

HOUSE FINANCE COMMITTEE  
March 30, 2012  
9:13 a.m.

9:13:23 AM

CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 9:13 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 Mark Neuman  
Representative Tammie Wilson

MEMBERS ABSENT

Representative Reggie Joule

ALSO PRESENT

Representative Eric Feige; Michael Paschall, Staff,  
Representative Feige; Lauren Burch, Superintendent, Long  
Island School District; Darrell Breese, Staff, Co-Chair  
Stoltze.

PRESENT VIA TELECONFERENCE

Ken Forrest, Chief Business Official, Matanuska-Susitna  
School; Duncan Ware, Superintendent, Delta Greely School  
District; Pete Lewis, Superintendent, Fairbanks North Star  
Borough; Whitney Brewster, Director, Division of Motor  
Vehicles.

SUMMARY

HB 64

PERMANENT MOTOR VEHICLE REGISTRATION

CSHB 64(FIN) was REPORTED out of committee with a "do pass" recommendation and with a new fiscal note from the Department of Administration.

HB 313 STUDENT COUNT ESTIMATES

HB 313 was HEARD and HELD in committee for further consideration.

[9:13:29 AM](#)

#hb313

HOUSE BILL NO. 313

"An Act relating to student counts and estimates for public school funding; and providing for an effective date."

[9:14:29 AM](#)

Vice-chair Fairclough MOVED the committee substitute HB 313(EDC) 27-LS1223\B as the working document.

REPRESENTATIVE ERIC FEIGE, read from the sponsor statement:

Our school districts need effective tools to plan and budget for the education of our children.

Under HB 313 -- subject to the hold harmless provisions, changes in the Base Student Allocation, or other legislative changes -- districts will be able to complete the budget process and determine staffing levels earlier, eliminate unnecessary layoff notices, and execute employment contracts to improve the stability of the education climate in the state.

The purpose of the bill is to base the funding for each school district in the state on the count under A.S. 14.17.600 for the preceding fiscal year. For example, the count conducted in Fiscal Year 2013 will establish the funding level for the district for the 2014 Fiscal Year.

The new funding formula will not change the "hold harmless" clause currently in existence. If a decrease in enrollment of five percent or more occurs, the

district will continue to receive funding based upon the Average Daily Membership plus the 75/50/25 percent addition over the succeeding three years. Other provisions of the foundation formula will remain as well.

If a district has an increase in student count of 200 students or three percent over the previous year, supplemental funding will be provided to the district for the current fiscal year. Helping districts deal with large changes in population.

The new funding method will implement with the FY 2014 year. Thus, the count conducted in the fall of 2012 will provide the funding level for both FY 2013 and FY 2014, subject to the hold harmless provisions.

HB 313 also increases transparency in the governmental budgeting process by prohibiting the current practice that allows municipalities to take funds back from school districts at the end of the fiscal year.

[9:17:14 AM](#)

MICHAEL PASCHALL, STAFF, REPRESENTATIVE FEIGE, explained that the proposed legislation was spurred by a request from the Rural Education Attendance Area (REAA). The intent was to determine how the daily membership applied to the Base Student Allocation (BSA).

Co-Chair Stoltze queried the number of school districts involved.

Ms. Paschall replied that one district was involved initially and other districts began participating in the discussions. He noted that modifications were made to meet the needs of all of the districts. He was unaware of any objection from a district to the bill. He hoped to address concerns of any interested district.

Representative Wilson requested a definition for REAA. Mr. Paschall responded Rural Education Attendance Area, which included the school districts located outside of municipalities.

Mr. Paschall provided a presentation titled "HB 313 Application of Average Daily Membership (ADM) to Base

Student Allocation (BSA)" (copy on file). He identified slide 1: "Application of ADM to BSA." He explained that the budget process occurred in the spring. The actual student count was released in October, and confirmed in January. He noted that between July and March, an estimated payment was made based on January's estimate. Payments were adjusted between April and June to compensate for any under or over-payments. He stated that HB 313 used the confirmed count and made actual payments July through March. April through June would incur actual payments unless hold harmless supplemental provisions of the bill applied.

[9:20:19 AM](#)

Mr. Paschall continued with slide 2: "Variation of ADM Projections." He explained the differences between extremes that led to budget issues.

- For FY 2011, Variations ranged from
  - o 743 students too high (1.5%) to
  - o 192 students too low (0.84%)
  
  - o 9.8 % too high (3.35 students)
  - o 15.8% too low(16.25 students)

Representative Costello asked about the terms "too high" and "too low." She asked if slide 2 referred to the current situation or the application of the legislation.

Mr. Paschall responded that the slide exemplified the current process. The purpose of the slide was to demonstrate the extreme variations for FY 11.

Representative Costello queried the statement "too high."

Mr. Paschall replied that the estimate provided was greater than the actual number of students. He added that the slide demonstrated extremes, but in fact, many district projections were accurate.

Co-Chair Thomas asked how the large number of students was derived when REAA districts tended to be small. He imagined that REAAs were comprised of small village schools.

Mr. Paschall responded that some REAAs encompassed larger districts.

Representative Doogan asked about slide 1 and its variations. He asked if the differences were detailed in the ADM confirmation row of the slide.

Mr. Paschall replied in the affirmative.

Representative Doogan clarified that he was seeking the data regarding the variation amounts.

Mr. Paschall replied that the difference between the estimate and the confirmation equaled the variation amount.

[9:24:20 AM](#)

Representative Gara expressed concern about the budget. He wondered about the establishment of the budget using the prior year's student counts. He asked if the school received funding at the beginning of the year.

Mr. Paschall responded that funding arrived during the last quarter of the year. He elaborated that the actual amount was derived after the confirmation count. He stated that provisions existed in the bill to address the issue.

Representative Neuman commented on slide 2. He considered the information more valuable if committee members could discern which districts were too high and which too low.

Mr. Paschall offered to provide the information.

[9:26:27 AM](#)

Mr. Paschall continued with slide 3: "Statewide Average Daily Membership Fiscal Year 1988-2011." The graph displayed that "statewide ADM has been relatively flat for over a decade." He noted the lack of volatility in the statewide enrollment.

Mr. Paschall discussed slide 4: "Statewide ADM FY 2002-2011." He noted the "decrease of 2.7 percent (3,627 students) statewide in past decade."

Mr. Paschall continued with slide 5: "The Biggest Losers." He noted that 42 districts dropped in enrollment.

Mr. Paschall continued with slide 6: "The Biggest Gains." He noted that 12 districts increased enrollment. He stated

that the two districts at the bottom of the screen exemplified their electronic scores.

Mr. Paschall referred to slide 7: "Returned Funds." The slide detailed the reallocation of unspent funds. The money was returned to the borough and reallocated to the district in a future budgeting process. The slide exemplified two districts. The process depleted reserves leading to a lower balance.

- Fairbanks North Star Borough School District
  - FY 2012 \$2.1 million
  - FY 2011 \$1.2 million
- Mat-Su Borough School District
  - FY 2010 \$1.3 million
  - FY 2011 \$268 thousand

Mr. Paschall continued with slide 8: "Best Fund Balance: Best Practices." He noted that a provision of the bill was to increase the reserve balance from 10 percent of the current year's fund to 15 percent as a maximum amount of unrestricted reserves. The change would allow greater flexibility to acquire funds for projects.

[9:29:43 AM](#)

Co-Chair Thomas shared his experience working on a school board where a budget reserve led to negotiations.

Mr. Paschall responded that districts had options regarding reserves. Some districts preferred to retain the reserves. He spoke to the flexibility allowed by the increase from 10 to 15 percent maximum unrestricted reserve.

Co-Chair Stoltze commented on "hidden money" that was addressed during negotiations on the subject.

Representative Neuman added that Mat-Su had 50 percent of unspent funds reincorporated into the borough's general fund. A fund was thus created for the purchase of future schools with the unspent funds.

Mr. Paschall noted the variety of uses for unspent funds among Alaskan districts. He added that some districts had a good relationship with their borough regarding the use of reserves.

[9:32:20 AM](#)

KEN FORREST, CHIEF BUSINESS OFFICIAL, MATANUSKA-SUSITNA SCHOOL (via teleconference), testified in support of the bill. He spoke about the provision that would provide supplemental funding for growing districts and would directly impact the Mat-Su district. He stated that the average annual growth was 425 students. He cited that the level of growth seen in his district led to greater than normal operational expenditures. He mentioned the abundant modular units used to house the growing population of students in the district. The modular units cost \$100 thousand to purchase and equip. He added that technology and infrastructure improvements increase costs above those provided in the foundation formula. He mentioned the possibility of bond issues to contribute funding from local citizens.

Representative Gara supposed that a growing school district would be underfunded, since the figures were based on the prior year's data.

Mr. Forest agreed that the district would be underfunded when using the prior year's counts if the district fell behind the 200 per pupil increase, but supplemental funds would be acquired in years where the district was above the 200 per pupil increase. He mentioned that the historic average encouraged predictions of balance over time. He agreed that the district would be deficient in funding for one fiscal year only, under HB 313.

Representative Gara understood that the foundation formula in existence allowed additional students money. He expressed concern that district would not receive the additional money unless they were 200 students off.

Mr. Forest understood that the intent of the legislation was to provide a planning window for school districts to eliminate the variance.

Co-Chair Thomas noted frequent testimony regarding funding deficiencies, making the discussion about surpluses confusing. He added information about a list of communities who neglected to contribute to the cap.

[9:38:41 AM](#)

Representative Neuman echoed confusion regarding the conflicting testimony. He agreed that most statements from school districts pleaded for additional funding to address shortages, while Mr. Forest spoke about reserves swept back into the municipality. He agreed that personal services were separate, but opined that additional needs for education existed.

Mr. Forest responded that it would be fiscally irresponsible to spend the majority of the district's budget. He noted that the operational fund budget was approximately \$190 million. He stated that only \$268,460 went to the borough. The ending fund balance was \$1,400,000. He stated that the reserves were limited. He noted the recommendation for two months of reserve on-hand, but his district had approximately one and one-half days reserve on-hand.

Representative Neuman recalled testimony from the Mat-Su district stating a \$13 million shortfall.

Representative Guttenberg queried a resolution from Mat-Su district, which would prevent the fund balance rolling back into the borough. He requested more information about the resolution.

Mr. Forest replied that the school board prepared a resolution requesting allowance for the fund balance to remain with the school district. The resolution failed with one vote. The board of education submitted a similar regulation in 2012. The resolution would allow for the recommended amount of operating funds in the event of an unanticipated need. He recalled a school fire that led to a need for approximately \$1 million to equip the new building. He noted the ideal of small class size, which pushed the limits of the budget.

Representative Guttenberg asked about the borough's responsibility to the school board.

Mr. Forest believed that the borough's position was that the school district should operate without reserve.

[9:44:17 AM](#)

Co-Chair Thomas pointed out documentation that the Mat-Su district fell \$12 million below the required local contribution.

[9:44:38 AM](#)

DUNCAN WARE, SUPERINTENDENT, DELTA GREELY SCHOOL DISTRICT (via teleconference), noted that his district was classified as REAA, and therefore did not have the benefit of local funding from a borough. He voiced his support for the bill. He explained his district's budgetary process. He noted the stability of his district's student population over the last two fiscal years, but he shared that decreases ranging from 5 percent to 2 percent were seen in the last decade. He understood that HB 313 provided effective planning to optimize for program delivery and allow for student services.

Co-Chair Thomas understood that forward funding accomplished a similar task.

PETE LEWIS, SUPERINTENDENT, FAIRBANKS NORTH STAR BOROUGH (via teleconference), supported the bill. He believed that the legislation provided another tool in the budget planning process. He echoed the testimony of Mr. Forest and Mr. Ware.

Representative Wilson asked about the practice of sweeping reserves into municipal funds.

Mr. Lewis believed that Representative Wilson referred to the lapse ordinance, which placed operating dollars in a fund for major maintenance.

Representative Wilson asked if the bill would alter the effective date of the ordinance.

Mr. Lewis responded in the affirmative. He added that the June 30, unassigned balance was zero.

Representative Gara asked if school districts retained reserves for the purpose of retaining teachers when funding was inadequate. He understood that the purpose of reserves was to limit course and staff disruptions.

Mr. Lewis agreed and added that his district had an assigned fund balance in the form of inventories.

Representative Gara referred to page 8 of the legislation which indicated that funding was based on last year's student count. He understood that a discrepancy of 200 students led to an adjustment and queried the action taken if the discrepancy was less than 200. He asked if a change in bill language would be acceptable where the 3 percent threshold was eliminated.

Mr. Lewis stated that his district approved of the bill as written. He cited line 25 stating that if a district was unable to meet the fiscal year needs, supplemental funding was available upon application. He informed the committee that his district could manage changes in student count of 100 or more. He maintained that the legislation would provide a tool to address the issue.

Co-Chair Thomas stated that Fairbanks contributed 15 million below the cap and were therefore sitting on reserves.

[9:51:23 AM](#)

LAUREN BURCH, SUPERINTENDENT, LONG ISLAND SCHOOL DISTRICT, supported the bill. He stated that his district was classified as REAA. He echoed the testimony of the previous speakers. He agreed that a reserve was important. He shared stories about the difficulty of planning and projecting.

Co-Chair Thomas closed public testimony.

HB 313 was HEARD and HELD in committee for further consideration.

[9:54:48 AM](#)

AT EASE

[9:59:05 AM](#)

RECONVENED

#hb64

HOUSE BILL NO. 64

"An Act relating to permanent motor vehicle registration; and providing for an effective date."

Vice-chair Fairclough MOVED committee substitute HB 64(FIN), 27-LS0327/S.

Co-Chair Thomas OBJECTED for purpose of discussion.

DARRELL BREESE, STAFF, CO-CHAIR STOLTZE, explained the Committee Substitute (CS). He explained that the changes included an adjustment of the fee for acquiring permanent registration for vehicles older than eight years and trailers. The previous version of the bill included three times the biannual fee. The goal was to make the registration affordable for all Alaskans interested in the option. Another change related to the motor vehicle registration tax collected by the Division of Motor Vehicles (DMV). He explained that the change allowed municipalities to adopt a motor vehicle registration tax fee for vehicles that were permanently registered. He noted the change made to the collection of the tax, which allowed DMV to collect the tax one time unless the municipality raised the fee above \$100 hundred, the city will be responsible for the collection of the fee.

Co-Chair Stoltze explained the intent of the legislation to allow Alaskans to avoid the nuisance of taxes for older cars.

[10:05:12 AM](#)

Co-Chair Thomas asked about restrictions for non-residents.

Mr. Breeze responded that there was no restriction for non-residents.

Representative Gara appreciated the intent of the legislation, but expressed difficulty understanding the fiscal note.

WHITNEY BREWSTER, DIRECTOR, DIVISION OF MOTOR VEHICLES (via teleconference), responded that the fiscal note for FY 15 and FY 16 showed an increase in revenue, which accounted for the \$25 in additional fees collected by the DMV for permanent registration, in and above the bi-annual fee. Following FY 16, the vehicles would no longer be eligible for the bi-annual registration fees collected leading to the significant decrease in collected revenue.

Representative Gara asked if the losses continued past FY 18 at a similar rate.

Ms. Brewster responded that the rates would remain consistent until approximately \$1 million in loss. She noted the difficulty in projecting for future years. The projections relied on citizens operating vehicles beyond eight years. She estimated that approximately 28,400 new vehicles would be eligible each year based on the current vehicle count. She pointed out the significant decrease in revenue in FY 17 and FY 18 because the fiscal note assumed that all registered vehicles were eligible.

Co-Chair Stoltze opined that the legislation would lead to increased compliance with registration for trailer and snow machine owners.

[10:10:36 AM](#)

Vice-chair Fairclough expressed that she herself would qualify for the benefits of the legislation.

Co-Chair Thomas shared the sentiment.

Representative Guttenberg asked Ms. Brewster about the 700 hours of programming time required to make the changes outlined in the bill.

Mr. Brewster responded that the changes to the 30 year-old database required approximately 700 hours of technical labor. The bill would require programming for two potential scenarios. One scenario would exist for taxpayers opting for permanent vehicle registration and another for those who chose against. The 700 programming hours incorporated changes from HB 64 and HB 10.

Co-Chair Thomas commented on computer upgrades for other agencies.

Vice-chair Fairclough asked how many people accessed DMV counters in person.

Ms. Brewster replied that she would provide the requested information to the committee. She stated that approximately 11 percent of customers visit DMV public offices for in-person registration.

Vice-chair Fairclough pointed out that the fiscal note might better reflect a deduction for Alaskans who would defer registration. She predicted cost-savings to the consumer and the department. She utilized the online option provided by DMV herself, which saved her \$10.

[10:14:29 AM](#)

Representative Neuman asked about the department's operating costs and revenues.

Ms. Brewster replied that DMV received \$66 million in revenue per year and operated on approximately \$16.5 million. The revenue included the motor vehicle registration tax.

Representative Neuman opined that the state did not require revenue from DMV.

Ms. Brewster agreed that customer fees could be reduced without affecting the department's operations.

Representative Neuman was interested in reducing customer fees further.

[10:16:40 AM](#)

Vice-chair Fairclough asked if municipalities were charged an administrative fee.

Ms. Brewster replied that the DMV did collect 8 percent of the motor vehicle registration taxes, which become part of the general fund.

Representative Edgmon believed that the state lacked eligibility for federal funds.

Ms. Brewster replied in the affirmative.

Representative Edgmon asked about the impact of the legislation on community revenue.

Ms. Brewster specified that the local communities that elected to collect motor vehicle registration tax would not be eligible until 2017. She noted the statute's requirement that local communities provide the DMV written notice of the change by January 1, 2015 of the preceding year. The

DMV would not collect a motor vehicle registration tax for permanent vehicles until 2017 because of the statutory requirement for notice. Local governments would set their own rates regarding departmental collections. She thought that the question regarding municipality loss or gain was better answered by the local governments.

Representative Edgmon pointed out the plethora of non-resident vehicles that travel in his district during the summer months.

Co-Chair Thomas WITHDREW his OBJECTION to the committee substitute. There being No further OBJECTION the committee substitute was adopted.

Co-Chair Stoltze pointed out that the fiscal note from the Department of Environmental Conservation had zero fiscal impact.

Vice-chair Fairclough MOVED to report CSHB 64 (FIN) out of committee with individual recommendations and the accompanying fiscal note(s).

CSHB 64(FIN) was REPORTED out of committee with a "do pass" recommendation and with a new fiscal note from the Department of Administration.

#  
ADJOURNMENT

The meeting was adjourned at 10:22 AM