

HOUSE FINANCE COMMITTEE

April 7, 2011

8:39 a.m.

8:39:09 AM

CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 8:39 a.m.

MEMBERS PRESENT

Representative Bill Stoltze, Co-Chair
Representative Bill Thomas Jr., Co-Chair
Representative Anna Fairclough, Vice-Chair
Representative Mia Costello
Representative Mike Doogan
Representative Bryce Edgmon
Representative Les Gara
Representative David Guttenberg
Representative Mike Hawker (alternate)
Representative Reggie Joule
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Susan K. Bell, Commissioner, Department of Commerce, Community and Economic Development; Curtis Thayer, Deputy Commissioner, Department of Commerce, Community, and Economic Development; Johanna Bales, Acting Director, Tax Division, Department of Revenue; Mike Hanley, Commissioner, Department of Education and Early Development; Diane Barrans, Executive Director, Alaska Commission on Postsecondary Education, Department of Education and Early Development.

PRESENT VIA TELECONFERENCE

Dan White, Associate Vice Chancellor of Research, University of Alaska Fairbanks; Allan Johnston, Encore Career, TEAM Network; Christi Bell, Director, University of

Alaska Center for Economic Development; Peter Stitzel, Sitka Meal, Oil, and Gelatin; Bill Popp, President and Chief Executive Officer, Anchorage Economic Development Corporation; Karen Eeks, Self, Ketchikan.

SUMMARY

HB 104 ALASKA PERFORMANCE SCHOLARSHIPS

HB 104 was HEARD and HELD in committee for further consideration.

HB 118 RESEARCH AND DEVELOPMENT TAX CREDIT

HB 118 was HEARD and HELD in committee for further consideration.

#hb118

HOUSE BILL NO. 118

"An Act relating to a tax credit for corporate income taxes paid for qualified research and development expenditures; and providing for an effective date."

8:40:00 AM

SUSAN K. BELL, COMMISSIONER, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT (DCCED), relayed that HB 118 worked to stimulate private sector investment, and business activity and expansion. She discussed that the bill would allow Alaskan corporate taxpayers to receive a 20 percent tax credit that would not exceed \$10 million per tax payer per year. The bill required either research and development activity or the payroll of employees to take place in Alaska. There was a "three year look-back" to ensure that the credit was applied only to expenditures above a base-line. The bill mirrored the federal definition related to research, development, and allowable activities, including, the discovery of technological information and the development of new or improved business components through a process of experimentation. Qualifying activities included the development of new prototypes, processes, or formulas; building or improvements of manufacturing facilities; and the development of new technologies or patents, etc. Customary market research and data collection were excluded. Exploration activity used to determine the

existence or quality of any ore or mineral deposits was not allowable and included mining and oil and gas exploration; however, the industries were eligible for processes, manufacturing, and patents under the legislation. Entrepreneurial successes in the state included Alaska berry growers that had been exploring the antioxidant rich nutraceutical value of berries and sawmills that had been turning mill waste into fuels. She discussed biofuels and that the tax credit would help solve the high moisture content that existed particularly in Southeast Alaska. Other examples included the use of tidal energy to create ice at sea that was currently being done at a university outside of Alaska, and turning seafood processing byproducts into valuable products. Forty other states had established a similar tax credit, including North Dakota that had one of the most aggressive tax credits in the nation. She communicated that Alaska's universities had not been as engaged.

Ms. Bell relayed that the University of Alaska Fairbanks chancellor Brian Rogers had submitted a letter of support for HB 118 and the university looked forward to increasing its engagement on issues that faced Alaska and had created an office of Intellectual Property and Commercialization.

[8:44:44 AM](#)

Vice-chair Fairclough asked whether the tax credit was in the amount of \$10 million. Ms. Bell responded that the credit was up to \$10 million per tax payer. She noted that in many of the examples she had provided that the applicable uses would be much less. Industries, including aerospace, had indicated that their scale of research was far above the \$10 million limit; however, they encouraged the passage of the legislation.

Vice-chair Fairclough wondered how the state would project whether it had the funds to offer the credit in the future. She discussed that the film credit had a cap of \$100 million. Ms. Bell replied that the fiscal note from the Department of Revenue was indeterminate. She suggested that the committee could consider setting a ceiling. She noted that DCEED did not anticipate any operational expenses.

Vice-chair Fairclough conveyed that the credit could represent a substantial amount of money that the state may have trouble forecasting. She thought that the committee

may want to consider a ceiling. She added that it would be helpful to use other states as an example regarding a potential ceiling and the use of the credit. She cited concern that the ability to carry the credit forward for seven years increased the state's liability. She also wondered about language that did not allow the use of a federal credit (Page 2, Line 10).

Co-Chair Stoltze noted that Vice-chair Fairclough's questions would be addressed during the fiscal note discussion.

Representative Wilson wondered how the \$10 million figure had been determined. Ms. Bell replied that the department had mirrored the federal law in order to keep the concept simple.

Representative Wilson asked for verification that a company could not sell its tax credit. Ms. Bell answered in the affirmative. She detailed that the credits were not transferrable and had to be used by the company conducting research and development.

Representative Gara wondered whether those conducting explorational drilling would receive over 100 percent of their cost with credits that included the 20 percent taxpayer credit, a 20 percent capital expenditure credit, a 40 to 50 percent deduction, and a federal research and development credit. He discussed that directional drilling could be considered a new or improved component that would apply under the research and development definition of the credit. He explained that improvements were made on the North Slope on a daily basis in order for the oil industry to remain competitive. The legislature had devised legislation that contained numerous credits and deductions to impact the industry. He referred to charts that had shown that with the combination of deductions, credits, and oil prices above \$80 a barrel that the state was paying between 70 to 80 percent of the activity cost. He expressed doubt that the taxpayer credit should be added to the list of credits that the oil industry would potentially receive.

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CURTIS THAYER, DEPUTY COMMISSIONER, DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT, replied that a company would not receive both a federal tax credit and the state

tax credit for resource development. The bill had a three-year look-back and the resource and development would be over and above the normal resource and development that a company would expend.

Representative Gara wondered why it would be a good idea for the state to pay for the tax credit in addition to the other credits and deductions that existed under the oil tax law. He reiterated that a company could obtain an improved component through directional drilling expansion. He stated that the three-year look-back would be solved because costs went up every year on the North Slope and the most recent year would always be more expensive.

Mr. Thayer responded that the "exploration activity for the ascertainment of existence, location, extent, or quality of ore or mineral deposit" did not qualify.

Representative Gara responded that some of the activity was not related to exploration and there were many things that happened on the North Slope that might qualify.

JOHANNA BALES, ACTING DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE, replied that there were currently oil and gas credits including the qualified capital expenditure credit and the annual loss carry-forward credit that could be used in conjunction with the resource and development credit. She opined that it was something that could occur but it would be under limited circumstances. She noted that a simple change could be made to the legislation to prevent tax payers from receiving credits from multiple locations.

Representative Edgmon observed that there were two types of corporate income taxes and he wondered whether the fisheries business tax and mining license tax would be the largest participants under the tax credit that did not apply to the oil industry.

[8:55:05 AM](#)

Ms. Bales replied that the corporate income tax applied to all industries, but there were minor differences in the statute related to oil and gas companies. She explained that all companies that paid corporate income tax would be eligible for the credit for research and development outside of exploration activities.

Representative Edgmon asked whether all industries would have an equal opportunity to take advantage of the credit. Ms. Bell responded in the affirmative. She relayed that the intent had been to help stimulate investment, manufacturing, and innovation.

Representative Doogan asked whether the credits would be stackable with any other existing credits that a company was eligible for. Ms. Bales responded that the credits would not be stackable. She explained that if a company was allowed a federal credit that it could choose either the state or federal corporate income tax credit. In limited circumstances the expenditures for the resource and development credit could be utilized for some of the oil and gas tax credits as well.

8:58:06 AM

AT EASE

8:58:38 AM

RECONVENED

Representative Doogan asked whether the credits were stackable in some circumstances. Ms. Bales responded that the credits were not stackable because there were two separate tax programs involved. She expounded that the corporate income taxes could only be used with one credit.

Representative Doogan wondered whether the tax credit could potentially be an additional 20 percent on top of other tax breaks that the state provided to the oil industry. Ms. Bales responded in the affirmative. She read from Page 2, Line 11 of the bill, "any federal credit that had been apportioned to the state and claimed under AS 43.20.021," and explained that the removal of the words "AS 43.20.021" and the insertion of the words "under this title" would eliminate the ability to use the expenses in a separate tax credit program. She expressed that the committee might consider making the revision if it had strong concerns about the issue, but she did not know how the administration would feel about the change. She relayed that the circumstances in which a company could use the same expenditures for credits could only occur when a company had a loss in the oil and gas tax.

Representative Doogan was concerned that Alaska could be responsible for a \$300,000 million per year program if

there were a high number of oil companies that could potentially take advantage of the \$10 million credit. He stressed that he did not support the portion of the bill.

[9:03:16 AM](#)

Representative Guttenberg wondered how it would be possible to know the tax credit was working in the intended way. He asked whether there would be an audit or accountability for the credits. Ms. Bales responded that the credit piggybacked the federal definition that was relatively strict. She detailed that tax payers would be required to provide proof that research and development had been conducted in Alaska and that it met the definition of the federal law. The department would provide oversight and would report how many people took advantage of the program. The intent of the legislation was to bring in new technology, industry, and research and development activity into the state.

Representative Guttenberg wondered whether the research would be public at any point. Ms. Bales replied that the information may or may not be reported due to tax payer confidentiality. Companies were hesitant to disclose business processes that could help their competition. She observed that there was a balance between a need to know and public curiosity and that faith in the tax administration was important.

[9:06:11 AM](#)

DAN WHITE, ASSOCIATE VICE CHANCELLOR OF RESEARCH, UNIVERSITY OF ALASKA FAIRBANKS (UAF)(via teleconference), supported HB 118 and believed that it would allow the state to provide an incentive to businesses to take advantage of new opportunities. The legislation helped contribute to the university's mission to conduct resource and development and move it into the private sector that was a critical element of economic development in Alaska. He stated that the bill would build a bridge between business and industry and that funded research at the university would lead to job growth and economic diversification. Businesses gained competitive advantages in the global market when UAF conducted applied research and licensed the technology to the private sector. He detailed that the link was enhanced when businesses were able to invest in resource and development.

ALLAN JOHNSTON, ENCORE CAREER, TEAM NETWORK, (via teleconference), voiced strong support of the legislation. He was very supportive of economic development in Alaska. He had been a sponsor of business plan competitions at Alaska's universities. He discussed that Alaska had come in last in the entrepreneurial capacity index that was listed in the 2008 Milken survey. It was important to encourage the ability to dream big in Alaska. He thought it was a good idea to put a cap on the amount the bill would pay out. He expressed that the state needed to take advantage of the many opportunities that were available and to be competitive on a national and global basis. He supported the university's ability to commercialize and its tie to the private sector.

9:10:16 AM

CHRISTI BELL, DIRECTOR, UNIVERSITY OF ALASKA CENTER FOR ECONOMIC DEVELOPMENT (via teleconference), stated that the university system was very supportive of HB 118 and of greater private sector research and development and opportunities through public and private collaborations. With the tax credit the university could market the incentives to private firms to encourage assets at the university such as the super computing system. Research helped the ability to offer scholarships and would help students grow, to foster innovation, and to create jobs. The National Science Foundation had found that 73 percent of finance papers cited that industry patents were funded through contracts with university research operations. Alaska was struggling to bring new research to the economy and needed to be competitive in new innovations and processes. She emphasized that the state ranked between 43rd and 51st in a national survey. She discussed that many states offered resource and development tax incentives to attract corporations and businesses and to encourage investment in resource and development facilities.

9:15:07 AM

PETER STITZEL, SITKA MEAL, OIL, AND GELATIN (via teleconference), testified in strong support of the legislation. He believed that supported research through the resource and development tax credit could effectively inspire firms to establish Alaska-based operations. He expressed that wild Alaska salmon waste was a special and

rare opportunity and that its presence in Sitka had caught the attention of nutraceutical, feed, and pet food companies. He thought the Sitka facility would become an incubator for the offshoots of many businesses, particularly in the nutraceutical business.

BILL POPP, PRESIDENT AND CHIEF EXECUTIVE OFFICER, ANCHORAGE ECONOMIC DEVELOPMENT CORPORATION (via teleconference), spoke in support of HB 118. He thought the bill would diversify Alaska's economy by attracting new business and innovation including tech transfer opportunities and venture capital. He believed the legislation represented an important component in a strategy to develop new industries in information technology, renewable energy, life sciences, biotech, and other.

Co-Chair Thomas CLOSED public testimony.

Vice-chair Fairclough asked whether the administration objected to a CS that would eliminate the ability to supplement other oil and gas credits. She cited that Lockheed Martin had expressed interest in facility and pharmaceutical companies could be big ticket items interested in research and development.

[9:19:55 AM](#)

Ms. Bell responded that the department would discuss the idea internally and would get back to the committee. She explained that DCCED wanted to be as open as possible and recognized the existence of technological challenges in all industries and the opportunity for processes and patents, etc.

Vice-chair Fairclough relayed that she had advocated for the oil and gas tax credits and was open to economic development; however, she believed that oil and gas tax credits belonged in the oil and gas bill and not in HB 118. She asked the department to provide information on how other states used the tax credit. She expressed that in terms of fiscal stability that it was important to know what the limit was that the state could expend in a year, but that job creation would help ease her concern about the amount of the \$10 million credit. She was interested in a cap on the amount and did not want stackable credits. She wondered why a seven-year carry-forward of the credit was

necessary for a large corporation that was not dependent on stability and felt that the time period was too long.

Representative Gara wondered whether the credit would apply to a new tobacco or liquor store because of the "new component" definition and what would preclude them from applying under the legislation. He was troubled that the state would be incorporating a federal definition of research and development and cited a portion of the language: "for development of a new or improved component of the tax payer." He added that he was a proponent of incentivizing high tech and new innovative business.

Ms. Bell replied that the first threshold that research and development was required to meet included the following four items: "purposes discovering information technological in nature; the application of which is intended to be useful in the development of a new or improved component of the tax payer; substantially all of the activities constitute a process of experimentation; and, the experimentation is for a qualifying activity or purpose."

[9:25:08 AM](#)

Representative Gara wondered whether seafood companies that filed as C corporations would not be eligible for the credit because they paid the raw fish tax and were not corporations. Ms. Bell responded that in order to qualify the company would need to be an Alaska tax payer as a C corporation eligible for corporate tax payers.

Representative Gara recommended a sunset and a report to allow the legislature to review the credit in three years and to assess whether it had been working.

Co-Chair Thomas stressed that communities were dependent on the raw fish tax and he hoped companies were eligible for the credit.

[9:27:59 AM](#)

Representative Doogan requested a better explanation of what would be allowable under the bill. He was concerned about the use of federal tax codes because the information was not very specific and the language was broad. He wondered what was included under the federal code that allowed development of new technology.

HB 118 was HEARD and HELD in committee for further consideration.

[9:29:49 AM](#)

AT EASE

[9:36:16 AM](#)

RECONVENED

#hb104

HOUSE BILL NO. 104

"An Act renaming the Alaska performance scholarship and relating to the scholarship and tax credits applicable to contributions to the scholarship; establishing the Alaska performance scholarship investment fund and the Alaska performance scholarship award fund and relating to the funds; making conforming amendments; and providing for an effective date."

[9:36:16 AM](#)

MIKE HANLEY, COMMISSIONER, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT (DEED), relayed that HB 104 had been introduced by the governor to fund a program that had been established by the legislature the prior year. He relayed that the bill would offer incentives for students and families across the state and would ultimately transform kindergarten through college and career education in Alaska. The scholarship rewarded students that sought postsecondary education in the state and had taken courses to prepare for success beyond high school, worked hard, and performed well in school. He explained that the bill had three components, including, the name change from a merit scholarship to a performance scholarship in order to avoid potential copyright issues; second, the establishment of an award fund and an investment fund that the legislature could appropriate funds into and taxpayers could donate to; three, corporate tax credits to incentivize donors. The governor was looking for a sustainable and predictable source of funding to ensure the success of the program. The department had been working hard with statewide school districts to utilize the scholarship program.

KAREN EKS, SELF, KETCHIKAN (via teleconference), urged the passage of HB 104. She discussed that she had been heavily

involved in improving the graduation rate and was involved in the local Empowering Youth task force. The program researched national, state, and local drop out statistics, including the various reasons that students dropped out, and recommended solutions. One of the recommendations had been for the funding and implementation of the performance scholarship. The task force was deeply concerned about the dropout rate not only for the students but for the state's economic and social future. She discussed that there were devastating repercussions for the state's economy and society when youths dropped out of high school. She explained that the scholarship program would be an important signal to young people throughout the state regarding the importance of their education. She urged the committee to make modifications to the bill if they had concerns about equal access to the program for students throughout the state. She stressed that over the long-term the investment in Alaska's students would come back to the state.

[9:43:15 AM](#)

Representative Gara wondered whether she had information about the "alternative pathway" approach that had been offered in other states. He explained that the approach had allowed bright students, who had not been able to take some of the required coursework or who had received their GED [General Education Development], to qualify for the scholarship.

Ms. Eeks was not familiar with the alternative pathway. She thought that the scholarship should be available to as many students as possible. She felt that many youths were falling through the cracks and that it was important to support them.

Co-Chair Stoltze CLOSED public testimony.

DIANE BARRANS, EXECUTIVE DIRECTOR, ALASKA COMMISSION ON POSTSECONDARY EDUCATION, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, discussed that the House Education CS had continued with the use of the new program name. She explained that the CS and added two additional requirements for postsecondary institutions under Section 6. The first requirement was mandatory counseling for students and the availability of courses for students to complete their degree in a timely fashion. The department was currently in

the process of approving institutions to participate beginning in the fall of 2011; therefore, the effective date on the new requirements would be FY 13. The second requirement stipulated that scholarships would be paid on a pro rata basis and that no new scholarships would be awarded if funding was insufficient. The Education CS created a non-lapsing investment fund within the general fund that would accept appropriations, donations, and investment income. Additionally, the CS created a provision similar to community revenue sharing that anticipated a time at which new appropriations would no longer be accepted. The fund would accept up to \$160 million and would provide sufficient funding for students who had received the scholarship to continue to receive it throughout their college career. She relayed that no other changes had been made to the bill.

[9:49:23 AM](#)

Representative Costello asked whether students that graduated from the Nine Star High School Completion Program would be eligible under the definition of high school on Page 4, Lines 27-28. Commissioner Hanley did not know whether the Nine Star program would qualify for the scholarship. He noted that he would get back to the committee with an answer.

Representative Costello requested information regarding the eligibility for alternative programs that served at risk youth and on an expansion to the definition to include the programs if they did not currently qualify. Commissioner Hanley replied that the intent was that the program would be available to all students. He explained that the bill did not look at the format of the school, but focused on student qualifications that included required course work, and sufficient ACT scores.

Representative Gara queried whether the two programs available under the bill were the need-based Alaska Advantage Education Grant and the merit-based Alaska Performance Scholarship Award. Ms. Barrans responded that the Education CS expanded the scholarship award fund and the investment fund to include Alaska Advantage Education Grant funding.

Representative Gara asked whether the Alaska Advantage Education Grant was the existing needs-based program. Ms. Barrans replied in the affirmative.

Representative Gara wondered whether the bill determined how money was apportioned to each program. Ms. Barrans replied that the legislature would be required to determine how the money was divided on an annual basis.

Representative Gara discussed an amendment that he had distributed. He wondered whether the department would help the legislature to consider an alternative pathway that was used by other states that would allow students who did not have all of the courses available to them or who had a GED to participate in the program. He believed that the merit-based program the former DEED commissioner had advocated for had a couple of flaws including that many districts did not offer the courses that a student needed to qualify and that the scholarship was not available to students who had received a GED due to extenuating circumstances.

Commissioner Hanley responded that the department was working very closely with school districts that may not be able to offer all of the courses that were required under the legislation. He expressed confidence that districts across the state could provide the required courses; however, he was willing to consider it as a hardship if a district could not provide the required courses. He discussed that there was a two-year grace period for students who experienced situations that were beyond their control. He elaborated that students would be allowed to take a course during the summer or during their first year at the university level. He expressed concern about the incorporation of the GED into a program that worked to provide incentives for students to continue in postsecondary education and that required them to be prepared for college.

Co-Chair Stoltze shared similar concerns with Representative Gara.

[9:56:22 AM](#)

Representative Gara understood that the performance scholarship was directed at high achieving students. He opined that merit-based scholarships should not go to students who received a 2.5 GPA and that the money should

go to needs-based students. He did not want the department to offer the scholarship to low achieving students; however, he did not want to punish students for circumstances that had been out of their control if they were able to take other steps to meet SAT or ACT and course requirements.

Representative Wilson wondered how the bill's definition of high school would apply to children who were home schooled to ensure that they were eligible for the scholarship.

Commissioner Hanley responded that the goal was to keep expectations high without putting up hurdles for students. A home schooled student's eligibility would be determined based on the courses that they had taken and on their SAT/ACT scores. He noted that the first scholarship applicant that had recently been accepted had been home schooled.

Ms. Barrans added that the department had developed an eligibility determination process. She explained that an application and an assessment were required to ensure that a home school program ran parallel to high school.

Representative Wilson wondered whether requiring different qualifications for a needs-based program and a merit-based program in one bill took away from the intent of the legislation. She thought a student could just apply for the needs-based program if they did not meet those under the merit-based program.

[10:00:37 AM](#)

Ms. Barrans responded that the only combinations that occurred in the bill related to the award fund and the investment fund. She relayed that there were no other changes to the Alaska Advantage Grant or performance scholarship requirements. There were two separate complimentary programs in statute that did not conflict with each other. The performance scholarship was available beginning with 2010 high school graduates and the Alaska Advantage Grant Program was available to any student attending an accredited institution in the state. A student was required to make good progress and earn sufficient credits to be eligible for the needs-based program.

Representative Wilson thought the goal had been create an equal opportunity for students to excel; however, she believed that the existence of two paths created by the two separate programs took away from the goal.

Ms. Barrans disagreed. She clarified that there were two programs with different policy objectives that shared the goal of preparing students as trained Alaskans who were ready to enter the workforce. The maximum award under the scholarship program was \$4,755 per year and the maximum needs-based grant was \$2,000 per year. She explained that a low income student that qualified for the grant and one of the three levels of the scholarship would receive funds to assist them with attendance fees. The cost of full-time attendance was typically about \$18,000 per year and provided incentive for students to maximize the resources provided by the state.

Co-Chair Thomas wondered about the eligibility of out-of-state religious correspondence courses. He had voted against the legislation the previous year because the majority of his constituents had expressed that they would not qualify under the program. He believed that there were rural districts and others that would be left behind due to their inability to offer all of the required courses.

Ms. Barrans believed that the assessment would be based on the curriculum and not on the source of the classes. She detailed that the curriculum would need to pass assessment, along with sufficient test scores and GPA.

Co-Chair Thomas requested a definitive answer in the language of the bill.

Co-Chair Stoltze requested written correspondence from the department that would provide clarity on the eligibility of home and charter schools. Commissioner Hanley replied that a correspondence course that was incorporated into a student's high school transcript would be accepted as part of their transcript.

Co-Chair Thomas wondered whether scholarship funds would be refunded to the state if a student dropped out during college. He reiterated his concern about the eligibility of out-of-state correspondence courses. Ms. Barrans replied that there were refund policies that schools were required to comply with. She expounded that the state would receive

a refund in an amount that would depend on the length of time the student had attended school prior to leaving.

Co-Chair Thomas remarked that he could not guarantee that he would vote in favor of the bill even if the bill was amended to reflect his concerns.

[10:07:44 AM](#)

Representative Guttenberg wondered whether the only eligibility requirements for the Alaska Advantage Grant were the ability to prove a need for the funds and active enrollment. Ms. Barrans replied that a student would be required to maintain "academic good progress," meaning that a student would need to take at least 12 credits per term and maintain a minimum 2.0 GPA.

Representative Guttenberg asked whether there was a "look-back" provision related to grant eligibility. He wanted to make certain that a student applying for school later in life was not deemed ineligible for the grant funds due to previous high school or college records. Ms. Barrans responded that the only time there would be a look-back would be in circumstances in which a student had taken the grant and had subsequently dropped out of college. A student would be required to attend one term to reestablish their eligibility before they could apply for the grant.

Representative Guttenberg echoed Co-Chair Thomas's concern that a student's location in Alaska should not limit their ability to obtain either the scholarship or the grant.

[10:10:26 AM](#)

Representative Joule wondered whether a student was allowed a semester probationary period if their GPA dropped below 2.0. Ms. Barrans responded that a student was required to have a 2.0 GPA at the end of their freshman year.

Representative Joule wondered whether a student that had not initially qualified for funding would be eligible if they began college and achieved a 3.0 to 3.5 GPA. Ms. Barrans replied that the student would not be eligible for the performance scholarship, but they would be eligible for the education grant.

Representative Joule explained that he had not been speaking only of needs-based students. He surmised that students who had left the state to attend school and performed well would not ever be eligible for the performance scholarship. He discussed the incentive to encourage students to return to the state. Ms. Barrans replied that he was correct. She understood that the legislature may have many policy objectives, but the main objective of the program that had been approved the prior year was to keep the pipeline flowing from high school into postsecondary education. The idea was to increase the stakes in high school and to transform the system to reduce the number of students that did not perform well. The program required that students begin and use their eligibility within six years of high school graduation.

[10:14:22 AM](#)

Representative Joule communicated that he would prefer to see a needs-based component as it was currently laid out instead of a performance-based scholarship. He believed that the performance part became an indicator of where problems resided in Alaska's school districts and could help with the ability to learn how to develop the capacity for all of Alaska's students to qualify for a performance scholarship that would allow them to go on to academics and/or a vocational field. He expressed hope for a conclusion.

Representative Edgmon asked for confirmation that the governor's FY 12 funding level was \$8.2 million for the performance scholarship and \$1.1 million for the Alaska Advantage Grant. Ms. Barrans replied in the affirmative.

Representative Edgmon believed that there should be more of a needs-based component in the program. He expressed concern about students in smaller communities.

Vice-chair Fairclough had learned from a presentation related to standards in math, science and reading that Alaska's schools did not have an aligned K-12 curriculum or standards for grades 11 and 12. She had heard concern from the university that K-12 had not been preparing students to attend college and the K-12 schools had communicated that the university would accept all standards, which was the reason remedial courses were needed at a college level. She read a standard for a tenth grader in math: "explaining in

words or identifying the difference between experimental and theoretical probability of independent and dependent events." She believed that the measurement had no relevant meaning. She quoted from a tenth grade standard regarding writing about a topic: "organizing ideas using appropriate structure to maintain the unity of the composition (e.g. chronological order, order of importance, comparison and contrast, cause and effect, classification, and identification) using a variety of transitional words and phrases." She communicated her frustration about the complexity and confusing nature of the state's high school standards and the finger pointing between the university and K-12.

Commissioner Hanley replied that the state had scored a "D" on the understandability of its standards based on a national level. The department was currently developing a time-line to change Alaska standards. He had recently met with commissioners outside of Alaska and had discussed national standards that other states had adopted.

Vice-chair Fairclough expressed the importance of clear standards and of input from PTA members and Alaskans that spoke local languages such as Inupiat, Athabascan, and other. She believed that it would not help if the same people who wrote the current standards were the ones that reviewed the new standards.

Representative Guttenberg wondered whether there was a place the legislature could go to better understand terminology used within the education system. He noted that he had done and appreciated the legislature in a classroom program.

[10:24:24 AM](#)

Commissioner Hanley responded that DEED was working on the development of clear standards that met national and international norms and on the development of relevant place-based curriculum that varied throughout the state. He hoped to bring a new set of standards before the committee the following legislative session.

Representative Gara asked whether the Alaska Advantage Grant Program remained available for vocational education and certificated courses. Ms. Barrans replied that there

had been no changes to the structure, eligibility requirement, or other to the grant program.

Representative Gara asked whether the bill still included accountability language that required a student to maintain a certain GPA to qualify for the needs-based grant. Ms. Barrans replied in the affirmative.

HB 104 was HEARD and HELD in committee for further consideration.

ADJOURNMENT

[10:26:19 AM](#)

The meeting was adjourned at 10:26 AM.