

**ALASKA STATE LEGISLATURE
HOUSE RULES STANDING COMMITTEE**

April 24, 2006
10:12 a.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

All members present

OTHER LEGISLATORS PRESENT

Representative Max Gruenberg

COMMITTEE CALENDAR

HOUSE BILL NO. 13

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

- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 13

SHORT TITLE: SCHOOL FUNDING & SCHOOL BOND REIMBURSEMNT

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
04/20/06 (H) Moved CSHB 13(RLS) Out of Committee
04/20/06 (H) MINUTE(RLS)
04/24/06 (H) RLS AT 10:00 AM CAPITOL 17

WITNESS REGISTER

REPRESENTATIVE CARL GATTO
Alaska State Legislature
Juneau, Alaska

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

EDDY JEANS, Director
School Finance
Department of Education and Early Development
Juneau, Alaska

POSITION STATEMENT: During hearing of HB 13, answered questions.

CAROL COMEAU, Superintendent
Anchorage School District
Anchorage, Alaska

POSITION STATEMENT: Testified on HB 13.

ACTION NARRATIVE

CHAIR NORMAN ROKEBERG called the House Rules Standing Committee meeting to order at [10:12:31 AM](#). Representatives Kohring, McGuire, Berkowitz, Guttenberg, Harris, Coghill, and Rokeberg were present at the call to order.

HB 13 - SCHOOL CONSTRUCTION BOND REIMBURSEMENT

[10:13:07 AM](#)

CHAIR ROKEBERG announced that the first 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."

REPRESENTATIVE COGHILL moved to rescind the committee's action in reporting committee substitute (CS) for HB 13, Version 24-LS0062\R, Mischel, 4/11/06, as amended, from committee. There being no objection, it was so ordered.

[10:13:46 AM](#)

REPRESENTATIVE HARRIS moved to adopt the proposed committee substitute (CS) for HB 13, Version 24-LS0062\N, Mischel, 4/20/06, as the work draft. There being no objection, Version N was before the committee.

[10:14:05 AM](#)

REPRESENTATIVE CARL GATTO, Alaska State Legislature, as co-prime sponsor of HB 13, said the proposed legislation began as an extension of school debt reimbursement, which was originally set at 70 percent [for one school] and 60 percent [for a second school]. He noted, for the record, that the Matanuska-Susitna [school district] will hold an election on May 2, 2006, that includes the existing 70/60 rate. If that election fails, he said, the district would be eligible to hold another election for school bonds. Representative Gatto said the bill has been modified to a rate of 60/40 percent. He initially indicated that he could find no language regarding a cap; however, he amended that and directed attention to page 8, [line 14], which read:

(1) may not exceed **\$179,256,000** [\$177,256,000];

REPRESENTATIVE GATTO highlighted that Version N would also change the base student allocation from \$4,919 to \$5,380. He offered his understanding that that would be the equivalent of \$96 million.

[10:16:09 AM](#)

REPRESENTATIVE GATTO said Representative Joule's school district was left out and is now included, which he surmised "is probably what the \$2 million addition is about."

[10:17:10 AM](#)

EDDY JEANS, Director, School Finance, Department of Education and Early Development, in response to a question from Representative Harris, said last year the House Rules Standing Committee amended SB 73, to include the North Slope Borough, at a cost of \$2 million. He reviewed the new language on page 6, [paragraphs (16) and (17)], which read as follows:

(16) subject to (h), (i), and (j)(2)-(5) of this section, and after projects funded by the tax exempt bonds, notes, or other indebtedness have been approved by the commissioner, 60 percent of payments made by a municipality during the fiscal year for the retirement of principal and interest on outstanding tax exempt bonds, notes, or other indebtedness authorized by the qualified voters of the municipality on or after November 1, 2006, but before November 30,

2008, to pay costs of school construction, additions to schools, and major rehabilitation projects and education-related facilities that exceed \$200,000, are approved under AS 14.07.020(a)(11), and are not reimbursed under (o) of this section;

(17) subject to (h), (i), and (j)(2), (3), and (5) of this section, 40 percent of payments made by a municipality during the fiscal year for the retirement of principal and interest on outstanding tax exempt bonds, notes, or other indebtedness authorized by the qualified voters of the municipality on or after November 1, 2006, but before November 30, 2008, to pay costs of school construction, additions to schools, and major rehabilitation projects and education-related facilities that exceed \$200,000, are reviewed under AS 14.07.020(a)(11), and are not reimbursed under (o) of this section.

MR. JEANS said this is similar to legislation passed under House Bill 2003 approximately four years ago; although the percentages are different, the concept is the same. He stated that there are no caps for those projects authorized between November 2006 and November 2008.

REPRESENTATIVE HARRIS said, "So, anybody that goes out to bond under the 60 percent in this bill, there's an unlimited amount at that point?"

MR. JEANS answered that's correct.

[10:19:21 AM](#)

REPRESENTATIVE MCGUIRE asked Mr. Jeans if he was part of the process that formulated the 60/40 split and, if so, why. She said her district is one of the districts that is growing exponentially and "we're the folks that are going to be taking advantage of it." Changing to 60/40 may make things more difficult [for school districts], she predicted.

MR. JEANS said he did not contribute to the decision for the 60/40; it was a result of a bill recently introduced by Representative Meyer that would open up the debt program. He said the 60/40 came from the recommendation that the department made when it did its report to the legislature regarding the effectiveness of House Bill 2003. He continued:

And what we found under that bill was during that two-year window, voters and the department approved almost \$700 million in debt reimbursement, and it was almost right down the middle; half of them qualified based on our space guidelines, [and] half of those projects exceeded our space guidelines. And so, that 10 percent variance in the reimbursement really didn't deter people from going beyond the department's space guidelines. So, I would have to say this expanded variance between the two did come from that report, but the recommendation to go to 60 percent reimbursement came from Representative Meyer's bill that was introduced a couple of weeks ago.

[10:21:50 AM](#)

REPRESENTATIVE BERKOWITZ asked if moving to 60 or 70 percent is just a policy call by the legislature.

MR. JEANS said yes.

REPRESENTATIVE HARRIS said Representative McGuire has a good point; many areas in the state are having difficulty getting bonds passed. He inquired as to why one would not make the level at 70 [percent].

MR. JEANS said he has not raised that issue; the level of reimbursement through the debt reimbursement program is strictly a policy call for the legislature to determine. He said he recommended that the variance between those approved and those outside of the space guidelines be expanded.

[10:22:43 AM](#)

REPRESENTATIVE BERKOWITZ inquired as to the arguments against going back up to 70 percent.

MR. JEANS said he would not argue one way or the other.

[10:23:00 AM](#)

CHAIR ROKEBERG said he is "curious about the 40 percent." He asked if it is "for the non-qualifying or non-DEED [Department of Education and Early Development] approved."

MR. JEANS said:

Under house bill 2003, the legislature approved two reimbursement rates: one at 70 percent if you meet the department's space guidelines—if you work within those space guidelines. If you wanted to go beyond the space guidelines, the legislature said [they] will participate in 60 percent reimbursement. I'm simply recommending that that 10 percent variance wasn't enough to deter people from going beyond the department's space guidelines. And so I recommended that the legislature look at that and widen that gap a little bit.

MR. JEANS said he has found that schools were being authorized beyond those guidelines, and he suggested looking at that policy.

REPRESENTATIVE HARRIS asked if too many schools are being built and classroom sizes are too small.

MR. JEANS clarified that he is not saying too many are being built, but that they are being built beyond space guidelines. "With our grant program, you can't get a project that's beyond the department's space guidelines on that grant list." He said if a district submits a project over that, the department reduces the scope of that project.

[10:24:51 AM](#)

REPRESENTATIVE GUTTENBERG asked if those guidelines are meant to constrain the size of hallways, gyms, and other space in order to ensure that a palace isn't built. He asked if there is a provision for an architect to design a building 10 percent over the space guidelines, or if there is a strict limit.

MR. JEANS said the guidelines allocate total square footage, "we don't even tell the architect that you have to build a gym." The space allocated is based on the number of students served. It is up to the designer and school to work together to meet the needs of that community.

REPRESENTATIVE GUTTENBERG asked if the space limit has no leeway.

MR. JEANS said that that is correct.

[10:26:09 AM](#)

CHAIR ROKEBERG spoke of \$96 million and asked why \$6 million was added in the House Finance Committee.

MR. JEANS said the co-chair of the House Finance Committee had been working on district cost factor adjustments, and money was added to the base student allocation in order to increase total revenue while those negotiations continue.

CHAIR ROKEBERG said a chart dated April 4, 2006, shows a loss to some districts if the Institute of Social and Economic Research (ISER) proposal on geographical differential is adopted. He asked if the [additional] money will make up for that.

MR. JEANS said if any adjustment to cost differentials is adopted by the legislature based on the ISER study, there will be no loss to any school district. The chart Chair Rokeberg is looking at is a redistribution of the total amount, and the negatives are based on the percentage of the total and are not based on the total state aid districts are receiving.

[10:28:53 AM](#)

REPRESENTATIVE HARRIS asked, "Isn't it true that you would have to bring your number one, or your base, up, to begin with, before you implemented the study? In other words, if you divide the amount of money that we have now...and if you divide that amount by the ISER study, in other words, you took and you implemented a quarter of it, the big number one school district would lose."

MR. JEANS said that without new money for redistribution the larger communities, such as Anchorage and Fairbanks, will pay for that redistribution; however, if the money is appropriated with the adjustment, nobody loses.

REPRESENTATIVE HARRIS said the current bill takes the current base, plus the \$96 million that is proposed for the increase, and divides it under the present formula.

MR. JEANS said that is correct.

REPRESENTATIVE HARRIS said the proposal would divide another \$24 million - if it is a quarter of the ISER proposal - in accordance with that proposal.

MR. JEANS said yes, and there would be an increase to all districts except Anchorage because Anchorage was the base.

REPRESENTATIVE HARRIS surmised that the \$96 million "is sort of a lead-in to what possibility might be in the future of an amendment to say, 'to make Anchorage whole you have to add another \$2 million to the pot,' and if you do that, then you can [indisc.] you end up with a million six, or \$6 million total, two of it to the Anchorage School District and the rest of it split up. And then you could do the \$24 million on ISER; everybody would be held whole."

MR. JEANS said that is his understanding.

[10:31:29 AM](#)

REPRESENTATIVE MCGUIRE said her frustration is "to get this right," and she wants a fair formula. "And so we elicit these studies; they come back and we seem to find flaws in them," she noted. She said the committee has been thinking about doing another study with firms with better expertise. She said the area cost differential is a problem, but also Anchorage, Matanuska-Susitna, and Fairbanks are growing "by leaps and bounds." The current formula takes into account the number of students, but "some of us believe that for every student that you add, it may not go up quite enough to cover the costs." She said the people in Wrangell and Petersburg are suffering, "so here we are at the end of session trying to put a Band-Aid on a gaping wound once again." She said there needs to be a solution and asked for Mr. Jeans' leadership in trying to find a formula.

[10:33:16 AM](#)

REPRESENTATIVE BERKOWITZ said many on the committee weren't present when Senate Bill 36 was enacted, but he remembers the debate. He noted that it passed because it was the first time in many years that the legislature added money to the foundation formula. He said that purchased a lot of support among legislators who were skeptical about its allocation component. He said there were extensive commitments to fix [the formula]. He said every time there is a study to suggest how to repair the flaws, those studies get ignored. "And every year there's some brute force solving of some of the problems that are built in to Senate Bill 36. It is not a well formula. It is a formula that should be fixed." He said a future legislature will have to do it. He said there is an eroding floor for rural areas.

CHAIR ROKEBERG said he agreed. He was around for Senate Bill 36, and there was a mandate to require studies, and there have

been at least three formal studies of which none have been accepted by the legislature for a variety of reasons. He agreed that "brute force" is used to get a budget bill by the end of the year. He said there was a clear recognition that Senate Bill 36 was not a finished product because of the cost differential.

10:36:08 AM

REPRESENTATIVE GATTO noted that Anchorage gets a third of the money the legislature distributes. Adding \$90 million means Anchorage will get \$30 million, but it needed \$32 million, so \$6 million was added. Now Anchorage is fine, but dealing with the ISER study with no new money means that Anchorage's funding drops. "So, in order to bring Anchorage back to a one, you have to add a certain amount of money to ISER. My understanding is, at a quarter ISER, we're going to need about \$24 million. So we will probably see that amendment for \$24 million." He said that would be a permanent fix, so next year for every dollar added, Anchorage won't get the \$0.33 it got under Senate Bill 36; it will get \$0.31. "If we don't add the extra money, Anchorage losses. If we do add the extra money and make it permanent, the next year Anchorage will get a smaller portion," as will Fairbanks and the Matanuska-Susitna area, he stated.

10:39:09 AM

CAROL COMEAU, Superintendent, Anchorage School District, said it is very important for the Anchorage base to increase "if the ISER-something is added." She noted her support for an increase for the other districts, "but we also can't accept that Anchorage would not be made whole." She expressed concern that getting the \$2 million back would make the district whole, but it allows for no enhancements. Although such action would restore some of the cuts, it wouldn't restore all of them because some have been redirected. She spoke of a career center that is critical and needs to be continued. She said there are many initiatives that the board is interested in, but those can not be funded even with the \$96 million. She added that the 60 percent is not just space guideline, but there are a number of alternative programs, which needed remodeling, as well as the Eagle River High School. She said she could not get voter approval for 70 percent of the new high school because:

you look at the whole district population and high schools, and we could qualify as a district, but we clearly knew that the Eagle River High School needed

to be in Eagle River and not bussing a whole range of students from North Anchorage to fill it up. That is one of the arguments we made that sometimes some of our alternative programs that have a defined population need to be upgraded, and so we pushed hard for the 60 percent back when that passed and it's been very helpful to our community, so that our schools that meet the E.D.'s qualifications ... are eligible for 70 percent. The other are 60 percent. So that's been very important to us. With our failure of our bonds on April 4, we're very concerned that 60/40 is going to be a very negative message to the taxpayers who already voted down the bonds at 70/60 percent. And with the cap, that we were only eligible to submit \$62 million worth of projects when we had substantially more project need, that also raised the cost to the taxpayers, and that they weren't willing to accept.

MS. COMEAU said she would take the 60/40 because she is not sure she could get the support from the community for a special election.

[10:42:31 AM](#)

CHAIR ROKEBERG asked Ms. Comeau to comment on putting a quarter of the ISER plan into the formula.

MS. COMEAU expressed that unless the base was raised, merely adding the quarter in for ISER is going to be a detriment to Anchorage. She opined that the aforementioned is a negative factor because of the number and complexity of students Anchorage is receiving, including bilingual and special education students. She said the federal funding is not "coming along to support some of those populations."

CHAIR ROKEBERG suggested there would be an eroding floor for Anchorage and other large school districts without sufficient appropriations.

MS. COMEAU said yes. In response to Representative Berkowitz, Ms. Comeau said that the retirement system cost was \$13 million and utilities increased an average of 14 percent.

[10:45:06 AM](#)

REPRESENTATIVE MCGUIRE asked about an amendment to change the 60 percent to 70 percent, "would you need a corresponding increase in the total cap?"

MS. COMEAU said she would like the 70 percent back with no cap because her community will not support unlimited projects.

REPRESENTATIVE HARRIS said that the voters will determine the cap.

MS. COMEAU said, "We feel that part of the reason some of our bonds went down is because we couldn't submit all of our projects for debt reimbursement because of the cap. And then, as you know, once we submitted the request to have the debt reimbursement approval, our other project went off the list. So, we're not able to access the state list either, except for a few of our projects that we did not submit for approval."

The committee took a brief at-ease at 10:47 a.m.

[HB 13 was held over.]

ADJOURNMENT

[10:48:24 AM](#)

The House Rules Standing Committee was recessed at 10:48 a.m. to a call of the chair. [The meeting was never reconvened.]