

HOUSE FINANCE COMMITTEE
January 29, 2008
1:42 p.m.

CALL TO ORDER

Co-Chair Meyer called the House Finance Committee meeting to order at [1:42:07 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

Eddy Jeans, Director, School Finance, Education Support Services, Department of Education and Early Development; Carl Rose, Executive Director, Alaska Association of Alaska School Boards; Kate Burkhart, Executive Director, Alaska Mental Health Board and Advisory Board on Alcoholism and Drug Abuse; Jerry Donahue, Juneau; Andy Story, Board President, Juneau School District; Mary Francis, Executive Director, Alaska Council of School Administrators; Mary Hakala, Coordinator, Great Alaska Schools.

PRESENT VIA TELECONFERENCE

Anne Kilkenney, Matsu, Great Alaska Schools; Dave Jones, Assistant Superintendent, Kenai Peninsula Borough School District.

SUMMARY

HB 273 "An Act relating to school funding, the base student allocation, district cost factors, and the adjustments for intensive services and average daily membership calculations; and providing for an effective date."

HOUSE BILL NO. 273

"An Act relating to school funding, the base student allocation, district cost factors, and the adjustments for intensive services and average daily membership calculations; and providing for an effective date."

REPRESENTATIVE MIKE HAWKER, CHAIRMAN, JOINT LEGISLATIVE EDUCATION FUNDING TASK FORCE, spoke in favor of House Bill 273. He acknowledged the difficulty the State has had regarding education funding for both the short and long terms. At the end of the 2007 session, the House and Senate passed Senate Concurrent Resolution 11, which created the Joint Legislative Education Funding Task Force (JLETF). The JLETF met and took testimony in various Alaskan communities over the course of the summer. They delivered a report to the Governor and the Legislature on September 1, 2007 (Copy on File, available along with testimony and supporting materials on the JLETF website at http://www.housemajority.org/coms/hlef/hlef_background.php). The JLETF was specifically charged with evaluating proposals based on available facts and conclusions pertaining to district cost factors, recommending improvements to the laws providing education funding, and with taking public comments on education funding and school district cost factors.

Representative Hawker explained that the JLETF agreed to work within the existing school funding formula and address the issues that had resulted in a policy deadlock in the Legislature. The conclusions reached were by consensus, although dissenting opinions are also published in the report.

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Representative Hawker indicated that the JLETF report is prefaced on another piece of legislation, the retirement system funding, which had become a large portion of the increasing financial burden that school districts faced. For some years prior, the legislature had expected retirement costs to come out of increases it made to the Base Student Allocation (BSA). Another measure that was before the Legislature in 2007, SB 125, proposed a cost-sharing formula where the State funded a significant portion of retirement liabilities outside the BSA. That bill did not pass, but affected JLETF's recommendations.

Representative Hawker noted that the JLETF made recommendations in several major areas. House Bill 273 encompasses the financial recommendations. The JLETF has introduced other legislation not related to direct funding. He highlighted JLETF's proposal that the House and Senate create a standing committee dedicated to education to address all the issues the JLETF could not reach consensus on. Representative Hawker asserted that HB 273 effectively addresses the most divisive issues and beseeched the

Committee to look at it as a whole rather than in components. He described the bill as a thoroughly thought out, well-discussed compromise.

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Representative Hawker outlined the specifics of HB 273. Section 1 addresses circumstances resulting from a steep decline in enrollment. Language has been drafted by the Department of Education to provide for a three-year step-down to assist districts in those circumstances.

Representative Hawker described the crux of the debate before the Legislature as balancing intensive needs funding and district cost factors. Students with special needs can cost a district \$250,000 or more per student; the average cost is about \$70,000. The previous school funding formula multiplied the BSA by five. House Bill 273 raises that multiplier from five to: nine times the first year, 11 times the second, and 13 times the last year. Some testifiers still felt it was not enough. The numbers reflect a compromise. Intensive needs funding tends to be an urban issue because the medical facilities those students require are in larger communities.

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Representative Hawker addressed issues relating to rural schools. District cost factors recognize the higher cost of running schools in smaller communities. The district cost factors were initially implemented in 1988 through SB 36 when the Legislature adopted the school funding formula and have been substantially controversial ever since. The formula compares each district's costs with Anchorage's costs.

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Representative Hawker said JLETF was convened to find a compromise proposal to stabilize school funding and reconcile differences. The JLETF took the Institute of Social and Economic Research (ISER) cost differentials and proposed phasing them in over a five-year period. House Bill 273 would phase in 50% of the additional money in FY 09, with the remaining 50% implemented over the four subsequent fiscal years. The JLETF also recommends establishing a commission to specifically re-determine these numbers.

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Representative Hawker described the BSA as the foundation of the school funding formula. The JLETF recommended a minimum \$100 per year increase for the next three years. He strongly emphasized that he views this number as a minimum in order

to give districts an amount to plan around. He believes the \$100 is the right number as long as the Legislature continues to find a way to deal with the retirement liability issue outside of the school formula.

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Representative Hawker noted he would introduce Amendment 1 at the appropriate time. The amendment includes the last piece of funding recommended by the Task Force and recognizes the need to recalculate student transportation funding. The amendment would update HB 273 to include 2007 audited numbers.

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Co-Chair Meyer said HB 273 addressed his previous concerns about rising costs in urban schools due to intensive needs students and increasing costs in rural schools as set forth by the ISER study recommendation.

Representative Joule, a member of the JLETF, spoke in support of HB 273 and said it was long overdue, especially for rural schools. He referred to the "battle" of SB 36. He remembered the House majority leader saying, "We need to come back and fix the cost differentials" because rural schools were losing money. He knew there would be disagreement, but felt that progress was being made.

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Representative Gara stated his intention to listen closely to rural members to see if the legislation goes far enough. He viewed the bill as a concession, which increases the amount to rural districts by only 60% of the amount recommended by the ISER study. He was glad the amendment addressed transportation shortfall. He thought the heart of the debate would be what the funding increase should be.

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Representative Nelson referred to the 20% block grant for vocational, technical, special needs and bilingual. She described vocational/technical learning as key to Alaska's future because of mining projects and the gas line. Bilingual education is critically important to school districts in her region where 11% of students speak no English.

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Representative Hawker assured Representative Nelson that the JLETF had spent a substantial amount of time on the issues she raised. He referred to page eight of the JLETF report

and explained that the special needs block grant is a factor within the formula giving a 20% increase for special education, gifted and talented programs and vocational technology as well as bilingual and bicultural programs. The block grant approach was adopted to give schools latitude in addressing their individual needs. The JLETF decided not to change the block grant at this time, but did recommend the structure of these grants be reconsidered.

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Representative Kelly requested the fiscal notes in order to get the complete picture including the breakout around retirement.

Co-Chair Meyer opened testimony to the public.

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EDDY JEANS, DIRECTOR, SCHOOL FINANCE, EDUCATION SUPPORT SERVICES, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, provided more information about the work of the JLETF. He referred to DEED fiscal notes #1 and #2, which address the JLETF recommendations: one for the foundation program and one for the military youth academy, whose funding is tied to the BSA.

Mr. Jeans reported that the JLETF had broadly discussed many issues, including:

1. the special needs block grant;
2. the separate component for vocational/technology programs;
3. required local contribution in the current foundation formula;
4. Moore vs. State of Alaska school funding lawsuit;
5. innovative and best practices grants; and
6. pre-school programs.

All the items were deferred to the standing committees at the recommendation of the JLETF.

Mr. Jeans reviewed the components covered by the JLETF:

1. the BSA increase;
2. intensive needs funding going from a factor of 5 to a factor of 13 by 2011;
3. district cost factors phased in over a five-year period: 50% the first year and the remaining 50% phased in over the remaining four years;
4. the hold harmless provision with a step-down approach for those districts experiencing declining enrollment or those districts impacted by the foundation formula as currently written; and
5. the amendment to recalibrate pupil transportation.

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Mr. Jeans observed that Governor Palin announced her education funding plan at the State Board of Education meeting in December 2007 in Anchorage, and explained that the BSA is the only difference between the Governor's plan and the JLETF's recommendations. The JLETF recommended the BSA be \$100 and the Governor \$200 for each of three years. He informed the Committee that the Anchorage school district passed a resolution supporting the \$200 BSA (Copy on File).

Representative Hawker asked for clarification on the two-year cost-of-living inflator in the Amendment. He wondered if that mirrors the terms of the existing contracts. Mr. Jeans answered that the majority of the contracts have the Anchorage consumer price index built into them, which will assist districts each year when costs increase.

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Representative Gara spoke favorably about the bill. He expressed concern about the difference between the \$200 and \$100 BSA proposals. He calculated that after the first year the \$100 increase on a \$5300 BSA would be less than two percent, causing school districts to fall behind inflation in the second and third years. In addition, district costs are even higher because of healthcare and fuel costs. He thought this might amount to a decrease in funding in terms of real, post-inflation dollars. Mr. Jeans agreed that the \$100 number does not keep up with inflation.

Representative Gara maintained that incremental changes in education funding don't make a lot of difference. He preferred to give enough of an infusion that the bigger districts could reduce class size and the smaller districts could make significant curriculum additions, such as world history and music.

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Vice-Chair Stoltze wondered whether taking the retirement money out of school budgets would affect the numbers enough to keep ahead of inflation. Mr. Jeans indicated that the \$200 million paid for the Teacher Retirement System (TRS) increase would exceed inflation. He pointed out that the money freed up in school district budgets by the Legislature's action to pay down the TRS was approximately \$77 million. The districts were able to redirect that money to other purposes, which could be seen as an increase in the BSA. However, at least \$160 million of the \$200 million was clearly the result of increasing rate from 26% to 54%. There would have been major layoffs across the state if the Legislature had not acted.

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Co-Chair Meyer called for an analysis of how much the TRS money saved the BSA and how that compares with the JLETF recommendation. He agreed with Vice-Chair Stoltze that the action more than offset inflation, which would otherwise have come out of the foundation formula.

Representative Thomas questioned increasing funding to intensive care needs, which would go to urban districts, over three years while more slowly increasing district cost factors to the rural communities. His district has 13 school districts that have been shortchanged several millions of dollars for ten years. He didn't want his schools to have to wait another five years. He called for fairness and considered proposing an amendment to make it three years and three years. He asked Mr. Jeans to calculate the cost for either scenario.

Mr. Jeans said that could be done if that was the will of the Committee. Co-Chair Meyer asked Representative Hawker how the JLETF came up with the arrangement of the three vs. five year implementation plans.

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Representative Hawker strongly urged legislators to keep the JLETF proposal intact. He described the proposal as a hard-won compromise and a very delicate balance of interests among legislators with different constituencies and different beliefs about how to approach the various factors. He described the district cost factors as not solid enough to get behind and said they should not be adopted as they presently stand.

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Representative Hawker asserted that individual amendments to the proposal in order to benefit particular constituencies would reopen the entire debate. He believed that would constitute a major step backwards. He reminded the Committee that the whole point of a cost factor commission was to get credible figures as soon as possible. He cautioned against provincialism.

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Representative Thomas withdrew his request. He described his experience with changing fuel costs and reiterated his frustration with the slowness of the process. Representative Hawker described the diversity of the JLETF membership and reiterated that none of them got all they wanted. The JLETF attempted to avoid an impasse by setting differences aside.

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Representative Gara revisited the question of whether the \$100 keeps up with inflation after the retirement contribution is factored in. The State has to put a lot of money into paying down TRS that is not going into the classroom this year like it did last year.

Mr. Jeans explained he does not consider the TRS liability when talking about inflationary adjustments. He thinks more about increases in salary and fuel costs. Districts do have to recognize the increased liability. He acknowledged that buying down the TRS rate in FY 07 did have the effect of increasing the BSA to around \$300, but said that can't be counted on every year. The money was redirected in FY 08 but it won't be new money in FY 09.

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Representative Gara asked for additional clarification. Mr. Jeans responded that if the Legislature continues to deal with the TRS requirement like it did in FY 07 there will be no new money put into classrooms in FY 09. Representative Gara asked if that was the Governor's proposal regarding TRS. Mr. Jeans described the Governor as supportive of SB 125, which institutionalizes the TRS action.

Co-Chair Meyer the Committee to study the JLETF report.

CARL ROSE, EXECUTIVE DIRECTOR, ALASKA ASSOCIATION OF ALASKA SCHOOL BOARDS, spoke in favor of HB 173. He urged the Committee to look at the proposal as a whole, which puts a BSA in place for three years that would provide both early and forward funding. He referred to the amendment to the cost differentials.

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Mr. Rose explained how the money will be phased in. Schools received 50% of the money the first year and 12.5% every year through 2013 until 100% is reached or until there is better information and the amounts can be reconsidered. He said until that time HB 273 will provide guaranteed money through statute.

Mr. Rose said his membership passed a resolution in favor of a \$200 BSA and a three-year phase-in. He acknowledged that both issues could be deal-breakers. He said that they of course preferred to get more money over less time but that they valued the package enough to pass it into law. He urged the Legislature to consider the package in its entirety. His association is strongly in favor of institutionalizing what the JLETF has recommended. Their greatest fear is winding up with a cash grant that would not be institutionalized.

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Representative Gara expressed concern that Mr. Rose's board had decided what was doable without consulting with legislative leadership.

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Representative Kelly asked for clarification regarding unfunded liability coming from outside the formula. Mr. Rose explained that his membership had looked at the JLETF findings and passed a resolution supporting the \$200 BSA. If there is going to be a three-year phase-in of the intensive needs they would like to see the same for the cost differential. That was the extent of the discussion; unfunded liability did not come into play.

KATE BURKHART, EXECUTIVE DIRECTOR, ALASKA MENTAL HEALTH BOARD AND ADVISORY BOARD ON ALCOHOLISM AND DRUG ABUSE spoke in support of the bill. She described education as a key protective factor in minimizing the likelihood that a child will engage in high-risk behaviors such as drug and alcohol abuse. An "A" average student is only six percent likely to use drugs or alcohol; a child who is failing school has a 30% chance of using drugs or alcohol. She maintained that investing in education translates to significant future cost savings. She urged the Committee to look at the bill in totality and to act now.

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JERRY DONAHUE, SELF, JUNEAU urged the Committee to support the \$200 increase suggested by the Governor. He has two daughters attending high school and is a member of the high school site council. The school needs about \$300 thousand to replace old textbooks. The council also would like to see a higher percentage of young people graduating from high school and needs money to fund drug programs.

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ANDY STORY, BOARD PRESIDENT, JUNEAU SCHOOL DISTRICT spoke in favor of HB 273 as a comprehensive package. She noted the bill recognizes the high cost of providing intensive needs funding. She informed the Committee that almost three percent of Juneau students are designated to receive intensive needs services. The cost of these services is far higher than the current multiplier, which diminishes the funds available for regular education. She supports the phase-in and adjusting for local cost factors. The school board supports the \$200 BSA.

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ANNE KILKENNY, MATSU, GREAT ALASKA SCHOOLS (TESTIFIED VIA TELECONFERENCE) spoke in support of HB 273. She recognized the fragility of the compromise proposed by the JLETF, but would like to see the bill amended. She does not want the old cost factors phased in over another period of five years. She compared that to the increasing price of oil. She thought the geographic cost factors should be phased in more quickly and that the BSA should be \$200. The Matsu school district could be provided with aides if the bill was moved ahead a year. They have been operating with inadequate resources on many fronts.

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DAVE JONES, ASSISTANT SUPERINTENDENT, KENAI PENINSULA BOROUGH SCHOOL DISTRICT (TESTIFIED VIA TELECONFERENCE), spoke in favor of the bill. He noted the results of the Legislative funding for education last year. He acknowledged the importance of the work of the JLETF and feels their proposal has addressed the needs for education at this time. He urged the timely passage of the bill in its entirety.

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Representative Gara asked about elementary school class sizes across the Kenai Borough. Mr. Jones responded that class sizes range from two elementary students to 29. His target number is 24-26.

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MARY FRANCIS, EXECUTIVE DIRECTOR, ALASKA COUNCIL OF SCHOOL ADMINISTRATORS, spoke in favor of HB 273. Her council represents all the superintendents, principals and business officials in Alaska. She referred to the packet of resolutions she brought to Legislators (Copy on File). Resolution 16 gives full support of the JLETF recommendations, and asks for \$200 BSA and three year phase-in. She attended many of the JLETF meetings and described the process as thorough and respectful.

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MARY HAKALA, COORDINATOR, GREAT ALASKA SCHOOLS, spoke in favor of HB 273. She, along with other parents, would like to see the Legislature go back to the bottom line of a stellar education for each child. She commended the JLETF and supports the \$200 BSA which will allow districts to meet rising costs.

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Co-Chair Meyer closed public testimony. He referred to the Amendment and his intent to address it in a future meeting.

Representative Hawker notified the Committee that two of the components of the JLETF's recommendations had passed out of HESS (Health, Education and Social Service) Committee.

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Representative Hawker commented that the Committee was hearing much of the same discussion the JLETF heard the previous summer. He concluded his testimony by reading for the record the summarizing comments on page 10 of the JLETF report:

The JLETF recognizes that achieving and sustaining the education funding commitments proposed in this report presents significant challenges in light of the economic reality of the State's declining oil production. No matter how high the market price of oil reaches, nor how great the level of state imposed taxation, the indisputable decline in North Slope oil production inevitably results in the State having less fiscal resources available to allocate among all the competing needs for public services, including providing a system of public schools.

The determination of state revenue and appropriation policies will always entail reconciliation of differing economic and social philosophies among individual policy makers. Regardless of the dynamics inherent in the political process, the Alaska Constitution requires the legislature to establish and maintain a system of public schools and the legislature must be committed to meeting that responsibility.

The JLETF recommends the legislature adopt the proposals in this report and prioritize developing the long-range fiscal policy necessary to sustain these commitments.

HB 273 was HELD in committee for further consideration.
ADJOURNMENT

The meeting was adjourned at 3:33 PM.