

ALASKA STATE LEGISLATURE
HOUSE HEALTH, EDUCATION AND SOCIAL SERVICES STANDING COMMITTEE

February 15, 2007

3:00 p.m.

MEMBERS PRESENT

Representative Peggy Wilson, Chair
Representative Bob Roses, Vice Chair
Representative Mark Neuman
Representative Paul Seaton
Representative Sharon Cissna
Representative Berta Gardner

MEMBERS ABSENT

Representative Anna Fairclough

COMMITTEE CALENDAR

PRESENTATION: BRING/KEEP THE KIDS HOME

- HEARD

HOUSE BILL NO. 97

"An Act making appropriations for state aid to public schools, centralized correspondence study, and transportation of pupils; and providing for an effective date."

- MOVED CSHB 97(HES) OUT OF COMMITTEE.

PREVIOUS COMMITTEE ACTION

BILL: HB 97

SHORT TITLE: APPROP: K-12 EDU; PERS/TRS LIABILITY

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/22/07	(H)	READ THE FIRST TIME - REFERRALS
01/22/07	(H)	HES, FIN
02/13/07	(H)	HES AT 3:00 PM CAPITOL 106
02/13/07	(H)	Heard & Held
02/13/07	(H)	MINUTE(HES)
02/15/07	(H)	HES AT 3:00 PM CAPITOL 106

WITNESS REGISTER

MARGARET LOWE, Trustee
Alaska Mental Health Trust Authority (AMHTA)
Anchorage, Alaska
POSITION STATEMENT: Presented an overview of the "Bring the Kids Home" (BTKH) Initiative.

DEBBI KEITH, Member
Alaska Youth and Family Network (AYFN)
Board Member
Alaska Mental Health Board (AMHB)
Anchorage, Alaska
POSITION STATEMENT: Described her experiences as the parent of a special needs child.

ALEX NOON, Member
Alaska Youth and Family Network
(No address provided)
POSITION STATEMENT: Explained the peer navigation program.

MICHELLE PURDY, Member
Alaska Youth and Family Network
(No address provided)
POSITION STATEMENT: Described her experiences as a recipient of special needs care in Anchorage, Alaska and expressed support for the BTKH initiative's work.

CINDY ANDERSON, Director
Secondary Special Education
Anchorage School District
Anchorage, Alaska
POSITION STATEMENT: Described the services provided to special needs students who return after receiving services and education out of state.

JEFFREY JESSEE, Chief Executive Officer, Trustee
Alaska Mental Health Trust Authority (AMHTA)
(No address provided)
POSITION STATEMENT: Described issues related to availability and costs of services for youth in state custody and for youth not in state custody.

BILL HOGAN, Deputy Commissioner
Department of Health and Social Services (DHSS)
Juneau, Alaska
POSITION STATEMENT: Explained his department's efforts to help children receive the services and treatment they need.

MARY HAKALA, Coordinator
Great Alaska Schools
Juneau, Alaska

POSITION STATEMENT: Presented concerns with the funding levels of HB 97.

CARL ROSE, Executive Director
Association of Alaska School Boards (AASB)
(No address provided)

POSITION STATEMENT: Testified on HB 97 and on AASB budget concerns for school districts.

MARY FRANCIS, Ph.D., Executive Director
Alaska Counsel of School Administrators (ACSA)
Juneau, Alaska

POSITION STATEMENT: Presented the ACSA position on HB 97.

PEGGY COWAN, Superintend
Juneau School District
Juneau, Alaska

POSITION STATEMENT: Presented the Juneau Board of Education legislative priorities for session and testified on the budget affect of HB 97

REPRESENTATIVE LES GARA
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Testified on HB 97 and expressed concerns about portions of the bill.

JOHN BITNEY, Legislative Liaison
Office of the Governor
Juneau, Alaska

POSITION STATEMENT: Testified in support of HB 97.

EDDY JEANS, Director
School Finance and Facilities Section
Department of Education and Early Development (DOE)
Juneau, Alaska

POSITION STATEMENT: Answered questions about HB 97.

ACTION NARRATIVE

CHAIR PEGGY WILSON called the House Health, Education and Social Services Standing Committee meeting to order at [3:00:27 PM](#). Representatives Wilson and Seaton were present at the call to

order. Representatives Neuman, Gardner, and Cissna arrived as the meeting was in progress.

OVERVIEW: BRING THE KIDS HOME

3:01:13 PM

MARGARET LOWE, Trustee, Alaska Mental Health Trust Authority (AMHTA), provided a brief history of the inception of the Bring the Kids Home initiative (BTKH). Many years ago, most children with special needs were served outside of the state. The AMHTA helped to develop services and buildings within the state to serve them. However, in the last 10 to 15 years, as many as 700 children a year have been sent outside the state to residential facilities to receive treatment and education.

3:02:51 PM

DEBBI KEITH, Member, Alaska Youth and Family Network (AYFN); Board Member, Alaska Mental Health Board (AMHB), described the experiences of her son, whose special needs could not be met in the public school. When her son was 11 years old, he went out of state to receive treatment and education. He was often gone for extended periods of time, and she was only able to visit him once every three months. There were difficulties with communication and visits, therefore, one year she was only able to visit her son once. Due to distance and communication difficulties, her family was not a part of her son's treatment, she explained. Her son is currently 18, can read and write, but has not finished school. She believes that had her son been home, his treatment could have been more successful due to the ability to integrate and support his treatment plan at home.

ALEX NOON, Member, Alaska Youth and Family Network, works as a peer navigator. He explained that peer navigation is a safe and effective way to provide outreach to youth to help them to better understand the mental health and substance abuse system. A key component of peer navigation is that it uses young guides to help and encourage other youth to participate in their community in a positive and healthy way. The peer navigation curriculum guides and teaches those who want to be peer navigators.

MICHELLE PURDY, Member, Alaska Youth and Family Network, described herself as a success story of the in-state care systems. She was raised in Anchorage, which allowed her to have

more services than other areas of the state, she opined. She stated she believes that the state's special needs children deserve to be raised and treated in the state, a goal which she characterized as being a large part of the BTKH initiative. She said she believes that peer navigation is a successful component of the program, as is a good provider team.

3:08:40 PM

CINDY ANDERSON, Director, Secondary Special Education, Anchorage School District, stated that education is critical in the life of every child. She explained the many difficulties her district faces when special needs children return to this state after receiving care out of state. She said that oftentimes her district is not ready to serve these returning children, especially those who have very great needs. The district is not always notified when children are returning. She opined that there needs to be open, honest communication between state agencies and school districts so the district can provide the appropriate services. There are no transitional services for returning children, so they often face academic and personal challenges when re-entering the state system. Children in foster homes face additional challenges due to inconsistent living arrangements, which makes return to the public school system even more difficult. She offered that many children are behind academically when they return and require remedial classes to get them up to state standards. She explained that it can be expensive for her district to serve behaviorally challenged students, who may "not always count for intensive funding"; therefore the district must "scramble" to provide services. She suggested that both her district and other districts in Alaska require increased staffing to provide services for children returning from residential treatment services. The need for additional staff will increase as the state's capacity to provide in-state residential treatment grows. She emphasized that trained staff is very important for children with special and behavioral needs to adequately counsel and assist them. She said that this training must occur across the state so as to avoid children falling back into the patterns or behaviors that got them out of the state in the first place. She reminded the committee that there must be the ability to coordinate with home and school to achieve a higher level of success. She suggested that full funding for education is required to allow children to stay in the state, and to serve those who return to the state after receiving services out of state.

3:13:22 PM

REPRESENTATIVE GARDNER expressed her frustration at the fact children are still being sent out of state after so many years and asked how long it had originally taken for change to come about.

3:14:08 PM

MS. LOWE responded by explaining that in around 1962, the state built the Alaska Psychiatric Institute (API) in Anchorage, then a facility in Valdez, which had to be rebuilt after the earthquake. There were legal changes to allow some children previously barred from public schools to attend, and by the 1970's "we were doing fairly well". However, as the state's population has increased, it has become more difficult to keep up with increasing problems, such as substance abuse. She said "we just didn't keep up" and soon demand for services was higher than available resources. She believes that data is more available today than in the past to determine the needs of these children.

3:17:21 PM

REPRESENTATIVE GARDNER asked whether the AMHTA had any specific suggestions on how to bring Alaska children home for treatment besides increased funding.

MS. LOWE stated that her group is engaged in a comprehensive process of carefully reviewing the many needs of the state's children. She reminded the committee that there are a variety of needs out there, many of which do not require residential facilities.

3:18:51 PM

REPRESENTATIVE ROSES referenced the dilemma of education funding and asked what the effect would be on the issues being discussed today if the funding stream for education stays at the same level next year.

MS. ANDERSON explained that the Anchorage school district provides the teachers for children in residential services, which results in increased staffing costs. She said she believes if the funding remains the same, the staffing level could not be increased to meet the needs, which may make it difficult to meet required adequate yearly benchmarks. She

reminded the committee that Anchorage receives special needs students from rural areas as well as students returning from treatment out of state, and it "absolutely has to have the funding for staffing and curriculum".

3:20:37 PM

REPRESENTATIVE ROSES asked what effect flat funding will have on the ability to return children to Alaska.

MS. ANDERSON replied that there is an obligation to bring children back to Alaska, but she expressed concern that the services the state will be able to provide will not be as extensive as they should be due to the a high level of staff training and support required for special needs services. However, she said she cannot predict the actual impact.

3:21:19 PM

REPRESENTATIVE NEUMAN inquired as to the connection between types of issues faced by youth and their families and enrollment in alternative school programs, referring to the committee hand out titled "Bring the Kids Home," February 2007, page 3.

MS. LOWE replied that an important area not yet discussed is that of structuring programs and services to provide early intervention to children who have mental health, or other problems. She suggested that early counseling, treatment, and family support could prevent problems at an early stage, therefore lessening the chance that the problems will become severe and require more costly interventions.

3:23:56 PM

JEFFREY JESSEE, Chief Executive Officer, Trustee, Alaska Mental Health Trust Authority (AMHTA), referred the committee to page 2 of the handout which shows that between 1998 and 2004, the average annual cost increase to send children to Residential Psychiatric Treatment Centers was 59.2 percent, a cost escalation he described as stable since fiscal year (FY) 2004. He explained that in 2004, there were about 400 children in treatment out of state at any one time, but currently there are 362 children out of state. He reminded the committee that this decrease in use of out of state services occurred before the opening of a new residential treatment center in Alaska. He explained that almost 40 percent of children receiving treatment out of state are Alaska natives; pointing out that it is

important to involve tribal partners for social and financial reasons. He said that the tribal entities are able to recover 100 percent of treatment costs from the federal government. He stated that residential treatment centers are very expensive and that over-capacity in this area "will suck the financial life blood" out of the ability to provide in-home and community based services, which he opined are ultimately the only thing that will contain the costs in this continuum of care. Many of the children also have issues with drug/alcohol abuse, and are eligible for Medicaid reimbursement of expenses after 30 days out of the home.

MR. JESSEE explained that children categorized as "out of state custody children" are either under the care of the Office of Children's Services (OCS) or the Division of Juvenile Justice, and the state is acting as that child's parent. The "out of state non-custody children" are those who have been sent outside by their families for services. He said that when a child is sent out of state by their family to a residential treatment center, after 30 days the child becomes Medicaid eligible, retroactive to the date of their arrival at the facility, and the state becomes responsible for payment even though the state had no knowledge that the child was being sent out of state. This is true in some cases even if the child's family has insurance, he said.

REPRESENTATIVE SEATON asked about the flattening out of the 60 percent growth rate shown of page 2, and whether the cost containment is related to an increase in state facilities, or to program changes.

[3:30:17 PM](#)

BILL HOGAN, Deputy Commissioner, Department of Health and Social Services (DHSS), explained that the state has done a much better job of "gate keeping" by more actively managing the system and diverting children who may have previously gone out of the state to in-state options. Furthermore, there are some additional residential facilities in both urban and rural areas.

[3:31:12 PM](#)

MR. JESSEE explained that future plans predicate a decrease in out of state non-custody youth. He emphasized that "we are just about done adding beds" even though that will not provide a bed for every child currently in an OCS facility. This result is by design, because many of those children do not need to be at that

level of service, nor should the state pay for that level, he said. The recommendations of his work group recommend a focus on family support, school support, and other community based services. He said that by the time a child is in a treatment center, it "is all about the kid", but that it is often really "all about the families." In order to work effectively with families, the service providers need to provide support and education at an early stage.

MR. HOGAN explained that page 17 of the hand out shows the last quarter of FY 06. Of the 73 children in the system, all of them could have gone outside the state for treatment, but as a result of intervention, 21 were diverted to in-state services. He emphasized that many of the children sent out of state have very serious problems and currently the state does not have the capacity to serve them. He went on to say that the state is currently developing the capacity to serve them.

[3:35:18 PM](#)

REPRESENTATIVE GARDNER asked for clarification as to who makes treatment decisions for children, particularly when a child is sent to a facility that may have some connection with the child's in-state provider.

MR. HOGAN said that the decision of where a non-custodial child goes for treatment is made by the provider, the family, and other involved community members. In its new diversion process, the state has inserted itself into the decision. For children in state custody, the state is actively involved in any decision about facilities. He noted that some of the facilities in the lower 48 are run by the same parent companies as the facilities in Anchorage; therefore transfers between these types of facilities are looked at closely. He said that the state wants the child to "go to the best place for the problem that he or she has."

[3:37:23 PM](#)

REPRESENTATIVE GARDNER referenced the difficulty parents have in making treatment decisions for their child; particularly if the provider has an interest in the facility recommended.

MR. JESSEE explained that the AMHTA recommends an increase in the funding for the peer navigator program because experienced parents can help other parents understand the available resources and options for treatment.

3:39:20 PM

CHAIR WILSON announced that the next order of business would be HOUSE BILL NO. 97, "An Act making appropriations for state aid to public schools, centralized correspondence study, and transportation of pupils; and providing for an effective date."

3:40:47 PM

MARY HAKALA, Coordinator, Great Alaska Schools, testified that the governor's proposed budget does not reflect the cost of inflation, and other escalating costs, such as health insurance. As a result, the proposed budget will cause a deficit in the district's budget, she opined. For the Juneau school district, this means a \$2 million cut out of a budget of \$52 million, which she characterized as "no small matter". She reminded the committee that Juneau has funded its education "at the cap", therefore avoiding cuts that would have occurred had the city not provided additional funding. She asked the committee to consider the equity issues related to the foundation formula as it now exists. Furthermore, she explained the Juneau school district spends approximately \$500,000 of its general fund on pupil transportation; she opined that if the legislature addressed the true costs of pupil transportation, it could allow Juneau to spend this amount in the classroom. She said the current funding proposal will require budget cuts in staff, which will have a dramatic effect on the class sizes and morale.

3:48:07 PM

CARL ROSE, Executive Director, Association of Alaska School Boards (AASB), stated that his organization supports HB 97 as a place holder. He reminded the committee that school districts will need to set their next year's budgets by March 15, 2007. The budget process can be a stressful time, especially if the districts need to send out layoff notices, he opined. He said he would appreciate it if this committee would move the bill so that additional concerns can be addressed in the House and Senate Standing Finance committees. He directed attention to the hand out titled "School Boards United", which lists the issues that member school district agreed need to be addressed by the legislature and testified that these issues are [paraphrased from written testimony; original punctuation provided]:

1. Base Student Allocation-Increasing the BSA from the current \$5,380 to \$5,810, effective July 1, 2007 (SB 1)
2. District Cost Factor-Increasing the DCF to the levels recommended by the 2005 ISER [Institute of Social and Economic Research] Report (HB 72)
3. Retirement cost-Funding the \$207 million in FY 08 PERS-TRS cost increases for districts outside the foundation formula
4. Vocational Education-Recognizing the importance of a dependable funding stream for voc-ed outside the 20 percent block grant for special education, bilingual education and voc-ed
5. Intensive Needs Students-Addressing the problems caused by inadequate formula funding, post-enrollment transfers and conflicting state regulations defining intensive needs
6. Early or Forward Funding-Appropriating foundation funds & PERS-TRS costs by March 16th (the 60th day) or setting aside sufficient funds in FY 08 to forward fund FY 09 education budget.

MR. ROSE emphasized that school districts receive only partial reimbursement for the costs of educating special needs students, and that some conflicting regulations in this area make administration of these services problematic at times. He suggested that there could be changes to the funding formula to allow districts to receive funds for students who enter the district after the budget cut off date. He also expressed concern over use of the \$500 million currently in the public education fund, and asked the committee to seriously consider keeping that money in the public education fund and to make further contributions to that fund so as to forward fund education in the future.

[3:52:58 PM](#)

REPRESENTATIVE NEUMAN responded by noting that some of the aforementioned issues have been addressed by the legislature, such as SB 1, and the proposed appropriation of \$207 million in HB 97 for retirement accounts. Furthermore, other members are

working on issues of vocational education and are holding hearings on issues of intensive needs students. Representative Seaton has worked on legislation in the past on education funding, he reminded the committee.

[3:54:12 PM](#)

REPRESENTATIVE SEATON asked whether districts lose money when a student transfers out of that district after the beginning of the year.

MR. ROSE explained that it is difficult to have dollars follow children from school to school. He said that this is an issue that is currently being addressed by HB 124. He pointed out that having a second count of students may not be useful, because even if a student has moved, the district may have contracted for services and that contract must still be fulfilled. He observed that he did not think his organization members are interested in losing money if students move away, as the districts still have needs to fulfill.

REPRESENTATIVE SEATON expressed concern over pupil transportation equities because there is a "huge disparity between similar districts," in the funds they receive and asked whether the AASB has taken any position on whether the pupil transportation funding formula is equitable.

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MR. ROSE replied that the AASB has a resolution that supports the review of the pupil transportation grant. He said that the original formula was established at 2003 costs, which does not reflect the higher fuel costs since that time. He explained that the member school districts have many important issues to address, but the six described earlier today are the most important. He further explained that his organization has a formal resolution calling for 100 percent implementation of the ISER report recommendations relating to district cost factor adjustments.

[3:59:17 PM](#)

MARY FRANCIS, Ph.D., Executive Director, Alaska Counsel of School Administrators (ACSA), expressed appreciation for the attention to the district cost factor adjustment and to the partial funding of the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) liabilities.

However, she said the ACSA supports full funding of the area cost differentials, based on the recommendations in the ISER report. She said that her organization is concerned that any area cost differentials be accompanied by an increase to the base student allocation (BSA), and that the BSA in HB 97 is not sufficient. She also said that ACSA believes that special education, vocational education, and bi-lingual programs need to be funded based on a need-based funding formula, noting that these services can be costly.

[4:01:29 PM](#)

PEGGY COWAN, Superintendent, Juneau School District, provided the committee with a hand out which set forth the Juneau Board of Education's legislative priorities for the 2007 session. She stated that currently suggested funding levels for the area cost differential is inadequate and that it should be fully funded. She opined that the current cost factor adjustments are inadequate for Juneau and for many Southeast school districts. She expressed support for the funding of the PERS/TRS liabilities. She stated the foundation formula funding in HB 97 is flat, and opined that the public wants increases in educational funding and programs, not decreases. For example, in Juneau there is no cycle for replacement of textbooks or technology due to lack of funding, she said. She said that under the current funding levels of HB 97, her district would have to cut millions of dollars out of its budget, which will likely result in an increase in class sizes. She emphasized that intensive needs funding is inadequate, and explained that her districts receives \$26, 000 for each special needs student, while educating special needs students can cost \$60,000 to \$80,000. Currently, 20 percent of the Juneau school district transportation budget comes out of general funds; if there was adequate transportation funding, these funds could go to the to classroom, she stated. She recommended that there be direct funding outside of the formula for special education transportation costs, as this service is mandated by the federal government

[4:06:34 PM](#)

MS. COWAN explained that costs to educate a child with intensive needs are high because these children require services of para-educators, specially trained teachers, speech and physical therapists, and psychologists. She explained that for smaller communities it can be hard to fill some of these needs with local providers, and mentioned that her district has had to use

some out of town specialists for psychological services that could not be filled locally.

4:09:11 PM

REPRESENTATIVE ROSES agreed that is very easy for a student with intensive needs to cost even more than \$80,000 a year to care for because some students have such intensive physical needs that a nurse may need to attend the student throughout the day.

4:12:42 PM

REPRESENTATIVE LES GARA, Alaska State Legislature, stated that in the past the legislature has spent a great deal of effort on the funding level for education, and opined that despite efforts to increase funding, schools have not been able to hire more teachers because they have to spend so much of their budgets on transportation and retirement costs, among other factors. He said he would like to see school funding at a level that would allow schools to make progress. The individual districts would decide whether to hire new teachers, whether to increase course offerings, or whatever would cause them to make progress. He mentioned that one proposal set forth by Senator Wilken was to increase the BSA by about 8.5 percent; an amount which he opined may let the schools take a substantial step forward this year. He indicated that funding of PERS/TRS outside the formula is helpful. He said that he believes that the legislature made a mistake in 2003 when it re-wrote the pupil transportation formula. He reminded the committee that the pupil transportation formula was amended at a time when the state faced a budget deficit, and was designed to compensate school districts for their transportation costs, and to also encourage efficiencies in transportation programs. This goal has not been reached, and school districts statewide are being under-funded for transportation costs by somewhere in the amount of \$17 to \$45 million per year, he opined. He recommended that the legislature reverse its 2003 actions regarding pupil transportation, and that school districts be compensated for their actual costs of transportation. He said that there should be truth in budgeting in schools, so that any increase in the foundation formula funding goes to the schools, not just to transportation costs and out of teachers' salaries.

REPRESENTATIVE GARA went on to say that there should be some way to set the education budget earlier in the year to avoid the stressful situation of school districts not knowing their budgets for the next school year. He suggested that one way to

do this is to withhold legislators' per diem if the education budget is not passed by March 15th. As an alternative, the legislature could require that the BSA increase annually by at least the rate of inflation.

[4:20:25 PM](#)

REPRESENTATIVE NEUMAN referred to possible funding limitations caused by Alaska's constitutional provision against the dedication of funds to any special purpose. Furthermore, he indicated there is some resistance to statutorily mandated inflation cost increases because the state may not have the funds available to fund those increases.

REPRESENTATIVE GARA agreed that the legislature cannot dictate a future legislature's funding decisions. However he said that the BSA does not violate the dedicated funds prohibition because it requires an appropriation. School districts can use prior year's BSA amounts to calculate what they may receive the next year, he indicated.

[4:22:10 PM](#)

JOHN BITNEY, Legislative Liaison, Office of the Governor, said that the governor today reiterated her desire to achieve an early funding bill for education and encouraged the committee to move the bill forward.

[4:23:37 PM](#)

REPRESENTATIVE CISSNA expressed concern over the effects of high fuel costs and health care issues. The latter issue pertains in part to physical and behavioral challenges that schools must deal with, she indicated. She stressed her commitment to funding education, even if it requires sacrifices to other areas.

[4:25:13 PM](#)

REPRESENTATIVE NEUMAN said that he approves of HB 97 as written. He noted it provides \$24 million more in cost differential funding, \$11 million for special needs, and \$207 million for PERS\TRS. He went on to state that the BSA is still being considered, and that education funding is increasing in positive, steady steps.

[4:26:59 PM](#)

REPRESENTATIVE GARDNER stated she would like to see the BSA raised. She said that although she would like to see the ISER study recommendations implemented, she recognizes that not all funding needs can be met at one time. She referenced that there were some good decisions made about funding the pension liabilities outside of education funding formula. She stated she supports early forward funding of educational needs, which she noted could be supported by raising the BSA and by focusing on forward funding of education needs.

[4:28:30 PM](#)

REPRESENTATIVE SEATON indicated that he is not fully satisfied with the funding levels of the bill, and reminded the committee that the BSA being incorporated in a senate bill basically eliminates the ISER funds. He noted he would like to see another quarter of ISER added on in this budget cycle. Furthermore, he said he believes the legislature needs to further examine the school districts' transportation costs. He noted that the issue of whether to fund PERS\TRS outside the foundation formula is still being debated. However, despite his concerns, he is willing to pass the bill on to the next committee.

[4:30:56 PM](#)

REPRESENTATIVE ROSES voiced that funding PERS\TRS outside of the education funding formula is "highly recommended" because funding through the formula would result in the possible denial of grants to schools and the university because their salary and benefits packages would be too high to meet most grant qualification standards. He went on to say that if the bill is passed without increasing the BSA, then the funding increase will not be adequate to cover inflation and fuel cost increases. He referenced that other committees are considering legislation which would allow the state to issue general obligation bonds to cover all or part of PERS\TRS liabilities. If this effort is successful, the school districts could end up with funds that they would have been paying to satisfy their unfunded pension liabilities. This could result in the districts receiving a substantial funding increase without having to raise the BSA, he opined. He reminded the committee that general expenses could not be bonded, but retirement obligations could be. Despite some concerns, he stated that he would support moving this bill.

REPRESENTATIVE ROSES opined that inflation proofing the formula would be a disaster. He said he could support inflation proofing an adequate number, but he has serious concerns with adding inflation-proofing protection to a fund deemed by most to be inadequate. He stated support for the ISER recommendations and for increasing transportation costs. He opined that a supplemental budget for education to cover unpredictable costs is currently not provided, but it might be time to consider one. He further expressed concern about appropriating funds for PERS\TRS from the public education fund as he would like to see that fund used as intended - to build up enough money to forward fund education. He supports efforts to continue to build the education fund so that education funding does not have to come from the state's general fund.

[4:36:26 PM](#)

CHAIR WILSON stated that her understanding that the committee is in agreement that the funding is inadequate, mainly due to cost increases that schools have no control over. She said she will write a letter of intent to the House Finance Committee incorporating this committee's comments. She referred the committee to Section 4, subsection (c), page 4, line 21 and indicated that the \$170,450,921 million appropriated by that subsection would leave the school districts' contribution rate at 26 percent. She indicated she would like to see that rate lowered back to 12.56 percent, noting that such a change would free up some funds for the classroom. To accomplish this, she recommended increasing the amount in Section 4, subsection (c) by \$77,536,700 million.

[4:39:46 PM](#)

REPRESENTATIVE ROSES clarified that he believes Chair Wilson's comment relates to the amounts in page 2, line 27 for the PERS and page 4, line 21 for the TRS and that the suggested additional amounts apply to both those systems.

[4:40:08 PM](#)

CHAIR WILSON agreed with the aforementioned clarification. She characterized this as a policy decision within the purview of the committee.

[4:40:37 PM](#)

REPRESENTATIVE NEUMAN observed that the \$207 million is outside the funding formula. He went on to say there were other plans being considered to fund PERS\TRS, but that not all members are aware of the details of these plans.

[4:41:52 PM](#)

EDDY JEANS, Director, School Finance and Facilities Section, Department of Education and Early Development (DOE), referred to page 4, line 21, and said that the bill calls for appropriation from general funds of \$170,450,921 to be paid directly to the Department of Administration (DOA) for TRS retirement costs. This amount will keep the school district contribution level at 26 percent. He offered his understanding that Chair Wilson would like to see the employer contribution rate for schools drop to 12 percent, which was the norm rate for TRS. To do that, he said, the number would have to increase to \$247,987,581. He stated this figure was provided to him by the Division of Retirement and Benefits.

[4:43:34 PM](#)

REPRESENTATIVE GARDNER stated she supported making a policy statement and offered that the committee should also increase the BSA to show support for increased education funding.

[4:44:09 PM](#)

CHAIR WILSON stated that her proposal would essentially increase the BSA as it would free up money to spend in the classroom.

[4:44:20 PM](#)

REPRESENTATIVE SEATON offered his understanding that the school districts' contribution rate is set by the Alaska Retirement Management Board (ARMB), so even if additional money is put in this bill, additional action would need to be taken to lower the districts' employer contribution rate. Furthermore, he went on to say that the 5 percent employer contribution cost rate increases had been put in the education funding formula to pay for retirement fund costs. He queried how it would affect the BSA if the amount paid into the retirement funds was increased by \$77 million, to be paid outside the formula.

MR. JEANS said the effect of the aforementioned scenario would approximate a \$400 increase to the BSA, but would not actually increase the BSA as that is covered by different legislation.

He agreed that the ARMB must act to reduce an employer's contribution rate. However, the ARMB has been informed of the possibility that a payment will be made to the TRS unfunded liabilities outside the formula. He said he understands that the ARMB may consider lowering the rate if such a deposit is made. He clarified that the making the additional appropriation suggested by Chair Wilson would not raise the BSA, but it could free up some funds to spend on education.

[4:49:02 PM](#)

REPRESENTATIVE ROSES asked what the effect of an additional appropriation would be on the PERS section of the bill, page 2, line 27.

MR. JEANS said he was not able to provide a figure for the effect on PERS rate, noting that PERS employers have different rates, therefore he is not sure there is a "normed rate" under PERS.

[4:49:34 PM](#)

REPRESENTATIVE NEUMAN clarified that the suggested additional allocation would not increase the BSA, which will remain as currently established absent further legislation.

[4:49:59 PM](#)

MR. JEANS agreed that the Chair's suggested additional funding would not increase the BSA, but it would free up approximately \$78 million in district liabilities, assuming the ARMB took action to decrease the school districts' TRS contribution rates to 12.65 percent. This appropriation would need to occur on an annual basis, until the unfunded pension liabilities are paid down, he opined.

[4:50:49 PM](#)

REPRESENTATIVE ROSES reminded the committee that unfunded pension liabilities need to be paid and that various options for payment are being considered.

[4:52:01 PM](#)

REPRESENTATIVE ROSES offered Conceptual Amendment 1 at page 4, line 21:

to reflect increased amounts necessary to bring the current sum up to approximately \$247,987,581 million approximately to bring the TRS contribution rate down to 12.56 percent.

[4:52:42 PM](#)

REPRESENTATIVE NEUMAN objected to Conceptual Amendment 1.

[4:52:49 PM](#)

REPRESENTATIVE SEATON clarified that the former restrictions which limited an employers' contribution rate increase to no more than 5 percent annually has been repealed. He noted it is hard to fully analyze the effect of the proposed increase on the employer contribution rate or other possible areas affected, but he would not object at this point, although he may find issues with the bill in subsequent committees.

[4:54:09 PM](#)

REPRESENTATIVE NEUMAN stated he objects to Conceptual Amendment 1 because in his opinion, the committee has not had adequate information to make a decision of this magnitude. He said he believes the issue would take additional time for a full discussion of the affect on PERS/TRS.

[4:55:13 PM](#)

REPRESENTATIVE GARDNER said that she supports the policy statement being made by the inclusion of additional amounts in the bill, and noted that the actual numbers contained in the bill are likely not the final numbers.

[4:55:41 PM](#)

CHAIR WILSON reiterated her belief that the additional appropriation is a policy statement that sends a message of concern about the proposed levels of education funding.

[4:56:13 PM](#)

A roll call vote was taken. Representatives Seaton, Cissna, Gardner, Roses, and Wilson voted in favor of Conceptual Amendment 1. Representative Neuman voted against it. Therefore, Conceptual Amendment 1 was adopted by a vote of 5-1.

[4:56:49 PM](#)

REPRESENTATIVE ROSES moved to report HB 97, as amended, out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSHB 97(HES) was reported out of the House Health, Education and Social Services Standing Committee with individual recommendations and the accompanying fiscal notes.

ADJOURNMENT

There being no further business before the committee, the House Health, Education and Social Services Standing Committee meeting was adjourned at [4:57:19 PM](#).