

**ALASKA STATE LEGISLATURE  
HOUSE RULES STANDING COMMITTEE**

April 20, 2006

9:04 a.m.

**MEMBERS PRESENT**

Representative Norman Rokeberg, Chair  
Representative John Coghill  
Representative John Harris  
Representative Lesil McGuire  
Representative Ethan Berkowitz  
Representative David Guttenberg

**MEMBERS ABSENT**

Representative Vic Kohring

**COMMITTEE CALENDAR**

HOUSE BILL NO. 278

"An Act relating to the Alaska Municipal Bond Bank Authority; permitting the Alaska Municipal Bond Bank Authority or a subsidiary of the authority to assist state and municipal governmental employers by issuing bonds and other commercial paper to enable the governmental employers to prepay all or a portion of the governmental employers' shares of the unfunded accrued actuarial liabilities of retirement systems and authorizing governmental employers to contract with and to issue bonds, notes, or commercial paper to the authority or its subsidiary corporation for that purpose; and providing for an effective date."

- MOVED CSHB 278(RLS) OUT OF COMMITTEE

HOUSE BILL NO. 13

"An Act relating to reimbursement of municipal bonds for school construction; and providing for an effective date."

- MOVED CSHB 13(RLS) OUT OF COMMITTEE

**PREVIOUS COMMITTEE ACTION**

BILL: HB 278

SHORT TITLE: RETIREMENT SYSTEM BONDS

SPONSOR(S): REPRESENTATIVE(S) HAWKER

04/19/05 (H) READ THE FIRST TIME - REFERRALS  
 04/19/05 (H) STA, FIN  
 01/12/06 (H) STA AT 8:00 AM CAPITOL 106  
 01/12/06 (H) Heard & Held  
 01/12/06 (H) MINUTE(STA)  
 01/17/06 (H) STA AT 8:00 AM CAPITOL 106  
 01/17/06 (H) Heard & Held  
 01/17/06 (H) MINUTE(STA)  
 01/19/06 (H) STA AT 8:00 AM CAPITOL 106  
 01/19/06 (H) Heard & Held  
 01/19/06 (H) MINUTE(STA)  
 01/24/06 (H) STA AT 8:00 AM CAPITOL 106  
 01/24/06 (H) Heard & Held  
 01/24/06 (H) MINUTE(STA)  
 01/26/06 (H) STA AT 8:00 AM CAPITOL 106  
 01/26/06 (H) Moved Out of Committee  
 01/26/06 (H) MINUTE(STA)  
 01/27/06 (H) STA RPT 2DP 5NR  
 01/27/06 (H) DP: GARDNER, GRUENBERG;  
 01/27/06 (H) NR: LYNN, ELKINS, RAMRAS, GATTO, SEATON  
 03/08/06 (H) FIN AT 1:30 PM HOUSE FINANCE 519  
 03/08/06 (H) Heard & Held  
 03/08/06 (H) MINUTE(FIN)  
 03/24/06 (H) FIN AT 1:30 PM HOUSE FINANCE 519  
 03/24/06 (H) Moved CSHB 278(FIN) Out of Committee  
 03/24/06 (H) MINUTE(FIN)  
 03/27/06 (H) FIN RPT CS(FIN) NT 4DP 3NR  
 03/27/06 (H) DP: HAWKER, WEYHRAUCH, FOSTER, MEYER;  
 03/27/06 (H) NR: KELLY, KERTTULA, STOLTZE  
 04/13/06 (H) RLS AT 1:30 PM CAPITOL 106  
 04/13/06 (H) -- Meeting Canceled --  
 04/20/06 (H) RLS AT 9:00 AM CAPITOL 17

BILL: HB 13

SHORT TITLE: SCHOOL CONSTRUCTION BOND REIMBURSEMENT

SPONSOR(s): REPRESENTATIVE(s) GATTO, GRUENBERG

01/10/05 (H) PREFILE RELEASED 12/30/04  
 01/10/05 (H) READ THE FIRST TIME - REFERRALS  
 01/10/05 (H) EDU, HES, FIN  
 01/25/05 (H) EDU AT 11:00 AM CAPITOL 106  
 01/25/05 (H) -- Meeting Canceled --  
 02/01/05 (H) EDU AT 11:00 AM CAPITOL 106  
 02/01/05 (H) Heard & Held  
 02/01/05 (H) MINUTE(EDU)  
 02/22/05 (H) EDU AT 11:00 AM CAPITOL 106  
 02/22/05 (H) -- Meeting Canceled --

03/03/05 (H) EDU AT 11:00 AM CAPITOL 106  
 03/03/05 (H) Moved Out of Committee  
 03/03/05 (H) MINUTE(EDU)  
 03/04/05 (H) EDU RPT 5DP  
 03/04/05 (H) DP: GARA, GATTO, WILSON, THOMAS, NEUMAN  
 03/15/05 (H) HES AT 3:00 PM CAPITOL 106  
 03/15/05 (H) Scheduled But Not Heard  
 03/22/05 (H) HES AT 3:00 PM CAPITOL 106  
 03/22/05 (H) <subcommittee meeting>  
 03/29/05 (H) HES AT 3:00 PM CAPITOL 106  
 03/29/05 (H) Heard & Held  
 03/29/05 (H) MINUTE(HES)  
 04/05/05 (H) HES AT 3:00 PM CAPITOL 106  
 04/05/05 (H) Heard & Held  
 04/05/05 (H) MINUTE(HES)  
 04/07/05 (H) HES AT 3:30 PM CAPITOL 106  
 04/07/05 (H) <Bill Hearing Postponed>  
 04/14/05 (H) HES AT 3:00 PM CAPITOL 106  
 04/14/05 (H) Moved CSHB 13(HES) Out of Committee  
 04/14/05 (H) MINUTE(HES)  
 04/15/05 (H) HES RPT CS(HES) NT 4DP 1NR  
 04/15/05 (H) DP: CISSNA, GARDNER, KOHRING, WILSON;  
 04/15/05 (H) NR: SEATON  
 04/20/05 (H) FIN AT 1:30 PM HOUSE FINANCE 519  
 04/20/05 (H) -- Meeting Canceled --  
 04/21/05 (H) FIN AT 1:30 PM HOUSE FINANCE 519  
 04/21/05 (H) Heard & Held  
 04/21/05 (H) MINUTE(FIN)  
 04/23/05 (H) FIN AT 10:00 AM HOUSE FINANCE 519  
 04/23/05 (H) Scheduled But Not Heard  
 04/26/05 (H) FIN AT 1:30 PM HOUSE FINANCE 519  
 04/26/05 (H) Heard & Held  
 04/26/05 (H) MINUTE(FIN)  
 04/27/05 (H) FIN AT 1:30 PM HOUSE FINANCE 519  
 04/27/05 (H) Moved CSHB 13(FIN) Out of Committee  
 04/27/05 (H) MINUTE(FIN)  
 05/02/05 (H) FIN RPT CS(FIN) NT 6DP 4NR  
 05/02/05 (H) DP: JOULE, WEYHRAUCH, CROFT, MOSES,  
 FOSTER, CHENAULT;  
 05/02/05 (H) NR: HAWKER, HOLM, KELLY, MEYER  
 04/13/06 (H) RLS AT 1:30 PM CAPITOL 106  
 04/13/06 (H) -- Meeting Canceled --  
 04/20/06 (H) RLS AT 9:00 AM CAPITOL 17

**WITNESS REGISTER**

REPRESENTATIVE MIKE HAWKER

Alaska State Legislature  
Juneau, Alaska

POSITION STATEMENT: Spoke as the sponsor of HB 278.

REPRESENTATIVE CARL GATTO

Alaska State Legislature  
Juneau, Alaska

POSITION STATEMENT: Spoke as one of the co-prime sponsors of HB 13.

CODY RICE, Staff

to Representative Carl Gatto  
Alaska State Legislature  
Juneau, Alaska

POSITION STATEMENT: Answered questions during hearing on HB 13 on behalf of Representative Gatto, co- prime ponsor.

#### **ACTION NARRATIVE**

**CHAIR NORMAN ROKEBERG** called the House Rules Standing Committee meeting to order at [9:04:12 AM](#). Representatives Berkowitz, Guttenberg, Harris, Coghill, and Rokeberg were present at the call to order. Representative McGuire arrived as the meeting was in progress.

#### HB 278-RETIREMENT SYSTEM BONDS

[9:04:36 AM](#)

CHAIR ROKEBERG announced that the first order of business would be HOUSE BILL NO. 278, "An Act relating to the Alaska Municipal Bond Bank Authority; permitting the Alaska Municipal Bond Bank Authority or a subsidiary of the authority to assist state and municipal governmental employers by issuing bonds and other commercial paper to enable the governmental employers to prepay all or a portion of the governmental employers' shares of the unfunded accrued actuarial liabilities of retirement systems and authorizing governmental employers to contract with and to issue bonds, notes, or commercial paper to the authority or its subsidiary corporation for that purpose; and providing for an effective date."

[9:04:51 AM](#)

REPRESENTATIVE HARRIS moved to adopt CSHB 278, Version 24-LS0883\Y, Cook, 4/11/06, as the working document. There being no objection, Version Y was before the committee.

9:05:12 AM

REPRESENTATIVE MIKE HAWKER, Alaska State Legislature, sponsor, explained that HB 278 authorizes government workers in Alaska to engage in "Pension Obligation Bond" (POB) transactions. He said that in a POB transaction money is borrowed at a lower rate of interest than the money earns when invested within pension funds. He stated that the governmental employer profits from the difference, adding that this is a "legal arbitrage mechanism."

REPRESENTATIVE HAWKER went on to say that he would go through the sectional analysis of the bill and explain changes made in Version Y. Section 1 applies to the Teachers' Retirement System (TRS), adding a new section which allows employers to pay all or a portion of unfunded pension obligations. He said that Section 2 contains the majority of changes from the House Finance Committee Substitute. He said that this section improved readability by replacing "bonds, notes, commercial paper, or other obligations" with "obligations," and added a definition of "obligations" which includes these instruments. In addition, Version Y removes language that would be covered in the funds diversion agreement.

REPRESENTATIVE HAWKER said that Sections 3 and 4 add facilitating language to the accounting statutes for the Public Employees' Retirement System (PERS). Section 5 parallels Section 1 of the bill and applies to PERS. He explained that Section 6 adds to the statutory policies established for the Municipal Bond Bank Authority. He pointed out that the bond bank should provide the lowest rates possible without subsidizing the employers beyond their means. Moving on to Section 7, he said that this section applies to the powers of the bond bank, and allows the bond bank to create a subsidiary organization for the purpose of facilitating municipal POB transactions, if appropriate.

REPRESENTATIVE HAWKER continued with Section 8 that adds a new statute defining the powers of the Municipal Bond Bank Authority when handling POB transactions. This includes guidelines such as: providing assistance to employers, performing duties which are necessary, and authorizing the issuance of debt and obligations for these purposes. He said that POBs are substituting a "hard debt" for a "soft debt," and expressed disagreement with this term. He stated that pension obligations are contractual obligations, and are considered a debt. He said

that if the debt is transferred to the Municipal Bond Bank, there are limitations on the amount of debt the bond bank may issue. Section 9 exempts POBs from the current limit for revenue bonds. He explained that Section 10 authorizes the Municipal Bond Bank to issue POBs, while Section 11 "raises the cap" on debt other than revenue bonds.

REPRESENTATIVE HAWKER said that Section 12 adds a definition for "government employer." He noted that the House State Affairs Committee and the House Finance Committee both held several hearings on the bill. Most of the changes in Version Y, he said, are to make the bill readable.

[9:12:21 AM](#)

REPRESENTATIVE BERKOWITZ referred to line 1 of the title, which reads "An Act relating to accrued actuarial liabilities of government systems;" and asked Representative Hawker if he would object to removing it.

REPRESENTATIVE HAWKER said that he would be amenable to that deletion.

CHAIR ROKEBERG opined that a little "wordsmithing" may improve this, as the bill specifically applies to POBs and is not "re-writing the entire pension system."

REPRESENTATIVE HAWKER said that the aforementioned section of the title is not "a necessary component."

[9:13:44 AM](#)

The committee took an at-ease from 9:13 a.m. to 9:14 a.m.

REPRESENTATIVE BERKOWITZ moved Conceptual Amendment 1, as follows:

Page 1, line 1:  
Delete "**relating to accrued actuarial liabilities of government retirement systems;**"

REPRESENTATIVE HARRIS objected for discussion purposes. He stated that this language applies to PERS and TERS and reflects the purpose of the bill.

REPRESENTATIVE BERKOWITZ replied that page 1, line 6 contains the appropriate information. He said that leaving in the

language which he wanted to delete would leave the title open-ended.

9:15:20 AM

REPRESENTATIVE HAWKER stated that he concurs with Representative Berkowitz's conclusion. He pointed out that HB 278 specifically authorizes [POB] transactions. Referring to lines 7-10 of the title, he stated that "authorizing a governmental employer to issue obligations to prepay" and "enter into a lease or other contractual agreement with a trustee or the Alaska Municipal Bond Bank Authority or a subsidiary" is the "meat of the bill." He said, "Although [HB 278] is a means to address the accrued actuarial liabilities of government retirement systems, the bill itself really does not relate to those liabilities; it really relates to the ability and power of governments to address the liabilities."

REPRESENTATIVE HARRIS withdrew his objection.

REPRESENTATIVE ROKEBERG noted that there was no further objection to Conceptual Amendment 1, and therefore Conceptual Amendment 1 was adopted.

9:16:13 AM

CHAIR ROKEBERG, in regard to the current limit on revenue bonds, asked if the establishment of a subsidiary avoids the "cap," or if avoiding the "cap" is necessary to establish a subsidiary.

REPRESENTATIVE HAWKER replied that the subsidiary is part of the Bond Bank Authority, and its debt is within the Bond Bank Authority's overriding "caps." He said "The intent here was [that] the ... Pension Obligation Bond issues ... would not be charged against the current cap of the ability of the bond bank to service community needs."

CHAIR ROKEBERG asked what political subdivisions are authorized to do this.

REPRESENTATIVE HAWKER said this is defined on page 11, under Section 12 of Version Y, which reads:

(8) "governmental employer" means the State of Alaska or a municipality or other state or municipal governmental entity within the state, including an agency, instrumentality, district, school district,

public corporation, department, division, or other subdivision of the state or of a municipality, in its capacity as an employer.

REPRESENTATIVE HAWKER relayed that the intent in drafting this was to be as broad as possible in order to encompass all governmental employers participating in either the PERS or TRS systems. Earlier versions, he explained, had included the University of Alaska in that definition as per the university's request. He remarked that this inclusion was removed, however, per the request of Representative Weyhrauch and through the vote of the House Finance Committee. In response to Chair Rokeberg, he said he could not recall the rationale behind this.

CHAIR ROKEBERG sought confirmation that the Alaska State Constitution prohibits the state, as a governmental entity, from issuing POBs.

REPRESENTATIVE HAWKER related his understanding that the Alaska State Constitution specifically prohibits the issuance of general obligation bonds for any purpose other than capital projects, which still requires a vote of the people. However, he explained that even the people cannot vote on a general obligation bond proposition for the purpose of satisfying the pension obligations. He highlighted that this is fairly typical across the country in different state constitutions. However, the capital markets, he said, have created many other mechanisms that allow [states] to "sidestep" their constitutions on the issuance of debt in the state: certificates of participation, contracts, leases, and other creative financing mechanisms. He informed the committee that the current state administration opposes the use of pension obligation bonds and opposes this bill. He opined that "... just because the administration opposes something, is no reason for us to adopt their policy decision. There has been overwhelming proof that this is a responsible, functional mechanism that can be utilized." This bill, he explained, has been brought forward at the request of municipal employers who want the opportunity to review the options. Additionally, he relayed that the Alaska State Constitution also prohibits municipal entities from issuing general obligation bonds for anything other than capital projects. These entities, he explained, "would have to structure their transactions using one of these alternative debt mechanisms that 'sidesteps' the general obligation bond proposition."

REPRESENTATIVE BERKOWITZ asked whether it is Representative Hawker's position that the pension obligation bond isn't "contemplated in the constitution."

REPRESENTATIVE HAWKER noted that the concept of POBs was not in existence when the Alaska State Constitution was drafted.

REPRESENTATIVE HARRIS opined that regardless of the means used [to pay down the unfunded liability], "the full faith and credit of the State of Alaska has to fall behind the debt that we owe to the employees ... to pay to them at their times of retirement and for healthcare."

[9:21:53 AM](#)

REPRESENTATIVE HAWKER, upon stating his agreement with Representative Harris, said that the state has a contractual obligation to its employees and that "one way or the other, we owe money to the pension fund." He then clarified that this bill only empowers municipal employers or governmental employers to "pursue transactions" and does not authorize or commit a transaction. Furthermore, he said, there is no consequence to the bill unless a municipal entity "would choose to avail itself of additional clarification of their authorities."

[9:23:05 AM](#)

CHAIR ROKEBERG closed public testimony of HB 278.

[9:23:16 AM](#)

REPRESENTATIVE HARRIS asked Representative Hawker if there was opposition to the bill in the House Finance Committee that required it be pared down or simply that more information had been learned to merit a change.

REPRESENTATIVE HAWKER clarified that the bill passed out unanimously from the House Finance Committee and recalled that there were several "do passes" from that committee. He then referred to the title change and said that given "municipal governments already have the implied authority to perform these transactions by themselves," it was decided to make a change to "allow a municipality with its own [means to] pursue them on its own."

[9:25:15 AM](#)

REPRESENTATIVE HARRIS asked whether there was anyone present from the bond bank to testify and, if so, were they opposed.

REPRESENTATIVE HAWKER relayed that in the initial conversations with the bond banks he concluded that "they do what they're told." He explained that they were told that the administration would be opposed to [POBs], but never expressed any problems with the way the bill is structured.

REPRESENTATIVE GUTTENBERG addressed one of the topics in the bill which is the unfunded liability in addition to the rising health care costs. He opined that addressing these is a significant part of the problem as well as controlling rising costs.

REPRESENTATIVE HARRIS expressed his belief that this bill has nothing to do with the rising cost of health care or that it will ever affect it. He said that different legislation as well as the cooperative efforts from the medical community, insurance community, and other entities will need to work together to address this.

CHAIR ROKEBERG recommended the committee read the new [Alaska Retirement Management Board's] recommendations to overcome the \$6.9 billion obligation.

[9:27:40 AM](#)

REPRESENTATIVE BERKOWITZ surmised that if they hadn't taken out the first line of the bill's title, they could be speaking about health care costs as a driving component of the accrued actuarial liabilities of the government retirement system; "We could have been talking about all the drivers, here." He added that he likes the bill and although he thinks that they need to address the other components, doing so at this time could create difficulties [in passing the bill]. Thus, he said he would prefer to keep the bill as focused as much as possible.

REPRESENTATIVE HARRIS offered his understanding that they have attempted to address this issue, though it has not been easy, and that it is an issue that the whole country has to address as well.

REPRESENTATIVE HAWKER remarked that this bill is intended to address just one aspect of the bigger issue, and expressed appreciation that the committee is not seeking to overload the bill. "Universal tools are never really good at doing any

single job, we need to have good, point-specific tools, and this is one of them," he opined.

[9:29:23 AM](#)

REPRESENTATIVE GUTTENBERG noted that he has seven pieces of legislation dealing with prescription drug costs and yet none of those of those bills has had a hearing. He went on to say: "We need to start dialoging, it needs to be happening; it's not only for the unfunded liability but for the citizens of the state of Alaska - it's just something that we're remiss [in] if we're not addressing it whatever the political pressure of it ...."

[9:29:52 AM](#)

REPRESENTATIVE HARRIS moved to report CSHB 278, Version 24-LS0883\Y, Cook, 4/11/06, as amended, out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSHB 278(RLS) was reported from the House Rules Standing Committee.

HB 13-SCHOOL CONSTRUCTION BOND REIMBURSEMENT

[Contains discussion of SB 36 and HB 493.]

[9:30:04 AM](#)

CHAIR ROKEBERG announced that the final order of business would be HOUSE BILL NO. 13, "An Act relating to reimbursement of municipal bonds for school construction; and providing for an effective date." [Before the committee was CSHB 13(FIN).]

[9:31:02 AM](#)

REPRESENTATIVE HARRIS moved to adopt the proposed committee substitute (CS) for HB 13, Version 24-LS0062\R, Mischel, 4/11/06, as the working document.

REPRESENTATIVE BERKOWITZ objected for discussion purposes. He stated his understanding that Version R removes the area cost differential component of the title, and he said he wishes the committee would not take that action. He related:

Normally I like tightening titles, but I think that this is a conversation that the legislature has to have. And if we have a vehicle that's going to give us the ability to continue that conversation, I think

we ought to keep that in play. And as for the ... subsequent component of area cost differential, that's a tactical consideration...

REPRESENTATIVE HARRIS interjected to withdraw his motion [to adopt Version R as a work draft; therefore CSHB 13(FIN) was once again before the committee].

CHAIR ROKEBERG asked the co-sponsor of the bill to speak to the original bill.

9:32:28

REPRESENTATIVE GATTO, Alaska State Legislature, as co-prime sponsor of HB 13, said he would like to speak to Representative Berkowitz's objection to adopting Version R as a work draft. He reported that the studies referring to the cost differential and how it affects the state are so significant that "it ought to be a stand-alone piece of legislation, if that's what we want to do." He said, "It would be like taking this bill and attaching SB 36 and calling that an amendment to a simple bill, and making the amendment 35 pages." He said the area cost differential is going to affect all 53 school districts in the state, and "we will have winners and losers." He classified the Anchorage, Fairbanks, and Matanuska-Susitna school districts as losers.

REPRESENTATIVE HARRIS asked Representative Gatto to explain how those school [districts] are losers.

REPRESENTATIVE GATTO responded:

Because what the area cost differential does is it takes the existing money we appropriate for education, according to a formula in SB 36, and changes the formula. That means if the money remains a constant, then we have to deduct money from some districts in order to increase the amount of money that's forwarded to other districts. So, it becomes the kind of thing that is a play of individuals against individuals, districts against districts. And so, what I'd like to say is I think it would be more appropriate to make that a separate issue and go ahead and adopt the CS so that we can talk about this one issue of school bond debt reimbursement and not get, at this point, into an issue that is so significant that it would require a significant amount.

[9:34:12 AM](#)

CODY RICE, Staff to Representative Carl Gatto, Alaska State Legislature, on behalf of Representative Gatto, co-prime sponsor of HB 13, suggested that the simplest way of looking at the cost differential is in terms of market share. He mentioned the fiscal note, which shows the percent change in market share by district.

REPRESENTATIVE HARRIS interjected that he understands when "the amount of money you have is the same and you're to split it up differently." However, he said he thinks the reality is that the money is not going to remain the same. He stated, "So, I think ... the intent is to divide a larger pot of money up a slightly bit different."

MR. RICE replied that that is possible. He said there has been talk of a "hold harmless." He said it's important to note that the hold harmless would need to be permanent - not a one-time fix - because there would be a permanent change of market share for different districts. He projected that the [school] districts of every member of the committee would lose market share.

[9:35:37 AM](#)

REPRESENTATIVE MCGUIRE asked Representative Gatto to explain the steps that brought the cost factors into the title of the bill.

REPRESENTATIVE GATTO offered his understanding that in the House Finance Committee an amendment was offered by Representative Chenault to add the study, but was then withdrawn.

MR. RICE detailed that what had happened is that Representative Chenault had "added in a phase-in form of the cost factor study," which he noted is shown on pages 7-9 of CSHB 13(FIN). He pointed out that Version R would extend the bond debt reimbursement date through November 30, 2008, whereas the bill before the committee does not do that. Furthermore, regarding the cost factor study, Mr. Rice said Representative Chenault's previously mentioned amendment involved a hold harmless [clause] based on "last year's base student allocation." He said, "So, if it is the will of the committee to keep something like that in there, I would strongly recommend increasing that number to be a true hold harmless."

[9:37:28 AM](#)

MR. RICE, in response to a request from Representative Harris, directed attention to language in the bill on page 9, [line 21], which read, "base student allocation of \$4,919 per student". He said that amount "would not be sufficient for a hold harmless."

[9:37:52 AM](#)

CHAIR ROKEBERG said, "Part of the intent of having ... [Version R] before us was to reorder the numbers that have caused some of the confusion." He offered his understanding that CSHB 13(FIN) has been in the hands of the committee for a year.

MR. RICE confirmed that [the committee has had CSHB 13(FIN) for a year].

CHAIR ROKEBERG concluded, "That was my intention as the chairman, and that was more structural than substantive. Just so people understand that it might help [to know] why that is."

[9:38:18 AM](#)

REPRESENTATIVE MCGUIRE noted that Representative Gatto had begun to say that an amendment was offered by Representative Chenault that had been withdrawn; however, on pages 7-9 of the bill, she observed that reference is made to district cost factors, and a reflection of that shows in the title. She said, "So, somehow that concept was incorporated, whether it was that amendment or another." She clarified, "I'm trying to understand how that conversation went, whether you were accepting of it at that time, [and,] if so, what made you change your mind now." She said she would also like to know if Representative Gatto has had conversations with Representative Chenault "about the removal of this."

REPRESENTATIVE GATTO responded that he has never been in favor of the cost factor study or the "American Institute for Research (AIR)" study. He said the AIR study was flawed and the flaws could be identified "in all the areas that we actually knew the numbers." He continued:

So, the [Institute of Social and Economic Research (ISER)] study became a substitute study. The ISER study brought forward somewhat similar ... results. And my understanding is, from reading the results, what the ISER study will do is reapportion a pie. Now, my biggest concern is that if you take brand new

money - let's say \$90 million - and distribute it somewhat differently, remember ... the \$90 million is in addition to close to a billion. If the ISER study were to apply only to the new money, that would be one issue, but if it ... is retroactive and starts to include close to a billion dollars, now we're reappropriating money in huge, huge gulps.

So, I would ... have expected that the introduction of the ISER study would have said, "Take this new money and reapportion this new money" -- we would essentially have two formulas. I don't believe I'm seeing that happen. And to further complicate it, there is also half ISER, quarter ISER, bring it in over two years or four years; it becomes somewhat of a complicated issue. And if we want to address that complicated issue at this late date, we're going to take a lot more committee time in all likelihood to come back to the school district and the finance ... director and talk about how the money would be distributed.

But we did get a study done, and the study goes across and says under the old formula here's how each school district will fare [and] under the new formula here's how each school district would fare. We came up with the percent movement, as well as the percent difference. And ... then I had it run a couple of different ways, and that is from the worst to the best ... and also alphabetically so you could find your personal district. And on the ... Anchorage district, if indeed we were working under the ISER study, and not under SB 36, they would have an 8 percent - according to this page - 8 percent reduction in the amount of money they were receiving from the state ... in the share of the entire pie. In order to bring them back up to zero, so they do not lose, we would need substantially more money.

[9:42:01 AM](#)

REPRESENTATIVE MCGUIRE said she understands that part but wants an answer as to how it is that the reference to the cost factors - which she said she understands Representative Gatto does not support - got into the bill. She asked whether it is his intent to remove the [cost factor references] now and whether he had

conversations with, for example, Representative Chenault who put that reference in the bill.

REPRESENTATIVE GATTO responded that he was not present during the House Finance Committee meeting and only later learned from Representative Meyer that Representative Chenault had "offered the ISER and then withdrew it." He said he did not see that language in Version R, and he explained his understanding was that it would be offered on the House floor. He said he would be okay with battling the issue out on the House floor, because it's an issue that should be discussed among a group larger than one committee.

[9:43:17 AM](#)

MR. RICE recollected that Representative Chenault's words regarding "this amendment" were, "I hate to hijack a bill, but in this case I'm going to have to."

CHAIR ROKEBERG said, "Was not ... HB 493 the vehicle that they used and released from committee and I have it in the [House Rules Standing Committee] now? Isn't that part of [Version R]?"

MR. RICE answered that's correct. He said HB 13 has been in the House Rules Standing Committee for a year and, as such, he said "some of the dates are, I guess you could say, stale - they're no longer particularly relevant." He said the House Finance Committee, after adding the cost factor study to HB 13, came out with its own bond debt reimbursement bill, HB 493, which is substantially similar - minus the cost factor study. Mr. Rice explained that essentially what is being done is changing HB 13 to update the dates "and to the percentage of HB 493." He stated, "This is a materially similar bill to HB 493."

MR. RICE said another substantial change is that the percentages have decreased. He explained, "Previously it was a 70 percent reimbursement for EED-approved schools [and] 60 percent for non-EED-approved schools; that's gone to 60/40, which is exactly the same as HB 493." Mr. Rice continued:

So, it's a policy call, but essentially this is a lower bill number on the same topic that had an amendment added to it in [the House Finance Committee]. [The House Finance Committee] decided to push their own bill on the same topic, minus the amendment that the original sponsor objected to. We're trying to rectify that.

[9:45:06 AM](#)

REPRESENTATIVE HARRIS asked how HB 13 got a title amendment in the House Finance Committee if it was in the House Rules Standing Committee for a year.

CHAIR ROKEBERG replied, "That was when it was moved a year ago. That was actually taken in the last session." In response to a follow-up question from Representative Harris, he confirmed that CSHB 13(FIN) has been in the House Rules Standing Committee for a year. He stated, "As I mentioned, my intention here was to observe the lower number regime and that was all."

[9:45:52 AM](#)

REPRESENTATIVE MCGUIRE moved to adopt the proposed committee substitute (CS) for HB 13, Version 24-LS0062\R, Mischel, 4/11/06, as the working document. There being no objection, Version R was before the committee.

[9:46:42 AM](#)

REPRESENTATIVE BERKOWITZ moved to adopt Amendment 1, which read as follows [original punctuation provided]:

Add a new section:

Sec. \_\_\_\_\_AS14.11.100 (q) is amended to read:

- (p)The total amount of school construction projects approved for reimbursement by the department under (a)(13) and (a)(14) of this section
- (1) may not exceed **\$179,256,000** (\$177,256,000)
  - (2) after June 30, 1999, and until October 31, 2006, shall be allocated as follows:
    - (A) \$61,925,000 to projects in a municipality with a public school enrollment of 45,000 or more students in fiscal year 2005, as determined under AS 14.17.500;
    - (B) \$40,570,000 to projects in a municipality with a public school enrollment of at least 14,500 but less than 20,000 students in fiscal year 2005, as determined under AS 14.17.500;
    - (C) \$20,000,000 to projects in a municipality with a public school enrollment of at least 10,000 but less

than 14,600 students in fiscal year 2005, as determined under AS 14.17.500;

- (D) \$2,588,000 to projects in a municipality with a public school enrollment of at least 7,500 but less than 10,000 students in fiscal year 2005, as determined under AS 14.17.500;
- (E) \$5,995,000 to projects in a municipality with a public school enrollment of at least 4,000 but less than 6,000 students in fiscal year 2005, as determined under AS 14.17.500;
- (F) \$1,237,000 to projects in a municipality with a public school enrollment of at least 2,400 but less than 2,800 students in fiscal year 2005, as determined under AS 14.17.500;
- (G) \$1,100,000 to projects in a municipality with a public school enrollment of at least 2,200 but less than 2,400 students in fiscal year 2005, as determined under AS 14.17.500;
- (H) **\$2,000,000 to projects in a municipality with a public school enrollment of at least 1,501 but less than 1,800 students in fiscal year 2005, as determined under AS 14.17.500;**
  - (I)** (H) \$7,164,000 to projects in a municipality with a public school enrollment of at least 1,300 but less than 1,500 students in fiscal year 2005, as determined under AS 14.17.500;
  - (J)** (I) \$1,260,000 to projects in a municipality with a public school enrollment of at least 740 but less than 757 students in fiscal year 2005, as determined under AS 14.17.500;
  - (K)** (J) \$608,000 to projects in a municipality with a public school enrollment of at least 650 but less than 757 students in fiscal year 2005, as determined under AS 14.17.500;
  - (L)** (K) \$32,000,000 to projects in a municipality with a public school enrollment of at least 500 but less than 600 students in fiscal year 2005, as determined under AS 14.17.500;
  - (M)** (L) \$2,809,000 to projects in a municipality with a public school enrollment of at least 370 but less than 390 students in fiscal year 2005, as determined under AS 14.17.500;

CHAIR ROKEBERG [objected] for discussion purposes.

REPRESENTATIVE BERKOWITZ noted that Amendment 1 originates from Representative Joule's office. He stated his understanding that

during the hustle and bustle of last session, some mistakes were made and Amendment 1 would correct them.

CHAIR ROKEBERG indicated that the oversight had to do with a previous exclusion of an area that was within a student population.

REPRESENTATIVE BERKOWITZ stated his understanding that "everyone acknowledges that these numbers should have been what they are, and so we're trying to put them back in."

REPRESENTATIVE ROKEBERG asked if there was any further discussion of Amendment 1. He announced that there being no further [objection], Amendment 1 was adopted. [Representative Rokeberg's previous objection to Amendment 1 was treated as withdrawn.]

REPRESENTATIVE GATTO expressed his support of Amendment 1.

[9:47:45 AM](#)

CHAIR ROKEBERG closed public testimony.

[9:47:50 AM](#)

REPRESENTATIVE MCGUIRE moved to report the proposed committee substitute (CS) for HB 13, Version 24-LS0062\R, Mischel, 4/11/06, as amended, out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSHB 13(RLS) was reported from the House Rules Standing Committee.

[9:48:05 AM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the House Rules Standing Committee meeting was adjourned at 9:48 a.m.