

SENATE FINANCE COMMITTEE
March 25, 2008
9:07 a.m.

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at [9:07:47 AM](#).

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Charlie Huggins, Vice-Chair
Senator Kim Elton
Senator Donny Olson
Senator Joe Thomas
Senator Fred Dyson

MEMBERS ABSENT

None

ALSO PRESENT

Darwin Peterson, Staff, Co-Chair Stedman; Tim Lamkin, Staff, Senator Gary Stevens; Eddy Jeans, Director, Education Support Services, Department of Education and Early Development; Representative Mike Hawker; John Boucher, Senior Economist, Office of Management and Budget, Office of the Governor

PRESENT VIA TELECONFERENCE

None

SUMMARY

SB 28 "An Act relating to limitations on mandatory overtime for registered nurses and licensed practical nurses in health care facilities; and providing for an effective date."

CSSB 28(FIN) was REPORTED out of Committee with "no recommendation" and with zero fiscal note #4 by the Department of Administration, zero fiscal note #6 by the Department of Health and Social Services, zero fiscal note #8 by the Department of Health and Social Services, a new zero fiscal note by the Department of Commerce, Community and Economic Development, a new zero fiscal note by the Department of Health and Social Services, and a new fiscal note by the Department of Labor and Workforce Development.

SB 152 "An Act relating to charter school funding."

SB 152 was heard and HELD in Committee for further consideration.

CSHB 125(FIN)

"An Act relating to budget planning and a fiscal plan for the State of Alaska."

SCS CSHB 125 (FIN) was REPORTED out of Committee with a "do pass" recommendation and with a new fiscal note by the Office of the Governor and a new indeterminate fiscal note by the Department of Revenue.

[9:09:04 AM](#)

SENATE BILL NO. 28

"An Act relating to limitations on mandatory overtime for registered nurses and licensed practical nurses in health care facilities; and providing for an effective date."

Co-Chair Hoffman MOVED to REPORT CSSB 28(FIN) out of Committee with individual recommendation and the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

CSSB 28(FIN) was REPORTED out of Committee with "no recommendation" and with zero fiscal note #4 by the Department of Administration, zero fiscal note #6 by the Department of Health and Social Services, zero fiscal note #8 by the Department of Health and Social Services, new zero fiscal note by the Department of Commerce, Community and Economic Development, new zero fiscal note by the Department of Health and Social Services, and new fiscal note by the Department of Labor and Workforce Development.

[9:10:22 AM](#)

SENATE BILL NO. 152

"An Act relating to charter school funding."

Co-Chair Hoffman MOVED to ADOPT a new CS for SB 152, labeled 25-LS0754\K, Mischel, 3/17/08.

Co-Chair Stedman OBJECTED for discussion purposes.

DARWIN PETERSON, STAFF, CO-CHAIR STEDMAN explained the changes in the new CS. If the average daily membership (ADM) in a charter school is less than 150, the adjusted

student count will be calculated by multiplying the ADM by 1.08 instead of by 1.27 as in the original bill.

[9:11:07 AM](#)

Co-Chair Stedman WITHDREW his OBJECTION.

Senator Dyson OBJECTED. He questioned why the funding level was changed. Mr. Peterson explained that it was at the request of Senator Stevens and the Senate Special Committee on Education. Mr. Peterson said it was considered to be a more reasonable funding level for charter schools. Senator Dyson requested an explanation from the bill sponsor.

Senator Dyson MAINTAINED his OBJECTION.

[9:13:28 AM](#)

Senator Thomas, sponsor, explained that the 1.08 level was more palatable and better than nothing.

[9:13:59 AM](#)

TIM LAMKIN, STAFF, SENATOR GARY STEVENS, explained the increase in funding was a compromise and would represent a modest increase, but not one as substantial as in the original bill.

Co-Chair Hoffman asked how the new number would affect Bethel's Yup'ik Immersion Charter School and Fairbanks' Effie Kokrine School. Senator Thomas explained that Effie Kokrine School is above 150 now and will have no problem. He did not have the status of the Yup'ik Immersion School.

[9:15:51 AM](#)

EDDY JEANS, DIRECTOR, EDUCATION SUPPORT SERVICES, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, reported that the Yup'ik Immersion program in Bethel has over 150 students and is funded as a separate site.

Senator Olson asked about Nome's school. Mr. Jeans related that the Nome school has remained at about 44 students each year and receives supplemental grants outside of the foundation formula. The Juneau Charter School and the Fireweed Charter School in Homer also fall into this category.

Senator Olson asked about a comparison of the multipliers, as found in the two fiscal notes, resulting in different funding levels. Mr. Jeans explained that the fiscal note for SB 152 for \$648.8 reflects 1.27. Another fiscal note to CSSB 152(FIN) reflects the 1.08 level.

[9:17:58 AM](#)

Senator Dyson requested a copy of the new fiscal note accompanying the new CS. He voiced appreciation for the intent of the bill and for Senator Davis' work on charter school legislation. He spoke of the financial burden on charter schools.

Senator Dyson maintained his objection to the adoption of the new CS. He stated support for the original version.

Senator Elton asked for the rationale behind the 1.08 number. Mr. Lamkin explained that the numbers for school size come from statute. The number 1.27 is reflective of a school that is between 75-150 students. The number 1.08 represents a modest increase from what the schools are currently getting. Senator Elton said he is trying to figure out the 1.08 figure as it relates to school size.

[9:22:41 AM](#)

Mr. Jeans said the 1.08 is in statute and is part of the school size adjustment table for schools. It is the adjustment factor for schools from 150-250 students. If a school is under 150, it is funded with the largest school in the district. For example, the charter school in Juneau is funded with the high school at a .84. In Kenai the charter school is funded with the high school at .92, and in Nome the charter school is funded with the elementary school at .97. The three schools below 150 all have a different adjustment factor. This proposal will set one adjustment factor for all charter schools below 150. It is a policy call on the Committee's part if it is 1.27 or 1.08. This applies in the formula to the school size adjustment for ADM. Then there are cost factor adjustments. It will establish a uniform application. At 1.08, it provides an additional \$338,922. He explained that the highest supplemental in the past was \$250,000 for charter schools below 150. He related that during the hearing, Senator Stevens asked each charter school if they would support the 1.08 and all replied in the affirmative.

Senator Elton noted the pending two-high-school situation in Juneau and wondered how that would affect charter school funding. Mr. Jeans related that the charter school would not receive close to the 1.08 funding level because each high school would be over 750 students, which is at the top of the school size adjustment level, and charter school funding would remain at .84.

[9:25:28 AM](#)

Senator Dyson said 1.27 does have a rational base for schools under 275. He noted that the Winterberry School had

143 students in 2006 and received \$400,000. That created a significant financial crisis.

Senator Dyson opined that charter schools have historically been very successful. He stated support for such schools and wished to provide an extra boost in the form of higher funding.

[9:27:09 AM](#)

Senator Thomas referred to a chart in the members' packets regarding school size and eligibility. He reiterated that the 1.08 level was acceptable to the charter schools.

Co-Chair Hoffman inquired if the Anvil City Science Academy would get funded at 1.97 under the new CS. Mr. Jeans responded that they would be funded at 1.08. They are currently funded at .97.

Senator Olson clarified that Anvil City Science Academy would be funded at 1.08 under the new CS instead of 1.27 under the original bill. Mr. Jeans said that was correct.

Senator Dyson thought the real issue was an attempt to keep spending down. He agreed that 1.08 was better than nothing. He thought the original bill was better.

A roll call vote was taken on the motion.

IN FAVOR: Stedman, Hoffman
OPPOSED: Elton, Olson, Thomas, Dyson

The motion FAILED (2-4).

SB 152 was heard and HELD in Committee for further consideration.

[9:30:41 AM](#)

CS FOR HOUSE BILL NO. 125(FIN)

"An Act relating to budget planning and a fiscal plan for the State of Alaska."

Co-Chair Hoffman MOVED to ADOPT a new CS for CSHB 125(FIN), labeled 25-LS0546\N, Cook, 3/24/08.

Co-Chair Stedman OBJECTED.

Mr. Peterson explained three changes in the new CS. The first change is on page 1, line 6. The language "except during the first year of the governor's first term of office" was removed. The reason was in order to have the fiscal plan provided every year.

The second change is on page 2, lines 11-15. This is a new section which requires the fiscal plan to include assumptions and projections, especially in the area of major operating increases. An example of how this would be useful would be an unexpected shift in the population of school age children in a community and how that would affect school funding.

The third change is on page 4, lines 6-12. This new section would require the Department of Revenue to submit to the legislature a debt affordability analysis each year by January 31. Currently, Alaska does not produce a document that meets rating agency requirements for a debt affordability study. Even though the Department of Administration annually publishes the Comprehensive Annual Financial Report (CAFR), it lacks projections for future debt issuance.

Co-Chair Stedman WITHDREW his OBJECTION. There being NO further OBJECTION, the new CS was adopted.

[9:33:44 AM](#)

REPRESENTATIVE MIKE HAWKER, sponsor, explained the substance of the bill. The bill represents a critical step forward in the state in establishing the "holy grail" of state policy; a fiscal plan. The bill establishes a planning process rather than a plan itself. The legislature, the administration, and the public will be able to understand how financial decisions are made today, in the context of the consequences of those decisions over time.

The bill requires that each year, along with the annual spending plan for the budget, the administration submit to the legislature and the public a ten-year estimate, a projection, of future sources and uses of state funds. Representative Hawker emphasized the terms "sources and uses". He pointed out that nothing in the bill creates a false sense of accuracy regarding the projections. He voiced appreciation for the critical assumptions which would lead to an understanding of the fiscal plan.

Representative Hawker termed the bill profound and elegant in its simplicity. It will establish an understanding of the consequences of financial decisions.

[9:36:58 AM](#)

Representative Hawker spoke about Section 4, the debt affordability analysis, which was prepared with advice and consent from the Department of Revenue. The idea came from the recent Moody's Evaluation of the State of Alaska, which indicated state deficiencies, one of which was a lack of an

annual debt affordability study. The capital markets in New York think very highly of a state that includes an inventory of state debt, projections of future state debt, and evaluations of consequential affordability impacts.

In addition, the bill cleans up provisions in the Executive Budget Act and conforms existing language to terms established in the bill.

[9:39:40 AM](#)

Co-Chair Stedman commented on the debt affordability analysis. He pointed to the paradox in Alaska with its sizeable set aside of \$37 billion in the Permanent Fund and other substantial savings, as well as a small debt load. Yet, the rating agencies consider it a negative mark to not have a debt affordability analysis.

Representative Hawker commented that the March 2008 Moody's Investor Service Global Credit Research Report concurs with Co-Chair Stedman's analysis. The state suffers from several governance shortcomings. HB 125 would remediate several Best Practices. The first is that Alaska does not produce multi-year financial plans with out-year revenue and expenditure forecasts. The state does not produce a document that meets Moody's requirements for a debt affordability study. This bill satisfies both shortcomings.

AT-EASE: [9:42:02 AM](#)

RECONVENE: [9:42:34 AM](#)

Senator Dyson MOVED to ADOPT Amendment 1:

Page 1, line 7:

Estimates of significant sources and uses of funds for the succeeding 15 [10] fiscal

Page 4, Line 14 through Page 6, Line 8, is amended to read:

Sec. 37.07.060. Governor's recommendation. (a) The governor shall formulate the operating and capital budget, capital improvements program, [PROGRAMS] and fiscal plan [FINANCIAL PLANS] required to be recommended to the legislature by AS 37.07.020 after considering the state agency proposed program and financial plans prepared in accordance with AS 37.07.050, and other programs and alternatives that the governor considers appropriate. The governor's recommended plans must include

(1) the governor's recommended missions and desired results;

(2) [,] recommended strategies to implement the missions and desired results;

(3) [,] recommended measures for determining whether the missions and desired results are achieved, including an assessment of whether adequate progress has been made toward achieving prior year missions and desired results [HAVE BEEN ACHIEVED];

(4) a recommended operating program for the succeeding fiscal year;

(5) a [,] recommended capital improvements program for the succeeding six fiscal years;

(6) [,] recommended programs for the upgrading of public buildings and facilities prepared in accordance with AS 35.10.015, including a proposed time to begin each of the upgrading projects;

(7) [AND] recommended revenue measures to support the programs;

(8) a projection of revenue for the succeeding 15 years categorized by each major source of revenue and an explanation of any significant changes from previous projections;

(9) projections of the expenditures for the succeeding 15 years listed by each major area of expenditure and an explanation of any significant changes from previous projections;

(10) the assumptions on which the 15-year projections are made;

(11) proposed actions for increasing revenue or cutting expenditures as necessary to ensure expenditures do not exceed revenue;

(12) changes in strategy or new strategies needed as a result of previously unanticipated changes in expenditures, revenue, or unsuccessful strategies;

(13) an analysis of state debt, identification of the target maximum debt amount, and, if debt is projected to exceed the target maximum, strategies to reduce state debt, satisfy outstanding bonds, and meet deferred maintenance needs;

(14) the status of unfunded state liabilities, a trend analysis for the liabilities, and the strategy for funding the liabilities;

(15) an analysis of anticipated changes in federal funding and the plan for accommodating the reduced funding;

(16) the target minimum level of funds in the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) and, if the amount is less than the target minimum level, the target level of repayments to the budget reserve fund together with the plan for achieving the repayments;

(17) the target level of funding for an emergency fund to address state disasters and the plan for achieving the funding;

(18) a plan for using surplus state revenue if there is any;

(19) actions the legislature must take for the state's financial strategy to succeed and the time each action must be taken.

Page 5, Line 1: AS 37.07.060(b) is amended as follows:

Preceded [ACCOMPANIED]

Co-Chair Stedman OBJECTED for discussion purposes.

Senator Dyson voiced appreciation for the intent of the bill. The amendment tightens up language and clarifies the content of the governor's fiscal plan. It also says the report will be given to the legislature before the governor's state of the state address. It expands the time period from 10 years to 15, due to expected major developments exceeding the ten-year window.

[9:44:58 AM](#)

Senator Olson requested a response from Representative Hawker. Representative Hawker thought that 15 years was too long. The current state revenue forecast is based on 10 years.

Senator Elton also thought that 15 years was problematic because of the potential for change. He wondered if this amendment would change the fiscal note.

[9:47:18 AM](#)

JOHN BOUCHER, SENIOR ECONOMIST, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, said it appears that the scope of work in the fiscal planning document could be significantly expanded, especially regarding changes in strategy.

Representative Hawker echoed Mr. Boucher's sentiments. He noted that the discussion about the duration of the fiscal plan has taken place. The result was an attempt to make it the least constraining course on the administration. The bill is about creating a verb, not a noun, as this amendment appears to do. At this time in the process, it is too soon to require a specific list of outcomes.

[9:50:12 AM](#)

Senator Dyson maintained that the amendment does not expand the scope of the work. He challenged the Committee to show

that any of the items should not be included. He noted that BP has a 50-year plan, Brazil has an 80-year plan, and the European Union is currently considering a 20-year plan. He reminded the Committee that once the plan is done, it just needs to be updated yearly.

A roll call vote was taken on the motion.

IN FAVOR: Dyson

OPPOSED: Thomas, Elton, Olson, Hoffman, Stedman

The motion FAILED (1-5).

[9:53:33 AM](#)

Mr. Boucher spoke in favor of HB 125 and most of the proposed changes in the CS. He referred to line 6 where it had previously said "except during the first year of an administration", which he preferred to be left in the bill. He explained that the in-coming administration may have a fiscal plan in opposition to the previous administration. Due to the timing of the fiscal plan, the new administration would probably strip many of the provisions of the previous administration's fiscal plan. He noted in the last administration change, the director of OMB was not on board until January 15.

Co-Chair Stedman asked if the incoming administration could file an amendment to the plan. Representative Hawker replied that there is nothing that would prevent that from happening. He opined that it was important that the legislature send a message to potential governors to be prepared to lead and to have a vision.

Co-Chair Stedman commented on the need to continue the on-going plan, even though it may be amended.

[9:56:26 AM](#)

Senator Dyson agreed that the first year's work could be subject to revision.

[9:57:01 AM](#)

Co-Chair Hoffman MOVED to REPORT SCS CSHB 125(FIN) out of Committee with individual recommendations and with the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

SCS CSHB 125 (FIN) was REPORTED out of Committee with a "do pass" recommendation and with a new fiscal note by the Office of the Governor and a new indeterminate fiscal note by the Department of Revenue.

ADJOURNMENT

The meeting was adjourned at 9:57 AM.