

MINUTES
SENATE FINANCE COMMITTEE
April 20, 2006
9:06 a.m.

CALL TO ORDER

Co-Chair Lyda Green convened the meeting at approximately [9:06:54 AM](#).

PRESENT

Senator Lyda Green, Co-Chair
Senator Gary Wilken, Co-Chair
Senator Con Bunde, Vice-Chair
Senator Fred Dyson
Senator Bert Stedman
Senator Donny Olson
Senator Lyman Hoffman

Also Attending: REPRESENTATIVE BILL STOLTZE; WILLIAM GREEN, Project Counsel, Knik Arm Bridge and Toll Authority; STEPHANIE ALLISON, Parent and Member, Glacier Valley Elementary School Site Council; MARY HAKALA, Parent and Member, Alaska Kids Count! Network; MARY BECKER, State President, Association of Alaska School Boards; Member, Juneau School Board; and Retired School Teacher; CARL ROSE, Executive Director, Association of Alaska School Boards; JOHN ALCANTRA, Government Relations Director, NEA Alaska; MARY FRANCIS, Executive Director, Alaska Association of School Administrators; ANDREA STORY, Parent and Member, Juneau School Board

Attending via Teleconference: From an offnet site: LARRY WIGET, Director, Government Relations, Anchorage School District; From Valdez: KATHY TODD, Member, City of Valdez School Board; From Kenai: MELODY DOUGLAS, Chief Financial Officer, Kenai Peninsula Borough School District; JENNIE HAMMOND, Nikiski Resident

SUMMARY INFORMATION

HB 471-KNIK ARM BRIDGE AND TOLL AUTHORITY

The Committee heard from the bill's sponsor and a representative of the Knik Arm Bridge and Toll Authority. A committee substitute was adopted and the bill reported from Committee.

SB 188-BULK FUEL REVOLVING LOAN FUND CAP

The Committee heard from the bill's sponsor and reported the bill from Committee.

SB 1-INCREASE AMT OF BASE STUDENT ALLOCATION

The Committee heard from the bill's sponsor and took public testimony. One amendment was considered but not adopted. The bill was held in Committee.

#hb471

CS FOR HOUSE BILL NO. 471(FIN) am
"An Act amending the Knik Arm Bridge and Toll Authority Act and the powers and authority of the authority to finance construction and maintenance of the Knik Arm Bridge, to set and collect tolls, and to carry out its duties; and providing for an effective date."

This was the first hearing for this bill in the Senate Finance Committee.

Co-Chair Green noted that a committee substitute was before the Committee.

Co-Chair Wilken moved to adopt committee substitute Version 24-LS1670\L as the working document.

Co-Chair Green announced that the Senate version (SB 303) of this bill had previously reported from Committee and was currently in the Senate Rules Committee. However, the House of Representatives (House) made "substantive" changes to the House companion bill, and, as a result, Senate Rules has requested the Committee consider the House version of the bill. The bill's sponsor would discuss the changes contained in the Version "L" committee substitute.

[9:08:44 AM](#)

REPRESENTATIVE BILL STOLTZE, the bill's sponsor, shared with the Committee his long-term involvement with the Knik Arm Bridge and Toll Authority (KABATA) project. This legislation would further "a commitment" to provide "the details of the plan and mechanisms" that was made after the initial KABATA legislation was adopted. He explained the two changes the House made to the bill: the first removed the State's ability to attach a person's Permanent Fund Dividend (PFD) to address unpaid fines. The second eliminated language pertaining to the issuance, renewal or reinstatement of drivers' licenses. These provisions were removed in order to focus the bill on the construction of the bridge. He had been uncomfortable with the amount "of government" in the original bill and thought it "best to take those provisions out".

Co-Chair Green referred the Committee to Representative Stoltze's Sectional Analysis of the bill [copy on file], which further explained the changes in the committee substitute.

Representative Stoltze continued to explain the changes contained in Version "L", characterizing a bill amendment adopted "on the fly in a careless fashion" during a House floor session as "innocuous". The amendment would have limited KABATA's authority and would have served to restrict its function. The initial authority provided to KABATA by the Legislature would allow it to interact with outside business and the financial market without any politicizing. The amendment adopted on the House floor re-injected political involvement.

Co-Chair Green asked whether the language being referenced was located in Section 1(a)(18) page 3, line 29 of the House bill, Version 24-LS1670\I.A.

Representative Stoltze affirmed.

Co-Chair Green thereby noted that Version "L" eliminated that language, as it was "directly contrary to the function and the role of the Toll Authority itself". Version "L" would retain KABATA's authority and not require the Governor's approval of its actions.

Representative Stoltze concurred.

Co-Chair Green noted that Version "L" retained language the House added to Section 1(a)(18) page 3, line 31, which would

affirm that KABATA's powers of eminent domain would not exceed those of the State.

Senator Green reiterated that action taken in the House eliminated the ability of KABATA to place "a lien" on someone's PFD were they "in violation of something at the Toll".

[9:12:31 AM](#)

Representative Stoltze reminded that the garnishing of a person's PFD is a provision commonly exercised by municipalities in regards to such things as unpaid fines. However, due to the fact that any reference or inclusion of language about the Permanent Fund or the Permanent Fund Dividend tends to "mire down" and "confuse" an issue, it was his desire to exclude that provision from the bill in order to focus on building a bridge. Omitting the PFD attachment would not hinder KABATA's functions; "it could collect unpaid tolls in another fashion".

[9:13:12 AM](#)

Co-Chair Green asked whether this was also the reason behind the decision to exclude language addressing individuals' drivers' licenses or vehicle registrations in regards to unpaid tolls or other violations.

Representative Stoltze affirmed.

Co-Chair Wilken understood the difference between committee substitute Version "L" and the House version, Version 24-LS1670\I.A was the deletion of the authority of the Governor.

Co-Chair Green affirmed.

Co-Chair Wilken asked for confirmation that the words "or money that the legislature may appropriate" as specified in Section 1(a)(12) page 3, line 15 would "not obligate the State to be supporter or the court of last resort" were there a bond deficiency.

[9:14:30 AM](#)

WILLIAM GREEN, Project Counsel, Knik Arm Bridge and Toll Authority, affirmed the language would "not obligate the State to do anything nor" would it obligate the State's general fund.

It mirrors "similar provisions included in other titles dealing with similar facilities. It is simply there to acknowledge that if the Legislature desired to appropriate monies it may, but it's no obligated to."

[9:15:18 AM](#)

Co-Chair Wilken communicated concerns expressed by residents in the State about the Knik Arm Bridge, the Gravina Island Bridge, and the access road out of Juneau in regards to how those projects might impact the National Highway System (NHWS) funding the State would receive over the next several years. The Administration has been requested to develop a five-year pro forma to address how those projects would be funded as well as how the NHWS funding would be dispersed on a statewide basis. To that point, he asked Mr. Green whether he has been in communication with the Administration in this regard.

Mr. Green disclosed that some preliminary discussions had taken place. He deferred to the Administration to provide the conclusions of the discussions.

[9:16:22 AM](#)

Senator Stedman opined that the five-year pro forma would assist in furthering the interpretation of the federal Highway Authorization bill, Safe Accountable Flexible Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU). He suggested that, when the final plan is developed, the discussion could include SAFETEA-LU funding.

There being no objection, the Version "L" committee substitute was ADOPTED as the working document.

Co-Chair Wilken moved to report the bill from Committee with individual recommendations and accompanying fiscal notes.

There being no objection, SCS CS HB 471(FIN) was REPORTED from Committee with two previous zero fiscal notes: Fiscal note #1 dated January 22, 2006 from the Department of Natural Resources and fiscal note #2 dated March 1, 2006 from the Department of Transportation and Public Facilities.

Senator Hoffman asked whether it is anticipated that the Administration's response to the request for a five-year pro

forma would be provided prior to Senate floor action on this bill.

Co-Chair Green understood otherwise, as the primary concern is not specific to this legislation.

Co-Chair Wilken agreed that this legislation is "a part of the whole picture", however, not to the point that this bill's progression should be halted. Continuing, he shared having recently sent a memorandum to Department of Transportation and Public Facilities Commissioner Mike Barton reminding him of the specifics of the request.

#sb188

CS FOR SENATE BILL NO. 188(CRA)

"An Act increasing the maximum amount of loans from the bulk fuel revolving loan fund to one borrower."

[9:19:00 AM](#)

This was the second hearing for this bill in the Senate Finance Committee.

Co-Chair Green reminded that committee substitute, Version 24-LS0952\S, had been adopted during the bill's first hearing in the Committee.

[9:19:19 AM](#)

Senator Olson, the bill's sponsor, communicated that the bill would increase the loan limit allowed under the Bulk Fuel Revolving Loan Fund program; thereby allowing communities to purchase larger quantities of bulk fuel and to account for higher fuel costs.

Co-Chair Wilken asked whether either Amendment #1 or Amendment #2 [copies on file] had been adopted.

Co-Chair Green expressed neither had been adopted. [Amendment #1 was offered but failed to be adopted during the first hearing on the bill. Amendment #2 had been withdrawn.]

Senator Olson moved to report the bill from Committee with individual recommendations and accompanying fiscal notes.

There being no objection, CS SB 188(FIN) was REPORTED from Committee with new zero fiscal note dated February 8, 2006 from the Department of Commerce, Community and Economic Development.

[9:20:56 AM](#)

#sb1

SPONSOR SUBSTITUTE FOR SENATE BILL NO. 1

"An Act relating to the base student allocation used in the formula for state funding of public education; and providing for an effective date."

This was the first hearing for this bill in the Senate Finance Committee.

Co-Chair Wilken, the bill's sponsor, reminded the Committee the funding provided to K-12 public schools is the "single largest general fund appropriation" made annually by the Legislature; education funding would exceed one billion dollars in FY 2007. This bill would address the student component as determined by the Base Student Allocation (BSA) funding formula. He referenced a chart titled "Alaska K-12 Funding" [copy on file], often referred to as Governor Frank Murkowski's "Pencil Chart". The Pencil Chart depicts K-12 BSA funding amounts from FY 1999 through FY 2007. The Sponsor Statement was read into the record as follows.

Since 1998, the K-12 public school funding formula has distributed state education dollars based on a per student allocation. Sponsor Substitute for Senate Bill 1 increases this allocation by \$433, establishing the per student dollar at \$5,352.

Sponsor Substitute for Senate Bill 1 recognizes that day-to-day education costs continue to increase, causing a financial strain on the school budgets in all 53 school districts. The 8.8 percent proposed increase in the student dollar will help mitigate these rising costs, thus allowing local school boards to direct more education dollars into the classroom.

Unfortunately school districts are also burdened with a five percent increase in their required employer contribution to two retirement systems, Public Employees' Retirement System and Teachers' Retirement System. Sponsor Substitute for Senate Bill 1 will generate the needed funds to cover these costs, estimated to increase \$40 million statewide in FY 07.

Please join me in support of our public school system and give your approval to Sponsor Substitute for Senate Bill 1.

[9:23:22 AM](#)

Senator Bunde likened the proposed FY 2007 BSA funding to that of FY 2006 in that approximately half of it would be utilized to fund public education's retirement system obligation. He estimated that approximately \$45 million of the total \$90 million FY 2007 BSA would be used in this manner; only \$45 million would be funneled to support classroom needs.

[9:24:01 AM](#)

Co-Chair Wilken clarified that \$40 million would be utilized to fund public school's FY 2007 obligations to the Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS). The \$50 million balance would be utilized in the classroom. In FY 2006, \$30 million of the total \$70 million BSA funding supported the PERS and TRS obligation and \$40 million went to the classroom.

Co-Chair Wilken identified the Pencil Chart as "a good chart" as it reflects the year-to-year increase in the BSA; however, some considerations are missing. It should be noted that, while it would appear there was no change in BSA levels in 2002 and 2003, the fact is that those years' BSAs included "logs" which were kept at the time. The chart depicts an approximate 36 percent increase in the BSA from 1999 through 2007. One component missing from the chart is the number of students educated each year. The number of students educated in 1999 was 133,000; the projection for 2007 is 132,000 students. Funding has increased, while the student count has remained essentially flat. While there is a concentrated effort to "drive dollars into the classroom" those who might support increasing the FY 2007 BSA level further should be mindful of the fact the State is

spending more money on the same amount of students. "That should be on the table for discussion."

[9:26:06 AM](#)

Senator Bunde, observing the BSA has increased 33 percent since 2004, asked whether a chart could be developed to reflect student achievement performance during that timeframe.

[9:26:30 AM](#)

Co-Chair Wilken reminded that legislation sponsored by Senator Bunde in 1997 furthered student performance measurements. As a result, such information is being compiled and efforts to increase student performance are occurring in the various school districts.

[9:26:59 AM](#)

Senator Bunde noted many school districts are being forced to use the majority of funds received from the State to address increasing overhead and maintenance needs rather than being able to utilize it in the classroom. The Department of Education and Early Development has granted waivers to numerous school districts in this regard even though State law designates 60 percent of the funding districts receive from the State should be utilized in the classroom. He suggested consideration be given to "consolidating" school districts, as 53 separate districts exceeds the level required to support the number of students being educated in the State.

Co-Chair Wilken clarified State law as currently requiring 70 percent rather than 60 percent of State funding to be used to support the classroom. Provisions in previously adopted SB 36 were intended to curb school districts that were spending half of their State funds to support administration rather than classroom needs. That legislation "has worked to a certain degree ... but there's a number of school districts that do claim waivers", some of which are valid. While the Department is responsible for reviewing those requests, it might be time to revisit the effort and ensure that 70 percent of the funding provided by the State is "driven to the classroom".

[9:29:01 AM](#)

Senator Bunde agreed the issue should be "revisited", as he understood that waivers are being granted automatically.

[9:29:08 AM](#)

Senator Hoffman asked regarding the FY 2007 BSA breakout for PERS/TRS and classroom funding.

Co-Chair Wilken specified that \$50 million would provide for classroom needs and \$40 million would support TRS obligations. In FY 2006, the breakout was \$40 million for classrooms and \$30 million for TRS.

Senator Hoffman expressed that the "substantial increases" in heating fuel and other utility costs experienced by schools in the State would greatly reduce the amount of funding available to the classrooms; numerous schools would be forced to layoff teachers. This is the reason for his concern about the proposed level of funding. School districts and education organizations throughout the State view the proposed \$90 million as insufficient. While he would not propose an amendment at this time, he expected this would be a topic of discussion when the bill advanced to the full Senate.

[9:30:51 AM](#)

Senator Stedman pointed out that the full impact of the TRS obligation on the education system has not yet been experienced; there would be "several more years of incremental" payroll increases. This unfunded liability would continue to "erode" the dollars being allocated to education. This would impact the effort to get more dollars in the classroom.

Senator Stedman noted another "struggle." The Sitka School District and other school districts, particularly those in southern Southeast Alaska, "are disadvantaged in the formula that is used to allocate the financial resources around the State." An effort should be conducted "to rectify" this situation.

Senator Stedman stated that, in addition to the effort to get more funding into the classroom, the effort should focus on addressing "the pension liability" which would "approach fifty percent of payroll here in a few years". This is a "huge" issue. Monies should also be "allocated in a more equitable manner so

that the children around the State have equal opportunity in education which I don't believe they have today..."

[9:32:25 AM](#)

Senator Bunde observed that a separate Senate bill currently being considered would allocate ten million additional dollars to school districts in "higher cost areas of the State to help with their education." "All sources of funding" should be considered when discussing school funding.

Senator Bunde, in regards to Senator Stedman's comments about the plight of school districts in southern Southeast Alaska, recalled receiving a letter the previous year from two teachers on Prince of Wales Island who were considering leaving the State were local taxes imposed. The fact that their community had no local taxes rather than "their love of learning or their wanting to work with children or even for an adventure..." was the reason they had accepted teaching positions there.

[9:33:32 AM](#)

Senator Stedman clarified that the inequities he spoke of are not between the organized and unorganized boroughs, but instead are between "the organized areas where people are actually paying for their schools" via such things as local mill rates. The school districts in Ketchikan, Wrangell, Petersburg, and Sitka are disadvantaged in comparison to other organized borough school districts.

[9:34:31 AM](#)

There being no further Committee discussion, Co-Chair Green stated that public testimony would commence. In order to allow time for all desiring to testify, remarks would be limited to three minutes per testifier.

[9:34:58 AM](#)

LARRY WIGET, Director, Government Relations, Anchorage School District, testified via teleconference from an offnet site and, on behalf of the Anchorage School Board and the Anchorage School District Administration, communicated that the total \$92 million BSA proposed by the Governor be increased an additional six million dollars. This would allow the State's school districts

"to maintain a rigorous and effective instructional program that continues to increase student academic proficiency." The proposed \$5,352 BSA level would be insufficient to allow the Anchorage School District's FY 2006/2007 operating budget to be maintained at the FY 2005/2006 level "without implementing budget reductions and increasing student participation fees".

Senator Bunde asked "the percentage of the maximum allowable local [education] contribution" currently provided by the Municipality of Anchorage.

Mr. Wiget did not have that information; however, he noted that Anchorage's local education contribution, like many other communities in organized boroughs, is paying a local contribution "up to what the local tax cap allows".

Senator Bunde stated that rather than the question being about the local tax cap, the question pertained to the percent of the local allowable contribution that Anchorage could pay. To that point, he understood Anchorage only pays "about 80 to 85 percent of what the local contribution could be".

Mr. Wiget thought Anchorage paid "several million dollars below the current" contribution allowable by State law.

Senator Bunde pointed out it is often professed, "that the State is not providing enough money". However, it should be noted that "in some cases, like Anchorage, the locals" are not providing their maximum contribution.

[9:37:34 AM](#)

KATHY TODD, Member, City of Valdez School Board, testified via teleconference from Valdez and urged the Committee to adopt a higher BSA. The proposed level would not provide for the community's PERS and TRS increased obligation or the increase in electricity expenses. Even though the District conducts conservation efforts such as turning off lights and lowering thermostat settings, the expense of three month's worth of electricity now equates to one year of a teacher's salary. At the current proposed BSA level, the district would be forced to terminate ten percent of its teachers plus classified personnel. The BSA money would not find its way into the classroom, but would instead provide for required materials, energy, and the retirement system obligations. The BSA must be at a level

through which a quality well-rounded education could be provided.

[9:39:21 AM](#)

MELODY DOUGLAS, Chief Financial Officer, Kenai Peninsula Borough School District, testified via teleconference from Kenai and communicated that preliminary numbers indicate the proposed BSA would be insufficient to support the District's status quo after such things as increases in insurance, fuel and utility, retirement obligations, and "a modest amount set aside to address the collective bargaining process" are factored in. The District's budget revenue shortfall would be approximately \$3.6 million.

Ms. Douglas communicated that, as a result of demands from the legislature, educational organization, and parents for low pupil/teacher ratios (PTR), the District expended FY 06 funds to ensure "effective class sizes". However, due to increased utility expenses, accounts, enrollment under-projections, and other unforeseen situations, the School Board approved a FY 07 budget increasing PTR by three students "for all staffing formulas". The District is anticipating a reduction of 63 teacher positions in FY 07, for a 13 percent decrease in the District's teaching staff. 22 positions would be lost due to declining enrollment and 41 due to the PTR formula change. Some classes would exceed 30 students. There would also be losses of vocational education, art, and foreign language classes, and reductions in librarians and counselors. While the District currently has administrators servicing several different schools, there is anticipation of further increases in this practice. The Kenai Peninsula Borough would fund the District at the maximum allowable level in FY 07; however this "level of support continues to be a struggle considering their financial constraints. An increase in the mill rate" would be required to provide the FY 07 funding. Even though local residents recently rejected a local sales tax increase initiative, the issue would be introduced again this year, as the Borough would require additional revenue in order to continue funding schools at the maximum allowable level.

Ms. Douglas acknowledged the importance of Statewide equity and avowed, "something must be done" to counteract the funding shortfalls declining enrollment is having on the School District. "District cost factors must be adjusted" in addition

to the BSA. She appreciated the efforts exerted by the Legislature in addressing education needs.

[9:42:13 AM](#)

JENNIE HAMMOND, Nikiski Resident, testified via teleconference from Kenai and shared with the Committee the negative affect current school funding is having on her son and daughter's elementary school class sizes. The Nikiski North Star Elementary School has 415 students this year and a loss of 25 students is anticipated in FY 07; the number of teachers would decrease from 16 to 14. More funding would be required to offset the projected three student PTR increase. The school promotes parental involvement and in excess of 3,000 hours of volunteer time, valued at \$35,000, has occurred this year. Urging the Committee to increase the BSA in order to allow more teachers to be hired, she noted the Borough currently supports its schools at the maximum allowable level. In addition, she urged consideration of district cost differentials.

[9:44:03 AM](#)

[NOTE: The remainder of the public testimony occurred in Juneau.]

STEPHANIE ALLISON, Parent and Member, Glacier Valley Elementary School Site Council, informed the Committee she had received both her secondary and post secondary education in the State. As a Certified Public Accountant, she found the information provided on the Pencil Chart "interesting" but lacking consideration of the "comparable expenses" experienced from year to year. In addition to the increased PERS and TRS expenses, other expenses such as health care, utilities, and overhead have "substantially" increased. A review of the year-to-year comparisons of these expenses would be encouraged. Funding should support salaries that would attract quality teachers. The City and Borough of Juneau continues to contribute to its schools at the State's maximum allowable funding level. The Juneau School District (JSD) endeavored successfully to lower its PTR this past year; however, those PTRs could not be maintained under the proposed BSA. She could personally testify to the positive impact low PTRs have on a teacher's ability to teach, specifically in the Kindergarten through third grade (K-3) levels. K-3 class sizes exceeding 20 students negatively impact the ability of a teacher to manage the class. The

proposed BSA would also reduce the number of elementary school counselors. Those people provide substantial support to students needing such assistance. She acknowledged this being "a difficult issue", particularly as there are numerous "variances" between school districts and community funding support. She supported the establishment of "a permanent endowment" for schools. Such action would negate the demand on both legislators and citizens to re-address the issue each year.

[9:46:59 AM](#)

Co-Chair Wilken asked Valdez testifier, Ms. Todd, to further her remarks attesting that the district's "retirement costs weren't covered in this legislation".

Ms. Todd understood the proposed BSA might be insufficient to provide for the District's increased PERS and TRS costs.

Co-Chair Wilken noted the legislation would provide Valdez \$315,937 for FY 07 PERS and TRS expenses.

Ms. Todd communicated that the District's business manager has estimated the additional FY 07 PERS/TRS expense to exceed \$400,000.

Co-Chair Wilken requested Ms. Todd to have the District's business manager contact him to discuss this further as he had understood Valdez's increased PERS/TRS expense would be covered.

Ms. Todd would convey the message to the business manager.

[9:48:47 AM](#)

MARY HAKALA, Parent and Member, Alaska Kids Count! Network, "a grass roots non-partisan network of citizens who are advocates for great schools in Alaska", communicated there being many parents concerned about their children's education. Even though education funding has increased over the years, it has "not kept pace" with such things as overhead, PERS/TRS, fuel, inflation, and health insurance premium costs. School districts are unable to control these expenses. There is a negative impact on classrooms "when revenues do not meet expenses". Such things as larger PTRs, reduced staff and student support, and reduced course offerings occur. The proposed BSA would erode the capabilities of schools. She urged the Committee to review an

Alaska Kids Count! Network handout [copy on file], which depicts the effects of the proposed BSA on schools in the City and Borough of Juneau, where she resides. In order to meet overhead expenses and provide a minimal amount toward improving classroom conditions, the BSA funding should be an investment of \$150 million rather than \$90 million. The goal of the Network is to get money into classrooms. She hoped her children "would grow up realizing that government is accessible and responsive". She also noted that businesses consider the quality of education offered in a community when deciding whether or not to locate there. Being successful in attracting businesses to a community would increase its tax base and would assist in reducing such things as individual's property tax burdens.

[9:52:36 AM](#)

MARY BECKER, State President, Association of Alaska School Boards; Member, Juneau School Board; and Retired School Teacher, shared that in her capacity as State President, she has heard the needs of districts throughout the State. The Association has participated in the development of numerous districts' strategic plans. Input from parents and communities is also encompassed into a community's school district strategic plan. These plans are an integral part of a school district's operation as budget decisions and other educational decisions are based on the plan. The Juneau School District's strategic plan is affected by the annual BSA amount. Recent BSA funding levels have been inadequate and programs and positions supporting certain strategic plan goals that encourage communication between parents and the school district have been curtailed. One important element of the District's strategic plan is the effort to support staff training. This would assist the District to develop highly qualified staff and to remain compliant with State and federal requirements. Other focuses of importance are healthy attitudes and behaviors, safety in schools, bus transportation, "Alaska Native success, and graduation success for all".

Ms. Becker declared the proposed BSA would be insufficient to provide for the needs of the Juneau School District Strategic Plan. The District's Truancy Tracker position, three "drop-out" counselor positions, support for students having difficulty with passing the High School Qualifying Exam, and literacy assistance positions would be eliminated. School activities would decrease

and the District's PTR would increase three to five students across the board. She urged the Committee to increase the BSA.

[9:57:32 AM](#)

Senator Bunde, a former educator, avowed, "it is difficult to pay a very good teacher too much". Continuing, he noted that separate legislation is being considered that would provide "merit pay" to schools meeting certain student achievement standards. He asked whether the Association had a position on that legislation.

Ms. Becker replied the Association has reviewed the legislation, but has not taken a "supportive position" on it.

Senator Bunde encouraged the Association to further review the merit pay program legislation, as it would be a means through which to increase teacher compensation.

[9:58:08 AM](#)

Senator Stedman asked whether the Association has had a "policy discussion" addressing "the escalation of employee benefit contributions that's going to push 50 percent of payroll" and salary increases anticipated in the forthcoming years, within its attempt to provide more funds to classrooms.

[9:59:55 AM](#)

CARL ROSE, Executive Director, Association of Alaska School Boards, informed the Committee that each school district negotiates its own salaries; there is no statewide salary schedule. Nonetheless, the impact of increased salaries is a statewide concern. Furthermore, while the Association has no formal position on the issue of the unfunded PERS/TRS obligations, it has attempted to make districts aware of the "growing" impact of this unfunded liability.

Mr. Rose noted several proposals are being considered through which to address the PERS/TRS issue, including bonded debt legislation being advanced by the House of Representatives Rules Committee. The Association does not have "the wherewithal to address" the issue and districts must continue to provide the employee contribution portion, which school districts assumed in the mid 1980s. At that time, there was no indication the

obligation would become such a problem. It was only in recent years the districts became aware of the unfunded liability. In summary, while the Association does discuss this issue with the districts, it has not addressed the issue, as each school district deals with employee negotiations individually.

[10:01:16 AM](#)

Ms. Becker stressed the importance of teacher salaries keeping pace with cost of living increases. Districts are losing teachers and are having "an extremely difficult time" in hiring specialists such as special education and speech teachers. "It is a concern."

[10:01:45 AM](#)

Co-Chair Green pointed out that "the State has been very generous in working with communities, departments, agencies, and school districts in funding the increase for the past several years. That is not the State's obligation." It is a school district and community obligation. The State's funding support of the PERS/TRS issue should be recognized, as it provided more than it was required to contribute.

[10:02:24 AM](#)

Mr. Rose voiced appreciation for the State's funding support. Assuming the PERS/TRS obligation placed a "strain" on school district finances. The State's support was "a huge relief" for the school districts. Districts continue to be in a difficult situation, as they must also address the increase in fixed costs.

Co-Chair Green noted the intent of her remarks was to ensure the State's effort was being recognized and that school districts were aware of their responsibility. The unfunded liability could not be addressed in the short term.

[10:03:12 AM](#)

Mr. Rose assured that the conversation is occurring. Had the State not provided \$40 million toward the issue, the money would have been "come straight out of the classrooms".

[10:03:25 AM](#)

Senator Bunde remarked that "due to bad actuarial advice that was passed onto the Legislature by previous retirement boards", the PERS and TRS retirement system was under-funded. That led to this unfunded liability situation. The Legislature enacted SB 141-PUBLIC EMPLOYEE/TEACHER RETIREMENT/BOARDS in an effort to curtail that situation. That legislation made "major changes" to the retirement system, as continuance of the status quo would have acerbated the situation. To that point, "some organized effort to delay the implementation of" that legislation is occurring. A one-year delay would allow an additional year of liability to be incurred. People are apparently "more concerned about their individual benefits than the quality of education". He asked whether the Association is opposed to the implementation of SB 141 and is encouraging its delay.

[10:04:53 AM](#)

Mr. Rose communicated that while Association members are concerned with the impacts of SB 141, the Association has not taken a position on its implementation. Retirement liabilities are a nationwide issue and many large companies are also "seeking relief". School districts "concerns moving forward" include "attracting and retaining" employees and numerous other issues.

[10:05:52 AM](#)

Senator Bunde "encouraged" the Association to consider the fact that continuance of the existing system would incur further unfunded liabilities on the system. "Every dollar that goes into those benefits is a dollar that cannot go into the classroom."

JOHN ALCANTRA, Government Relations Director, NEA/Alaska, informed the Committee that the NEA/Alaska bargaining unit represents approximately 13,000 employees.

[10:06:43 AM](#)

Mr. Alcantra thanked Co-Chair Wilken, "a warrior for education funding" from kindergarten through the University, for sponsoring this legislation.

Mr. Alcantra specified \$5,611 as being the BSA recommended by NEA/Alaska. This would be a \$55 million increase above the

current \$90 million proposal. The discussions have included "adequate funding of public education" as well as the fact that an inadequate level of education funding occurred during the years 1983 through 2002. While funding in recent years has significantly increased, that 20-year span of flat education funding negatively affected schools. While some might interpret NEA/Alaska's request for increased funding beyond that being proposed as "looking a gift horse in the mouth", newspaper headlines across the State underscore the fact that increased levels of school funding are necessary. For example, the Kenai School District would be forced to terminate 75 schoolteachers, The Matanuska-Susitna (Mat-Su) School District would be four million dollars short, and the Anchorage School District would be two million dollars short. A January 2006 survey conducted by NEA/Alaska indicated that not "a single school district in the State" has agreed that the proposed BSA would be adequate. He allowed that some of those responses might have changed since January, as The Fairbanks North Star School District has since testified that the proposed BSA would be adequate.

Mr. Alcantra acknowledged being unaware of the Legislature's total proposed education increase in the FY 07 State budget; however, noted that the 8.8 percent BSA increase proposed in this bill does not align with the Governor's overall budget increase of 16.3 percent, which is double the increase being provided to K-12 BSA funding. He voiced appreciation for the Legislature's effort in helping with the PERS/TRS problem and other issues; however, the goal is to get adequate funding levels. NEA/Alaska has worked diligently "to develop a plan that would create a funding mechanism to achieve adequacy over ... the next eight years". Approximately \$155 million more funding above the \$90 million proposed in this bill would be required to reach adequacy today. While voicing appreciation for the "positive direction" that is occurring, he reiterated the request to increase the FY 07 BSA to \$5,611.

[10:10:27 AM](#)

Senator Stedman reviewed the recent BSA increases: the compounded BSA growth rate for the past four years has been 7.5 percent, and, when the FY 07 BSA is factored in, the compounded rate would increase to 7.75 percent. Thus, at this rate, NEA/Alaska's request for a BSA of \$5,611 would be achieved with just a slight delay. Based on the recent rate of growth, education funding would double in 9.6 years.

Senator Stedman puzzled as to whether NEA/Alaska's eight-year adequacy target considered a BSA rate as influenced by declining enrollment. The forward trends are troubling.

[10:11:44 AM](#)

Senator Bunde shared that, during his Legislative career, there have been "two constants: one, oil forecasts are always wrong and two, there's never adequate funding for education". Two separate bills being advanced, SB 112-TAX ON RESIDENTS/EMPLOYEES IN REAA;GRANTS and SB 235-SCHOOL PERFORMANCE BONUSES, would provide an additional \$15 million for schools. Noting that NEA/Alaska is on record in opposition to SB 235, he inquired to their position on SB 112.

[10:12:49 AM](#)

Mr. Alcantra responded NEA/Alaska has no position on SB 112. He suggested further discussion should occur in regards to other contributions that might be being made by the districts in the Rural Education Attendance Areas (REAA's). Even though the SB 235 fiscal note has been reduced from \$15.2 million to \$5.8 million, that money could be put "to better use."

Senator Bunde questioned what better use could there be "than rewarding successful teachers".

Mr. Alcantra responded the money could be utilized to support such things as mentoring programs and "to train teachers how to be successful". Although Department of Education and Early Development Commissioner Roger Sampson has developed a good proposal, it mirrors other merit pay programs in the nation that have failed. There are numerous other successful programs this funding could more appropriately support.

[10:14:10 AM](#)

Senator Hoffman referred to Senator Stedman's comments about the positive advancement being made in education funding. Nonetheless, there is "no guarantee" that future legislators would continue to support increased funding for education. This is substantiated by the periods of flat funding on record. In addition, the price of oil is unpredictable and who the next governor would be is an unknown. Thus saying that education

funding would continue to move in the right direction "cannot be forecast". The Legislature should determine the appropriate funding level necessary for today. Estimating future education expenses provides "very little consolation" to school districts and to students.

Senator Hoffman avowed teachers would be laid off were the proposed BSA adopted. This would result in "a lower standard of education".

[10:15:39 AM](#)

Co-Chair Wilken asked the process through which NEA/Alaska determined its BSA recommendation of \$5,611.

[10:15:56 AM](#)

Mr. Alcantra responded the amount had been calculated in January 2006 and included projected costs from FY 2008 through FY 2014. He was "hesitant" to provide the calculation summary, as it could present "some sticker shock", as K-12 education funding needs would double over the next eight years. NEA/Alaska's FY 07 \$145 million calculation would include \$39.7 million for PERS/TRS expenses and a three percent inflation factor equating to \$25 million. A portion of the eight-year adequacy plan cost would be used to recover approximately \$80 million of the \$641 million gap in education funding resulting from the education funding levels between 1983 and 2002.

Mr. Alcantra stated that once inflation and retirement expenses are deducted from the total \$90 million provided by this legislation, only approximately \$20 million would be provided to classrooms. The BSA amount proposed by NEA/Alaska would provide approximately \$80 million to classrooms.

[10:18:04 AM](#)

Senator Stedman asked whether a K-12 calculation based on the maximum actuarial rate had been conducted, as he was curious as to how much funding would have been required "today to neutralize the growth of the liability". The liability increased \$1.2 billion this past fiscal year.

[10:18:40 AM](#)

Mr. Alcantra noted his recent attendance at the Alaska Retirement Management Board (ARM Board) meeting. It was announced during that meeting that \$110 million would be required for PERS and \$98 million would be required for TRS this year. One of the ARM Board recommendations was to "infuse \$208 million" this year to address that need.

[10:19:12 AM](#)

Senator Stedman understood therefore that in order to maintain the status quo and "to neutralize the liability", an additional \$100 million beyond the \$90 million K-12 funding proposed in this legislation would be required. "Part of the funding is paid for by the local communities, and wouldn't necessarily be picked up by the State."

[10:19:59 AM](#)

Mr. Alcantra affirmed the total PERS/TRS liability would be approximately \$180 to \$200 million. An addition of \$90 million would only provide for the anticipated TRS expense. Of the 11,400 active public school employees represented by NEA/Alaska, 3,200 are support staff in PERS' positions. Thus, there would be both PERS and TRS expenses to address.

[10:20:34 AM](#)

Senator Stedman concluded therefore, that in order to drive money into the classroom, additional funding beyond the additional \$100 million required to halt the K-12 retirement system liability from growing, would be required.

Senator Stedman hoped the Association of Alaska School Boards was "paying attention" to this situation. There is a "huge capital draw coming at us and we need help to fix it". He echoed Co-Chair Green's earlier warning to school districts: they should not "rely on the State for 100 percent bailout..."

[10:21:31 AM](#)

Senator Bunde noted another analyst has also indicated there would be an additional \$100 million cost differential expense. Therefore \$400 million would be required to "truly" provide adequate funding for K-12 education in FY 07. This could be accomplished provided other State agencies' funding was reduced.

Referencing Mr. Alcantra's remark about the 16 percent increase in the Governor's FY 07 budget over that of FY 06, Senator Bunde pointed out that were the Governor's budget funded in its entirety, "the State would be \$50 million in debt this year" and half a billion dollars next year.

Senator Bunde identified "the one constant" communiqué he receives from constituents as "there is too much State spending". Constituents urge saving a portion of the additional oil revenue the State has received this year as the result of record high oil prices rather than spending it and subjecting the State to further budget deficits in the future. To that point, he is "still seeking an adequate definition of adequate funding" for the level required for "adequate funding" continues to escalate.

Senator Hoffman noted there are good things on the horizon; specifically the development of legislation that would revise the State's Petroleum Profit Tax (PPT) formula. The proposed PPT could generate an additional \$900 million to \$2 billion. An additional \$300 million "in real dollars" could be realized were the PPT's effective date made retroactive to March 30, 2006. There are manners "in the near future" through which to address some of the State's short and long term needs.

[10:24:52 AM](#)

MARY FRANCIS, Executive Director, Alaska Association of School Administrators, appreciated the increase in the BSA; however, reported that when preliminary budgets were developed at the proposed BSA, most districts found it insufficient to continue the positive forward momentum that funding levels in recent years have provided. Therefore, while the proposed BSA is appreciated, a higher level would be desired.

Senator Bunde pointed out there being 21 or 22 single site school districts. Consolidating some of those districts would allow a reduction in the number of district superintendents and other expenses. The salary paid to support a superintendent could be used to hire two teachers.

Senator Bunde asked Ms. Francis whether the Association might support consolidating single site school districts.

[10:26:52 AM](#)

Ms. Francis shared that the Association has, in the past, been opposed to school district consolidation; however, the Association has not addressed the issue this year. Nonetheless, the Association is supportive of consolidating administrative services, professional staff, and sharing professional development programs. Such action has occurred in recent years. She noted the Association's support of SB 235-SCHOOL PERFORMANCE BONUSES, "as long as the money provided" for that program is separate from the BSA funding.

Senator Bunde appreciated that support.

[10:27:59 AM](#)

ANDREA STORY, Parent and Member, Juneau School Board, reminded the Committee that the Juneau School Board (JSB) is on record in support of increasing the BSA to \$5,552, as the \$5,352 amount proposed would result in a two million dollar reduction to the District. Increasing the BSA to \$5,552 would half that reduction to one million dollars.

Ms. Story noted that, as a parent and an advocate for public school students, she has witnessed "the impact" State funding has on schools. School Boards must allocate their funding based on needs and community input. The allocation of funds "is often a struggle because costs have increased more than the revenues that have come in". An additional minimum of \$43 million would assist in alleviating school district budgetary concerns. She is looking to the Legislature to wisely determine how the additional revenue the State has received as a result of recent high oil prices could assist school funding. She urged the Committee to increase school funding.

[10:31:16 AM](#)

Amendment 1: This amendment changes the base student allocation from \$5,352 to \$5,380 in Section 1, page 1 line 6 of the bill.

Senator Hoffman moved for adoption of the amendment.

Co-Chair Green objected.

Senator Hoffman characterized this six million dollar increase to the total BSA as "a modest increase" in comparison to the

levels suggested by NEA/Alaska, the Juneau School District, and Alaska Kids Count. This minimal amount would address some of the concerns voiced by those entities and others.

[10:32:29 AM](#)

Co-Chair Wilken spoke against the amendment, as he considered the \$5,352 BSA amount proposed by the Governor and presented in this bill "generous". The BSA total amount of \$90 million is appropriate. Referring to a similar increase presented in the House of Representatives the previous day, he pondered as to how the decision to offer this six million dollar increase was derived. In other words, the decision to increase the BSA should be based "on knowledge and a decision that we could defend". Absent that, he could not support this amendment.

Senator Stedman also spoke against the amendment. While he "appreciated the desire" to provide more funding for classrooms, the issue should be mindful of the large amount of funding that "would be required to bring the contribution rate up to the actuarial calculated rate to stop the liability growth". The \$90 million amount proposed in this legislation would address approximately half of the total dollars required for public education. "Going forward, capping the growth of that liability will allow us to drive more money into the classrooms."

[10:34:32 AM](#)

Senator Bunde noted that, as part of the budgetary process, the Committee's subcommittees addressed each State department's needs and required each department "to justify their spending" and undergo reductions. The general fund budget recently adopted would be a 13 percent growth over last year. "That's as large as we can go." Therefore, before he could support providing additional money to education, he would require knowing which agency's funding would be reduced. Were increasing education desired, he could suggest a few programs whose funding reduction he could support. Therefore, this would be likened to robbing Peter to pay Paul.

[10:36:00 AM](#)

Senator Olson spoke in support of the Amendment. Noting the comments of various testifiers who have urged for increased education funding, proclaimed "that we are in a new era today".

This is "a digital age" and various "outsourcing" endeavors have occurred "due to school's inability to keep up with" the times. The monetary benefits the State would receive by the enactment of the proposed Petroleum Profits Tax (PPT) legislation would far surpass the six million dollars in additional education funding this amendment would provide.

10:38:00 AM

Senator Bunde cautioned against funding anything with anticipated PPT revenue. He likened it to "buying a lottery ticket and then going out to buy a new car based on your potential earnings."

Senator Hoffman stated he would "buy a couple of those lottery tickets." Continuing, he noted the Committee, including himself, supported increasing the University of Alaska's funding by 14 percent this year. That legislation is scheduled to be heard by the full Senate today, and he would buy a lottery ticket on that legislation being approved. To that point, he questioned as to why K-12 funding was not increased the same percent as that provided to the University. After all, not everyone continues their higher education at the University, but most K-12 school age children in the State attend a public school. Even with the adoption of this amendment, the percentage increase for K-12 "does not even come close" to that provided to the University. K-12 funding should receive "at least" the same percentage increase as the University. The arguments presented against increased K-12 funding "do not hold water".

A roll call was taken on the motion.

IN FAVOR: Senator Hoffman and Senator Olson

OPPOSED: Senator Bunde, Senator Dyson, Senator Stedman, Co-Chair Wilken and Co-Chair Green.

The motion FAILED (2-5)

Amendment #1 FAILED to be adopted.

10:41:17 AM

Co-Chair Wilken, the bill's sponsor, observed that at times, the perception is that "the glass is half empty". However, he argued

the "glass is really half full". The Legislature has accomplished many things during the past decade. In 1997, K-12 education received 29.9 percent of the State's general fund budget; whereas the operating budget today allocates 38.8 percent to education. We should be "proud" of this fact. This equates to a 30 percent increase in education's "piece of the pie". This is the result of Legislators understanding the importance of K-12 and citizens advocating for it. The pie chart depicts that support. He suspected that Legislative support for K-12 would continue.

The bill was HELD in Committee.

#

Co-Chair Green overviewed the Committee's afternoon meeting schedule.

AT EASE [10:43:51 AM](#) / [10:43:53 AM](#)

ADJOURNMENT

Co-Chair Lyda Green adjourned the meeting at [10:44:02 AM](#).