

HOUSE FINANCE COMMITTEE
March 28, 2007
1:41 P.M.

CALL TO ORDER

Co-Chair Meyer called the House Finance Committee meeting to order at 1:41:25 PM.

MEMBERS PRESENT

Representative Mike Chenault, Co-Chair
Representative Kevin Meyer, Co-Chair
Representative Bill Stoltze, Vice-Chair
Representative Harry Crawford
Representative Les Gara
Representative Mike Hawker
Representative Reggie Joule
Representative Mike Kelly
Representative Mary Nelson
Representative Bill Thomas Jr.

MEMBERS ABSENT

Representative Richard Foster

ALSO PRESENT

Representative Gabrielle LeDoux; Eddy Jeans, Director, Education Support Services, Department of Education and Early Development; David Scott, Staff, Representative Kyle Johansen; Wendy Lindskoog, Assistant Vice President, Corporate Affairs, Alaska Railroad Corporation; Derek Miller, Staff, Representative Mike Kelly; Peggy Cowan, Superintendent of Schools, Juneau Borough Schools, City & Borough of Juneau; Pat Ladner, President and CEO, Alaska Aerospace Development Corporation; Mary Siroky, Special Assistant, Department of Transportation and Public Facilities; Emil Notti, Commissioner, Department of Commerce, Community and Economic Development

PRESENT VIA TELECONFERENCE

Sharon Anderson, Alaska Aerospace Development Corporation Board of Directors, Anchorage; Jerome Selby, Mayor, Kodiak Borough; John Williams, Mayor, Kenai Peninsula Borough; Erick Campbell, CPA, Alaska Aerospace Development Corporation (AADC), Anchorage

SUMMARY

HB 72 An Act relating to the district cost factors for state funding of public education; providing for an effective date by repealing the delayed effective date of sec. 6, ch. 41, SLA 2006; and providing for an effective date.

HB 72 was HEARD and HELD in Committee for further consideration.

#HB137

HB 137 An Act amending the requirements for the identification card needed for sport fishing, hunting, and trapping without a license by residents who are 60 years of age or more.

HB 137 was SCHEDULED but not HEARD.

HB 168 An Act authorizing two exchanges of land between the Alaska Railroad Corporation and the Department of Transportation and Public Facilities; and providing for an effective date.

HB 168 was reported out of Committee with a "no recommendation" and with zero note #1 by the Department of Commerce, Community & Economic Development and zero note #2 by the Department of Transportation & Public Facilities.

HB 218 An Act relating to the payment of dividends by the Alaska Aerospace Development Corporation to the state, and to appropriation of the dividend for fiscal year 2008.

HB 218 was HEARD and HELD in Committee for further consideration.

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#HB168

HOUSE BILL NO. 168

An Act authorizing two exchanges of land between the Alaska Railroad Corporation and the Department of Transportation and Public Facilities; and providing for an effective date.

DAVID SCOTT, STAFF, REPRESENTATIVE KYLE JOHANSEN, explained that HB 168 would authorize two land transfers. It provides 10 acres of land exchange between the Alaska Railroad Corporation (ARRC) and the Department of Transportation & Public Facilities. The legislation ensures that all the appropriate titles to property are in place for the Department of Transportation & Public Facilities projects.

- Section 1 - Parks Highway Improvement Project
- Section 2 - Fairbanks International Airport Heavy Aircraft Cargo Apron

Mr. Scott noted that both projects require that ARRC adjust the track and right of way lands. Alaska Statutes require legislative approval for ARRC to exchange, donate, sell or otherwise convey its entire interest in land.

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Vice Chair Stoltze said he welcomed the bill's language as the Railroad has previously engaged in illegal activities. The Railroad is reminded they are a public entity, which carries the responsibility to report. He asked if Wasilla and Fairbanks had authorized the transfer.

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MARY SIROKY, SPECIAL ASSISTANT, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, advised that the Department had gone through the public process addressing the roads; she did not know about the airport expansion.

Vice Chair Stoltze understood that there had not been an official endorsement from local governments. He hoped that answers would be forth coming during the process. He assumed it was a straightforward land transfer.

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Representative Kelly explained that the legislation accommodates the runway expansion and airport modification. It is a beneficial swap for both the State and the local areas. He doubted any objection by local governments.

Co-Chair Chenault noted that he was not familiar with either project. He asked if the Railroad track had been realigned. Ms. Siroky said yes, during the construction easement portion of the project.

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WENDY LINDSKOOG, ASSISTANT VICE PRESIDENT, CORPORATE AFFAIRS, ALASKA RAILROAD CORPORATION, offered to answer questions of the Committee.

PUBLIC TESTIMONY CLOSED

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Vice Chair Stoltze MOVED to REPORT HB 168 out of Committee with individual recommendations and with the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

HB 168 was reported out of Committee with a "no recommendation" and with zero note #1 by the Department of Commerce, Community & Economic Development and zero note #2 by the Department of Transportation & Public Facilities.

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#HB218

HOUSE BILL NO. 218

An Act relating to the payment of dividends by the Alaska Aerospace Development Corporation to the state, and to appropriation of the dividend for fiscal year 2008.

REPRESENTATIVE MIKE KELLY, SPONSOR, addressed the intent of HB 218 & how it addresses the deficit concerns. In 1991, the Legislature created the Alaska Aerospace Development Corporation (AADC). The mission of the Corporation is to create a new high-technology industry for the State's space launch service. Since 1991, the State has appropriated over \$15 million dollars to the corporation and received no payment in return. It is in the State's best interest to look for new revenue from diversified sources. HB 218 would accomplish that by having AADC pay an annual dividend.

HB 218 would add language to the AADC statute to provide an annual dividend, not less than 25%, nor more than 50% of new income, in a given fiscal year. The bill also stipulates that a dividend may not exceed the total unrestricted net income for AADC in that year. If there was no unrestricted net income, they would not pay the State a dividend.

Representative Kelly noted that HB 218 was a revenue generating bill and urged the Committee's support.

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DEREK MILLER, STAFF, REPRESENTATIVE MIKE KELLY, provided a sectional summary of the bill and noted it should not be considered as an authoritative interpretation. The bill carries the best statement of contents.

- Section 1 adds language requiring the Alaska Aerospace Development Corporation to adopt a policy that pays out a dividend to the State each fiscal year. It also establishes methods for calculating that dividend and defines the terms.

- Section 2 permits the FY08 Aerospace dividend to be appropriated to the Teachers Retirement System (TRS) Fund or for any other public purpose.

Vice Chair Stoltze remembered past conversations he had with Mr. Pat Ladner, President and CEO, Alaska Aerospace Development Corporation, regarding forthcoming dividends. He applauded the work accomplished by the Corporation to date; yet, shared Representative Kelly's concerns.

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PAT LADNER, PRESIDENT AND CEO, ALASKA AEROSPACE DEVELOPMENT CORPORATION, reiterated that Alaska Aerospace Development Corporation was legislated into existence in 1991. The goal of Corporation is economic diversification. He provided a handout & power point presentation highlighting their marketing strategy. The original \$15 million dollar appropriation has created a \$100 million dollar operation. He pointed out over 10 launches in the past 10 years.

VIDEO PRESENTATION:

2006 Highlights:

- LAUNCH SERVICES: The tenth launch from the Kodiak Launch Complex (KLC) on September 1st was a significant milestone for Alaska Aerospace Development Corporation (AADC). It demonstrated AADC's ability to deliver launch services consistently, professionally and cost-effectively as a commercial facility.
- TELECOMMUNICATION LEADER: The new fiber optic cable project spearheaded by AADC and the Kodiak Kenai Cable Company will bring high speed telecommunications technology to Kodiak Island and the Kenai Peninsula for the first time. That major economic infrastructure development will bring the KLC online with secure, fast data transmission capabilities and provide high-speed access to residents and businesses of Kodiak and the Kenai Peninsula.
- SUPPORT FOR EDUCATION: AADC broadened its support of education in 2006 with an increase in contributions to the AADC Scholarship Program and a continued commitment to the Space Explorers Program for grades K-12. AADC is also the major sponsor for a fundraising event to benefit the Challenger Learning Center of Alaska (CLCA).
- INFRASTRUCTURE DEVELOPMENTS: AADC completed the construction and installation of a permanent telemetry site in Cordova for the second unit of the

Range Safety and Telemetry System. The dual systems, one at Cordova and one at the KLC, have also been expanded to provide data receiving and processing capabilities.

The Year in Review:

- Launch Success - Tenth Launch for KLC, which is a milestone for the mature AADC
- Kodiak Island - High speed telecommunications come to Kodiak Island & Kenai Peninsula
- Economic Impact - KLC operations impact Kodiak economy
- Infrastructure - KLC facilities upgrades and increases capabilities

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Mr. Ladner addressed the Board's intent. Funding is based on the number of launches and is received through contracts. The Board places dollars into future years even when there are no launches so that expertise is not lost. He commented on costs associated with keeping the launch center in great order. There are many expenses. He agreed that a dividend is in order, however, premature at this time. He requested that the Alaska Aerospace Development Corporation business accountant and auditor testify.

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SHARON ANDERSON, (TESTIFIED VIA TELECONFERENCE), ALASKA AEROSPACE DEVELOPMENT CORPORATION (AADC) BOARD OF DIRECTORS, ANCHORAGE, stated that she was a resident of Anchorage and was representing the Board of Directors for the Alaska Aerospace Development Corporation (AADC), which owns and operates the Kodiak Launch Complex (KLC). The 11 member board is a diverse representation of the aerospace and defense industries, University of Alaska and the Geophysical Institute, the State of Alaska Administration and private industry. She spoke in opposition to HB 218, while stating that it was the unanimous position of last years Board of Directors to provide the State of Alaska with an annual dividend, it is financially wise at this time.

Ms. Anderson thanked the State of Alaska for vision, support, and the initial seed investment of \$10 million from the Alaska Science & Technology Foundation. Within AADC's first decade of operations, they have conducted ten successful launches in support of science and national defense missions. It was AADC President Pat Ladner that recognized Kodiak Island's latitude and unobstructed flight paths away from populated areas, making it an ideal site for launching satellites into polar orbits and sub-orbital

payloads. It has been and will remain a wise investment for the State of Alaska as AADC continues to expand revenue and customer base.

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Ms. Anderson pointed out that during the last two years, AADC has completed two projects that expanded into a \$100 million facility with the capabilities to perform an essential supportive role to National Defense and growing commercial aerospace, high-technology industries in Alaska. The high speed communications via a new fiber optic project, between Kodiak Island and the Kenai Peninsula, expands the capabilities for the University of Alaska, Telemedicine and Homeland Security, as well as KLC current and future customers. The construction and installation of the Range Safety and Telemetry System has been completed, which allows the KLC to perform on the same or higher level of rocket data gathering capabilities.

Since the initial investment, AADC has been totally self-supporting, primarily through launch contracts. Doing business in the aerospace and defense industries brings challenges. Although working within a very capital intensive industry, AADC provides its own payroll, retirement, employee benefits, as well as a very costly annual maintenance of the sophisticated and highly technological equipment required to support launch infrastructure. The financial impact on Kodiak has been significant as well as support to the University of Alaska and Fairbanks with development of earth stations and Poker Flat research projects. The Board did establish a scholarship program in partnership with the University of Alaska Foundation to enable high school seniors seeking a Bachelor's degree in math, physics, engineering, business or a technical field such as computer science, the opportunity to apply for scholarships.

AADC also supports the Challenger Learning Center and nationally recognized Space Explorers Program bringing interactive science materials for students from K-12. The Board views all of these as vital dividends to Alaska residents.

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Ms. Anderson reviewed AADC financials, which is where the basic business model differences began between AADC and other independent State corporations. AADC does not provide long-term loans or rents that secure revenue over long periods of time that can be used to cover expenditures of the organization and enable them to provide a stable dividend to the State. In early years, AADC conducted commercial launches, but currently has only one customer,

the Missile Defense Agency (MDA) in support of the Ground-based Midcourse Defense program. The problem with relying on revenues from launches is that scheduling is totally unpredictable and not guaranteed creating a challenge in predicting year to year revenues.

She pointed out that AADC has very strict demands to maintain a high level of readiness both from the intellectual and personnel skill base but also with the complicated electronic hardware and software, fiber communications, vehicles, large metal buildings with integral cranes, a high tech clean room for satellite processing, and multiple HVAC systems. Due to these expensive preventative maintenance costs, which vary from year to year, daily operating cash amounts must be maintained at a higher level than most organizations.

Ms. Anderson added that revenues must also be reinvested for future capital expenditures. To expand and diversify AADC's customer and revenue base, a third launch sub-orbital launch pad is necessary. Continuous funding for various quantities of launch support equipment is required, as they are reaching the 10 year mark, others require repair or replacement. The current draft KLC Improvement Modernization Plan totals over \$16 million.

Ms. Anderson stated that the AADC Board of Directors has every intention of providing the State a dividend as soon as it is financially practical. However, to provide a dividend using the proposed HB 218 model without having the ability to set aside appropriate funding for capital repair, replacement, and expansion, would not be financially wise and would have serious negative affects on the ability to sustain the KLC. The Corporation is working to improve the infrastructure and capabilities.

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Representative Hawker asked when the State could anticipate a dividend. Ms. Anderson replied that when the third launch pad is in place and there is an account large enough to maintain and sustain maintenance, then AADC will be ready.

Representative Hawker commented that it was "troublesome" that a corporation that has been in existence for sixteen years can not yet pay back. He wanted to see a business plan, noting that the only client AADC has at this time is the federal government. Ms. Anderson recognized that AADC only has one customer; however, pointed out that ADDC has brought science, modern technology and high paying jobs to the State. Representative Hawker was disappointed that the presentation did not include all information. Mr. Ladner interjected it was included in each member's packet. Representative Hawker stood corrected.

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Co-Chair Meyer inquired if AADC receives State dollars. Mr. Ladner replied that they do not receive any General Fund dollars, only funds from customers. He added that there is a marketing plan in place and that all their insurance and Public Employees Retirement System (PERS) costs are paid in house. He guaranteed that the company is not standing still.

Co-Chair Meyer asked about the State owned road going out to the launch site. Mr. Ladner commented that there is a road, which also continues to the bay where there are homes and cabins. He pointed out that when a launch is happening, approximately 150 people visit the area for an extended period of time.

Co-Chair Meyer asked about the length of the road. Mr. Ladner replied that from the airport, the road extends forty one miles. Co-Chair Meyer maintained that there had been State assistance in building and maintaining the road. Mr. Ladner pointed out that the Larand Coast Guard station also exists on that road.

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Representative Gara inquired how a dividend could work as he knew it could not be removed from a federal grant. He asked about the general breakdown for funds received.

Mr. Ladner offered to provide a written outline of all contracts and the amount associated with each. Each launch is a separate task order and depending on the contract, AADC receives 8% if it is less risk up to 11% if it is a high risk venture, which is how the income is derived.

Ms. Anderson commented that in 2006, launches totaled \$16.8 million dollars; operating expenses totaled \$20.2 million dollars with a net operating loss of \$3.3 million dollars. Fees are limited by federal regulation & capital contributions and grants through the National Guard totaled \$15.8 million dollars.

Representative Gara asked for a launch fee breakdown. Ms. Anderson responded that there was only one entity using the service at this time, the Missile Defense Agency (MDA).

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Representative Hawker stated that a complete financial annual report should include an audited financial statement. He worried about audit assurances. Mr. Ladner noted that they could provide the audit reports to the Committee.

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Vice Chair Stoltze stated that the statute was specific and lengthy with regard to the reserve fund and asked how it had been incorporated into the AADC financial report. Mr. Ladner explained that they had never used the reserve fund. He added that their annual report is distributed and expenses are reviewed.

Vice Chair Stoltze asked about the video. Mr. Ladner explained that the video explains the difference between Kodiak and distances all the way to Vandenberg, Germany; it is shown to all potential clients to market AADC.

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Representative Crawford appreciated the video. He pointed out that the road had been in place before the launch was built and that there is a Department of Transportation & Public Facilities station in place to maintain it. He asked about future projects. Mr. Ladner explained that the facility was built in order to protect viewers from the increment weather, by providing an indoor environment.

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Mr. Ladner addressed safety distances that are essential to maintain. He thought that a third pad would entice entities that want to use a big pad. Alaska Aerospace Development Corporation continues to request federal funds. There are potential customers out there. Everyone knows that safety and environment are important.

Representative Crawford pointed out that one launch pad is locked in, while the rest are in development. Mr. Ladner agreed and observed that MDA has contracted for three launches each year but because of delays, usually only one happens.

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Representative Gara inquired if it was possible to take a dividend from federal funds. Co-Chair Meyer requested the question be held.

JEROME SELBY, (TESTIFIED VIA TELECONFERENCE), MAYOR, KODIAK BOROUGH, spoke in opposition to the legislation. He urged that the money be maintained and that opportunities for future launches be retained. He maintained that a dividend would reduce AADC's capital funds. He addressed scholarships currently offered by AADC. He spoke to the road and noted that it had been paid for by federal funds,

reducing the State's contribution. Mr. Selby stressed that the road is now being used for increased recreation.

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Vice Chair Stoltze noted that the statute provides for an assessment of local & municipal taxes; he questioned what other contributions had been made. Mr. Selby emphasized the economic positive impact of \$15 to \$25 million dollars a year in salaries and the number of visitors that come for launches. The economic impact has been "huge" to that community. He reiterated the benefits of having a paved road and the scholarships offered.

Representative Gara observed that the facility does not pay property taxes to the Borough. He questioned if the State gives the Borough any funds in lieu of taxes. Mr. Selby noted there were no payments made by the State.

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JOHN WILLIAMS, (TESTIFIED VIA TELECONFERENCE) MAYOR, KENAI PENINSULA BOROUGH, testified in opposition to the legislation. He pointed out that Section 2 assumes that some of the dividend may be appropriated to the Teacher Retirement System (TRS). He pointed out the prohibition of dedicated funds. He did not think AADC should be compared to the Alaska Housing Finance Corporation (AHFC) & Alaska Industrial Development and Export Authority (AIDEA). They have entirely separate missions and do not contribute to the economy in the same manner. It is important to recognize the federal requirements for accounting restrictions and allocation of funds. All AADC money has been federally earmarked for missile defense since 1993.

Mr. Williams pointed out that AADC is a high tech operation and maintained that they need more time before dividends are discussed. He noted the benefit of their location in relationship to polar orbits. He spoke to the ability of providing a dividend from federal funds.

The unrestricted funds are being kept in reserve for long term maintenance and continued operations during the launch calendar. That calendar does not require "day by day" financing but other aspects of operation do.

Mr. Williams spoke to the community contribution aspect of the Board. The Challenge Learning Center was built as an adjunct to the AADC; it was built with federal funds as part of a third wheel to the launch facility. He maintained that AADC has contributed to the schools and has brought in funds from other groups that have contributed heavily to other areas. He reiterated the scholarship fund contributions & observed that many funds have come to fruition as a result

of AADC. He concluded that a high tech industry has been created for the State of Alaska. He warned against taking dividends.

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ERICK CAMPBELL, (TESTIFIED VIA TELECONFERENCE), CPA, ALASKA AEROSPACE DEVELOPMENT CORPORATION (AADC), ANCHORAGE, spoke against the Corporation's ability to pay a dividend, noting that his determination was based on a June 30th, 2006 audit, indicating that AADC had \$15 million dollars in cash & of that amount, \$12 million dollars was deferred revenue, belonging to the federal government until spent on approved projects. There is another \$1.7 million dollars of liabilities not included the Public Employees Retirement System (PERS) obligation, which leaves \$1.4 million dollars for operations. Operating expenses for the past two years averaged around \$20 million dollars.

Mr. Campbell summarized at this time, there is approximately one month reserve for operations. He recommends that at a minimum, there are three to six months reserves built up. To pay a dividend would make it difficult for AADC to meet it reserves.

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Representative Hawker questioned when the Committee could anticipate receiving a dividend payment from the Corporation. Mr. Campbell stated that would depend upon the marketing success and when the third launch pad is finished. Federal dollars can not be used for State dividends.

Representative Kelly interjected that the obligation could be "turned out" and asked if the debt could be assessed against the federal government. Mr. Campbell explained that expenses are normally required to be directly related to the contract.

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Representative Kelly continued to question if a subsidiary could pay back the parent. Mr. Campbell felt that repayment could come later in the year. Representative Kelly noted the State has invested over \$20 million dollars, recommending that a 5% payback should occur at \$1 million dollars, or three times the scholarship value. He asked if AADC could make such a payment. Mr. Campbell did not know.

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EMIL NOTTI, COMMISSIONER, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, observed that the Agency received \$15 million dollars for construction costs and the State

paved 20-miles of the road, costing an additional \$20 million dollars. Commissioner Notti agreed that the agency should pay the State a dividend, but observed that the question is when. He maintained that an examination by the Legislative Budget and Audit (LBA) could provide direction. In response to a question by Co-Chair Meyer, Commissioner Notti clarified that there is no audit request at present time.

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Vice Chair Stoltze acknowledged the need for better accounting and direction through legislative discussion.

Representative Hawker referred to the enabling statutes and questioned if the entity would ever be economically profitable. He observed that the statutes are within the University of Alaska portion and affiliated by the University. The statutes prohibit termination if it is detrimental to the University. He questioned if AADC should be put under the University's purview. Commissioner Notti did not have an opinion regarding such a change.

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PUBLIC TESTIMONY CLOSED

Ms. Anderson responded to the issue of taxes. She clarified that as long as the federal government is the customer of AADC, the government does not allow for payment of taxes. Any funds would have to come out of the profit of the corporation. Interest on debt is not allowed. She reiterated the importance of a third launch paid.

Co-Chair Meyer noted his intent to hold the bill in Committee.

Representative Gara questioned if there is anything in statute that would preclude AADC seeking private funding. Mr. Ladner advised that there is nothing in statute, which precludes that.

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In response to a question by Representative Kelly regarding the State's obligation on the road, Mr. Ladner explained that before paving was done with funds from the federal government, a portion of the road on a school route; was not maintained. He noted that AADC bought a grader and has taken care of the road maintenance and will continue to provide that service. He addressed the use of federal funds, using a debt document, a copy of the loan. That grant document could be provided and it would not qualify as a loan document.

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Representative Kelly summarized that if there was going to be a dividend, it would have to come through the private sector contracts. Mr. Ladner was uncertain about that. Representative Kelly emphasized that the intent was to find a way to bring funds into the State from their initial investment.

Co-Chair Meyer added his intent to maximize all the State's investments. Co-Chair Chenault pointed out that some State funding had been used for the road.

HB 218 was HEARD and HELD in Committee for further consideration.

[3:22:51 PM](#)

#HB72

HOUSE BILL NO. 72

An Act relating to the district cost factors for state funding of public education; providing for an effective date by repealing the delayed effective date of sec. 6, ch. 41, SLA 2006; and providing for an effective date.

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REPRESENTATIVE MIKE CHENAULT, SPONSOR, stated that HB 72 was written to enact the cost differential factors for State school funding. HB 72 implements 100% of the Institute of Social and Economic Research (ISER) Study. He stated that if the ISER numbers are correct, it would mean \$10 million dollars a year for the Kenai District. The lack of those funds has caused a terrible discrepancy.

Co-Chair Chenault commented his school district was being unfairly represented by the current available cost differential numbers. He addressed some items that would be lost in his school district's funding which were not met. His district is the 4th largest in the State & while they do have many elementary schools, they do not have a nurse or drug prevention specialists. Kenai has smaller schools but also has a larger land mass. Since SB 36 was put into effect, the district is in drastic need. He hoped that HB 72 would provide an effort to move forward & offered to answer questions of the Committee.

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Co-Chair Meyer pointed out that Anchorage is used as the base level to determine the Base Student Allocation (BSA). He inquired if the legislation passed, would Anchorage's funding be reduced. Co-Chair Chenault responded that if the

BSA was raised with an increase to the cost differential, then Anchorage would not be affected. If the funds were taken from the current cost base and no new monies were added, then Anchorage would be reduced.

Representative Gara addressed a lack of achievement occurring in the Anchorage schools. After basic courses, the elective options are grim. The needs in big school districts are not as bad as the other & that he supported moving forward to address cost differentials. He asked if HB 72 was implemented and the PERS/TRS rate was paid down, would all school district's BSA be at \$77 million dollars.

Co-Chair Chenault replied that it would depend on how the numbers were moved around. If the Public Employees Retirement System/Teacher's Retirement System (PERS/TRS) issues were addressed, then the larger districts would receive more by moving the funding outside the formula. Currently, with the funding inside the foundation formula, the numbers are dispersed according to the cost differential. He objected to that model, commenting that the numbers should change. He encouraged that the entire concept be addressed including the PERS/TRS issue.

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Co-Chair Meyer informed those waiting online that there would be no public testimony at this meeting. He indicated that an arranged time and date would be selected to discuss the matter.

Representative Thomas commented he represented 12 school districts and thought the bill could provide millions of dollars for the past eight years. Over that period, the total amount was over \$90 million dollars.

Vice Chair Stoltze looked forward to continued discussion. He realized it was not an option for some small school districts, while the larger ones like Kenai, have more options. He represents the 1st and 2nd largest school districts in the State. He questioned the options for districts smaller than Kenai, who opt for smaller schools and the "trade-offs" associated with those choices.

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Co-Chair Chenault advised that smaller schools were the District's choice with four high schools. The distance between those schools is vast; some are 75-miles apart. They could consolidate but the parents want to see their children at schools closer to home with less traveling time. Smaller distances build community and not having the funding has made the school district more responsible. He guaranteed that there are no excess dollars in that district

& congratulated his borough. The community has funded to the cap allowed. He urged raising the BSA, stressing that his district should no longer be penalized.

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Representative Nelson added her gratitude to Co-Chair Chenault for the bill. She pointed out that $\frac{3}{4}$ of the ISER study would amount to \$72.5 million dollars. The full implementation of the ISER study would be a little over \$97 million dollars. She encouraged school districts to put forward their additional energy costs since the study was commissioned. The air study was released in 2003 based on 2002 prices. The ISER study was released in 2005 based on 2004 prices. She thought that the "loaf" had grown even more. When SB 36 was written, the price of crude oil was \$12.31 dollars per barrel, and today it is at \$57 dollars per barrel.

Co-Chair Chenault said he could not speak to the fuel issue & pointed out that the other $\frac{1}{4}$ of the loaf was placed in the operating budget. He realized that fuel & energy costs have increased throughout the State.

Representative Kelly inquired if there was an option to cap some districts. He worried about a double jump. Co-Chair Chenault addressed capping, noting that the bill was introduced at 100% of the ISER Study. The number is not known as they have not been able to settle on what should be considered. He hoped to get 100% but did not know if that was the correct number. The process is intended to help districts address their cost factors and PERS/TRS; it is hoped to settle upon a number to provide school districts with the opportunity to move forward.

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Representative Kelly stated for the record that some districts are too small for the funding that they receive. He voiced serious concern with future increased funding, yet agreed that the current system is not adequately working.

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EDDY JEANS, DIRECTOR, SCHOOL FINANCE, EDUCATION SUPPORT SERVICES, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, offered to answer questions on the fiscal note or queries on how the State got to where it is.

Co-Chair Meyer addressed the BSA and how those numbers would affect Anchorage.

Mr. Jeans observed that one would have to go back to SB 36, in which the McDowell Group made it clear that those numbers

were based on the manner that school districts were spending at that time. The McDowell Group recommended that the issue be revisited in a couple years. The Legislature assumed that burden and commissioned the study and then asked ISER to do a peer review. Based on the peer review, the Legislature took those recommendations & asked ISER to rerun the numbers. There were two areas of great concern, the first being how the air group calculated the energy portion of the index. They used a lot of criteria for adjustment. ISER recommended going back to the financial statements and using what the districts are currently spending as the measure. He noted that the largest component was addressing the teacher compensation component. ISER recommended making an adjustment for longevity, experience and teacher turnover.

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Mr. Jeans noted that in the peer review, ISER was clear about the adjustments that were needed. The Legislature paid for those adjustments. Everyone thought they went too far the other way, which he agreed with. Mr. Jeans pointed out frustration with the cost differentials. The total package needs to be a complete rewrite. He did not support a 100% cost differential as the correct formula. He looked forward to a dialogue on the issue.

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Co-Chair Meyer reiterated concerns and worried about a possible cut to Anchorage. Mr. Jeans explained that if the cost differentials were adopted and not funded, there would be redistribution and Anchorage would get less; however, funding the cost differentials, Anchorage would not lose any funding. It will be a correction to the formula, which needs to be made.

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Representative Joule referenced teacher salaries and questioned the benefit of offering a single bargaining unit. Co-Chair Meyer interjected that was not an appropriate question at this time. Mr. Jeans added that some states have a built in a salary schedule the State is willing to pay and that anything beyond that is picked up at the local level.

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Representative Gara requested a chart indicating the affect to each school district if the bill were passed. Mr. Jeans offered to provide that. Co-Chair Meyer agreed and suggested several different scenarios shown in the chart with the PERS/TRS outside and then one with it included in

the formula, one with the cost differential implemented and then not funded.

Representative Kelly questioned the Department's legislative efficiencies. Mr. Jeans noted the Statute requires the Department to look at cost differentials and then make recommendations to the Legislature. The Department has requested funds to do that; the Legislature elected to take on the task to define cost differentials. He said he sat on the Legislative Budget & Audit (LBA) Subcommittee, which defined the areas.

Representative Kelly asked if the Department's methodology would reflect less than 100% of the application to the formula. Mr. Jeans said he did not believe the 100% ISER cost differentials were the real numbers nor did he believe that those were the accurate differentials, and thought it was less.

[4:02:58 PM](#)

Representative Hawker mentioned the amount of public testimony taken during the LBA Committee and concerns voiced by adopting the ISER results. Mr. Jeans agreed that was a fair representation.

[4:04:29 PM](#)

PEGGY COWAN, SUPERINTENDENT OF SCHOOLS, JUNEAU BOROUGH SCHOOLS, CITY & BOROUGH OF JUNEAU, stated that the proposed legislation is critical to the Juneau School District and Juneau students. The Juneau community funds education to the maximum allowed & looks to the Legislature for measures of adequacy and fairness. Since 1998, everyone has lived with the rates established in SB 36, losing ground in terms of educational programs provided. The ISER study may not be perfect but the SB 36 rates are flawed. She urged that the Legislature take action. Each community has different needs & educational funding should do the same.

[4:06:37 PM](#)

Vice Chair Stoltze requested information on what the bargaining units have obligated their legislators to do. He worried how the request would fit into the overall, State budget priorities.

HB 72 was HELD in Committee for further consideration.

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[4:07:37 PM](#)

ADJOURNMENT

The meeting was adjourned at 4:07 P.M.