 6, Line 18, following "employers", inserting "shall be registered under

AS 21.27.630-21.27.660 and". The change was recommended by Director Linda Hall, Department of Labor & Workforce Development, allowing the process of claims be addressed by a 3rd party administrator.

Vice Chair Stoltze WITHDREW his OBJECTION. There being NO further OBJECTION, Amendment #4 was adopted.

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Co-Chair Meyer MOVED to ADOPT Amendment #5. Representative Kelly OBJECTED.

PAUL LISANKIE, DIRECTOR, DIVISION OF WORKERS' COMPENSATION, DEPARTMENT OF LABOR & WORKFORCE DEVELOPMENT, explained that Amendment #5 reflects that the association will be kept in the frame work of the Workers Compensation Act for purposes of determining entitlement.

Mr. Lisankie continued, Part 2 of the Amendment, Page 16, following Line 7, the association will not have a premium but rather an assessment. Currently, the language requests consideration of insertion of "each association of self insured employers" base all contributions on either insurance premiums or payments. That language guarantees that the association, on behalf of the members, would make the contributions now. The tail end of the amendment provides provisions needed when an association is started & then during the transition period.

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Representative Kerttula inquired where workers would be placed under the second portion of Amendment #5. Mr. Pawlowski explained that the provisions in Title 21, relates to the accounting portion. The places, where it would be applicable, such as on Page 7, Line 30, providing the investment of assets and the type of investment classes. There is a difference between accounting and gap accounting, and the internal procedures the insurance company is required to go through, and is not appropriate for self-insurance.

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Mr. Lisankie agreed, stating that it would guarantee that they fit into the Worker's Compensation statute but not subject to all the Title 21 Insurance Act regulations.

Representative Kelly WITHDREW his OBJECTION. There being NO further OBJECTIONS, Amendment #5 was adopted.

[3:17:56 PM](#)

Representative Weyhrauch MOVED to ADOPT Conceptual Amendment #6 to Page 15, Line 26, describing a tangible net income. Co-Chair Meyer OBJECTED.

Representative Weyhrauch addressed net worth protection by adding after "chapter", language: "including defining tangible net worth".

Mr. Pawlowski thought that would be okay. Co-Chair Meyer agreed.

Co-Chair Meyer WITHDREW his OBJECTION. There being NO further OBJECTION, conceptual Amendment #6 was adopted.

[3:20:29 PM](#)

Representative Foster MOVED to REPORT CS SS HB 51 (FIN) out of Committee with individual recommendations and with the accompanying notes. There being NO OBJECTION, it was so ordered.

CS HB 51 (FIN) was reported out of Committee with a "no" recommendation and with a new zero note by the Department of Labor & Workforce Development and indeterminate note #1 by the Department of Commerce, Community & Economic Development.

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ADJOURNMENT

The meeting was adjourned at 3:23 P.M.