

HOUSE FINANCE COMMITTEE
January 23, 2012
1:30 p.m.

CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 1:30 p.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 Reggie Joule
Representative Mark Neuman
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Representative Sharon Cisna; Elizabeth Sweeney Nudelman, Director, School Finances and Facilities, Department of Education and Early Development; Diane Barrans, Executive Director, Postsecondary Education Commission, Department of Education;

PRESENT VIA TELECONFERENCE

Michael Hanley, Commissioner, Department of Education and Early Development; Mark Lewis, Acting Director, Division of Administrative Services, Department of Education and Early Development; Bryan Butcher, Commissioner, Department Of Revenue; Jerry Burnett, Director, Division of Administrative Services, Department of Revenue; Angela Rodell, Deputy Commissioner, Treasury Division, Department of Revenue; Bruce Tangeman, Deputy Commissioner, Tax Division, Department of Revenue.

SUMMARY

Operating Budget Overviews:

Department of Education and Early Development

Department of Revenue

^BUDGET OVERVIEW: DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT

[1:29:53 PM](#)

Michael Hanley, Commissioner, Department of Education and Early Development provided members with a PowerPoint presentation: State of Alaska FY2012 Governor's Operating Budget Department of Education and Early Development, January 23, 2012 (copy on file). He observed that the Department of Education and Early Development is governed by constitutional provisions that require the department to establish and maintain public school systems for all children of in the state. The department's policy moves from a school wide view to a child centered view, with an expectation that all students will succeed in their education and work. The department's policy is also based on the recognition of the child's place within their community and larger society, as well as their role and positive impact beyond school doors.

Commissioner Hanley reviewed the Department of Education and Early Development's mission: to ensure quality standards-based instruction to improve academic achievement for all students. All three branches of government have had a chance to weigh in on the department's responsibilities and obligation to the state's children. The first responsibility is to develop performance standards. A new set of performance standards have gone out to the Board of Education. The new standards go through grade 12 (previously grade 10). He emphasized that the bar has been raised.

Commissioner Hanley observed that the department's core services are to provide:

- A comprehensive system of student assessments that adequately measure how students perform in regards to the standards;

- State accountability and oversight in a state that relies heavily in local control; and
- Statewide education programs to support the mission of local districts that include mentoring and professional development for teachers and administrators.

Commissioner Hanley observed that the department also receives federal funds through the Division of Teaching and Learning Support, which offers school improvement grants along with state support.

[1:33:16 PM](#)

Commissioner Hanley noted that the department's budget is broken down into two categories: K-12 formula funding and agency funding. The total budget is \$1.6 billion. He observed that 95 percent of the department's budget goes to K-12 formula funding. Agency operations make up the remaining five percent of the budget.

Commissioner Hanley reviewed the department's total operating budget by fund source including foundation formula funding, pupil transportation and school debt reimbursement and American Recovery and Reinvestment Act funds. Fund sources were broken out: 84 percent general funds (GF), 14 percent federal funds, and 2 percent other funds (interagency receipts and mental health trust funds).

Commissioner Hanley noted that only two percent of all funds in their operating budget go to personal services. Other contractual responsibilities, commodities, and travel account for three percent. He reiterated that 95 percent of the department's budget goes to: the foundation formula, pupil transportation, school debt reimbursement and American Recovery and Reinvestment Act (ARRA).

Commissioner Hanley explained that the department employs: 332 full-time, 14 part-time, and 8 non-permanent positions. He interjected that teachers and staff of Mt. Educumbe and the Commission on Postsecondary Education are included in the position count.

[1:35:14 PM](#)

Commissioner Hanley broke down funding contained in agency operations, which exclude the foundation program, pupil transportation and school debt reimbursement and account for five percent of the department's total budget. General funds account for 21 percent of the agency operations. The majority of agency operations are federal funding (71 percent). He concluded that the state is not the main driver of the department's agency funding.

Commissioner Hanley reviewed the Department of Education and Early Development's structure. He pointed out that the department's commissioner is appointed by the State Board of Education and Early Development. There are five divisions within the department, which includes Libraries, Archives and Museum and Mount Edgecumbe Boarding School. The largest component is the Teaching and Learning Support Division, which derives from the department's core mission.

In addition, Commissioner Hanley observed that the department provides administrative services to three boards and commissions: Professional Teaching Practices Commission, State Council on the Arts, and Alaska Commission on Postsecondary Education.

[1:37:38 PM](#)

Commissioner Hanley reviewed components of K-12 formula programs (95 percent of the department's budget). Boarding home grants include: Nenana, Galena, Mt Edgecumbe, and boarding for students in communities that do not have a high school. Youth and detention programs provide educational services for incarcerated youth. Special schools include the Alaska Psychiatric Institute (API), School for the Deaf and Hard of Hearing, Special Education Service Agency, and the Alaska Challenge Youth Academy.

Commissioner Hanley expounded on the role of the Alaska Challenge Youth Academy. The department provides the academy with names of students that have dropped out of school. The academy attempts to reincorporate these students into a program that provides success. Most of the students at the academy go on to receive Greater Education Development (GED) diplomas. He stressed that lives have been turned around by the program.

[1:39:15 PM](#)

Representative Gara asked if there is direct coordination with the Division of Family and Youth Services (DFYS) and the Alaska Challenge Youth Academy. Commissioner Hanley indicated that the department did not have a direct concerted effort in regards to working with DFYS.

Mr. Mark Lewis, Acting Director, Division of Administrative Services, Department of Education and Early Development, affirmed that there are no first hand coordinating efforts.

Representative Gara observed the poor graduation rates for foster youth. He stressed that in many cases foster homes are not as good as the structured environment offered at the academy. He questioned if the department could coordinate with DFYS. Commissioner Hanley agreed but pointed out that most of the students at the academy are focused on obtaining a GED not a diploma. Representative Gara maintained that a lot of the youth under the auspices of the Office of Children Services have fallen off and felt that coordination would be beneficial.

[1:41:25 PM](#)

Representative Doogan referred to the \$62 million for pupil transportation and asked the formula for pupil transportation. Mr. Lewis explained that the formula is in statute, but he did know the exact formula. Representative Doogan wanted to know how much goes where and if the funds are matched.

[1:42:18 PM](#)

Vice-chair Fairclough asked if qualified school districts received direct support from the federal government. Mr. Lewis thought that state funds provided the main source of funding. Vice-chair Fairclough recalled being told that private pupil transportation could not be used in order to qualify for reimbursement.

ELIZABETH SWEENEY NUDELMAN, DIRECTOR, SCHOOL FINANCES AND FACILITIES, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, explained that pupil transportation is state funded. She did not know of any federal funds for pupil transportation. The dollar amount is calculated for each district, multiplied by the number of students in the district. The program runs under federal standards, which require compliance with federal standards. She promised to provide

further information regarding the possibility of federal funds.

[1:45:17 PM](#)

Co-Chair Stoltze noted that urban areas have a higher need for funding.

Commissioner Hanley noted that education support services represent two percent of the department's budget: the Office of the Commissioner, Division of Administrative Services, Division of Information Services, Division of School Finance and Faculties, and general centralized services such as capital projects. The State Board of Education also falls under the executive administration budget.

Commissioner Hanley observed that the Division of Teaching and Learning Support is the largest component and focuses on student and school achievement. The State System of Support component provides coaches in intervention districts. The statewide mentoring program provides support for all first and second year teachers. He stressed that the program has resulted in a higher rate of teacher retention and student achievement. Other components include Teacher Certification and Child Nutrition, which is a function of the USDA. The final component is Early Learning Coordination, which provides support for programs such as Best Beginnings, Parents as Teachers and the pre-K program.

[1:48:13 PM](#)

Representative Wilson asked how many contracts fall under the Teaching and Learning component. Mr. Lewis explained that 118 professional services contracts were awarded. He clarified that the executive branch does not contract for employees. Each professional services contract must go through a procurement process. There are risk management and liability issues, and personnel rules. Vendors are hired to perform a specific scope of work. Each vendor can contract with multiple people to provide the service. The department does not track on an individual basis. One contract does not mean one person.

Representative Wilson asked for more information on the mentoring system, which contracts on a one on one basis. Mr. Lewis affirmed that mentors and coaches are contracted

on an individual basis. However, not all work full-time. They are paid a specific amount for a specific scope of work.

[1:50:07 PM](#)

Commissioner Hanley reviewed the Commissions and Boards component: Alaska State Council on the Arts and Professional Teaching Practices Commission. The component represents a small portion of the department's budget and excludes the state board.

Commissioner Hanley discussed Mt. Edgecumbe, which is the only school run by the state. There are 400 students located in Sitka from 110 communities across the state. There are over 10,000 alumni (95 percent Alaskan Native). He maintained that Mt. Edgecumbe is a model of success

Commissioner Hanley reviewed the State Facilities Maintenance component. The component includes interagency receipts and rent from the Gold Belt building (Juneau), Talking Books Library (Anchorage), the archives storage facility and library space in the State Office Building. The department no longer rents space in the Anchorage Atwood Building.

[1:52:13 PM](#)

Commissioner Hanley stressed the importance of the Libraries, Archives and Museums component, which provides public library assistance grants, and represents just over four percent of the department's budget. This component provides public library assistance grants to libraries and archives across the state.

Commissioner Hanley discussed the Postsecondary Education Commission and noted that it heads up the Alaska Performance Scholarship program (APS) as well as services student loans. He stressed that both programs are critical for students to access postsecondary education.

[1:53:54 PM](#)

Commissioner Hanley explained that \$6 million has been allocated in Alaska Performance Scholarship awards. The governor's request would add \$2 million based on 2,340 estimated recipients. The average award is just over

\$3,400. The goal of just under 30 percent of qualified students was reached. He expressed disappointment at the amount of students still leaving the state [for school], but felt that a greater percentage would take advantage of the scholarship in the coming years.

Representative Gara recalled a split between the performance and merit based scholarships. He asked if needs based scholarships were awarded. Commissioner Hanley explained that needs based scholarships were not awarded as part of APS. The funding mechanism is still in play but did not affect APS. He noted that the Alaskaadvantage program offered awards.

[1:56:00 PM](#)

DIANE BARRANS, EXECUTIVE DIRECTOR, POSTSECONDARY EDUCATION COMMISSION, DEPARTMENT OF EDUCATION, clarified that the commission received a \$300 million general fund appropriation in FY 12; all of the funds were expended. There were slightly more than 2,000 awards in FY 12.

Commissioner Hanley continued to review the FY 13 governor's budget highlights. He noted the importance of an aligned assessment system to measure student's progress. There has been continual increase in costs for test development. There is a \$750.0 thousand request to meet contractual needs to continue (Comprehensive System of Student Assessment (CSSA)). He stressed that it is a small portion of the overall budget for the assessment system.

Commissioner Hanley observed that the Alaska Learning Network (ALN) was begun in the past year. The network is an on-line delivery model that will have a huge impact for students to access additional courses and course that will directly impact their ability to take advantage of APS. The first nineteen courses were developed with input from superintendents statewide. Sixteen districts are currently taking advantage of on-line courses; twenty-two districts will take advantage of on-line courses in the second semester.

[1:58:33 PM](#)

Vice-chair Fairclough asked if the department was coordinating on-line programs with the University of Alaska; or were they handled internally. Commissioner

Hanley observed that the detertment contracted with the Chatham school district. The Chatham School District contracted with the Wrangell School District to run the program. The university decided not to manage the program. Vice-chair Fairclough asked if the university was responsive. Commissioner Hanley observed that the some individuals were enthusiastic.

Representative Wilson asked if the cost would increase with additional communities. Commissioner Hanley explained that course development is the greater portion of the cost and did not think course costs would increase.

Representative Wilson observed that the program is funded through American Recovery and Reinvestment Act (ARRA) stimulus funds and asked if state funds have been identified for replacement. Commissioner Hanley noted that different avenues have been reviewed, but he emphasized that one of the department's vision is to recognize the need to incorporate technology in education. A model was put in place with ARRA funds. The goal is to continue the model, but the department does not have the ability to offer the program within the five percent of its agency funds.

Representative Wilson asked if there is a plan to charge costs to districts. Commissioner Hanley observed that there is currently a scholarship for every student who wants to take a course. School districts are charged \$150 for every seat. The idea is to use the learning network and schools to support students from both ends.

[2:02:02 PM](#)

Co-Chair Thomas stressed that ARRA money would not be replaced with general funds. He noted that ARRA recipients were told not to look for general funds for new programs.

Commissioner Hanley acknowledged that other funding should have been pursued, but emphasized that allowing technology to be the equalizer of opportunity around the state has been and remains a vision of the department.

[2:03:32 PM](#)

Representative Doogan asked the meaning of an aligned assessment system. Commissioner Hanley explained that the

department's first responsibility is to set a goal: state student standards. The second responsibility is to determine if students are getting what they need to access the standards. To that aim, the department has developed benchmark assessments that start in third grade and continue to tenth grade [new standards would go to twelfth grade] in order to measure student's growth toward the standards; to see that all the assessments are aligned with the goals.

Vice-chair Fairclough observed that the 2011 and 2012 state standards are out for review. She asked if the standards meet the entry level for University of Alaska entrance exams. Commissioner Hanley anticipated that they would and noted that the university will be vetting the standards to assure that they are preparing students for college without remediation.

[2:05:14 PM](#)

Vice-chair Fairclough asked if the university helped develop the standards. Commissioner Hanley clarified that the university has been involved throughout the process, which began in February 2010.

Representative Joule asked if students that pass the standards would be able to bypass remedial classes. Commissioner Hanley acknowledged the desire to bypass the sub 100 level classes. The goal is to not have to take remedial courses.

[2:07:31 PM](#)

Vice-chair Fairclough asked which courses are on-line. Commissioner Hanley detailed classes: Spanish I and II, German I and II, Algebra, Calculus, Alaska Studies, and a number of math classes are among the classes offered.

Co-Chair Thomas asked if APS recipients would receive funding for remedial classes. Commissioner Hanley observed that recipients are taking fewer remedial classes but acknowledged that the scholarship would pay for necessary classes.

[2:09:11 PM](#)

Commissioner Hanley reiterated that the proposal would fully fund year two of the Alaska Performance Scholarship Program at \$2.0 million. The department is continuing with the state system of support as a core service of oversight and accountability. There are currently 22 content coaches and 1 trustee.

Commissioner Hanley spoke to the statewide literacy program. He observed that third grade seems to be the benchmark. Students need to be able to read by third grade. The department wants to strengthen the early programs. He observed that last year was the first year of a literacy institute that provided training for kindergarten, early education and preschool teachers.

[2:11:04 PM](#)

In response to a question by Representative Gara, Commissioner Hanley clarified that 2.5 is the lowest grade point average needed to qualify for APS. Representative Gara questioned the message of shooting for a "C" and asked if the standard might be raised. He asked if other states grant performance scholarships at the "C" level. Commissioner Hanley emphasized that the message is not that shooting for a "C" is where to go. The program is tiered. Each grade increase receives a higher level of funding. He emphasized the higher performing students (3.5 - 4.0) would go to college regardless of the program. He felt that the program would help the students on the edge or the middle the most.

[2:13:42 PM](#)

Commissioner Hanley reviewed the statewide Alaska Literacy Program. The department recognizes that parents have a key role in helping their children be successful and prepared for kindergarten. The department has developed "I am ready skills", not all of which are academic. They are being distributed to schools, health care clinics, pediatricians and other areas where parents gather. The \$300 thousand request would also support a ready to read program, which is operated through the library to provide bags of books for early literacy.

Representative Wilson suggested that the programs would be in competition with Best Beginnings, which seems to be a successful program. She questioned if the department had

looked into coordinating with Best Beginnings instead of reinventing a new program. Commissioner Hanley clarified that the department works directly with Best Beginnings. He did not consider the department's efforts to be in competition. The department did not create the Ready to Read program, which is another avenue to reach more parents. He noted that Best Beginnings provides a book a month.

[2:15:38 PM](#)

Commissioner Hanley reviewed the Early Learning Coordination Pre-K Program request of \$700.0. This program started as a pilot and has three years of data. He emphasized the success of the program and noted that 78 percent of the kids in the preschool programs have increased by more than a year's growth.

Representative Edgmon pointed out the success of the Head Start program and educating kids at younger ages. He asked if the department envisioned it would play a larger role in terms of early literacy and education development. Commissioner Hanley noted that the legislature would dictate the department's role, but expressed support for the Head Start program. He observed that their programs are not necessarily academically oriented.

Commissioner Hanley recognized the value of early learning. He observed that the goal of the pre-K pilot program was to start with \$2 million and add an additional \$2 million a year until the program reached \$10 million.

Co-Chair Stoltze suggested some parents would prefer not to have their children participate in early socialization programs.

[2:19:40 PM](#)

In response to a question by Representative Joule, Mr. Lewis clarified that \$700 thousand was a one-time item that would restore the current level of \$2 million when combined with the \$1 million in the base and \$300 thousand put in by Co-Chair Hoffman for intervention districts.

Representative Gara noted that the only increase for Head Start within the last decade occurred under Governor Palin and questioned if the department's support is reflected in

the budget. Mr. Lewis observed that the budget supports the governor's priorities. Representative Gara concluded that there would be no increased funds for Head Start.

[2:22:21 PM](#)

Representative Costello asked how many third graders in Alaska are reading at grade level. Commissioner Hanley observed that it depends on which assessment is used but estimated a rate of 70 percent from standards based assessments. He recognized that the test score is not necessarily a true recognition of proficiency. There is a drop from the state's third grade test to the [federal] fourth grade test: down to 40 percent.

Representative Costello asked if reading at a third grader is linked to overall school success. Commissioner Hanley observed that there are a number of studies and offered to provide them at a later date.

In response to a question by Representative Doogan, Commissioner Hanley clarified that state assessments show standard growth, but the national tests do not show as high a level of success. He suggested that the real level of proficiency lies somewhere between the state and federal results.

[2:25:19 PM](#)

Representative Doogan asked why not change state standards. Commissioner Hanley observed that there would be new assessments to go with new standards, but argued that there may not necessarily be a flare in the assessment. The cut score of 300 could be erroneous.

Representative Doogan asked how state scores compare to nationally administered tests. Commissioner Hanley observed that the national test is given in fourth and eighth grades. Alaska is near the bottom when compared to other states. Alaska is 45th in the fourth grade rating.

[2:26:54 PM](#)

Representative Guttenberg pointed to the high number of prisoners with a third grade reading level. He surmised that the state could lower prison population and recidivism rate [if reading levels were enhanced]. He stressed that it

is cheaper to put students through college than to house them [in prisons].

Commissioner Hanley emphasized that students don't suddenly tank after third grade. He clarified that the differing results are from different assessments.

[2:29:01 PM](#)

Representative Neuman emphasized that only seven to eight percent of those students that start high-school achieve a four year college degree. Commissioner Hanley recognized the concern. Representative Neuman concluded that in light of the "huge effort" to help students only a few students are being reached.

Co-Chair Stoltze pointed to the importance of school board elections.

[2:31:11 PM](#)

In response to a question by Co-Chair Thomas, Commissioner Hanley noted that the state's ranking increases in eighth grade. Alaska ranks at twenty-third place for eighth grade.

Representative Gara asked the plan for increasing reading proficiency by fourth grade, in light of flat funding for early education. Commissioner Hanley explained that the state is working on a statewide Response to Instruction (RTI) model of addressing student's needs where they are. The pedagogical strategy is being changed in the primary grades to address needs earlier. The department is attempting to strength skills when students come into school. Representative Gara asked how student proficiency prior to grade school enrollment would be changed without additional funding. Commissioner Hanley anticipated branching out existing pre-K programs to additional districts and continued support of Best Beginnings, Parents as Teachers and Head Start programs. The department is also working on the "I am ready to read" skills. He concluded that the department is doing what it can with the tools that it has.

[2:34:11 PM](#)

Representative Joule asked if the measured results are showing improvements in students coming into the system at

a higher rate of proficiency. Commissioner Hanley saw growth in all the programs. Representative Joule wanted to see data on Best Beginnings, Parents as Teachers, Head Start and other community based programs indicating that they are successful.

[2:36:51 PM](#)

Commissioner Hanley observed that data from the preschool programs show that 18 percent of the students have moved from the bottom two quartiles to the top two; 25 percent have moved out of the bottom quartile. Originally, 52 percent of the children in the state's pre-K program were in the lowest quartile. These students have moved significantly. Four percent show over two years of growth. Twenty percent show one to two years of growth. Overall, 78 percent of the students show above expected growth.

Commissioner Hanley reviewed the department's ten-year plan for the operating budget, which is used as a driver. The plan anticipates increases in FY 15 - FY 22. The Foundation Formula assumes an annual BSA increase of \$100.00. The Alaska Performance Scholarship Program is projected to be fully funded. An annual inflation adjustment of 2.75% was included for contractual obligations in operating costs.

[2:38:55 PM](#)

Commissioner Hanley looked at the ten-year plan highlights for capital projects. The annual construction and major maintenance items would remain stable and funding for the five schools to satisfy the Kasayulie settlement are anticipated over the next four years. He observed that 14 projects are currently being funded in the capital budget. The department is also looking for funding for the Stratton Library renovation and full funding for the State Libraries, Archives and Museums Facility are included in the ten-year projection.

In response to a question by Co-Chair Stoltze, Commissioner Hanley clarified that the Stratton Library lies on the edge of the Shelton Jackson campus in Sitka and was acquired by the state two years ago. The intent is to maintain it for future use and not allow it to fall into disrepair.

[2:40:19 PM](#)

Representative Gara observed that there has not been a BSA increase since the last year of the Palin administration. He questioned if the department would ask for an increase prior to 2015. Commissioner Hanley explained that the ten-plan is based on trends and that he did not know what policy any given administration would promote.

Representative Gara noted off budget increases for the pre-K program that are not carried forwarded to subsequent years. The governor's budget is currently the same per student as two years ago. He asked how student achievement could be increased with a budget that would result in teacher layoffs. Commissioner Hanley emphasized that the department would continue to do the best it can with the funding it receives. He did not think there was a direct correlation between funding and student achievement but acknowledged that it isn't possible to continue to maintain the same level of services with funding decreases. The department will continue to focus on its mission and core services, and support districts as best they can.

[2:42:37 PM](#)

Co-Chair Thomas suggested that the Teachers' Retirement System (TRS) payment be placed in the Department of Education and Early Development's budget. He stressed that the state pays for more than just education; [teacher] retirement is paid by the state. The final year of the cost differential is in the proposed budget. The TRS funding could be included into the department's budget so that it shows in the foundation formula or make school districts make their own payments. He stressed that the state is paying "massive amounts of money". Commissioner Hanley acknowledged that the [retirement] liability is going up.

Representative Edgmon wondered whether each state agency would come before the committee with the same level of detail. Co-Chair Stoltze suggested that it would behoove other agencies to provide the same level of detail.

[2:45:13 PM](#)

Representative Joule asked whether the department had discussed the concept of regional boarding schools. Commissioner Hanley replied that models had been discussed. He believed the idea was important and had a significant

amount of power if brought to communities. He believed it was a valuable model, especially if students could remain in their community or part of the state. He stressed the need for local communities to identify the need and drive the discussion. He observed that there could be some unintended consequences involving the shutdown of smaller schools throughout the state.

Representative Joule observed that some current schools (Bethel, Kotzebue) are heading in the general direction. He opined that the bulk of the work needed to be conducted by the legislature and stressed the need to have the administration help with the lifting.

Commissioner Hanley acknowledged the power of the Bethel program where students come in for a semester at a time to access courses they would not get in their local communities.

[2:48:43 PM](#)

Co-Chair Thomas pointed out that with the current rate of growth in the operating budget the state would have a deficit within two years. At that time, the state will be dependent on reserves.

[2:49:53 PM](#)

AT EASE

[2:58:29 PM](#)

RECONVENED

^BUDGET OVERVIEW: DEPARTMENT OF REVENUE

Bryan Butcher, Commissioner, Department of Revenue provided members with a PowerPoint presentation (copy on file). Commissioner Butcher noted that the mission of the department is to collect, distribute, and invest funds for public purposes.

Commissioner Butcher noted that there are four divisions within the department. The Tax Division enforces the tax laws of the state and collects and accounts for tax revenues. The Treasury Division manages and invests state funds. The Permanent Fund Dividend (PFD) Division administers the PFD program and distributes the annual dividend payment to eligible Alaskans. The Child Support

Services Division collects and distributes child support to custodial parents

Commissioner Butcher expressed his enthusiasm to work on missions and measures. He maintained that his department would be proactive and engaged in the issue.

[3:00:42 PM](#)

Co-Chair Stoltze asked if the department is redirecting funds or actually catching people for child support payments.

Jerry Burnett, Director, Division of Administrative Services, Department of Revenue noted that there is a combination of means by which the department has increased its child support collections. Collections from permanent fund dividends have gone up, but the department also collects from tax refunds, bank accounts and even safety deposit boxes.

Commissioner Butcher noted the development of a criminal investigation unit created from interagency funds. Criminal investigators were merged from child support, Permanent Fund, Tax, and Treasury divisions. He observed efficiencies.

[3:03:09 PM](#)

Commissioner Butcher noted that in FY 11, the Tax Division data showed that 98.5% of known taxpayers filed tax returns and made their payments timely. In the Treasury Division returns for 9 of the 10 funds under the fiduciary responsibility exceeded the applicable 1-year target returns. Mr. Burnett explained that the Retiree Health Insurance Long-Term Care Fund, which earned 21.77 percent, missed the bench mark of 21.9 percent. Commissioner Butcher observed the department's long term investment outperformed the Alaska Permanent Fund.

[3:03:55 PM](#)

Representative Costello asked how target returns are set. Mr. Burnett explained that each individual fund with an asset allocation has a target and bench mark. He offered to provide more information.

Commissioner Butcher discussed the Permanent Fund Dividend Division. He observed that of the 144,056 eligibility cases opened in 2011, 88% were reviewed by September 15 and either closed, resolved, or awaiting information from the applicant. He observed that providing timely information has been a focus of the department in order to reduce waiting time.

Commissioner Butcher noted that in the Child Support Division collection of child support increased 3.53%, resulting in \$3.3 million more in disbursements from the previous fiscal year.

[3:05:16 PM](#)

Representative Doogan observed problems with filling auditor positions, which in turn have impaired the department's ability to audit oil companies' tax returns. Commissioner Butcher noted that the department is fully funded for all but one master auditor position. They are focusing on filling the position. Two commercial analysts position were filled. The tax director's position was also filled. The department is almost at 100 percent in terms of the folks doing the work.

Representative Doogan asked the status of the backlog. Commissioner Butcher explained that the department is now on 2007 [returns], from the switch from gross to net tax (PPT). The pace seems to be faster than the first year of the switch (2006). He felt that they would continue to catch up, but cautioned that the results would not quicken until the new data management system is functioning.

Representative Doogan asked the results; is the state getting more or less money than anticipated. Commissioner Butcher could not respond. The first switch from gross to net is being wrapped up.

[3:08:23 PM](#)

In response to a question by Representative Gara, Commissioner Butcher clarified that the department has not completed a full year of the Alaska's Clear and Equitable Share (ACES) returns.

Commissioner Butcher outlined corporations that are under the Department of Revenue: Alaska Housing Finance

Corporation, Alaska Permanent Fund Corporation, Alaska Mental Health Trust Authority, Alaska Municipal Bond Bank Authority, and Alaska Natural Gas Development Authority.

[3:09:55 PM](#)

Vice-chair Fairclough expressed a desire to meet with Alaska Housing Finance Corporation prior to subcommittee hearings.

Commissioner Butcher looked back at seven years of the department's activities.

- Greater revenues were collected by the Tax Division with an increase of 190%: FY05 \$1,951,247,500, and FY11 \$5,660,500,000.
- Funds under management by the Treasury Division have doubled with an increase of 101%: 12/31/2004 \$20,448,418,000, and 12/31/2011 \$41,062,345,000
- The Number of Permanent Fund dividends paid to Alaskans increased 8%: FY05 599,243 FY12 647,549 (total estimated for 2011 dividend)
- The number of child support cases increased 4% while the amount of child support distributed to custodial parents increased 15%: FFY05 45,259 cases \$98,644,813 disbursed F11 47,044 cases \$113,330,053 disbursed

[3:11:21 PM](#)

Commissioner Butcher observed the growth in state funds over the past seven years.

In response to a question by Representative Doogan, Commissioner Butcher explained that GeFONSI is an acronym for general fund other non-segregated investments. Mr. Burnett added that GeFONSI funds include the Statutory Budget Reserve Account (SBR), Public School Fund (forward funding for education), Alaska Housing Capital Corporation Funds and 100 different accounts. These are accounts that need to be available to the legislature and fairly liquid. In response to a question by Representative Doogan, Mr. Burnett explained that there are some portions of the funds that are not available for expenditure but that for the most part the funds are available.

[3:13:52 PM](#)

Representative Costello referred to the rate of return for the Constitutional Budget Reserve Account (CBR) and wonder what kinds of investments are in the fund. Commissioner Butcher explained that the fund is broken down between short (2.64%) and long (21.13%) term investments.

Vice-chair Fairclough asked the approximate percentage of the split. Mr. Burnett stated that the split in the CBR is approximately 50/50 at the end of the year: \$5 billion short and \$5 billion long.

Vice-chair Fairclough questioned if it were possible to borrow money for the short term and invest in the long term higher rate of return. Commissioner Butcher explained that the department has been cautious in arbitrage due to volatility.

[3:16:47 PM](#)

Commissioner Butcher spoke to the benefit of the AAA upgrade from Standard and Poors. He observed that his staff, Angela Rodell, Deputy Commissioner, Treasury Division, looked at the 2003 bond deals and observed that they could be refunded; they received a net present value savings of \$27 million savings. The state received a low spread and high sale due to the AAA rating. He observed that Alaskans bought \$26 of the \$175 million sold.

[3:18:52 PM](#)

Co-Chair Stoltze asked if the Carlson money held in escrow earned interest. Mr. Burnett explained that the funds were held externally from the state and could not comment on the amount of interest earned.

Commissioner Butcher observed the statewide growth of the department, which has had an average annual growth rate from FY 05 to FY 13 of 6.6% (under the state average). The department's budget is under one percent of total state GF.

[3:19:45 PM](#)

Commissioner Butcher reviewed the department's fund sources. Permanent Fund corporate receipts are the largest

fund source at just over a third. Federal funds are just under a quarter. The department also receives funds from Alaska Housing Finance Corporation. The Alaska Retirement Management (ARM) Board pension funds, nine percent are undesignated general funds, and three percent are designated general funds.

Commissioner Butcher looked at the department separated by program. The Alaska Permanent Fund Corporation is the largest at \$119 million; the Alaska Housing Finance Corporation is the second largest at \$94 million. The Tax Division is \$16.2 million and the Division of Treasury is \$10 million.

Commissioner Butcher reviewed the two major initiatives funded in FY 12: Established Criminal Investigations Unit 1,600.0 I/A; and Tax Revenue Management System Capital Funding 34,700.0 GF.

Commissioner Butcher reviewed the Tax Revenue Management System (TRMS), which received a \$34.7 million appropriation last session. A 3rd party project manager was brought on board during the summer of 2011 to assist with writing a request for proposal (RFP) to select a contractor. The department plans to release the RFP in late February or early March 2012. The implementation contractor should be on board by August 2012. The department will implement a Commercial Off-the-Shelf (COTS) system as opposed to building one in house. He noted that most states use the COTS system and indicated that it would result in savings. There will be a phased implementation of the Tax Division's 22 tax systems and a two to five year timeline for full implementation. He stressed the need to take the time to do things right.

[3:23:30 PM](#)

Representative Neuman observed that the Alaska Natural Gas Development Authority (ANGDA) is funded at \$436 thousand and asked the administration's intent for future years. Commissioner Butcher observed that the executive director resigned. There is an interim director and ANGA is in the FY 13 budget. He noted that the governor has had discussions about bringing agencies working on the gasline together. He observed that he has worked with Daniel Sullivan, Commissioner, Department of Natural Resources to prevent duplication.

[3:25:27 PM](#)

Mr. Burnett reviewed key FY 13 budget changes not in the base. The department added five project positions for the Long Term Care Ombudsman office at \$25.9 GF. The appropriation reduces vacancy and allows development of an online Learning Management System. The Alaska Permanent Fund Corporation (APFC) has asked for \$340.0 in corporate receipts to provide performance based salary increases, and increased due diligence. The corporation is not under employee contracts; therefore market based salary adjustments are needed. The Treasury Division has requested \$399.4 GF to manage the increased Constitutional Budget Reserve management costs because it has grown in value and the Power Cost Equalization Fund has also grown.

[3:27:09 PM](#)

In response to a question by Co-Chair Thomas, Mr. Burnett clarified that each of the funds has some external management fees. The Treasury Division manages a variety of funds that are allocated on a cost allocation plan to each. Mr. Burnett noted that APFC earned 21 percent in FY 11 and is asking for additional external management fees

In response to a question by Representative Doogan, Mr. Burnett affirmed that CBR management costs are a direct function of increases to the fund. He added that at the end of FY 10, the CBR was fully funded. The legislature no longer had an obligation to the fund. The fund has been managed with general fund dollars since so that there are no draws from the account.

[3:28:31 PM](#)

Mr. Burnett reviewed the department's FY 13 capital request. He observed that there are three requests for the Child Support Services Division:

- Case Management Modernization - \$1080.0 Fed/557.0 GF (The federal government pays 66 percent of the program);
- Child Support Computer Replacement - 134.6 Fed/69.4 GF; and

- Child Support Interactive Voice Response System - 151.8Fed/78.2 GF. The current system is no longer being supported.

Mr. Burnett reviewed additional capital requests. The Permanent Fund Corporation has a request for office wiring - 50.0 PF earnings. He noted that the Alaska Housing Finance Corporation has multiple projects totaling 109,000.0 GF/850.0 Other/11,800 Federal funds.

- \$31.5 million Weatherization
- \$21 million Alaska Gasline Development Corp
- \$20 million Home Energy Rebate
- \$8 million Homeless Assistance Program
- \$7 million Supplemental Housing Development Program
- \$6 million Teacher, Health, Public Safety and VPSO Housing Loans
- \$4.5 million Senior Citizen Housing Development

Mr. Burnett observed that there are also a number of projects for internal programs to maintain buildings the corporation owns.

[3:30:44 PM](#)

Mr. Burnett reviewed the department's ten-year expenditure projections. The baseline for the department's operations costs were increased by using a 2.75% annual inflation factor. The inflation calculation does not include personal services or investment management fees, but the value of the various funds were modeled for the estimated fees.

Mr. Burnett observed that AHFC and APFC are large contributors to the department's ten-year plan. The Alaska Housing Finance Corporation's (AHFC) operations costs were increased by using a 2.75% annual inflation factor. The capital budget assumes that the corporation's earnings will resume to pre-recession levels. The weatherization program assumes the state will contribute \$100 million annually to maintain the current program. The Alaska Permanent Fund (APF) value was grown using median capital market expectations. External investment manager fees were projected at a cost of 26 bases points or the total fund value.

[3:32:17 PM](#)

Mr. Burnett noted that there is a bump in the early portion of the ten-year plan in the all funds graph due to the inclusion of modernization of the Child Support Services Division's information technology system and the Alaska Gasline Development Corporation capital cost. The bump is taken out in all operating funds because the funds are growing. He pointed out that the general fund line is not quite flat, but the department's general fund growth has been below that of the state. The Tax Division is the greatest cost of general funds; the second is the match for child support.

[3:33:41 PM](#)

Commissioner Butcher emphasized that the Tax Division is actively engaged in increasing the efficiency of tax administration and timely access to information necessary for assisting with tax policy decisions made by the legislature. The department is working on a five year "look back" to tie paid tax credits with what the oil industry has provided.

Commissioner Butcher spoke to the Department of Revenue's prudent investment practices. The department is the state's largest investment manager. He reiterated that the state just received an AAA upgrade thus receiving the lowest cost of borrowing.

The department has continued to work with the Permanent Fund Dividend Division and the Child Support Services Division to improve their business and be in touch with the public. The department's corporations receive national recognition for their exemplary program management and fiscal solvency and provide valuable services to the state.

[3:35:14 PM](#)

Representative Doogan observed that a bill was introduced in the House that would move \$10 billion from the Permanent Fund to the general fund. He questioned what problems such a move would occur. Commissioner Butcher agreed to discuss the issue.

Representative Costello echoed Co-Chair Thomas' concerns with anticipated future declines. She observed that at the

current rate of government growth the state would operate in the red by 2015 and cash reserves would be depleted by 2025. She asked how the department is responding to the information. Commissioner Butcher observed that the department has worked hard to keep general fund growth low. He emphasized that prudent management can mean more state funds. He hoped to help move the red line further into the distance.

Representative Costello observed that half of the CBR has a 2.6 percent growth rate, while other funds receive a greater rate. She asked if the department would recommend that funds be invested elsewhere to have "our money work for us in ways that we haven't thought of in the past." Commissioner Butcher agreed and suggested further diversification but emphasized the need to be prudent and conservative with investments. He recalled a move from short-term to long-term investment that resulted in a loss of billions.

3:40:06 PM

Representative Costello asked the best approach in terms of the unfunded liability. Commissioner Butcher responded that the department was working to determine the best way to handle the unfunded liability. He looked forward to being involved in the process. He explained that ultimately it was a question for policy makers and the administration moving forward.

Vice-chair Fairclough asked if there had been discussions regarding the TRS unfunded liability. She thought the TRS system was more unbalanced due to the 20 year and out [teachers' retirement] provision. She asked whether something was being done for new teachers entering the system. Commissioner Butcher replied that the switch from the Defined Contribution System to the Defined Benefit System impacted TRS as much as it had impacted PERS. Discussions have occurred on how to move forward with a "big picture" collected issue. He acknowledged the discrepancy between the two programs.

Vice-chair Fairclough referred to testimony from David Teal, Director, Legislative Finance Division, who explained that a payment of \$2 billion (front loaded cost) could fix the PERS system, but it would take \$4 billion to fix the TRS system.

Mr. Burnett explained the employer cost in PERS is 22 percent but TRS is only 12.5 percent. The employer is not making the same contribution in TRS so there would be a larger legislative contribution.

Vice-chair Fairclough concluded that the state makes up the difference from 12.5 percent to 40 percent.

#

ADJOURNMENT

3:44:31 PM

The meeting was adjourned at 3:44 PM.